HKSCAN

Financial Statements Bulletin 2020

HKScan's Financial Statements Bulletin 1 January – 31 December 2020

HKScan's strong profit improvement continued – the 2020 comparable EBIT clearly profitable and the best in five years

January–December 2020

- HKScan's net sales increased by 2.1 per cent to EUR 1,781.0 (1,744.4) million.
- EBIT improved by EUR 44.5 million to EUR 21.3 (-23.2) million.
- Comparable EBIT improved by EUR 19.2 million to EUR 17.0 (-2.2) million.
- Comparable EBIT was HKScan's best result since 2015.
- Retail sales clearly increased due to the Covid-19 pandemic while the food service sales were significantly lower than in the comparison year.
- The pandemic slowed down the company's profit improvement and its impact was strongest in Finland.
- Cash flow from operating activities improved by EUR 4.5 million to EUR 63.7 (59.2) million.
- Interest-bearing net debt was EUR 299.6 (275.8) million and net gearing 91.0 (84.8) per cent. The figures include the investment of EUR 37.7 million in the Vantaa plot.
- The Board of Directors proposes to the Annual General Meeting that no dividends be paid for 2020.

October–December 2020

- HKScan's net sales increased by 2.0 per cent to EUR 472.9 (463.8) million.
- EBIT improved by EUR 24.0 million to EUR 17.5 (-6.5) million.
- Comparable EBIT improved by EUR 6.3 million to EUR 12.1 (5.8) million. This was the best fourth quarter result since 2014.
- Retail sales of HKScan's branded products clearly increased in all the home market areas.
- The negative impact of the pandemic on the EBIT was strongest in Finland and Sweden.
- Cash flow from operating activities weakened by EUR 8.1 million to EUR 40.5 (48.6) million, which was due to the temporary increase in inventories.

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

Outlook 2021

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

Key figures, net sales

(EUR million)	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Net sales	472.9	463.8	1 781.0	1 744.4
Finland	208.9	211.5	772.4	770.6
Sweden	184.6	173.5	662.1	652.1
Baltics	43.0	42.9	175.0	168.5
Denmark	36.4	36.0	171.5	153.3

Key figures, EBIT

(EUR million)	10-12/2020	10-12/2019	1-12/2020	1-12/2019
EBIT	17.5	-6.5	21.3	-23.2
- % of net sales	3.7	-1.4	1.2	-1.3
Comparable EBIT	12.1	5.8	17.0	-2.2
- % of net sales	2.6	1.2	1.0	-0.1
Comparable EBIT, Finland	10.4	2.6	6.0	-1.7
- % of net sales	5.0	1.3	0.8	-0.2
Comparable EBIT, Sweden	7.2	6.3	19.0	12.0
- % of net sales	3.9	3.6	2.9	1.8
Comparable EBIT, Baltics	0.3	1.6	4.0	5.1
- % of net sales	0.6	3.7	2.3	3.0
Comparable EBIT, Denmark	-0.7	-1.0	1.1	-5.3
- % of net sales	-1.8	-2.8	0.6	-3.5

Key figures, other

(EUR million)	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Profit before taxes	15.2	-9.0	12.3	-34.5
- % of net sales	3.2	-1.9	0.7	-2.0
Profit for the period	11.2	-10.6	4.8	-37.5
- % of net sales	2.4	-2.3	0.3	-2.2
EPS, EUR	0.09	-0.12	-0.01	-0.52
Comparable EPS, EUR	0.04	0.00	-0.05	-0.26
Cash flow from operating activities	40.5	48.6	63.7	59.2
Cash flow after investing activities	26.5	41.4	-21.4*	27.6
Return on capital employed (ROCE) before taxes, %			3.9	-3.1
Interest-bearing net debt			299.6	275.8
Net gearing, %			91.0**	84.8

* Includes the investment to the plot of Vantaa EUR 37.7 million.
** Investment to the plot of Vantaa increased the net gearing ratio approximately 10 percentage points.

HKScan's CEO Tero Hemmilä

HKScan has in two years progressed from a serious financial situation to a profitable company. The Turnaround programme, launched to resolve the company's deep financial and operational crisis at the beginning of 2019, proceeded as planned and successfully in 2020. We raised the company's net result for the 2020 financial year to a profit of nearly EUR 5 million. The net result was profitable for the first time since 2015. I am pleased with the company's strong development and result achieved in the very exceptional operating environment. EBIT for 2020 was EUR 21.3 million. In addition to strong business development, EBIT increased through the positive non-recurring items, which mainly resulted from strengthened business operations. Comparable EBIT was EUR 17.0 million, which is over EUR 19 million better than in the comparison year.

