HKSCAN

Financial Statements Bulletin 2023

HKScan's Financial Statements Bulletin 1 January–31 December 2023

Net sales from HKScan's continuing operations increased and EBIT improved clearly in 2023

October-December 2023

- On 29 December 2023, HKScan Corporation signed an agreement to sell the shares of its Swedish subsidiary HKScan Sweden AB to the Swedish Lantmännen ek för. The transaction is expected to be closed in the first half of 2024 and is subject to clearance by the EU Commission and the Swedish competition authorities on foreign direct investment (FDI) controls. The transaction will change HKScan's structure and financial key figures. HKScan reports the Swedish business as a discontinued operation, and the company's financial reporting will focus on continuing operations, i.e., businesses in Finland and Denmark. The transaction does not include the Polish bacon unit, which is reported as part of the Business Unit Sweden. The Polish unit's figures will be reported as part of the Business Unit Finland going forward.
- HKScan's net sales from continuing operations decreased by 1.4 per cent to EUR 302.0 (306.3) million.
- Sales prices were at the comparison period's level. Sales volumes increased in the retail channel, while food service sales remained at the comparison period's level. Sales volumes fell as planned in the export and industrial channels, leading to a small decline in overall volumes.
- The Group's EBIT from continuing operations totalled EUR 3.0 (1.7) million.
- The Group's comparable EBIT from continuing operations was EUR 2.8 (-0.2) million. Production costs remained at a high level. Personnel and external services costs increased from the comparison period, but energy prices were significantly lower. Consumer demand remained at the level of the previous quarter. Improved sales channel mix, increased production efficiency and cost savings improved profitability.
- The comparable EBIT of the Business Unit Finland was EUR 6.3 (1.6) million.
- The comparable EBIT of the Business Unit Denmark was EUR -0.1 (0.4) million.
- Cash flow from operating activities was EUR 33.1 (37.1) million. Cash flow weakened from the comparison period due to lower working capital release and higher financing costs, although EBITDA improved significantly.

January-December 2023

- HKScan's net sales from continuing operations increased by 6.0 per cent to EUR 1,163.2 (1,097.5) million. In early 2023, sales prices were significantly higher than in the comparison period. Sales prices in the last quarter were at the comparison period level.
- The Group's EBIT from continuing operations totalled EUR 17.4 (-2.6) million.
- The Group's comparable EBIT from continuing operations was EUR 14.9 (-2.9) million.
  The cost level remained high in January-December. The cost increase was covered by the sales price increases implemented during 2022. Energy costs were lower than in the comparison period, particularly in July-September. Commercial measures and slightly improved consumer demand in the spring in the company's home markets reduced the need for meat exports versus the comparison period, which improved profitability towards the end of the year. In 2023, profitability improved as a result of increased production efficiency and cost savings.
- The comparable EBIT of the Business Unit Finland was EUR 20.5 (4.3) million.
- The comparable EBIT of the Business Unit Denmark was EUR 3.3 (1.4) million.
- Cash flow from operating activities was EUR 50.6 (18.9) million.
  Cash flow improved significantly from the comparison period due to a reduction in working capital and stronger EBITDA.
- Interest-bearing net debt was EUR 287.9 (353.1) million and net gearing 121.0 (123.7) per cent.
- The divestment of the Baltic business unit was closed on 31 August 2023.
- The Board of Directors proposes to the Annual General Meeting that no dividends be paid for 2023.

The figures in parentheses refer to the same period in the previous year, unless otherwise mentioned. The figures are unaudited. As of 1 January 2023, HKScan has changed its accounting policy for spare parts inventory retrospectively. This change has an impact on the inventory value, equity and deferred tax liabilities on the balance sheet and key figures (Return on capital employed and Net gearing). Quarterly and full-year financial information for 2022 has been restated accordingly. Additional information about the impact is disclosed in the accounting policies.

Outlook for 2024

In 2024, HKScan estimates that the Group's comparable EBIT from continuing operations will improve compared to 2023.

Key figures, net sales, continuing operations

(EUR million)	10-12/2023	10-12/2022	1-12/2023	1-12/2022
Net sales	302.0	306.3	1,163.2	1,097.5
Finland	249.7	251.9	933.0	877.2
Denmark	52.2	54.3	230.2	220.4

Key figures, EBIT, continuing operations

(EUR million)	10-12/2023	10-12/2022	1-12/2023	1-12/2022
EBIT	3.0	1.7	17.4	-2.6
- % of net sales	1.0	0.6	1.5	-0.2
Comparable EBIT	2.8	-0.2	14.9	-2.9
- % of net sales	0.9	-0.1	1.3	-0.3
Comparable EBIT, Finland	6.3	1.6	20.5	4.3
- % of net sales	2.5	0.6	2.2	0.5
Comparable EBIT, Denmark	-0.1	0.4	3.3	1.4
- % of net sales	-0.3	0.8	1.4	0.6

Key figures, other

(EUR million)	10-12/2023	10-12/2022	1-12/2023	1-12/2022
EBITDA, continuing operations	12.2	8.3	52.7	30.1
Profit before taxes, continuing operations	-4.1	-4.6	-9.0	-13.3
- % of net sales	-1.4	-1.5	-0.8	-1.2
Profit for the period, continuing operations	-7.4	-5.8	-15.6	-16.0
- % of net sales	-2.5	-1.1	-0.8	-0.9
EPS, EUR, continuing operations	-0.10	-0.08	-0.22	-0.22
Comparable EPS, EUR, continuing operations	-0.10	-0.10	-0.25	-0.22
Cash flow from operating activities, incl. discontinued operations	33.1	37.1	50.6	18.9
Cash flow after investing activities, incl. discontinued operations	40.2	13.6	73.3	-21.9
Return on capital employed (ROCE) before taxes, %, incl. discontinued operations			3.0	-6.4
Interest-bearing net debt			287.9	353.1
Net gearing, %			121.0	123.7

HKScan's CEO Juha Ruohola

HKScan's net sales from continuing operations increased by 6.0 per cent to EUR 1,163.2 (1,097.5) million. The Group's EBIT from continuing operations totalled EUR 17.4 (-2.6) million and comparable EBIT was EUR 14.9 (-2.9) million. The comparable EBIT showed a clear improvement. The improvement came particularly from Finland, where a turnaround occurred in May after a weaker start to the year, but also from Denmark, where HKScan achieved its best full-year result in more than ten years.

HKScan's efforts to improve production efficiency and save costs continued throughout the year. This improved both EBIT and profitability. In Finland, the investments made in commercial activities during the year have also paid off. We have previously reported on the investments and other development plans which we expect to generate annual savings of around EUR 12 million. Half of this was realised in 2023 and we expect the remaining six million to be realised from Q3/2024 until the end of Q2/2025.

Inflation pressures eased towards the end of the year, but cost levels remained high throughout the year. We were able to cover the cost increases with the sales price increases implemented during 2022. Market interest rates also remained high, which has brought additional costs not only to the entire value chain but also to consumers.

I am pleased that our determined work, together with our contracted producers and other partners, is paying off. Although the EBIT has clearly improved, our profitability is not satisfactory. In 2024, we will continue to tightly manage costs, improve production efficiency, optimise our product portfolio in line with the changing consumer demand and carry out commercial activities to achieve our target performance and to improve profitability.

At HKScan, we have continuously assessed the position of the different businesses within the Group in order to increase our financial flexibility. Important steps in improving HKScan's profitability and strengthening its balance sheet included the completion of the divestment process of the Baltic businesses in August 2023 and the agreement we reported at the end of December on the sale of the Swedish businesses. The Baltic businesses was acquired by the Estonian company AS Maag Grupp, and for the sale of the Swedish business we have reached an agreement with the Swedish company Lantmännen ek för. We expect the sale of the Swedish businesses to be closed in the first half of 2024. Its closing is subject to approval by the EU Commission and the Swedish authorities regarding foreign direct investment (FDI) controls.

The transactions have changed and will change HKScan's structure and financial key figures. The company's financial reporting will focus on continuing operations, i.e., businesses in Finland and Denmark. The Polish unit's figures will be reported as part of the Business Unit Finland.

The business divestments will strengthen HKScan's balance sheet, and the proceeds will be used to repay the company's loans. At the same time, they allow us to better focus on our remaining businesses and implement our long-term strategy of growing into a versatile food company. Due to the divestment of the Swedish businesses, the poultry's share of our net sales will increase, which is one of our strategic targets along with the increasing added value. We will continue to operate on our foundations as a strongly Finnish but internationally operating listed company. Our market position is significant, and our brands are strong.

Our responsibility work continues with determination, and we have promoted our responsibility programme in our businesses throughout the past year. The wellbeing and safety of our employees are at the heart of our responsibility programme. We will continue to promote employee wellbeing through the Group-wide Better Together programme and safety work through the Safety First programme. These programmes are part of the implementation of HKScan's strategy and corporate responsibility programme in line with the company's values – Inspire, Care, Lead and Deliver.

