FINANCIALS 2018

HKSCAN

TABLE OF CONTENTS

REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR 2018

- Net sales were EUR 1 715.4 (1 808.1) million
- EBIT was EUR -49.5 (-40.3) million, and the EBIT margin -2.9 (-2.2) per cent. Comparable EBIT was EUR -47.5 (-17.6) million. The corresponding EBIT margin was -2.8 (-1.0) per cent.
- EPS was EUR -1.00 (-0.79).
- Cash flow before investments was EUR -15.1 (57.8) million and before debt service EUR -107.2 (-49.6) million.
- Net debt was EUR 289.4 (208.2) million and net gearing stood at 88.6 (59.3) per cent. The increase was mainly caused by the Rauma poultry plant investment.
- The challenges related to the Rauma unit ramp-up impacted the Group's comparable EBIT by EUR -35.7 million.
- Outlook for 2019: Global meat consumption is projected to increase during the coming years. Within HKScan's home markets, consumption growth is estimated to be led by poultry and meal categories, while demand in other categories is expected to remain stable. HKScan expects its improvement programmes and other corrective actions to start recording results in 2019.

GROUP OVERVIEW

HKScan's full-year result was disappointing. The implementation of the From Farm to Fork strategy has not yielded the desired change in the company's profitability. Firm actions are now needed to correct the negative development.

The Group's From Farm to Fork strategy is a relevant framework for us. As a part of our annual strategy process, we will update the strategy and re-define our strategic focus areas. The strategy work will start immediately and proceed during the first half of the year.

It is evident that we need to strengthen our foundation based on strong meat industry competences and focus more firmly on leading the meat value chain efficiently. This requires more active management of all parts of the long value chain. These capabilities have somewhat eroded in our company, which has been one factor causing inefficiency and weak financial performance. Once we have corrected these basic issues, we can start shifting our focus towards actions targeting renewal.

To ensure our focus on our customers and consumers we aim to put stronger emphasis on market area level management of the value chain and the product portfolio. Our aim is to operate in a more dynamic and efficient way, closer to our customers. Increasing net sales and improving productivity and cost efficiency will remain our key focus areas when building a more solid foundation for our business.

During the second half of the year, HKScan succeeded in improving further the delivery capability from the Rauma poultry unit, but there were still challenges that strongly burdened the result. There is still plenty of work to be done in order to reach the targeted level of operational efficiency. In the near future, we will further strengthen our focus and level of special expertise needed in Rauma to improve the unit's efficiency and thereby its financial performance.

The group-wide efficiency improvement programme, specified in July 2018 is ongoing. The programme targets EUR 40 million annual savings during the year 2020 and onwards. We expect the most significant savings to stem from improved operational efficiency and reduced administrative costs. Effects of the programme are not showing yet in the 2018 results.

Despite the challenges, HKScan has several important strengths supporting our profitability improvement efforts. We have skilled personnel, strong consumer brands, a large selection of great products and a strong place on the consumer's dinner table. We firmly believe that, together with our personnel, we will be able to improve the company's competitiveness.

The Group's net sales were EUR 1 715.4 (1 808.1) million. Net sales decreased mainly as a result of the weakening of the Swedish krona, the Rauma poultry unit's ramp-up challenges and decreased sales in red meat both in Sweden and Finland. In Denmark, net sales increased slightly from the previous year as a result of boosted export volumes. A small increase in net sales was recorded also in the Baltics.

The Group's comparable EBIT was EUR -47.5 (-17.6) million. It was burdened by the ramp-up costs of the Rauma poultry unit by EUR -35.7 million due to increased production costs, material loss as well as lost sales.

In Sweden, EBIT improved from the previous year despite the weaker Swedish Krona, due to operational efficiency measures and lower administration costs. Denmark's EBIT decreased from the comparison period despite the improvement in operational efficiency and cost control. This was caused by increased raw material costs and changes in sales mix. In the Baltics, EBIT decrease was driven by increased personnel costs and the lowered market price of pork.

During the third quarter, HKScan specified further the content, financial targets and schedule of its ongoing efficiency improvement programme. The goal of the programme is to improve profitability and its full impact will be EUR 40 million in annual savings during the year 2020 and onwards. The programme covers all functions in the company's home markets – Finland, Sweden, Denmark and the Baltics.

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

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

HKSCAN

REVIEW BY MARKET AREA

NET SALES AND EBIT BY MARKET AREA

EUR MILLION	2018	2017
NET SALES		
Sweden	682.1	759.4
Finland	721.9	742.2
Denmark	149.3	147.8
Baltics	162.1	158.7
Group total	**1 715.4**	**1 808.1**
EBIT		
Sweden	8.6	5.4
Finland	-36.6	-16.5
Denmark	-5.9	-13.9
Baltics	-0.7	4.4
Segments total	**-34.6**	**-20.6**
Group administration costs	-14.9	-19.7
Group total	**-49.5**	**-40.3**

ITEMS AFFECTING COMPARABILITY

	2018	2017
Comparable EBIT	**-47.5**	**-17.6**
Personnel costs, Group Management [2)]	-1.2	-
Termination of employment, Group Management [2)]	-	-1.6
Termination of employment, Sweden [2)]	-0.1	-3.2
Closing of sales office, Sweden [3)]	-0.2	-
Termination of employment, Finland [2)]	-	-0.5
Impairment of assets, Finland [1)]	-0 5	-4.2
Environmental provision, Finland [3)]	-	-2.5
Termination of employment, Denmark [2)]	-	-0.6
Impairment of assets, Denmark [1)]	-	-10.1
EBIT	**-49.5**	**-40.3**

1) Included in the Income Statement in the item "Depreciation and amortization"
2) Included in the Income Statement in the item "Employee benefits expenses"
3) Included in the Income Statement in the item "Other operating expenses"

The division of segments is based on the Group's organization and the reporting to the Board of Directors and Management. Management monitors the profitability of business operations by market area. The Group's primary segments are geographical segments: Sweden, Finland, Denmark and the Baltics.

MARKET AREA SWEDEN

Net sales were EUR 682.1 (759.4) million and comparable EBIT was EUR 8.9 (8.6) million. Net sales decreased from the previous year mainly due to the weakened Swedish krona.

Despite good development in processed categories, product sales also decreased slightly in local currency. The hot and dry summer and the resulting barbeque ban lowered the demand in the red meat category. This together with fierce price competition had a negative impact on net sales.

Despite the negative currency effect, Comparable EBIT increased from the comparable period as a result of the operational efficiency measures and lower administration costs.

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

MARKET AREA FINLAND

Net sales were EUR 721.9 (742.2) million and comparable EBIT was EUR -36.1 (-9.3) million. Net sales decreased due to postponed poultry campaigns and ramp-up challenges with the new poultry unit in Rauma. Special measures for improving delivery capability were taken in close cooperation with the customers throughout the year and the overall delivery capability of poultry products increased clearly towards the end of the year.

Total sales in other product groups decreased from the previous year mainly due to lower sales in the red meat category. However, meals and meal components developed well. HKScan's exports from Finland to China commenced and the first deliveries took place in April.

The Rauma plant ramp-up phase started at the end of the third quarter in 2017. Ramp-up challenges decreased the EBIT by EUR -35.7 million due to higher production costs and material losses together with lost sales and market share. Operations in the old Eura unit were closed at the end of the second quarter in 2018. Overall inventory levels were higher compared to the previous year during the entire year.

MARKET AREA DENMARK

Net sales were EUR 149.3 (147.8) million and comparable EBIT was EUR -5.9 (-3.2) million. The increase in net sales was attributed to boosted export volumes, while domestic retail sales decreased slightly due to fierce price competition.

Comparable EBIT decreased from the previous year despite the positive development in operational efficiency and lower administration costs. Branded sales in retail were kept under pressure by fierce price competition, which decreased margins together with increased raw material costs and changes in the sales mix. The share of the fresh chicken category in domestic retail continued its increase compared to the frozen category.

MARKET AREA BALTICS

Net sales were EUR 162.1 (158.7) million and comparable EBIT EUR -0.7 (4.4) million. Net sales were boosted by the continuing good growth in domestic retail sales and improved product mix, which offset the impact of lower slaughter volumes and slaughterhouse strike activities at the Rakvere unit during the first half of the year. The share of novelties increased as well.

Comparable EBIT decreased from the previous year due to increased animal procurement costs together with the low European meat market prices. In addition, increased personnel costs and additional costs from strike activities in the Rakvere unit during February–April eroded the performance.

The change in the fair value of biological assets amounted to EUR -0.7 (0.1) million.

STRATEGY IMPLEMENTATION

HKScan's From Farm to Fork strategy and relating strategic focus areas were launched in August 2017. The five focus areas were defined as: Focus on meat, Leadership in poultry, Continue growing the meals business, Cooperate with our farming community and Drive efficiency and cost-competitiveness. The Group's strategy execution was initiated in autumn 2017, but it has not resulted in the desired profitability.

HKScan's strategy will be updated this year, during the annual strategy process. As part of the process, we will re-define our strategic focus areas. The strategy work will start immediately and proceed during the first half of the year.

It is evident that we need to strengthen our foundation based on strong meat industry competences and focus more firmly on leading the meat value chain efficiently. This requires active management of all processes along the long value chain. These capabilities have somewhat eroded in HKScan, which has been one of the factors causing inefficiency and weak financial performance. Once we have corrected these basic issues, we can start shifting our focus towards actions targeting renewal.

To ensure a full focus on our customers and consumers we aim to put stronger emphasis on market area level management of the value chain and the product portfolio. Our aim is to operate in a more dynamic and efficient way, closer to our customers in local markets. Increasing net sales and improving productivity and cost efficiency will remain our key focus areas when building a more solid foundation for our business.

The Rauma poultry unit investment has had a significant role in the implementation of the current strategy. The unit will enable new, innovative products in the attractive poultry category. In the long run, the unit will also improve HKScan's competitiveness. Regardless of challenges related to the ramp-up phase of the Rauma unit, operations at the old Eura unit were terminated during the second quarter. During the third and fourth quarter, the performance of the Rauma operations developed gradually and delivery capability improved. There is nevertheless plenty of work to do in order to reach the targeted level of operational efficiency.

A programme for improving our operational efficiency was launched in the third quarter of 2017. The programme has been rolled out simultaneously at several production units. HKScan is improving on-site efficiency and developing asset utilisation in its production network with positive results.

The group-wide efficiency improvement programme, specified in July 2018 is ongoing. The programme targets EUR 40 million annual savings during the year 2020 and onwards. We expect the most significant savings to stem from improved operational efficiency and reduced administrative costs. Effects of the programme are not showing yet in the 2018 results.

Together with its farming community, HKScan has launched several strategic initiatives to secure the availability of responsibly produced, domestic, high-quality meat. Examples of these actions comprise pork, poultry and beef products based on completely antibiotic-free rearing, which is among the company's key competitive assets in export markets. During the third quarter, HKScan launched in Finland an education programme targeted for young farmers with an aim to support generation shifts of farming entrepreneurs. HKScan strives to safeguard the long-term competitiveness of sustainable Nordic primary production.

To strengthen the Group's position in the attractive and growing meals business, a decision to invest in the expansion of the Group's meals production capacity in Rakvere, Estonia was made in December 2017. The investment project has proceeded according to plan.

An important milestone in strategy implementation was achieved in April 2018, when HKScan launched pork exports form its Finnish Forssa plant to China. The export activities in China are proceeding well.

The growing demand for sustainably produced, high-quality food will be in the company's focus also in the near future. By stressing quality and sustainability in all its operations, HKScan continues to build a differentiating edge for both the Nordic and international markets.

INVESTMENTS

The Group's gross investments in 2018 came to EUR 41.0 (125.5) million.

Their breakdown by market area was as follows:

EUR MILLION	2018	2017
Sweden	6.4	13.7
Finland	21.9	100.4
Denmark	2.3	1.3
Baltics	10.4	10.0
Total	**41.0**	**125.5**

FINANCING

The Group's interest-bearing debt at the end of the year was EUR 319.0 (259.2) million. Net debt was EUR 289.4 (208.2) million. It increased by EUR 81.2 million from the previous year-end due to ramp-up costs and investment payments of the Rauma poultry plant. The net gearing ratio was 88.6 (59.3) per cent. Cash flow before investments decreased to EUR -15.1 (57.8) million.

The Group's liquidity remained good. Committed credit facilities at the end of the year stood at EUR 100.0 (100.0) million and were entirely undrawn. The EUR 200.0 million commercial paper programme had been drawn to the amount of EUR 35.5 (0.0) million.

During the first quarter, the Group withdrew a new bilateral 4-year term loan (bullet) of EUR 40 million in relation to the Rauma investment. During the third quarter, HKScan issued a EUR 40 million hybrid bond to strengthen the company's capital structure. A hybrid bond is treated as equity in consolidated financial statements prepared in accordance with IFRS. The coupon of the hybrid bond is 8.00 per cent per annum. The hybrid bond does not have a specified maturity date but HKScan is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date, and subsequently, on each annual coupon interest payment date.

Net financial expenses were EUR -9.9 (-6.9) million, including fair value change for interest rate derivatives to the amount of EUR 1.9 (3.2) million. Net financial expenses increased due to the increase in interest-bearing debt.

With IFRS 16 introduction from 1 January 2019 onwards, assets and interest-bearing liabilities will grow by approximately EUR 45 million. With this increase the net gearing at year end 2018 would be approximately 102 per cent.

RESEARCH AND DEVELOPMENT

A total of EUR 8.6 (6.5) million was spent on R&D in 2018, equal to 0.5 (0.4) per cent of net sales.

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

Product development is part of HKScan's Culinary Competence Centre, where teams of R&D, nutrition expertise, chefs and product developers meet. The R&D team cooperates with universities in Sweden and Finland, and HKScan personnel also engage in academic research, e.g. in the field of veterinary sciences. The Group also offers trainee positions for students completing their studies in food and business sciences.

CORPORATE RESPONSIBILITY

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

Corporate Responsibility at HKScan has been described on HKScan's web page. This information is complemented by the Group's 2018 Report of Non-financial Information and the Group's Annual Report 2018, to be published in March 2019.

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

ANNUAL GENERAL MEETING AND BOARD OF DIRECTORS' AUTHORIZATIONS

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

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

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

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

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

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

EXTRAORDINARY GENERAL MEETING

After the reporting period, on 7 January 2019, HKScan published a Notice of the Extraordinary General Meeting that was held on Wednesday, 30 January 2019, in Turku, Finland.

The Extraordinary General Meeting resolved that the number of ordinary members of the Board of Directors would be five (5) and the number of deputy members would be two (2).

Jari Mäkilä, Harri Suutari and Terhi Tuomi were elected as new members of the Board of Directors until the end of the Annual General Meeting 2019, In addition, Ilkka Uusitalo was elected as new deputy Board member until the end of the Annual General Meeting 2019.

Reijo Kiskola and Per Olof Nyman continue as Board members and Carl-Peter Thorwid as a deputy Board member until the end of the Annual General Meeting 2019.

CHANGES IN THE SENIOR MANAGEMENT AND BOARD OF DIRECTORS

On 27 November 2018, HKScan Corporation's Board of Directors elected Board member Reijo Kiskola as its new Chairman. Mikko Nikula left his position as the Chairman of the Board of Directors and as Board member. In connection with the change, President and CEO Jari Latvanen left his position in HKScan.

On 28 November 2018, HKScan announced that Tero Hemmilä, M.Sc. (agr. econ.) had been appointed as HKScan Corporation's new CEO. After the reporting period, on 30 January 2019, HKScan announced that Tero Hemmilä will start working at Company on 4 February 2019.

On 14 December, HKScan announced that the Board members Marko Onnela, Riitta Palomäki and Tuomas Salusjärvi had announced their resignation from HKScan Corporation's Board of Directors.

SHARES AND SHAREHOLDERS

SHARES

At the end of December 2018, HKScan Corporation's share capital stood at EUR 66,820,528. The Corporation's total number of shares issued, 55,026,522, were divided into two share series as follows: A Shares, 49,626,522 (90.19% of the total number of shares) and K Shares, 5,400,000 (9.81%). The A Shares are quoted on Nasdaq Helsinki Oy. The K Shares are held by LSO Osuuskunta (4,735,000 shares) and Lantmännen ek. för. (665,000 shares) and are not listed. There were no changes in the number of shares and in the holdings of LSO Osuuskunta and Lantmännen ek. för.

On 20 April 2018, a total of 16,501 HKScan Corporation's A shares owned by the company were transferred without consideration to the participants of the share-based incentive plan according to its terms. At the end of December 2018, the company held 992,348 (1,008,849) A shares as treasury shares, corresponding to 1.8 per cent of the company's total number of shares, and 0.6 per cent of the total number of votes.

HKScan's calculational market cap at the end of December 2018 stood at EUR 76.7 (169.1) million, breaking down as follows: Series A shares had a market value of EUR 69.1 (152.2) million, and the unlisted Series K shares a calculational value of EUR 7.7 (16.9) million.

In January–December, a total of 11,399,917 (10,426,342) of the company's shares, with a total value of EUR 27,366,358 (33,784,168), were traded. The highest price quoted in the period under review was EUR 3.23 (3.60), and the lowest was EUR 1.29 (2.96). The average price was EUR 2.40 (3.24). At the end of December 2018, the closing price was EUR 1.42 (3.13).

SHAREHOLDERS

At the end of 2018, the shareholders maintained by Euroclear Finland Ltd included 12 376 (12 212) shareholders. Nominee-registered foreign shareholders held 16.1 (18.1) per cent of the company's shares.

TREASURY SHARES

At the end of December 2018, the company held 992,348 (1,008,849) A shares as treasury shares, corresponding to 1.8 per cent of the company's total number of shares, and 0.6 per cent of the total number of votes.

SHARE-BASED LONG-TERM INCENTIVE PLAN

On 7 February 2018, HKScan announced that the Board of Directors of HKScan Corporation approved a share-based long-term incentive plan for the Group's top management and selected key employees for 2018–2020. It comprises a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure.

The first plan (PSP 2018–2020) commenced 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 class A shares of HKScan. Approximately 30 individuals are eligible to participate in PSP 2018–2020.

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

SHAREHOLDING OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

At the end of 2018, members of the Board of Directors and the company's President and CEO and his deputy, as well as their related parties owned a total of 53 229 A Shares, corresponding to 0.1 per cent of the total number of shares and 0.03 per cent of the votes.