Cash flow from operating activities before investments strengthened by almost EUR 5 million from the comparison year, but cash flow after investments remained negative for the whole of 2020. The single most significant reason for this was the purchase of the Vantaa production unit's plot of land as well as a temporary increase in inventories. The purchase of the Vantaa plot of land was made using the right of first refusal and was strategically important for us to ensure the continuity of operations in Vantaa, as the technical and economic lifetime of the production unit extends well beyond ten years. Despite the significant improvement, the company's level of profitability is still, of course, insufficient. Therefore, the situation requires continuous, determined promotion of ongoing development programmes and the full utilisation of new business opportunities.

HKScan's net sales continued to grow. During the past year, we were able to increase the company's net sales by more than 2 per cent to EUR 1,781 million. Growth was seen in all the market areas and in all the key product categories. Net sales growth was particularly strong in Denmark, where our strategy to increase added value progressed well. In all of our home markets, retail sales grew strongly while sales in the food service channel significantly declined due to the Covid-19 pandemic.

As a whole, 2020 was exceptionally demanding as a result of the very serious, ongoing pandemic as well as animal diseases detected in Europe, African swine fever detected in Germany in September and avian flu in Denmark at the end of the year.

In 2020, all HKScan's home market areas, except the Baltics, improved their comparable EBIT. Profit improvement was clear in Finland, Sweden and Denmark. Performance in Sweden and Denmark was also historically strong. In Denmark, comparable EBIT turned profitable after 7 loss-making years. The Baltics showed very strong operational business development. However, due to lower meat market prices in Europe, the fair value of biological assets in the Baltic business decreased significantly, which resulted in lower comparable EBIT than in the comparison year. HKScan's business in Poland has also strengthened, for our production unit mainly focusing on bacon. The production unit has mainly served the company's other home markets, but its external business has strengthened as well, both in export markets and Poland. Financial figures for the Polish unit are reported as part of Sweden's figures.

In the last quarter of 2020, HKScan's EBIT was EUR 17.5 million. Comparable EBIT was EUR 12.1 million, which is over EUR 6 million better than in the comparison period. This was already the ninth consecutive quarterly profit improvement. The quarter was commercially strong, particularly the performance in December. Good control of marketing and administrative costs also supported the development. The continuation of the pandemic increased costs in production. In the last quarter of 2020, all home market areas, with the exception of the Baltics, improved their comparable EBIT from the comparison period. Business development in the Baltics was, however, strong and its weaker result was due to the decrease in the fair value of biological assets.

Our pork exports from Finland to China increased from the comparison year and the volume of exports was in line with our target. Our export to China is an important channel balancing the home market, although its direct impact on profit is still small. In China, demand is forecasted to remain strong although China's own pork production has also shown clear growth. I see China interesting in terms of the exports of other meat types as well. We continue to work closely with the Finnish authorities to obtain export licenses also for poultry and meat products.

Changes in consumer behaviour emphasise the need for renewal in line with our strategy on our journey to a versatile food company. Changes in meat consumption vary between our home markets. In general, we can say that the strong growth in demand for poultry meat is continuing while the consumption of pork and beef has somewhat weakened in our home markets, with the exception of the Baltics. According to our estimate, the consumption of processed meat products has been stable, and even increased during 2020. It is clear that during the pandemic, the appreciation of domestic meat and meat products produced locally has clearly strengthened in relation to similar imported products.

Renewing ways and channels of food production and supply, combined with rapidly growing digitalisation, confirm the need to renew our operations. This change is supported by the company’s Food Solutions unit, which started operations in January 2021. Its goal is to develop new concepts and create added value for the company’s current, strongly product and category driven business.

After the review period in January 2021, we published the Zero Carbon climate plan as part of our responsibility programme. We set ourselves the ambitious goal of being carbon-neutral for our own industrial production by the end of 2025 and for our whole food chain by the end of 2040. Climate work is an integral and important part of HKScan’s business leadership and will play a key role on the top management's agenda.

