# REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENT

# 2020

HKSCAN GROUP

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

## Group net sales and EBIT

Net sales

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

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

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

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

EBIT

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

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

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

The pandemic had a clearly negative impact on the Group's EBIT. The impact was strongest in the Business Unit Finland, where the importance of the food service channel is the greatest. The impact was also evident in the company's other home market areas and in exports. Responding to the sudden growth in retail sales and ensuring customer satisfaction led to increased costs and additional production costs. Risk mitigation measures brought on by the pandemic also affected the capacity of the business units to realise efficiency measures and investments to the full extent in planned schedule.

## Balance sheet, cash flow and financing

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

A hybrid bond issued in 2018 amounting to EUR 25.9 million is included in the balance sheet. The coupon interest of the hybrid bond is fixed 8 per cent per annum until the first redemption date. The hybrid bond is treated as equity. The hybrid bond does not have a specified maturity date but HKScan is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date in 2023, and subsequently, on each annual coupon interest payment date. In September, an interest of EUR 2.1 million was paid for the hybrid loan, treated as equity, from the retained earnings.

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

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

# Pending processes with the authorities

The Danish tax authorities have conducted an audit of energy taxes covering the period 2011-2020 in HKScan Denmark A/S, which is a subsidiary of the Group. The Danish tax authorities have on 23 December 2020 issued their decision, according to which the company should repay past refunds of energy taxes amounting to 24.7 million Danish crown (ca. EUR 3.3 million) in the pending matter. Further, it cannot be excluded that in addition to the currently pending matter, the company could separately be imposed penal sanctions as a result of the tax audit. HKScan Denmark A/S will appeal the decision issued to it.

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

# Investments

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

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

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

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

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

In April 2020, HKScan announced its acquisition of a plot of land in Vantaa housing the company's production unit and logistics centre. HKScan exercised its pre-emption right included in the land lease agreement to purchase the plot of land from LSO Osuuskunta. The purchase price of the land including taxes was EUR 37.7 million. The purchase price paid by HKScan corresponds to the offer LSO Osuuskunta received for the plot of land from a third party. The operating life of HKScan's Vantaa production unit and logistics centre will continue to the 2030s. The company's aim is to expand the ownership base of the land so that it can be developed further to meet future needs.

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

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

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

# Operating environment

Changes in key sales channels and product categories

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

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

Changes in the international meat market

As a result of the pandemic, price volatility in the international meat market saw a clear increase. Weak demand in the food service channel created market imbalances, not only in our home markets but also throughout Europe and HKScan's export markets in Asia. Furthermore, the detected cases of African Swine Fever in Germany clearly declined the market price of pork in Europe.

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

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

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

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

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

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

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

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

# Review by market area

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

## Items affecting comparability

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

1) Included in the Income Statement in the item “Employee benefit expenses”
2) Included in the Income Statement in the item “Depreciation and amortization”
3) Included in the Income Statement in the item ”Other operating expenses”
4) Included in the Income Statement in the item “Other operating income”

# Business Unit Finland

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

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

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

# Business Unit Sweden

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

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

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

# Business Unit Baltics

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

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

# Business Unit Denmark

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

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

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

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

# Strategy

HKScan's strategy focuses on the implementation of Turnaround programme to improve the company's profitability in 2019–2021. The successful implementation of the Turnaround programme creates a financially strong foundation for the company, enabling future growth and renewal. A fundamental change in the Group's operating model from a matrix organisation to the country-specific profit centre based organisation plays a key role in the strategy implementation.

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

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

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

Turnaround programme progressing

The Turnaround programme at the core of our strategy was launched at the beginning of 2019. The pandemic changed the sales mix and led to additional costs, which slowed down the progress of the programme. The cumulative improvement in the comparable EBIT, achieved through the Turnaround programme from the 2018 level, was already over EUR 63 million at the end of December 2020. The company's cash flow from operating activities improved cumulatively by EUR 78 million during the same period. Net gearing is at a level that allows a controlled implementation of the Turnaround programme.

Poultry products driving growth

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

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

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

New product categories through partnerships

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

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

Boltsi Oy, established with Leivon Leipomo in June 2020, focuses on the development of the Boltsi® product family and business, based on oat and seed raw material. The cooperation has been taken forward in Finland with existing products and by investing in the new product development.

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

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

New Food Solutions unit focusing on concept business

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

Long-term financial targets

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

# Report on non-financial information

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

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

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

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

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

Most important commitments, policies and principles

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

Group-level policies guiding HKScan's operations are the quality, product safety, disclosure, environment and animal sourcing policies and the animal welfare policy. In addition to these, there are several internal policies and operating guidelines guiding operations.

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

Environment

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

In 2020, HKScan set a target of a carbon-neutral food chain. As for its own production (scope 1 and 2), the company's target is to be carbon-neutral by the end of 2025 and for the entire food chain (scope 3), at the end of 2040. The company calculated the initial level of climate emissions of the entire value chain from farms to consumers: in 2019, climate impacts totalled 2.4 megatonnes $CO_2e$. The company's own production accounted for about 5 per cent of the emissions and the primary production, packaging and logistics for about 95 per cent.

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

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

Social and HR matters

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

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

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

Safety at work was promoted through the Group's Safety First programme. The determined work towards zero accidents continued and accidents decreased for the third consecutive year. A new workplace safety reporting tool was introduced at the beginning of 2020 in all the markets. It enabled, for example, more systematic analysis of accidents and near miss cases, better targeting of development actions at root causes, risk assessment and process management. Workplace safety was promoted through guidance, communication and risk assessments, among other things. In addition, HKScan's Group Executive Team made their personal workplace safety and wellbeing commitments, which were published during the European Week for Safety and Health at Work.

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

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

Human rights and measures against bribery and corruption

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

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

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

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

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

Healthiness and safety of products

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

HKScan ensures the product safety through systematic work from procurement to production. All of HKScan's production plants are certified in accordance with the Global Food Safety Initiative (GFSI) standards (FSSC 22000, IFS or BRC).

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

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

Animal welfare

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

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

Key targets and results

| Target | Corporate Governance | Results 2020 |
|---|---|---|
| **Environment** | | |
| Carbon-neutral food chain<br>• own production (scope 1 & 2) by the end of 2025<br>• primary production and other external impacts (scope 3) by the end of 2040 | Action plan towards carbon neutrality | • Climate impacts of own production (scope 1 & 2) $CO_2e$ -55% from 2019<br>• Scope 3 $CO_2e$ emissions will be reported in the annual report. |
| Packaging, targets 2025<br>• 100% recyclable packaging<br>• 20% less plastic | Operations in line with the packaging strategy | • 70% of packaging recyclable<br>• Amount of packaging plastic -7% |

| | | |
|---|---|---|
| • 20% lower carbon footprint | | • We are developing the reporting of packaging carbon footprint together with packaging material suppliers. |
| **Social and HR matters** | | |
| Zero lost time accidents | Uniform work safety indicators and risk assessment models in all markets | Lost time accident frequency: 21.4 (25.5) /million working hours |
| Promotion of wellbeing at work | Better Together programme to promote work well-being; country- and location-specific action plans | • Personnel work satisfaction eNPS 5, excl. the Baltics<br>• Absences 6.2% of working time |
| Promoting continuity and competitiveness of primary production in all markets | Next Generation programme to develop young farmers' skills, work of Agrofood Ecosystem® and Gårdsinitiativet networks | Next Generation programme implemented in Finland; planning and launch of the programme in Sweden |
| **Human rights and measures against bribery and corruption** | | |
| • 100% of suppliers committed to the Supplier Guidelines, excl. contract farmers<br>• 100% of animal purchases according to animal sourcing principles<br>• 100% of personnel completed the training on the Code of Conduct | • Principles of responsible procurement<br>• Animal sourcing principles<br>• Personnel training on the compliance of HKScan's policies | • 77 (75)% of suppliers committed to Supplier Guidelines<br>• 100% of animal purchases according to animal sourcing principles<br>• 96% of Finland's, Sweden's and Baltic's white-collar employees completed the training on the Code of Conduct |
| **Healthiness and safety of products** | | |
| • 100% certified production units<br>• Zero recalls<br>• Nutritional recommendations considered in the product development | • Compliance with product safety standards<br>• Compliance with product safety processes | • All HKScan's production units certified<br>• 1 (12) product recall |
| **Animal welfare** | | |
| • Increasing of animals' natural behaviours<br>• Continuous development of disease protection<br>• Avoidance of painful procedures | • Systematic development of animal welfare together with producers<br>• Prevention of animal diseases | Continuous development efforts to promote animal health and welfare |

## Group management

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

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

**Group Executive Team 1 January 2021**
Tero Hemmilä, CEO; Jari Leija, EVP for Business Unit Finland; Lars Appelqvist, EVP for Business Unit Sweden; Anne Mere, EVP for Business Unit Baltics; Jukka Nikkinen, EVP for Business Unit Denmark; Jyrki Paappa, CFO, Markku Suvanto, EVP for Administration; Juha Ruohola, EVP for Export, Import and Meat Balance; Mika Koskinen, EVP for Strategic Business Development and Investments; and Jouni T. Laine, EVP for Food Solutions.

## Research and development

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

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

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

## Shares and shareholders

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

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

The calculational market value of HKScan’s shares at the end of December stood at EUR 194.1 (267.6) million. The market value of the Series A shares was EUR 183.5 (252.7) million and calculational market value of unlisted Series K shares was EUR 10.6 (14.9) million.

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

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

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

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

| Number of shares | Number of shareholders | % of shareholders | Number of shares | % of share capital |
|---|---|---|---|---|
| 1-100 | 3 748 | 24,44 | 181 459 | 0,18 |
| 101-500 | 5 132 | 33,47 | 1 498 638 | 1,51 |
| 501-1,000 | 2 567 | 16,74 | 2 049 901 | 2,07 |
| 1,001-5,000 | 3 056 | 19,93 | 6 953 405 | 7,03 |
| 5,001-10,000 | 444 | 2,90 | 3 283 598 | 3,32 |
| 10,001-50,000 | 305 | 1,99 | 5 977 970 | 6,04 |
| 50,001-100,000 | 31 | 0,20 | 2 261 830 | 2,29 |
| 100,001-500,000 | 30 | 0,20 | 6 963 981 | 7,04 |
| 500,001-& above | 19 | 0,12 | 68 988 054 | 69,72 |
| | | | | |
| On common accounts | 0 | 0,00 | 127 945 | 0,13 |
| On waiting list | 1 | 0,01 | 665 000 | 0,67 |
| **Total** | **15 333** | **100** | **98 951 781** | **100** |

**Shares by share series 31 December 2020**

| Share series | Number of shares | % of shares | % of votes |
|---|---|---|---|
| A Shares | 93 551 781 | 94,54 | 46,42 |
| K Shares | 5 400 000 | 5,46 | 53,58 |
| **Total** | **98 951 781** | **100** | **100** |

**Ownership breakdown by sector on 31 december 2020**

| | Share of owners % | Share of shares % | Share of votes % |
|---|---|---|---|
| Corporates | 3,52 | 42,07 | 65,29 |
| Finance and insurance companies | 0,16 | 9,86 | 4,84 |
| Public entities | 0,03 | 11,44 | 5,62 |
| Househoulds | 95,68 | 21,84 | 10,72 |
| Non-profit organizations | 0,38 | 5,72 | 2,81 |
| Abroad | 0,24 | 9,07 | 10,72 |
| **All sectors, total** | **100** | **100** | **100** |

**20 Largest shareholders on 31 December 2020**

| | | A shares | K shares | Of total shares, % | Of total votes, % |
|---|---|---|---|---|---|
| 1 | LSO Osuuskunta | 25 083 884 | 4 735 000 | 30,13 | 59,43 |
| 2 | Lantmännen ek. För | 6 869 750 | 665 000 | 7,61 | 10,01 |
| 3 | Keskinäinen työeläkevakuutusyhtiö Varma | 4 846 806 | 0 | 4,90 | 2,40 |
| 4 | Apteekkien Eläkekassa | 3 581 889 | 0 | 3,62 | 1,78 |
| 5 | Maa- ja metsätaloustuottajain Keskusliitto MTK ry | 2 711 414 | 0 | 2,74 | 1,35 |
| 6 | Keskinäinen Työeläkevakuutusyhtiö Elo | 2 392 830 | 0 | 2,42 | 1,19 |
| 7 | HKScan Oyj | 2 000 000 | 0 | 2,02 | 0,99 |
| 8 | Suomen Kulttuurirahasto | 1 536 621 | 0 | 1,55 | 0,76 |
| 9 | Oy Etra Invest Ab | 1 500 000 | 0 | 1,52 | 0,74 |
| 10 | Jocer Oy Ab | 1 175 000 | 0 | 1,19 | 0,58 |
| 11 | Suhonen Jyrki | 1 105 951 | 0 | 1,12 | 0,55 |
| 12 | Tiiviste-Group Oy | 1 000 000 | 0 | 1,01 | 0,50 |
| 13 | Petter ja Margit Forsströmin säätiö Karl ja Olivia Fo | 1 000 000 | 0 | 1,01 | 0,50 |
| 14 | Sinituote Oy | 1 000 000 | 0 | 1,01 | 0,50 |
| 15 | Pivosto Oy | 582 190 | 0 | 0,59 | 0,29 |
| 16 | K. Hartwall Invest Oy Ab | 550 000 | 0 | 0,56 | 0,27 |
| 17 | Sijoitusrahasto Taaleritehdas Arvo Markka Osake | 500 000 | 0 | 0,51 | 0,25 |
| 18 | Ab 2011 Fruitgum Company Oy | 435 923 | 0 | 0,44 | 0,22 |
| 19 | Hallqvist AB | 405 000 | 0 | 0,41 | 0,20 |
| 20 | VR Eläkesäätiö | 400 000 | 0 | 0,40 | 0,20 |
| | **Other shareholders** | **34 874 523** | **0** | **35,24** | **17,30** |
| | **Total** | **93 551 781** | **5 400 000** | **100** | **100** |

Source: Euroclear Finland

# Annual General Meeting 2020

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

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

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

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

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

# Share-based long-term incentive plan

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

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

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

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

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

# Short-term risks and uncertainty factors

The Covid-19 pandemic is a significant uncertainty factor for HKScan's business. The company's primary approach to the exceptional situation caused by the pandemic is to secure the health and safety of personnel and consumers and to ensure the uninterrupted operations of the entire food chain, from farms to consumers. HKScan follows strict hygiene processes and authority guidelines and has implemented numerous contingency actions of its own. Disruption of production due to potential illness of personnel poses a significant risk for the company. In addition, if the pandemic is prolonged, it may impact the availability and prices of some raw materials, production inputs, packaging materials and protective equipment.

If the pandemic continues, it may also affect the price and volume development of certain products in sales channels in which demand has significantly declined due to the pandemic. This applies to the company's home markets as well as export markets. Direct and indirect effects through the international meat raw materials market in both the home and export markets may be unpredictable as the pandemic continues. The effects may be longer-lasting and extend throughout the current year. The pandemic may also cause unexpected delays in the implementation of investments, which may affect the company's Turnaround programme.

Other significant uncertainty factors in HKScan's business are related to the availability, price and quality of key production inputs as well as to raw material and sales prices. This also concerns the price development in terms of feed used in animal farming. The cases of African Swine Fever detected in Germany and the resulting dramatic decrease in the price of pork bring instability to the European meat market. The growth in the pork supply in Europe also increases the price risk within HKScan's home markets. The avian flu detected in certain European countries, including Denmark, has already weakened poultry meat export opportunities to areas outside of the EU and increased the supply in Europe. As a result, the price risk has also increased within HKScan's home markets.

In the food industry's long production chain, food safety is essential. The possibility of animal diseases, such as the African Swine Fever, cannot ever be fully excluded. The African Swine Fever detected in Germany and the avian flu detected in certain European countries are examples of this. Furthermore, the impact of possible international or regional food scandals on consumption behaviour cannot either be excluded. The discussion surrounding climate change may play a role in impacting the consumer demand for meat products.

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

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

# Events after the reporting period

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

The Zero Carbon climate plan shows the stepping stones for HKScan to achieve carbon neutrality as one of the major food companies in the Baltic Sea region. The company has determined and calculated the emissions of its entire value chain together with KPMG specialising in carbon footprint calculation. In 2019, the total emissions were some 2.4 megatonnes of carbon dioxide equivalent ($CO_2e$) of which the company's own industrial production accounted for some five per cent.

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

# Board of Directors' proposal on the distribution of profit

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

# Outlook 2021

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

# Annual General Meeting 2021

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

## Key figures

| Financial indicators | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Net sales, EUR million | 1 781,0 | 1 744,4 | 1 715,4 | 1 808,1 | 1 872,9 |
| Operating profit/loss (EBIT), EUR million** | 21,3 | -23,2 | -48,3 | -40,3 | 9,7 |
| - % of net sales** | 1,2 | -1,3 | -2,8 | -2,2 | 0,5 |
| Comparable operating profit/loss, EUR million** | 17,0 | -2,2 | -46,3 | -17,6 | 13,2 |
| - % of net sales** | 1,0 | -0,1 | -2,7 | -1,0 | 0,7 |
| Profit/loss before taxes, EUR million** | 12,3 | -34,5 | -58,5 | -45,5 | 0,9 |
| - % of net sales** | 0,7 | -2,0 | -3,4 | -2,5 | 0,0 |
| Return on equity (ROE), %** | 1,5 | -11,5 | -15,2 | -10,4 | -0,9 |
| Return on capital employed before taxes (ROCE), %** | 3,9 | -3,1 | -6,7 | -6,3 | 2,1 |
| Equity ratio, %** | 33,7 | 34,8 | 33,3 | 36,9 | 47,9 |
| Net gearing ratio , %** | 91,0 | 84,8 | 103,3 | 59,3 | 33,5 |
| Gross capital expenditure on PPE, EUR million | 83,5 | 31,7 | 41,0 | 125,5 | 97,6 |
| Additions in right-of-use assets, EUR million** | 7,2 | 11,3 | 11,2 | - | - |
| Investments total, EUR million** | 90,7 | 43,0 | 52,2 | 125,5 | 97,6 |
| - % of net sales** | 5,1 | 2,5 | 3,0 | 6,9 | 5,2 |
| R&D expenses. EUR million | 4,9 | 5,8 | 8,6 | 6,5 | 6,6 |
| - % of net sales | 0,3 | 0,3 | 0,5 | 0,4 | 0,4 |
| Employees, average | 7 116 | 6 928 | 7 179 | 7 292 | 7 319 |

| Per share data | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Earnings per share (EPS), undiluted, EUR** | -0,01 | -0,52 | -1,00 | -0,79 | -0,10 |
| Earnings per share (EPS), diluted, EUR** | -0,01 | -0,52 | -1,00 | -0,79 | -0,10 |
| Comparable earnings per share , EUR** | -0,05 | -0,26 | -0,96 | -0,37 | -0,03 |
| Equity per share, EUR** | 3,19 | 3,18 | 5,73 | 6,23 | 7,31 |
| | | | | | |
| Dividend paid per share, EUR | 0,00* | 0,00 | 0,00 | 0,09 | 0,16 |
| Dividend payout ratio, undiluted, % | 0,0* | 0,0 | 0,0 | -11,4 | -160,4 |
| Dividend payout ratio, diluted, % | 0,0* | 0,0 | 0,0 | -11,4 | -160,4 |
| Effective dividend yield, % | 0,0* | 0,0 | 0,0 | 2,9 | 5,0 |
| Price-to-earnings ratio(P/E) | | | | | |
| - undiluted** | -381,8 | -5,3 | -1,4 | -4,0 | -32,0 |
| - diluted** | -381,8 | -5,3 | -1,4 | -4,0 | -32,0 |
| Lowest trading price, EUR | 1,60 | 1,48 | 1,29 | 2,96 | 2,89 |
| Highest trading price, EUR | 2,85 | 2,88 | 3,23 | 3,60 | 3,89 |
| Middle price during the period, EUR | 2,03 | 2,05 | 2,40 | 3,24 | 3,19 |
| Share price at the end of the year, EUR | 1,96 | 2,76 | 1,42 | 3,13 | 3,19 |
| Market capitalisation, EUR million | 190,0 | 267,6 | 76,7 | 169,1 | 172,3 |
| Trading volume (1000) | 27 000 | 26 948 | 11 400 | 10 426 | 13 313 |
| - % of the average volume | 27,8 | 33,7 | 21,1 | 19,3 | 24,7 |
| Adjusted number of outstanding shares (1000) | | | | | |
| - average during financial period | 96 952 | 79 943 | 54 030 | 54 018 | 54 006 |
| - at the end of financial period | 96 952 | 96 952 | 54 034 | 54 018 | 54 018 |
| - fully diluted | 96 952 | 96 952 | 54 034 | 54 018 | 54 018 |

* Based on the Board of Directors' proposal.