OWNERSHIP BREAKDOWN BY AMOUNT OF SHARE ON 31 DECEMBER 2018

NUMBER OF SHARES HELD	SHARE-HOLDERS	SHARE-HOLDERS %	SHARES	SHARES %	VOTES	VOTES %
1–100	3 337	26.96	163 670	0.30	163 670	0.10
101–500	4 425	35.76	1 267 939	2.30	1 267 939	0.80
501–1 000	1 999	16.15	1 568 458	2.85	1 568 458	1.00
1 001–5 000	2 106	17.02	4 755 521	8.64	4 755 521	3.02
5 001–10 000	283	2.29	2 055 561	3.74	2 055 561	1.30
10 001–50 000	178	1.44	3 615 951	6.57	3 615 951	2.29
50 001–100 000	20	0.16	1 420 268	2.58	1 420 268	0.90
100 001–500 000	13	0.11	3 111 134	5.65	3 111 134	1.97
500 001–	15	0.12	36 013 900	65.45	121 038 900	76.79
Total	**12 376**	**100**	**53 972 402**	**98.08**	**138 997 402**	**88.18**
of which nominee registered	10		8 836 616	16.06	8 836 616	5.61
Waiting list	2		925 000	1.68	18 500 000	11.74
General account			129 120	0.24	129 120	0.08
Number of shares issued			55 026 522	100	157 626 522	100

SHARE CAPITAL BY SHARE SERIES 31 DECEMBER 2018

SHARE SERIES	NUMBER OF SHARES	% OF SHARES	% OF VOTES
A shares	49 626 522	90.19	31.48
K shares	5 400 000	9.81	68.52
Total	**55 026 522**	**100**	**100**

OWNERSHIP BREAKDOWN BY SECTOR ON 31 DECEMBER 2018

	SHARE OF OWNERS, %	SHARE OF SHARES, %	SHARE OF VOTES, %
Corporates	3.59	43.12	68.99
Finance and insurance companies	0.21	4.64	6.97
Public entities	0.05	6.45	2.25
Households	95.39	24.52	8.56
Non-profit organizations	0.47	3.13	1.09
Domestic sectors, total	99.70	81.87	87.87
Abroad	0.30	0.16	0.32
All sectors, total	**100**	**82.03**	**88.18**
General account		0.24	0.08

20 LARGEST SHAREHOLDERS ON 31 DECEMBER 2018

		A SHARES	K SHARES	OF TOTAL SHARES, %	OF TOTAL VOTES, %
1	LSO Osuuskunta	14 458 884	4 735 000	34.88	69.25
2	Lantmännen ek. För	2 619 750	665 000	5.97	10.10
3	Nordea Henkivakuutus Suomi Oy	1 500 000		2.73	0.95
4	Keskinäinen työeläkevakuutusyhtiö Elo	1 142 830		2.08	0.73
5	Apteekkien Eläkekassa	1 081 889		1.97	0.69
6	HKScan Oyj	992 348		1.80	0.63
7	Maa- ja metsätaloustuottajain Keskusliitto MTK ry	836 414		1.52	0.53
8	Keskinäinen työeläkevakuutusyhtiö Varma	822 806		1.50	0.52
9	Petter och Margit Forsströmin säätiö Karl ja Olivia Forströmin muistolle	670 500		1.22	0.43
10	Hisinger-Jägerskiöld Eva	650 000		1.18	0.41
11	Suhonen Jyrki	567 003		1.03	0.36
12	Sijoitusrahasto Taaleritehdas Arvo Markka Osake	550 000		1.00	0.35
13	K. Hartwall Invest Oy Ab	500 000		0.91	0.32
14	Valtion Eläkerahasto	500 000		0.91	0.32
15	Hallqvist AB	405 000		0.74	0.26
16	J & K Hämäläinen Oy	277 000		0.50	0.18
17	Gripenberg Jarl kuolinpesä	215 000		0.39	0.14
18	Ab 2011 Fruitgum Company Oy	205 923		0.37	0.13
19	4Capes Oy	175 000		0.32	0.11
20	Hissinger-Jägerskiöld Claes-johan kuolinpesä	150 000		0.27	0.10
	Other shareholders	**21 306 175**	**0**	**38.72**	**13.51**
	Amount of shares total	**49 626 522**	**5 400 000**	**100**	**100**

Source: Euroclear Finland

PERSONNEL

In 2018, HKScan had an average of 7 179 (7 292) personnel.

The average number of employees in each market area was as follows:

	2018	2017
Sweden	2 123	2 139
Finland	2 883	2 964
Denmark	636	663
Baltics	1 538	1 527
Total	**7 179**	**7 292**

Salaries and remunerations to employees, including social costs, totalled EUR 316.7 (328.4) million.

At the end of the second quarter, HKScan published its plan to rationalise and adjust production operations in Finland. During the third quarter, related statutory negotiations covering the company's production and logistics personnel in the Vantaa, Forssa, Mikkeli, Paimio and Outokumpu units were started. After the third quarter, HKScan published the result of the cooperation negotiations. The number of employees would decrease by a total of 165. Additionally, all units within the scope of the negotiations have prepared for location-specific layoffs due to seasonal fluctuations.

During the second quarter and the latter part of the year, Group-wide actions for cascading HKScan's values were taken. Cross-functional workshops were arranged at all HKScan's offices and production units.

SHORT-TERM RISKS AND UNCERTAINTY FACTORS

Potential challenges related to the targeted efficiency improvement of the Rauma unit may impact on the Group's financial performance.

The risks related to impairment of assets or breaching financial covenants under finance agreements will increase and have an effect on the financial position in case the Group is not able to improve its financial performance and strengthen its balance sheet. Breaches of covenants could result in a default of an essential part of loans.

Significant uncertainty factors in HKScan Group's business are also related to sales and raw material prices, as well as management of global and local meat balances. Increased primary production costs put pressure on increasing raw material prices.

Other risks include various unexpected actions potentially taken by tax authorities, other authorities or pressure groups, which may cause restrictions to the business, volatility in demand, or significant increases of taxes or other fees. Public discussion related to meat consumption and climate change may also have an impact on demand.

HKScan is also involved in some juridical proceedings in its home markets. Breaches of business principles and the Group's Code of Conduct are also recognised as operational risks.

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

HKScan's risks are reported in more detail in the risk management section of the Annual Report 2017. The Group's 2018 Report of Non-financial Information and the Group's Annual Report 2018 will be published in March 2019.

CORPORATE GOVERNANCE

HKScan has issued a separate Corporate Governance Statement for the Group. The statement will be published as part of the online Annual Report 2018 on the company's web site www.hkscan.com on week 11/2019.

EVENTS AFTER THE REPORTING PERIOD

After the reporting period, on 30 January 2019, HKScan announced that Tero Hemmilä would start working as the CEO of the Company on 4 February 2019.

OUTLOOK FOR 2019

Global meat consumption is projected to increase during the coming years. Within HKScan's home markets, consumption growth is estimated to be led by poultry and meal categories, while demand in other categories is expected to remain stable. HKScan expects its improvement programmes and other corrective actions to start recording results in 2019.

BOARD OF DIRECTORS' PROPOSAL ON DISTRIBUTION OF PROFIT

The parent company's distributable equity stands at EUR 221.6 (239.3) million including the reserve for invested unrestricted equity, which holds EUR 143.3 (143.2) million. The Board of Directors recommends that the company will not pay a dividend for 2018. Dividend for 2017 was EUR 0.09 per share a total of approximately EUR 4.9 million.

ANNUAL GENERAL MEETING 2019

HKScan's Annual General Meeting will be held on Thursday, 11 April 2019 at 10.00 in Turku, Finland.

To be eligible to attend the Annual General Meeting, shareholders should register by 1 April 2019 in HKScan Corporation's shareholder register maintained by Euroclear Finland Ltd. A notice to the Annual General Meeting will be published at a later date.

NON-FINANCIAL REPORTING

BUSINESS MODEL AND OPERATIONAL IMPACTS

HKScan's business is to sell, market and produce high-quality, responsibly produced pork, beef, poultry and lamb meat, meat products and meals made from them. HKScan is the leading Nordic food company with home markets in Finland, Sweden, Denmark and the Baltics. The company's products are exported to nearly 50 countries.

With production units in all its home markets, HKScan has a significant direct and indirect impact on employment. The company creates economic value as an employer and a tax payer. In 2018, the company employed nearly 7,200 people.

HKScan's operations are based on responsible and efficient management of the entire, long value chain and on value creation throughout the Farm to Fork chain.

Corporate responsibility is an integral part of HKScan's 'From Farm to Fork' strategy. The company is committed to systematic development of responsible business in its strategy and operations. HKScan actively minimizes the social and environmental impacts related to its operations – from the sourcing of raw material to the finished product. Mitigation of environmental impacts throughout the production chain, also at farms, is important to HKScan.

The company's sourcing of meat raw material in Finland, Sweden and Denmark is based on close partnership and collaboration with HKScan's contract producers. In Estonia, the company has its own farms and contract producer partners. HKScan creates economic value for local communities and society also by sourcing live animals from local markets. Additionally, the company has invested in the professional expertise of meat producers and in strengthening business expertise. Also the share of domestic purchases of other services and products is significant.

HKScan's customers include the retail, HoReCa, food industry and export sectors. HKScan engages in collaboration with its customers in sounding out trends, forecasting demand, product development, marketing, corporate responsibility development, and other business development. HKScan includes consumers in its product development work and engages in a dialogue with consumers through, e.g., social media channels and its country-specific consumer service functions. Efficient management of the supply chain plays a key role when the value creation chain is long and the company's end products are fast-moving perishables. Distribution and transportation are also critical to business operations.

SOCIAL RESPONSIBILITY AND EMPLOYEE-RELATED ISSUES

Social responsibility at HKScan covers product quality and safety, health products, responsible and ethical sourcing, safeguarding and promoting the health and wellbeing of personnel and the development of local producer communities. The related operating principles are defined in the quality and product safety policy, the ethical requirements for suppliers, and the human resources policy.

One of the ways in which HKScan developed product quality and product safety in 2018 was through the rollout of a Group-wide allergen management standard in all its production facilities. Additionally, a programme was launched in all HKScan's home markets to proactively prevent counterfeited foods.

According to nutrition recommendations, meat is part of a balanced diet along with vegetables, whole grains and vegetable fats. Nutrition recommendations guide dietary habits of the general population. Also HKScan aims to have a positive impact on public health by developing and offering consumers a variety of products with good nutritional content. Thirteen per cent of product launches integrated a health aspect, for example a reduced amount of fat or sodium, an increase in the amount of vegetables, a smaller portion size, or the introduction of nitrite-free products.

HKScan primarily uses local meat sourced from long-term contract producers or HKScan's own farms. Animal sourcing is based on a separate animal purchasing policy. Animals are slaughtered at HKScan's own slaughterhouses. Sourcing meat locally has a significant economical and social impact on local communities and, more broadly, also on the surrounding society. Nearly 100 per cent of HKScan's live animal sourcing is from local markets. HKScan's other purchases from local markets account for about 70 per cent of total purchases. Goods suppliers are evaluated for product safety, quality, environmental performance, business practices and sourcing process-related criteria. The supplier evaluation process also includes the evaluation of the supplier's social responsibility and ethical risks.

HKScan's responsibilities as an employer include taking care of employee safety and wellbeing, offering a motivating work environment, skills and know-how development, systematic leadership development, and an equal and diverse work environment. In 2018, employee commitment to the company's values was deepened by arranging workshops on values. The results of a survey assessing the realization of values in leadership were utilized in the work. Values are also part of performance management and recruiting, as well as career and job rotation.

A Group-wide process to improve occupational safety was developed in 2018. HKScan's Lost Time Injury (LTI) frequency has been at a high level (LTI 34.7). The goal is to gradually decrease the LTI frequency to LTI 10 by 2020 and to LTI 3 by 2030. HKScan's occupational health and safety management practices are based on Group-wide operating plans and guidelines.

HKScan operates in close collaboration with producers in line with its strategy. HKScan offers its contract producers training and consulting in planning animal feeding, management, animal healthcare, and in planning new production facilities, among other things. Producer services enable and promote the business of producers and wellbeing in rural areas, as well as support local investments, the professional expertise of producers and its development.

POSSIBLE PRODUCT-RELATED QUALITY ISSUES AND FOOD SAFETY RISKS AND THEIR MANAGEMENT

HKScan performs systematic risk assessments to identify and control food safety-related risks at all stages of the value chain. Among other things, the risk assessments focus on the purity of raw materials (foreign substances, residues, harmful microbes), the compliance of packaging materials, the risk of foreign objects in production and raw materials, the use of chemicals, the control of allergenic substances, and especially the microbiological safety of foods. With the globalization of the food chain, food fraud and deliberate sabotage have emerged as central themes alongside other food safety risks. To identify and prevent the risks related to them, HKScan Group has created a separate risk assessment model covering the entire chain.

To control risks, we require all players in our value chain to have a comprehensive food safety management system, and we monitor its implementation with regular audits both in our own facilities and in other production plants in our value chain.

SOURCING-RELATED RISKS AND THEIR MANAGEMENT

In HKScan's risk management, sourcing-related risks involve fluctuations in the availability and prices of raw materials. The decrease in domestic meat production is considered a risk because of the domestic origin promise of HKScan's most significant brands (HK®, Kariniemen® and Scan®). Risks related to raw materials or products sourced from suppliers are managed with strict standards that suppliers must meet. Social risks in the supply chain are managed in the risk evaluations of the sourcing process.

HR-RELATED RISKS AND THEIR MANAGEMENT

HKScan's risk management policy states that the company's success is critically dependent upon the professional competence and expertise of its senior executive management and other personnel as well as the organization's ability to continually improve its existing leadership skills and professional competencies, its ability to secure employee loyalty and commitment, and its success in recruiting skilled workers in the future. HKScan is also vulnerable to risks associated with legal and illegal strikes, both in its value chain and among its own production staff. These risks are mitigated by fostering close collaboration with employees, by facilitating teamwork within the company, and by working to improve employee wellbeing. Risks can also be mitigated by using alternative supply chain structures and processes.

ENVIRONMENTAL RESPONSIBILITY

The focus areas of HKScan's environmental work are the reduction of greenhouse gas emissions, energy efficiency, good management of water consumption and wastewater, material efficiency, recycling and utilization of waste. The company measures its environmental impacts continuously and, in 2018, set Group-wide numerical targets for its environmental responsibility. Environmental work and environmental risks are managed through the ISO 14001, ISO 50001 environmental and energy efficiency systems, or through Group guidelines and processes. The efficiency and success of environmental responsibility is assessed by measuring environmental impacts and by monitoring the results in the Operations' Management Team as well as through internal and external ISO 14001or ISO 50001 audits. HKScan had no serious environmental legislation violations in 2018.

The results of the environmental work are collected manually; the results will be ready in February and will be published as part of the Annual Report in March 2019. The specific measures have targeted the improvement of greenhouse gas emissions, energy, water and material efficiency.

ENVIRONMENTAL RESPONSIBILITY-RELATED RISKS AND THEIR MANAGEMENT

Environmental risks have been identified as part of the ISO 14001 environmental management system, and they are controlled and managed by each production plant. Identified environmental risks include risks related to wastewater and chemical leaks; these risks are being managed with regulatory inspections of equipment condition, preventive maintenance, and alarm and monitoring equipment.

ANIMAL HEALTH AND WELFARE

HKScan's strategic objective is to be the best company in the sector in issues related to animal welfare. This means well-bred and healthy animals as well as high-quality meat raw material. The foundation for animal health and welfare is in compliance with EU and local legislation and with guidelines and practices that are stricter than legislated requirements. Improving animal welfare is an ongoing activity in collaboration with the company's contract producers and other collaboration partners.

In 2018 HKScan defined guidelines for the advancement of animal health and welfare to 2030. HKScan's targets are as follows: enabling natural animal behaviour, avoiding unnecessary stress through housing and animal handling practices, an excellent level of biosecurity, avoiding painful measures, minimal or no use of antibiotics. Additionally, HKScan has defined the company's internal indicators for animal health and welfare.

ANIMAL HEALTH AND WELFARE-RELATED RISKS AND THEIR MANAGEMENT

Animal diseases that spread easily, such as African swine fever, avian flu, Newcastle disease or foot-and-mouth disease, pose a risk to the company's business. Animal disease risks are mitigated by continuous follow-up of animal disease situation, collaboration with authorities, veterinarians and HKScan's producer services and animal producers. Preventing of the most serious contagious diseases is part of national animal disease prevention programmes. At farm level biosecurity and high hygiene standards and procedures are followed.

An outbreak of possible animal disease such as African swine fever, avian influenza, Newcastle disease or foot-and-mouth disease may affect the company's business and demand for its products. For example, export bans between countries may be possible. Animal diseases may have a long-term impact on consumer behaviour, although HKScan believes that consumption usually normalizes within a reasonable period of time after the discovery of an outbreak. The animal disease risk is evened out to some extent by consumption shifting to the company's other meat product groups. In a fully integrated value chain, such as is the case with most of the company's Baltic operations, the discovery of an animal disease may in the worst case scenario temporarily sever the supply of raw materials if no substitute raw material source exists.

RESPECT FOR HUMAN RIGHTS AND PREVENTION OF CORRUPTION AND BRIBERY

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 United Nations Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises.

In 2018 HKScan updated and supplemented its Code of Conduct, which covers human rights, employee rights, ethical business principles, such as the prevention of corruption and bribery, open and credible communications, and responsibility for the environment, animals and product safety. Personnel familiarization with the renewed Code of Conduct was supported through internal communications, and training on the topic will be arranged during 2019. HKScan also requires its suppliers to comply with the Supplier Guidelines.

HKScan uses the Fair Way reporting channel, through which all company stakeholders can anonymously report suspicions of possible unethical activities related to HKScan's operations. This pertains to suspected violations of laws and regulations as well as non-compliance with HKScan's Code of Conduct and other policies. In 2018, 24 reports of possible cases of non-compliance were made via the Fair Way channel. In six of the cases, the investigation was discontinued due to insufficient information, and in two of the cases the investigation is ongoing. Of the investigated cases, sanctions were imposed in three of them for either non-compliance with HKScan's Code of Conduct (two cases), or for the violation of laws or regulations (one case). There were five cases that led to the development of HKScan's processes and operations, and eight cases were determined not to be misconduct or non-compliance. The main emphasis on the reports was on suspected improper behaviour.

RISKS RELATED TO RESPECT FOR HUMAN RIGHTS AND CORRUPTION OR BRIBERY AND THEIR MANAGEMENT

HKScan's risk management has identified risks related to human rights in work safety management and in inappropriate treatment of employees. Work safety risks are managed through work safety campaigns, training, and by ensuring that work guidelines are followed. HKScan has zero tolerance for any kind of inappropriate treatment of employees and has in place guidelines related to inappropriate treatment. Ethical risks in the supply chain are managed in the risk evaluation of the sourcing process.

HKScan's risk management has not identified any risks related to corruption or bribery. The Code of Conduct describes the company's policy on corruption and bribery, and these are monitored in internal audits. Corruption-related risks in the supply chain are managed in the risk evaluation of the sourcing process.

REPORTING PRINCIPLES

The targets, actions and results of the corporate responsibility themes based on HKScan's materiality analysis are reported in the corporate responsibility section of the HKScan 2018 Annual Report. The report is compiled in line with the Global Reporting Initiative GRI standards (2016). This report (Non-financial information) covers the results of the responsibility indicators that were finalized before the signing of the Board of Directors' report.