Our operating environment is exceptionally demanding due to the pandemic and animal diseases detected in some of the European countries. From the spring 2020, we have successfully conducted preventive measures to ensure the health of our personnel, the high quality of our products and the uninterrupted continuity of our operations. This work continues, and we do our utmost to secure the company’s operations and service capability also under the exceptional circumstances.

With the three-year Turnaround programme launched at the beginning of 2019, we have already been able to cumulatively improve the comparable EBIT by over EUR 63 million in two years. The company’s cash flow from operating activities improved cumulatively by EUR 78 million during the same period. With a successful share issue and strong profit improvement of business, our net gearing is at a level that allows a controlled continuation of our Turnaround programme.

We will also continue our assessments related to the company structure and look at the positioning of different market areas as part of the Group’s business operations. In terms of the Vantaa production unit’s plot of land acquired last spring, we aim to expand its ownership base to further develop the area to meet the future needs.

HKScan’s continued profit improvement in 2020 gives the company a solid foundation to continue working in line with the strategy. In the difficult operating environment, the strong cornerstone of our success has been our employees’ attitude and expertise. In the achieved profit improvement, I see the significance and achievements of the strong work of all our employees. We aim to make HKScan an even more interesting, versatile food company that rewards its owners. I want to thank the company’s owners, personnel, customers, contract farmers, financiers and all stakeholders for our very good and profitable collaboration in 2020.

Group net sales and EBIT

October–December

Net sales

HKScan's net sales were EUR 472.9 (463.8) million. Net sales were increased by commercial improvements and good sales seen towards the end of the year as well as clear growth in retail sales as a result of the pandemic. Particularly the increase in sales of branded products through retail channels was strong in all our home market areas. Due to the pandemic, sales through the food service channel were significantly lower than in the comparison period. The recovery in the food service channel, as seen during the third quarter, did not continue during this review period.

HKScan's net sales were at the comparison period level in Finland and the Baltics. In terms of comparable figures, the net sales remained stable in Denmark and increased in Sweden. The positive impact of the exchange rate change of the Swedish krona, i.e., the conversion of net sales made in local currency into euro, on net sales was EUR 6.6 million.

The pandemic continued to affect HKScan's exports. The volume of exports was on the comparison period level. Export volume to China declined clearly.

EBIT

The Group's EBIT improved by EUR 24.0 million to EUR 17.5 (-6.5) million. Comparable EBIT improved by EUR 6.3 million to EUR 12.1 (5.8) million. The effect of the exchange rate change of the Swedish krona on EBIT was EUR 0.3 million positive.

Non-recurring items that affected the EBIT during the period totalled EUR +5.4 million. The comparison period EBIT included non-recurring items amounting to EUR -12.3 million. Items affecting comparability are described in more detail in the Tables section of this report.

EBIT was strengthened by commercial improvements and good sales seen in the end of the year, particularly in Finland and Sweden. Retail sales of HKScan's branded products increased clearly in all home market areas. The impact of exports on the EBIT is minor.

The pandemic weakened the Group's comparable EBIT due to, e.g., higher costs in production. The strongest impact was seen by Business Unit Finland and Business Unit Sweden. The negative impact of the pandemic on Business Unit Sweden was clearly stronger during the review period than earlier in 2020.

January–December

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 in the fourth quarter were EUR -2.7 (-2.5) million and EUR -11.0 (-11.7) million in January-December 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

The Group's investments totalled EUR 14.6 (7.2) million in October−December. Investments for January–December 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 3.4 (2.7) million in October–December and EUR 7.2 (11.3) million in January–December.

In October–December, HKScan's investments in its home market areas were targeted at maintaining the existing capacity and improving productivity. All investments have taken energy, water and other material efficiency into account as a means of systematically reducing the carbon and water footprints.

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.

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.

Business Unit Finland

(EUR million)	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Net sales	208.9	211.5	772.4	770.6
EBIT	15.0	-4.9	10.7	-10.3
- EBIT margin, %	7.2	-2.3	1.4	-1.3
Comparable EBIT	10.4	2.6	6.0	-1.7
- EBIT margin, %	5.0	1.3	0.8	-0.2

October–December

In Finland, net sales totalled EUR 208.9 (211.5) million. Sales increased in retail sales and especially in the company’s own branded products. The growth was driven by the good sales seen in the end of the year. Sales in the food service channel remained clearly lower than in the comparison period due to the Covid-19 pandemic.

