



HKSCAN

HALF YEAR FINANCIAL
REPORT 2018

HKScan Group's Half Year Financial Report 1 January–30 June 2018:

Result still in loss – strategy implementation proceeds with increased focus on efficiency improvement



April–June 2018 in brief

- Net sales in April–June were EUR 433.5 (459.6) million.
- EBIT was EUR -17.0 (-10.5) million. Comparable EBIT was EUR -16.9 (-1.2) million. The corresponding EBIT margin was -3.9 (-0.3) per cent.
- EPS was EUR -0.31 (-0.22).
- Cash flow before investments was EUR 8.2 (34.4) and before debt service EUR -0.6 (15.5) million.
- The challenges related to the Rauma unit ramp-up impacted the April–June Group comparable EBIT by approximately EUR -12.9 (-0.9). However, delivery capability improved and stabilised on a good level. Operations at the Eura plant were terminated at the end of the quarter.
- Strategy implementation continued in all areas. After the reporting period, 19 July 2018, HKScan further specified the content, financial targets and schedule of its ongoing efficiency improvement programme. The goal of the extensive programme is to improve profitability and its full impact will be annual savings of 40 million euros during 2020 and onwards.

January–June 2018 in brief

- Net sales in January–June were EUR 844.5 (880.3) million.
- EBIT was EUR -35.5 (-17.3) million, and the EBIT margin -4.2 (-2.0) per cent. Comparable EBIT was EUR -35.2 (-8.0) million. The corresponding EBIT margin was -4.2 (-0.9) per cent.
- EPS was EUR -0.63 (-0.36).
- Cash flow before investments was EUR -34.6 (12.0) and before debt service EUR -103.3 (-26.4) million.
- Net debt was EUR 317.1 (177.3) million and net gearing stood at 102.6 (46.8) per cent.
- The challenges related to the Rauma unit ramp-up impacted the January–June Group comparable EBIT by EUR -22.7 (-0.9) million.

The figures in parentheses refer to the comparison period, i.e. the same period in the previous year, unless otherwise mentioned.

Outlook 2018 (unchanged)

Global meat consumption is projected to increase 1.6 per cent per annum during the coming years. Consumption growth is estimated to be led by poultry. There are also several value-related consumption trends that support HKScan's strategy implementation.

In 2018, HKScan expects its strategy implementation to start recording results in terms of value growth in sales and operational efficiency in production.

The company will emphasize the implementation of its From Farm to Fork strategy through the five focus areas, which are Focus on meat, Leadership in poultry, Continue growing meals business, Cooperate with our farming community and Drive efficiency and cost-competitiveness.



Key figures, Q2

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
Net sales	433.5	459.6	844.5	880.3	1,808.1
EBIT	-17.0	-10.5	-35.5	-17.3	-40.3
- % of net sales	-3.9	-2.3	-4.2	-2.0	-2.2
Profit/loss before taxes	-19.6	-12.6	-40.8	-20.8	-49.2
- % of net sales	-4.5	-2.7	-4.8	-2.4	-2.7
Profit/loss for the period	-16.6	-11.3	-33.7	-18.3	-42.4
- % of net sales	-3.8	-2.5	-4.0	-2.1	-2.3
Comparable EBIT	-16.9	-1.2	-35.2	-8.0	-17.6
- % of net sales	-3.9	-0.3	-4.2	-0.9	-1.0
Comparable profit/loss before taxes	-19.5	-3.3	-40.4	-11.6	-26.5
- % of net sales	-4.5	-0.7	-4.8	-1.3	-1.5
EPS, EUR	-0.31	-0.22	-0.63	-0.36	-0.84
Cash flow before investments	8.2	34.4	-34.6	12.0	57.8
Cash flow before debt service	-0.6	15.5	-103.3	-26.4	-49.6
Cash flow before financing activities	1.0	16.8	-103.0	-26.9	-58.3
Return on capital employed (ROCE) before taxes, %			-9.1	-0.3	-6.3
Net debt			317.1	177.3	208.2
Net gearing, %			102.6	46.8	59.3



Jari Latvanen, HKScan's President and CEO:

Our second quarter and first half-year results were disappointing. The result was still burdened by the challenges related to the Rauma poultry unit ramp-up process in Finland. However, we succeeded in improving our poultry delivery capability. We terminated our operations at the Eura plant and consolidated the Finnish poultry volumes to Rauma during the second quarter. We continue to give our full attention to the performance of the unit in order to ensure improvement in the efficiency and financial performance of the Rauma plant. In the long run, the unit will substantially improve our efficiency and competitiveness, thus contributing to HKScan's strategy implementation.

As our performance is not yet acceptable, we have taken firm actions to correct the negative result trend. Today, we communicated the financial target, scope and schedule of our ongoing group-wide efficiency improvement programme. The programme targets EUR 40 million annual savings during the year 2020 and onwards. We expect the most significant benefits of the programme to stem from improved operational efficiency. On top of that, we will, among other things, reduce administrative costs further and utilise Group synergies to a greater extent than before.

The planned efficiency improvement measures related to production and logistics operations in Finland, announced on 25 June 2018, are also part of the Group-wide efficiency improvement programme.

We are in the early phase of our strategic transformation and turnaround process. It requires strong leadership as well as engagement and input of the entire HKScan team. We will cooperate with our personnel to find the best measures for improving our competitiveness and profitability and thereby safeguarding our position as a solid and sustainable employer also in the future.

There are several trends supporting our holistic From Farm to Fork strategy. Consumers are increasingly interested in food origin as well as in production procedures along the entire food chain. The trend has resulted in increased demand of sustainably produced domestic products at all our home markets in Nordics - especially in Sweden. We are now capitalising our competitive advantage of sustainability also in our export business, for example in China, where our first export deliveries were shipped from Finland in April 2018.