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

CALCULATION OF FINANCIAL INDICATORS

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

Return on equity (%)

$$\frac{\text{Profit}}{\text{Total equity (average)}} \times 100$$

Return on capital employed (ROCE) before tax (%)

$$\frac{\text{Profit before tax + interest and other financial expenses}}{\text{Balance sheet total – non-interest-bearing liabilities (average)}} \times 100$$

Equity ratio (%)

$$\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$$

Gearing ratio (%)

$$\frac{\text{Interest-bearing liabilities}}{\text{Total equity}} \times 100$$

Net gearing ratio (%)

$$\frac{\text{Net interest-bearing liabilities}}{\text{Total equity}} \times 100$$

Earnings per share*

$$\frac{\text{Profit for the period attributable to equity holders of the parent}}{\text{Average number of outstanding shares during period}}$$

Equity per share

$$\frac{\text{Equity attributable to holders of the parent}}{\text{Number of outstanding shares at end of period}}$$

Dividend per share

$$\frac{\text{Dividend distribution}}{\text{Number of outstanding shares at end of period}}$$

Dividend payout ratio (%)

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Effective dividend yield (%)

$$\frac{\text{Dividend per share}}{\text{Closing price on the last trading day of the financial year}} \times 100$$

P/E ratio

$$\frac{\text{Closing price on the last trading day of the financial year}}{\text{Earnings per share}}$$

Market capitalization

The number of outstanding shares at the end of period x the closing price on the last trading day of the financial year

| | |
|---|---|
| Cash flow before debt service | Cash flow after investment activities - financial items |
| Employee numbers | Average of workforce figures calculated at the end of calendar months |
| Items affecting comparability | One-time charges, which are not related to the normal continuing operations and materially affect company's finance. Examples of such expenses are: capacity adjustment (restructuring), redundancy, legal costs relating to restructuring or similar, one-time expenses related to efficiency / reorganization programmes, significant compensations or penalties paid out due to legal verdict or settlement, transaction fees / expenses related to business acquisitions (consultation, advisory, legal, due diligence, registration etc.) and gains/losses of business disposals. |
| Comparable EBIT | Operating profit – items affecting comparability |
| Comparable earnings per share* | $\frac{\text{Profit for the period attributable to equity holders of the parent – items affecting comparability}}{\text{Average number of outstanding shares during period}}$ |
| Interest-bearing net debt | Interest-bearing debt – cash and bank |

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

# Consolidated income statement for 1 January – 31 December
(EUR million)

| | Note | **2020** | **2019** |
|---|---|---|---|
| Net sales | 1. | 1 781,0 | 1 744,4 |
| Other operating income | 2. | 7,2 | 6,7 |
| Materials and services | 3. | -1 215,5 | -1 209,1 |
| Employee benefits expenses | 4. | -315,6 | -313,7 |
| Depreciation and amortisation | 5.,13. | -56,7 | -80,4 |
| | | | |
| Other operating expenses | 6. | -179,1 | -171,0 |
| **EBIT** | | 21,3 | -23,2 |
| | | | |
| Financial income | 7. | 2,2 | 2,2 |
| Financial expenses | 7.,13. | -13,2 | -13,9 |
| Share of associates' and joint ventures' results | | 1,9 | 0,4 |
| **Profit/loss before taxes** | | 12,3 | -34,5 |
| | | | |
| Income tax | 8. | -7,5 | -3,0 |
| **Profit/loss for the period** | | 4,8 | -37,5 |
| | | | |
| Profit/loss for the period attributable to: | | | |
| Equity holders of the parent | | 1,2 | -39,9 |
| Non-controlling interests | | 3,6 | 2,3 |
| **Total** | | 4,8 | -37,5 |
| | | | |
| Earnings per share calculated on profit attributable to equity holders of the parent: | | | |
| EPS, undiluted, continuing operations, EUR/share | 9. | -0,01 | -0,52 |
| EPS, diluted, continuing operations, EUR/share | 9. | -0,01 | -0,52 |

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

# Consolidated statement of comprehensive income 1 January - 31 December

(EUR million)

| | 2020 | 2019 |
|---|---|---|
| Profit/loss for the period | 4,8 | -37,5 |
| | | |
| OTHER COMPREHENSIVE INCOME (after taxes): | | |
| Items that may be subsequently reclassified to profit or loss | | |
| Exchange differences on translating foreign operations | 2,8 | -1,6 |
| Cash flow hedging | -1,7 | -4,2 |
| Items that will not be reclassified to profit or loss | | |
| Actuarial gains or losses | -0,3 | -4,2 |
| **Total other comprehensive income** | **0,8** | **-10,0** |
| | | |
| **Total comprehensive income for the period** | **5,6** | **-47,5** |
| | | |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO: | | |
| Equity holders of the parent | 1,9 | -49,8 |
| Non-controlling interests | 3,6 | 2,3 |
| **Total** | **5,6** | **-47,5** |

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

# Consolidated balance sheet on 31 December

| (EUR million) | Note | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| Intangible assets | 10. | 76,2 | 65,8 |
| Goodwill | 11. | 71,8 | 70,7 |
| Tangible assets | 12.,13. | 458,7 | 439,1 |
| Shares in associates and joint ventures | 14. | 21,6 | 20,8 |
| Other receivables | 15. | 6,2 | 3,5 |
| Other shares and holdings | 15. | 12,2 | 11,7 |
| Deferred tax asset | 16. | 40,9 | 43,4 |
| **Non-current assets** | | **687,7** | **654,9** |
| | | | |
| Inventories | 17. | 119,0 | 115,5 |
| Trade receivables | 18. | 105,3 | 111,3 |
| Other receivables | 18. | 17,1 | 16,2 |
| Income tax receivable | 18. | - | 0,2 |
| Cash and bank | 19. | 46,8 | 37,5 |
| **Current assets** | | **288,2** | **280,6** |
| | | | |
| **Assets** | | **975,9** | **935,6** |
| | | | |
| Share capital | 20. | 66,8 | 66,8 |
| Share premium reserve | 20. | 72,9 | 72,9 |
| Treasury shares | 20. | -4,8 | -4,8 |
| Hybrid loan | 20. | 25,9 | 25,9 |
| Fair value reserve and other reserves | 20. | 224,9 | 226,7 |
| Translation differences | 20. | -10,6 | -13,4 |
| Retained earnings | 20. | -66,4 | -66,2 |
| Equity attributable to equity holders of the parent | | 308,8 | 307,9 |
| Non-controlling interests | | 20,3 | 17,2 |
| **Equity** | | **329,1** | **325,1** |
| | | | |
| Deferred tax liability | 16. | 19,0 | 16,6 |
| Non-current interest-bearing liabilities | 13.,23. | 249,2 | 262,7 |
| Non-current non-interest-bearing liabilities | 23. | 1,8 | 3,1 |
| Non-current provisions | 22. | 5,2 | 6,2 |
| Pension obligations | 21. | 43,1 | 41,1 |
| **Non-current liabilities** | | **318,3** | **329,8** |
| | | | |
| Current interest-bearing liabilities | 13.,23. | 97,2 | 50,6 |
| Trade and other payables | 23. | 219,4 | 222,0 |
| Refund liabilities | 23. | 7,4 | 6,3 |
| Income tax liability | 23. | 1,0 | 0,1 |
| Current provisions | 22. | 3,5 | 1,7 |
| **Current liabilities** | | **328,5** | **280,7** |
| | | | |
| **Equity and liabilities** | | **975,9** | **935,6** |

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

# Consolidated cash flow statement
(EUR million)

| | 2020 | 2019 |
|---|---|---|
| Profit/Loss for the period | 4,8 | -37,5 |
| Adjustments | 73,9 | 95,8 |
| Cash flow before change in net working capital | 78,7 | 58,3 |
| Change in net working capital | -7,9 | 1,1 |
| Other changes | 6,6 | 12,1 |
| Interest paid | -12,1 | -13,0 |
| Other financial expenses paid | -10,1 | -6,5 |
| Interest received | 1,8 | 1,7 |
| Other financial income received | 7,1 | 6,2 |
| Dividends received | 1,0 | 1,0 |
| Income taxes paid | -1,4 | -1,6 |
| **Cash flow from operating activities (A)** | **63,7** | **59,2** |
| | | |
| Total Investments | -83,6 | -31,8 |
| Total sales of assets | 1,7 | 0,6 |
| Acquisition of subsidiary, net of cash acquired | 0,1 | 0,0 |
| Loan receivables Borrowings and repayments | -3,3 | -0,4 |
| **Cash flow from investing activities (B)** | **-85,1** | **-31,6** |
| | | |
| Share issue | - | 43,7 |
| Share issue costs | - | -3,0 |
| Purchase of own shares | - | -4,7 |
| Hybrid loan | -2,1 | -2,1 |
| Proceed from external borrowings | 48,7 | 74,3 |
| Repayment of external borrowings | -5,7 | -114,7 |
| Payment of lease liabilities | -10,3 | -11,6 |
| Dividends paid | -0,7 | -0,6 |
| **Cash flow from financing activities (C)** | **30,0** | **-18,8** |
| | | |
| **Net cash flow (A+B+C)** | **8,6** | **8,9** |
| | | |
| Cash and cash equivalents, end balance | 46,8 | 37,5 |
| Cash and cash equivalents, opening balance | 37,5 | 29,4 |
| Effect of changes in exchange rates | 0,6 | -0,8 |
| **Change** | **8,6** | **8,9** |

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

# Statement of changes in consolidated equity

(EUR million)

| | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. | 9. | 10. | 11. | 12. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EQUITY AT 1.1.2020** | **66,8** | **72,9** | **1,0** | **215,4** | **25,9** | **10,3** | **-13,4** | **-4,8** | **-66,2** | **307,9** | **17,2** | **325,1** |
| Result for the financial period | - | - | - | - | - | - | - | - | 1,2 | 1,2 | 3,6 | 4,8 |
| Other comprehensive income (+) / expense (–) | | | | | | | | | | | | |
| Transl. diff. | - | - | - | - | - | - | 2,8 | - | - | 2,8 | - | 2,8 |
| Cash flow hedging | - | - | -1,7 | - | - | - | - | - | - | -1,7 | - | -1,7 |
| Actuarial gains or losses | - | - | - | - | - | - | - | - | -0,3 | -0,3 | - | -0,3 |
| **Total compreh. income for the period** | **-** | **-** | **-1,7** | **-** | **-** | **-** | **2,8** | **-** | **0,8** | **1,9** | **3,6** | **5,6** |
| Direct recognitions | - | - | - | - | - | 0,0 | - | - | 1,1 | 1,0 | - | 1,0 |
| Dividend distribution | - | - | - | - | - | - | - | - | - | - | -0,7 | -0,7 |
| Acquisition of subsidiary | - | - | - | - | - | - | - | - | - | - | 0,1 | 0,1 |
| Hybrid loan | - | - | - | - | - | - | - | - | -2,1 | -2,1 | - | -2,1 |
| **EQUITY AT 31.12.2020** | **66,8** | **72,9** | **-0,8** | **215,4** | **25,9** | **10,3** | **-10,6** | **-4,8** | **-66,4** | **308,8** | **20,3** | **329,1** |

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

| | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. | 9. | 10. | 11. | 12. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EQUITY AT 1.1.2019** | **66,8** | **72,9** | **5,1** | **143,5** | **40,0** | **10,3** | **-11,9** | **0,0** | **-17,2** | **309,5** | **15,4** | **325,0** |
| Result for the financial period | - | - | - | - | - | - | - | - | -39,9 | -39,9 | 2,3 | -37,5 |
| Other comprehensive income (+) / expense (–) | | | | | | | | | | | | |
| Transl. diff. | - | - | - | - | - | - | -1,6 | - | - | -1,6 | - | -1,6 |
| Cash flow hedging | - | - | -4,2 | - | - | - | - | - | - | -4,2 | - | -4,2 |
| Actuarial gains or losses | - | - | - | - | - | - | - | - | -4,2 | -4,2 | - | -4,2 |
| **Total compreh. income for the period** | **-** | **-** | **-4,2** | **-** | **-** | **-** | **-1,6** | **-** | **-44,1** | **-49,8** | **2,3** | **-47,5** |
| Direct recognitions | - | - | - | - | - | 0,0 | - | - | 1,0 | 1,0 | - | 1,0 |
| Share issue | - | - | - | 71,9 | -14,1 | - | - | - | -3,8 | 54,0 | - | 54,0 |
| Purchase of own shares | - | - | - | - | - | - | - | -4,7 | - | -4,7 | - | -4,7 |
| Dividend distribution | - | - | - | - | - | - | - | - | - | - | -0,6 | -0,6 |
| Hybrid loan | - | - | - | - | - | - | - | - | -2,1 | -2,1 | - | -2,1 |
| **EQUITY AT 31.12.2019** | **66,8** | **72,9** | **1,0** | **215,4** | **25,9** | **10,3** | **-13,4** | **-4,8** | **-66,2** | **307,9** | **17,2** | **325,1** |

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

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

# Notes to the financial statements for 2020

## Basic information about the entity

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

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

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

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

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

## Accounting policies

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

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

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

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

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

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

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

**NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP**

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

## Comparability with previous years

The years 2020 and 2019 are comparable with each other

**CONSOLIDATION SUBSIDIARIES**

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

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

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

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

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

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

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

**ASSOCIATES**

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

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

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

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

## Foreign Currency Translation

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

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

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

## Property, plant and equipment

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

The expected useful lives are as follows:

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

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

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

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

## Government grants

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

## Intangible assets

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

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

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

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

**RESEARCH AND DEVELOPMENT COSTS**
Research and development costs are charged as incurred and are included in other operating expenses in the income statement.

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

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

## Impairment of non-financial assets

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

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

## Inventories

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

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

## Biological assets

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

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

## Leases

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

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

**THE GROUP AS LESSOR**

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

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

## Employee benefits

**PENSION OBLIGATIONS**

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

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

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

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

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

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

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

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

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

**SHARE-BASED PAYMENTS**

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

## Provisions

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

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

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

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

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

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

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

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

## Revenue recognition policies

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

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

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

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

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

## Financial assets and liabilities

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

Financial assets at amortised cost (debt instruments)
The Group measures financial assets at amortised cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding
Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade receivables and loan receivables under current and non-current financial assets.

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

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

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

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. For trade receivables, the Group applies a simplified approach in calculating ECLs. The Group recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific

to the debtors and the economic environment. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**CASH AND CASH EQUIVALENTS**

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

**FINANCIAL LIABILITIES**

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

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

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

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

## Derivatives and hedge accounting

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

**CASH FLOW HEDGING**

A change in the fair value of the effective portion of derivative instruments that satisfy the conditions for hedging cash flow are recognised under other comprehensive income and reported in the hedging reserve (included in

Fair value reserve and other reserves). Gains and losses accrued from the hedging instrument are transferred to the income statement when the hedged item affects profit or loss. The ineffective portion of the hedging instrument's profit or loss is recognised as financial income or expenses (interest rate derivatives) or other operating expenses (commodity derivatives).

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

**OTHER HEDGING INSTRUMENTS WHERE HEDGE ACCOUNTING IS NOT APPLIED**

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

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

## Equity

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

## Dividend

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

## EBIT

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

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

## Critical accounting estimates and judgements

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

The estimates made in preparation of the financial statements are based on the best judgement of management on the reporting date. The estimates are based on historical experience and assumptions regarding the future seen as most likely on the balance sheet date. Such assumptions are related to the expected development of the

Group’s financial operating environment in terms of sales and cost levels. The estimations and judgements are reviewed regularly.