HKSCAN'S CORPORATE RESPONSIBILITY RELATED KPIS, TARGETS AND 2018 RESULTS

CR THEME	KPI	CORPORATE TARGETS	2018
Safe and healthy products	• Certified sites • Number of recalls • Percentage of product launches with health aspects	• 100% certified sites, food safety management systems • Zero recalls • Enhance positive impact on nutrition and public health	• 100% • Reported in annual report • 13% of product launches with health aspects • Actions reported in annual report
Animal health and welfare	• Internal animal health and welfare KPI's for pigs, broilers, cattle, lamb	Best in class: Well-bred and healthy animals – high meat quality • Natural behaviour enabled • Unnecessary stress avoided by housing and handling practices • Biosecurity at an excellent level • Mitigation of painful procedures • No or minimal use of antibiotic	• Actions reported in annual report
Employees	 • Absentee rate (%) • Lost Time Injury (LTI) frequency rate	• Healthy employees, safe working environment, employee satisfaction • Absentee rate 2018: 5.8 • LTI 2021: 10 • LTI 2030: 3	• Actions reported in annual report • Absentee rate 5.9 • LTI 34.7
Environment	 • GHG emissions • Total energy use • Total water use • Material efficiency - Packaging - Waste - Whole carcass use	• Mitigation of environmental impacts • 90% reduction by 2030 • 20% energy use reduction by 2030 • 25% water use reduction by 2030 • Development towards more sustainable packaging materials and solutions • Follow waste hierarchy principles • Efficient use of animal raw material (carcass) – circular economy approach	• Actions and KPI results reported in annual report
Farming community	• Based on strategic targets	• High-level producer welfare and competence – profitable business • Contribution to national food supply in possible national emergency situations • Keep local countryside alive	• Actions reported in annual report

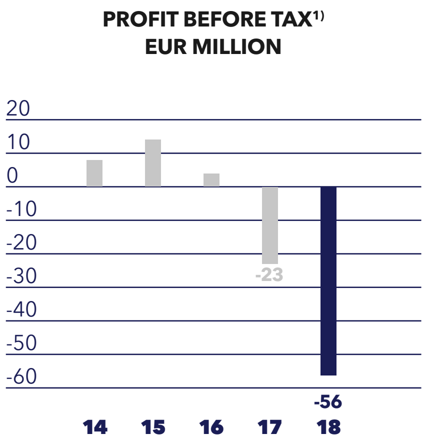
Responsible and ethical sourcing	• Purchase of responsible soy	• 100% responsible soy in Finland and Sweden, Denmark and Estonia postponed	• Actions reported in annual report
	• Purchases from local markets - % of local live animals	• 100% Denmark, Finland, Sweden • 100% Estonia: Poultry, cattle • Pigs: Estonia according to supply demand balance	• 100% Denmark, Finland, Sweden • 100% Estonia: Poultry, cattle • 95% Estonia: pigs
	- % of other materials and services	• Positive local economy impact	• About 70%
	• Purchases from suppliers that comply with HKScan's requirements - % of local live animals	• 100% of animal purchases according to animal sourcing practices	• 100%
	- % of other materials and services	• Supplier Guidelines signed by 100% of suppliers by 2020	• About 70%
		• Avoid ethical risks	
Economic viability of value chain		• Enhance positive impacts in value chain	• Reported in financial statements
	• Operating profit (EBIT)	• Operating profit (EBIT): over 4 per cent of net sales	
	• Return on capital employed (ROCE)	• Return on capital employed (ROCE): over 12 per cent	
	• Net gearing	• Net gearing: under 100 per cent	
	• Dividends (% of net profit)	• Dividends: over 30 per cent of net profit	
Compliance	• No non-compliances in CR themes	• In accordance with laws and regulations	• No serious environmental legislation violations • 24 cases reported to the Fair Way channel • Other cases, if any, reported in annual report

KEY FIGURES

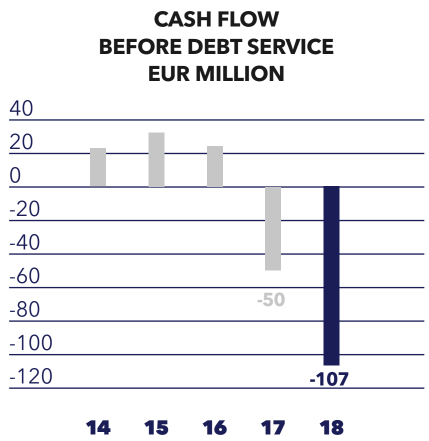
FINANCIAL INDICATORS	2018	2017	2016	2015	2014
Net sales, EUR million	1 715.4	1 808.1	1 872.9	1 917.1	1 988.7
Operating profit/loss (EBIT), EUR million	-49.5	-40.3	9.7	9.6	55.5
% of net sales	-2.9	-2.2	0.5	0.5	2.8
Comparable operating profit/loss, EUR million	-47,5	-17.6	13.2	21.5	12.4
% of net sales	-2.8	-1.0	0.7	1.1	0.6
Profit/loss before taxes, EUR million	-58.3	-45.5	0.9	2.2	51.2
% of net sales	-3.4	-2.5	0.0	0.1	2.6
Return on equity (ROE), %	-15.1	-10.4	-0.9	0.4	13.4
Return on capital employed before taxes (ROCE), %	-7.4	-6.3	2.1	2.3	9.7
Equity ratio, %	35.1	36.9	47.9	50.9	51.5
Net gearing ratio , %	88.6	59.3	33.5	33.8	31.8
Gross investments, EUR million	41.0	125.5	97.6	49.6	48.7
% of net sales	2.4	6.9	5.2	2.6	2.4
R&D expenses, EUR million	8.6	6.5	6.6	5.1	3.7
% of net sales	0.5	0.4	0.4	0.3	0.2
Employees, average	7 179	7 292	7 319	7 437	7 662

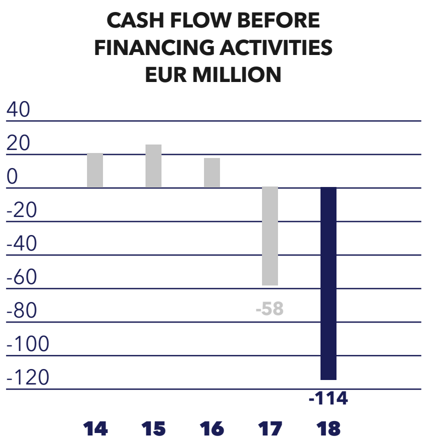
PER SHARE DATA	2018	2017	2016	2015	2014
Earnings per share (EPS), undiluted, EUR	-1.00	-0.79	-0.10	0.01	1.05
Earnings per share (EPS), diluted, EUR	-1.00	-0.79	-0.10	0.01	1.05
Equity per share, EUR	5.76	6.23	7.31	7.63	8.09
Dividend paid per share, EUR	0.00*	0.09	0.16	0.14	0.49
Dividend payout ratio, undiluted, %	0.00*	-11.4	-160.4	2 378.9	46.7
Dividend payout ratio, diluted, %	0.00*	-11.4	-160.4	2 378.9	46.7
Effective dividend yield, %	0.00*	2.9	5.0	3.7	15.0
Price-to-earnings ratio (P/E)					
undiluted	-1.4	-4.0	-32.0	647.4	3.1
diluted	-1.4	-4.0	-32.0	647.4	3.1
Lowest trading price, EUR	1.29	2.96	2.89	3.24	3.12
Highest trading price, EUR	3.23	3.60	3.89	6.26	4.49
Middle price during the period, EUR	2.40	3.24	3.19	5.07	3.74
Share price at the end of the year, EUR	1.42	3.13	3.19	3.81	3.27
Market capitalisation, EUR million	76.7	169.1	172.3	205.6	202.9
Trading volume (1 000)	11 400	10 426	13 313	17 321	13 990
% of the average volume	21.1	19.3	24.7	32.1	25.9
Adjusted number of outstanding shares (1 000)					
average during financial period	54 030	54 018	54 006	53 973	53 973
at the end of financial period	54 034	54 018	54 018	53 973	53 973
fully diluted	54 034	54 018	54 018	53 973	53 973

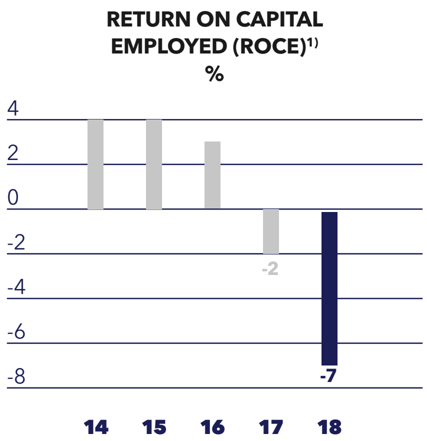
* Based on the Board of Directors' proposal.



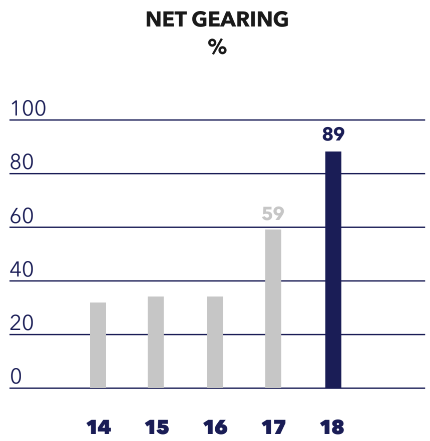
1) Comparable







1) Comparable



CALCULATION OF FINANCIAL INDICATORS

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

Return on equity (%)

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

Return on capital employed

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

Equity ratio (%)

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

Gearing ratio (%)

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

Net gearing ratio (%)

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

Earnings per share*

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

Equity per share

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

Dividend per share

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

Dividend payout ratio (%)

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

Effective dividend yield (%)

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

P/E ratio

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

Market capitalization	The number of outstanding shares at the end of period x the closing price on the last trading day of the financial year
Cash flow before debt service	Cash flow before financing activities and financial items
Employee numbers	Average of workforce figures calculated at the end of calendar months
Items affecting comparability	One-time charges, which are not related to the normal continuing operations and materially affect company's finance. Examples of such expenses are: capacity adjustment (restructuring), redundancy, legal costs relating to restructuring or similar, one-time expenses related to efficiency / reorganization programmes, significant compensations or penalties paid out due to legal verdict or settlement, transaction fees / expenses related to business acquisitions (consultation, advisory, legal, due diligence, registration etc.) and gains/losses of business disposals.
Comparable EBIT	Operating profit – items affecting comparability
Comparable profit before taxes	Profit before taxes – items affecting comparability
Net debt	Interest-bearing debt – cash and bank

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

CONSOLIDATED INCOME STATEMENT FOR 1 JANUARY – 31 DECEMBER

EUR MILLION	NOTE	2018	2017
Net sales	1.	1 715.4	1 808.1
Other operating income	2.	8.4	8.5
Materials and services	3.	-1 211.2	-1 271.3
Employee benefits expenses	4.	-316.7	-328.4
Depreciation and amortisation	5.	-56.7	-69.5
Other operating expenses	6.	-188.6	-187.7
EBIT		**-49.5**	**-40.3**
Financial income	7.	2.0	2.0
Financial expenses	7.	-11.9	-8.9
Share of associates' and joint ventures' results		1.1	1.7
Profit/loss before taxes		**-58.3**	**-45.5**
Income tax	8.	7.1	6.0
Profit/loss for the period		**-51.2**	**-39.5**
Profit/loss for the period attributable to:			
Equity holders of the parent		-52.9	-42.5
Non-controlling interests		1.7	3.0
Total		**-51.2**	**-39.5**
Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS, undiluted, continuing operations, EUR/share	9.	-1.00	-0.79
EPS, diluted, continuing operations, EUR/share	9.	-1.00	-0.79

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 1 JANUARY – 31 DECEMBER

EUR MILLION	2018	2017
Profit/loss for the period	-51.2	-39.5
OTHER COMPREHENSIVE INCOME (after taxes):		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translating foreign operations	-4.0	-2.7
Cash flow hedging	4.2	0.2
Items that will not be reclassified to profit or loss		
Actuarial gains or losses	-6.9	-3.1
Total other comprehensive income	**-6.7**	**-5.6**
Total comprehensive income for the period	**-57.9**	**-45.1**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:		
Equity holders of the parent	-59.6	-48.1
Non-controlling interests	1.7	3.0
Total	**-57.9**	**-45.1**

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

CONSOLIDATED BALANCE SHEET ON 31 DECEMBER

EUR MILLION	NOTE	31 DEC. 2018	31 DEC. 2017
Intangible assets	10.	66.3	64.8
Goodwill	11.	71.2	72.4
Tangible assets	12.	434.2	458.2
Shares in associates and joint ventures	13.	21.1	22.5
Other receivables	14.	2.5	2.8
Other shares and holdings	14.	11.9	12.4
Deferred tax asset	15.	42.9	33.2
Non-current assets		**650.2**	**666.3**
Inventories	16.	121.4	111.8
Trade receivables	17.	115.2	100.1
Other receivables	17.	15.5	23.4
Income tax receivable	17.	0.2	0.2
Cash and bank	18.	29.4	50.9
Current assets		**281.7**	**286.4**
Assets		**931.9**	**952.7**
	19.		
Share capital	19.	66.8	66.8
Share premium reserve	19.	72.9	72.9
Treasury shares	19.	0.0	0.0
Hybrid loan	19.	40.0	-
Fair value reserve and other reserves	19.	158.9	154.8
Translation differences	19.	-11.9	-7.9
Retained earnings		-15.6	50.1
Equity attributable to equity holders of the parent		311.2	336.6
Non-controlling interests		15.4	14.4
Equity		**326.6**	**351.0**
Deferred tax liability	15.	16.9	17.4
Non-current interest-bearing liabilities	22.	242.0	245.1
Non-current non-interest-bearing liabilities	22.	3.5	6.7
Non-current provisions	21.	7.0	7.1
Pension obligations	20.	36.0	27.5
Non-current liabilities		**305.4**	**303.8**
Current interest-bearing liabilities	22.	77.0	14.1
Trade and other payables	22.	215.5	273.4
Refund liabilities	22.	6.7	7.6
Income tax liability	22.	0.1	0.7
Current provisions	21.	0.7	2.1
Current liabilities		**300.0**	**297.8**
Equity and liabilities		**931.9**	**952.7**

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

CONSOLIDATED CASH FLOW STATEMENT

EUR MILLION	2018	2017
Profit/Loss for the period	-51.2	-39.5
Adjustments	58.7	69.5
Cash flow before change in net working capital	7.6	30.0
Change in net working capital	-26.4	22.8
Other changes	3.7	5.1
Interest paid	-11.0	-11.1
Other financial expenses paid	-5.4	-5.1
Interest received	1.7	1.8
Other financial income received	3.8	3.2
Dividends received	3.5	0.6
Income taxes paid	-2.1	-1.5
Cash flow from operating activities (A)	**-24.6**	**45.7**
Total investments	-92.2	-108.7
Total sales of assets	2.3	2.8
Loan receivables, borrowings and repayments	0.1	1.9
Cash flow from investing activities (B)	**-89.8**	**-104.0**
Hybrid loan	39.8	-
Proceeds from external borrowings	136.5	256.8
Repayment of external borrowings	-77.1	-140.6
Payment of finance lease liabilities	-0.7	-0.7
Dividends paid	-5.5	-9.0
Transactions with non-controlling interests	-	-4.5
Cash flow from financing activities (C)	**92.9**	**101.9**
Net cash flow (A+B+C)	**-21.5**	**43.6**
Cash and cash equivalents, end balance	29.4	50.9
Cash and cash equivalents, opening balance	50.9	6.6
Effect of changes in exchange rates	0.1	0.6
Change	**-21.5**	**43.6**

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

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

EUR MILLION	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	RESERVE FOR INVESTED UNRESTRICTED EQUITY (RIUE)	HYBRID LOAN	OTHER RESERVES	TRANSLATION DIFFERENCES	TREASURY SHARES	RETAINED EARNINGS	EQUITY HOLDERS OF THE PARENT	NON-CONTROLLING INTERESTS	TOTAL
EQUITY ON 1 Jan. 2018	66.8	72.9	1.0	143.5	0.0	10.3	-7.9	0.0	50.1	336.6	14.4	351.0
IFRS9 Change in opening balance	-	-	-	-	-	-	-	-	-1.0	-1.0	-	-1.0
Result for the financial period	-	-	-	-	-	-	-	-	-52.9	-52.9	1.7	-51.2
Other comprehensive income (+) / expense (-)												
Translation difference	-	-	-0.1	-	-	-	-4.0	-	-	-4.0	-	-4.0
Cash flow hedging	-	-	4.2	-	-	-	-	-	-	4.2	-	4.2
Actuarial gains or losses	-	-	-	-	-	-	-	-	-6.9	-6.9	-	-6.9
Total comprehensive income for the period	-	-	4.2	-	-	-	-4.0	-	-59.7	-59.6	1.7	-57.9
Direct recognitions	-	-	-	-	-	0.0	-	-	0.1	0.1	-	0.1
Dividend distribution	-	-	-	-	-	-	-	-	-4.9	-4.9	-0.6	-5.5
Hybrid loan, issue	-	-	-	-	40.0	-	-	-	-0.2	39.8	-	39.8
EQUITY ON 31 Dec. 2018	66.8	72.9	5.1	143.5	40.0	10.3	-11.9	0.0	-15.6	311.2	15.4	326.6
EQUITY ON 1 Jan. 2017	66.8	72.9	-9.9	143.5	0.0	10.3	-5.3	0.0	116.5	394.8	14.9	409.7
Opening balance restatement*	-	-	10.7	-	-	-	-	-	-10.7	0.0	-	0.0
Result for the financial period	-	-	-	-	-	-	-	-	-42.5	-42.5	3.0	-39.5
Other comprehensive income (+) / expense (-)												
Translation difference	-	-	-	-	-	-	-2.7	-	-	-2.7	-	-2.7
Cash flow hedging	-	-	0.2	-	-	-	-	-	-	0.2	-	0.2
Actuarial gains or losses	-	-	-	-	-	-	-	-	-3.1	-3.1	-	-3.1
Total comprehensive income for the period	-	-	0.2	-	-	-	-2.7	-	-45.6	-48.1	3.0	-45.1
Direct recognitions	-	-	-	-	-	0.0	-	-	-0.1	0.0	-	0.0
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-1.3	-1.3	-3.2	-4.5
Dividend distribution	-	-	-	-	-	-	-	-	-8.6	-8.6	-0.4	-9.0
EQUITY ON 31 Dec. 2017	66.8	72.9	1.0	143.5	0.0	10.3	-7.9	0.0	50.1	336.6	14.4	351.0

* See restatement from notes.

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

NOTES TO THE FINANCIAL STATEMENTS FOR 2018

BASIC INFORMATION ABOUT THE ENTITY

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

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

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

The Board of Directors of HKScan Corporation approved the publication of these financial statements at its meeting on 5 February 2019. Under the Finnish Companies Act, shareholders may approve or reject the financial statements at the Annual General Meeting held subsequent to their publication. The Annual General Meeting can also modify the financial statements.

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

ACCOUNTING POLICIES

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

BASIS OF PREPARATION

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the IAS standards and SIC and IFRIC interpretations effective on 31 December 2018. 'International Financial Reporting Standards' refers, in the Finnish Accounting Act and in the provisions given thereupon, to the standards approved for application within the EU according to the procedure as established in EU Regulation (EC) No. 1606/2002 and the interpretations thereof. The notes to the financial statements also conform to Finnish accounting and corporate legislation supplementing IFRS requirements.

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

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

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

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

The consolidated financial statements have been prepared in compliance with the same accounting policies as in 2017 except for the adoption of new standards and amending hedge accounting as described below.

The Group has restated hedging reserve derived from interest rate derivatives amounting to EUR -10.7 million into retained earnings on 1 January 2017 as the applicability of hedge accounting has been re-evaluated.
As result change in fair value previously reported in other comprehensive income is reported in profit for the period in financial items. Profit for the period impact after tax for 2017 is EUR 2.9 million and for 2018 EUR 1.5 million. Earnings per share impact for 2017 is EUR 0.05 and for 2018 EUR 0.03.

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has adopted IFRS 9 starting from 1 January 2018. Comparative information has not been restated. The impact from standard change has been recognised in the opening retained earnings.

Classification of financial assets and financial liabilities:
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit and loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see paragraph "financial assets and liabilities". The adoption of IFRS 9 has not had effect on the Group's accounting policies for financial liabilities, except for the bond modification costs described above.

Impairment of financial assets:
IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model. The new impairment model applies to financial assets measured at amortised cost. However, the change has no significant impact on the Group.

Hedge accounting:
The Group has elected to adopt the new hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. However, the change has no impact on the Group.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures. The Group adopted IFRS 15 using the full retrospective method of adoption. However, there is no impact to revenue recognition. For an explanation of how the Group recognises revenue, see paragraph "revenue recognition policies".

COMPARABILITY WITH PREVIOUS YEARS

The years 2018 and 2017 are comparable with each other, except for the bond modification costs described in the previous chapter.

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

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

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

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

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

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

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

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

The Group's share in associates' changes recognised in other items of comprehensive income are recognised in the Group's other items of comprehensive income. The Group's associates have not had any such items during the 2017 – 2018 financial periods.

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

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

FOREIGN CURRENCY TRANSLATION

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

The expected useful lives are as follows:

Buildings and structures	25–50 years
Building machinery and equipment	8–12.5 years
Machinery and equipment	2–10 years

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

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

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

GOVERNMENT GRANTS

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

INTANGIBLE ASSETS

GOODWILL

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

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

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

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

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged as incurred and are included in other operating expenses in the income statement.

OTHER INTANGIBLE RIGHTS AND ASSETS

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

INVENTORIES

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

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

BIOLOGICAL ASSETS

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

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

LEASES

THE GROUP AS LESSEE

Leases applying to property, plant and equipment where the Group assumes a substantial part of the risks and benefits of ownership are classified as finance leases. Items acquired under finance leasing are recognised on the balance sheet at the fair value of the asset leased at the commencement of the lease or at the present value of minimum lease payments, whichever is the lower. Assets acquired under finance leasing are subject to depreciation within the useful life of the asset or the lease period, whichever is the shorter. Lease payments are divided into finance expenses and debt amortisation during the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Variable rents are recognised as expenses in the period during which they are generated. Leasing commitments are included in financial liabilities.

Leases where the lessor retains a substantial part of the risks and benefit of ownership are treated as other leases. Other operating lease payments are treated as rentals and charged to the income statement on a straight-line basis over the lease term.