In 2023, we continued to prepare for the EU's Corporate Sustainability Reporting Directive (CSRD) by, for example, updating the responsibility materiality analysis and completing the company's climate emissions calculation to comply with the latest GHG Protocol calculation model. During the process, we identified the need to update the climate emissions calculation, climate target and timeline of our responsibility programme to better align with international climate work guidelines, calculation guidelines and reporting standards. Our new climate target is to reach net zero for all greenhouse gas emissions by 2050. With our revised emissions calculation and climate target, we contribute to the goals of the Paris Agreement and meet the new requirements for the land use sector. HKScan’s climate work is guided by a comprehensive set of measures. It consists of dozens of measurable climate emissions reduction measures defined by our Business Units. We are moving towards net zero climate emissions in cooperation with our contract farmers and other partners.

At the end of 2023, HKScan received SBTi approval for its near-term and land-related climate targets as the first food company in Finland and Denmark.

Overall, 2023 was a year of improved performance and restructuring of the company. HKScan's future now looks much brighter, although more work and challenges still lie ahead.

I would like to thank our personnel, contract farmers, customers, and other stakeholders for the great cooperation in 2023.

Key events in 2023

Juha Ruohola took over as CEO on 2 March 2023

On 2 March 2023, HKScan’s Board of Directors appointed Juha Ruohola, Master of Agriculture and Forestry, eMBA, as CEO of HKScan Corporation. Prior to that, Juha Ruohola served as HKScan’s interim CEO from 29 September 2022.

HKScan sold its Baltic businesses to the Estonian AS Maag Grupp on 31 August 2023

On 31 August 2023, HSKcan sold its Baltic business to the Estonian AS Maag Grupp, subject to the approval of the Estonian competition authorities in July 2023. The Latvian Competition Authority approved the transaction unconditionally in February 2023.

The transaction involved the shares of AS HKScan Estonia, AS HKScan Latvia and UAB HKScan Lietuva, the subsidiaries constituting HKScan's Business Unit Baltics. The debt-free purchase price was EUR 90 million, of which EUR 20 million is conditional on the combined performance of the separately defined meat business subject to the transaction and Maag Grupp's Baltic meat business in the following years. Of the EUR 70 million fixed purchase price, EUR 55 million was paid at the closing of the transaction and the remaining part will be paid over the next three years. With the transaction, HKScan's ownership of the Baltic business ended. The divestment of the Baltic business improved HKScan's profitability and strengthened its balance sheet.

Details of the transaction have been previously disclosed in press releases on 13 December 2022, 24 July 2023 and 31 August 2023: 13.12.2022, 24.7.2023 and 31.8.2023.

On 29 December 2023, HKScan signed an agreement to sell its Swedish businesses

On 29 December 2023, HKScan Corporation announced that it had signed an agreement to sell the shares of its Swedish subsidiary HKScan Sweden AB to the Swedish Lantmännen ek för. The transaction is expected to be closed in the first half of 2024 and is subject to clearance by the EU Commission and the Swedish authorities with regard to foreign direct investment (FDI) controls.

The purchase price for the shares in HKScan Sweden AB amounts to approximately EUR 60 million in cash as well as the A shares (6,869,750) and K shares (665,000) in HKScan Corporation held by Lantmännen. Lantmännen will also repay an intragroup loan between HKScan Corporation and HKScan Sweden AB to the amount of approximately EUR 50 million. HKScan Corporation will also reduce off-balance sheet factoring financing of approximately EUR 55 million and approximately EUR 13 million of IFRS 16 leasing liabilities. A prepayment of EUR 25 million of the purchase price was made upon signing of the agreement.

Details of the transaction have been previously disclosed in press release on 29 December 2023: 29.12.2023.

Investing in profitability and adding value

In addition, HKScan continued to make investments to improve profitability and increase added value in several of its production units in Finland and Denmark.

HKScan's Near-term and land-based climate targets approved by SBTi

HKScan is among the first Nordic food companies to have specified the near-term targets both for industrial energy usage and for the land sector (Forest, Land and Agriculture =FLAG).

According to the near-term climate targets that have been approved by SBTi, HKScan commits to reduce its absolute Scope 1 and 2 GHG emissions for energy and industrial by 42 per cent by 2030 from a 2022 base year. HKScan also commits to reduce its absolute Scope 3 emissions from specific categories by 42 per cent within the same timeframe. The target also includes land-related emissions from bioenergy feedstocks.

In addition, HKScan commits to reduce land-based absolute Scope 3 FLAG GHG emissions by 30.3 per cent from a base year 2022. HKScan also commits to no deforestation across its primary deforestation-linked commodities.

Details of the SBTi approval is behind this link.

Strategy

HKScan's long-term strategic target is to grow into a versatile food company. In the current exceptional and rapidly changing operating environment, the company is focusing on strengthening its financial base and improving the profitability of its core business. HKScan's core business includes meat, processed meat products and ready-made foods, such as meals, meal components and snacks.

Advancing the long-term strategy will require HKScan to achieve a stronger balance sheet. To increase financial flexibility, the company continuously assesses the position of each business within the Group. Increasing productivity in all the business processes is important.

Within its financial resources, HKScan is looking for new growth and actively pursuing new business opportunities promoting its strategy. Partnerships offer HKScan the opportunity to move into new business areas quickly and flexibly.

HKScan wants to grow in its core business by increasing the added value of its products and strengthening the value creation capacity of its own brands. The aim is to grow in product categories that make everyday life easier for consumers, such as meals, meal components and snacks. The aim is also to grow in poultry products and new product categories and to strengthen in growing and new sales channels. HKScan wants to renew commercially and strengthen its relationship with consumers through its trusted brands.

Building responsibility as a value-creating basis for business plays a key role in creating differentiating value in the market. HKScan's responsibility work focuses on the company's business needs and the expectations and requirements of its key stakeholders. HKScan continues its goal-oriented climate work.

Group net sales and EBIT

October–December

Net sales

HKScan's net sales from continuing operations decreased by 1.4 per cent to EUR 302.0 (306.3) million. The value and volume of retail sales grew in Finland, with the strongest growth coming from HKScan's own branded poultry and ready meal products. In Denmark, retail sales increased slightly in value and significantly in volume. Sales in the food service channel decreased slightly versus the comparison period. The decline in net sales and sales volume was due to a planned significant reduction in meat exports.

EBIT

HKScan's EBIT from continuing operations totalled EUR 3.0 (1.7) million. The comparable EBIT from continuing operations was EUR 2.8 (-0.2) million.

Items affecting comparability of EUR 0.2 (2.0) million were recorded in continuing operations. Items affecting comparability are described in more detail in the Tables section of this report.

Cost levels remained high in October-December 2023. Relative to the same period last year, inflation was driven up by high costs of external services and general wage increases. On the other hand, energy prices remained at moderate levels and were lower than in the same period last year. Overall, consumer demand in Finland remained at the level of the comparison period but was particularly focused on lower-priced products. Demand for beef in particular continued to fall.

Thanks to commercial measures, sales volumes in the retail channel increased. In the Finnish market, supply and demand were in balance and as a result, less profitable meat export sales were lower than in the same period last year. This contributed to improved profitability. In the Danish market, demand for by-products weakened and their prices fell exceptionally, causing the Danish Business Unit's comparable EBIT to decline from the comparison period. HKScan's production efficiency measures and cost savings improved the EBIT in the period under review.

January–December

Net sales

HKScan's net sales from continuing operations increased by 6.0 per cent to EUR 1,163.2 (1,097.5) million. Net sales increased in both Finland and Denmark. Retail sales increased 8 per cent in Denmark and 6 per cent in Finland. Food service sales developed even more strongly with a significant increase in the early part of the year, partly explained by the impact of Covid restrictions in the previous year. Total sale volumes decreased compared to the same period in the previous year due to lower meat export sales.

EBIT

HKScan's EBIT from continuing operations totalled EUR 17.4 (-2.6) million. The comparable EBIT from continuing operations was EUR 14.9 (-2.9) million.

Items affecting comparability of EUR 2.5 (0.3) million were recorded in continuing operations. Items affecting comparability are described in more detail in the Tables section of this report.

In 2023, strong cost inflation continued, especially for raw materials and external services. In addition, general wage increases and one-off items pushed up costs. Energy costs remained at a moderate level and were significantly lower than in the comparison period in July-September. High cost inflation had been offset by gradual increases in sales prices during 2022, and in the review period, sales prices have largely covered high costs. The change in consumer demand weakened EBIT in the first half of the year, especially in Finland. Consumer demand improved slightly from spring onwards but focused especially on lower-priced products. The decreasing demand for beef continued in 2023. HKScan's improved sales mix improved the EBIT towards the end of the year. HKScan's measures to improve production efficiency and save costs improved EBIT in 2023.