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

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

**MEASUREMENT TO FAIR VALUE OF ASSETS ACQUIRED IN BUSINESS COMBINATIONS**

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

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

**IMPAIRMENT TESTING**

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

**DEFERRED TAX**

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

**VALUATION OF INVENTORIES**

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

## Application of new and revised IFRS norms

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

# Notes to income statement

## 1. Business segments

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

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

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

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

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

**Year 2020**

| | Swedish operations | Finnish operations | Danish operations | Baltic operations | Business segments, total | Group adminis-tration | Elimina-tions | Un-allocated | Group total |
|---|---|---|---|---|---|---|---|---|---|
| **INCOME STATEMENT INFORMATION** | | | | | | | | | |
| Net sales | 662,1 | 772,4 | 171,5 | 175,0 | 1 781,0 | - | - | - | 1 781,0 |
| EBIT | 19,1 | 10,7 | 1,0 | 3,7 | 34,4 | -13,2 | - | - | 21,3 |
| Share of associates' results | 0,2 | 1,2 | 0,5 | - | 1,9 | - | - | - | 1,9 |
| Financial income and expenses | | | | | | | | -11,0 | -11,0 |
| Income taxes | | | | | | | | -7,5 | -7,5 |
| **Result for the period** | | | | | | | | | **4,8** |
| **BALANCE SHEET INFORMATION** | | | | | | | | | |
| Segment assets | 268,0 | 430,8 | 63,2 | 136,7 | 898,7 | 61,4 | -65,1 | - | 894,9 |
| Shares in associates | 2,6 | 13,7 | 4,4 | - | 20,6 | 1,0 | - | - | 21,6 |
| Unallocated assets | - | - | - | - | - | - | - | 59,4 | 59,4 |
| **Total assets** | **270,6** | **444,4** | **67,5** | **136,7** | **919,3** | **62,3** | **-65,1** | **59,4** | **975,9** |
| Segment liabilities | 134,5 | 111,6 | 24,4 | 22,7 | 293,1 | 16,4 | -5,1 | - | 304,4 |
| Unallocated liabilities | - | - | - | - | - | - | - | 342,4 | 342,4 |
| **Total liabilities** | **134,5** | **111,6** | **24,4** | **22,7** | **293,1** | **16,4** | **-5,1** | **342,4** | **646,8** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **OTHER INFORMATION** | | | | | | | | | |
| Sales, goods | 662,1 | 769,1 | 171,5 | 174,6 | 1 777,4 | - | - | - | 1 777,4 |
| Sales, services | 0,0 | 3,2 | - | 0,4 | 3,6 | - | - | - | 3,6 |
| Investments | 19,1 | 56,2 | 8,0 | 5,8 | 89,1 | 1,6 | - | - | 90,7 |
| Depreciation and amortisation | -12,9 | -34,1 | -4,9 | -10,6 | -62,6 | -1,4 | - | - | -63,9 |
| Impairment | - | 3,1 | 4,1 | - | 7,2 | - | - | - | 7,2 |
| Goodwill | 29,9 | 19,8 | - | 22,2 | 71,8 | - | - | - | 71,8 |
| Cash flow before debt service | 13,6 | -28,3 | -3,7 | 10,3 | -8,1 | 2,5 | - | - | -5,7 |

| | |
|---|---|
| Cash flow before debt service reconciliation Group total | |
| Cash flow from operating activities | 63,7 |
| Financial items (-) | 12,3 |
| Cash flow from investing activities | -85,1 |
| Loan receivables Borrowings and repayments (-) | 3,3 |
| **Cash flow before debt service** | **-5,7** |

**Year 2019**

| | **Swedish operations** | **Finnish operations** | **Danish operations** | **Baltic operations** | **Business segments, total** | **Group adminis-tration** | **Elimina-tions** | **Un-allocated** | **Group total** |
|---|---|---|---|---|---|---|---|---|---|
| **INCOME STATEMENT INFORMATION** | | | | | | | | | |
| Net sales | 652,1 | 770,6 | 153,3 | 168,5 | 1 744,4 | **-** | **-** | **-** | 1 744,4 |
| EBIT | 7,1 | -10,3 | -9,8 | 5,0 | -8,0 | -15,2 | - | - | -23,2 |
| Share of associates' results | -0,3 | 0,5 | 0,3 | - | 0,4 | - | - | - | 0,4 |
| Financial income and expenses | | | | | | | | -11,7 | -11,7 |
| Income taxes | | | | | | | | -3,0 | -3,0 |
| **Result for the period** | | | | | | | | | **-37,5** |
| **BALANCE SHEET INFORMATION** | | | | | | | | | |
| Segment assets | 260,2 | 409,5 | 55,0 | 142,0 | 866,7 | 57,1 | -67,9 | - | 855,9 |
| Shares in associates | 2,6 | 13,4 | 3,8 | - | 19,8 | 1,0 | - | - | 20,8 |
| Unallocated assets | - | - | - | - | - | - | - | 58,8 | 58,8 |
| **Total assets** | **262,8** | **422,9** | **58,8** | **142,0** | **886,6** | **58,0** | **-67,9** | **58,8** | **935,6** |
| Segment liabilities | 129,5 | 124,8 | 20,7 | 24,4 | 299,5 | 18,5 | -5,7 | - | 312,2 |
| Unallocated liabilities | - | - | - | - | - | - | - | 298,2 | 298,2 |
| **Total liabilities** | **129,5** | **124,8** | **20,7** | **24,4** | **299,5** | **18,5** | **-5,7** | **298,2** | **610,5** |

| OTHER INFORMATION | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Sales, goods | 652,1 | 767,4 | 153,3 | 168,0 | 1 740,8 | - | - | - | 1 740,8 |
| Sales, services | 0,0 | 3,1 | - | 0,5 | 3,6 | - | - | - | 3,6 |
| Investments | 10,4 | 16,3 | 2,6 | 11,9 | 41,2 | 1,9 | - | - | 43,0 |
| Depreciation and amortisation | -13,0 | -34,3 | -7,9 | -10,5 | -65,7 | -1,5 | - | - | -67,3 |
| Impairment | 0,0 | -7,3 | -4,5 | 0,0 | -11,8 | -1,3 | - | - | -13,1 |
| Goodwill | 28,7 | 19,8 | - | 22,2 | 70,7 | - | - | - | 70,7 |
| Cash flow before debt service | 18,7 | 21,1 | -1,2 | 0,7 | 39,4 | -0,7 | - | - | 38,7 |

| Cash flow before debt service reconciliation Group total | |
|---|---|
| Cash flow from operating activities | 59,2 |
| Financial items (-) | 10,6 |
| Cash flow from investing activities | -31,6 |
| Loan receivables Borrowings and repayments (-) | 0,4 |
| **Cash flow before debt service** | **38,7** |

## 2. Other operating income

| | 2020 | 2019 |
|---|---|---|
| Rental income | 1,3 | 1,5 |
| Gain on disposal of non-current assets | 1,0 | 0,3 |
| Exchange rate gains related to foreign exchange derivatives | 0,8 | 0,9 |
| Insurance compensation | 0,0 | 0,0 |
| Government grants | 0,2 | - |
| Other operating income | 3,9 | 4,0 |
| **Other operating income** | **7,2** | **6,7** |

## 3. Materials and services

| | 2020 | 2019 |
|---|---|---|
| Purchases during the financial period | -1 051,4 | -1 041,3 |
| Increase/decrease in inventories | -18,4 | -18,3 |
| Work performed for own use and capitalised | 0,0 | 0,0 |
| **Materials and supplies** | **-1 069,7** | **-1 059,5** |
| External services | -145,8 | -149,6 |
| **Materials and services** | **-1 215,5** | **-1 209,1** |

# 4. Employee benefit expenses

| | **2020** | **2019** |
|---|---|---|
| Salaries and fees | -245,0 | -242,4 |
| Share-based payments | -1,2 | -1,0 |
| Pension expenses, defined contribution plans | -27,4 | -27,5 |
| Pension expenses, defined benefit plans | -1,8 | -2,4 |
| Total pension expenses | -29,3 | -29,8 |
| | | |
| Other social expenses | -40,1 | -40,4 |
| | | |
| **Employee benefit expenses** | **-315,6** | **-313,7** |
| | | |
| **Key management personnel compensation:** | | |
| Short-term employee benefits | -3,8 | -3,7 |
| Post-employment benefits | -0,5 | -0,4 |
| Termination benefits | - | -1,7 |
| **Key management salaries, fees and benefits** | **-4,2** | **-5,8** |
| | | |
| Average number of employees during financial year (incl. rented) | | |
| Clerical employees | 1 139 | 1 181 |
| Workers | 5 977 | 5 747 |
| **Total** | **7 116** | **6 928** |

| **Members of Board of Directors:** | **Salaries and fees** | **Post-employment benefits** |
|---|---|---|
| | | - |
| Reijo Kiskola, Chairman | 0,109 | - |
| Jari Mäkilä, Debuty Chairman | 0,058 | |
| Per Olof Nyman | 0,052 | - |
| Harri Suutari | 0,052 | - |
| Terhi Tuomi | 0,047 | - |
| Anne Leskelä | 0,055 | - |
| Carl-Peter Thorwid | 0,032 | - |
| Ilkka Uusitalo | 0,033 | - |
| **Total** | **0,437** | **-** |
| | | |
| **CEO** | | |
| Tero Hemmilä | 0,967 | 0,134 |

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

SHARE-BASED PAYMENTS

**Long-term incentive scheme 2018-2020**
On 7 February 2018, HKScan announced that the Board of Directors had approved a share based incentive scheme for the Group's key management. It comprises a Performance Share Plan (also “PSP”) as the main structure and a Restricted Share Plan (also “RSP”) as a complementary structure. Each Plan covers a three-year period. The earning opportunity of the participants within these plans is capped.

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

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

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

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

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

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

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

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

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

**SHARE BASED INCENTIVES DURING THE REPORTING PERIOD 1.1.2020 - 31.12.2020**

| Plan | LTI 2018 | | | | | | TOTAL |
|---|---|---|---|---|---|---|---|
| Type | SHARE | | | | | | |
| Instrument | PSP 2019-2021 (2 tranche) | RSP 2019-2021 (2 tranche) | PSP 2019-2021 (1 tranche) | RSP 2019-2021 (1 tranche) | PSP 2018-2020 | RSP 2018-2020 | TOT/WA |
| Initial amount, pcs | 661 100 | 440 750 | 661 100 | 440 750 | 910 400 | 44 200 | 3 158 300 |
| Initial allocation date | 26.6.2019 | 26.6.2019 | 26.6.2019 | 26.6.2019 | 5.3.2018 | 5.3.2018 | |
| Vesting date / payment approximately | 31.3.2023 | 31.3.2023 | 31.3.2022 | 31.3.2022 | 31.3.2021 | 31.3.2021 | |
| Maximum contractual life, yrs | 3,7 | 3,7 | 2,7 | 2,7 | 3,0 | 3,0 | 3,1 |
| Remaining contractual life, yrs | 2,3 | 2,3 | 1,3 | 1,3 | 0,3 | 0,3 | 1,3 |
| Vesting conditions | Operative Cash flow , Employment precondition | ROCE, Employment precondition | Operative Cash flow , Employment precondition | ROCE, Employment precondition | 2018: EBIT (50%), EPS (50%); 2019-2020 Operative Cash flow , Employment precondition | ROCE, Employment precondition | |
| Number of persons at the end of the reporting year | 8 | 8 | 8 | 8 | 32 | 7 | |
| Payment method | Cash & Equity | Cash & Equity | Cash & Equity | Cash & Equity | Cash & Equity | Cash & Equity | |

| Changes during the period | PSP 2019-2021 (2 tranche) | RSP 2019-2021 (2 tranche) | PSP 2019-2021 (1 tranche) | RSP 2019-2021 (1 tranche) | PSP 2018-2020 | RSP 2018-2020 | Total |
|---|---|---|---|---|---|---|---|
| **1.1.2020** | | | | | | | |
| Outstanding at the beginning of the reporting period, pcs | 661 100 | 440 750 | 661 100 | 440 750 | 592 272 | 41 600 | 2 837 572 |
| **Changes during the period** | | | | | | | |
| Granted | 0 | 0 | 0 | 0 | 168 533 | 0 | 168 533 |
| Forfeited | 11 150 | 7 450 | 11 150 | 7 450 | 70 467 | 2 400 | 110 067 |
| Excercised | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Expired | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **31.12.2020** | | | | | | | |
| Outstanding at the end of the period | 649 950 | 433 300 | 649 950 | 433 300 | 690 339 | 39 200 | 2 896 039 |

FAIR VALUE DETERMINATION

Based on IFRS2 standard, the fair value of share based incentives is determined at grant date and the fair value is expensed until vesting. The fair value is booked to equity and possible social security contributions to liability. The fair value of the equity is the fair value of Company share at grant date deducted with expected dividends to be paid before reward payment; unless dividends are compensated within the plan. The fair value of the liability is recalculated on each reporting date until reward payment.

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

| Valuation parameters for instruments granted during period | |
|---|---|
| Share price at grant, € | 1,76 |
| Share price at reporting period end, € | 1,96 |
| Maturity, years | 1,0 |
| Expected dividends, € | 0,00 |
| Fair value at grant, € | 295 945 |
| Fair value 31 Dec 2020, € | 223 491 |

| Effect of Share-based Incentives on the result and financial position during the period | |
|---|---|
| Expenses for the financial year, share-based payments | 1 184 915 |
| Expenses for the financial year, share-based payments, equity | 1 167 916 |
| Liabilities arising from share-based payments 31 December 2020 | 89 638 |

| | |
|---|---|
| Estimated amount of cash to be paid to the tax authorities under the plans which have not yet been delivered | 2 204 421 |

## 5. Depreciation and impairment

| | 2020 | 2019 |
|---|---|---|
| Depreciation according to plan | -53,8 | -55,8 |
| Depreciation expense of right-of-use assets | -10,1 | -11,4 |
| Impairment | 7,2 | -13,1 |
| **Total** | **-56,7** | **-80,4** |

In 2019 an impairment loss amounting to EUR 6.9 million was recorded to Rauma factory slaughtering line that was planned to be replaced. In 2020 a reversal of impairment loss amounting to EUR 3,1 million was recorded as the plans have been specified.
In 2019 an impairment loss amounting to EUR 4.5 million was recorded to buildings in Denmark segment due to impairment testing. In 2020 a reversal of impairment loss amounting to EUR 4.1 million was recorded as result impairment testing reflecting improved profitability development.

## 6. Other operating expenses

| | 2020 | 2019 |
|---|---|---|
| Rents/leases | -1,7 | -2,0 |
| Losses on disposal of non-current assets | -0,1 | 0,0 |
| R&D costs | -4,9 | -5,8 |
| Non-statutory staff costs | -10,7 | -10,1 |
| Energy | -38,8 | -37,5 |
| Maintenance | -39,6 | -43,2 |
| Advertising, marketing and entertainment costs | -13,7 | -12,6 |
| Service, information management and office costs | -28,0 | -24,2 |
| Exchange rate losses related to foreign exchange derivatives | -1,5 | -1,1 |
| Other expenses | -39,9 | -34,4 |
| **Total other operating expenses** | **-179,1** | **-171,0** |

### Audit fees

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

| | 2020 | 2019 |
|---|---|---|
| Audit fees | -0,5 | -0,5 |
| Tax consultation | 0,0 | 0,0 |
| Other fees | -0,1 | -0,1 |
| **Audit fees, total** | **-0,6** | **-0,6** |

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

## 7. Financial income and expenses

| Financial income | 2020 | 2019 |
|---|---|---|
| Dividend income | 0,4 | 0,5 |
| Interest income | | |
| Interest income from loans and receivables | 1,8 | 1,7 |
| Other financial income | 0,0 | 0,0 |
| **Total** | **2,2** | **2,2** |

| Financial expenses | | |
|---|---|---|
| Interest expenses | | |
| Interest expenses from other liabilities at amortised cost | -8,6 | -8,6 |
| Interest expenses from interest rate derivatives | -2,7 | -3,1 |
| Interest expenses from lease liabilities | -1,2 | -1,4 |
| Other financial expenses | | |
| Change in fair value of interest rate derivatives | 2,2 | 2,4 |
| Other financial expenses | -2,9 | -3,0 |
| Exchange gains and losses from loans and other receivables | -0,1 | 0,0 |
| Exchange gains and losses from derivative instruments | 0,0 | -0,2 |
| Total | -13,2 | -13,9 |
| | | |
| **Total financial income and expenses** | **-11,0** | **-11,7** |

## 8. Income taxes

| Income taxes | 2020 | 2019 |
|---|---|---|
| Income tax on ordinary operations | -2,4 | -1,7 |
| Tax for previous financial periods | 0,0 | 0,1 |
| Change in deferred tax liabilities and assets | -5,1 | -1,4 |
| **Income tax on ordinary operations** | **-7,5** | **-3,0** |

| Cumulative tax rate reconciliation | | |
|---|---|---|
| Accounting profit/loss before taxes | 12,3 | -34,5 |
| Deferred tax at parent company's tax rate | -2,5 | 6,9 |
| Effect of different tax rates applied to foreign subsidiaries | -0,3 | 0,4 |
| Share of associates' results | 0,4 | 0,1 |
| Tax-exempt income | 0,1 | 0,1 |
| Non-deductible expenses | -0,1 | -0,1 |
| Unrecognised tax on the losses for the financial period | -5,7 | -10,4 |
| Tax for previous financial periods | 0,0 | 0,1 |
| Adjustments concerning previous financial periods | 0,6 | 0,0 |
| **Tax expenses in the income statement** | **-7,5** | **-3,0** |

## 9. Earnings per share

| | 2020 | 2019 |
|---|---|---|
| Profit for the period attributable to equity holders of the parent | 1,2 | -39,9 |
| Hybrid loan issue costs and calculational interest | -2,0 | -2,0 |
| **Total** | **-0,9** | **-41,9** |
| | | |
| Weighted average number of outstanding shares in thousands | 96 952 | 79 943 |
| Weighted average number of outstanding shares adjusted for dilution effect | 96 952 | 79 943 |
| | | |
| Undiluted earnings per share (EUR/share) | -0,01 | -0,52 |
| Earnings per share adjusted for dilution effect (EUR/share) | -0,01 | -0,52 |

# Notes to the balance sheet

## 10. Intangible assets

| | 2020 | 2019 |
|---|---|---|
| Opening balance, cumulative acq cost | 98,9 | 96,5 |
| Translation differences | 2,4 | -1,1 |
| Additions | 5,4 | 0,7 |
| Disposals | -0,2 | -0,1 |
| Reclassification between items | 7,1 | 2,8 |
| Closing balance, cumulative acq cost | 113,7 | 98,9 |
| | | |
| Opening balance, cumulative depreciations | -33,2 | -30,2 |
| Translation differences | -0,2 | 0,0 |
| Accumulated depreciation on disposals and reclassifications | 0,1 | 0,1 |
| Depreciation for the financial period | -4,3 | -3,1 |
| Closing balance, cumulative depreciations | -37,5 | -33,2 |
| | | |
| **Intangible assets on 31 Dec.** | **76,2** | **65,8** |

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

## 11. Goodwill

| | 2020 | 2019 |
|---|---|---|
| Opening balance | 70,7 | 71,2 |
| Translation differences | 1,2 | -0,5 |
| **Closing balance** | **71,8** | **70,7** |

**Allocation of goodwill**

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

| **Specification of goodwill** | **2020** | **2019** |
|---|---|---|
| Finland | 19,8 | 19,8 |
| Sweden | 29,9 | 28,7 |
| Denmark | - | - |
| Baltics | 22,2 | 22,2 |
| **Total** | **71,8** | **70,7** |