When a lease includes land and building elements, the classification of each element as a finance lease or an operating lease is assessed separately. When it is necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum up front payments) are allocated in proportion to the relative fair values of the leasehold interests in the land element, and building element of the lease at the inception of the lease.

THE GROUP AS LESSOR

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

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

ARRANGEMENTS THAT MAY INCLUDE A LEASE AGREEMENT

When an arrangement enters into force, the Group uses its factual content to determine whether the arrangement is a lease agreement or whether it includes one. A lease agreement exists if the following conditions are met: the fulfilment of the arrangement depends on the use of a specific asset or assets, and, the arrangement produces a right to use that asset.

If the arrangement includes a lease agreement, the agreement will be governed by the provisions of IAS 17. Other factors in the arrangement will be governed by the provisions of regulating IFRS standards.

EMPLOYEE BENEFITS

PENSION OBLIGATIONS

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

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

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

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

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

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

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

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

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

SHARE-BASED PAYMENTS

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

PROVISIONS

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

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

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

TAXES AND DEFERRED TAXES BASED ON TAXABLE INCOME FOR THE PERIOD

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

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

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

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

REVENUE RECOGNITION POLICIES

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

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

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS – POLICY APPLICABLE AFTER 1 JANUARY 2018

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

Financial assets at amortised cost (debt instruments)
The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade receivables and loan receivables under current and non-current financial assets.

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

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

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

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. For trade receivables, the Group applies a simplified approach in calculating ECLs. The Group recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

FINANCIAL ASSETS – POLICY APPLICABLE BEFORE 1 JANUARY 2018

The Group's financial assets are classified into the following categories: financial assets recognised at fair value through profit or loss, loans and other receivables, and available-for-sale financial assets. The classification is based on the purpose of the acquisition of the financial asset and takes place in conjunction with the original acquisition. Transaction costs are included in the original carrying amount of financial assets in the case of items not measured at fair value through profit or loss. Purchases and sales of financial assets are recognised on the settlement date, except for derivatives and spot transactions, which are recognised according to the transaction date. The transaction date is the date on which the Group commits itself to purchase or sell a financial instrument. The settlement date is the date on which a financial asset is delivered to another party or correspondingly when a financial asset is received. Financial assets are derecognised from the balance sheet when the Group's contractual right to the cash flows has expired or when the risks and rewards of ownership have to a significant degree been transferred outside the Group.

The category of financial assets recognised at fair value through profit or loss, comprises financial assets acquired to be held for trading or designated as such at inception (application of fair value option). The category can be changed only in rare special circumstances. The latter group includes financial assets that are administered on the basis of fair value or financial asset items involving one or more embedded derivatives that significantly change the cash flows of the contract, in which case the whole compound instrument is measured at fair value. Financial assets held for trading purposes have mainly been acquired to obtain a gain from short term changes in market prices. Derivatives that do not satisfy hedge accounting are classified as financial assets or liabilities held for trading. Derivatives held for trading as well as financial assets maturing within 12 months are included in current assets.

The items in the category of financial assets recognised at fair value through profit of loss are measured at fair value, which is based on the market price quoted on the reporting date. In assessing the fair values of non-traded derivatives and other financial instruments, the Group uses generally adopted valuation methods and estimated discounted values of future cash flows. Gains and losses arising from changes in fair value, whether realised or unrealised, are recognised through profit or loss in the financial period in which they arise.

Loans and other receivables are non-derivative assets that have fixed or measurable payments, are not quoted on active markets, and not held for trading by the Group or specifically classified as being available for sale at inception. These are, for example, trade receivables and some other receivables the Group has. They are measured on the basis of amortised cost using the effective interest method and are included on the balance sheet under current or non-current assets as determined by their nature, under the latter if maturing in more than 12 months.

Available-for-sale financial assets consist of assets not belonging to derivative assets, which have been specifically classified in this category or which have not been classified in another category. They are included in non-current assets, except if they are to be held for less than 12 months from the reporting date, in which case they are recorded under current assets. Available-for-sale financial assets can consist of shares and interest-bearing investments. They are measured at fair value or, when the fair value cannot be reliably determined, at cost. The fair value of an investment is determined on the basis of the bid price of the investment. If quoted prices are not available for available-for-sale financial assets, the Group applies various valuation techniques to measure them. These include, for example, recent transactions between independent parties, discounted cash flows or other similar instrument valuations. Information obtained from the market in general, and minimal elements determined by the Group itself, are utilised.

Changes in the fair value of available-for-sale financial assets are recorded in other comprehensive income and reported in the fair value reserve included in equity, Other reserves, taking into consideration the tax impact. Changes in fair value are transferred from equity to the income statement when the investment is sold or if it is subjected to impairment and an impairment loss must be recognised on the investment. Interest income on available-for-sale investments are recognised in financial income using the effective interest method.

At each reporting date, the Group assesses whether there is any objective evidence of the impairment of a financial asset or a group of financial assets.

The Group recognises an impairment loss for trade receivables if evidence exists that the receivable cannot be collected in full. Significant financial difficulties on the part of a debtor, the likelihood of bankruptcy, payment default or a payment delay exceeding 90 days, constitute evidence of the impairment of trade receivables. The impairment loss recognised in the income statement is the difference measured between the carrying amount and the present value of estimated future cash flows of a receivable. If the amount of the impairment loss decreases in a later period, and the decrease can be objectively related to an event subsequent to impairment recognition, the recognised loss is reversed through profit or loss.

CASH AND CASH EQUIVALENTS

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

FINANCIAL LIABILITIES

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

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

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

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

DERIVATIVES AND HEDGE ACCOUNTING

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

CASH FLOW HEDGING

A change in the fair value of the effective portion of derivative instruments that satisfy the conditions for hedging cash flow are recognised under other comprehensive income and reported in the hedging reserve (included in Fair value reserve and other reserves). Gains and losses accrued from the hedging instrument are transferred to the income statement when the hedged item affects profit or loss. The ineffective portion of the hedging instrument's profit or loss is recognised as financial income or expenses (interest rate derivatives) or other operating expenses (commodity derivatives).

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

OTHER HEDGING INSTRUMENTS WHERE HEDGE ACCOUNTING IS NOT APPLIED

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

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

EQUITY

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

DIVIDEND

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

EBIT

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The estimates made in preparation of the financial statements are based on the best judgement of management on the reporting date. The estimates are based on historical experience and assumptions regarding the future seen as most likely on the balance sheet date. Such assumptions are related to the expected development of the Group's financial operating environment in terms of sales and cost levels. The estimations and judgements are reviewed regularly.

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

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

MEASUREMENT TO FAIR VALUE OF ASSETS ACQUIRED IN BUSINESS COMBINATIONS

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

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

IMPAIRMENT TESTING

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

DEFERRED TAX

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

VALUATION OF INVENTORIES

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

APPLICATION OF NEW AND REVISED IFRS NORMS

IASB has published the following new or revised standards and interpretations that the Group has not yet adopted. The Group will adopt these standards as of the effective date of each of the standards, or if the effective date is not the first day of the reporting period, as of the beginning of the next reporting period following the effective date.

IFRS 16, Leases will replace current IAS 17 guidance regarding lease agreements. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. IFRS 16 is effective from 1 January 2019 and Group will adopt it then with full retrospective method. According to IFRS 16 lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months and depreciation of lease assets separately from interest on lease liabilities in the income statement. Less than 12 months agreements and assets of low value are excluded by the Group. The new standard has no significant impact on profit before taxes. Assets and interest-bearing liabilities grow by approximately EUR 45 million at year end 2018. With this increase the net gearing at year end 2018 would be approximately 102 per cent. The standard has been endorsed for application in the EU.

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

1. BUSINESS SEGMENTS

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

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

All the geographical segments manufacture, sell and market meat products, processed meat products and convenience foods.

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

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

YEAR 2018	SWEDISH OPERATIONS	FINNISH OPERATIONS	DANISH OPERATIONS	BALTIC OPERATIONS	BUSINESS SEGMENTS, TOTAL	GROUP ADMINISTRATION	ELIMINATIONS	UN-ALLOCATED	GROUP TOTAL
INCOME STATEMENT INFORMATION									
Net sales	682.1	721.9	149.3	162.1	1 715.4	-	-	-	1 715.4
EBIT	8.6	-36.6	-5.9	-0.7	-34.6	-14.9	-	-	-49.5
Share of associates' results	0.0	0.4	0.6	-	1.1	-	-	-	1.1
Financial income and expenses								-9.9	-9.9
Income taxes								7.1	7.1
Result for the period									**-51.2**
BALANCE SHEET INFORMATION									
Segment assets	251.9	402.1	59.3	142.2	855.5	38.9	-41.0	-	853.3
Shares in associates	3.4	13.2	3.6	-	20.2	1.0	-	-	21.1
Unallocated assets	-	-	-	-	-	-	-	57.5	57.5
Total assets	**255.2**	**415.3**	**62.9**	**142.2**	**875.7**	**39.8**	**-41.0**	**57.5**	**931.9**
Segment liabilities	113.6	98.0	16.7	24.4	252.6	12.3	-7.5	-	257.4
Unallocated liabilities	-	-	-	-	-	-	-	347.9	347.9
Total liabilities	**113.6**	**98.0**	**16.7**	**24.4**	**252.6**	**12.3**	**-7.5**	**347.9**	**605.3**

YEAR 2018	SWEDISH OPERATIONS	FINNISH OPERATIONS	DANISH OPERATIONS	BALTIC OPERATIONS	BUSINESS SEGMENTS, TOTAL	GROUP ADMINISTRATION	ELIMINATIONS	UN-ALLOCATED	GROUP TOTAL
OTHER INFORMATION									
Sales, goods	681.9	718.4	149.3	161.9	1 711.5	-	-	-	1 711.5
Sales, services	0.1	3.5	-	0.3	3.9	-	-	-	3.9
Investments	6.4	18.5	2.3	10.4	37.6	3.4	-	-	41.0
Depreciation and amortisation	-9.9	-28.7	-7.4	-9.8	-55.8	-0.5	-	-	-56.3
Impairment	-	-0.5	-	-	-0.5	-	-	-	-0.5
Goodwill	29.2	19.8	-	22.2	71.2	-	-	-	71.2
Cash flow before debt service	1.9	-91.2	-0.7	1.3	-88.7	-18.5	-	-	-107.2

Cash flow before debt service reconciliation, Group total	
Cash flow from operating activities	-24.6
Financial items (-)	7.4
Cash flow from investing activities	-89.8
Loan receivables Borrowings and repayments (-)	-0.1
Cash flow before debt service	**-107.2**

YEAR 2017	SWEDISH OPERATIONS	FINNISH OPERATIONS	DANISH OPERATIONS	BALTIC OPERATIONS	BUSINESS SEGMENTS, TOTAL	GROUP ADMINISTRATION	ELIMINATIONS	UN-ALLOCATED	GROUP TOTAL
INCOME STATEMENT INFORMATION									
Net sales	759.4	742.2	147.8	158.7	1 808.1	-	-	-	1 808.1
EBIT	5.4	-16.5	-13.9	4.4	-20.6	-19.7	-	-	-40.3
Share of associates' results	-0.2	2.4	-0.5	-	1.7	-	-	-	1.7
Financial income and expenses								-6.9	-6.9
Income taxes								6.0	6.0
Result for the period									**-39.5**
BALANCE SHEET INFORMATION									
Segment assets	239.4	404.4	66.7	141.2	851.7	62.4	-32.5	-	881.6
Shares in associates	3.8	15.5	3.2	-	22.5	-	-	-	22.5
Unallocated assets	-	-	-	-	-	-	-	48.6	48.6
Total assets	**243.1**	**420.0**	**69.9**	**141.2**	**874.2**	**62.4**	**-32.5**	**48.6**	**952.7**
Segment liabilities	106.8	154.8	17.6	20.8	300.0	13.5	-7.1	-	306.3
Unallocated liabilities	-	-	-	-	-	-	-	295.3	295.3
Total liabilities	**106.8**	**154.8**	**17.6**	**20.8**	**300.0**	**13.5**	**-7.1**	**295.3**	**601.6**
OTHER INFORMATION									
Sales, goods	759.0	738.2	147.8	158.5	1 803.5	-	-	-	1 803.5
Sales, services	0.3	4.0	-	0.2	4.5	-	-	-	4.5
Investments	13.7	96.9	1.3	10.0	122.0	3.5	-	-	125.5
Depreciation and amortisation	-11.2	-24.8	-8.9	-9.4	-54.3	-0.9	-	-	-55.2
Impairment	-	-4.2	-10.1	-	-14.3	-	-	-	-14.3
Goodwill	30.4	19.8	0.0	22.2	72.4	-	-	-	72.4
Cash flow before debt service	18.1	-56.0	0.8	4.4	-32.6	-17.0	-	-	-49.6
Cash flow before debt service reconciliation, Group total									
Cash flow from operating activities									45.7
Financial items (-)									10.6
Cash flow from investing activities									-104.0
Loan receivables Borrowings and repayments (-)									-1.9
Cash flow before debt service									**-49.6**

2. OTHER OPERATING INCOME

	2018	2017
Rental income	1.3	1.3
Gain on disposal of non-current assets	0.8	0.5
Exchange rate gains related to foreign exchange derivatives	0.8	1.4
Insurance compensation	0.1	0.0
Government grants	0.0	0.0
Other operating income	5.5	5.2
Other operating income	**8.4**	**8.5**

3. MATERIALS AND SERVICES

	2018	2017
Purchases during the financial period	-1 067.2	-1 114.8
Increase/decrease in inventories	8.1	-3.2
Work performed for own use and capitalised	0.0	0.0
Materials and supplies	**-1 059.1**	**-1 118.0**
External services	-152.1	-153.3
Materials and services	**-1 211.2**	**-1 271.3**

4. EMPLOYEE BENEFIT EXPENSES

	2018	2017
Salaries and fees	-245.9	-254.8
Share-based payments	0.0	0.0
Pension expenses, defined contribution plans	-27.2	-28.4
Pension expenses, defined benefit plans	-2.2	-2.2
Total pension expenses	-29.5	-30.5
Other social expenses	-41.3	-43.1
Employee benefit expenses	**-316.7**	**-328.4**
Key management personnel compensation:		
Short-term employee benefits	-3.3	-3.1
Post-employment benefits	-0.5	-0.4
Termination benefits	-1.1	-0.7
Share-based payments	0.0	0.0
Key management salaries, fees and benefits	**-4.9**	**-4.2**
Average number of employees during financial year		
Clerical employees	1 264	1 302
Workers	5 915	5 990
Total	**7 179**	**7 292**

MEMBERS OF BOARD OF DIRECTORS:	SALARIES AND FEES	POST-EMPLOYMENT BENEFITS
Mikko Nikula, Chairman until 27.11.2018	0.099	-
Reijo Kiskola, starting from 12.4.2018, Chairman starting from 27.11.2018	0.038	-
Marko Onnela, Debuty Chairman, until 14.12.2018	0.051	-
Pirjo Väliaho, until 12.4.2018	0.015	-
Per Olof Nyman	0.043	-
Riitta Palomäki, until 14.12.2018	0.047	-
Tuomas Salusjärvi, until 14.12.2018	0.039	-
Jari Mäkilä	0.025	-
Veikko Kemppi, until 12.4.2018	0.007	-
Carl-Peter Thorwid	0.027	-
Total	**0.392**	**-**
CEO		
Jari Latvanen and Reijo Kiskola	0.805	0.183
Termination benefits	1.139	

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

SHARE-BASED PAYMENTS

Performance Share Plan 2013

The Board of Directors of HKScan Corporation has on 19 December 2012 approved a new share-based incentive plan, Performance Share Plan 2013, as a part of the incentive and commitment program for the Group key employees. The new Plan includes three one-year performance periods, calendar years 2013, 2014 and 2015, from which the key employees can earn HKScan series A shares based on achieving the set targets. The Board of Directors of the Company will decide on the performance criteria and their targets for a performance period at the beginning of each performance period. Furthermore, the new Plan includes one three-year performance period, calendar years 2013-2015. The prerequisite for receiving reward on the basis of this performance period is that a key employee previously owns or acquires the Company´s series A shares up to the number determined by the Board of Directors.

The potential reward from the performance period 2015 will be based on the HKScan Group´s Earnings per Share (EPS) and Return on Capital Employed (ROCE).
The possible rewards from the performance 2015 will be paid in 2018 partly in the HKScan series A shares and partly in cash. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. In general, no reward will be paid, if the key employee's employment or service ends before reward payment. A total of 16 501 shares were delivered to participants in performance period 2015. In addition, a cash portion was paid to cover taxes and tax related costs.

LTI Bridge Plan 2017-2019

On 10 April 2017, HKScan announced that the Board of Directors had approved a share-based incentive plan for the Group's key personnel for the year 2017. The new plan covers one performance period, year 2017. The potential reward from the performance period will be based on the HKScan Group´s Return on Capital Employed (ROCE) and Earnings per Share (EPS).

Rewards from the performance period will be paid partly in the Company's A series shares and partly in cash as follows: 50 per cent pay-out in 2018 and 50 per cent pay-out in 2019. The cash proportion is intended to cover taxes and tax-related costs arising from the rewards to the key personnel. No reward will be paid, if the key employee's employment or service ends before reward payment.

The plan is directed to 28 people. The rewards to be paid on basis of the performance period are a maximum approximate total of 743 000 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs.

No rewards will be paid from performance period 2017 since the performance criteria targets were not achieved.

Long-term incentive scheme 2018-2020

On 7 February 2018, HKScan announced that the Board of Directors had approved a share-based incentive scheme for the Group's key management. It comprises a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure. Each Plan covers a three-year period. The earning opportunity of the participants within these programs is capped. If the end value of the class A share of HKScan within the individual three-year plan exceeds three times its start value, the exceeding value of the reward will be cut and will not be paid

PSP 2018-2020

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

The plan is directed to approximately 30 people. The rewards to be paid on basis of the performance period are a maximum approximate total of 910 400 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs.

RSP 2018-2020

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

The plan is directed to approximately 11 people. The rewards to be paid on basis of the performance period are a maximum approximate total of 44 200 HKScan Corporation series A shares, including the cash payment for taxes and tax-related costs.

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

SHARE-BASED INCENTIVES DURING THE REPORTING PERIOD 1 JAN. 2018 – 31 DEC. 2018

PLAN

INSTRUMENT	PSP 2018-2020	RSP 2018-2020	PLAN 2017-2019, 2018 DELIVERY	PLAN 2017-2019, 2019 DELIVERY	PERFORMANCE PERIOD 2015	TOTAL
Initial amount, pcs	910 400	44 200	371 500	371 500	451 000	2 148 600
Initial allocation date	5 March 2018	5 March 2018	8 June 2017	8 June 2017	10 Feb. 2015	
Vesting date / payment approximately	31 March 2021	31 March 2021	30 June 2018	31 March 2019	30 Apr. 2018	
Maximum contractual life, yrs	3.0	3.0	1.0	1.8	3.2	2.4
Remaining contractual life, yrs	2.3	2.3	0.0	0.0	0.0	2.3
Vesting conditions	EBIT (50%) EPS (50%) Employment precondition	ROCE Employment precondition	ROCE (70%) EPS (30%) Employment precondition	ROCE (70%) EPS (30%) Employment precondition	EPS (70%) ROCE-% (30%) Employment precondition	
Number of persons at the end of the reporting year	27	10	-	-	-	
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity	

CHANGES DURING THE PERIOD 2018	PSP 2018-2020	RSP 2018-2020	PLAN 2017-2019, 2018 DELIVERY	PLAN 2017-2019, 2019 DELIVERY	PERFORMANCE PERIOD 2015	TOTAL
1 Jan. 2018						
Outstanding at the beginning of the reporting period, pcs	0	0	278 500	278 500	24 971	581 971
Changes during the period						
Granted	845 600	44 200	0	0	0	889 800
Forfeited	127 500	10 600	0	0	3 530	141 630
Excercised	0	0	0	0	21 441	21 441
Expired	0	0	278 500	278 500	0	557 000
31 Dec. 2018						
Outstanding at the end of the period	718 100	33 600	0	0	0	751 700

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

VALUATION PARAMETERS FOR INSTRUMENTS GRANTED DURING PERIOD	
Share price at grant, euros	3.16
Share price at reporting period end, euros	1.42
Maturity, years	3.0
Expected dividends (unless they are compensated), euros	0.39
Fair value at grant, euros	2 469 225
Fair value 31 Dec. 2018, euros	0

EFFECT OF SHARE-BASED INCENTIVES ON THE RESULT AND FINANCIAL POSITION DURING THE PERIOD	
Expenses for the financial year, share-based payments, euros	-2 818
Expenses for the financial year, share-based payments, equity-settled, euros	-3 903
Liabilities arising from share-based payments 31 Dec. 2018, euros	
Estimated amount of cash to be paid to the tax authorities under the plans which have not yet been delivered	0

5. DEPRECIATION AND IMPAIRMENT

	2018	2017
Depreciation according to plan	-56.3	-55.2
Impairment	-0.5	-14.3
Total	**-56.7**	**-69.5**

6. OTHER OPERATING EXPENSES

	2018	2017
Rents/leases	-13.8	-13.9
Losses on disposal of non-current assets	-0.1	-0.1
R&D costs	-8.6	-6.5
Non-statutory staff costs	-11.4	-8.9
Energy	-38.5	-37.7
Maintenance	-41.3	-39.4
Advertising, marketing and entertainment costs	-18.3	-20.6
Service, information management and office costs	-27.4	-29.0
Exchange rate losses related to foreign exchange derivatives	-1.1	-0.7
Other expenses	-28.0	-31.0
Total other operating expenses	**-188.6**	**-187.7**

AUDIT FEES

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

	2018	2017
Audit fees	-0.5	-0.5
Tax consultation	0.0	0.0
Other fees	0.0	-0.8
Audit fees, total	**-0.5**	**-1.3**

Ernst & Young Oy was paid from non-audit services to entities of HKScan in total 4 thousand euros during the financial year 2018.