Group net sales and performance

April-June

Group net sales were EUR 433.5 (459.6) million and comparable EBIT was EUR -16.9 (-1.2) million in the second quarter. Net sales decreased mainly due to the Rauma poultry unit's ramp-up challenges, which postponed poultry product sales in Finland, as well as due to weakening of the Swedish krona. Denmark's net sales remained on par with the previous year. Improved product mix and branded sales in retail increased net sales in the Baltics.

The Group's EBIT was still heavily burdened by the ramp-up costs of the Rauma poultry unit despite its improving delivery capability. The total effect of Rauma on the EBIT was approximately EUR -12.9 (-0.9) million during the

second quarter. Excluding the Rauma ramp-up impact, the Group EBIT was EUR 3.7 million lower than the EBIT of the comparable period.

In Sweden, EBIT improved due to improved efficiency in operations and lower administrative costs. In Denmark, EBIT lagged slightly behind the previous year despite further improvement of operational efficiency. In the Baltics, higher personnel and animal procurement costs together with lower pork price level burdened the performance.

HKScan's exports from Finland to China commenced and the first deliveries took place in April.

January-June

Group net sales were EUR 844.5 (880.3) million and comparable EBIT was EUR -35.2 (-8.0) million in January-June. Group net sales decreased mainly as a result of the weakening Swedish Krona and the Rauma poultry unit's ramp-up challenges in Finland. In Denmark, net sales were on par with the previous year. A small increase in net sales was recorded in the Baltics.

The Group's EBIT was still heavily burdened by the ramp-up costs of the Rauma poultry unit due to increased production costs, material loss as well as lost sales. The total effect of Rauma on EBIT was approximately EUR -22.7 (-0.9) million during January-June. Excluding the Rauma ramp-up impact, the Group EBIT was EUR -5.3 million lower than in the previous year.

In Sweden, EBIT decreased slightly due to higher production costs in the first quarter. Denmark's EBIT increased from the comparison period thanks to improved operational efficiency. In the Baltics, strike activities in Rakvere, increased personnel costs as well as lower market price of pork eroded the result during the period.

In February 2018, HKScan signed an agreement to establish a joint venture in China. The company will commercialise, sell and market Finnish premium quality pork products in the Chinese market. Exports commenced in April, creating new revenue opportunities throughout the entire value chain.

The overall meat market showed positive development in all market areas. While fierce price competition continued and private labels increased their market share, the domestic origin of meat raised growing interest among consumers in the Group's main market areas.





Market area Sweden

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
Net sales	173.3	191.5	337.3	362.8	759.4
EBIT	1.7	-1.8	0.2	-2.3	5.4
- EBIT margin, %	1.0	-0.9	0.0	-0.6	0.7
Comparable EBIT	1.8	1.4	0.5	0.8	8.6
- EBIT margin, %	1.1	0.7	0.1	0.2	1.1

April-June

In Sweden, net sales were EUR 173.3 (191.5) million and comparable EBIT was EUR 1.8 (1.4) million. Net sales decreased mainly due to the weakened Swedish krona. Despite the good growth in market share of processed categories, a slight decrease in product sales was recorded also in local currency.

Comparable EBIT increased from the previous year mainly as a result of improved efficiency in operations and lower administration costs.

Animal raw material prices continued to decline due to improved supply. Inventory levels decreased compared to the previous year.

January-June

Net sales were EUR 337.3 (362.8) million and comparable EBIT was EUR 0.5 (0.8) million. Net sales decreased from the previous year mainly due to the weakened Swedish krona. Despite the good development in processed categories, product sales decreased slightly also in local currency.

due to increased costs in operations during the first quarter.

Both pork and beef animal raw material prices decreased due to increased availability on the market. Swedish meat continued to increase its share of the total Swedish meat market as well as its share in private label products in all categories. Stock levels remained on a lower level during the whole reporting period compared to the previous year.



Market area Finland

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
Net sales	180.1	189.6	354.2	366.2	742.2
EBIT	-14.1	-0.8	-24.5	-1.8	-16.5
- EBIT margin, %	-7.8	-0.4	-6.9	-0.5	-2.2
Comparable EBIT	-14.1	0.4	-24.5	-0.6	-9.3
- EBIT margin, %	-7.8	0.2	-6.9	-0.2	-1.3

April-June

In Finland, net sales were EUR 180.1 (189.6) million and comparable EBIT was EUR -14.1 (0.4) million. The decrease in net sales was still caused by ramp-up challenges in the new poultry unit in Rauma, which postponed campaigns and led to lost sales and a decrease in market share. Sales of meals and meal components continued their positive development.

Comparable EBIT was still burdened by the challenges related to the Rauma unit's ramp-up particularly in packing, which increased production costs and material loss, together with lost sales and a decrease in market share. Despite the challenges, the ramp-up phase proceeded well and operations in the Eura unit were closed at the end of the quarter. During the second quarter, the total effect of the Rauma ramp-up impact on the

EBIT was approximately EUR -12.9 (-0.9) million. EBIT excluding Rauma impact decreased compared to the comparison period.

At the end of the quarter, HKScan published a plan to rationalise and adjust production operations in Finland. After the reporting period, HKScan initiated related statutory negotiations covering the company's production and logistics personnel in the Vantaa, Forssa, Mikkeli, Paimio and Outokumpu units. According to the employer's preliminary estimate, the planned actions may result in the termination of 211 employment contracts and cause changes to employment terms.

HKScan's exports from Finland to China commenced and the first deliveries took place in April.