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

**IMPAIRMENT TESTING**

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

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

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

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

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

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

| | 2019 | 2020 | 2021 | terminal |
|---|---|---|---|---|
| Sweden | 20,8 | 28,9 | 33,0 | 33,0 |
| Finland | 29,3 | 33,9 | 38,4 | 52,4 |
| Denmark | 1,8 | 6,5 | 5,9 | 8,8 |
| Baltics | 13,9 | 13,9 | 16,6 | 17,6 |

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

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

## 12. Tangible assets

| Tangible assets 2020 | Land and water | Buildings and structures | Machinery and equipment | Other property, plant and equipment | Pre-payments and work in progress | Total |
|---|---|---|---|---|---|---|
| Opening balance, cumulative acq cost | 10,5 | 529,9 | 764,2 | 20,3 | 19,6 | 1 344,5 |
| Translation differences | 0,1 | 2,4 | 7,3 | 0,0 | 0,5 | 10,3 |
| Additions | 37,8 | 1,3 | 4,4 | 0,9 | 33,7 | 78,1 |
| Disposals | -0,1 | -6,0 | -6,9 | -0,9 | 0,0 | -13,9 |
| Reclassification between items | 0,1 | 4,2 | 21,7 | 0,1 | -33,2 | -7,1 |
| Closing balance, cumulative acq cost | 48,4 | 531,8 | 790,8 | 20,4 | 20,5 | 1 411,8 |
| | | | | | | |
| Opening balance, cumulative depreciations | 0,0 | -332,0 | -600,4 | -17,4 | - | -949,8 |
| Translation differences | - | -2,6 | -5,7 | 0,0 | - | -8,2 |
| Accumulated depreciation on disposals and reclassifications | - | 6,4 | 7,2 | 0,2 | - | 13,8 |
| Depreciation for the financial period | - | -13,6 | -35,0 | -0,9 | - | -49,5 |
| Impairment charge reversals | - | 4,1 | 3,1 | - | - | 7,2 |
| Closing balance, cumulative depreciations | 0,0 | -337,7 | -630,7 | -18,1 | - | -986,5 |
| | | | | | | |
| **Tangible assets on 31 Dec. 2020** | **48,4** | **194,1** | **160,1** | **2,3** | **20,5** | **425,3** |
| Right-of-use assets (Note 13) | 2,2 | 15,6 | 15,6 | - | - | 33,3 |
| **Tangible assets total on 31 Dec. 2020** | **50,5** | **209,7** | **175,6** | **2,3** | **20,5** | **458,7** |

| Tangible assets 2019 | Land and water | Buildings and structures | Machinery and equipment | Other property, plant and equipment | Pre-payments and work in progress | Total |
|---|---|---|---|---|---|---|
| Opening balance, cumulative acq cost | 10,6 | 526,1 | 742,9 | 19,4 | 25,0 | 1 324,0 |
| Translation differences | 0,0 | -1,2 | -3,1 | 0,0 | -0,2 | -4,5 |
| Additions | - | 1,0 | 4,4 | 1,1 | 24,5 | 31,0 |
| Disposals | - | -0,2 | -2,3 | -0,6 | 0,0 | -3,1 |
| Impairment losses | - | - | - | - | -1,8 | -1,8 |
| Reclassification between items | - | 4,2 | 22,3 | 0,5 | -28,0 | -1,1 |
| Closing balance, cumulative acq cost | 10,5 | 529,9 | 764,2 | 20,3 | 19,6 | 1 344,5 |
| | | | | | | |
| Opening balance, cumulative depreciations | 0,0 | -315,1 | -560,2 | -16,2 | - | -891,6 |
| Translation differences | - | 1,2 | 2,3 | 0,0 | - | 3,5 |
| Accumulated depreciation on disposals and reclassifications | - | 0,2 | 2,3 | -0,1 | - | 2,4 |
| Depreciation for the financial period | - | -13,8 | -37,8 | -1,1 | - | -52,7 |
| Impairment losses | - | -4,5 | -6,9 | - | - | -11,4 |
| Closing balance, cumulative depreciations | 0,0 | -332,0 | -600,4 | -17,4 | - | -949,8 |
| | | | | | | |
| **Tangible assets on 31 Dec. 2019** | **10,5** | **197,9** | **163,8** | **2,9** | **19,6** | **394,7** |
| Right-of-use assets (Note 13) | 10,0 | 18,7 | 15,7 | - | - | 44,3 |
| **Tangible assets total on 31 Dec. 2019** | **20,5** | **216,6** | **179,5** | **2,9** | **19,6** | **439,1** |

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

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

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

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

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

| | Land and Water | Buildings and structures | Machinery and equipment | Total | Lease liabilities |
|---|---|---|---|---|---|
| Opening balance on 1.1.2020 | 10,0 | 18,7 | 15,7 | 44,3 | 46,3 |
| Translation differences | - | 0,2 | 0,1 | 0,3 | 0,3 |
| Additions | 0,3 | 2,0 | 4,9 | 7,2 | 7,2 |
| Disposals | -7,7 | -0,2 | 0,0 | -8,0 | -7,9 |
| Depreciation for the financial period | -0,4 | -4,6 | -5,1 | -10,1 | - |
| Reclassification between items | - | - | - | - | 0,0 |
| Other changes | - | -0,4 | 0,0 | -0,4 | - |
| Payments | - | - | - | - | -10,3 |
| **Closing balance on 31. Dec. 2020** | **2,2** | **15,6** | **15,6** | **33,3** | **35,6** |

| | Land and Water | Buildings and structures | Machinery and equipment | Total | Lease liabilities |
|---|---|---|---|---|---|
| Opening balance on 1.1.2019 | 6,4 | 19,7 | 20,0 | 46,1 | 46,8 |
| Translation differences | - | -0,2 | -0,1 | -0,2 | -0,2 |
| Additions | 4,8 | 3,2 | 3,3 | 11,3 | 11,3 |
| Disposals | - | 0,4 | 0,0 | 0,4 | - |
| Depreciation for the financial period | -1,3 | -4,4 | -5,8 | -11,4 | - |
| Reclassification between items | - | 0,0 | -1,8 | -1,8 | 0,0 |
| Payments | - | - | - | - | -11,6 |
| **Closing balance on 31. Dec. 2019** | **10,0** | **18,7** | **15,7** | **44,3** | **46,3** |

| | 2020 | 2019 |
|---|---|---|
| Depreciation expense of right-of-use assets | -10,1 | -11,4 |
| Interest expense on lease liabilities | -1,2 | -1,4 |
| **Total amounts recognised in profit or loss** | **-11,3** | **-12,8** |

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

## 14. Shares in associates and joint ventures

| | 2020 | 2019 |
|---|---|---|
| Opening balance | 20,8 | 21,1 |
| Translation differences | 0,1 | -0,1 |
| Additions | 0,0 | 0,0 |
| Impairment losses | - | -0,2 |
| Disposals | -0,6 | - |
| Closing balance | 20,3 | 20,9 |
| | | |
| Share of associates' and joint ventures' results | 1,9 | 0,4 |
| Dividend from associates and joint ventures | -0,7 | -0,5 |
| | | |
| **Shares in associates on 31 Dec.** | **21,6** | **20,8** |
| | | |
| **Effect on the Group's earnings:** | | |
| Associates | 0,9 | -0,1 |
| Joint ventures | 1,0 | 0,5 |
| Total | 1,9 | 0,4 |
| | | |
| **Book value in the Group's balance sheet:** | | |
| Associates | 9,9 | 9,9 |
| Joint ventures | 11,6 | 10,9 |
| Total | 21,6 | 20,8 |

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

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

## 15. Financial assets and liabilities

**Financial instruments by category 2020**

| | Assets and liabilities at fair value through profit and loss | Financial assets at amortised cost | Equity instruments at fair value through OCI | Deriva-tives used for hedging | Other financial liabilities at amortised cost | Total | Fair value | Fair value hierarchy |
|---|---|---|---|---|---|---|---|---|
| **Assets as per balance sheet** | | | | | | | | |
| Non-current trade and other receivables | | 6,2 | | | | 6,2 | | |
| Other shares and holdings | | | 12,2 | | | 12,2 | 12,2 | 3 |
| Trade and other receivables*) | | 116,1 | | | | 116,1 | | |
| Derivative financial instruments | | | | -0,1 | | -0,1 | -0,1 | 2 |
| Cash and bank | | 46,8 | | | | 46,8 | | |
| **Total** | 0,0 | 169,1 | 12,2 | -0,1 | 0,0 | 181,3 | | |

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

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Liabilities as per balance sheet** | | | | | | | | |
| Non-current interest-bearing liabilities | | | | | 249,2 | 249,2 | | |
| Non-current non-interest bearing liabilities | | | | | 0,0 | 0,0 | | |
| Current interest-bearing liabilities | | | | | 97,2 | 97,2 | | |
| Derivative financial instruments*) | 5,3 | | | | | 5,3 | 5,3 | 2 |
| Trade and other payables*) | | | | | 222,7 | 222,7 | | |
| **Total** | 5,3 | 0,0 | 0,0 | 0,0 | 569,1 | 574,5 | | |

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

**Financial instruments by category 2019**

| | Assets and liabilities at fair value through profit and loss | Financial assets at amortised cost | Equity instruments at fair value through OCI | Deriva-tives used for hedging | Other financial liabilities at amortised cost | Total | Fair value | Fair value hierarchy |
|---|---|---|---|---|---|---|---|---|
| **Assets as per balance sheet** | | | | | | | | |
| Non-current trade and other receivables | | 3,2 | | | | 3,2 | | |
| Other shares and holdings | | | 11,7 | | | 11,7 | 11,7 | 3 |
| Trade and other receivables*) | | 118,2 | | | | 118,2 | | |
| Derivative financial instruments | | | | 0,6 | | 0,6 | 0,6 | 2 |
| Cash and bank | | 37,5 | | | | 37,5 | | |
| **Total** | 0,0 | 158,9 | 11,7 | 0,6 | 0,0 | 171,2 | | |

*) Trade and other receivables balance sheet amount 124.7 million euros includes derivative financial instruments amounting to 0.4 million euros and prepayments and other items that are not financial instruments amounting to 8.9 million euros.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Liabilities as per balance sheet** | | | | | | | | |
| Non-current interest-bearing liabilities | | | | | 262,7 | 262,7 | | |
| Non-current non-interest bearing liabilities | | | | | -0,1 | -0,1 | | |
| Current interest-bearing liabilities | | | | | 50,6 | 50,6 | | |
| Derivative financial instruments*) | 6,4 | | | | | 6,4 | 6,4 | 2 |
| Trade and other payables*) | | | | | 224,8 | 224,8 | | |
| **Total** | 6,4 | 0,0 | 0,0 | 0,0 | 538,0 | 544,4 | | |

*) Trade and other payables balance sheet amount 228.2 million euros includes derivative financial instruments amounting to 3.2 million euros and advance payments that are not financial instruments amounting to 0.3 million euros.

Other shares and holdings consists of holdings in non-listed entities and are measured at cost as it is considered appropriate estimate of fair value. Change in value between year is due to translation difference. The balance sheet values best correspond to the amount of money which is the maximum amount of credit risk in the event that counterparties are unable to fulfil their obligations associated with the financial instruments.
Fair value of financial instruments, other than those recorded at fair value (hierarchy 2), is close to the balance sheet value and therefore they are not separately disclosed. EUR 125.4 million bond that has a balance sheet value of EUR 124.2 million has a market value of EUR 120.7 million at the end of 2020.

## 16. Deferred tax assets and liabilities

**Specification of deferred tax assets**

| | 1 Jan. 2020 | Translation difference | Recognised in income statement | Recognised in equity | 31 Dec. 2020 |
|---|---|---|---|---|---|
| Pension benefits | 8,3 | 0,3 | 0,0 | 0,1 | 8,6 |
| Other timing differences | 2,7 | 0,0 | -0,9 | - | 1,9 |
| Postponed tax depreciations | 9,9 | - | - | - | 9,9 |
| Non-deductible interest expense | 4,5 | - | - | - | 4,5 |
| Adopted losses | 18,2 | - | -2,4 | - | 15,8 |
| Arising from hedge accounting | -0,2 | 0,0 | - | 0,3 | 0,1 |
| **Total** | **43,4** | **0,3** | **-3,2** | **0,4** | **40,9** |

**Specification of deferred tax liabilities**

| | 1 Jan. 2020 | Translation difference | Recognised in income statement | Recognised in equity | 31 Dec. 2020 |
|---|---|---|---|---|---|
| Depreciation difference | 3,0 | 0,1 | 2,0 | - | 5,1 |
| Other timing differences | 1,2 | 0,0 | -0,1 | - | 1,1 |
| Arising from consolidation | 12,4 | 0,5 | 0,0 | - | 12,8 |
| **Total** | **16,6** | **0,6** | **1,9** | **-** | **19,0** |

**Specification of deferred tax assets**

| | 1 Jan. 2019 | Translation difference | Recognised in income statement | Recognised in equity | 31 Dec. 2019 |
|---|---|---|---|---|---|
| Pension benefits | 7,1 | -0,1 | 0,2 | 1,1 | 8,3 |
| Other timing differences | 3,9 | 0,0 | -1,2 | - | 2,7 |
| Postponed tax depreciations | 9,9 | - | - | - | 9,9 |
| Non-deductible interest expense | 4,5 | - | - | - | 4,5 |
| Adopted losses | 18,8 | - | -0,6 | - | 18,2 |
| Arising from hedge accounting | -0,9 | 0,0 | - | 0,7 | -0,2 |
| **Total** | **43,3** | **-0,1** | **-1,5** | **1,8** | **43,4** |

**Specification of deferred tax liabilities**

| | 1 Jan. 2019 | Translation difference | Recognised in income statement | Recognised in equity | 31 Dec. 2019 |
|---|---|---|---|---|---|
| Depreciation difference | 2,8 | 0,0 | 0,2 | - | 3,0 |
| Other timing differences | 1,4 | 0,0 | -0,2 | - | 1,2 |
| Arising from consolidation | 12,7 | -0,2 | -0,1 | - | 12,4 |
| **Total** | **16,9** | **-0,2** | **-0,1** | **-** | **16,6** |

EUR 30.2 million of the deferred tax asset arise from adopted losses, postponed depreciations and non-deductible interest expenses in Group's operations in Finland. Increased deferred tax asset arising from tax losses in Finland in 2018 was losses incurred during Rauma unit ramp up and are therefore temporary in nature.

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

Deferred tax assets are assumed to be used in less than 10 years. Consideration is based on current three years business plan of which implementation has so far proceeded well. As plans always contain uncertainties, these are mitigated in consideration with very conservative assumption on EBIT growth in 2022 and beyond. Covid-19 has only minor impact on the expected period of use. Utilisation of deferred tax asset is based on taxable profits in the future and the assumption that there are no significant adverse changes in tax legislation. In addition, postponing tax depreciations and non-deductibility of interest expense can be used to speed up the utilisation of losses before they expire. Postponed tax depreciations and non-deducted interest expense can be utilised indefinitely.

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

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

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

## 17. Inventories

| | **2020** | **2019** |
|---|---|---|
| Materials and supplies | 59,8 | 59,3 |
| Unfinished products | 4,6 | 4,7 |
| Finished products | 47,5 | 41,8 |
| Other inventories | 0,5 | 0,2 |
| Prepayments for inventories | 1,5 | 1,9 |
| Biological assets | 5,2 | 7,5 |
| **Total inventories** | **119,0** | **115,5** |

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

## 18. Trade and other current receivables

| | 2020 | 2019 |
|---|---|---|
| Trade receivables from associates | 0,8 | 1,3 |
| Other receivables from associates | 0,4 | 0,2 |
| Current receivables from associates | 1,1 | 1,5 |
| | | |
| Trade receivables | 104,5 | 110,0 |
| Loan receivables | 0,0 | 0,0 |
| Other receivables | 9,2 | 5,0 |
| Current receivables from others | 113,7 | 115,0 |
| | | |
| Current derivative receivables | -0,1 | 0,4 |
| | | |
| Interest receivables | 1,6 | 1,8 |
| Other prepayments and accrued income | 6,0 | 8,7 |
| Current prepayments and accrued income | 7,6 | 10,5 |
| | | |
| Trade and other receivables | 122,4 | 127,4 |
| | | |
| Tax receivables (income taxes) | - | 0,2 |
| | | |
| **Total current receivables** | **122,4** | **127,6** |

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

| | 2020 | Expected loss rate | Impairment losses | Net 2020 | 2019 | Expected loss rate | Impairment losses | 2019 |
|---|---|---|---|---|---|---|---|---|
| Unmatured | 101,4 | 0,01 % - 0,1 % | -0,1 | 101,3 | 104,9 | 0 % - 1 % | 0,0 | 104,9 |
| Matured: | | | | | | | | |
| Under 30 days | 3,6 | 0,01 % - 0,1 % | 0,0 | 3,6 | 5,7 | 0 % - 1 % | 0,0 | 5,7 |
| 30-60 days | 0,2 | 25 % - 30 % | -0,1 | 0,2 | 0,4 | 30 % - 35 % | -0,1 | 0,3 |
| 61-90 days | 0,0 | 60 % - 65 % | 0,0 | 0,0 | 0,1 | 30 % - 35 % | -0,1 | 0,0 |
| over 90 days 1) | 0,6 | 65 % - 70 % | -0,4 | 0,2 | 1,1 | 50 % - 55 % | -0,7 | 0,4 |
| **Total** | **105,9** | | **-0,6** | **105,3** | **112,2** | | **-1,0** | **111,3** |

1) Comprise i.a. receivables to be set off against payments for animals

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

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

| | 2020 | 2019 |
|---|---|---|
| Opening loss allowance at 1 January | 1,0 | 0,8 |
| Receivables written off during the year as uncollectible | -0,3 | -2,4 |
| Allowance exceeded | 0,0 | 1,6 |
| Increase in loss allowance recognised in profit or loss during the year | 0,6 | 1,0 |
| Unused amount reversed | -0,7 | 0,0 |
| Closing loss allowance at 31 December | 0,6 | 1,0 |

## 19. Cash and cash equivalents

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

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

| | 2020 | 2019 |
|---|---|---|
| Cash and bank | 46,8 | 37,5 |
| Short-term money market investments | - | - |
| Other financial instruments | - | - |
| **Total cash and cash equivalents** | **46,8** | **37,5** |

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

## 20. Notes relating to equity

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

| | Number of outstanding shares (1000) | Share capital (EUR mill.) | Share premium reserve (EUR mill.) | RIUE (EUR mill.) | Treasury shares (EUR mill.) | Total (EUR mill.) |
|---|---|---|---|---|---|---|
| 1 Jan. 2019 | 54 034 | 66,8 | 72,9 | 143,5 | 0,0 | 283,1 |
| 31 Dec. 2019 | 96 952 | 66,8 | 72,9 | 215,4 | -4,8 | 350,3 |
| 1 Jan. 2020 | 96 952 | 66,8 | 72,9 | 215,4 | -4,8 | 350,3 |
| 31 Dec. 2020 | 96 952 | 66,8 | 72,9 | 215,4 | -4,8 | 350,3 |

The shares have no nominal value. All issued shares have been paid up in full. The company’s stock is divided into Series A and K shares, which differ from each other in the manner set out in the Articles of Association. Each share gives equal entitlement to a dividend. K Shares produce 20 votes and A Shares 1 vote each. A Shares are numbered 93 551 791 and K Shares 5 400 000.