7. FINANCIAL INCOME AND EXPENSES

FINANCIAL INCOME	2018	2017
Dividend income	0.3	0.1
Interest income		
Interest income from loans and receivables	1.7	1.8
Interest income from interest derivatives	-	-
Other financial income	0.1	0.0
Total	**2.0**	**2.0**
Financial expenses		
Interest expenses		
Interest expenses from other liabilities at amortised cost	-8.2	-6.4
Interest expenses from interest derivatives	-3.2	-3.4
Other financial expenses		
Change in fair value of interest rate derivatives	2.0	3.2
Impairment losses on loan receivables	-	-
Other financial expenses	-2.2	-1.9
Exchange gains and losses from loans and other receivables	-1.3	-0.3
Exchange gains and losses from derivative instruments	1.0	-0.1
Total	**-11.9**	**-8.9**
Total financial income and expenses	**-9.9**	**-6.9**

8. INCOME TAXES

INCOME TAXES	2018	2017
Income tax on ordinary operations	-1.6	-1.9
Tax for previous financial periods	0.0	0.0
Change in deferred tax liabilities and assets	8.7	7.9
Income tax on ordinary operations	**7.1**	**6.0**
Cumulative tax rate reconciliation		
Accounting profit/loss before taxes	-58.3	-45.5
Deferred tax at parent company's tax rate	11.7	9.1
Effect of different tax rates applied to foreign subsidiaries	-0.6	0.7
Share of associates' results	0.2	0.3
Tax-exempt income	0.1	0.0
Non-deductible expenses	-0.4	-1.2
Unrecognised tax on the losses for the financial period	-4.3	-3.3
Tax for previous financial periods	0.0	0.0
Adjustments concerning previous financial periods	0.0	0.0
Effect of change in tax rate	0.5	0.4
Tax expenses in the income statement	**7.1**	**6.0**

9. EARNINGS PER SHARE

	2018	2017
Profit for the period attributable to equity holders of the parent	-52.9	-42.5
Hybrid loan issue costs and calculational interest	-0.9	-
Total	**-53.8**	**-42.5**
Weighted average number of outstanding shares in thousands	54 030	54 018
Weighted average number of outstanding shares adjusted for dilution effect	54 030	54 018
Undiluted earnings per share (EUR/share)	-1.00	-0.79
Earnings per share adjusted for dilution effect (EUR/share)	-1.00	-0.79

10. INTANGIBLE ASSETS

	2018	2017
Opening balance, cumulative acq cost	96.5	94.0
Translation differences	-2.4	-1.9
Additions	0.1	1.7
Disposals	-3.9	0.0
Reclassification between items	6.1	2.8
Closing balance, cumulative acq cost	96.5	96.5
Opening balance, cumulative depreciations	-31.8	-28.0
Translation differences	0.1	0.2
Accumulated depreciation on disposals and reclassifications	3.9	0.0
Depreciation for the financial period	-2.4	-2.3
Impairment losses	-	-1.7
Closing balance, cumulative depreciations	-30.2	-31.8
Intangible assets on 31 Dec.	**66.3**	**64.8**

The trademarks included in the Swedish business operations, carrying amount EUR 53.2 (55.4) million, are tested for impairment each year. The Group has estimated that their useful life is unlimited. These are well known trademarks with a long history, high business and profitability impact and it is expected to be so also in the future. An impairment test is made on the segment level and it covers all the segment's assets, see detailed description in note 11. Remaining balance includes IT-software, other trademarks and connection fees.

11. GOODWILL

	2018	2017
Opening balance	72.4	77.0
Translation differences	-1.2	-0.9
Depreciation and impairment	-	-3.6
Closing balance	**71.2**	**72.4**

ALLOCATION OF GOODWILL

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

SPECIFICATION OF GOODWILL	2018	2017
Finland	19.8	19.8
Sweden	29.2	30.4
Denmark	-	-
Baltics	22.2	22.2
Total	**71.2**	**72.4**

IMPAIRMENT TESTING

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

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

In impairment testing all the CGU's assets are tested against the recoverable amounts in the future. The recoverable amounts of the CGUs' are based on value-in-use calculations. The cash flow estimates employed are based on historical performance. For Finland the cash flows in testing have been reduced from last year due to prolonged challenges in the Rauma factory ramp up. For Denmark the cash flows in testing have been estimated with the assumption that EBIT will breakeven in 2020. The cash flow for terminal period is extrapolated using a cautious growth factor (1.0 per cent). The growth factors of the CGUs for the period following the forecast period do not exceed the long-term historical growth of the CGUs.

The interest rate has been defined as the weighted average cost of capital (WACC). Calculation of the interest rate is based on market information on companies operating in the same field (control group). In addition, the risks in each market area have been taken into account in the calculation. The higher risk related in the Finnish and Danish operations are reflected in the discount factor of the CGU. The interest rates used are 6.6 (4.7) per cent in Sweden, 6.3 (4.4) per cent in Finland, 6.0 (4.3) per cent in Denmark and 6.5 (4.7) per cent in the Baltic countries.

The sensitivity of each CGU to impairment is tested by varying the discount rate and future cash flow before debt service. Based on the sensitivity analyses conducted, an increase of 1 percentage point in WACC would result in impairment amounting to EUR 23 million in Finland, EUR 6 million in Denmark and EUR 9 million in the Baltics. If the cash flow in testing would be 10 % smaller, impairment loss amounting to EUR 2 million in Finland, EUR 4 million in Denmark and EUR 4 million in the Baltics would have to be booked. Following discount rate increases in percentage points would not cause any impairment, provided that other factors remained unchanged: Sweden 4.1, Finland 0.6, Denmark 0.0, the Baltics 0.5. Recoverable amounts in testing exceeded the assets values by EUR 34 million in Finland, EUR 0 million in Denmark and EUR 9 million in the Baltics.

The following table presents cash flow before debt service used in testing.

	2015	2016	2017	2018	2019	2020	2021	TERMINAL
Sweden	20.4	8.2	18.1	1.9	10.1	11.8	11.8	16.3
Finland	16.0	25.9	-56.0	-91.2	18.2	18.6	16.3	16.4
Denmark	-2.1	-0.8	0.8	-0.7	3.2	2.3	2.1	2.0
Baltics	8.0	6.7	4.4	1.3	2.3	10.6	8.9	5.5

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

The annual impairment testing performed in 2018 did not result in recognition of impairment loss. The annual impairment testing performed in 2017 resulted in recognition of impairment loss in Denmark.

12. TANGIBLE ASSETS

TANGIBLE ASSETS 2018	LAND AND WATER	BUILDINGS AND STRUCTURES	MACHINERY AND EQUIPMENT	OTHER PROPERTY, PLANT AND EQUIPMENT	PRE-PAYMENTS AND WORK IN PROGRESS	TOTAL
Opening balance, cumulative acq cost	10.6	524.3	722.8	18.2	29.9	1 305.8
Translation differences	-0.1	-3.5	-7.8	0.0	-0.4	-11.7
Additions	-	1.9	12.4	1.5	25.0	40.8
Disposals	-0.3	-0.3	-0.9	-0.5	-0.2	-2.2
Reclassification between items	0.4	3.6	19.1	0.2	-29.4	-6.1
Closing balance, cumulative acq cost	10.6	526.1	745.6	19.4	25.0	1 326.6
Opening balance, cumulative depreciations	0.0	-304.2	-528.5	-14.9	-	-847.6
Translation differences	-	2.9	6.0	0.0	-	8.9
Accumulated depreciation on disposals and reclassifications	-	0.3	0.6	-0.3	-	0.6
Depreciation for the financial period	-	-14.1	-38.7	-1.0	-	-53.9
Impairment losses	-	-	-0.4	-	-	-0.4
Closing balance, cumulative depreciations	0.0	-315.1	-561.0	-16.2	-	-892.4
Tangible assets on 31 Dec. 2018	**10.6**	**211.0**	**184.5**	**3.2**	**25.0**	**434.2**

TANGIBLE ASSETS 2017	LAND AND WATER	BUILDINGS AND STRUCTURES	MACHINERY AND EQUIPMENT	OTHER PROPERTY, PLANT AND EQUIPMENT	PRE-PAYMENTS AND WORK IN PROGRESS	TOTAL
Opening balance, cumulative acq cost	10.8	466.4	627.3	16.8	74.3	1 195.6
Translation differences	-0.1	-1.8	-4.6	0.0	-0.3	-6.7
Additions	0.0	31.3	56.0	1.8	34.7	123.9
Disposals	-0.2	-0.1	-2.9	-0.8	0.0	-4.0
Reclassification between items	0.0	28.5	47.0	0.4	-78.8	-3.0
Closing balance, cumulative acq cost	10.6	524.3	722.8	18.2	29.9	1 305.8
Opening balance, cumulative depreciations	0.0	-289.5	-490.5	-14.0	-	-793.9
Translation differences	-	1.9	3.5	0.0	-	5.4
Accumulated depreciation on disposals and reclassifications	-	0.1	2.5	0.1	-	2.8
Depreciation for the financial period	-	-15.1	-36.7	-1.0	-	-52.9
Impairment losses	-	-1.6	-7.3	-	-	-9.0
Closing balance, cumulative depreciations	0.0	-304.2	-528.5	-14.9	-	-847.6
Tangible assets on 31 Dec. 2017	**10.6**	**220.1**	**194.2**	**3.3**	**29.9**	**458.2**

Other property, plant and equipment include 1.4 (1.3) million euros biological assets. These are animals producing slaughter animals and they have been measured at cost, less an expense corresponding to a reduction in use value caused by ageing. There is no available market price for productive animals.

13. SHARES IN ASSOCIATES AND JOINT VENTURES

	2018	2017
Opening balance	22.5	22.2
Translation differences	-0.2	-0.1
Additions	1.0	-
Disposals, business disposals	-	-0.7
Closing balance	23.3	21.3
Share of associates' and joint ventures' results	1.1	1.7
Dividend from associates and joint ventures	-3.2	-0.5
Shares in associates on 31 Dec.	**21.1**	**22.5**
Effect on the Group's earnings:		
Associates	1.0	0.3
Joint ventures	0.1	1.4
Total	**1.1**	**1.7**
Book value in the Group's balance sheet:		
Associates	10.7	11.7
Joint ventures	10.4	10.8
Total	**21.1**	**22.5**

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

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

14. FINANCIAL ASSETS AND LIABILITIES

FINANCIAL INSTRUMENTS BY CATEGORY 2018

	ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	FINANCIAL ASSETS AT AMORTISED COST	EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OCI	DERIVATIVES USED FOR HEDGING	OTHER FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL	FAIR VALUE	FAIR VALUE HIERARCHY
Assets as per balance sheet								
Non-current trade and other receivables	-	2.5	-	-	-	2.5	-	-
Other shares and holdings	-	-	11.9	-	-	11.9	-	-
Trade and other receivables *	-	123.6	-	-	-	123.6	-	-
Derivative financial instruments	0.1	-	-	-	-	0.1	0.1	2
Cash and bank	-	29.4	-	-	-	29.4	-	-
Total	**0.1**	**155.5**	**11.9**	**0.0**	**0.0**	**167.5**	**-**	**-**

* Trade and other receivables balance sheet amount of EUR 130.7 million euros includes derivative financial instruments amounting to EUR 0.1 million euros and prepayments and other items that are not financial instruments amounting to EUR 7.0 million euros.

Liabilities as per balance sheet								
Non-current interest-bearing liabilities	-	-	-	-	242.0	242.0	-	-
Non-current non-interest bearing liabilities	-	-	-	-	-0.1	-0.1	-	-
Current interest-bearing liabilities	-	-	-	-	77.0	77.0	-	-
Derivative financial instruments *	8.3	-	-	-5.3	-	3.1	3.1	2
Trade and other payables *	-	-	-	-	222.2	222.2	-	-
Total	**8.3**	**0.0**	**0.0**	**-5.3**	**541.1**	**544.2**	**-**	**-**

* Trade and other payables balance sheet amount of EUR 222.1 million euros includes derivative financial instruments amounting to EUR -0.4 million euros and advance payments that are not financial instruments amounting to EUR 0.4 million euros.

FINANCIAL INSTRUMENTS BY CATEGORY 2017

	ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS: CLASSIFIED AS HELD FOR TRADING	LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE	DERIVATIVES USED FOR HEDGING	OTHER FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL	FAIR VALUE	FAIR VALUE HIERARCHY
Assets as per balance sheet								
Non-current trade and other receivables	-	2.8	-	-	-	2.8	-	-
Other shares and holdings	-	-	12.4	-	-	12.4	-	-
Trade and other receivables *	-	111.7	-	-	-	111.7	-	-
Derivative financial instruments	0.1	-	-	-	-	0.1	0.1	2
Cash and bank	-	50.9	-	-	-	50.9	-	-
Total	**0.1**	**165.4**	**12.4**	**0.0**	**0.0**	**177.9**	**-**	**-**

* Trade and other receivables balance sheet amount of EUR 123.5 million euros includes derivative financial instruments amounting to EUR 0.1 million euros and prepayments and other items that are not financial instruments amounting to EUR 11.7 million euros.

Liabilities as per balance sheet								
Non-current interest-bearing liabilities	-	-	-	-	245.1	245.1	-	-
Non-current non-interest bearing liabilities	-	-	-	-	0.0	0.0	-	-
Current interest-bearing liabilities	-	-	-	-	14.1	14.1	-	-
Derivative financial instruments *	10.5	-	-	-0.5	-	10.0	10.0	2
Trade and other payables *	-	-	-	-	277.4	277.4	-	-
Total	**10.5**	**0.0**	**0.0**	**-0.5**	**536.6**	**546.6**	**-**	**-**

* Trade and other payables balance sheet amount of EUR 280.9 million euros includes derivative financial instruments amounting to EUR 3.3 million euros and advance payments that are not financial instruments amounting to EUR 0.3 million euros.

Other shares and holdings consists of holdings in non-listed entities and are measured at cost as it is considered appropriate estimate of fair value. The balance sheet values best correspond to the amount of money which is the maximum amount of credit risk in the event that counterparties are unable to fulfil their obligations associated with the financial instruments.

Fair value of financial instruments, other than those recorded at fair value, is close to the balance sheet value and therefore they are not separately disclosed. EUR 168.5 million bond that has a balance sheet value of EUR 165.7 million has a market value of EUR 145.0 million at the end of 2018.

15. DEFERRED TAX ASSETS AND LIABILITIES

SPECIFICATION OF DEFERRED TAX ASSETS

	1 JAN. 2018	TRANSLATION DIFFERENCE	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN EQUITY	31 DEC. 2018
Pension benefits	5.7	-0.2	-0.2	1.8	7.1
Other timing differences	3.7	0.0	-0.1	-	3.5
Postponed tax depreciations	6.2	-	3.7	-	9.9
Non-deductible interest expense	3.0	-	1.5	-	4.5
Adopted losses	14.6	-	4.2	-	18.8
Arising from hedge accounting	0.0	0.0	-	-0.8	-0.9
Total	**33.2**	**-0.3**	**9.0**	**1.0**	**42.9**

SPECIFICATION OF DEFERRED TAX LIABILITIES

	1 JAN. 2018	TRANSLATION DIFFERENCE	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN EQUITY	31 DEC. 2018
Depreciation difference	2.4	-0.1	0.5	-	2.8
Other timing differences	1.7	0.0	-0.1	-0.2	1.4
Arising from consolidation	13.3	-0.5	-0.1	-	12.7
Arising from hedge accounting	0.0	-	-	-	0.0
Total	**17.4**	**-0.6**	**0.3**	**-0.2**	**16.9**

SPECIFICATION OF DEFERRED TAX ASSETS

	1 JAN. 2017	TRANSLATION DIFFERENCE	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN EQUITY	31 DEC. 2017
Pension benefits	4.7	-0.1	0.3	0.9	5.7
Other timing differences	4.8	0.0	-1.0	-0.1	3.7
Postponed tax depreciations	1.4	-	4.9	-	6.2
Non-deductible interest expense	1.8	-	1.2	-	3.0
Adopted losses	11.2	-	3.4	-	14.6
Arising from hedge accounting	0.1	0.0	-	-0.1	0.0
Total	**23.8**	**-0.1**	**8.8**	**0.7**	**33.2**

SPECIFICATION OF DEFERRED TAX LIABILITIES

	1 JAN. 2017	TRANSLATION DIFFERENCE	RECOGNISED IN INCOME STATEMENT	RECOGNISED IN EQUITY	31 DEC. 2017
Depreciation difference	2.1	0.0	0.3	-	2.4
Other timing differences	0.8	0.0	1.0	-	1.7
Arising from consolidation	14.2	-0.4	-0.5	-	13.3
Arising from hedge accounting	0.0	-	-	-	0.0
Total	**17.0**	**-0.4**	**0.8**	**-**	**17.4**

Deferred tax asset from adopted losses comes from the Group's operations in Finland. Utilisation of this deferred tax asset is based on the same assumptions that are used in goodwill impairment testing in note 11 and the assumption that there are no significant adverse changes in tax legislation. In addition postponing tax depreciations and non-deductibility of interest expense can be used to speed up the utilisation of losses before they expire. Postponed tax depreciations and non-deducted interest expense can be utilised indefinitely. The losses in taxation in Finland expire with the following schedule: EUR 4.7 million in 2020, EUR 2.2 million in 2021, EUR 3.6 million in 2022, EUR 28.4 million in 2023, EUR 10.0 million in 2024, EUR 5.3 million in 2025, EUR 17.8 million in 2027 and EUR 27.2 million in 2028.

Deferred tax liability has not been recognized in respect of retained profits of subsidiaries, amounting to EUR 20.8 (25.4) million, as the assets have been used to safeguard the foreign companies' own investment needs.

On 31 December 2018, the Group had EUR 19.6 (11.7) million of losses, of which no deferred tax receivable has been recognized.

16. INVENTORIES

	2018	2017
Materials and supplies	75.8	62.9
Unfinished products	4.8	4.3
Finished products	33.4	36.8
Other inventories	0.2	0.3
Prepayments for inventories	1.7	0.7
Biological assets	5.4	6.8
Total inventories	**121.4**	**111.8**

Fair value hierarchy level of the biological assets is 2. There were no transfers between any levels during the year. Fair value of live animals is derived from the quoted market price for slaughtered animals by using historical yield. The change in the fair value of the biological assets amounted to EUR -0.7 (0.1) million.