EBIT totalled EUR 15.0 (-4.9) million and comparable EBIT was EUR 10.4 (2.6) million. The Finnish poultry business improved its performance from the comparison period, but did not reach the target level. The end of the year was good in meat and processed meat product business, which also improved EBIT. Despite the business improvement, the pandemic had a clear, direct impact on EBIT.

In January 2020, HKScan announced it will invest some EUR 6 million in a new slaughter process in the Rauma poultry unit. The investment will significantly improve raw material yield, productivity and operational reliability while ensuring the capacity needed to respond to the strongly growing demand. Due to the impact of the pandemic, the schedule of equipment deliveries was somewhat delayed from the original. At the end of the year, the implementation of the investment proceeded as planned, and it will be taken into use in the early part of 2021.

January–December

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. Performance of the Finnish poultry business improved from the comparison period, but clearly fell short of the target level. In addition, EBIT improved as a result of the good end of the year seen in meat and processed meat product business. Profit improvement continued in the subsidiaries as well. 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.

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. Items affecting comparability are described in more detail in the Tables section of this report.

Business Unit Sweden

(EUR million)	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Net sales	184.6	173.5	662.1	652.1
EBIT	7.5	2.9	19.1	7.1
- EBIT margin, %	4.1	1.7	2.9	1.1
Comparable EBIT	7.2	6.3	19.0	12.0
- EBIT margin, %	3.9	3.6	2.9	1.8

October–December

In Sweden, net sales totalled EUR 184.6 (173.5) million. Retail sales increased clearly, and particularly strong sales growth was seen in branded products. Sales in the food service channel decreased due to the pandemic.

In terms of comparable figures, net sales increased by 3.9 per cent in local currency. The effect of the exchange rate change of the Swedish krona increased the review period’s net sales by EUR 6.6 million. The transfer of sales responsibility for Danish poultry meat sold in Sweden to Business Unit Denmark in 2019 decreased net sales.

EBIT totalled EUR 7.5 (2.9) million and comparable EBIT was EUR 7.2 (6.3) million. The positive effect of the exchange rate change on EBIT was EUR 0.3 million. EBIT strengthened through commercial improvements and lower administrative costs. Impact of the pandemic on our business in Sweden clearly increased during the review period, which resulted in higher production costs. Consumer demand for domestic meat remained good and there was a shortage of domestic pork and beef in Sweden. This was seen in higher consumer prices.

January–December

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

(EUR million)	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Net sales	43.0	42.9	175.0	168.5
EBIT excluding biological asset revaluation	0.8	0.9	5.7	2.7
Biological asset revaluation	-0.5	0.7	-2.0	2.3
EBIT	0.3	1.6	3.7	5.0
- EBIT margin, %	0.6	3.7	2.1	3.0
Comparable EBIT excluding biological asset revaluation	0.8	0.9	6.1	2.9
Biological asset revaluation	-0.5	0.7	-2.0	2.3
Comparable EBIT	0.3	1.6	4.0	5.1
- EBIT margin, %	0.6	3.7	2.3	3.0

Biological assets are farmed animals in the company's own primary production.

October–December

In the Baltics, net sales totalled EUR 43.0 (42.9) million. Net sales increased through commercial improvements, which was reflected in growth of retail sales and especially in increased sales of branded products. Due to the pandemic, sales in the food service channel remained clearly lower than in the comparison period.

EBIT excluding the change in the fair value of biological assets totalled EUR 0.8 (0.9) million. No non-recurring items were recorded during the review period. EBIT was strengthened by commercial improvements and good control of costs. Declined food service sales weakened the EBIT. The change in the fair value of biological assets in the balance sheet was EUR -0.5 (0.7) million.

January–December

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

(EUR million)	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Net sales	36.4	36.0	171.5	153.3
EBIT	-0.2	-1.0	1.0	-9.8
- EBIT margin, %	-0.4	-2.8	0.6	-6.4
Comparable EBIT	-0.7	-1.0	1.1	-5.3
- EBIT margin, %	-1.8	-2.8	0.6	-3.5

October–December

In Denmark, net sales totalled EUR 36.4 (36.0) million. Net sales grew by well-advanced strengthening of the added value product range and sales growth in the Danish retail and in the Swedish market. Net sales increased also through the transfer of sales responsibility for Danish poultry meat sold in Sweden to Business Unit Denmark in 2019. Avian flu detected on the Danish poultry farm in November clearly weakened net sales, which was due to the restrictions on exports outside the EU.