Balance sheet, cash flow and financing

At the end of the year, HKScan's balance sheet total was EUR 851.7 (976.0) million. The Group's interest-bearing debt at the end of the year was EUR 306.9 (364.5) million including an IFRS 16 lease liability of EUR 89.6 (101.7) million. The company's net debt decreased from the comparison period by EUR 65.2 million to

EUR 287.9 (353.1) million. HKScan's net gearing ratio was 121.0 (123.7) per cent. The impact of the IFRS 16 lease liability on the net gearing ratio was 43.5 percentage points.

At the end of the year 2023, the company had on its balance sheet a hybrid bond that was issued in 2018 and amounted to EUR 25.9 million. The hybrid bond does not have a specified maturity date, and the hybrid bond is treated as equity. In September, an interest of EUR 2.1 million was paid for the hybrid loan, treated as equity, from the retained earnings.

In December, the company agreed to extend the maturity of the EUR 75.0 million credit facility, EUR 10.0 million additional credit facility and EUR 36.0 million bank loan to January 2025.

The Group's liquidity position was satisfactory. The EUR 200 million commercial paper programme had been drawn to the amount of EUR 3.5 (15.0) million. Committed credit facilities at the end of the year 2023 stood at EUR 85.0 (145.0) million and had been drawn to the amount of EUR 75.0 (100.0) million.

HKScan's covenants for bank loans and revolving credit facilities are the net gearing ratio, the ratio of net debt to EBITDA and the liquidity covenant. EBITDA includes the share of profits from associates and joint ventures. According to the loan terms, the net gearing ratio limit is 125 per cent for bank loans and 130 per cent for bonds. At the end of year 2023, the company's net gearing ratio was 121.0 per cent.

Until the end of the year, the covenant limit for net debt to EBITDA ratio was 5.0. At the end of year 2023, the net debt to EBITDA ratio was 3.7. From the beginning of January 2024, the covenant limit will be 4.5.

The minimum limit for the liquidity covenant is EUR 20.0 million. At the end of year 2023, the liquidity was EUR 35.5 million. From 1 January 2024, the liquidity covenant limit will be reduced to EUR 15 million.

HKScan's management has assessed the cash flow forecasts of the business over the next 12 months, which indicate that the covenants will not be breached. Further information is available under the headline Assumption of ability to continue as a going concern in the accounting policies of the Financial Statements Bulletin.

In October-December, net financial expenses from continuing operations were EUR -6.9 (-5.7) million and in January-December EUR -27.7 (-16.0) million. The increase in net financial expenses was due to the general rise in interest rates and the arrangement costs of the loans. Cash flow from operating activities in October-December was EUR 33.1 (37.1) million and in January-December EUR 50.6 (18.9) million. Cash flow after investments in October-December was EUR 40.2 (13.6) million and totalled EUR 73.3 (-21.9) million in January-December.

Disputes and pending legal proceedings

The Danish tax authorities conducted an audit of energy taxes covering the period 2011–2020 in HKScan Denmark A/S, which is a subsidiary of the Group. At the end of 2020, the Danish tax authorities issued their decision, according to which the company has been obliged to repay past refunds of energy taxes amounting to 24.7 million Danish krone (ca. EUR 3.3 million) in the pending matter. Further, it cannot be excluded that in addition to the currently pending matter, the company could separately be imposed penal sanctions as a result of the tax audit. HKScan Denmark A/S has submitted an appeal concerning the decision. HKScan recorded the expense in the last quarter of 2020 and paid the amount to the authorities in the first quarter of 2021.

Investments

HKScan's investments in continuing operations in October-December amounted to EUR 7.2 (11.2) million. Investments for January-December totalled EUR 21.5 (20.8) million. IFRS 16 increases to right-of-use assets were EUR 3.4 (2.6) million in October-December and EUR 13.1 (4.9) million in January-December.

The Forssa unit's investment to improve the competitiveness and cost-efficiency of production progressed as planned.

In April, HKScan decided to implement a development investment of approximately EUR 4.6 million in the Rauma unit's poultry cutting department to improve the profitability and competitiveness of the unit. With the investment and related development measures, HKScan aims to achieve total annual savings of around EUR 3 million in Finland, which are expected to be realised after the completion of the investment in the second half of 2024 at the latest. The development investment in Rauma also proceeded according to plan.

In Denmark, the investment in the production of higher-value ready-to-eat poultry products progressed as planned. The Polish production unit continued to invest in improving the capacity and efficiency of the bacon production and increasing the added value. In addition, the property development project continued.

HKScan also implemented several other investments to improve operational efficiency as part of its ongoing investment plan in Finland and Denmark.

Export

HKScan's objective is to develop exports of products and reduce the role of meat exports as a channel to balance the home markets. Currently, products account for about one fifth of exports. Meat exports were reduced in 2023 as planned.

In November 2023, Finnish poultry meat was approved for export to China. HKScan expects exports to start in the first half of 2024. The company already exports Finnish pork to China. During the year, HKScan also launched beef exports from Finland to Japan.

Changes in the international meat market

Strong demand for poultry meat is expected to continue. Beef consumption is expected to continue to fall, contributing to the already strong demand for poultry products. Very low pork prices in the American continent will continue to challenge the EU's export prices. Despite the recent fall in prices, pork prices in the EU are expected to remain high.

Business Unit Finland

(EUR million)	10-12/2023	10-12/2022	1-12/2023	1-12/2022
Net sales	249.7	251.9	933.0	877.2
EBIT	6.3	4.0	20.7	6.4
- EBIT margin, %	2.5	1.6	2.2	0.7
Comparable EBIT	6.3	1.6	20.5	4.3
- EBIT margin, %	2.5	0.6	2.2	0.5

October-December

In Finland, net sales totalled EUR 249.7 (251.9) million. Sales volumes were at the comparison period's level. Sales volumes slightly decreased from the comparison period. The value of retail sales grew in Finland, with the strongest growth coming from HKScan's own branded poultry and ready meal products. The sales volume for minced meat also increased clearly. Food service sales remained at the same level as a year ago. Poultry products continued to grow, but at a slower pace after a strong start to the year. Sales of pork increased clearly, but beef sales fell. Volumes in the retail and food service channels were at the comparison period level. The decrease in total sales volume was due to a planned decline in meat export and industrial sales volumes.

EBIT increased to EUR 6.3 (4.0) million. Comparable EBIT was EUR 6.3 (1.6) million. In the previous year, the EBIT included an item of EUR 0.0 (2.3) million affecting comparability. Cost levels in Finland remained high. General wage increases and higher prices for external services pushed up costs, but energy costs were lower than in the comparison period. Cost inflation was covered by higher sales prices. Better sales mix, improved production efficiency and successful commercial measures improved the EBIT in the period under review.

January-December

In Finland, net sales totalled EUR 933.0 (877.2) million. Net sales increased mainly due to the price increases made before the review period. Sales volumes were at the comparison period level. The value of retail sales increased clearly, with particularly strong growth in the retail sales value of HKScan's own branded products. The volume of retail sales declined slightly during the review period as a result of weak consumer demand in the early part of the year but improved from the spring onwards. Food service sales continued to grow strongly, particularly in the first quarter, levelling off towards the end of the year. The growth was strongest in the strategically important poultry products. Pork sales also increased clearly, while demand for beef weakened. Pork exports, which had shown strong growth in the early part of the year, turned clearly down in the second quarter.

EBIT was EUR 20.7 (6.4) million. Comparable EBIT was EUR 20.5 (4.3) million. EBIT included an item of EUR 0.1 (2.1) million affecting comparability. Cost levels in Finland remained high, with raw materials in particular being more expensive than in the comparison period. Cost increases were covered by higher sales prices. In addition, general wage increases, one-off items and higher external service prices pushed up costs. Energy costs were lower than in the previous year. The strong increase in pork exports at the beginning of the year had a negative impact on profitability. The increase in sales of branded products was supported by additional investments in marketing activities, which increased fixed costs. A better sales mix improved the EBIT at the end of the year. Improved production efficiency and successful commercial measures improved EBIT in 2023.

Following change negotiations conducted in the spring, HKScan decided to implement a EUR 4.6 million development investment in its Rauma unit to improve profitability and competitiveness. The investment-related reorganisation of operations and adjustment of staffing levels will result in the reduction of up to 35 jobs in the Rauma poultry cutting department and changes to more than 200 jobs. With the investment and related development measures, HKScan aims to achieve total annual savings of around EUR 3 million in Finland, which are expected to be realised after the completion of the investment in the second half of 2024 at the latest.