17. TRADE AND OTHER CURRENT RECEIVABLES

	2018	2017
Trade receivables from associates	2.4	2.0
Loan receivables from associates	0.2	0.2
Other receivables from associates	0.0	0.0
Current receivables from associates	2.6	2.2
Trade receivables	112.7	98.1
Loan receivables	0.0	0.0
Other receivables	6.2	9.2
Current receivables from others	119.0	107.3
Current derivative receivables	0.1	0.1
Interest receivables	2.1	2.3
Other prepayments and accrued income	7.0	11.7
Current prepayments and accrued income	9.1	14.0
Trade and other receivables	130.7	123.5
Tax receivables (income taxes)	0.2	0.2
Total current receivables	**130.9**	**123.7**

AGE BREAKDOWN OF TRADE RECEIVABLES AND ITEMS RECOGNISED AS IMPAIRMENT LOSSES

	2018	IMPAIRMENT LOSSES	NET 2018	2017	IMPAIRMENT LOSSES	NET 2017
Unmatured	107.6	0.0	107.6	90.0	0.0	90.0
Matured:						
Under 30 days	6.4	0.0	6.4	9.7	0.0	9.7
30–60 days	0.7	-0.1	0.6	0.4	0.0	0.4
61–90 days	0.1	0.0	0.1	0.1	0.0	0.1
over 90 days*	1.2	-0.7	0.5	0.6	-0.7	0.0
Total	**116.0**	**-0.8**	**115.2**	**100.7**	**-0.7**	**100.1**

* Comprise among other receivables to be set off against payments for animals

18. CASH AND CASH EQUIVALENTS

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

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

	2018	2017
Cash and bank	29.4	50.9
Short-term money market investments	-	-
Other financial instruments	-	-
Total cash and cash equivalents	**29.4**	**50.9**

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

HKSCAN

19. NOTES RELATING TO EQUITY

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

	NUMBER OF OUTSTANDING SHARES (1 000)	SHARE CAPITAL (EUR MILLION)	SHARE PREMIUM RESERVE (EUR MILLION)	RIUE (EUR MILLION)	TREASURY SHARES (EUR MILLION)	TOTAL (EUR MILLION)
1 Jan. 2017	54 018	66.8	72.9	143.5	0.0	283.1
31 Dec. 2017	54 018	66.8	72.9	143.5	0.0	283.1
1 Jan. 2018	54 018	66.8	72.9	143.5	0.0	283.1
31 Dec. 2018	54 034	66.8	72.9	143.5	0.0	283.1

The shares have no nominal value. All issued shares have been paid up in full. The company's stock is divided into Series A and K shares, which differ from each other in the manner set out in the Articles of Association. Each share gives equal entitlement to a dividend. K Shares produce 20 votes and A Shares 1 vote each. A Shares are numbered 49 626 522 and K Shares 5 400 000.

The equity reserves are described below:

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

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

TREASURY SHARES
At the beginning of the financial year 2018, HKScan held 1 008 849 treasury A Shares. During the year 16 501 HKScan Corporation's A shares were transferred without consideration to the participants of the share-based incentive plan according to its terms. At the end of December 2018, the company held 992 348 A shares. At the end of the year, they had a market value of EUR 1.4 million and accounted for 1.8 per cent of all shares and 0.6 per cent of all votes. The acquisition cost is presented in the balance sheet as a deduction from equity.

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

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

HEDGING INSTRUMENTS RESERVE	2018	2017
Fair value reserve and hedging instruments reserve on 1 Jan.	0.4	0.2
Amount recognised in equity in the financial period (effective portion), interest rate derivatives	-	-
Amount recognised in equity in the financial period (effective portion), commodity derivatives	4.6	0.3
Share of deferred tax asset of changes in period	-0.4	-0.1
Fair value reserve and hedging instruments reserve on 31 Dec.	4.6	0.4

Gains/losses reclassified from other comprehensive income to profit or loss amounted to EUR 0.2 (-0.1) million from commodity derivatives.

DIVIDENDS
Dividend of EUR 0.09 (0.16) per share, totalling EUR 4.9 (8.6) million, was distributed in 2018. Since the reporting date, the Board of Directors has proposed that no dividend will be paid from the pervious financial year.

HYBRID LOAN
In September 2018 the Group issued a EUR 40 million hybrid bond to strengthen the company's capital structure. A hybrid bond is treated as equity in consolidated financial statements prepared in accordance with IFRS. The coupon of the hybrid bond is 8.00 per cent per annum. The hybrid bond does not have a specified maturity date, but the Group is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date, and subsequently, on each annual coupon interest payment date. An interest payment obligation is set up if the Annual Shareholders' Meeting decides to distribute dividends. If no dividend is distributed, the company can decide upon the payment of interest separately. Hybrid loan has an off-balance sheet calculational accrued interest amounting to EUR 0.9 million. The payment of interest is recorded into retained earnings.

20. PENSION OBLIGATIONS

	2018	2017
Pension liability/receivable in balance sheet		
Defined benefit plans	35.0	26.4
Other long-term employee benefits	1.0	1.1
Pension liability (+)/receivable (-) in balance sheet	**36.0**	**27.5**

The Group's defined benefit plans consist of the pension liability for the former CEO of the parent company which is unfunded and the Swedish pension programme which is funded. The company's pension commitment in respect of the defined benefit relating to the former CEO was EUR 2.7 million on 31 December 2018. The remaining pension liability relates to the Swedish pension programme. Through its defined benefit plans the Group is exposed to a number of risks such as changes in discount rate, salary increases, inflation and life expectancy. Expected contribution into the plans for 2019 is EUR 0.4 million.

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

SUMMARY OF PROVISION FOR POST-EMPLOYMENT BENEFITS, DEFINED BENEFIT PLANS	2018	2017
Obligations	-101.5	-103.5
Fair value of plan assets	75.7	84.6
Special pension tax	-6.3	-4.6
Net provision for funded post-employment benefits	**-32.2**	**-23.6**
Provision for unfunded post-employment benefits	-2.8	-2.8
Total provision for post-employment benefits, defined benefit plans	**-35.0**	**-26.4**

PENSION COSTS IN THE INCOME STATEMENT	2018	2017
Current year service costs	-1.2	-1.2
Interest costs	-2.4	-2.6
Interest income	1.9	2.0
Special pension tax	-0.3	-0.4
Pension costs for defined benefit plans	**-2.0**	**-2.2**
Pension costs for defined contribution plans	-27.5	-28.4
Total pension costs for the period	**-29.5**	**-30.5**

PENSION COSTS IN OTHER COMPREHENSIVE INCOME	2018	2017
Changes in actuarial assumptions	-6.5	-3.2
Special pension tax	-1.6	-0.8
Income tax effect	1.2	0.9
Total pension costs in other comprehensive income after taxes	**-6.9**	**-3.1**

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

OBLIGATIONS	2018	2017
Obligations opening balance	-103.5	-104.5
Current year service costs	-1.2	-1.2
Interest costs	-2.4	-2.6
Remeasurements:		
Effect of changes in financial assumptions	-3.5	-1.3
Effect of experience adjustments	-0.5	-3.0
Exchange rate translation	4.3	3.4
Benefits paid	5.3	5.6
Obligations closing balance	**-101.5**	**-103.5**

FAIR VALUE OF PLAN ASSETS	2018	2017
Plan assets opening balance	84.6	89.4
Interest income	1.9	2.0
Remeasurements (experience adjustments)	-2.5	1.0
Exchange rate translation	-3.4	-2.6
Settlement paid	-4.9	-5.2
Plan assets closing balance	**75.7**	**84.6**

ASSUMPTIONS APPLIED FOR ACTUARIAL CALCULATIONS, %	2018	2017
Discount rate	2.20	2.30
Expected salary increase	2.25	2.25
Inflation	2.0	1.8
Personnel turnover rate	4	4
Life expectancy	DUS 14	DUS 14

PLAN ASSETS BY CATEGORY %	2018	2017
Interest funds	69	65
Equity instrument funds	31	35

SENSITIVITY ANALYSIS 2018, EFFECT ON OBLIGATION (+DECREASE/-INCREASE), EUR MILLION	CHANGE	USED VALUE	CHANGE
Discount rate	-0.50%	2.20%	0.50%
	-7.4	-101.5	6.6
Salary increase	-0.50%	2.25%	0.50%
	0.9	-101.5	-1.2
Inflation	-0.50%	2.00%	0.50%
	5.9	-101.5	-6.5
Life expectancy	-1 year	DUS 14	1 year
	4.4	-101.5	-4.5

Average duration of the obligation is 14 years.

21. PROVISIONS

	1 JAN. 2018	TRANSLATION DIFFERENCE	INCREASE IN PROVISIONS	EXERCISED IN FINANCIAL PERIOD (-)	31 DEC. 2018
Non-current provisions	7.1	-	0.4	-0.5	7.0
Current provisions	2.1	0.0	0.3	-1.7	0.7
Total	**9.2**	**0.0**	**0.6**	**-2.1**	**7.6**

	1 JAN. 2017	TRANSLATION DIFFERENCE	INCREASE IN PROVISIONS	EXERCISED IN FINANCIAL PERIOD (-)	31 DEC. 2017
Non-current provisions	0.1	-	7.0	-	7.1
Current provisions	1.6	-0.1	3.7	-3.1	2.1
Total	**1.7**	**-0.1**	**10.7**	**-3.1**	**9.2**

LEGAL MATTERS

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

22. LIABILITIES

	2018	2017
NON-CURRENT LIABILITIES		
Interest-bearing		
Bond	132.2	163.7
Bank loans	98.0	62.4
Pension loans	9.6	15.7
Other liabilities	2.1	3.4
Non-current interest-bearing liabilities	**242.0**	**245.1**
Non-interest-bearing		
Other liabilities	-0.1	0.0
Derivatives	3.5	6.7
Non-current non-interest-bearing liabilities	**3.5**	**6.7**
Non-current provisions	7.0	7.1
Deferred tax liability	16.9	17.4
Pension obligations	36.0	27.5
Non-current liabilities	**305.4**	**303.8**
CURRENT INTEREST-BEARING LIABILITIES		
Bond	33.5	-
Commercial paper	35.5	-
Pension loans	3.2	7.1
Bank loans	3.6	3.6
Other liabilities	1.2	3.3
Current interest-bearing liabilities	**77.0**	**14.1**
TRADE AND OTHER PAYABLES		
Advances received	0.4	0.3
Trade payables	136.4	187.6
Refund liabilities	6.7	7.6
Accruals and deferred income		
- Short-term interest payable	1.9	1.7
- Matched staff costs	54.1	54.6
- Other short-term accruals and deferred income	12.7	17.7
Derivatives	-0.4	3.3
Other liabilities	10.3	8.2

	2018	2017
Trade and other payables	**222.2**	**281.0**
Income tax liability	0.1	0.7
Current provisions	0.7	2.1
Current liabilities	**300.0**	**297.8**
Liabilities	**605.3**	**601.6**

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

	31 DEC. 2018	31 DEC. 2017
Under 6 months	138.8	37.5
6–12 months	48.0	-
1–5 years	132.2	221.7
Over 5 years	-	-
Total	**319.0**	**259.2**

NET DEBT RECONCILIATION

	2018	2017
Cash and cash equivalents	29.4	50.9
Liquid investments	0.2	0.2
Borrowings - repayable within one year (including overdraft)	-77.0	-14.1
Borrowings - repayable after one year	-242.0	-245.1
Net debt	**-289.4**	**-208.2**

	OTHER ASSETS		LIABILITIES FROM FINANCING ACTIVITIES				
	CASH / BANK OVERDRAFT	LIQUID INVESTMENTS	FINANCE LEASES DUE WITHIN 1 YEAR	FINANCE LEASES DUE AFTER 1 YEAR	BORROWINGS DUE WITHIN 1 YEAR	BORROWINGS DUE AFTER 1 YEAR	TOTAL
Net debt on 1 Jan 2017	6.6	0.2	0.0	-2.1	-17.2	-124.8	-137.2
Cash flows	44.2	0.0	-	0.8	3.2	-119.0	-70.8
Acquisitions - finance leases and lease incentives	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	0.0	-0.1	-	-0.1
Net debt on 31 Dec 2017	**50.9**	**0.2**	**0.0**	**-1.3**	**-14.1**	**-243.8**	**-208.2**
Cash flows	-21.4	-	-	0.8	-62.8	2.3	-81.0
Acquisitions - finance leases and lease incentives	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-0.1	-0.1	-	-0.2
Net debt on 31 Dec 2018	**29.4**	**0.2**	**0.0**	**-0.5**	**-77.0**	**-241.5**	**-289.4**

23. FINANCIAL RISK MANAGEMENT

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

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

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

Risk management may employ various instruments, such as currency forwards and options, interest-rate or currency swaps, foreign currency loans and commodity derivatives. Derivatives are used for the sole purpose of hedging, not for speculation. Funding of the Group's subsidiaries is managed mainly through the parent company. The subsidiaries may not accept new external funding, nor may they give guarantees or pledges without the permission of the Group Treasury in the parent company.

FOREIGN EXCHANGE RISK

The Group's domestic market consists of Finland, Sweden, Denmark and the Baltic countries. The company produces, sells and markets pork, beef, poultry and lamb products, processed meats and convenience foods to retail, food service, industry and export sectors. Meat products are mainly produced for domestic markets which reduces the overall currency risk in the Group.

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

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

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

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

	2018	2017
Currency	Exposure	Exposure
SEK	91.9	95.9
PLN	8.6	6.5
DKK	11.0	19.2

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

	2018				2017			
	USD	NZD	SEK	GBP	USD	NZD	SEK	GBP
Net position before hedging	3.7	2.2	12.0	0.3	4.9	1.6	8.0	2.0
Hedging	-3.4	-2.2	-10.8	-0.2	-5.3	-1.5	-7.5	-1.9
Open position	0.3	0.0	1.2	0.2	-0.3	0.1	0.4	0.1

The following table analyses the strengthening or weakening of the euro against the US dollar, New Zealand dollar, Swedish krona and British pound sterling, all other factors remaining unchanged. The movements represent average volatility over the past 12 months. Sensitivity analysis is based on assets, liabilities and committed cash flows denominated in foreign currencies at the reporting date. The effects of currency derivatives, which offset the effects of changes in exchange rates, are also taken into account in sensitivity analysis. Net investments in foreign units and the instruments used to hedge these have been excluded from sensitivity analysis.

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

	2018				2017			
	USD	NZD	SEK	GBP	USD	NZD	SEK	GBP
Movement (+/-), %	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Effect on profit before taxes	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0

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

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

INTEREST RATE RISK

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

Interest rate risk is measured by the effect of interest rate movements on the total forecasted debt portfolio. The relevant measurement horizons are selected in accordance with the rolling business strategy planning and possible major investment programmes.

To manage interest rate risks, Group borrowings are spread across fixed and variable interest instruments. The company may borrow at fixed or variable interest rates and use interest rate derivatives to achieve a result that is in line with the Treasury policy. The goal of the policy is to keep the fixed interest term of the loans between 12 and 48 months. On the balance sheet date the fixed interest term was 25 months.

The Group monitors and analyses its interest rate risk position on a regular basis. The Group has determined sensitivity limits for interest rate movements. The sensitivity of net financial expenses on the balance sheet date to an increase/decrease of one per cent in interest rates, all other things being equal, was approximately EUR 1.7 (1.1) million before taxes over the next 12 months. The sensitivity analysis was prepared based on the amounts and maturities of interest-bearing liabilities and interest rate derivatives on the balance sheet date.

COUNTERPARTY RISK

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

COMMODITY RISK

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

The Group uses electricity derivatives in Finland, Sweden, Denmark and Estonia to level out energy costs. The electricity price risk is evaluated for five-year periods. The value changes of derivatives hedging the price of electricity supplied during the period are included in the adjustment items of purchases. Hedge accounting is applied to contracts hedging future purchases.

A sensitivity analysis for electricity derivatives assumes that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity changed by +/-10 percentage points from the balance sheet date, the impact would be as follow, calculated before tax:

EUR MILLION	2018	2017
Electricity – effect in income statement	+/- 0 3	+/- 0 3
Electricity – effect in equity (price + 10%)	-3.0	-0.1
Electricity – effect in equity (price - 10%)	-4.1	-0.6

CREDIT RISK

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

Credit risk results from a customer's possible failure to fulfil its payment obligations. The Group's trade receivables are spread among a wide customer base, the most important customers being central retail organisations in the various market areas. The creditworthiness, payment behaviour and credit limits of the clients are monitored systematically. As a main principle some type of securing is needed for all credit granted. The security can be credit insurance, a bank guarantee, or a security deposit. In addition, the Group is exposed to minor credit risk in remaining financing investments of primary production contract producers.

The amount of impairment losses recognised through profit or loss in the financial period was EUR -0.2 (0.0) million. The Group's maximum exposure to credit risk equals the carrying amount of financial assets at year-end. The age breakdown of trade receivables is presented in Note 17.

LIQUIDITY AND REFINANCING RISK

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

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

The Group's liquidity together with funding profile and maturity structure remained good in 2018. Undrawn committed credit facilities on 31 December 2018 stood at EUR 100.0 (100.0) million. In addition, the Group had other undrawn overdraft and other facilities of EUR 19.9 (20.1) million. The overdraft facility agreements are in force until further notice. At year end, the company's EUR 200 million commercial paper programme had been drawn to the amount of EUR 35.5 (0.0) million. Similar to previous year, cash and cash equivalents were above the normal level amounting EUR 29.4 (50.9) million.

The average rate of interest for outstanding loans (including commitment fees) paid by the Group was 2.5 (3.0) per cent at the balance sheet date.

The company's current loan agreements are subject to the net gearing ratio financial covenant. Outstanding unsecured bonds maturing in November 2019 and September 2022 have the net gearing ratio covenant level of 130%. Financiers are provided with quarterly reports on the observance of the financial loan covenant. If the Group is in breach of the covenant, the creditor may demand accelerated loan repayment. Management monitors the fulfillment of the loan covenant on a regular basis. The risks related to impairment of assets or breaching financial covenants under finance agreements will increase and have an effect on the financial position in case the Group i s not able to improve its financial performance and strengthen its balance sheet. Breaches of covenants could result in a default of an essential part of loans. With IFRS 16 introduction from 1 January 2019 onwards, assets and interest-bearing liabilities will grow by approximately EUR 45 million. With this increase the net gearing at year end 2018 would be approximately 102 per cent.