**The equity reserves are described below:**

**SHARE PREMIUM RESERVE**
In share issues, decided while the earlier Finnish Companies Act (29.9.1978/734) was in force, payments in cash or kind obtained on share subscription, less transaction costs, were recognized under equity and the share premium reserve in accordance with the terms of the arrangements.

**RESERVE FOR INVESTED UNRESTRICTED EQUITY**
The reserve for invested unrestricted equity (RIUE) contains other investments of an equity nature and share issue price inasmuch as this is not recognised under equity pursuant to express decision to that effect.

**TREASURY SHARES**
At the beginning and in the end of the financial year 2020, HKScan held 2 000 000 treasury A shares. At the end of the year, they had a market value of EUR 3.9 million and accounted for 2.02 per cent of all shares and 1.0 per cent of all votes. The acquisition cost is presented in the balance sheet as a deduction from equity.

**TRANSLATION DIFFERENCES**
The translation differences reserve includes exchange differences arising on the translation of foreign units' financial statements, as well as gains and losses arising on the hedging of net investments in foreign units, when hedge accounting requirements are satisfied.

**REVALUATION RESERVE AND OTHER RESERVES**
These reserves are for changes in the value of available-for-sale financial assets and changes in the fair value of derivative instruments used in cash flow hedging. Revaluation reserve includes EUR 0.6 (0.6) million other than hedging instrument related items. The following is an itemisation of events in the hedging instruments reserve during the financial period.

| **Hedging instruments reserve** | **2020** | **2019** |
|---|---|---|
| Fair value reserve and hedging instruments reserve on 1 Jan. | 0,4 | 4,6 |
| Amount recognised in equity in the financial period (effective portion), commodity derivatives | -1,9 | -4,5 |
| Share of deferred tax asset of changes in period | 0,1 | 0,3 |
| Fair value reserve and hedging instruments reserve on 31 Dec. | -1,3 | 0,4 |

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

**DIVIDENDS**
Dividend of EUR 0.00 (0.00) per share, totaling EUR 0.0 (0.0) million, was distributed in 2020. Since the reporting date, the Board of Directors has proposed that no dividend will be paid from the previous financial year.

**HYBRID LOAN**
In September 2018 the Group issued a EUR 40 million hybrid bond to strengthen the company's capital structure. After the conversions carried out in the context of the share issue in June 2019, the outstanding amount is EUR 25.9 million. A hybrid bond is treated as equity in consolidated financial statements prepared in accordance with IFRS. The coupon of the hybrid bond is 8.00 per cent per annum. The hybrid bond does not have a specified maturity date, but the Group is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date, and subsequently, on each annual coupon interest payment date. An interest payment obligation is set up if the Annual Shareholders' Meeting decides to distribute dividends. If no dividend is distributed, the company can decide upon the payment of interest separately. Hybrid loan has an off-balance sheet calculational accrued interest amounting to EUR 0.6. The payment of interest is recorded from retained earnings.

## 21. Pension obligations

| | 2020 | 2019 |
|---|---|---|
| Pension liability/receivable in balance sheet | | |
| Defined benefit plans | 42,2 | 40,3 |
| Other long-term employee benefits | 0,9 | 0,8 |
| **Pension liability (+)/receivable(-) in balance sheet** | **43,1** | **41,1** |

The Group's defined benefit plans consist of the pension liability for the former CEO of the parent company which is unfunded and the Swedish pension programme which is funded. The company's pension commitment in respect of the defined benefit relating to the former CEO was EUR 2.5 million on 31 December 2020. The remaining pension liability relates to the Swedish pension programme. Through its defined benefit plans the Group is exposed to a number of risks such as changes in discount rate, salary increases, inflation and life expectancy. Expected contribution into the plans for 2021 is EUR 1.8 million.

The defined benefit plan in Sweden is the ITP2 plan and it is based on final salary. HKScan has a pension foundation in Sweden to secure obligations relating to retirement pensions for white-collar workers in accordance with the ITP2 plan. Only new white-collar employees born before, or in 1979 have the possibility to choose the ITP2 solution. Pension foundation has employer and employee representatives in the board. The plan assets are invested in various funds in accordance with a distribution that is determined by the foundation's Board of Directors. Swedish companies can secure new pension obligations through pension insurance, balance-sheet provisions or pension-fund contributions. A credit insurance policy must be taken out for the value of the obligations. Special pension tax is applicable for the pension plan in Sweden.

### Summary of provision for post-employment benefits, defined benefit plans

| | 2020 | 2019 |
|---|---|---|
| Obligations | -108,3 | -104,5 |
| Fair value of plan assets | 76,5 | 74,3 |
| Special pension tax | -7,7 | -7,3 |
| **Net provision for funded post-employment benefits** | -39,7 | -37,6 |
| Provision for unfunded post-employment benefits | -2,5 | -2,7 |
| **Total provision for post-employment benefits, defined benefit plans** | -42,2 | -40,4 |

| **Pension costs in the income statement** | **2020** | **2019** |
|---|---|---|
| Current year service costs | -1,0 | -1,2 |
| Interest costs | -1,5 | -2,3 |
| Interest income | 1,0 | 1,6 |
| Early retirement pensions | 0,0 | -0,1 |
| Special pension tax | -0,3 | -0,4 |
| **Pension costs for defined benefit plans** | -1,8 | -2,4 |
| Pension costs for defined contribution plans | -28,0 | -27,5 |
| **Total pension costs for the period** | -29,8 | -29,8 |

| **Pension cost in other comprehensive income** | | |
|---|---|---|
| Changes in actuarial assumptions | -0,3 | -4,3 |
| Special pension tax | -0,1 | -1,0 |
| Income tax effect | 0,1 | 1,1 |
| **Total pension cost in other comprehensive income after taxes** | -0,3 | -4,2 |

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

| **Obligations** | **2020** | **2019** |
|---|---|---|
| Obligations opening balance | -104,5 | -101,5 |
| Current year service costs | -1,0 | -1,2 |
| Interest costs | -1,5 | -2,3 |
| Early retirements | 0,0 | -0,1 |
| Remeasurements: | | |
| - Effect of changes in financial assumptions | -3,0 | -7,3 |
| - Effect of experience adjustments | 0,7 | 0,8 |
| Exchange rate translation | -4,3 | 1,9 |
| Benefits paid | 5,2 | 5,1 |
| Obligations closing balance | -108,3 | -104,5 |

| **Fair value of plan assets** | **2020** | **2019** |
|---|---|---|
| Plan assets opening balance | 74,3 | 75,7 |
| Interest income | 1,0 | 1,6 |
| Remeasurements (experience adjustments) | 2,0 | 2,2 |
| Exchange rate translation | 3,1 | -1,4 |
| Settlement paid | -3,8 | -3,8 |
| Plan assets closing balance | 76,5 | 74,3 |

| **Assumptions applied for actuarial calculations, %** | **2020** | **2019** |
|---|---|---|
| Discount rate | 1,00 | 1,40 |
| Expected salary increase | 1,80 | 2,00 |
| Inflation | 1,5 | 1,7 |
| Personnel turnover rate | 4 | 4 |
| Life expentancy | DUS 14 | DUS 14 |

| **Plan assets by category %** | **2020** | **2019** |
|---|---|---|
| Interest funds | 69 | 70 |
| Equity instrument funds | 31 | 30 |

**Sensitivity analysis 2020, effect on obligation (+decrease/-increase), mEUR**

| | Change | Used value | Change |
|---|---|---|---|
| Discount rate | -0,50 % | 1,00 % | 0,50 % |
| | -8,3 | -108,3 | 7,4 |
| Salary increase | -0,50 % | 1,80 % | 0,50 % |
| | 0,9 | -108,3 | -1,1 |
| Inflation | -0,50 % | 1,50 % | 0,50 % |
| | 6,6 | -108,3 | -7,3 |
| Life expectancy | -1 year | DUS 14 | 1 year |
| | 5,0 | -108,3 | -5,1 |

Average duration of the obligation is 14 years.

## 22. Provisions

| | 1 Jan. 2020 | Translation difference | Increase in provisions | Exercised in financial period(-) | Reversals of provisions | Reclassi-fication between items | 31 Dec. 2020 |
|---|---|---|---|---|---|---|---|
| Non-current provisions | 6,2 | 0,0 | - | -0,1 | -0,9 | - | 5,2 |
| Current provisions | 1,7 | 0,0 | 3,3 | -1,5 | - | - | 3,5 |
| **Total** | **7,9** | **0,0** | **3,3** | **-1,6** | **-0,9** | **0,0** | **8,7** |

| | 1 Jan. 2019 | Translation difference | Increase in provisions | Exercised in financial period(-) | Reversals of provisions | Reclassi-fication between items | 31 Dec. 2019 |
|---|---|---|---|---|---|---|---|
| Non-current provisions | 7,0 | 0,0 | - | -0,1 | - | -0,6 | 6,2 |
| Current provisions | 0,7 | 0,0 | 1,9 | -1,6 | - | 0,6 | 1,7 |
| **Total** | **7,6** | **0,0** | **1,9** | **-1,7** | **0,0** | **0,0** | **7,9** |

In 2020 a current provision amounting to EUR 3.3 million has been recorded due to decision by the Danish tax authorities, according to which the company should repay past refunds of energy taxes. Further, it cannot be excluded that in addition to the currently pending matter, the company could separately be imposed penal sanctions as a result of the tax audit. HKScan Denmark A/S will appeal the decision issued to it.
In 2017 a lot restoration provision amounting to EUR 5.0 million has been recorded as part of the acquisition cost of Rauma facility into non-current provisions. The amount is based on an estimate. Provision has been capitalized as part of the building's value and it is depreciated during the lot rental agreement.

**Legal matters**
A number of Group companies are, and will likely continue to be subject to various legal proceedings and investigations that arise from time to time. As a result, the Group may incur substantial costs that may not be covered by insurance and could affect business and reputation. While Management does not expect any of these legal proceedings to have a material adverse effect on the Group’s financial position, litigation is inherently unpredictable and the Group may in the future incur judgments, or enter into settlements, that could have a material adverse effect on the results of operations and cash flows.

## 23. Liabilities

| | 2020 | 2019 |
|---|---|---|
| NON-CURRENT LIABILITIES | | |
| Interest-bearing | | |
| Bond | 124,2 | 123,5 |
| Bank loans | 90,6 | 94,2 |
| Pension loans | 6,4 | 8,6 |
| Non-current lease liabilities | 26,4 | 36,5 |
| Other liabilities | 1,6 | - |
| **Non-current interest-bearing liabilities** | **249,2** | **262,7** |

| | | |
|---|---|---|
| Non-interest bearing | | |
| Other liabilities | 0,0 | -0,1 |
| Derivatives | 1,8 | 3,2 |
| **Non-current non-interest-bearing liabilities** | **1,8** | **3,1** |
| | | |
| Non-current provisions | 5,2 | 6,2 |
| Deferred tax liability | 19,0 | 16,6 |
| Pension obligations | 43,1 | 41,1 |
| | | |
| **Non-current liabilities** | **318,3** | **329,8** |
| CURRENT INTEREST-BEARING LIABILITIES | | |
| Commercial paper | 71,6 | 34,9 |
| Pension loans | 2,1 | 2,1 |
| Bank loans | 13,6 | 3,6 |
| Current lease liabilities | 9,2 | 9,8 |
| Other liabilities | 0,6 | 0,2 |
| **Current interest-bearing liabilities** | **97,2** | **50,6** |
| | | |
| TRADE AND OTHER PAYABLES | | |
| Advances received | 0,5 | 0,3 |
| Trade payables | 117,6 | 128,1 |
| Refund liabilities | 7,4 | 6,3 |
| Accruals and deferred income | | |
| -Short-term interest payable | 2,0 | 2,0 |
| -Matched staff costs | 61,0 | 55,8 |
| -Other short-term accruals and deferred income | 25,5 | 22,8 |
| Derivatives | 3,6 | 3,2 |
| Other liabilities | 9,2 | 9,7 |
| **Trade and other payables** | **226,8** | **228,3** |
| | | |
| Income tax liability | 1,0 | 0,1 |
| Current provisions | 3,5 | 1,7 |
| | | |
| **Current liabilities** | **328,4** | **280,7** |
| | | |
| **Liabilities** | **646,8** | **610,5** |

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

| | **2020** | **2019** |
|---|---|---|
| Under 6 months | 184,4 | 132,7 |
| 6-12 months | 0,2 | 10,9 |
| 1-5 years | 126,2 | 123,5 |
| Over 5 years | - | - |
| **Total** | **310,8** | **267,1** |

## Interest-bearing net debt reconciliation

| | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents | 46,8 | 37,5 |
| Liquid investments | 0,0 | 0,0 |
| Lease liabilities due within 1 year | -9,2 | -9,8 |
| Lease liabilities due after 1 year | -26,4 | -36,5 |
| Borrowings due within one year (including overdraft) | -87,9 | -40,8 |
| Borrowings due after one year | -222,8 | -226,3 |
| **Interest-bearing net debt** | **-299,6** | **-275,8** |

| | Other assets | | Liabilities from financing activities | | | | |
|---|---|---|---|---|---|---|---|
| | **Cash/ bank overdraft** | **Liquid invest-ments** | **Lease liabilities due within 1 year** | **Lease liabilities due after 1 year** | **Borrowings due within 1 year** | **Borrowings due after 1 year** | **Total** |
| Interest-bearing net debt on 1 Jan 2019 | 29,4 | 0,2 | -9,9 | -36,8 | -77,0 | -241,5 | -335,6 |
| Cash flows | 8,1 | -0,2 | 11,1 | 0,5 | 36,2 | 15,2 | 70,9 |
| Acquisitions - leases | - | - | -1,9 | -9,4 | - | - | -11,3 |
| Reclassification between items - leases | - | - | -9,1 | 9,1 | - | - | 0,0 |
| Foreign exchange adjustments | - | - | 0,1 | 0,2 | 0,0 | - | 0,2 |
| **Interest-bearing net debt on 31 Dec 2019** | **37,5** | **0,0** | **-9,8** | **-36,5** | **-40,8** | **-226,3** | **-275,8** |
| Cash flows | 9,3 | 0,0 | 10,3 | 0,0 | -47,1 | 3,4 | -24,2 |
| Acquisitions - leases | - | - | -2,5 | -4,7 | - | - | -7,2 |
| Disposals - leases | | | 1,2 | 6,7 | | | 7,9 |
| Other changes - leases | | | -0,2 | 0,2 | | | 0,0 |
| Reclassification between items - leases | - | - | -8,1 | 8,1 | - | - | 0,0 |
| Foreign exchange adjustments | - | - | -0,1 | -0,2 | - | - | -0,3 |
| **Interest-bearing net debt on 31 Dec 2020** | **46,8** | **0,0** | **-9,2** | **-26,4** | **-87,9** | **-222,8** | **-299,6** |

## 24. Financial risk management

The duty of Group Treasury in the HKScan Group is to ensure cost-effective funding and financial risk management for Group companies and to attend to relations with financiers. The treasury policy approved by the Board provides the principles for financial risk management in the Group. The policy is supplemented by separate guidelines and instructions, as well as approval practices.

Financial risks mean unfavourable movements taking place in the financial markets that may erode accrual of the company’s result or reduce cash flows. Financial risk management aims to use financial means to hedge the company’s intended earnings performance and equity, and to safeguard the Group’s liquidity in all circumstances and market conditions.

External funding of the Group’s operations and financial risk management is centralised to the Group Treasury operating under the Group Treasurer. Group Treasury identifies and assesses the risks and acquires the instruments required for hedging against the risks, in close co-operation with the operational units.

Risk management may employ various instruments, such as currency forwards and options, interest-rate or currency swaps, foreign currency loans and commodity derivatives. Derivatives are used for the sole purpose of hedging, not for speculation. Funding of the Group’s subsidiaries is managed mainly through the parent company.

The subsidiaries may not accept new external funding, nor may they give guarantees or pledges without the permission of the Group Treasury in the parent company.

**FOREIGN EXCHANGE RISK**

The Group's domestic market consists of Finland, Sweden, Denmark and the Baltic countries. Customers are in retail, food service, industry and export sectors. Meat products are mainly produced for domestic markets which reduces the overall currency risk in the Group.

Transaction risk arises when the Group companies engage in foreign currency denominated import and export both outside and within the Group. The aim of transaction risk management is to hedge the Group's business against foreign exchange rate movements and allow the business units time to react and adapt to fluctuations in exchange rates. Foreign exchange risk exposures, which include sales, purchases (balance sheet items and committed cash flows), financing related contractual cash flows, and highly probable forecasted cash flows, are hedged through forward contracts made with the parent company. The business units report their balance sheet risk exposures, forecasted foreign currency sales and purchases and hedging levels to the Group Treasury on a regular basis.

According to Treasury Policy, subsidiaries must hedge balance sheet items in full amount and committed cash flows from 50 to 100 per cent. In addition, forecasted, highly probable cash flows are hedged at 0 - 50 per cent for up to 12 months into the future. Group Treasury can use currency forwards, options and swaps as hedging instruments. Treasury targets to hedge fully its significant foreign exchange risk exposures. Those include commercial exposures, external financing and internal financing which is given in the subsidiary's home currency. All the forward contracts mature within one year. Hedge accounting is not applied currently. Nevertheless, all hedging instruments are done for hedging purposes.

Translation risk arises from the consolidation of equity into the basic currency in subsidiaries whose operational currency is not the euro. The largest foreign currency denominated equities of the Group companies are in Swedish krona and Danish krone and Polish zloty. Fluctuations of exchange rates affect the amount of consolidated equity, and translation differences are generated in connection with the consolidation of equity in accounting. Group Treasury identifies and manages foreign exchange translation risks according to Treasury Policy. HKScan Group is not hedging translation risk currently.