Business Unit Denmark

(EUR million)	10-12/2023	10-12/2022	1-12/2023	1-12/2022
Net sales	52.2	54.3	230.2	220.4
EBIT	-0.1	0.4	3.1	1.4
- EBIT margin, %	-0.3	0.8	1.4	0.6
Comparable EBIT	-0.1	0.4	3.3	1.4
- EBIT margin, %	-0.3	0.8	1.4	0.6

October-December

In Denmark, net sales totalled EUR 52.2 (54.3) million. Good demand for poultry products continued in Denmark and Sweden. The value of retail sales was at the comparison period level, while the volume showed a clear increase. Sales of ready-to-eat poultry products with higher added value increased significantly. Food service channel sales showed a slight decline in the period under review, although the volume was at the comparison period level. As a result of strong demand in the home markets, exports were lower than in the comparison period.

Denmark's EBIT was EUR -0.1 (0.4) million. Comparable EBIT was EUR -0.1 (0.4) million. There were no items affecting comparability during the review period and comparison period. Demand for by-products weakened and the price paid for by-products was exceptionally low, leading to a decline in the comparable EBIT of the Danish Business Unit versus the comparison period. In spring, cost inflation levelled off and remained moderate, with costs falling slightly from the comparison period. Energy costs decreased from the comparison period. EBIT improved due to successful commercial measures, strong consumer demand and long-term production efficiency improvements.

January-December

In Denmark, net sales totalled EUR 230.2 (220.4) million. Price increases made before the review period increased net sales significantly at the beginning of the year, but the impact of inflation and price increases levelled off from the second quarter onwards. Retail sales growth was particularly strong at the beginning of the year but levelled off from the spring onwards. In addition, the importance of promotional sales became more pronounced towards the end of the year. Food service sales showed clear growth in Denmark. Due to the strong demand of the home markets, exports decreased from the previous year.

Denmark's EBIT was EUR 3.1 (1.4) million. Comparable EBIT was EUR 3.3 (1.4) million. EBIT included an item of EUR -0.2 (0.0) million affecting comparability. The strong cost inflation was covered by sales price increases made before the review period. EBIT improved due to successful commercial measures, strong consumer demand and long-term production efficiency improvements.

In Denmark, HKScan's strategy-based investment to increase the sales of value-added poultry products and add value in products was completed. Production on the new poultry cooking line started in August.

Report on non-financial information

HKScan is a Northern European food company that makes, sells and markets tasty and responsibly produced food for consumers' various food moments. The company's long-term strategy is to grow into a versatile food company. The home markets for HKScan's continuing operations are Finland and Denmark. The company's well-known brands include HK, Kariniemen, Via and Rose. HKScan's report of non-financial information covers the Group's continuing operations.

Responsibility work is the basis of HKScan's strategy, with a focus on the business needs and the expectations and requirements of key stakeholders. The most important strategic responsibility targets at the Group level are summarised in the responsibility programme, whose material themes have been defined on the basis of a stakeholder analysis and a materiality assessment. At the beginning of 2024, HKScan updated the climate targets and timeline of its responsibility programme to better align with international climate work guidelines and reporting standards.

The objectives of the responsibility programme, approved by HKScan's Executive Team, relate to the wellbeing of nature and people: climate, packaging, biodiversity and the safety and wellbeing of employees. Other key responsibility themes for the company include animal welfare, healthy and safe food, a competitive farmer community and good governance. These themes are promoted within the Business Units, as they are subject to local regulation and stakeholder expectations vary across markets.

The progress of HKScan's responsibility work will be reported in more detail in the Annual and Responsibility Report based on the GRI Standards Framework to be published in week 11/2024. The report will describe in more detail HKScan's impact on the environment and people as well as the company's responsibility measures.

Key commitments, policies and principles

HKScan's values and ethical guidelines (Code of Conduct) form the foundation of the company's way of working. HKScan's operations are guided by, for instance, Group-wide corporate governance, information security, data privacy, disclosure, remuneration, risk management and environmental policies, occupational health and safety policy, food safety and quality policy and animal welfare policy. The company has the Supplier Code of Conduct, which commits suppliers to comply with the company's requirements in its whole supply chain. In addition, the company has a number of internal policies and guidelines relating to ethical conduct.

HKScan respects and supports international human rights agreements, the UN Convention on the Rights of the Child, and the International Labour Organization's core conventions. Additionally, HKScan takes into consideration in its operations the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises.

HKScan is a member of the UN Global Compact sustainability initiative and has integrated its sustainable business principles into the company's Code of Conduct. Furthermore, HKScan is committed to the UN Sustainable Development Goals (SDGs) as part of the Group's corporate responsibility programme. Progress towards the Sustainable Development Goals related to health and wellbeing (SDG 3), gender equality (SDG 5), work (SDG 8), responsible consumption (SDG 12), climate (SDG 13) and terrestrial ecosystems (SDG 15) is monitored through the indicators of the Group's responsibility programme.

In 2023, HKScan continued to prepare for the EU's Corporate Sustainability Reporting Directive (CSRD) by, for example, updating its materiality analysis of responsibility and reviewing the ESRS standards developed by the European Financial Reporting Advisory Group (EFRAG) and adopted by the EU Commission in late July to guide the implementation of the directive. HKScan also updated the climate emissions calculation to comply with the new GHG Protocol calculation model for the land use sector.

Environment

After the review period, in January 2024, HKScan reported that it had updated the climate emissions calculation, climate target and timeline of its responsibility programme to better align with international climate work guidelines, calculations guidance and reporting standards.

The HKScan Group's revised climate target is to achieve net zero for all greenhouse gas emissions by 2050 at the latest. Significantly reducing total greenhouse gas emissions is HKScan's primary way to achieve net zero. In order to reach this target, the reduction of greenhouse gases must be complemented by sustainable carbon removals, either through natural or technological solutions. The company's previous climate target was a carbon-neutral food chain from farms to consumers by 2040.

In connection with the update of its climate target, HKScan announced that it received the approval of the SBTi (Science Based Targets initiative) for near-term and soil-related climate targets. HKScan's revised climate calculation shows that about 1 per cent of the company's emissions are generated by its own operations and 99 per cent by other parts of the food chain. It is therefore essential to take into account emissions from land use and the entire food chain.

HKScan’s climate work is guided by a comprehensive set of measures. It consists of dozens of measurable climate emissions reduction measures defined by our Business Units. The company is moving towards net zero climate emissions in cooperation with its contract farmers and other partners.

HKScan's climate work in its own production focused particularly on the improvement of energy efficiency. In one of the ready-meals lines in Vantaa, the option of using electricity instead of natural gas was introduced for heat generation. In addition, natural gas was replaced by carbon-neutral electricity at the Vinderup unit in Denmark. If necessary, Vinderup can continue to use natural gas.

HKScan continued to explore best practices on how to reduce the climate impact of meat production together with around 50 ~~80~~ pilot farms in Finland and Denmark. During the summer 2023 growing season, HKScan investigated how to improve carbon sequestration in fields on pilot farms, for example by using soil sensors, weather stations, carbon flux measurement equipment and by comparing different crop varieties. Based on the studies and collected data, the company makes recommendations to its contract farmers.

During the year, the company developed digital data collection on the climate impacts of the value chain in Finland, HKScan extended the use of the Zero Carbon questionnaire. HKScan uses digital climate tools to obtain information on the climate impact of its contract farmers and to help farmers target their climate actions on the most impactful issues.

HKScan promotes biodiversity on farms and in its own production as well as through responsible procurement practices. In 2023, HKScan investigated the status of its environmental impacts by participating in a study by the Finnish Food and Drink Industries’ Federation (ETL), which identified the main environmental impacts of the food industry and looked for ways to reduce them. In addition, HKScan was selected to participate in the UN Global Compact Network Finland's Science Based Targets for Nature training programme, where the company's nature work is developed in line with the Science Based Targets Network framework.

In Finland, HKScan also participates in the food industry’s Material Efficiency Commitment 2022–2026 to reduce the environmental impact of food and food packaging across the sector. Efficient use of materials significantly reduces the company’s environmental impact.

In Denmark, HKScan has supported its contract farmers in their transition to solar power. The first solar panels to reduce the need for purchased electricity were installed on four of the company’s contract farms in early 2023, and a wind turbine was installed on one farm.

In all the home markets of its continuing operations, HKScan continued to promote the recyclability and development work of packaging to increase renewable packaging materials. In addition, the company continued the optimisation of the packaging material use and the thinning of plastic materials.

In October, HKScan was the first food company in Finland to sign a voluntary Green Deal commitment to reduce the consumption of single-use plastic (SUP) packaging in the European Union. The SUP directive requires EU Member States to achieve an ambitious and permanent reduction in the consumption of certain single-use plastic products by 2026. The reduction applies to beverage cups made entirely or partly of plastic as well as single-use plastic food packaging with contents ready to eat straight from the container.

HKScan’s value chain generates climate emissions, and the company is systematically working to reduce them. HKScan has assessed the risks and opportunities related to climate change and their financial impact in line with the Task Force on Climate-Related Financial Disclosure (TCFD) model. Key risks relate to issues such as legislation, the availability of lower emission technologies, energy costs, consumer behaviour and attractiveness as an employer and investment. An updated description of risks and opportunities will be published in HKScan's Annual and Responsibility Report in week 11/2024.