January-June

Net sales were EUR 354.2 (366.2) million and comparable EBIT was EUR -24.5 (-0.6) million. Net sales decreased due to postponed poultry campaigns and ramp-up challenges with the new poultry unit in Rauma. However, delivery capability of poultry products increased clearly and was stabilised to a good level. Special measures for improving delivery capability were taken in close cooperation with the customers throughout the period. Total sales in other product groups were on par with the previous year. Particularly meals and meal components developed well.

Ramp-up challenges with the Rauma poultry unit decreased EBIT by EUR -22.7 (-0.9) million due to higher production costs and material losses together with lost sales and market share. EBIT excluding Rauma was EUR 2.1 million lower than during the comparison period. Systematic actions to manage the pork and beef supply continued, but overall inventory levels increased slightly compared to the previous year.



Market area Denmark

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
Net sales	38.2	38.0	74.2	74.0	147.8
EBIT	-1.1	-4.8	-1.9	-5.9	-13.9
- EBIT margin, %	-2.8	-12.6	-2.6	-8.0	-9.4
Comparable EBIT	-1.1	-0.9	-1.9	-2.1	-3.2
- EBIT margin, %	-2.8	-2.5	-2.6	-2.8	-2.2

April-June

In Denmark, net sales were EUR 38.2 (38.0) million and comparable EBIT was EUR -1.1 (-0.9) million. A slight decrease in export volumes was recorded but it was offset by an increase in home market sales.

Comparable EBIT fell slightly from the corresponding quarter in the previous year due to changes in the sales mix. The decrease was partly offset by continuing improvement in operational efficiency and cost control. Inventory levels continued to decrease as well.

January-June

Net sales were EUR 74.2 (74.0) million and comparable EBIT was EUR -1.9 (-2.1) million. Net sales remained on par with the previous year mainly as a result of boosted export sales in the first quarter.

lower administration costs. Branded sales in retail were kept under pressure by fierce price competition, which decreased margins together with changes in the sales mix. The share of the fresh chicken category in domestic retail continued its increase compared to the frozen category.

Comparable EBIT improved from the previous year thanks to the positive development in operational efficiency and



Market area Baltics

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
Net sales	42.0	40.4	78.8	77.3	158.7
EBIT	0.2	1.7	-0.8	2.1	4.4
- EBIT margin, %	0.5	4.1	-1.0	2.7	2.8
Comparable EBIT	0.2	1.7	-0.8	2.1	4.4
- EBIT margin, %	0.5	4.2	-1.0	2.7	2.8

April-June

In the Baltics, net sales were EUR 42.0 (40.4) million and comparable EBIT EUR 0.2 (1.7) million in the second quarter. The increase in net sales was driven by well-developed branded sales and improved product mix.

Comparable EBIT for the second quarter fell short of the previous year due to lower pork market price, increased

costs in animal procurement as well as rising personnel costs. The strike activities in the Rakvere unit ended in April.

The change in the fair value of the biological assets amounted to EUR -0.2 (0.3) million in the April-June period.

January-June

Net sales were EUR 78.8 (77.3) million and comparable EBIT EUR -0.8 (2.1) million. Net sales were boosted by the continuing good growth in domestic retail sales and improved product mix, which offset the impact of lower slaughter volumes and slaughterhouse strike activities at the Rakvere unit during the first quarter. The share of novelties increased as well.

Comparable EBIT decreased from the previous year due to increased personnel costs and additional costs from strike activities in the Rakvere unit during February-April. In addition, higher pork and beef procurement prices eroded the performance.

The change in the fair value of the biological assets amounted to EUR -0.3 (0.5) million in January-June period.

Strategy implementation

HKScan's From Farm to Fork strategy and relating strategic focus areas were launched in August 2017. The five focus areas are: Focus on meat, Leadership in poultry, Continue growing the meals business, Cooperate with our farming community and Drive efficiency and cost-competitiveness. In order to secure and speed up the turnaround process, the Group's strategy execution was kicked off simultaneously in all strategic focus areas in autumn 2017.

The most significant step in implementing the strategy has been the Rauma poultry unit investment. The unit will significantly improve HKScan's competitiveness and enable new, innovative products in the attractive poultry category. Regardless of challenges related to the ramp-up phase of the unit, HKScan succeeded during the second quarter of 2018 in improving our poultry delivery capability and consolidated the Finnish poultry volumes to Rauma. Operations at the Eura unit were terminated.

A programme for improving our operational efficiency was launched in the third quarter of 2017. The programme has been rolled out simultaneously at several production units. HKScan is improving on-site efficiency and developing asset utilisation in its production network with positive results. On 19 July 2018, HKScan specified further the content, financial targets and schedule of its ongoing efficiency improvement programme. The goal of the extensive programme is to improve profitability, and its full impact will be 40 million euros in annual savings during the year 2020 and onwards. The programme covers all Group functions in the company's home markets - Finland, Sweden, Denmark and the Baltics.

Together with its farming community, HKScan has launched several strategic initiatives to secure the

availability of responsibly produced, domestic, high-quality meat. Examples of these actions comprise a long-term development programme aimed at increasing beef farming in Finland and a unique hatching concept enabling chickens to be born at the farms where they are grown. On top of this, HKScan has developed pork, poultry and beef products based on completely antibiotic-free rearing, which is among the company's key competitive assets in export markets. In April 2018, HKScan announced that the Group will partly and gradually replace soy-based protein in Finland with domestic pulses such as broad beans in its poultry feed.

In order to strengthen the Group's position in the attractive and growing meals business, a decision to invest in the expansion of the Group's meals production capacity in Rakvere, Estonia was made in December 2017. Construction commenced in May 2018. In June 2018, HKScan announced its investment on its Kristianstad plant in Sweden. The investment further modernises Sweden's largest pig slaughterhouse and strengthens HKScan's operational footprint.