The equities of the Group's non-euro-denominated subsidiaries and associates are presented in the following table in million euros.

| | 2020 | 2019 |
|---|---|---|
| Currency | Exposure | Exposure |
| SEK | 87,8 | 89,2 |
| PLN | 6,9 | 5,0 |
| DKK | -5,1 | -2,4 |

The parent company's functional currency is the euro. The following net positions (USD, NZD, SEK, JPY) include sales receivables, payables, interest bearing loans and receivables, cash reserves and committed commercial flows in the most significant foreign currencies. The reported amounts are translated into euros at the exchange rates of the reporting date:

| | **2020** | | | | **2019** | | | |
|---|---|---|---|---|---|---|---|---|
| | **USD** | **NZD** | **SEK** | **JPY** | **USD** | **NZD** | **SEK** | **JPY** |
| Net position before hedging | 0,9 | 5,6 | 16,8 | 0,6 | 2,8 | 4,5 | 24,2 | 0,9 |
| Hedging of balance sheet items | -0,1 | -3,6 | -14,0 | -0,3 | -0,6 | -1,7 | -10,2 | -0,5 |
| Hedging of committed items | -0,3 | -2,3 | -1,5 | -0,4 | -0,5 | -2,5 | -12,1 | -0,4 |
| Open position | 0,5 | -0,2 | 1,3 | -0,1 | 1,6 | 0,3 | 2,0 | -0,1 |

The following table analyses the strengthening or weakening of the euro against the US dollar, New Zealand dollar, Swedish krona and Japanese yen, all other factors remaining unchanged. Sensitivity analysis is based on assets, liabilities and committed cash flows denominated in foreign currencies at the reporting date. The effects of currency derivatives, which offset the effects of changes in exchange rates, are also taken into account in sensitivity analysis. Net investments in foreign units and the instruments used to hedge these have been excluded from sensitivity analysis.

In respect of the foreign currencies, the effect would mainly be due to changes in the exchange rates applicable to foreign currency denominated trade receivables and payables.

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | USD | NZD | SEK | JPY | USD | NZD | SEK | JPY |
| Movement (+/-),% | 10,0 | 10,0 | 10,0 | 10,0 | 10,0 | 10,0 | 10,0 | 10,0 |
| Effect on profit before taxes | 0,0 | 0,0 | 0,1 | 0,0 | 0,1 | 0,0 | 0,2 | 0,0 |

The following assumptions were used in calculating sensitivity to currency risks:
Forecast future cash flows have not been taken into account in the calculation except for committed cash flows. Financial instruments such as forward contracts used to cover these positions are included in the analysis.

The calculation and estimates of reasonably possible changes in exchange rates are based on the assumption of ordinary market and business conditions.

**INTEREST RATE RISK**
The Group's main exposure to interest rate risk arises through interest-bearing liabilities. The goal of interest rate risk management is to reduce the fluctuation of interest expenses in the income statement, minimize debt servicing costs and improve the predictability. The Group's short-term money market investments expose it to cash flow interest rate risk, but the impact is not significant as these investments are targeted to keep in minimum. Group revenues and operative cash flows are mainly independent of fluctuations in market rates.

Interest rate risk is measured by the effect of interest rate movements on the total forecasted debt portfolio.

To manage interest rate risks, Group borrowings are spread across fixed and variable interest instruments. The company may borrow at fixed or variable interest rates and use interest rate derivatives to achieve a result that is in line with the Treasury policy. The goal of the policy is to keep the fixed interest term of the loans between 12 and 48 months. On the balance sheet date the fixed interest term was 13 months.

The Group monitors and analyses its interest rate risk position on a regular basis. The Group has determined sensitivity limits for interest rate movements. The sensitivity of net financial expenses on the balance sheet date to change of one per cent in interest rates, all other things being equal, was approximately EUR 1.3 (1.2) million for interest increase and approximately EUR -0.8 (-1.0) million for interest decrease before taxes over the next 12 months. The sensitivity analysis was prepared based on the amounts and maturities of interest-bearing liabilities and interest rate derivatives on the balance sheet date.

**COUNTERPARTY RISK**
Financial counterparty risk refers to the risk that counterparty may fail to fulfill its contractual obligations. The risks are mostly related to investment activities and counterparty risks in derivative contracts. Banks that finance the Group are used as counterparties whenever possible, as well as a few other specified counterparties. Cash may be invested in bank deposits, certificates of deposit, municipal papers, and the commercial paper programmes of certain specified companies listed on the main list of the Nasdaq Helsinki, and to certain state-owned companies. Because of the limited extent of the investment activities, the resulting counterparty and price risks are not significant.

**COMMODITY RISK**
The Group is exposed to commodity risks that are related to the availability and price fluctuations of commodities. In addition to meat raw materials, physical electricity consumption is one of the most significant commodity risks in the Group companies. The subsidiaries can hedge against fluctuation in market prices for electricity and other commodities by procuring fixed-price products or through derivative contracts with the Group Treasury. The companies may use external parties to assist them in commodity risk management.

The Group uses electricity derivatives in Finland, Sweden, Denmark and Estonia to level out energy costs. Electricity derivatives do not result in physical electricity delivery, but instead the difference between fixed and variable price is realised as cashflow. The price risk of electricity is analysed in five year time span so that next year's hedge ratio is between 50-100 per cent. Subsequent years are hedged with reducing hedge ratio. Acquired electricity derivatives' nominal value is 463 GWh and 193 GWh is allocated for the next 12 months. The value changes of derivatives hedging the price of electricity supplied during the period are included in the adjustment items of purchases. Hedge accounting is applied to contracts hedging future purchases. Maturity table for electricity derivatives is presented later in this note.

Sensitivity analysis has been made with expected annual consumption of 254 GWh. Change in electricity price and derivatives maturing in less than 12 months impact income statement and derivatives maturing after 12 months impact balance sheet. If the market price of electricity changed by +/-10 percentage points from the balance sheet date, the impact would be as follow, calculated before tax:

| EUR million | 2020 | 2019 |
|---|---|---|
| Electricity – effect in income statement | +/- 0,2 | +/- 0,2 |
| Electricity – effect in equity (price + 10 %) | 1,2 | 0,2 |
| Electricity - effect in equity (price - 10 %) | 0,4 | -0,6 |

**CREDIT RISK**

The Group's Treasury Policy and related guidelines specify the credit quality requirements and investment principles applied to customers and counterparties to investment transactions and derivative contracts. The Group Treasury is responsible for defining the principles for credit management within the Group and updating the Credit Policy as well as instructing the Group's subsidiaries in credit management.

Credit risk results from a customer's possible failure to fulfil its payment obligations. The Group's trade receivables are spread among a wide customer base, the most important customers being central retail organisations in the various market areas. The creditworthiness, payment behaviour and credit limits of the clients are monitored systematically. As a main principle some type of securing is needed for all credit granted. The security can be credit insurance, a bank guarantee, or a security deposit. In addition, the Group is exposed to minor credit risk in remaining financing investments of primary production contract producers.
The amount of impairment losses recognised through profit or loss in the financial period was EUR -0.3 (-2.4) million. The Group's maximum exposure to credit risk equals the carrying amount of financial assets at year-end. The age breakdown of trade receivables is presented in Note 18.

**LIQUIDITY AND REFINANCING RISK**

The Group constantly assesses and monitors the amount of funding required for operations by means such as preparation and analysis of cash flow forecasts. The Group maintains adequate liquidity under all circumstances to cover its business and financing needs in the foreseeable future.

The availability of funding is ensured by spreading the maturity of the borrowing portfolio, financing sources and instruments. In general, cash and cash equivalents are targeted to be kept at a minimum. The Group also has revolving credit facilities with banks, bank borrowings, current accounts with overdraft facilities and the short-term EUR 200 million Finnish commercial paper programme. Liquidity risk is managed by retaining long-term liquidity reserves and by exceeding short-term liquidity requirements. The Group's liquidity reserve includes cash and cash equivalents, money market investments and long-term unused committed credit facilities. Short-term liquidity requirements include the repayments of short- and long-term debt within the next 12 months, expected dividends as well as a specifically defined strategic liquidity requirement, which covers the operative funding needs.

The Group's liquidity together with funding profile and maturity structure remained good in 2020. Committed credit facilities on 31 December 2020 stood at EUR 100.0 (100.0) million and had been drawn to the amount of EUR 10.0 (0.0) million. In addition, the Group had other undrawn overdraft and other facilities of EUR 17.5 (17.4) million. The overdraft facility agreements are in force until further notice. At year end, the company's EUR 200 million commercial paper programme had been drawn to the amount of EUR 72.0 (35.0) million. Similar to previous year, cash and cash equivalents were above the normal level amounting EUR 46.8 (37.5) million.

The average rate of interest for outstanding loans (including commitment fees) paid by the Group was 3.5 (3.7) per cent at the balance sheet date.

The company's current bank loan agreements are subject to the net gearing ratio financial covenant 125%. Financiers are provided with quarterly reports on the observance of the financial loan covenant. Outstanding unsecured bond maturing in September 2022 have the net gearing ratio covenant level of 130%. If the Group is in breach of the covenant, the creditor may demand accelerated loan repayment. Management monitors the fulfillment of the loan covenant on a regular basis. Breaches of covenants could result in a default of an essential part of loans. Due to successful share issue and improved financial result risks for breaching loan agreement covenants have significantly reduced. IFRS 16 introduction from 1 January 2019 onwards, assets and interest-bearing liabilities grew by approximately EUR 36 million. With this increase the net gearing increased by some 11 percentage points.

Group Management has identified no significant concentrations of liquidity risk in financial assets or sources of funding.

**The number of the Group's commitments on the balance sheet date by type of credit**

**2020**

| Credit type | **Size** | **In use** | **Available** |
|---|---|---|---|
| Overdraft facility | 17,5 | - | 17,5 |
| Committed credit limit | 100,0 | 10 | 90,0 |
| **Total** | 117,5 | 10 | 107,5 |

**2019**

| Credit type | **Size** | **In use** | **Available** |
|---|---|---|---|
| Overdraft facility | 17,4 | - | 17,4 |
| Committed credit limit | 100,0 | - | 100,0 |
| **Total** | **117,4** | **0** | **117,4** |

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period on the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity analysis only applies to financial instruments and statutory liabilities are therefore excluded. The amounts also include interest on financial liabilities and margin on loan.

**31.12.2020**
**Maturity of financial liabilities**

| | Balance sheet | Cashflows sum | | | Cashflows | | | |
|---|---|---|---|---|---|---|---|---|
| Credit type | **31.12.2020** | | **2021** | **2022** | **2023** | **2024** | **2025** | **>2025** |
| Bond | 124,2 | 130,8 | 3,3 | 127,5 | - | - | - | - |
| Bank loans | 104,2 | 108,9 | 16,3 | 79,7 | 3,7 | 3,7 | 3,7 | 1,8 |
| Pension loans | 8,6 | 8,7 | 2,2 | 2,2 | 2,2 | 2,2 | - | - |
| Commercial paper programme | 71,6 | 72,0 | 72,0 | - | - | - | - | - |
| Lease liabilities | 35,6 | 40,8 | 9,9 | 8,6 | 5,6 | 3,6 | 2,5 | 10,6 |
| Other borrowing | 2,2 | 2,4 | 0,6 | 0,5 | 0,4 | 0,4 | 0,4 | - |
| Trade and other payables | 222,7 | 222,7 | 222,7 | - | - | - | - | - |
| **Total** | **569,1** | **586,3** | **327,1** | **218,4** | **12,0** | **9,9** | **6,6** | **12,4** |

**31.12.2019**
**Maturity of financial liabilities**

| | Balance sheet | Cashflows sum | | | Cashflows | | | |
|---|---|---|---|---|---|---|---|---|
| Credit type | **31.12.2019** | | **2020** | **2021** | **2022** | **2023** | **2024** | **>2024** |
| Bond | 123,5 | 133,4 | 3,3 | 3,3 | 126,8 | - | - | - |
| Bank loans | 97,8 | 105,2 | 6,9 | 81,6 | 3,8 | 3,7 | 3,7 | 5,5 |
| Pension loans | 10,7 | 10,9 | 2,2 | 2,2 | 2,2 | 2,2 | 2,2 | 0,0 |
| Commercial paper programme | 34,9 | 35,0 | 35,0 | - | - | - | - | - |
| Lease liabilities | 46,3 | 52,3 | 11,2 | 9,0 | 7,6 | 6,2 | 4,6 | 13,7 |
| Other borrowing | 0,2 | 0,2 | 0,2 | - | - | - | - | - |
| Trade and other payables | 224,8 | 224,8 | 224,8 | - | - | - | - | - |
| **Total** | **538,1** | **561,7** | **283,5** | **96,1** | **140,3** | **12,1** | **10,5** | **19,2** |

The following table presents the nominal value and fair values (EUR million) of derivative instruments. The derivatives mature within the next 12 months except for interest rate derivatives and commodity derivatives, the maturity of which are presented separately.

| | 2020 Positive fair value | 2020 Negative fair value | 2020 Fair value net | 2019 Fair value net | 2020 Nominal value | 2019 Nominal value |
|---|---|---|---|---|---|---|
| **Interest rate derivatives** | - | -3,5 | -3,5 | -5,8 | 99,9 | 98,5 |
| matured in 2020 | | | | - | | - |
| matures in 2021 | - | -0,9 | -0,9 | -1,6 | 25,0 | 25,0 |
| matures in 2022 | - | -1,4 | -1,4 | -2,6 | 44,9 | 44,1 |
| matuers in 2023 | - | -1,3 | -1,3 | -1,6 | 29,9 | 29,4 |
| matures in 2024 | - | - | - | - | - | - |
| matures in >2024 | - | - | - | - | - | - |
| of which defined as cash flow hedging instruments | - | - | - | - | - | - |
| **Foreign exhange derivatives** | 0,2 | -0,6 | -0,3 | -0,4 | 59,2 | 56,7 |
| of which defined as net investment hedging instruments | - | - | - | - | - | - |
| **Commodity derivatives** | 0,3 | -1,8 | -1,5 | 0,5 | 13,4 | 12,9 |
| matured in 2020 | | | | 0,2 | | 5,9 |
| matures in 2021 | 0,1 | -1,0 | -1,0 | 0,2 | 5,8 | 4,1 |
| matures in 2022 | 0,1 | -0,6 | -0,6 | 0,1 | 4,6 | 2,3 |
| matuers in 2023 | 0,1 | -0,2 | 0,0 | 0,0 | 2,4 | 0,6 |
| matures in 2024 | 0,0 | 0,0 | 0,0 | - | 0,7 | - |
| of which defined as cash flow hedging instruments | 0,3 | -1,8 | -1,5 | 0,5 | 13,4 | 12,9 |

**DERIVATIVES TO WHICH HEDGE ACCOUNTING APPLIES**

Changes in the fair values of the effective portions after taxes of commodity derivatives, designated as hedges of cash flow amounting to EUR -1.7 (-4.2) million, are recognised under other comprehensive income. The hedged highly probable transactions are estimated to occur at various dates during the next 60 months. Gains and losses accumulated in the hedging instruments reserve are included as reclassification adjustments in the income statement when the hedged transaction affects profit or loss. The ineffective portion of commodity risk hedge amounting to EUR 0.0 (0.0) million are recognised under other operating expenses in the income statement.

**CAPITAL MANAGEMENT**

The purpose of capital management in the Group is to support business through an optimal capital structure by safeguarding a normal operating environment and enabling organic and structural growth. An optimal capital structure also generates lower costs of capital.

Capital structure is influenced by controlling the amount of working capital tied up in the business and through reported profit/loss, distribution of dividend and share issues. The Group may also decide on the disposal of assets to reduce liabilities.

The tools to monitor the development of the Group's capital structure are the equity ratio and net gearing ratio. Equity ratio refers to the ratio of equity to total assets. Net gearing ratio is measured as net liabilities divided by equity. Net liabilities include interest-bearing liabilities less interest-bearing short term receivables and cash and cash equivalents.

On the balance sheet date the equity ratio is 33.7 per cent. The official financial target in respect of net gearing ratio is below 100 per cent. On the balance sheet date, the net gearing ratio was 91.0 per cent. With IFRS 16 introduction from 1 January 2019 onwards, assets and interest-bearing liabilities grew by approximately EUR 36 million. With this increase the net gearing increased some 11 percentage points..

| Net gearing ratio | 2020 | 2019 |
|---|---|---|
| Interest-bearing liabilities | 346,4 | 313,3 |
| Interest-bearing short term receivables | 0,0 | 0,0 |
| Cash and bank | 46,8 | 37,5 |
| Interest-bearing net liabilities | 299,6 | 275,8 |
| Equity | 329,1 | 325,1 |
| Net gearing ratio | 91,0 % | 84,8 % |

## 25. Fair values of financial assets and liabilities

**THE FAIR VALUE DETERMINATION PRINCIPLES APPLIED BY THE GROUP ON ALL FINANCIAL INSTRUMENTS**

When determining the fair values of the financial assets and liabilities, the following price quotations, assumptions and measurement models have been used.

**Other shares and holdings**

Other shares and holdings consists of holdings in non-listed entities and are measured at cost as it is considered appropriate estimate of fair value.

**Derivatives**

The fair values of currency forward contracts are determined by using the market prices for contracts of equal duration at the reporting date. The fair values of interest rate swaps are determined using the net present value method supported by the market interest rate or other market information at the reporting date. If the market value given by a counterparty is used, the Group also produces its own calculation using generally accepted valuation methods. The fair values of commodity derivatives are determined by using publicly quoted market prices. The fair values are equal to the prices which the Group would have to pay or would obtain if it were to terminate a derivative instrument.

**Bank loans**

The fair values of liabilities are based on the discounted cash flows. The rate used for measurement is the rate at which the Group could obtain corresponding credit from a third party on the reporting date. The overall rate consists of a risk free rate and a risk premium (margin on loan) for the company.

**Bonds**

The fair values of bonds are based on the quoted market prices.

**Finance lease liabilities**

The fair value is measured by discounting future cash flows by an interest rate which corresponds to the interest rate of future leases.

**Trade and other receivables**

The original carrying amounts of non-derivative based receivables are equal to their fair values, as discounting has no material effect taking into account the maturity of the receivables.

**Trade and other payables**

The original carrying amounts of trade and other payables are equal to their fair values, as discounting has no material effect taking into account the maturity of the payables.