The effectiveness and impact of HKScan’s environmental work on the company's own production is assessed by internal and external ISO 14001 audits, with the exception of the Danish production units. In 2023, there were no significant environmental deviations. Environmental risks at HKScan's production plants have been identified as part of the ISO 14001 environmental management system, and the most significant ones are related to wastewater and possible chemical leaks. Environmental risks are controlled and managed at the plant level through, for example, preventive maintenance and monitoring equipment. Personnel are trained on environmental matters and encouraged to make environmental observations and to report any deviations observed.

In May 2023, HKScan was included in the Financial Times' European Climate Leaders list for the third year in a row. The Financial Times has listed some 500 European companies that have reduced the climate emissions from their own production most in relation to net sales between 2016 and 2021.

Social responsibility and HR matters

In 2023, HKScan's continuing operations had 3,623 (3,631) employees. In addition, the Swedish business unit reported as a discontinued operation employed 1,765 (1,758) people. In 2023, the total salaries and remunerations, including social costs, paid by HKScan's continuing operations were EUR 206.1 (199.5) million. In addition, HKScan's value chain of continuing operations includes some 2,150 contract farmers with whom the company works closely to develop production and responsibility and to ensure the competitiveness of local meat production.

Continuing operations personnel	1–12/2023	1–12/2022
Personnel on average*	3,623	3,631
Finland**	2,946	2,967
Denmark	677	664
Women / men %	40/60	41/59
Women / men of superiors %	31/69	29/71

* Figures include persons employed by HKScan converted to full-time equivalents (FTE).
** Including Polish personnel.

HKScan takes goal-oriented measures towards zero accidents at work through its Safety First policy, with a particular focus on promoting a proactive safety culture and continuous improvement. The company continued its preparation for the ISO 45001 occupational health and safety standard by assessing current practices in its Finnish and Danish production units. HKScan aims to have all its units ISO 45001 certified by the end of 2025.

In 2023, the main focus of safety work was on proactive safety and developing the skills of employees through Blue Rules training. Safety observations, near misses and accidents were systematically addressed and used to improve the safety of practices, processes and the work environment. Moreover, safety culture was promoted through careful risk assessments and process management.

By the end of 2023, 92 per cent of employees had completed the Blue Rules online training on safe working to avoid fatal accidents. In October, the Group celebrated the European Health and Safety Week, focusing on the themes of the Blue Rules.

In 2023, HKScan's lost time accidents / million working hours (LTIR) was 16.4 (13.5).

HKScan continued the promotion of wellbeing at work with the Group-wide programme Better Together, which focuses on personnel engagement, promotion of wellbeing at work and psychological safety. Action plans for wellbeing at work have been drawn up for each production unit and Business Unit. In 2023, the themes in the programme were Nutrition and Physical Activity, Mental Health at Work, Sleep and Recovery, and Prevention of Musculoskeletal Disorders.

In October, the company conducted a Group-wide Voice survey to assess employee experience and commitment to HKScan. The response rate of the survey was 85.4 per cent Employee Net Promoter Score (eNPS) improved slightly compared to the previous survey in 2021. The Voice 2023 eNPS is 0, compared to -3 in 2021. HKScan aims to achieve an index score of 10. In December, each team reviewed the results with their superior and drew up a plan for their contribution to the development of the working community.

As in the previous year, HKScan rewarded teams that performed exceptionally well by awarding them High Five Rewards for achievements in line with targets. We Are Valuable awards were granted in Finland and Poland during the summer for behaviour in line with the company values.

The company actively uses an internal learning platform, Learning Point, which brings together the training courses that HKScan offers to its employees. Learning Point includes compulsory training, such as general inductions, Blue Rules, Code of Conduct, data security training and tailored site-specific inductions.

In 2023, HKScan focused on strengthening business-critical competencies and launched two training programmes, the Poultry Academy in Denmark, and the Meat Academy in Finland. The aim of these programmes is to develop the employees' knowledge of responsible meat production and the related food chain.

For many years, HKScan has employed people whose employment is challenging for various reasons. In addition, the company has invested in diversity and inclusion. In Denmark, HKScan was awarded the prestigious CSR People Prize 2023 for its significant work in promoting diversity and inclusion in the workplace. The well-known prize is awarded annually for progress in promoting social responsibility.

HKScan's human resource risks relate to the availability of skilled and committed personnel, work safety and the attractiveness of the food industry and HKScan as an employer. In addition, any legal or illegal strikes in HKScan's value chain and its own operations may cause business risks. HKScan has zero tolerance for any kind of inappropriate treatment of its personnel, which is ensured by the Group's guidelines on inappropriate treatment and the Fair Way whistleblowing channel. The risks are reduced by developing cooperation and the competence and wellbeing of employees. Work safety risks are managed through the systematic promotion of work safety.

Human rights and measures against bribery and corruption

HKScan respects international human rights agreements, the UN Convention on the Rights of the Child, and the International Labour Organization's core conventions. HKScan also takes into consideration in its operations the UN Guiding Principles on Business and Human Rights.

HKScan's employees complete the online training on the Code of Conduct every second year. The training strengthens employees' competence on issues such as human rights and the principles against corruption and bribery.

HKScan continued to further develop its responsible procurement processes and updated the Supplier Code of Conduct. The Code commits suppliers to comply with the company's animal welfare, human rights, environment, health, and safety principles, among other things, in its whole supply chain.

HKScan's stakeholders can use the company's anonymised Fair Way whistleblowing channel to report suspicions of unethical conduct. In 2023, the company received 14 (20) reports of suspected negligence or misconduct through the Fair Way channel. The reports mainly concerned suspicions of improper behaviour or management challenges. Most of the reports were resolved through HR processes during 2023. Based on the reports, internal policies and management development were revised and reviewed.

HKScan's human rights impact assessment for people working in the company's production units was completed in 2023. The company analysed the likelihood and severity of human rights impacts and defined the next steps to manage the impacts. HKScan's risks concerning human rights are related to the treatment of employees throughout the value chain.

Corruption and bribery risks associated with the company's own activities are prevented and managed through clearly defined approval processes, other internal control processes and personnel training. Potential risks related to human rights and corruption in the supply chain are managed through a procurement risk assessment, standard expectations and by requiring a commitment to the Supplier Code of Conduct. The implementation of these principles is monitored through internal audit and third-party audits. In 2023, no deviations from the principles of human rights, bribery and corruption were detected.

Food safety

In the food supply chain, food safety is of key importance. HKScan continuously develops its food safety culture and ensures product safety through systematic work from procurement to the customer. All HKScan's production units are certified according to standards (FSSC 22000, IFS or BRC) approved by the Global Food Safety Initiative (GFSI).

The company carries out systematic food safety risk management at all stages of its value chain. Risk assessment in the production units is based on the HACCP (Hazard Analysis Critical Control Point) process. Its operational level is verified annually by several internal and external audits. HKScan also requires its raw material suppliers and subcontractors to have certified food safety management systems and a traceability system to identify risks related to the origin of raw materials. The company regularly organises food safety training for its personnel and partners and encourages continuous improvement by making food safety observations and reporting irregularities.

With the globalisation of the food chain, food fraud and deliberate sabotage have become central themes alongside other food safety risks. To identify and prevent related risks, HKScan Group has a supply chain-wide risk assessment model to determine the necessary measures.

In May, HKScan's production units in Vinderup and Skovsgaard received the highest possible BRC AA+ rating in the widely acknowledged BRC food safety certification audit. In addition, the Finnish units got excellent results in the 2023 certification audits. In Finland four production units passed their FSSC audits with excellent results and three BRC-certified units got the best possible AA+ rating.

Animal welfare

HKScan is committed to promoting animal welfare with its contract farmers in Finland and Denmark. Animal health and welfare is based on compliance with EU and local legislation as well as HKScan’s own guidelines. The monitoring of animal welfare is systematic, and any deviations are addressed immediately. The focus on animal health and welfare is shown, for example, in the very low use of antibiotics. HKScan requires that antibiotics are not used as a preventive measure or to promote growth, but only when an animal becomes ill, on the prescription and under the supervision of a veterinarian and in compliance with precautionary periods.

In 2023, HKScan continued its animal welfare project in Finland to study the behaviour of bulls using video imaging and artificial intelligence. The results of this project can be used together with contract farmers, for example to compare different farming conditions and to improve animal welfare.

Risks related to animal diseases are managed by continuously monitoring the animal disease situation and by working closely together with authorities, veterinarians and producers. There are national programmes for the prevention of animal diseases, and farms follow disease prevention guidelines and good hygiene practices. HKScan’s production units have contingency plans in place for animal disease situations. However, the possibility of animal diseases cannot be fully excluded. For example, African swine fever and avian flu cases in European countries have already reduced the export potential of meat outside the EU.