A significant milestone in strategy implementation was achieved in April 2018, when HKScan launched pork exports from its Finnish Forssa plant to China.

HKScan is executing its From Farm to Fork strategy with a strong focus on improving the Group's cost efficiency and productivity. Several consumer trends support the strategic transformation process. One of them is the growing demand for sustainably produced, high-quality food. By stressing quality and sustainability in all its operations, HKScan can build a differentiating edge for both the Nordic and international markets.



Balance sheet, cash flow and financing

The Group's interest-bearing debt at the end of June was EUR 330.4 (197.3) million. Net debt was EUR 317.1 (177.3) million. It increased by 139.8 million from the corresponding period in the previous year and by 108.8 million from the year-end due to investment payments of the Rauma poultry plant and its ramp-up costs. The net gearing ratio was 102.6 (46.8) per cent. Cash flow before investments decreased to EUR -34.6 (12.0) million.

The Group's liquidity remained good. Committed credit facilities at the end of June stood at EUR 100.0 (100.0)

million and were entirely undrawn. The EUR 200.0 million commercial paper programme had been drawn to the amount of EUR 42.0 (43.0) million.

Net financial expenses increased to EUR -2.7 (-2.2) million in the second quarter due to the increase in interest-bearing debt. Net financial expenses were EUR -5.7 (-4.4) million in January-June.

Research and development

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

Product development is part of HKScan's Culinary Competence Centre, where teams of R&D, nutrition expertise, chefs and product developers meet. The R&D team cooperates with universities in Sweden and Finland, and HKScan's personnel also engage in academic research,

e.g. in the field of veterinary sciences. The Group also offers trainee positions for students completing their studies in food and business sciences.

First cost-efficiency improvements can be seen resulting from the implementation of HKScan brand strategy, which emphasises the synergies of the Group-wide way of working. Significant steps have also been taken in improving the focus of product development. As a result, the performance of HKScan's novelties has improved.

Corporate responsibility

Corporate responsibility is an integral part of HKScan's From Farm to Fork strategy. HKScan's corporate responsibility work focuses on four main areas: Economic responsibility, Social responsibility, Animal health and welfare and Environment.

Corporate Responsibility at HKScan is described in the Group's Report of Non-financial Information. It complements the Group's Annual Report 2017. Both reports were

published on 15 March 2018. HKScan is in the process of revising its Corporate Responsibility agenda, targets and road map.

During the first half year, HKScan has revisited some of its policies and updated Group Code of Conduct and Disclosure Policy. Both documents have been published on the Group web site.

Personnel

HKScan employed 8,023 (8,247) people at the end of June 2018. The average number of employees in the first half of the year was 7,261 (7,367). Of that number, 29.4 (29.1) per cent were located in Sweden, 40.8 (41.1) per cent in Finland, 8.7 (9.0) per cent in Denmark and 21.1 (20.8) per cent in the Baltics.

Salaries and remunerations to employees, including social costs, totaled EUR 159.4 (168.5) million in January–June 2018 and 81.4 (86.8) in the second quarter.

At the end of the second quarter, HKScan published its plan to rationalise and adjust production operations in Finland. After the reporting period, related statutory negotiations

covering the company's production and logistics personnel in the Vantaa, Forssa, Mikkeli, Paimio and Outokumpu units were started.

During the second quarter, Group-wide actions for cascading HKScan's values were initiated. Cross-functional workshops are being arranged at all HKScan's offices and production units. A survey for measuring the status of the ongoing strategic transformation was conducted among the employees during the second quarter. The results were encouraging, and the majority of the respondents considered the Group strategy to be clear. They also saw themselves as active parties of the change process.

Shares and shareholders

At the end of June 2018, HKScan Corporation's share capital stood at EUR 66,820,528. The Corporation's total number of shares issued, 55,026,522, were divided into two share series as follows: A Shares, 49,626,522 (90.19% of the total number of shares) and K Shares, 5,400,000 (9.81%). The A Shares are quoted on Nasdaq Helsinki Oy. 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 shares and in the holdings of LSO Osuuskunta and Lantmännen ek. för.

On 20 April 2018, a total of 16,501 HKScan Corporation's A shares owned by the company have been transferred without consideration to the participants of the share based incentive plan according to its terms. At the end of June 2018, the

company held 992,348 (1,008,849) A shares as treasury shares, corresponding to 1.8 per cent of the company's total number of shares, and 0.6 per cent of the total number of votes. HKScan's calculational market cap at the end of June 2018 stood at EUR 155.6 (169.6) million, breaking down as follows: Series A shares had a market value of EUR 140.1 (152.7) million, and the unlisted Series K shares a calculational value of EUR 15.6 (17.0) million.

In January–June, a total of 4,546,467 (5,382,103) of the company's shares, with a total value of EUR 13,855,157 (17,812,457), were traded. The highest price quoted in the period under review was EUR 3.23 (3.60), and the lowest was EUR 2.82 (3.06). The average price was EUR 3.05 (3.31). At the end of June 2018, the closing price was EUR 2.88 (3.14).

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 for 2018-2020. It comprises a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure.

The first plan (PSP 2018-2020) commenced as of 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 class A shares of HKScan.

Approximately 30 individuals are eligible to participate in PSP 2018-2020.

The complementary Restricted Share Plan consists of annually commencing individual restricted share plans, each with a three-year vesting period after which the allocated restricted share grants will be paid to the participants in class A shares of HKScan. The first plan (RSP 2018-2020) within the Restricted Share Plan structure commences effective as of the beginning of 2018 and the potential share rewards thereunder will be paid in the spring 2021. Eleven individuals belonging to the top management are eligible to participate in RSP 2018-2020.