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

| | 31.12.2020 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets measured at fair value | | | | |
| Financial assets recognised at fair value through profit or loss | | | | |
| - Trading securities | - | - | - | - |
| - Trading derivatives | | | | |
| - Interest rate swaps | - | - | - | - |
| - Foreign exchange derivatives | 0,2 | - | 0,2 | - |
| - Commodity derivatives | 0,3 | - | 0,3 | - |
| of which subject to cash flow hedging | 0,3 | - | 0,3 | - |
| **Total** | **0,5** | **0,0** | **0,5** | **0,0** |
| | | | | |
| Liabilities measured at fair value | | | | |
| Financial liabilities recognised at fair value through profit or loss | | | | |
| -Trading derivatives | | | | |
| - Interest rate swaps | -3,5 | - | -3,5 | - |
| - Foreign exchange derivatives | -0,6 | - | -0,6 | - |
| - Commodity derivatives | -1,8 | - | -1,8 | - |
| of which subject to cash flow hedging | -1,8 | - | -1,8 | - |
| **Total** | **-5,9** | **0,0** | **-5,9** | **0,0** |

| | 31.12.2019 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets measured at fair value | | | | |
| Financial assets recognised at fair value through profit or loss | | | | |
| - Trading securities | - | - | - | - |
| - Trading derivatives | | | | |
| - Interest rate swaps | - | - | - | - |
| - Foreign exchange derivatives | 0,0 | - | 0,0 | - |
| - Commodity derivatives | 1,0 | - | 1,0 | - |
| of which subject to cash flow hedging | 1,0 | - | 1,0 | - |
| **Total** | **1,0** | **0,0** | **1,0** | **0,0** |
| | | | | |
| Liabilities measured at fair value | | | | |
| Financial liabilities recognised at fair value through profit or loss | | | | |
| -Trading derivatives | | | | |
| - Interest rate swaps | -5,8 | - | -5,8 | - |
| - Foreign exchange derivatives | -0,4 | - | -0,4 | - |
| - Commodity derivatives | -0,5 | - | -0,5 | - |
| of which subject to cash flow hedging | -0,5 | - | -0,5 | - |
| **Total** | **-6,7** | **0,0** | **-6,7** | **0,0** |

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

## 26. Conditional assets and liabilities and purchase commitments

| **Commitments and contingent liabilities** | **2020** | **2019** |
|---|---|---|
| Loans secured by mortgages | 84,3 | - |
| **On own behalf** | | |
| Mortgages given | 37,7 | - |
| Assets pledged | - | - |
| **On behalf of others** | | |
| Guarantees | 6,2 | 5,3 |
| Other commitments | 1,9 | 2,5 |
| **Leasing and rental commitments** | | |
| Leasing commitments maturing in less than a year | 0,2 | 0,6 |
| Leasing commitments maturing in 1-5 years | 0,0 | 0,1 |
| Leasing commitments maturing in over 5 years | 0,0 | 0,0 |
| **Total** | **46,0** | **8,5** |

In 2020 a current provision amounting to EUR 3.3 million has been recorded due to decision by the Danish tax authorities, according to which the company should repay past refunds of energy taxes. Further, it cannot be excluded that in addition to the currently pending matter, the company could separately be imposed penal sanctions as a result of the tax audit. HKScan Denmark A/S will appeal the decision issued to it.

## 27. Related party transactions

Parties are considered related parties if one of the parties is able to exercise control, or a significant influence, over the other in decisions affecting its finances and business. The Group’s related parties include the associates and joint ventures. Related parties also include the Supervisory Board and Board of Directors of the Group parent’s parent entity (LSO Osuuskunta), the members of the Group’s Board of Directors, the Group’s CEO, the deputy CEO and their immediate family members, as well as the members of the Goup Management Team. The Group strives to treat all parties equally in its business.

HKScan Corporation’s principal owner, LSO Osuuskunta, is a cooperative of 900 Finnish meat producers. The cooperative fosters its members’ meat production and marketing by exercising its power of ownership in HKScan. The HKScan Group applies pure market price principles to the acquisition of meat raw material.

In April 2020 the Group acquired from LSO Osuuskunta a lot of land in Vantaa housing the Group’s factory and logistics centre. The purchase price of the land including taxes was EUR 37.7 million. The purchase price corresponds to the offer LSO received from a third party. Lot lease amounting to EUR 0.4 million in 2020 (EUR 1.4 million in 2019) has been paid by the Group to LSO. In addition, there are minor office services and EUR 5 million revolving credit facility to both directions between the Group and LSO. Related to this the Group had receivable amounting to EUR 4,2 million at year end. The sale of animals to the Group by members of the Group’s Board of Directors and members of the Supervisory Board and Board of Directors of its parent entity LSO Osuuskunta totalled EUR 17.1 million in 2019 (EUR 14.7 million in 2019). Said persons purchased animals from the Group with EUR 4.4 million in 2019 (EUR 4.5 million in 2019).

Information on employee benefits of management are presented in Note 4. More information on fees of the Board of Directors and management is available in the remuneration statement for 2020, which can be found on the Group’s website www.hkscan.com.

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

| Shares in subsidiaries | Owner % | Share of votes % |
|---|---|---|
| **Owned by the Group's parent company** | | |
| HKScan Finland Oy, Finland | 100,00 | 100,00 |
| HKScan Sweden AB, Sweden | 100,00 | 100,00 |
| HKScan Denmark A/S, Denmark | 100,00 | 100,00 |
| AS HKScan Estonia, Estonia | 100,00 | 100,00 |
| UAB HKScan Lietuva, Lithuania | 100,00 | 100,00 |
| AS HKScan Latvia, Latvia | 99,87 | 99,87 |
| HKScan Asia Limited, Hong Kong** | 100,00 | 100,00 |
| | | |
| **Owned by HKScan Finland Oy** | | |
| Kivikylän Kotipalvaamo Oy, Finland | 49,00* | 49,00* |
| Lihatukku Harri Tamminen Oy, Finland | 49,00* | 49,00* |
| Paimion Teurastamo Oy, Finland | 100,00 | 100,00 |
| Kiinteistö Oy Väinö Tannerin tie 1, Finland | 100,00 | 100,00 |
| Boltsi Oy, Finland | 48,00* | 48,98* |
| | | |
| **Owned by AS HKScan Estonia** | | |
| Rakvere Farmid AS, Estonia | 100,00 | 100,00 |
| | | |
| **Owned by HKScan Sweden AB** | | |
| HKScan Real Estate AB, Sweden | 100,00 | 100,00 |
| HKScan International AB, Sweden** | 100,00 | 100,00 |
| HKScan Poland Sp.zo.o, Poland | 100,00 | 100,00 |
| Samfod S.A., Belgium** | 100,00 | 100,00 |
| | | |
| **Owned by HKScan Real Estate AB** | | |
| HKScan Real Estate Halmstad AB, Sweden | 100,00 | 100,00 |
| | | |
| **Owned by HKScan Denmark A/S** | | |
| Kreatina A/S, Denmark** | 100,00 | 100,00 |

* Control is based on shareholders' agreement / board selection.
** Dormant

| Shares and holdings in associated companies and joint ventures | Owner % | Share of votes % |
|---|---|---|
| **Owned by the Group's parent company** | | |
| Nordic Lotus Food Co. Ltd, China* | 35,00 | 35,00 |
| **Owned by HKScan Finland Oy** | | |
| Länsi-Kalkkuna Oy, Finland* | 50,00 | 50,00 |
| Pakastamo Oy, Finland | 50,00 | 50,00 |
| Honkajoki Oy, Finland* | 50,00 | 50,00 |
| Finnpig Oy, Finland | 50,00 | 50,00 |
| Oy LHP Bio-Carbon LTD, Finland | 24,24 | 24,24 |
| DanHatch Finland Oy, Finland | 10,00 | 10,00 |
| Mäkitalon Maistuvat Oy, Finland | 24,90 | 24,90 |
| **Owned by HKScan Sweden AB** | | |
| Industrislakt Syd AB, Sweden | 50,00 | 50,00 |
| AB Tillväxt for svensk animalieproduktion, Sweden | 25,00 | 25,00 |
| Svenska Köttforetagen Holding AB, Sweden | 23,52 | 23,52 |
| **Owned by HKScan Denmark A/S** | | |
| Tican-Rose GmbH, Germany | 50,00 | 50,00 |
| Farmfood A/S, Denmark | 33,30 | 33,30 |

* Joint venture

The Group conducts business through the associates and joint ventures. The activities include slaughtering, cutting, meat processing, and the use of leasing, waste disposal, research and advisory services. All commercial contracts are negotiated on market terms.

| The following transactions were carried out with related parties: | 2020 | 2019 |
|---|---|---|
| Sales to associates | 9,6 | 17,7 |
| Sales of animals to related parties | 4,4 | 4,5 |
| Purchases from associates | 34,0 | 35,5 |
| Purchases of animals from related parties | 17,1 | 14,7 |

| Open balances on 31 December | 2020 | 2019 |
|---|---|---|
| Trade and other receivables from associates | 1,2 | 1,6 |
| Trade and other payables to associates | 2,6 | 3,0 |

## 28. Events after the reporting date

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

The Zero Carbon climate plan shows the stepping stones for HKScan to achieve carbon neutrality as one of the major food companies in the Baltic Sea region. The company has determined and calculated the emissions of its entire value chain together with KPMG specialising in carbon footprint calculation. In 2019, the total emissions were some 2.4 megatonnes of carbon dioxide equivalent (CO2e) of which the company's own industrial production accounted for some five per cent.

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

# Parent company income statement for 1 January – 31 December

| EUR | Note | 2020 | 2019 |
|---|---|---|---|
| Other operating income | 1. | 28 979 452,28 | 32 151 344,79 |
| Employee costs | 2. | -10 822 872,45 | -16 712 272,38 |
| Depreciation and impairment | 3. | -397 166,09 | -1 808 096,89 |
| Other operating expenses | 4. | -20 413 654,89 | -22 258 392,91 |
| **EBIT** | | **-2 654 241,15** | **-8 627 417,39** |
| Financial income and expenses | 5. | 19 676 704,78 | -28 107,44 |
| **Profit/loss before appropriations and taxes** | | **17 022 463,63** | **-8 655 524,83** |
| Appropriations | 6. | 19 665,00 | 14 729,00 |
| Income taxes | 7. | -822 253,50 | -546 032,21 |
| **Profit/loss for the period** | | **16 219 875,13** | **-9 186 828,04** |

# Parent company balance sheet 31 December

| EUR | Note | **31.12.2020** | **31.12.2019** |
|---|---|---|---|
| ASSETS | | | |
| Intangible assets | 8. | 650 566,00 | 1 013 350,00 |
| Tangible assets | 8. | 969 897,46 | 5 070 891,40 |
| Financial assets | 8. | 448 658 619,90 | 448 675 293,11 |
| **Non-current assets** | | **450 279 083,36** | **454 759 534,51** |
| | | | |
| Non-current receivables | 9. | 325 526 971,96 | 274 958 632,30 |
| Deferred tax asset | 9. | 10 453 904,71 | 11 246 159,82 |
| Current receivables | 10. | 11 850 152,01 | 12 596 594,66 |
| Cash and cash equivalents | | 43 082 372,19 | 32 618 562,79 |
| **Current assets** | | **390 913 400,87** | **331 419 949,57** |
| **Assets** | | **841 192 484,23** | **786 179 484,08** |
| | | | |
| EQUITY AND LIABILITIES | | | |
| Share capital | 11. | 66 820 528,10 | 66 820 528,10 |
| Share premium reserve | 11. | 73 420 363,20 | 73 420 363,20 |
| Treasury shares | 11. | -4 762 908,54 | -4 762 908,54 |
| RIUE | 11. | 215 121 053,79 | 215 121 053,79 |
| Other reserves | 11. | 4 899 963,05 | 4 899 963,05 |
| Retained earnings | 11. | 63 712 930,90 | 72 899 758,94 |
| Profit/loss for the period | 11. | 16 219 875,13 | -9 186 828,04 |
| **Equity** | | **435 431 805,63** | **419 211 930,50** |
| | | | |
| Accumulated appropriations | 12. | 57 013,00 | 76 678,00 |
| | | | |
| Provisions | 13. | 2 492 263,00 | 2 643 766,00 |
| | | | |
| Non-current interest-bearing liabilities | 14. | 248 364 378,97 | 254 124 083,83 |
| Non-current non-interest-bearing liabilities | 14. | 2 974 318,49 | 3 055 970,02 |
| Current interest-bearing liabilities | 15. | 138 669 118,49 | 92 595 218,24 |
| Current non-interest-bearing liabilities | 15. | 13 203 586,65 | 14 471 837,49 |
| **Liabilities** | | **403 211 402,60** | **364 247 109,58** |
| **Equity and liabilities** | | **841 192 484,23** | **786 179 484,08** |

# Parent company cash flow statement

| (EUR 1000) | **2020** | **2019** |
|---|---|---|
| EBIT | -2 654 | -8 627 |
| Adjustments to EBIT | -71 | 4 921 |
| Depreciation and impairment | 397 | 1 808 |
| Change in provisions | -152 | -67 |
| Change in net working capital | -483 | 1 447 |
| Interest income and expenses | 3 481 | 2 321 |
| Dividends received | 14 203 | - |
| Taxes | -30 | -34 |
| **Cash flow from operating activities** | **14 692** | **1 769** |
| | | |
| Purchases of shares in subsidiary | -48 | -85 |
| Purchase of other fixed assets | -1 555 | -1 657 |
| Disposals of other fixed assets | 5 621 | 153 |
| Increase / decrease in loan receivables | -50 051 | -8 687 |
| **Cash flow from investing activities** | **-46 033** | **-10 276** |
| | | |
| **Cash flow before financing activities** | **-31 341** | **-8 507** |
| | | |
| Share issue | - | 43 668 |
| Share issue costs | - | -3 019 |
| Proceed from external borrowings | 41 804 | 74 300 |
| Repayment of external borrowings | - | -88 453 |
| Purchase of own shares | - | -4 724 |
| **Cash flow from financing activities** | **41 804** | **21 772** |
| | | |
| **Change in cash and cash equivalents** | **10 463** | **13 265** |
| | | |
| Cash and cash equivalents on 1 January | 32 619 | 19 354 |
| **Cash and cash equivalents on 31 December** | **43 082** | **32 619** |
| | | |
| CHANGE IN WORKING CAPITAL: | | |
| Increase (-) / decrease (+) in current operating receivables | 746 | 534 |
| Increase (+) / decrease (-) in current non-interest bearing liabilities | -1 229 | 913 |
| **Total** | **-483** | **1 447** |

# Notes to the parent company's financial statements

## Basic information about the entity

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

HKScan Corporation comprises Group management and Group administration.

HKScan Corporation's A Share has been quoted on the Nasdaq Helsinki since 1997.

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

Copies of HKScan Corporation's financial statements are available at the company's registered office at Lemminkäisenkatu 48, 20520 Turku.

## Accounting policies

**BASIS OF PREPARATION**
The parent company's financial statements have been prepared in compliance with valid Finnish Accounting Standards (FAS). The HKScan Group's consolidated financial statements have been prepared in compliance with the IFRS (International Financial Reporting Standards) and the IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2020.

The amounts in the parent company's income statement and balance sheet are in euros and the amounts in the cash flow statement and notes are in thousands of euros.

**NON-CURRENT ASSETS**
Intangible and tangible assets have been measured at cost less accumulated depreciation and any impairment. Depreciation of assets is made on a straight-line basis over the expected useful life. Intangible assets are depreciated over 5-10 years and tangible assets over 2-10 years.
Holdings in subsidiaries and associated companies as well as other shares and holdings are measured at cost less any impairment.

**TRANSACTIONS IN FOREIGN CURRENCY**
Foreign currency denominated transactions are recognised at the exchange rates valid on the transaction date. Trade receivables, trade payables and loan receivables denoted in foreign currencies, and foreign currency bank accounts have been translated into the functional currency at the closing rate quoted by the European Central Bank on the balance sheet date. Gains and losses arising from business transactions in foreign currencies, and from the translation of monetary items, have been recognised in financial income and expenses in the income statement.

**DERIVATIVE CONTRACTS**
HKScan Oyj makes all external derivative contracts for the Group. Derivatives that are made for subsidiaries are handled with intercompany derivative contracts. Because of this HKScan Oyj has all the external derivatives of the Group and these are partly for the parent company and partly for subsidiaries.

Outstanding derivatives in foreign currencies are measured at the forward exchange rate quoted on the balance sheet date. Hedge accounting is not applied and changes in the value of foreign exchange contracts hedging commercial flows are recognised through profit or loss in other operating income or expenses, and changes in the value of foreign exchange contracts hedging financial items are recognised in the income statement in foreign exchange gains and losses from financing operations.

Commodity derivatives all relate to subsidiaries and intercompany derivatives have been made. There is no income statement effect as the cash flows from the derivatives are eliminated by the intercompany derivative contracts with subsidiaries. Hedge accounting is not applied. Fair values of these derivatives are netted in the balance sheet and they are reported in the notes.

Hedge accounting is not applied on interest rate swaps for the part that they hedge parent company's interest risk. The fair values of the derivatives are recorded in the balance sheet and changes in the fair values are recorded in the income statement in financial items. Realised gains or losses on interest rate swaps hedging variable-interest loans are presented under financial items in the income statement. Hedge accounting is also not applied on external interest rate swaps that relate to subsidiaries and intercompany derivatives. Income statement effect is eliminated by the intercompany derivative contract with subsidiaries. Fair values of these derivatives are netted in the balance sheet and they are reported in the notes.

The fair values of currency forward contracts are determined by using the market prices for contracts of equal duration at the reporting date. The fair values of interest rate swaps are determined using the net present value method supported by the market interest rate or other market information at the reporting date. If the market value given by a counterparty is used, the company also produces its own calculation using generally accepted valuation methods. The fair values of commodity derivatives are determined by using publicly quoted market prices. The fair values are equal to the prices which the company would have to pay, or would obtain, if it were to terminate a derivative instrument.

**PENSION PLANS**

HKScan Corporation employees' statutory pension provision has been organised through insurance in a pension insurance company. Statutory pension expenses have been charged in the year to which the contributions relate.

**MANAGEMENT RETIREMENT BENEFIT OBLIGATIONS AND SEVERANCE PAYMENTS**

The remuneration of the CEO consists of a fixed monthly salary, benefits, supplementary pension benefits and possible incentive awards under the company's incentive scheme. Under the terms of the CEO's executive agreement, the CEO's employment may be terminated by the company and the CEO at six months' notice. In the event that the company terminates the CEO's executive agreement, the CEO will receive an amount that equals 12 months' salary, in addition to the salary for the period of notice.

Detailed information about management compensation is available in group financial statement note 4.

**INCOME TAXES**

Consolidated accounting principles are applied to income taxes and deferred tax assets and liabilities when allowed under Finnish accounting principles. The deferred tax liability on depreciation difference is disclosed as a Note.

**LEASES**

All leasing payments have been treated as rent. Leasing payments based on unpaid leasing agreements are shown in contingent liabilities in the financial statements.

**ACCUMULATED APPROPRIATIONS**

Accumulated appropriations consist of change in depreciation difference. The difference in depreciation according to plan and accounting depreciation, is shown as an appropriation in the income statement, and the accumulated difference in depreciation according to plan and accounting depreciation, is shown in the balance sheet as accumulated appropriations.