THE NUMBER OF THE GROUP'S COMMITMENTS ON THE BALANCE SHEET DATE BY TYPE OF CREDIT

2018

CREDIT TYPE	SIZE	IN USE	AVAILABLE
Overdraft facility	19.9	-	19.9
Credit limit	100.0	-	100.0
Total	119.9	-	119.9

2017

CREDIT TYPE	SIZE	IN USE	AVAILABLE
Overdraft facility	20.1	-	20.1
Credit limit	100.0	-	100.0
Total	**120.1**	**-**	**120.1**

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

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

31 DEC. 2018 MATURITY OF FINANCIAL LIABILITIES

CREDIT TYPE	BALANCE SHEET 31 DEC. 2018	CASHFLOWS SUM	CASHFLOWS 2019	2020	2021	2022	2023	>2023
Bond	165.6	181.0	38.2	3.5	3.5	135.7	-	-
Bank loans	101.8	105.4	4.8	38.9	43.8	3.3	3.3	11.3
Pension loans	12.9	13.1	2.2	2.2	2.2	2.2	2.2	2.2
Commercial paper programme	35.5	35.5	35.5	-	-	-	-	-
Other borrowing	3.3	3.3	1.4	1.9	-	-	-	-
Trade and other payables	222.2	222.2	222.2	-	-	-	-	-
Total	**541.2**	**560.6**	**304.4**	**46.5**	**49.6**	**141.2**	**5.4**	**13.4**

31 DEC. 2017 MATURITY OF FINANCIAL LIABILITIES

CREDIT TYPE	BALANCE SHEET 31 DEC. 2017	CASHFLOWS SUM	CASHFLOWS 2018	2019	2020	2021	2022	>2022
Bond	163.7	188.6	4.8	38.2	3.5	3.5	138.5	-
Bank loans	66.0	68.5	4.4	4.4	39.3	3.8	3.8	12.9
Pension loans	22.9	23.3	7.3	5.1	2.2	2.2	2.2	4.3
Commercial paper programme	-	-	-	-	-	-	-	-
Other borrowing	6.7	6.8	3.4	2.8	0.7	-	-	-
Trade and other payables	277.4	277.4	277.4	-	-	-	-	-
Total	**536.6**	**564.6**	**297.3**	**50.4**	**45.7**	**9.5**	**144.5**	**17.2**

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

	2018 POSITIVE FAIR VALUE	2018 NEGATIVE FAIR VALUE	2018 FAIR VALUE NET	2017 FAIR VALUE NET	2018 NOMINAL VALUE	2017 NOMINAL VALUE
Interest rate derivatives	-	**-8.2**	**-8.2**	**-10.2**	**119.1**	**120.6**
matured in 2018	-	-	-	-	-	-
matures in 2019	-	-0.4	-0.4	-0.7	20.0	20.0
matures in 2020	-	-	-	-	-	-
matures in 2021	-	-2.3	-2.3	-2.8	25.0	25.0
matures in 2022	-	-3.7	-3.7	-4.7	44.5	45.3
matures in >2022	-	-1.8	-1.8	-2.0	29.6	30.2
of which defined as cash flow hedging instruments	-	-	-	-	-	-
Foreign exchange derivatives	**0.1**	**-0.1**	**-0.1**	**-0.1**	**40.0**	**41.4**
of which defined as net investment hedging instruments	-	-	-	-	-	-
Commodity derivatives	**5.3**	**0.0**	**5.3**	**0.5**	**10.0**	**7.4**
matured in 2018	-	-	-	0.2	-	4.5
matures in 2019	3.6	0.0	3.6	0.2	4.9	2.3
matures in 2020	1.3	-	1.3	0.1	2.4	0.6
matures in 2021	0.3	-	0.3	-	1.5	-
matures in 2022	0.0	-	0.0	-	1.1	-
of which defined as cash flow hedging instruments	5.3	0.0	5.3	0.5	10.0	7.4

DERIVATIVES TO WHICH HEDGE ACCOUNTING APPLIES

Changes in the fair values of the effective portions after taxes of commodity derivatives, designated as hedges of cash flow amounting to EUR 4.2 (0.2) million, are recognised under other comprehensive income. The hedged highly probable transactions are estimated to occur at various dates during the next 60 months. Gains and losses accumulated in the hedging instruments reserve are included as reclassification adjustments in the income statement when the hedged transaction affects profit or loss. The ineffective portion of commodity risk hedge amounting to EUR 0.0 (0.1) million are recognised under other operating expenses in the income statement.

CAPITAL MANAGEMENT

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

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

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

On the balance sheet date the equity ratio is 35.1 per cent. The official financial target in respect of net gearing ratio is below 100 per cent. On the balance sheet date, the net gearing ratio was 88.6 per cent. With IFRS 16 introduction from 1 January 2019 onwards, assets and interest-bearing liabilities will grow by approximately EUR 45 million. With this increase the net gearing at year end 2018 would be approximately 102 per cent.

NET GEARING RATIO

	2018	2017
Interest-bearing liabilities	319.0	259.2
Interest-bearing short-term receivables	0.2	0.2
Cash and bank	29.4	50.9
Interest-bearing net liabilities	289.4	208.2
Equity	326.6	351.0
Net gearing ratio	88.6 %	59.3 %

24. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

OTHER SHARES AND HOLDINGS

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

DERIVATIVES

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

BANK LOANS

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

BONDS

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

FINANCE LEASE LIABILITIES

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

TRADE AND OTHER RECEIVABLES

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

TRADE AND OTHER PAYABLES

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

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

	31 DEC. 2018	LEVEL 1	LEVEL 2	LEVEL 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading securities		-	-	-
Trading derivatives	-			
Interest rate swaps	-	-	-	-
Foreign exchange derivatives	0.1	-	0.1	-
Commodity derivatives	5.3	-	5.3	-
of which subject to cash flow hedging	5.3	-	5.3	-
Total	**5.4**	**0.0**	**5.4**	**0.0**
Liabilities measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading securities				
Interest rate swaps	-8.2	-	-8.2	-
Foreign exchange derivatives	-0.1	-	-0.1	-
Commodity derivatives	0.0	-	0.0	-
of which subject to cash flow hedging	0.0	-	0.0	-
Total	**-8.3**	**0.0**	**-8.3**	**0.0**

	31 DEC. 2017	LEVEL 1	LEVEL 2	LEVEL 3
Assets measured at fair value				
Trading securities	-	-	-	-
Trading derivatives				
Interest rate swaps	-	-	-	-
Foreign exchange derivatives	0.1	-	0.1	-
Commodity derivatives	0.7	-	0.7	-
of which subject to cash flow hedging	0.7	-	0.7	-
Total	**0.8**	**0.0**	**0.8**	**0.0**
Liabilities measured at fair value				
Financial assets recognised at fair value through profit or loss				
Trading securities				
Interest rate swaps	-10.2	-	-10.2	-
Foreign exchange derivatives	-0.2	-	-0.2	-
Commodity derivatives	-0.2	-	-0.2	-
of which subject to cash flow hedging	-0.2	-	-0.2	-
Total	**-10.6**	**0.0**	**-10.6**	**0.0**

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

25. OTHER LEASES

THE GROUP AS LESSEE

The Group leases many of its premises. The leases have usually been made until further notice and normally include the possibility to continue the agreement after the original date of termination. Leases generally include an index clause. In addition, other rent commitments include various machinery and equipment. The lengths of these leases are from three to five years on average.

Minimum rents payable on the basis of irrevocable lease agreements:

OTHER RENT COMMITMENTS	2018	2017
Maturing in less than a year	8.2	6.4
Maturing in 1–5 years	20.6	17.0
Maturing in over 5 years	14.8	9.0
Other rent commitments, total	**43.6**	**32.4**
Rent receivables on other irrevocable lease agreements		
Maturing in less than a year	0.1	-
Maturing in 1–5 years	-	-
Maturing in over 5 years	-	-
Rent receivables, total	**0.1**	**0.0**

26. CONDITIONAL ASSETS AND LIABILITIES AND PURCHASE COMMITMENTS

COMMITMENTS AND CONTINGENT LIABILITIES	2018	2017
Loans secured by mortgages	-	-
On own behalf		
Mortgages given	-	-
Assets pledged	-	-
On behalf of others		
Guarantees	5.5	8.5
Other commitments	6.2	8.7
Leasing commitments		
Leasing commitments maturing in less than a year	3.1	3.3
Leasing commitments maturing in 1–5 years	3.9	4.0
Leasing commitments maturing in over 5 years	0.1	0.2
Total	**18.8**	**24.7**

27. RELATED PARTY TRANSACTIONS

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

HKScan Corporation's principal owner, LSO Osuuskunta, is a cooperative of 900 Finnish meat producers. The cooperative fosters its members' meat production and marketing by exercising its power of ownership in HKScan. Today, LSO Osuuskunta has no actual business, but receives an income in the form of dividend paid by HKScan and, to a lesser extent, income in the form of other investments and rents. The HKScan Group applies pure market price principles to the acquisition of raw meat material.

Lot lease amounting to EUR 1.2 million in 2018 (EUR 1.2 million in 2017) has been paid by the Group to LSO. In addition, there are minor office services and revolving credit facility amounting to EUR 5 million to both ways between the Group and LSO. Regarding the credit facility the Group had liability amounting to EUR 1.6 million at year end. The sale of animals to the Group by members of the Group's Board of Directors and members of the Supervisory Board and Board of Directors of its parent entity LSO Osuuskunta totalled EUR 8.8 million in 2018 (EUR 9.5 million in 2017). Said persons purchased animals from the Group with EUR 2.6 million in 2018 (EUR 3.5 million in 2017).

Information on employee benefits of the Management are presented in Note 4. More information on fees of the Board of Directors and the Management is available in the remuneration statement for 2018, which can be found on the Group's website.

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

SHARES IN SUBSIDIARIES	OWNER %	SHARE OF VOTES %
Owned by the Group's parent company		
HKScan Finland Oy, Finland	100.00	100.00
HKScan Sweden AB, Sweden	100.00	100.00
HKScan Denmark A/S, Denmark	100.00	100.00
AS HKScan Estonia, Estonia	100.00	100.00
UAB HKScan Lietuva, Lithuania	100.00	100.00
AS HKScan Latvia, Latvia	99.52	99.52
HKScan UK Ltd, the UK**	100.00	100.00
HKScan Asia Limited, Hong Kong	100.00	100.00
OOO HKScan, Russia	100.00	100.00
Owned by HKScan Finland Oy		
Kivikylän Kotipalvaamo Oy, Finland	49.00*	49.00*
Lihatukku Harri Tamminen Oy, Finland	49.00*	49.00*

SHARES IN SUBSIDIARIES	OWNER %	SHARE OF VOTES %
Paimion Teurastamo Oy, Finland	100.00	100.00
Owned by AS HKScan Estonia		
Rakvere Farmid AS, Estonia	100.00	100.00
Owned by HKScan Sweden AB		
HKScan Real Estate AB, Sweden	100.00	100.00
HKScan International AB, Sweden**	100.00	100.00
HKScan Poland Sp.zo.o, Poland	100.00	100.00
Samfod S.A., Belgium**	100.00	100.00
Owned by HKScan Real Estate AB		
HKScan Real Estate Halmstad AB, Sweden	100.00	100.00
Owned by HKScan Denmark A/S		
Kreatina A/S, Denmark**	100.00	100.00

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

SHARES AND HOLDINGS IN ASSOCIATED COMPANIES AND JOINT VENTURES	OWNER %	SHARE OF VOTES %
Owned by the Group's parent company		
Nordic Lotus Food Co. Ltd, China*	35.00	35.00
Owned by HKScan Finland Oy		
Länsi-Kalkkuna Oy, Finland*	50.00	50.00
Pakastamo Oy, Finland	50.00	50.00
Honkajoki Oy, Finland*	50.00	50.00
Finnpig Oy, Finland	50.00	50.00
Oy LHP Bio-Carbon LTD, Finland	24.24	24.24
DanHatch Finland Oy, Finland	20.00	20.00
Owned by HKScan Sweden AB		
Industrislakt Syd AB, Sweden	50.00	50.00
Siljans Chark AB, Sweden	39.30	39.30
AB Tillväxt for svensk animalieproduktion, Sweden	33.33	33.33
Svenska Köttforetagen Holding AB, Sweden	23.52	23.52
Owned by HKScan Denmark A/S		
Tican-Rose GmbH, Germany	50.00	50.00
Farmfood A/S, Denmark	33.30	33.30

* Joint venture

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

The following transactions were carried out with related parties

	2018	2017
Sales to associates	20.2	17.7
Sales of animals to related parties	2.6	3.5
Purchases from associates	32.5	33.0
Purchases of animals from related parties	8.8	9.5

OPEN BALANCES ON 31 DECEMBER	2018	2017
Trade and other receivables from associates	2.7	2.3
Trade and other payables to associates	3.3	5.8

28. EVENTS AFTER THE REPORTING DATE

After the reporting period, on 7 January 2019, HKScan published a Notice of the Extraordinary General Meeting that was held on Wednesday, 30 January 2019, in Turku, Finland. The Extraordinary General Meeting resolved that the number of ordinary members of the Board of Directors would be five (5) and the number of deputy members would be two (2). Jari Mäkilä, Harri Suutari and Terhi Tuomi were elected as new members of the Board of Directors until the end of the Annual General Meeting 2019, In addition, Ilkka Uusitalo was elected as new deputy Board member until the end of the Annual General Meeting 2019. Reijo Kiskola and Per Olof Nyman continue as Board members and Carl-Peter Thorwid as a deputy Board member until the end of the Annual General Meeting 2019.

After the reporting period, on 30 January 2019, HKScan announced that Tero Hemmilä will start working as the CEO of the Company on 4 February 2019.

PARENT COMPANY INCOME STATEMENT FOR 1 JANUARY - 31 DECEMBER

EUR	NOTE	2018	2017
Net sales		-	-
Other operating income	1.	21 998 196.77	17 875 688.79
Materials and services		-	-
Employee costs	2.	-14 041 359.72	-13 691 603.28
Depreciation and impairment	3.	-527 975.49	-879 204.09
Other operating expenses	4.	-22 367 770.44	-23 015 103.16
EBIT		**-14 938 908.88**	**-19 710 221.74**
Financial income and expenses	5.	4 551 084.30	-45 553 212.42
Profit/loss before appropriations and taxes		**-10 387 824.58**	**-65 263 434.16**
Appropriations	6.	-7 443.00	115 830.00
Income taxes	7.	1 242 221.97	3 306 533.44
Profit/loss for the period		**-9 153 045.61**	**-61 841 070.72**

PARENT COMPANY BALANCE SHEET 31 DECEMBER

EUR	NOTE	2018	2017
ASSETS			
Intangible assets	8.	1 426 009.00	646 063.00
Tangible assets	8.	4 963 074.31	5 831 275.90
Financial assets	8.	448 695 032.22	347 745 032.22
Non-current assets		**455 084 115.53**	**354 222 371.12**
Non-current receivables	9.	267 130 260.72	253 002 860.94
Deferred tax asset	9.	11 757 958.74	10 484 929.27
Current receivables	10.	13 130 542.62	11 588 512.62
Cash and cash equivalents		19 353 845.69	44 387 128.72
Current assets		**311 372 607.77**	**319 463 431.55**
Assets		**766 456 723.30**	**673 685 802.67**
EQUITY AND LIABILITIES			
Share capital	11.	66 820 528.10	66 820 528.10
Share premium reserve	11.	73 420 363.20	73 420 363.20
Treasury shares	11.	-38 612.12	-38 612.12
Fair value reserve	11.	-	-
RIUE	11.	143 252 832.19	143 202 868.19
Other reserves	11.	4 882 017.78	4 818 596.94
Retained earnings	11.	82 052 804.55	148 755 465.84
Profit/loss for the period	11.	-9 153 045.61	-61 841 070.72
Equity		**361 236 888.09**	**375 138 139.43**
Accumulated appropriations	12.	91 407.00	83 964.00
Provisions	13.	2 711 022.00	2 780 459.00
Deferred tax liability	14.	-	-
Non-current interest-bearing liabilities	14.	284 384 655.78	248 638 657.70
Non-current non-interest-bearing liabilities	14.	3 440 804.71	4 563 120.29
Current interest-bearing liabilities	15.	101 013 874.16	28 170 554.60
Current non-interest-bearing liabilities	15.	13 578 071.56	14 310 907.65
Liabilities		**402 417 406.21**	**295 683 240.24**
Equity and liabilities		**766 456 723.30**	**673 685 802.67**

PARENT COMPANY CASH FLOW STATEMENT

EUR 1 000	2018	2017
EBIT	-14 939	-19 710
Adjustments to EBIT	1 049	1 862
Depreciation and impairment	528	879
Change in provisions	-69	9
Change in net working capital	-3 125	1 325
Interest income and expenses	5 645	4 791
Dividends received	-	6 170
Taxes	-31	-32
Cash flow from operating activities	**-10 942**	**-4 706**
Purchases of shares in subsidiary	-100 950	-81 941
Purchase of other fixed assets	-3 366	-3 541
Disposals of other fixed assets	2 927	2 478
Repayments of loans receivable	-16 459	-3 245
Cash flow from investing activities	**-117 848**	**-86 249**
Cash flow before financing activities	**-128 790**	**-90 955**
Proceed from external borrowings	136 540	256 762
Hybrid loan	39 751	-
Repayment of external borrowings	-67 671	-116 524
Dividends paid	-4 863	-8 636
Cash flow from financing activities	**103 757**	**131 602**
Change in cash and cash equivalents	-25 033	40 647
Cash and cash equivalents on 1 Jan.	44 387	3 740
Cash and cash equivalents on 31 Dec.	**19 354**	**44 387**
CHANGE IN WORKING CAPITAL:		
Increase (-) / decrease (+) in current operating receivables	-1 474	-165
Increase (+) / decrease (-) in current non-interest-bearing liabilities	-1 651	1 491
Total	**-3 125**	**1 325**

NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

BASIC INFORMATION ABOUT THE ENTITY

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

HKScan Corporation comprises Group management and Group administration.

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

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

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

ACCOUNTING POLICIES

Basis of preparation

The parent company's financial statements have been prepared in compliance with valid Finnish Accounting Standards (FAS). The HKScan Group's consolidated financial statements have been prepared in compliance with the IFRS (International Financial Reporting Standards) and the IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2018.

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

Non-current assets

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

Transactions in foreign currency

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

Derivative contracts

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE PARENT COMPANY'S INCOME STATEMENT

1. OTHER OPERATING INCOME, TOTAL

EUR 1 000	2018	2017
Rental income	-	-
Other operating income	21 998	17 861
Gain on disposal of non-current assets	-	15
Other operating income, total	**21 998**	**17 876**

2. STAFF COSTS

	2018	2017
Salaries and fees	-11 234	-10 355
Pension expenses	-1 823	-1 851
Other social expenses	-984	-1 486
Staff costs	**-14 041**	**-13 692**
Managing directors and their deputies	1 937	807
Members of the Board of Directors	360	353
Management salaries, fees and benefits	**2 297**	**1 160**
Employees, average	137	125

3. DEPRECIATION AND IMPAIRMENT

	2018	2017
Depreciation according to plan on non-current assets and goodwill	-528	-879
Total depreciation and impairment	**-528**	**-879**

4. OTHER OPERATING EXPENSES

	2018	2017
Rents/leases	-1 492	-1 431
Losses on disposal of fixed assets, tangible assets total	0	-103
Losses on disposal of non-current assets	**0**	**-103**
Audit fees, ordinary audit	-84	-134
Audit fees, other expert services	-9	-17
Audit fees	**-93**	**-151**
Non-statutory staff costs	-2 485	-2 026
Energy	-95	-92
Maintenance	-39	-35
Advertising, marketing and entertainment costs	-1 355	-1 358
Service, information management and office costs	-14 068	-14 966
Other expenses	-2 741	-2 853
Total other operating expenses	**-22 368**	**-23 015**

5. FINANCIAL INCOME AND EXPENSES

	2018	2017
Financial income		
Dividends from Group companies	-	6 170
Dividends from participating interests	-	-
Income from units	**0**	**6 170**
Interest income from Group companies	15 582	14 660
Interest income from participating interests	3	3
Interest income from others	46	88
Interest income from other non-current financial assets	**15 631**	**14 751**
Other financial income from others	4 139	3 599
Other financial income	**4 139**	**3 599**
Total financial income	**19 770**	**24 520**
Financial expenses		
Interest expenses payable to Group companies	-	-
Interest expenses payable to others	-9 060	-7 144
Total other interest and financial expenses	**-9 060**	**-7 144**
Unrealised losses on fair value assessment	**1 082**	**2 137**
Impairment in holdings in Group companies	0	-24 950
Other financial expense from Group companies	-1 342	-30 000
Other financial expense from others	-5 899	-10 116
Other financial expense	**-7 241**	**-65 066**
Total financial expenses	**-15 219**	**-70 073**
Financial income and expenses, total	**4 551**	**-45 553**

6. APPROPRIATIONS

	2018	2017
Increase (-) or decrease (+) in depreciation difference	-7	116
Group contribution income	-	-
Total appropriations	**-7**	**116**

7. DIRECT TAXES

	2018	2017
Tax for previous financial periods	-	-
Change in deferred tax liabilities and assets	1 273	3 338
Other direct taxes	-31	-32
Income tax on ordinary operations	**1 242**	**3 306**

8. NON-CURRENT ASSETS

INTANGIBLE ASSETS 2018	INTELLECTUAL PROPERTY RIGHTS	OTHER LONG-TERM EXPENDITURE	TOTAL
Acquisition cost on 1 Jan.	2 707	661	3 368
Decrease	-735	-	-735
Transfers between items	1 909	-	1 909
Acquisition cost on 31 Dec.	**3 881**	**661**	**4 542**
Accumulated depreciation on 1 Jan.	-2 226	-496	-2 722
Depreciation for the financial period	-332	-62	-394
Accumulated depreciation on 31 Dec.	**-2 558**	**-558**	**-3 116**
Carrying amount on 31 Dec.	**1 323**	**103**	**1 426**

INTANGIBLE ASSETS 2017	INTELLECTUAL PROPERTY RIGHTS	OTHER LONG-TERM EXPENDITURE	TOTAL
Acquisition cost on 1 Jan.	2 690	661	3 351
Increase	425	-	425
Decrease	-2 653	-	-2 653
Transfers between items	2 245	-	2 245
Acquisition cost on 31 Dec.	**2 707**	**661**	**3 368**
Accumulated depreciation on 1 Jan.	-1 999	-405	-2 404
Accumulated depreciation on disposals	106	-	106
Depreciation for the financial period	-333	-91	-424
Accumulated depreciation on 31 Dec.	**-2 226**	**-496**	**-2 722**
Carrying amount on 31 Dec.	**481**	**165**	**646**

TANGIBLE ASSETS 2018	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	PRE-PAYMENTS	TOTAL
Acquisition cost on 1 Jan.	1 166	381	5 572	7 119
Increase	-	-	1 176	1 176
Decrease	-14	-	-	-14
Transfers between items	-	**-**	-1 909	-1 909
Acquisition cost on 31 Dec.	**1 152**	**381**	**4 839**	**6 372**
Accumulated depreciation on 1 Jan.	-920	-367	0	-1 287
Depreciation for the financial period	-121	**-**	**-**	**-121**
Accumulated depreciation on 31 Dec.	**-1 041**	**-367**	**0**	**-1 408**
Carrying amount on 31 Dec.	**111**	**14**	**4 839**	**4 964**

TANGIBLE ASSETS 2017	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	PRE-PAYMENTS	TOTAL
Acquisition cost on 1 Jan.	1 204	380	4 896	6 480
Increase	6	1	2 943	2 950
Decrease	-66	-	-	-66
Transfers between items	22	-	-2 267	-2 245
Acquisition cost on 31 Dec.	**1 166**	**381**	**5 572**	**7 119**
Accumulated depreciation on 1 Jan.	-826	-367	0	-1 193
Accumulated depreciation of disposals and reclassifications	46	-	-	46
Depreciation for the financial period	-140	-	-	-140
Accumulated depreciation on 31 Dec.	**-920**	**-367**	**0**	**-1 287**
Carrying amount on 31 Dec.	**246**	**14**	**5 572**	**5 832**

FINANCIAL ASSETS 2018	HOLDINGS IN GROUP COMPANIES	HOLDINGS IN ASSOCIATES	RECEIVABLES FROM ASSOCIATES	OTHER SHARES AND HOLDINGS	TOTAL
Acquisition cost on 1 Jan.	347 729	0	0	16	347 745
Increase	100 000	950	-	-	100 950
Carrying amount on 31 Dec.	**447 729**	**950**	**0**	**16**	**448 695**

Increase in 2018 amounting to EUR 100.0 million is an equity investment (RIUE) to a Finnish subsidiary.