Board authorisations

The new authorisations, granted to the Board by the AGM 2018 on 12 April 2018, are described in the section 'Annual General Meeting 2018'.

On 20 April 2018, HKScan reported that the Board of HKScan Corporation had resolved on a directed share issue

according to the Group's share based incentive plan 2013, payment of the rewards for the performance period 2015. In total 16,501 HKScan Corporation's A shares owned by the Group were gratuitously transferred to the participants of the incentive plan. Its terms have been announced by a stock exchange release published on 20 December 2012.

Changes in senior management

On 23 January 2018, HKScan announced that Kati Rajala, M.Sc. (Tech.), had been appointed as Executive Vice

President, Market Area Finland and as member of the Group Leadership Team. Rajala joined HKScan on 2 May 2018.

Short-term risks and uncertainty factors

The most significant uncertainty factors in HKScan Group's business are related to sales and raw material prices, as well as management of global and local meat balances. Breaches of business principles and the Group's Code of Conduct are also recognised as operational risks. HKScan is in the process of renewing its Code of Conduct, and the related implementation of it.

Other risks include various unexpected actions potentially taken by tax authorities, other authorities or pressure groups, which may cause restrictions to the business, volatility in demand, or significant increases of taxes or other fees. HKScan is also involved in some juridical proceedings in its home markets.

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

Securing the completion of the Rauma unit's ongoing ramp-up process and thereby minimising the risks related to it, is considered as the highest of the Group Management's priorities in 2018.

HKScan's risks are reported in more detail in the risk management section of the Annual Report 2017.

Events after the reporting period

On 19 July 2018, HKScan specified further the content, financial targets and schedule of its ongoing efficiency improvement programme. The goal of the extensive programme is to improve profitability, and its full impact will be 40 million euros in annual savings during the year 2020 and onwards. The programme covers all Group functions in

the company's home markets - Finland, Sweden, Denmark and the Baltics. HKScan expects the most significant benefits of the programme to stem from improved operational efficiency. Administrative costs will also be reduced further and Group synergies utilized to a greater extent than before.

Annual general meeting 2018

The Annual General Meeting (AGM) of HKScan Corporation was held on 12 April 2018 in Turku, Finland. The AGM resolved that a dividend of EUR 0.09 shall be paid for 2017.

The AGM also resolved on the annual remuneration of the Board's members, deputy members and the chairs of the committees. Of the current Board members, Mikko Nikula, Per Olof Nyman, Marko Onnela, Riitta Palomäki and Tuomas Salusjärvi were re-elected, and Reijo Kiskola was elected as new member until the end of the Annual General Meeting 2019. In addition, Carl-Peter Thorwid was re-elected and Jari Mäkilä was elected as deputy Board member until the end of the Annual General Meeting 2019.

At the organisational meeting after the AGM, the Board re-elected Mikko Nikula as Chairman and elected Marko Onnela as the Vice Chairman.

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

The AGM authorised the Board to decide on share issues, option rights as well as other special rights entitling to shares, and on the purchase of the company's own Series A shares and/or on the acceptance of the company's own Series A shares as pledges. The authorisations will be effective until 30 June 2019, revoking the authorisations given by the AGM 2017.

The resolutions of the Annual General Meeting have been published in full in the stock exchange release of 12 April 2018 and are also available on the company's website at www.hkscan.com.

Next financial report

HKScan Group's interim report January-September will be published on 7 November 2018.

Press conference for analysts and media

Information meeting related to HKScan Corporation's Half year report for analysts, institutional investors and media will be organised at HKScan's Vantaa facility (address: Väinö Tannerin tie 1, 01510 Vantaa) at 10-11 a.m. on 19 July 2018.

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

The Half year report will be presented by Jari Latvanen, President and CEO, and Mikko Forsell, CFO. The event will be held in Finnish.

Outlook for 2018 (unchanged)

Global meat consumption is projected to increase 1.6 per cent per annum during the coming years. Consumption growth is estimated to be led by poultry. There are also several value related consumption trends that support HKScan's strategy implementation.

The company will emphasize the implementation of its From Farm to Fork strategy through five focus areas, which are Focus on meat, Leadership in poultry, Continue growing meals business, Cooperate with our farming community, and Drive efficiency and cost-competitiveness.

In 2018, HKScan expects its strategy implementation to start recording results in terms of value growth in sales and operational efficiency in production.

Vantaa, 19 July 2018

HKScan Corporation
Board of Directors

Further information is available from Jari Latvanen, President and CEO, and Mikko Forsell, CFO. Please submit a call-back request via the Group media desk +358 (0)10 570 5700 or email: communications@hkscan.com

HKScan is a Nordic meat and meals company. We employ over 7 300 professionals in striving to serve the world's most demanding consumers, maintaining quality throughout the full chain of operations, From Farm to Fork. HKScan produces, markets and sells high-quality, sustainably produced pork, beef, poultry and lamb products, as well as charcuterie and meals, with strong consumer brands, including HK®, Scan®, Rakvere®, Kariniemen®, Rose®, Pärsons® and Tallegg®. Our customers are the retail, food service, industrial and export sectors, and our home market comprises of Finland, Sweden, Denmark and the Baltics. We export to close to 50 countries. In 2017, HKScan had net sales of EUR 1.8 billion, making us one of Europe's leading meat and meals companies.