In Denmark, EBIT showed clear improvement, totalling EUR -0.2 (-1.0) million, and comparable EBIT was EUR -0.7 (-1.0) million. EBIT was strengthened by commercial improvements and by an increase in the added value of the product range. Avian flu found on the Danish poultry farm in November limited product sales to areas outside of the EU and caused price pressure in the EU, which clearly weakened EBIT.

January–December

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. Items affecting comparability are described in more detail in the Tables section of this report.

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. In January-December, 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 75.8 (76.6) in October-December and EUR 315.6 (313.7) million in January-December.

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 • own production (scope 1 & 2) by the end of 2025 • 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 • Scope 3 CO_2e emissions will be reported in the annual report.
Packaging, targets 2025 • 100% recyclable packaging • 20% less plastic • 20% lower carbon footprint	Operations in line with the packaging strategy	• 70% of packaging recyclable • Amount of packaging plastic -7% • 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 • 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 • 100% of animal purchases according to animal sourcing principles • 100% of personnel completed the training on the Code of Conduct	• Principles of responsible procurement • Animal sourcing principles • Personnel training on the compliance of HKScan's policies	• 77 (75)% of suppliers committed to Supplier Guidelines • 100% of animal purchases according to animal sourcing principles • 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 • Zero recalls • Nutritional recommendations considered in the product development	• Compliance with product safety standards • Compliance with product safety processes	• All HKScan's production units certified • 1 (12) product recall
Animal welfare		
• Increasing of animals' natural behaviours • Continuous development of disease protection • Avoidance of painful procedures	• Systematic development of animal welfare together with producers • 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).

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.

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.

Webcast for analysts and media

In connection with its Financial Statements Bulletin 2020, HKScan will hold a webcast in Finnish for analysts, institutional investors and media representatives on 4 February 2021 at 10 am, Finnish time. You can follow the Finnish webcast at: https://hkscan.videosync.fi/2020-q4-tulos.
HKScan's CEO Tero Hemmilä and CFO Jyrki Paappa will present the year 2020 result.

Investor calls in English will be arranged on request. To agree on the date and time, please contact Marjukka Uutela-Hujanen, tel. +358 10 570 6218.

Financial reports

HKScan will publish its 2020 Annual Report in week 11/2021 on the company's website at www.hkcan.com. The Annual Report includes Corporate Responsibility Report as well as Board of Directors' Report and Financial Statements. HKScan's Interim Report January-March 2021 will be published on 6 May 2021.

Turku, 4 February 2021

HKScan Corporation
Board of Directors

For further information

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HKScan's target is to grow into a versatile food company. With over 100 years of experience, we make tasty, healthy and responsibly produced food responding to the needs of consumers and customers. For us at HKScan, responsibility means genuine action throughout the food chain and continuous improvement. As part of our Zero Carbon project, we have set ourselves the goal of a carbon-neutral food chain from farms to consumers by the end of 2040. Our home markets cover Finland, Sweden, the Baltics and Denmark. Some 7,000 HKScan professionals ensure tastier life - today and tomorrow. We make delicious products from trusted raw materials for varied of food moments. Our strong brands are HK®, Kariniemen®, Via®, Scan®, Pärsons®, Rakvere®, Tallegg® and Rose™. In 2020, net sales of the publicly listed HKScan totalled nearly EUR 1.8 billion.

Consolidated Financial Statements 1 January – 31 December 2020

Consolidated income statement

(EUR million)		10-12/2020	10-12/2019	1-12/2020	1-12/2019
Net sales		472.9	463.8	1 781.0	1 744.4
Cost of goods sold	1.	-428.0	-443.2	-1 664.2	-1 668.2
Gross profit		44.9	20.6	116.8	76.2
Other operating items total	1.	-1.4	0.4	1.8	4.9
Sales and marketing costs	1.	-10.8	-10.2	-41.3	-38.5
General administration costs	1.	-15.2	-17.3	-56.0	-65.8
Operating profit		17.5	-6.5	21.3	-23.2
Financial income		0.5	0.5	2.2	2.2
Financial expenses		-3.2	-3.0	-13.2	-13.9
Share of profit/loss in associates and joint ventures		0.4	0.1	1.9	0.4
Profit/loss before taxes		15.2	-9.0	12.3	-34.5
Income tax		-4.0	-1.6	-7.5	-3.0
Profit/loss for the period		11.2	-10.6	4.8	-37.5
Profit/loss for the period attributable to:					
Equity holders of the parent		9.4	-11.5	1.2	-39.9
Non-controlling interests		1.8	0.9	3.6	2.3
Total		11.2	-10.6	4.8	-37.5
Earnings per share calculated on profit attributable to equity holders of the parent:					
EPS, undiluted, continuing operations, EUR/share		0.09	-0.12	-0.01	-0.52
EPS, diluted, continuing operations, EUR/share		0.09	-0.12	-0.01	-0.52