FINANCIAL ASSETS 2017	HOLDINGS IN GROUP COMPANIES	HOLDINGS IN ASSOCIATES	RECEIVABLES FROM ASSOCIATES	OTHER SHARES AND HOLDINGS	TOTAL
Acquisition cost on 1 Jan.	290 738	148	0	16	290 902
Increase	81 941	-	-	-	81 941
Decrease	-	-148	-	-	-148
Impairment	-24 950	-	-	-	-24 950
Carrying amount on 31 Dec.	**347 729**	**0**	**0**	**16**	**347 745**

Increase in 2017 amounting to EUR 81.9 million is an equity investment (RIUE) to a Finnish subsidiary.

	2018	2017
INTANGIBLE ASSETS		
Intellectual property rights	1 323	481
Other long-term expenditure	103	165
Intangible assets	**1 426**	**646**
TANGIBLE ASSETS		
Machinery and equipment	110	246
Other tangible assets	14	14
Payments on account and tangible assets in the course of construction	4 839	5 572
Tangible assets	**4 963**	**5 832**

	2018	2017
FINANCIAL ASSETS		
Holdings in Group companies	447 729	347 729
Holdings in associates	950	-
Other shares and holdings	16	16
Financial assets	**448 695**	**347 745**
Total non-current assets	**455 084**	**354 223**

9. NON-CURRENT RECEIVABLES

	2018	2017
Non-current loan receivables	794	817
Deferred tax assets	11 758	10 485
Other receivables	32	72
Prepayments and accrued income	130	245
Total	**12 714**	**11 619**
RECEIVABLES FROM GROUP COMPANIES		
Non-current Group loan receivables	266 174	251 868
Non-current receivables from Group companies	**266 174**	**251 868**
Total non-current receivables	**278 888**	**263 487**

On 31 December 2018, the company had EUR 2.5 (0.0) million of losses, of which no deferred tax receivable has been recognized. The losses in taxation expire with the following schedule: EUR 1.3 million in 2022, EUR 12.1 million in 2023, EUR 4.9 million in 2024, EUR 5.3 million in 2025, EUR 17.8 million in 2027 and EUR 9.9 million in 2028. Utilisation of deferred tax asset from losses is based on the same assumptions that are used in goodwill impairment testing in group note 11 and the assumption that there are no significant adverse changes in tax legislation.

10. CURRENT RECEIVABLES

	2018	2017
Trade receivables	8	-
Short-term receivables (from others)	15	7
Short-term prepayments from accrued income (from others)	2 458	2 775
Total	**2 481**	**2 782**
RECEIVABLES FROM GROUP COMPANIES		
Trade receivables	2 035	568
Loan receivables	8 343	8 011
Other receivables	122	76
Total	**10 500**	**8 655**
RECEIVABLES FROM PARTICIPATING INTERESTS		
Loan receivables	150	150
Other receivables	-	1
Short-term receivables from participating interests	**150**	**151**
Total current receivables	**13 131**	**11 588**
MAIN ITEMS INCLUDED IN PREPAYMENTS AND ACCRUED INCOME		
Accrued financial items	65	97
Accrued interest receivables	1 791	2 049
Accrued staff costs	15	29
Other prepayments and accrued income	587	600
Total	**2 458**	**2 775**

11. EQUITY

EQUITY IN 2018	SHARE CAPITAL	SHARE PREMIUM RESERVE	TREASURY SHARES	FAIR VALUE RESERVE	RIUE	OTHER RESERVES	RETAINED EARNINGS	TOTAL
Equity on 1 Jan.	66 820	73 420	-38	0	143 203	4 818	86 916	375 139
Increase	-	-	-	-	50	63	-	113
Dividend distribution	-	-	-	-	-	-	-4 862	-4 862
Profit for the period	-	-	-	-	-	-	-9 153	-9 153
Equity on 31 Dec.	**66 820**	**73 420**	**-38**	**0**	**143 253**	**4 881**	**72 901**	**361 237**

EQUITY IN 2017	SHARE CAPITAL	SHARE PREMIUM RESERVE	TREASURY SHARES	FAIR VALUE RESERVE	RIUE	OTHER RESERVES	RETAINED EARNINGS	TOTAL
Equity on 1 Jan.	66 820	73 420	-38	-6 786	143 203	4 805	164 186	445 609
Opening balance adjustment	-	-	-	6 786	-	-	-6 786	0
Increase	-	-	-	-	-	13	-	13
Dividend distribution	-	-	-	-	-	-	-8 643	-8 643
Profit for the period	-	-	-	-	-	-	-61 841	-61 841
Equity on 31 Dec.	**66 820**	**73 420**	**-38**	**0**	**143 203**	**4 818**	**86 916**	**375 138**

The company has adjusted fair value reserve derived from interest rate derivatives amounting to EUR -6.8 million into retained earnings on 1 January 2017 as the applicability of hedge accounting has been re-evaluated. As result change in fair value previously reported in equity is reported in profit for the period in financial items. Profit for the period impact after tax for 2017 is EUR 1.9 million and for 2018 EUR 0.8 million.

DISTRIBUTABLE EQUITY	2018	2017
Contingency reserve	603	540
Treasury shares	-38	-38
Reserve for invested unrestricted equity	143 253	143 203
Retained earnings	82 053	148 755
Profit/loss for the period	-9 153	-61 841
Distributable equity	**216 718**	**230 619**

HKSCAN

12. ACCUMULATED APPROPRIATIONS

	2018	2017
Depreciation difference	91	84
Total appropriations	**91**	**84**

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

13. STATUTORY PROVISIONS

	2018	2017
Provisions for pensions	2 711	2 780
Statutory provisions, total	**2 711**	**2 780**

14. NON-CURRENT LIABILITIES

	2018	2017
Deferred tax liability	-	-
Hybrid loan	40 000	-
Bond	135 000	168 495
Loans from financial institutions	107 780	78 079
Other liabilities	5 045	6 628
Total	**287 825**	**253 202**
Total non-current liabilities	**287 825**	**253 202**
Interest-bearing		
Amounts owed to others	284 384	248 639
Non-current interest-bearing liabilities	**284 384**	**248 639**
Non-interest-bearing		
Amounts owed to others	3 441	4 563
Non-current non-interest-bearing liabilities	**3 441**	**4 563**
Total non-current liabilities	**287 825**	**253 202**

The company has two bonds. EUR 33.5 million maturing in November 2019 with 3.625 percent coupon interest and EUR 135.0 million maturing in September 2022 with 2.625 percent coupon interest. In addition, company has issued a hybrid bond in 2018 amounting to EUR 40 million with 8 per cent coupon interest. Hybrid bond does not have specified maturity, but the company has right to redeem it on the fifth anniversary of the issue date and subsequently on each annual coupon interest payment date. Hybrid loan has an off-balance sheet calculational accrued interest amounting to EUR 0.9 million.

15. CURRENT LIABILITIES

	2018	2017
Bond	33 495	-
Loans from financial institutions	42 293	10 759
Trade payables	2 170	3 794
Accruals and deferred income	8 495	8 202
Other liabilities	2 780	2 099
Total	**89 233**	**24 854**
AMOUNTS OWED TO GROUP COMPANIES		
Trade payables	101	128
Accruals and deferred income	32	88
Other liabilities	25 226	17 411
Total	**25 359**	**17 627**
Total current liabilities	**114 592**	**42 481**
Interest-bearing		
Current amounts owed to Group companies	25 226	17 411
Amounts owed to others	75 788	10 759
Current interest-bearing liabilities	**101 014**	**28 170**
Non-interest-bearing		
Current amounts owed to Group companies	132	216
Amounts owed to others	13 446	14 095
Current non-interest-bearing liabilities	**13 578**	**14 311**
Total current liabilities	**114 592**	**42 481**
MAIN ITEMS (NON-CURRENT AND CURRENT) INCLUDED IN ACCRUALS AND DEFERRED INCOME		
Accrued staff costs	3 655	3 177
Accrued interest expenses	1 842	1 445
Accrued changes in value of derivatives	2 127	2 215
Other accruals and deferred income	871	1 365
Total	**8 495**	**8 202**
LIABILITIES DUE IN FIVE YEARS OR MORE		
Loans from financial institutions	9 042	12 659
Pension loans	2 143	4 286
Other long-term liabilities	-	-
Liabilities due in more than five years	**11 185**	**16 945**

16. COMMITMENTS AND CONTINGENT LIABILITIES

COMMITMENTS AND CONTINGENT LIABILITIES	2018	2017
DEBTS SECURED BY MORTGAGES AND SHARES		
Loans from financial institutions	-	-
Total	**0**	**0**
Real estate mortgages	-	-
Total	**0**	**0**
SECURITY FOR DEBTS OF SUBSIDIARIES AND OTHER GROUP COMPANIES		
Guarantees	19 259	19 364
Total	**19 259**	**19 364**
SECURITY FOR DEBTS OF PARTICIPATING INTERESTS		
Guarantees	-	**-**
Total	**0**	**0**
SECURITY FOR DEBTS OF OTHERS		
Guarantees	1 303	1 895
Total	**1 303**	**1 895**
OTHER CONTINGENCIES		
Leasing commitments		
Maturing in less than a year	318	276
Maturing in 1–5 years	337	347
Total	**655**	**623**
OTHER RENT COMMITMENTS		
Maturing in less than a year	1 326	871
Maturing in 1–5 years	3 724	3 482
Maturing in more than five years	2 793	3 482
Total	**7 843**	**7 835**
Other commitments	4	4
Total other contingencies	**8 502**	**8 462**

17. DERIVATIVE INSTRUMENTS

	2018 POSITIVE FAIR VALUE	2018 NEGATIVE FAIR VALUE	2018 FAIR VALUE NET	2017 FAIR VALUE NET	2018 NOMINAL VALUE	2017 NOMINAL VALUE
Interest rate derivatives	2 942	-8 190	-5 248	-6 406	64 627	65 238
matured in 2018	-	-	-	-	-	-
matures in 2019	357	-357	-	-	-	-
matures in 2020	-	-	-	-	-	-
matures in 2021	-	-2 293	-2 293	-2 840	25 000	25 000
matures in 2022	1 433	-3 726	-2 293	-2 840	25 000	25 000
matures in >2022	1 152	-1 814	-662	-726	14 627	15 238
of which defined as cash flow hedging instruments	-	-	-	-	-	-
Foreign exchange derivatives	**165**	**-163**	**2**	**-107**	**30 249**	**29 318**
of which defined as net investment hedging instruments	-	-	-	-	-	-
Commodity derivatives	**5 283**	**-5 283**	**-**	**-**	**-**	**-**
matured in 2018	-	-	-	-	-	-
matures in 2019	3 624	-3 624	-	-	-	-
matures in 2020	1 296	-1 296	-	-	-	-
matures in 2021	330	-330	-	-	-	-
matures in 2022	32	-32	-	-	-	-
of which defined as cash flow hedging instruments	-	-	-	-	-	-

Nominal values of external derivatives that are eliminated due to intercompany derivatives are netted to zero in the table above. The nominal values are EUR 9 755 (12 131) thousand foreign exchange derivatives, EUR 9 992 (7 355) thousand commodity derivatives, EUR 54 503 (55 317) thousand interest rate derivatives.

FAIR VALUE HIERARCHY	31 DEC. 2018	LEVEL 1	LEVEL 2	LEVEL 3
Derivatives positive fair value				
Interest rate swaps	2 942	-	2 942	-
Foreign exchange derivatives	165	-	165	-
Commodity derivatives	5 283	-	5 283	-
Total	**8 389**	**-**	**8 389**	**-**
Derivatives negative fair value				
Interest rate swaps	-8 190	-	-8 190	-
Foreign exchange derivatives	-163	-	-163	-
Commodity derivatives	-5 283	-	-5 283	-
Total	**-13 636**	**-**	**-13 636**	**-**

FAIR VALUE HIERARCHY	31 DEC. 2017	LEVEL 1	LEVEL 2	LEVEL 3
Derivatives positive fair value				
Interest rate swaps	3 816	-	3 816	-
Foreign exchange derivatives	125	-	125	-
Commodity derivatives	859	-	859	-
Total	**4 800**	**-**	**4 800**	**-**
Derivatives negative fair value				
Interest rate swaps	-10 222	-	-10 222	-
Foreign exchange derivatives	-231	-	-231	-
Commodity derivatives	-859	-	-859	-
Total	**-11 313**	**-**	**-11 313**	**-**

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

SIGNATURES TO THE FINANCIAL STATEMENT AND REPORT OF THE BOARD OF DIRECTORS

VANTAA, 5 FEBRUARY 2019

REIJO KISKOLA
Chairman of the Board

JARI MÄKILÄ
Deputy chair of the Board

HARRI SUUTARI
Member of the Board

PER OLOF NYMAN
Member of the Board

TERHI TUOMI
Member of the Board

TERO HEMMILÄ
CEO

AUDITOR'S NOTE

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

VANTAA, 5 FEBRUARY 2019

Ernst & Young Oy
Authorized Public Accountants

Erkka Talvinko
APA

HKSCAN

AUDITOR'S REPORT (TRANSLATION OF THE FINNISH ORIGINAL)

To the Annual General Meeting of HKScan Corporation

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of HKScan Corporation (business identity code 0111425-3) for the year ended 31 December 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 8 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Revenue recognition We refer to the group's accounting policies and the note 1. Revenue is measured taking into account discounts, volume based credits and marketing support. The management is using judgment in recognizing the items affecting revenue and therefore, revenue could be subject to misstatement, whether due to fraud or error. Based on above revenue recognition was a key audit matter. This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).	Relating to revenue recognition we performed, among others, the following audit procedures: • We assessed the compliance of the group's accounting policies over revenue recognition with applicable accounting standards. • We tested the group's controls over timing of revenue recognition and over the calculation of discounts, volume based credits and marketing support. • We tested using analytical procedures and transaction level testing the underlying calculations of discounts, volume based credits and marketing support, the timing of their recognition and compliance with the contract terms. • We tested the cutoff of revenue with analytical procedures supplemented with tests on a transaction level either side of the balance sheet date as well as credit notes prepared after the balance sheet date. • We considered the appropriateness of the group's disclosures in respect of revenues.

Valuation of goodwill, intangible and tangible assets
We refer to the group's accounting policies and the notes 5, 10, 11 and 12.

At the balance sheet date, the value of tested goodwill, intangible and tangible assets amounted to 572 M€ representing 61 % of the total assets and 175 % of the total equity. Valuation of goodwill, intangible and tangible assets was a key audit matter because the impairment testing imposes estimates and judgment. The group management uses assumptions in respect of determining discount rate as well as future market and economic conditions such as economic growth, expected inflation rates, expected market share and revenue and profitability developments.

This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).

We performed, among others, the following audit procedures:

- We involved our valuation specialists to assist us in evaluating the assumptions and methodologies used by the group. Audit focused among others to those relating to the forecasted profitability, volume of replacement investments and discount rates used.
- We focused on analysing by cash generating unit how the profitability has been derived from the historical performance and the budget prepared by the management.
- We assessed the historical accuracy of the management's estimates.
- We tested the mathematical accuracy of the calculation.
- We considered the appropriateness of the group's disclosures in respect of impairment testing.

Valuation of deferred tax asset
We refer to the group's accounting policies and the notes 8 and 15.

Deferred tax asset arising from tax losses carried forward, deferred tax depreciation and deferred interest expenses subject to interest deduction limit recognized when IAS 12 Income Taxes – standard's recognition criteria are met.

Valuation of deferred tax asset was a key audit matter because the assessment regarding the utilization of the tax losses carried forward, deferred tax depreciation and deferred interest deductions imposes significant management judgment.

This matter was also a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).

We performed, among others, the following audit procedures:

- We assessed the compliance of the group's accounting policies over the recording deferred tax assets with applicable accounting standards.
- We evaluated the analyses made by management with respect to utilization of the tax losses carried forward, deferred tax depreciation and deferred interest deduction.
- We considered the appropriateness of the group's disclosures about the deferred tax assets.

Valuation of inventory
We refer to the group's accounting policies and the note 16.

At the balance sheet date, the value of inventory amounted to 121 M€. The valuation of the inventory was a key audit matter as the amount of inventory in the financial statements is material and imposes management judgement.
The valuation of finished and semi-finished goods is based on cost accounting imposing estimates.

We performed, among others, the following audit procedures:

- We assessed the group's accounting principles related to the valuation of inventories.
- We tested using analytical procedures and testing the underlying analyses and calculations prepared by the management relating to the costing of finished and semi-finished goods and determining the net realizable value. We familiarized ourselves regarding the relevant controls and processes.
- We also considered the appropriateness of the group's disclosures in respect of balance sheet values and the accounting principles concerning the valuation of inventories.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticisim throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

INFORMATION ON OUR AUDIT ENGAGEMENT

We were appointed as auditors by the Annual General Meeting on April 12, 2018. This has been our first year as HKScan Corporation's auditors.

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

OPINIONS BASED ON ASSIGNMENT OF THE ANNUAL GENERAL MEETING

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the distributable equity shown in the balance sheet for the parent company is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

HELSINKI, 5.2.2019

Ernst & Young Oy
Authorized Public Accountant Firm

Erkka Talvinko
Authorized Public Accountant