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Consolidated Half Year Financial Report

1 January - 30 June 2018

Consolidated income statement

EUR million	Note	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
Net sales		433.5	459.6	844.5	880.3	1,808.1
Cost of goods sold	1.	-424.1	-438.4	-826.3	-837.8	-1,731.4
Gross profit		9.5	21.2	18.2	42.5	76.7
Other operating items total	1.	1.8	1.8	3.5	3.4	4.8
Sales and marketing costs	1.	-11.7	-14.8	-22.3	-27.9	-50.4
General administration costs	1.	-16.6	-18.7	-34.9	-35.3	-71.3
Operating profit		-17.0	-10.5	-35.5	-17.3	-40.3
Financial income		0.7	0.7	1.2	1.1	2.0
Financial expenses		-3.4	-2.8	-6.9	-5.5	-12.6
Share of profit/loss in associates and joint ventures		0.0	0.1	0.5	0.9	1.7
Profit/loss before taxes		-19.6	-12.6	-40.8	-20.8	-49.2
Income tax		3.0	1.3	7.1	2.5	6.8
Profit/loss for the period		-16.6	-11.3	-33.7	-18.3	-42.4
Non-controlling interests		-0.3	-0.7	-0.5	-1.0	-3.0
Profit/loss for the period		-16.9	-12.0	-34.2	-19.3	-45.4

Earnings per share calculated on profit attributable to equity holders of the parent:

EPS, undiluted, continuing operations, EUR/share	-0.31	-0.22	-0.63	-0.36	-0.84
EPS, diluted, continuing operations, EUR/share	-0.31	-0.22	-0.63	-0.36	-0.84

Consolidated statement of comprehensive income

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
Profit/loss for the period	-16.6	-11.3	-33.7	-18.3	-42.4
OTHER COMPREHENSIVE INCOME (after taxes):					
Exchange differences on translating foreign operations	-1.8	-1.2	-5.9	-0.7	-2.7
Cash flow hedging	2.6	1.1	4.1	1.3	3.1
Actuarial gains or losses	0.0	0.0	0.0	0.0	-3.1
TOTAL OTHER COMPREHENSIVE INCOME	0.9	-0.1	-1.8	0.5	-2.7
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-15.7	-11.4	-35.5	-17.8	-45.1
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:					
Equity holders of the parent	-16.1	-12.1	-36.0	-18.8	-48.1
Non-controlling interests	0.3	0.7	0.5	1.0	3.0
Total	-15.7	-11.4	-35.5	-17.8	-45.1

Consolidated balance sheet

EUR million	Note	30.6.2018	30.6.2017	31.12.2017
ASSETS				
Intangible assets	2.	134.1	144.1	137.2
Tangible assets	3.	442.1	424.9	458.2
Holdings		32.0	35.0	34.9
Other non-current assets		42.3	28.2	36.0
TOTAL NON-CURRENT ASSETS		650.6	632.2	666.3
Current Assets				
Inventories	4.	113.1	120.4	111.8
Current receivables		142.1	124.1	123.7
Cash and cash equivalents		13.1	19.9	50.9
TOTAL CURRENT ASSETS		268.3	264.3	286.4
TOTAL ASSETS		918.9	896.5	952.7
EQUITY AND LIABILITIES				
EQUITY				
	5.	309.1	378.4	351.0
LIABILITIES				
Non-current liabilities				
Non-current loans, interest-bearing		279.3	144.2	245.1
Non-current liabilities, non-interest-bearing		51.7	36.1	58.7
TOTAL NON-CURRENT LIABILITIES		331.0	180.3	303.8
Current liabilities				
Current loans, interest-bearing		51.1	53.1	14.1
Current liabilities, non-interest-bearing		227.7	284.7	283.8
TOTAL CURRENT LIABILITIES		278.8	337.9	297.8
TOTAL EQUITY AND LIABILITIES		918.9	896.5	952.7

Statement of changes in consolidated equity

EUR million	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
EQUITY ON 1.1.2018	66.8	72.9	-6.8	143.5	10.3	-7.9	0.0	57.9	336.6	14.4	351.0
Result for the financial period	-	-	-	-	-	-	-	-34.2	-34.2	0.5	-33.7
Other comprehensive income (+)/ expense (-)											
Transl. diff.	-	-	-	-	-	-5.9	-	-	-5.9	-	-5.9
Cash flow hedging	-	-	4.1	-	-	-	-	-	4.1	-	4.1
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-
Total compreh. income for the period	-	-	4.1	-	-	-5.9	-	-34.2	-36.0	0.5	-35.5
Direct recognitions	-	-	-	-	0.0	-	-	0.0	0.0	-	0.0
Transfers between items	-	-	-	-	-	-	-	-	-	-	-
IFRS 9, Change in opening balance	-	-	-	-	-	-	-	-1.0	-1.0	-	-1.0
Dividend distribution	-	-	-	-	-	-	-	-4.9	-4.9	-0.6	-5.5
EQUITY ON 30.6.2018	66.8	72.9	-2.7	143.5	10.3	-13.8	0.0	18.0	294.9	14.2	309.1

EUR million	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
EQUITY ON 1.1.2017	66.8	72.9	-9.9	143.5	10.3	-5.3	0.0	116.5	394.8	14.9	409.7
Result for the financial period	-	-	-	-	-	-	-	-19.3	-19.3	1.0	-18.3
Other comprehensive income (+)/ expense (-)											
Transl. diff.	-	-	-	-	-	-0.7	-	-	-0.7	-	-0.7
Cash flow hedging	-	-	1.3	-	-	-	-	-	1.3	-	1.3
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	1.3	-	-	-0.7	-	-19.3	-18.8	1.0	-17.8
Direct recognitions	-	-	-	-	0.0	-	-	0.0	0.0	-	0.0
Transfers between items	-	-	-	-	-	-	-	-	-	-	-
Transactions with non-controlling interests	-	-	-	-	-	-	-	-1.3	-1.3	-3.2	-4.5
Dividend distribution	-	-	-	-	-	-	-	-8.6	-8.6	-0.4	-9.0
EQUITY ON 30.6.2017	66.8	72.9	-8.6	143.5	10.3	-6.0	0.0	87.2	366.0	12.4	378.4