Consolidated statement of comprehensive income

(EUR million)	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Profit/loss for the period	11.2	-10.6	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	4.3	2.4	2.8	-1.6
Cash flow hedging	0.8	-1.1	-1.7	-4.2
Items that will not be reclassified to profit or loss				
Actuarial gains or losses	-0.3	-4.2	-0.3	-4.2
TOTAL OTHER COMPREHENSIVE INCOME	4.7	-2.9	0.8	-10.0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	15.9	-13.6	5.6	-47.5
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:				
Equity holders of the parent	14.1	-14.4	1.9	-49.8
Non-controlling interests	1.8	0.9	3.6	2.3
Total	15.9	-13.6	5.6	-47.5

Consolidated balance sheet

(EUR million)	Note	31 Dec. 2020	31 Dec. 2019
ASSETS			
Intangible assets	2.	148.0	136.4
Tangible assets	3.4	458.7	439.1
Holdings		33.8	32.5
Deferred tax asset	5.	40.9	43.4
Other non-current assets		6.2	3.5
TOTAL NON-CURRENT ASSETS		687.7	654.9
Inventories	6.	119.0	115.5
Current receivables		122.4	127.6
Cash and cash equivalents		46.8	37.5
TOTAL CURRENT ASSETS		288.2	280.6
TOTAL ASSETS		975.9	935.6
EQUITY AND LIABILITIES			
EQUITY		329.1	325.1
Non-current loans, interest-bearing	4.	249.2	262.7
Non-current liabilities, non-interest-bearing		69.1	67.0
TOTAL NON-CURRENT LIABILITIES		318.3	329.8
Current loans, interest-bearing	4.	97.2	50.6
Current liabilities, non-interest-bearing		231.3	230.1
TOTAL CURRENT LIABILITIES		328.5	280.7
TOTAL EQUITY AND LIABILITIES		975.9	935.6

Statement of changes in consolidated equity

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 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 ON 31 Dec. 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**

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2019	**66.8**	**72.9**	**5.1**	**143.5**	**40.0**	**10.3**	**-11.9**	**0.0**	**-17.2**	**309.5**	**15.4**	**325.0**
Result for the financial period	-	-	-	-	-	-	-	-	-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 comprehensive income for the period	**-**	**-**	**-4.2**	**-**	**-**	**-**	**-1.6**	**-**	**-44.1**	**-49.8**	**2.3**	**-47.5**
Direct recognitions	-	-	-	-	-	0.0	-	-	1.0	1.0	-	1.0
Share issue	-	-	-	71.9	-14.1	-	-	-	-3.8	54.0	-	54.0
Purchase of own shares	-	-	-	-	-	-	-	-4.7	-	-4.7	-	-4.7
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-0.6	-0.6
Hybrid loan	-	-	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
EQUITY ON 31 Dec. 2019	**66.8**	**72.9**	**1.0**	**215.4**	**25.9**	**10.3**	**-13.4**	**-4.8**	**-66.2**	**307.9**	**17.2**	**325.1**

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

Cash flow statement

(EUR million)	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Cash flow before change in net working capital	25.6	20.0	78.7	58.3
Change in net working capital	19.8	33.3	-1.3	13.2
Financial items and taxes	-4.9	-4.7	-13.7	-12.2
CASH FLOW FROM OPERATING ACTIVITIES	40.5	48.6	63.7	59.2
Cash flow from investing activities	-13.9	-7.2	-85.1	-31.6
CASH FLOW AFTER INVESTING ACTIVITIES	26.5	41.4	-21.4	27.6
Hybrid loan	-	-	-2.1	-2.1
Share issue	-	-	-	43.7
Share issue costs	-	-	-	-3.0
Change in loans	4.0	-15.0	32.7	-52.0
Purchase of own shares	-	-4.7	-	-4.7
Dividends paid	-	-0.2	-0.7	-0.6
CASH FLOW FROM FINANCING ACTIVITIES	4.0	-19.9	30.0	-18.8
NET CASH FLOW	30.5	21.5	8.6	8.9
Cash and cash equivalents at beginning of period	15.2	16.2	37.5	29.4
Translation differences	1.1	-0.2	0.6	-0.8
Cash and cash equivalents at end of period	46.8	37.5	46.8	37.5