EU taxonomy

EU taxonomy is the EU's sustainable finance classification system, which defines environmentally sustainable economic activities. The introduction of the taxonomy regulation is proceeding in stages, with the EU Commission initially publishing technical criteria for climate change mitigation and adaptation for those sectors with the greatest climate impact. In June 2023, the EU taxonomy was completed when the EU Commission published the environmental criteria for the taxonomy as part of its Sustainable Finance Package 2023. The new criteria concern biodiversity, water and marine protection, circular economy and the prevention of environmental pollution.

HKScan is monitoring the development of the EU taxonomy and will report the data in accordance with the EU Commission’s guidance. At the end of 2023, the company’s sector, the manufacture and sale of food products, did not have a NACE classification in the EU taxonomy. In line with the EU Commission's guidance, companies will have to report for 2023 on their activities covered by the taxonomy classification system in terms of net sales, investments and operating expenditure.

Net sales

HKScan’s net sales for continuing operations of EUR 1,163.2 (1,097.5) million consist almost entirely of sales of food products manufactured by the company, for which there is no industry classification in the EU taxonomy. The company therefore has no taxonomy-eligible net sales and, as a result, no taxonomy-compliant net sales. In relation to net sales, a significant part of the costs of the company’s continuing operations is accounted for by the purchase of meat raw material from contract farmers. The EU’s taxonomy criteria for primary meat production are currently under preparation, and their final content and impact on HKScan's reporting under the taxonomy regulation is still uncertain.

Capital and operating expenditure

As HKScan has no taxonomy-eligible net sales, it accordingly has no taxonomy-eligible or taxonomy-compliant capital or operating expenses.

Key targets and results

** Calculation includes Kivikylän Kotipalvaamo Oy and Lihatukku Harri Tamminen Oy which are Finland Business Unit's subsidiaries*

Target	Corporate Governance	Results for continuing operations 2023
NATURE		
Environment		
Zero Carbon** • carbon-neutral own production (scope 1 & 2) by the end of 2025 • carbon-neutral food chain (scope 1 - 3) by the end of 2040	Action plan towards carbon neutrality	• Climate impacts of own production (scope 1 and 2) 26,310 (26,418) tCO_2e*, carbon intensity 0.07 (0.07) tCO_2e / sold product tonne* • Climate impact of the whole food chain (scope 1–3) 1.194 (1.125) $MtCO_2e$*, carbon intensity 3.28 (3.02) tCO_2e / sold product tonne* • Energy consumption 0.75 (0.74) MWh / sold product tonne*
Responsible packaging • 100% recyclable packaging by the end of 2030 • 80% renewable or recycled packaging materials by the end of 2030	Business Units' plans towards targets	• 77 (75)% of packaging recyclable • 58 (58)% renewable or recycled materials
We commit to increasing biodiversity in our food chain	Part of climate work. Biodiversity management approach, targets and indicators defined later.	Target added to the programme in 2022. Biodiversity promoted on farms as part of climate work.
PEOPLE		
Social and HR matters		
Determined work towards zero accidents	Safety First programme to promote work safety	• Accidents at work resulting in at least one day's absence 16.4 (13.5) /million working hours • Days of absence due to accidents 1124 (846)
Continuous promotion of personnel wellbeing at work	Better Together programme for promotion of wellbeing at work	• Personnel satisfaction eNPS 0 (-3) • Absences 7.1 (8.1)% of working hours
Human rights and measures against bribery and corruption		
• Human rights impact assessment for people working in HKScan's production units • 100% of personnel completed the Code of Conduct training	• Human rights impact assessment • Personnel training on compliance with HKScan's policies	• Phase 1 of the human rights impact assessment work done. • 91 (75)% of the entire personnel completed the Code of Conduct training

Results of HKScan's responsibility work will be described in more detail in the Annual and Responsibility Report 2023 based on the GRI Standards framework to be published in week 11/2024. Revised calculation of figures to be completed for the Annual and Responsibility Report 2023.

For 2019–2023, the GHG Protocol guidelines were used to calculate the company's climate emissions. HKScan will update the calculation once the divestment of the Swedish business has been closed. The new calculation includes updates to the existing GHG Protocol guidance including the new Land Sector and Removals Guidance.

Shares and shareholders

At the end of December 2023, HKScan Corporation's paid and registered share capital stood at EUR 66,820,528.10. The company's issued shares totalled 98,951,781 and were divided into two share series as follows: A shares, 93,551,781 (94.54% of the total number of shares) and K shares, 5,400,000 (5.46% of the total number of shares). The A shares are quoted on Nasdaq Helsinki Ltd. The K shares are held by LSO Osuuskunta (4,735,000 shares) and Lantmännen ek för (665,000 shares) and are not listed. There were no changes in the number of K shares of LSO Osuuskunta and Lantmännen ek för.

The Board of Directors of HKScan Corporation resolved on a directed share issue without consideration related to the payment of the rewards for the Group's Restricted Share Plan 2019–2021 and Performance Share Plan 2018 for the performance period 2019–2021. On 6 March 2023, a total of 115,137 HKScan Corporation's series A shares owned by the company were transferred without consideration to the participants of the share-based incentive plans in accordance with the terms of the plans. The establishment of the plans and their key terms have been announced in stock exchange releases on 7 February 2018, 8 May 2019 and 7 April 2021. The transfer of own shares by a directed share issue without consideration is based on the Board's authorisation granted by the Annual General Meeting on 30 March 2022. After the transfer, HKScan Corporation holds 1,506,658 A shares as treasury shares.

At the end of December, the company held 1,506,658 (1,621,795) A shares as treasury shares, corresponding to 1.52% of the company's total number of shares and 0.75% of the total number of votes.

The calculational market value of HKScan's shares at the end of December stood at EUR 86.9 (84.6) million. The market value of the Series A shares was EUR 82.1 (79.9) million, and the calculational market value of the unlisted Series K shares was EUR 4.8 (4.7) million.

In January-December, a total of 15,571,128 (16,990,679) of the company's shares were traded with a total value of EUR 12,190,163 (22,060,625). The highest price quoted was EUR 0.97 (1.71) and the lowest EUR 0.68 (0.86). The average price was EUR 0.78 (1.31). At the end of December, the closing price was EUR 0.89 (0.87).

Annual General Meeting 2023

HKScan Corporation's Annual General Meeting was held on 20 April 2023 in Turku. The AGM adopted the parent company's and consolidated financial statements, discharged the members and the deputy members of the Board of Directors and the CEOs from liability for the year 2022 and adopted the remuneration report for the governing bodies. The AGM resolved that no dividend will be paid for 2022.

The decisions of the AGM have been published in their entirety in a stock exchange release on 20 April 2023, and the minutes are available in Finnish on the company website at www.hkscan.com.

Share-based long-term incentive plan

On 7 April 2021, HKScan announced changes to the payment schedules of both the Performance Share Plan (PSP) and Restricted Share Plan (RSP) to ensure relative alignment with the company's long-term performance and shareholder returns. According to the new payment schedule, part of the rewards earned will be paid during 2021–2023, and the remaining portion of the Group Executive Team rewards is deferred and will be paid during 2024–2025. The deferred rewards will be paid on the basis of the achievement of minimum targets set by the Board of Directors for total shareholder return (TSR) and profitability. The Board of Directors has set a ceiling on the cost of the deferred reward.

Part of the shares earned based on the achievement of the performance targets in the 2018–2020 PSP was paid out in spring 2021 according to the original payment schedule and part of the rewards was paid out in spring 2022 according to the new payment schedule. Part of the shares earned based on the achievement of the performance targets in the 2019–2021 PSP and meeting the financial indicator of the 2019–2021 RSP was paid out in spring 2022 and 2023 according to the original payment schedule.

In April 2023, HKScan announced a new Performance Share Plan for the CEO for the period 2023–2027. Further information on the CEO's incentive scheme is available in the stock exchange release published on 3 April 2023.

More information on the incentive plan is available in HKScan's 2022 Remuneration Report on the company website at www.hkscan.com.

Short-term business risks

Economic operating environment and financial risks

In the third quarter of 2023, inflation in the euro area slowed down but remained above 4 per cent, especially due to increases in wages, services and food prices. While high inflation is expected to continue in the euro area, the associated uncertainty, in particular regarding energy and electricity prices, has declined significantly compared to a year ago. Inflation in the euro area fell to 2.9 per cent in December, and the ECB's expectations for interest rate reductions are on the rise. However, adjusted for energy and food prices, inflation continues to rise at a rate of 3.4 per cent, well above the central bank's inflation target.

Uncertainty for 2024 remains related to the evolution of consumer demand in the environment of high inflation and high interest rates. The number of bankruptcies and redundancies has also continued to rise. In addition, labour market unrest and talk of possible new fiscal rebalancing measures add to the uncertainty. If consumer demand weakens significantly and HKScan's sales volumes fall considerably, this will have a negative impact on the company's profitability.