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

Cash flow statement

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
Cash flow before change in net working capital	-2.8	6.6	-7.4	12.9	30.0
Change in net working capital	10.9	27.9	-27.3	-0.9	27.9
Financial items and taxes	1.1	-1.7	-1.2	-3.9	-12.1
CASH FLOW FROM OPERATING ACTIVITIES	9.3	32.7	-35.8	8.2	45.7
Cash flow from investing activities	-8.3	-15.9	-67.1	-35.0	-104.0
CASH FLOW AFTER INVESTING ACTIVITIES	1.0	16.8	-103.0	-26.9	-58.3
Change in loans	9.8	0.2	70.8	53.4	115.4
Dividends paid	-4.9	-9.0	-5.5	-9.0	-9.0
Transactions with non-controlling interests	0.0	0.0	0.0	-4.5	-4.5
CASH FLOW FROM FINANCING ACTIVITIES	4.9	-8.8	65.3	39.9	101.9
NET CASH FLOW	5.9	8.0	-37.6	13.0	43.6
Cash and cash equivalents at beginning of period	7.2	11.9	50.9	6.6	6.6
Translation differences	0.1	0.0	-0.1	0.2	0.6
Cash and cash equivalents at end of period	13.1	19.9	13.1	19.9	50.9

Financial indicators

	30.6.2018	30.6.2017	31.12.2017
Earnings per share (EPS), undiluted, EUR	-0.63	-0.36	-0.84
Earnings per share (EPS), diluted, EUR	-0.63	-0.36	-0.84
Equity per share, EUR	5.46	6.78	6.23
Equity ratio, %	33.6	42.2	36.9
Adjusted average number of outstanding shares, mill.	54.0	54.0	54.0
Gross capital expenditure on PPE, EUR mill.	18.8	57.1	125.5
Employees, end of month average	7,261	7,367	7,292

Calculation of financial indicators

HKScan discloses alternative performance measures (APM) to give relevant information to stakeholders. Disclosed APMs are also used in steering the company. Items affecting

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

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

Notes to the consolidated interim report

Accounting policies

HKScan Corporation's Half year report for 1 January–30 June 2018 has been prepared in compliance with IAS 34 Interim Financial Reporting standards. The same accounting principles have been applied in the Half year report as in the annual financial statements for 2017, except for the adoption of new standards effective as of 1 January 2018. Due to the rounding of the figures to the nearest million euros in the interim report, some totals may not agree with the sum of their constituent parts. Accounting principles are explained in the financial statements for 2017. The Half year report is unaudited.

The Group applies for the first time the new IFRS 9 and IFRS 15 standards that are effective as of 1 January 2018. According to IFRS 9, bond modification costs from 2017 that

have been treated with the effective interest rate method are recorded as an expense. This results in a EUR 1.0 million deduction of retained earnings, a EUR 1.2 million increase in interest-bearing liabilities and EUR 0.2 million deduction of deferred tax liability in the opening balance sheet 1 January 2018. Comparative information is not restated. Other IFRS 9 changes, such as new credit loss impairment model, classification and measurement of financial assets and liabilities and hedge accounting, do not have material impact. Regarding IFRS 15, there is no impact to revenue recognition. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact to the Group. As result 2018 and 2017 figures are comparable except for the bond modification costs described above.

Analysis by segment

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
NET SALES					
- Sweden					
Sales, goods	173.2	191.4	337.2	362.6	759.0
Sales, services	0.1	0.1	0.1	0.2	0.3
- Finland					
Sales, goods	179.2	188.6	352.6	364.2	738.2
Sales, services	0.8	1.0	1.7	2.0	4.0
- Denmark					
Sales, goods	38.2	38.0	74.2	74.0	147.8
Sales, services	0.0	0.0	0.0	0.0	0.0
- Baltics					
Sales, goods	41.8	40.3	78.6	77.2	158.5
Sales, services	0.1	0.1	0.1	0.1	0.2
Group total	433.5	459.6	844.5	880.3	1,808.1
EBIT					
- Sweden	1.7	-1.8	0.2	-2.3	5.4
- Finland	-14.1	-0.8	-24.5	-1.8	-16.5
- Denmark	-1.1	-4.8	-1.9	-5.9	-13.9
- Baltics	0.2	1.7	-0.8	2.1	4.4
- Between segments					
Segments total	-13.3	-5.6	-27.1	-8.0	-20.6
Group administration costs	-3.7	-4.9	-8.5	-9.3	-19.7
Group total	-17.0	-10.5	-35.5	-17.3	-40.3
INVESTMENTS					
- Sweden	2.5	2.7	3.8	5.6	13.7
- Finland	3.3	27.3	10.5	45.5	100.4
- Denmark	0.3	0.4	0.3	0.6	1.3
- Baltics	2.3	3.0	4.3	5.4	10.0
Total	8.3	33.3	18.8	57.1	125.5
AVERAGE NUMBER OF EMPLOYEES					
- Sweden			2,136	2,145	2,139
- Finland			2,960	3,026	2,964
- Denmark			632	667	663
- Baltics			1,533	1,529	1,527
Total			7,261	7,367	7,292