Financial indicators

(EUR million)	31 Dec. 2020	31 Dec. 2019
Earnings per share (EPS), undiluted, EUR	-0.01	-0.52
Earnings per share (EPS), diluted, EUR	-0.01	-0.52
Equity per share, EUR	3.19	3.18
Equity ratio, %	33.7	34.8
Adjusted average number of outstanding shares, mill.	97.0	79.9
Gross capital expenditure on PPE, EUR mill.	83.5	31.7
Additions in right-of-use assets, EUR mill.	7.2	11.3
Depreciation and impairment, EUR mill.	56.7	80.4
Employees, end of month average	7,116	6,928

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

Notes to the consolidated financial statements

Accounting policies

HKScan Corporation's financial statements bulletin for 1 January–31 December 2020 has been prepared in compliance with IAS 34 Interim Financial Reporting standards. The same accounting principles have been applied in the financial statements bulletin as in the annual financial statements for 2019. Due to the rounding of the figures to the nearest million euros in the financial statements bulletin, some totals may not agree with the sum of their constituent parts. Accounting principles are explained in the financial statements for 2019. The financial statements bulletin is unaudited.

Analysis by segment

(EUR million)	10-12/2020	10-12/2019	1-12/2020	1-12/2019
NET SALES				
- Finland				
Sales, goods	208.0	210.7	769.1	767.4
Sales, services	0.9	0.8	3.2	3.1
- Sweden				
Sales, goods	184.6	173.5	662.1	652.1
Sales, services	0.0	0.0	0.0	0.0
- Baltics				
Sales, goods	42.9	42.8	174.6	168.0
Sales, services	0.1	0.1	0.4	0.5
- Denmark				
Sales, goods	36.4	36.0	171.5	153.3
Sales, services	0.0	0.0	0.0	0.0
Group total	472.9	463.8	1 781.0	1 744.4
EBIT				
- Finland	15.0	-4.9	10.7	-10.3
- Sweden	7.5	2.9	19.1	7.1
- Baltics	0.3	1.6	3.7	5.0
- Denmark	-0.2	-1.0	1.0	-9.8
Segments total	22.6	-1.4	34.4	-8.0
Group administration costs	-5.2	-5.1	-13.2	-15.2
Group total	17.5	-6.5	21.3	-23.2
INVESTMENTS				
- Finland				
Gross capital expenditure on PPE	5.9	2.7	54.8	9.7
Additions in right-of-use assets	1.6	2.1	3.0	8.6
Investments total	7.5	4.8	57.8	18.2
- Sweden				
Gross capital expenditure on PPE	5.8	2.1	17.4	8.4
Additions in right-of-use assets	0.7	0.4	1.7	1.9
Investments total	6.5	2.5	19.1	10.4

- Baltics				
Gross capital expenditure on PPE	1.3	1.3	4.9	11.6
Additions in right-of-use assets	0.3	0.1	0.9	0.3
Investments total	1.6	1.5	5.8	11.9
- Denmark				
Gross capital expenditure on PPE	1.6	1.1	6.4	2.0
Additions in right-of-use assets	0.9	0.1	1.6	0.6
Investments total	2.5	1.2	8.0	2.6
Total	18.0	9.9	90.7	43.0
AVERAGE NUMBER OF EMPLOYEES				
- Finland			2 856	2 774
- Sweden			2 111	2 013
- Baltics			1 509	1 512
- Denmark			639	628
Total			7 116	6 928