The developments described above or a delay in the closing of the sale of the Swedish businesses could result in a breach of the covenants. The covenants are close to the limits until the sale of the Swedish businesses is closed, although there is slightly more room for flexibility than before. Should unforeseen changes in the business environment make a breach of the covenants appear likely, the management will enter into negotiations with the banks on a temporary modification of the covenants and their terms.

If the Group's financial performance does not improve as planned or if long-term interest rates continue to rise, the risk of impairment losses will increase and may affect the company's economic and financial position.

HKScan has sufficient committed financing until the end of January 2025. During the first half of 2024 the company will commence negotiations to refinance the debt maturing in 2025.

Price increase and availability of production inputs and raw materials

Uncertainty about the availability and price of inputs can be reflected in production costs. If the liquidity and profitability crisis affecting farms were to reoccur, the situation could weaken the availability of local meat raw material or the company's profitability if it fails to raise the sales prices of its products to cover higher costs in the production chain alongside measures to improve production efficiency.

In the global meat raw material market, changes in the trade relations between major meat importing and exporting countries can lead to significant local price fluctuations. The effects of these price fluctuations are partly unpredictable and concern also HKScan's home markets. In an unstable geopolitical situation, the role of global supply chains is weakening, while the importance and potential of regional supply chains and local food production are increasing.

Changes in consumer behaviour

Consumer purchasing behaviour is expected to change significantly as food prices rise sharply in response to rising costs in the food supply chain. Depending on the purchasing power of consumers in HKScan's various home markets, consumer demand for food will focus on lower-priced products and product groups. This may be reflected in a weakening of HKScan's sales volume in higher-priced products and a strengthening in basic foods. In the unstable geopolitical situation, the demand for basic foods is expected to remain strong.

The impact of possible international or local food scandals on consumer behaviour cannot be excluded. The discussion surrounding climate change may also affect consumer demand for meat products. In addition, unexpected actions taken by pressure groups may impact business and consumer demand.

Other business risks

Food safety is of key importance in the long production chain of the food industry.

The possibility of animal diseases cannot be fully excluded. African Swine fever and avian flu cases in European countries have reduced the export potential of meat outside the EU.

The risk of cyber-attacks has increased due to the unstable geopolitical situation. In neighbouring regions, an increasing number of food businesses have come under cyber-attack. In the event of a cyber-attack, the company's operations could be significantly affected.

The weakened functioning of global logistics chains could pose risks to the company's ability to execute its investments within the planned timeframes and costs and affect the availability of capital goods used in HKScan's value chain. In its planning, HKScan takes into account the potential impact of cost and scheduling risks on the execution of its investments.

Events after the reporting period

HKScan planning to centralise its poultry meat packaging activities from Eura to Rauma and/or Forssa

HKScan is planning to improve the efficiency of its production operations by centralising the poultry packing activities currently located in the Eura unit to the company's production units in Rauma and/or Forssa. The company started statutory negotiations in its Eura unit's poultry cutting department as well as in its Rauma and Forssa production units, which may take over packaging operations. Through the efficiency plan, HKScan aims to achieve annual savings of around EUR 1 million as from the third quarter of 2024.

Details in press release on 11 Jan 2024.

HKScan revised its climate emissions calculation and target and got SBTi's approval for climate targets for near-term and land-related emissions

HKScan has updated the climate emissions calculation, climate target and timeline of its responsibility programme to better align with international climate work guidelines, calculations guidance and reporting standards. HKScan Group's revised climate target is to reach net zero for all greenhouse gas emissions by 2050.

Details in press release on 25 January 2024.

Extraordinary General Meeting

After the reporting period, on 29 January 2024, HKScan convened an Extraordinary General Meeting that will be held on 28 February 2024, in Turku, Finland.

Information on the Extraordinary General Meeting has been published in a press release on 29 January 2024: 29.1.2024.

Board of Directors' proposal on the distribution of profit

The parent company's distributable equity is EUR 195.6 (265.4) million, including the reserve for invested unrestricted equity of EUR 216.2 (216.0) million and the profit for the financial year 2023 of EUR -69.9 million. The Board of Directors proposes to the Annual General Meeting that no dividends be paid for 2023. The remaining distributable assets will be retained in equity.

Annual General Meeting 2024

HKScan's Annual General Meeting is planned to be held in Turku on Thursday, 18 April 2024.
The invitation will be published later.

Turku, 9 February 2024

HKScan Corporation
Board of Directors

Webcast

In connection with its Financial Statements Bulletin 2023, HKScan will hold a webcast in Finnish for analysts, institutional investors and media on 9 February 2024 at 10 am EET. You can follow the Finnish webcast at https://hkscan.videosync.fi/2023-tilinpaatos and the recording will be available at www.hkscan.com later on the same day. HKScan's CEO Juha Ruohola and CFO Jyrki Paappa will present the 2023 result.

To arrange investor calls, please contact executive assistant Suvi Oksava, tel. +358 44 554 4231 or suvi.oksava@hkscan.com.

Financial reports

HKScan will publish the following financial reports in 2024:

- Interim Report for January–March 2024 on Wednesday 8 May 2024, at about 8:30 EET
- Half-Year Financial Report 2024 on Wednesday 7 August 2024, at about 8:30 EET
- Interim Report for January–September 2024 on Wednesday 6 November 2024, at about 8:30 EET

For further information

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With 110 years of experience, we at HKScan make life tastier – today and tomorrow. Our strategic target is to grow into a versatile food company. Our home markets are Finland and Denmark, where around 3,600 of our professionals make responsible and locally produced food for consumers' varied food moments. Our well-known brands include HK®, Kariniemen®, Via® and Rose®. We are developing a more climate-friendly way of producing food. HKScan is a publicly listed company, and in 2023, our net sales from continuing operations totalled nearly EUR 1.2 billion. www.hkscan.com

The brands mentioned in this report – HK®, Kariniemen®, Via® and Rose® – are registered trademarks of HKScan Group.

Consolidated Financial Statements 1 January–31 December 2023

Consolidated income statement

(EUR million)		10-12/2023	10-12/2022	1-12/2023	1-12/2022
Continuing operations:					
Net sales		302.0	306.3	1,163.2	1,097.5
Cost of goods sold	1.	-281.1	-289.9	-1,084.4	-1,044.6
Gross profit		20.9	16.3	78.9	52.9
Other operating items total	1.	2.0	3.8	8.2	13.7
Sales and marketing costs	1.	-7.4	-7.4	-30.4	-27.3
General administration costs	1.	-12.6	-11.0	-39.3	-41.9
Operating profit		3.0	1.7	17.4	-2.6
Financial income		1.0	0.6	3.6	1.7
Financial expenses		-7.9	-6.3	-31.3	-17.7
Share of profit/loss in associates and joint ventures		-0.2	-0.7	1.3	5.3
Profit/loss before taxes		-4.1	-4.6	-9.0	-13.3
Income tax		-3.3	-1.1	-6.6	-2.7
Profit/loss for the period, continuing operations		-7.4	-5.8	-15.6	-16.0
Profit/loss for discontinued operations		-17.0	-32.4	-6.9	-50.0
Profit/loss for the period		-24.4	-38.1	-22.5	-66.0
Profit/loss for the period attributable to:					
Equity holders of the parent		-26.0	-40.0	-26.4	-69.7
Non-controlling interests		1.6	1.9	4.0	3.7
Total		-24.4	-38.1	-22.5	-66.0
Earnings per share calculated on profit attributable to equity holders of the parent:					
EPS, undiluted, continuing operations, EUR/share		-0.10	-0.08	-0.22	-0.22
EPS, diluted, continuing operations, EUR/share		-0.10	-0.08	-0.22	-0.22
EPS, undiluted, discontinued operations, EUR/share		-0.17	-0.33	-0.07	-0.51
EPS, diluted, discontinued operations, EUR/share		-0.17	-0.33	-0.07	-0.51
EPS, undiluted, EUR/share		-0.28	-0.42	-0.29	-0.73
EPS, diluted, EUR/share		-0.28	-0.42	-0.29	-0.73

Consolidated statement of comprehensive income

(EUR million)	10-12/2023	10-12/2022	1-12/2023	1-12/2022
Profit/loss for the period	-24.4	-38.1	-22.5	-66.0
OTHER COMPREHENSIVE INCOME (after taxes):				
Items that may be subsequently reclassified to profit or loss				
Exchange differences on translating foreign operations, discontinued operations	4.2	-1.3	1.3	-7.3
Cash flow hedging, continuing operations	0.4	-8.1	-10.4	115.1
Cash flow hedging, discontinued operations	-0.3	-3.3	-3.6	4.1
Reclassification adjustment (electricity derivative), continuing operations	-	-	-2.6	-
Share of associates' and joint ventures' other comprehensive income items, continuing operations	-0.1	-	0.5	-
Items that will not be reclassified to profit or loss				
Actuarial gains or losses, discontinued operations	-4.4	14.1	-4.4	14.1
TOTAL OTHER COMPREHENSIVE INCOME	-0.2	1.4	-19.2	22.1
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-24.7	-36.6	-41.6	-43.9
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:				
Equity holders of the parent	-26.2	-38.6	-45.6	-47.6
Non-controlling interests	1.6	1.9	4.0	3.7
Total	-24.7	-36.6	-41.6	-43.9