Notes to the income statement

1. Items affecting comparability

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	2017
Comparable EBIT	-16.9	-1.2	-35.2	-8.0	-17.6
Termination of employment, Group Management ¹⁾	-	-1.0	-	-1.0	-1.6
Termination of employment, Sweden ¹⁾	-0.1	-2.7	-0.1	-2.7	-2.7
Termination of employment, Sweden ³⁾	-	-0.5	-	-0.5	-0.5
Closing of sales office, Sweden ¹⁾	-	-	-0.2	-	-
Termination of employment, Finland ¹⁾	-	-0.2	-	-0.2	-0.2
Termination of employment, Finland ³⁾	-	-0.3	-	-0.3	-0.3
Impairment of assets, Finland ³⁾ ⁴⁾	-	-0.7	-	-0.7	-4.2
Environmental provision, Finland ²⁾	-	-	-	-	-2.5
Termination of employment, Denmark ¹⁾	-	-0.2	-	-0.2	-0.3
Termination of employment, Denmark ³⁾	-	-0.3	-	-0.3	-0.3
Impairment of assets, Denmark ³⁾ ⁴⁾	-	-3.4	-	-3.4	-10.1
EBIT	-17.0	-10.5	-35.5	-17.3	-40.3

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

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

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

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

Notes to the statement of financial position

2. Changes in intangible assets

EUR million	1-6/2018	1-6/2017	2017
Opening balance	137.2	143.0	143.0
Translation differences	-5.1	-0.8	-2.6
Additions	0.5	0.8	1.7
Additions, business acquisitions	-	-	-
Disposals	-	-	-
Depreciation and impairment	-1.1	-1.1	-7.6
Reclassification between items	2.6	2.3	2.8
Closing balance	134.1	144.1	137.2

3. Changes in tangible assets

EUR million	1-6/2018	1-6/2017	2017
Opening balance	458.2	401.7	401.7
Translation differences	-4.0	-0.1	-1.3
Additions	18.3	56.3	123.9
Additions, business acquisitions	0.0	-	-
Disposals	-0.8	-1.2	-1.4
Depreciation and impairment	-27.0	-29.3	-61.8
Reclassification between items	-2.6	-2.3	-2.8
Closing balance	442.1	424.9	458.2

4. Inventories

EUR million	1-6/2018	1-6/2017	2017
Materials and supplies	72.4	65.9	62.9
Semi-finished products	2.6	3.9	4.3
Finished products	30.9	42.7	36.8
Other inventories	0.2	0.3	0.3
Inventories, advance payments	0.7	0.6	0.7
Biological assets	6.4	6.9	6.8
Total inventories	113.1	120.4	111.8

5. Notes to equity

Share capital and share premium reserve	Number of outstanding shares	Share capital	Share premium reserve	Reserve for invested unrestricted equity	Treasury	Total
1.1.2018	54,017,673	66.8	72.9	143.5	0.0	283.1
30.6.2018	54,034,174	66.8	72.9	143.5	0.0	283.1

Derivative instrument liabilities

EUR million	30.6.2018	30.6.2017	31.12.2017
Nominal values of derivative instruments			
Foreign exchange derivatives	40.1	53.8	41.4
Interest rate derivatives	118.5	121.3	120.6
Electricity derivatives	8.4	5.7	7.4
Fair values of derivative instruments			
Foreign exchange derivatives	0.2	-0.2	-0.1
Interest rate derivatives	-9.3	-11.5	-10.2
Electricity derivatives	4.6	0.0	0.5

Consolidated other contingent liabilities

EUR million	30.6.2018	30.6.2017	31.12.2017
Debts secured by pledges or mortgages			
- loans from financial institutions	-	-	-
On own behalf			
- Mortgages given	-	-	-
- Assets pledged	-	-	-
On behalf of others			
- guarantees and other commitments	15.4	13.2	17.2
Other contingencies			
Leasing commitments	7.2	6.6	7.4
Rent liabilities	44.6	33.1	32.4

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

Derivatives

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

by the market interest rates at the reporting date. The fair value of commodity derivatives is determined by using publicly quoted market prices.

	30.6.2018	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
- Trading securities	-	-	-	-
- Trading derivatives				
- Interest rate swaps	-	-	-	-
- Foreign exchange derivatives	0.2	-	0.2	-
- Commodity derivatives	4.6	-	4.6	-
of which subject to cash flow hedging	4.6	-	4.6	-
Total	4.8	0.0	4.8	0.0
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-9.3	-	-9.3	-
of which subject to cash flow hedging	-9.3	-	-9.3	-
- Foreign exchange derivatives	-0.1	-	-0.1	-
- Commodity derivatives	-	-	-	-
of which subject to cash flow hedging	-	-	-	-
Total	-9.4	0.0	-9.4	0.0

	30.6.2017	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
- Trading securities	-	-	-	-
- Trading derivatives				
- Interest rate swaps	-	-	-	-
- Foreign exchange derivatives	0.1	-	0.1	-
- Commodity derivatives	0.4	-	0.4	-
of which subject to cash flow hedging	0.4	-	0.4	-
Total	0.5	-	0.5	-
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit of loss				
- Trading derivatives				
- Interest rate swaps	-11.5	-	-11.5	-
of which subject to cash flow hedging	-11.5	-	-11.5	-
- Foreign exchange derivatives	-0.2	-	-0.2	-
- Commodity derivatives	-0.4	-	-0.4	-
of which subject to cash flow hedging	-0.4	-	-0.4	-
Total	-12.1	-	-12.1	-

Business transactions with related parties

EUR million	1-6/2018	1-6/2017	2017
Sales to associates	10.4	8.5	17.7
Purchases from associates	16.0	16.3	33.0
Trade and other receivables	2.1	2.1	2.3
Trade and other payables	6.6	6.1	5.8