# Notes to the parent company's income statement

(EUR 1000)

| 1. Other operating income, total | 2020 | 2019 |
|---|---|---|
| Other operating income | 28 979 | 32 151 |
| **Other operating income, total** | **28 979** | **32 151** |
| | | |
| **2. Staff costs** | | |
| Salaries and fees | -9 230 | -13 994 |
| Pension expenses | -1 194 | -2 479 |
| Other social expenses | -399 | -239 |
| **Staff costs** | **-10 823** | **-16 712** |
| | | |
| Managing directors and their deputies | 967 | 837 |
| Members of the Board of Directors | 438 | 409 |
| **Management salaries, fees and benefits** | **1 405** | **1 246** |
| | | |
| Employees, average | 84 | 125 |
| | | |
| **3. Depreciation and impairment** | | |
| Depreciation according to plan on non-current assets and goodwill | -397 | -485 |
| Impairment | - | -1 323 |
| **Total depreciation and impairment** | **-397** | **-1 808** |
| | | |
| **4. Other operating expenses** | | |
| Rents/leases | -1 174 | -1 316 |
| | | |
| Losses on disposal of fixed assets, tangible assets total | - | -105 |
| **Losses on disposal of non-current assets** | **0** | **-105** |
| | | |
| Audit fees, ordinary audit | -90 | -140 |
| Audit fees, other expert services | -1 | -98 |
| **Audit fees** | **-91** | **-238** |
| | | |
| Non-statutory staff costs | -1 121 | -1 262 |
| Energy | -85 | -101 |
| Maintenance | -41 | -32 |
| Advertising, marketing and entertainment costs | -73 | -619 |
| Service, information management and office costs | -14 811 | -15 487 |
| Other expenses | -3 018 | -3 098 |
| | | |
| **Total other operating expenses** | **-20 414** | **-22 258** |

## 5. Financial income and expenses

| | | |
|---|---|---|
| **Financial income** | | |
| Dividends from Group companies | 14 203 | - |
| **Income from units** | **14 203** | **0** |
| | | |
| Interest income from Group companies | 17 354 | 14 248 |
| Interest income from participating interests | - | 1 |
| Interest income from others | 17 | 41 |
| **Interest income from other non-current financial assets** | **17 371** | **14 290** |
| | | |
| Other financial income from others | 4 865 | 3 300 |
| **Other financial income** | **4 865** | **3 300** |
| | | |
| **Total financial income** | **36 439** | **17 590** |
| | | |
| **Financial expenses** | | |
| Interest expenses payable to Group companies | -106 | -19 |
| Interest expenses payable to others | -11 465 | -12 846 |
| **Total other interest and financial expenses** | **-11 571** | **-12 865** |
| | | |
| **Unrealised losses on fair value assessment** | **1 602** | **1 423** |
| | | |
| Other financial expense from others | -6 793 | -6 176 |
| **Other financial expense** | **-6 793** | **-6 177** |
| | | |
| **Total financial expenses** | **-16 762** | **-17 619** |
| | | |
| **Financial income and expenses, total** | **19 677** | **-29** |

## 6. Appropriations

| | | |
|---|---|---|
| Increase (-) or decrease (+) in depreciation difference | 20 | 15 |
| **Total appropriations** | **20** | **15** |

## 7. Direct taxes

| | | |
|---|---|---|
| Change in deferred tax liabilities and assets | -792 | -512 |
| Other direct taxes | -30 | -34 |
| **Income tax on ordinary operations** | **-822** | **-546** |

# Notes to the parent company's balance sheet
(EUR 1000)

## 8. Non-current assets

| Intangible assets 2020 | Intellectual property rights | Other long-term expenditure | Total |
|---|---|---|---|
| Acquisition cost on 1 Jan. | 3 881 | 661 | 4 542 |
| Transfers between items | 9 | - | 9 |
| **Acquisition cost on 31 Dec.** | **3 890** | **661** | **4 551** |
| | | | |
| Accumulated depreciation on 1 Jan. | -2 909 | -620 | -3 529 |
| Depreciation for the financial period | -330 | -41 | -371 |
| **Accumulated depreciation on 31 Dec.** | **-3 239** | **-661** | **-3 900** |
| **Carrying amount on 31 Dec.** | **651** | **0** | **651** |

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

| Tangible assets 2020 | Machinery and equipment | Other tangible assets | Pre-payments | Total |
|---|---|---|---|---|
| Acquisition cost on 1 Jan. | 1 166 | 381 | 5 005 | 6 552 |
| Increase | - | - | 1 554 | 1 554 |
| Decrease | -7 | - | -5 621 | -5 628 |
| Transfers between items | 14 | 32 | -54 | -8 |
| Impairment | - | - | - | 0 |
| **Acquisition cost on 31 Dec.** | **1 173** | **413** | **884** | **2 470** |
| | | | | |
| Accumulated depreciation on 1 Jan. | -1 113 | -367 | 0 | -1 480 |
| Accumulated depreciation on disposals | 7 | - | - | 7 |
| Depreciation for the financial period | -22 | -4 | - | -26 |
| **Accumulated depreciation on 31 Dec.** | **-1 128** | **-371** | **0** | **-1 499** |
| **Carrying amount on 31 Dec.** | **45** | **42** | **884** | **971** |

| Tangible assets 2019 | Machinery and equipment | Other tangible assets | Pre-payments | Total |
|---|---|---|---|---|
| Acquisition cost on 1 Jan. | 1 152 | 381 | 4 839 | 6 372 |
| Increase | - | - | 1 503 | 1 503 |
| Transfers between items | 14 | - | -14 | 0 |
| Impairment | - | - | -1 323 | -1 323 |
| **Acquisition cost on 31 Dec.** | **1 166** | **381** | **5 005** | **6 552** |
| | | | | |
| Accumulated depreciation on 1 Jan. | -1 041 | -367 | 0 | -1 408 |
| Depreciation for the financial period | -72 | - | - | -72 |
| **Accumulated depreciation on 31 Dec.** | **-1 113** | **-367** | **0** | **-1 480** |
| **Carrying amount on 31 Dec.** | **53** | **14** | **5 005** | **5 072** |

| Financial assets 2020 | Holdings in Group companies | Holdings in associates | Receivables from associates | Other shares and holdings | Total |
|---|---|---|---|---|---|
| Acquisition cost on 1 Jan. | 447 709 | 950 | 0 | 16 | 448 675 |
| Increase | - | - | - | 48 | 48 |
| Decrease | -65 | - | - | - | -65 |
| **Carrying amount on 31 Dec.** | **447 644** | **950** | **0** | **64** | **448 658** |

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

There is in China a joint venture company Nordic Lotus Co. Ltd owned by parent company. That company’s equity was EUR 1.9 million in 2020 and profit/loss for the period was EUR -0.4 million. Ownership is 35 per cent.

| Intangible assets | 2020 | 2019 |
|---|---|---|
| Intellectual property rights | 651 | 972 |
| Other long-term expenditure | - | 41 |
| **Intangible assets** | **651** | **1 013** |
| | | |
| **Tangible assets** | | |
| Machinery and equipment | 45 | 53 |
| Other tangible assets | 41 | 14 |
| Payments on account and tangible asset | 884 | 5 005 |
| **Tangible assets** | **970** | **5 072** |

| | | |
|---|---|---|
| **Financial assets** | | |
| Holdings in Group companies | 447 645 | 447 709 |
| Holdings in associates | 950 | 950 |
| Other shares and holdings | 64 | 16 |
| **Financial assets** | **448 659** | **448 675** |
| | | |
| **Total non-current assets** | **450 280** | **454 760** |

| **9. Non-current receivables** | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Non-current loan receivables | 457 | 484 |
| Non-current Group loan receivables | 325 070 | 274 475 |
| **Total** | **325 527** | **274 959** |
| | | |
| Deferred tax assets | 10 454 | 11 246 |

On 31 December 2020, the company had EUR 12.4 (13.5) million of losses, of which no deferred tax receivable has been recognized. The losses in taxation expire with the following schedule: EUR 11.3 million in 2023, EUR 4.9 million in 2024, EUR 5.3 million in 2025, EUR 17.8 million in 2027, EUR 9.9 million in 2028 and EUR 11.0 million in 2019. Utilisation of deferred tax asset from losses is based on the same assumptions that are used in group note 16.

| **10. Current receivables** | **31.12.2020** | **31.12.2019** |
|---|---|---|
| Trade receivables | 4 | 5 |
| Short-term receivables (from others) | 4 | 5 |
| Short-term prepayments from accrued income (from others) | 2 367 | 1 952 |
| **Total** | **2 375** | **1 962** |
| | | |
| RECEIVABLES FROM GROUP COMPANIES | | |
| Trade receivables | 312 | 157 |
| Loan receivables | 8 710 | 9 807 |
| Other receivables | 453 | 671 |
| **Total** | **9 475** | **10 635** |
| | | |
| **Total current receivables** | **11 850** | **12 597** |
| | | |
| MAIN ITEMS INCLUDED IN PREPAYMENTS AND ACCRUED INCOME | | |
| Accrued financial items | 218 | 32 |
| Accrued interest receivables | 1 274 | 1 533 |
| Accrued staff costs | 14 | 23 |
| Other prepayments and accrued income | 861 | 364 |
| **Total** | **2 367** | **1 952** |

## 11. Equity

| Equity in 2020 | Share capital | Share premium reserve | Treasury shares | Fair value reserve | RIUE | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| Equity on 1 Jan. | 66 820 | 73 420 | -4 762 | 0 | 215 121 | 4 899 | 63 714 | 419 212 |
| Profit for the period | - | - | - | - | - | - | 16 220 | 16 220 |
| **Equity on 31 Dec.** | **66 820** | **73 420** | **-4 762** | **0** | **215 121** | **4 899** | **79 934** | **435 432** |

| Equity in 2019 | Share capital | Share premium reserve | Treasury shares | Fair value reserve | RIUE | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| Equity on 1 Jan. | 66 820 | 73 420 | -38 | 0 | 143 253 | 4 881 | 72 901 | 361 237 |
| Increase | - | - | -4 724 | - | - | 18 | - | -4 706 |
| Share issue | - | - | - | - | 71 868 | - | - | 71 868 |
| Profit for the period | - | - | - | - | - | - | -9 187 | -9 187 |
| **Equity on 31 Dec.** | **66 820** | **73 420** | **-4 762** | **0** | **215 121** | **4 899** | **63 714** | **419 212** |

| Distributable equity | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Contingency reserve | 621 | 621 |
| Treasury shares | -4763 | -4763 |
| Reserve for invested unrestricted | 215 121 | 215 121 |
| Retained earnings | 63 713 | 72 900 |
| Profit/loss for the period | 16 220 | -9 187 |
| **Distributable equity** | **290 912** | **274 692** |

| 12. Accumulated appropriations | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Depreciation difference | 57 | 77 |
| **Total appropriations** | **57** | **77** |

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

| 13. Statutory provisions | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Provisions for pensions | 2 492 | 2 644 |
| **Statutory provisions, total** | **2 492** | **2 644** |

| 14. Non-current liabilities | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Hybrid loan | 25 920 | 25 920 |
| Bond | 125 440 | 125 440 |
| Loans from financial institutions | 97 005 | 102 764 |
| Other liabilities | 2 974 | 3 056 |
| **Total** | **251 339** | **257 180** |
| | | |
| **Total non-current liabilities** | **251 339** | **257 180** |
| | | |
| Interest-bearing | | |
| Amounts owed to others | 248 365 | 254 124 |
| **Non-current interest-bearing liabilities** | **248 365** | **254 124** |
| | | |
| Non-interest bearing | | |
| Amounts owed to others | 2 974 | 3 056 |
| **Non-current non-interest-bearing liabilities** | **2 974** | **3 056** |
| | | |
| **Total non-current liabilities** | **251 339** | **257 180** |

The company has EUR 125.4 million bond maturing in September 2022 with 2.625 percent coupon interest. In addition, company has issued a hybrid bond in 2018 amounting to EUR 40 million with 8 per cent coupon interest. After the conversions carried out in the context of the share issue in June 2019, the outstanding amount is EUR 25.9 million. Hybrid bond does not have specified maturity, but the company has right to redeem it on the fifth anniversary of the issue date and subsequently on each annual coupon interest payment date.

| 15. Current liabilities | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Loans from financial institutions | 87 387 | 40 656 |
| Trade payables | 2 827 | 1 358 |
| Accruals and deferred income | 7 800 | 9 626 |
| Other liabilities | 2 503 | 3 375 |
| **Total** | **100 517** | **55 015** |
| | | |
| AMOUNTS OWED TO GROUP COMPANIES | | |
| Trade payables | 32 | 81 |
| Accruals and deferred income | 42 | 32 |
| Other liabilities | 51 282 | 51 939 |
| **Total** | **51 356** | **52 052** |
| | | |
| **Total current liabilities** | **151 873** | **107 067** |
| | | |
| Interest-bearing | | |
| Current amounts owed to Group companies | 51 282 | 51 939 |
| Amounts owed to others | 87 387 | 40 656 |
| **Current interest-bearing liabilities** | **138 669** | **92 595** |
| | | |
| Non-interest bearing | | |
| Current amounts owed to Group companies | 74 | 114 |
| Amounts owed to others | 13 130 | 14 358 |
| **Current non-interest-bearing liabilities** | **13 204** | **14 472** |
| | | |
| **Total current liabilities** | **151 873** | **107 067** |

| MAIN ITEMS (NON-CURRENT AND CURRENT) INCLUDED IN ACCRUALS AND DEFERRED INCOME | | |
|---|---|---|
| Accrued staff costs | 2 186 | 3 455 |
| Accrued interest expenses | 2 503 | 2 531 |
| Accrued changes in value of derivatives | 2 201 | 2 375 |
| Other accruals and deferred income | 910 | 1 265 |
| **Total** | **7 800** | **9 626** |

| LIABILITIES DUE IN FIVE YEARS OR MORE | | |
|---|---|---|
| Loans from financial institutions | 1 808 | 5 425 |
| **Liabilities due in more than five years** | **1 808** | **5 425** |

| **16. Commitments and contingent liabilities** | **31.12.2020** | **31.12.2019** |
|---|---|---|
| DEBTS SECURED BY MORTGAGES AND SHARES | | |
| Loans from financial institutions | 84 300 | - |
| **Total** | **84 300** | **0** |
| SECURITY FOR DEBTS OF SUBSIDIARIES AND OTHER GROUP COMPANIES | | |
| Guarantees | 3 028 | 15 974 |
| **Total** | **3 028** | **15 974** |
| SECURITY FOR DEBTS OF OTHERS | | |
| Guarantees | 1 303 | 1 307 |
| **Total** | **1 303** | **1 307** |
| LEASING AND RENTAL COMMITMENTS | | |
| Maturing in less than a year | 1098 | 1711 |
| Maturing in 1-5 years | 3865 | 4107 |
| Maturing in over 5 years | 949 | 1885 |
| **Total** | **5912** | **7704** |
| OTHER COMMITMENTS | - | 4 |
| **Total other contingencies** | **5 912** | **7 708** |

**17. Derivative instruments**

| | 2020 Positive fair value | 2020 Negative fair value | 2020 Fair value net | 2019 Fair value net | 2020 Nominal value | 2019 Nominal value |
|---|---|---|---|---|---|---|
| **Interest rate derivatives** | 1 322 | -3 543 | -2 220 | -3 829 | 64 649 | 64 359 |
| matured in 2020 | - | - | - | - | - | - |
| matures in 2021 | - | -850 | -850 | -1 634 | 25 000 | 25 000 |
| matuers in 2022 | 574 | -1 424 | -850 | -1 634 | 25 000 | 25 000 |
| matures in 2023 | 749 | -1 269 | -520 | -561 | 14 949 | 14 359 |
| matures in 2024 | - | - | - | - | - | - |
| matures in >2024 | - | - | - | - | - | |
| of which defined as cash flow hedging instruments | - | - | - | - | - | - |
| **Foreign exhange derivatives** | 625 | -583 | 42 | -117 | 40 484 | 34 331 |
| of which defined as net investment hedging instruments | - | - | - | - | - | - |
| **Commodity derivatives** | 1 614 | -1 614 | - | - | - | - |
| matured in 2020 | - | - | - | - | - | - |
| matures in 2021 | 945 | -945 | - | - | - | - |
| matures in 2022 | 579 | -579 | - | - | - | - |
| matures in 2023 | 49 | -49 | - | - | - | - |
| matures in 2024 | 42 | -42 | - | - | - | - |
| of which defined as cash flow hedging instruments | - | - | - | - | - | - |

Nominal values of external derivatives that are eliminated due to intercompany derivatives are netted to zero in the table above. The nominal values are EUR 18 756 (22 380) thousand foreign exchange derivatives, EUR 13 379 (12 871) thousand commodity derivatives, EUR 34 932 (34 145) thousand interest rate derivatives.

**Fair value hierarchy**

| | 31.12.2020 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Derivatives, positive fair value | | | | |
| - Interest rate swaps | 1 322 | - | 1 322 | - |
| - Foreign exchange derivatives | 625 | - | 625 | - |
| - Commodity derivatives | 1 614 | - | 1 614 | - |
| **Total** | **3 561** | **-** | **3 561** | **-** |
| Derivatives, negative fair value | | | | |
| - Interest rate swaps | -3 543 | - | -3 543 | - |
| - Foreign exchange derivatives | -583 | - | -583 | - |
| - Commodity derivatives | -1 614 | - | -1 614 | - |
| **Total** | **-5 739** | **-** | **-5 739** | **-** |

**Fair value hierarchy**

| | 31.12.2019 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Derivatives, positive fair value | | | | |
| - Interest rate swaps | 1 968 | - | 1 968 | - |
| - Foreign exchange derivatives | 307 | - | 307 | - |
| - Commodity derivatives | 533 | - | 533 | - |
| **Total** | **2 808** | **-** | **2 808** | **-** |
| | | | | |
| Derivatives, negative fair value | | | | |
| - Interest rate swaps | -5 797 | - | -5 797 | - |
| - Foreign exchange derivatives | -424 | - | -424 | - |
| - Commodity derivatives | -533 | - | -533 | - |
| **Total** | **-6 753** | **-** | **-6 753** | **-** |

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

# Signatures to the financial statement and report of the Board of Directors

Vantaa, 3 February 2021

Reijo Kiskola
Chairman of the Board, CEO

Jari Mäkilä
Deputy chairman of the Board

Harri Suutari
Member of the Board

Per Olof Nyman
Member of the Board

Terhi Tuomi
Member of the Board

Anne Leskelä
Member of the Board

Tero Hemmilä
CEO

## Auditor’s note

A report on the audit carried out has been submitted today.

Vantaa, 3 February 2021

Ernst & Young Oy
Authorized Public Accountants

Erkka Talvinko
APA