Notes to the income statement

1. Items affecting comparability

(EUR million)	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Comparable EBIT	**12.1**	**5.8**	**17.0**	**-2.2**
Termination of employment, Sweden 1)	-	-0.5	-	-1.5
Impairment of assets, Finland 2) 3)	3.1	-7.3	3.1	-7.3
Termination of employment, Group Management 1)	-	-0.0	-	-1.6
Termination of employment, Sweden 2)	-	-	-	-0.4
Termination of employment, Finland 1)	-	-	-	-0.8
Termination of employment, Finland 2)	-	-0.2	-	-0.4
Termination of employment, Baltics 1)	-	-	-	-0.1
Termination of employment, Baltics 2)	-	-	-	-0.0
Impairment of assets, Baltics 4)	-	-	-0.3	-
Impairment of assets, Denmark 2) 3)	4.1	-	4.1	-4.5
Impairment of assets, Group Management 1) 3)	-	-1.3	-	-1.3
Impairment of associated company balances, Sweden 1) 2) 4)	0.3	-2.9	0.1	-2.9
Legal dispute and settlement, Denmark 1) 4)	-0.2	-	-0.7	-
Energy tax provision, Denmark 1) 4)	-3.5	-	-3.5	-
Environmental provision, Finland 2)	0.9	-	0.9	-
Gain on sale of property, Finland 2)	0.6	-	0.6	-
EBIT	**17.5**	**-6.5**	**21.3**	**-23.2**

[1)] Included in the Income Statement in the item “General administration and sales and marketing costs”

[2)] Included in the Income Statement in the item “Cost of goods sold”

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

[4)] Included in the Income Statement in the item ”Other operating items total”

Notes to the statement of financial position

2. Changes in intangible assets

(EUR million)	31 Dec. 2020	31 Dec. 2019
Opening balance	136.4	137.5
Translation differences	3.4	-1.6
Additions	5.4	0.7
Disposals	0.0	-
Depreciation and impairment	-4.3	-3.1
Reclassification between items	7.1	2.8
Closing balance	148.0	136.4

3. Changes in tangible assets

(EUR million)	31 Dec. 2020	31 Dec. 2019
Opening balance	439.1	478.5
Translation differences	2.3	-1.2
Additions	85.3	42.3
Disposals	-8.4	-0.3
Depreciation and impairment	-52.5	-77.3
Reclassification between items	-7.1	-2.8
Closing balance	458.7	439.1

4. Right-of-use assets and lease liabilities

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1.1.2020	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	-	-8.0	-7.9
Depreciation for the financial period	-0.4	-4.6	-5.1	-10.1	-
Reclassification between items	-	-	-	-	-
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

(EUR million)	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	-
Payments	-	-	-	-	-11.6
Closing balance on 31 Dec. 2019	10.0	18.7	15.7	44.3	46.3

(EUR million)	10-12/2020	10-12/2019	1-12/2020	1-12/2019
Depreciation expense of right-of-use assets	-2.6	-3.2	-10.1	-11.4
Interest expense on lease liabilities	-0.3	-0.4	-1.2	-1.4
Total amounts recognised in profit or loss	-2.8	-3.5	-11.3	-12.8

5. Deferred tax assets

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 million deferred tax asset was used and recognized as a tax expense in Q4 2020. Unrecognized Finnish deferred tax asset at the end of December 2020 was EUR 16.6 million.

6. Inventories

(EUR million)	31 Dec. 2020	31 Dec. 2019
Materials and supplies	59.8	59.3
Semi-finished products	4.6	4.7
Finished products	47.5	41.8
Other inventories	0.5	0.2
Inventories, advance payments	1.5	1.9
Biological assets	5.2	7.5
Total inventories	119.0	115.5

Derivative instrument liabilities

(EUR million)	31 Dec. 2020	31 Dec. 2019
Nominal values of derivative instruments		
Foreign exchange derivatives	59.2	56.7
Interest rate derivatives	99.9	98.5
Electricity derivatives	13.4	12.9
Fair values of derivative instruments		
Foreign exchange derivatives	-0.3	-0.4
Interest rate derivatives	-3.5	-5.8
Electricity derivatives	-1.5	0.5

Consolidated other contingent liabilities

(EUR million)	31 Dec. 2020	31 Dec. 2019
Debts secured by pledges or mortgages		
- loans from financial institutions	84.3	-
On own behalf		
- Mortgages given	37.7	-
On behalf of others		
- guarantees and other commitments	8.0	7.8
Other contingencies		
Leasing and rental commitments	0.2	0.7

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

Derivatives

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

(EUR million)	31 Dec. 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	-	0.5	**-**
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	-	-5.9	**-**

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

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

Business transactions with related parties

(EUR million)	1-12/2020	1-12/2019
Sales to associates	9.6	17.7
Purchases from associates	34.0	35.5
Trade and other receivables from associates	1.2	1.6
Trade and other payables to associates	2.6	3.0