Consolidated balance sheet

(EUR million)	Note	31 Dec. 2023	31 Dec. 2022
ASSETS			
Intangible assets	2.	44.0	113.8
Tangible assets	3.4	284.9	378.6
Holdings		24.3	41.1
Deferred tax asset	5.	25.1	31.8
Other non-current assets		26.2	12.2
TOTAL NON-CURRENT ASSETS		404.5	577.5
Inventories	6.	75.2	123.9
Current receivables		97.3	155.5
Cash and cash equivalents		28.7	17.2
TOTAL CURRENT ASSETS		201.1	296.5
Assets of disposal group classified as held for sale	7.	246.0	101.9
TOTAL ASSETS		851.7	976.0
EQUITY AND LIABILITIES			
EQUITY		238.0	285.5
Non-current loans, interest-bearing	4.	289.0	333.9
Non-current liabilities, non-interest-bearing		6.3	42.3
TOTAL NON-CURRENT LIABILITIES		295.3	376.1
Current loans, interest-bearing	4.	17.9	30.6
Current liabilities, non-interest-bearing		161.5	243.3
TOTAL CURRENT LIABILITIES		179.4	273.9
Liabilities of disposal group classified as held for sale	7.	139.0	40.4
TOTAL EQUITY AND LIABILITIES		851.7	976.0

Statement of changes in consolidated equity

-	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2023	**66.8**	**72.9**	**21.9**	**215.4**	**25.9**	**10.4**	**-19.9**	**-4.1**	**-128.4**	**260.9**	**24.6**	**285.5**
Result for the financial period	-	-	-	-	-	-	-	-	-26.4	-26.4	4.0	-22.5
Other comprehensive income (+) / expense (–)												
Transl. diff.	-	-	-	-	-	-	1.3	-	-	1.3	-	1.3
Cash flow hedging	-	-	-14.0	-	-	-	-	-	-	-14.0	-	-14.0
Reclassification adjustment (electricity derivative)	-	-	-2.6	-	-	-	-	-	-	-2.6	-	-2.6
Share of associates' and joint ventures' other comprehensive income items	-	-	0.5	-	-	-	-	-	-	0.5	-	0.5
Actuarial gains or losses	-	-	-	-	-	-	-	-	-4.4	-4.4	-	-4.4
Total other comprehensive income / expense	-	-	-16.0	-	-	-	1.3	-	-4.4	-19.2	-	-19.2
Total compreh. income for the period	**-**	**-**	**-16.0**	**-**	**-**	**-**	**1.3**	**-**	**-30.9**	**-45.6**	**4.0**	**-41.6**
Direct recognitions	-	-	-	-	-	-	-	-	0.1	0.1	-	0.1
Baltics sale related transfer to result for the financial period	-	-	-	-	-	-2.2	-	-	-	-2.2	-	-2.2
Transfer of own shares	-	-	-	-	-	-	-	0.3	-0.3	0.0	-	0.0
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-1.9	-1.9
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	-	0.2	0.2
Hybrid loan	-	-	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
EQUITY ON 31 Dec. 2023	**66.8**	**72.9**	**5.9**	**215.4**	**25.9**	**10.4**	**-18.6**	**-3.8**	**-161.5**	**211.1**	**26.9**	**238.0**

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2022	**66.8**	**72.9**	**6.6**	**215.4**	**25.9**	**10.4**	**-12.6**	**-4.8**	**-65.9**	**314.8**	**22.1**	**336.9**
Result for the financial period	-	-	-	-	-	-	-	-	-69.7	-69.7	3.7	-66.0
Other comprehensive income (+) / expense (–)												
Transl. diff.-	-	-	0.0	-	-	-	-7.3	-	-	-7.3	-	-7.3
Cash flow hedging	-	-	15.2	-	-	-	-	-	-	15.2	-	15.2
Actuarial gains or losses	-	-	-	-	-	-	-	-	14.1	14.1	-	14.1
Total other comprehensive income / expense	-	-	15.3	-	-	-	-7.3	-	14.1	22.1	-	22.1
Total comprehensive income for the period	**-**	**-**	**15.3**	**-**	**-**	**-**	**-7.3**	**-**	**-55.5**	**-47.6**	**3.7**	**-43.9**
Direct recognitions	-	-	-	-	-	-	-	-	-0.3	-0.3	-	-0.3
Transfer of own shares	-	-	-	-	-	-	-	0.7	-0.7	0.0	-	0.0
Dividend distribution	-	-	-	-	-	-	-	-	-3.9	-3.9	-1.4	-5.3
Founding of subsidiary	-	-	-	-	-	-	-	-	-	-	0.3	0.3
Hybrid loan	-	-	-	-	-	-	-	-	-2.1	-2.1	-	-2.1
EQUITY ON 31 Dec. 2022	**66.8**	**72.9**	**21.9**	**215.4**	**25.9**	**10.4**	**-19.9**	**-4.1**	**-128.4**	**260.9**	**24.6**	**285.5**

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

Cash flow statement, incl. discontinued operations

-	10-12/2023	10-12/2022	1-12/2023	1-12/2022
Cash flow before change in net working capital	19.0	10.7	74.2	53.2
Change in net working capital	21.8	29.4	5.9	-20.8
Financial items and taxes	-7.8	-3.0	-29.4	-13.5
CASH FLOW FROM OPERATING ACTIVITIES	33.1	37.1	50.6	18.9
Cash flow from investing activities	7.2	-23.5	22.6	-40.8
CASH FLOW AFTER INVESTING ACTIVITIES	40.2	13.6	73.3	-21.9
Hybrid loan	-	-	-2.1	-2.1
Change in loans	-30.3	-1.5	-58.0	21.8
Dividends paid	-	-	-1.9	-5.3
CASH FLOW FROM FINANCING ACTIVITIES	-30.3	-1.5	-62.0	14.4
NET CASH FLOW	9.9	12.1	11.3	-7.4
Cash and cash equivalents at beginning of period	18.7	6.2	17.8	27.2
Translation differences	0.4	-0.5	-0.1	-2.0
Cash and cash equivalents at end of period	29.0	17.8	29.0	17.8

Financial indicators

(EUR million)	31 Dec. 2023	31 Dec. 2022
Earnings per share (EPS), undiluted, EUR, continuing operations	-0.22	-0.22
Earnings per share (EPS), diluted, EUR, continuing operations	-0.22	-0.22
Equity per share, EUR	2.17	2.68
Equity ratio, %	28.8	29.3
Adjusted average number of outstanding shares, mill.	97.4	97.3
Gross capital expenditure on PPE, EUR mill., continuing operations	21.5	20.8
Additions in right-of-use assets, EUR mill., continuing operations	13.1	4.9
Depreciation and impairment, EUR mill., continuing operations	35.3	32.7
Employees, average, FTE, continuing operations	3,623	3,631

Calculation of financial indicators

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

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

**Calculation has changed in 2023 and 2022 has been restated to be comparable. Reported figure for 2022 was 121.6.*

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

Notes to the Financial Statements Bulletin

Accounting policies

HKScan Corporation's Financial Statements Bulletin for 1 January–31 December 2023 has been prepared in compliance with the IAS 34 Interim Financial Reporting standards. The same accounting principles have been applied in the financial statements bulletin as in the annual financial statements for 2022, except for the change in accounting policy for spare parts inventory. From 2023 onwards, spare parts exceeding minimum value as a practical matter are capitalised to spare parts inventory with acquisition cost. Items below the minimum value are recorded as cost when purchased. Previously, all purchased spare parts were recorded as cost when purchased. The change is done retrospectively as if the policy would have been always effective. Opening balance 2022 and each subsequent quarter balance sheet have been restated higher than previously reported by EUR 7.9 million for inventory, EUR 6.4 million for retained earnings and EUR 1.5 million for deferred tax liability. The change has no impact on the 2022 income statement as the inventory balance is stable. Due to the rounding of the figures to the nearest million euros in the financial statements bulletin, some totals may not agree with the sum of their constituent parts. Accounting principles are explained in the financial statements for 2022. The financial statements bulletin is unaudited.

Assumption of ability to continue as a going concern

The Financial Statements Bulletin for January–December 2023 has been prepared on a going concern basis, assuming that HKScan will be able to realise its assets and settle its liabilities in the foreseeable future in the ordinary course of business. In assessing the going concern basis, HKScan's management has taken into account the uncertainties and risks associated with the business environment, available funding sources and the cash flow estimates of the Group companies over the next 12 months.

The weak profitability development and the increase in working capital in year 2022 had a negative impact on cash flow and further on the net gearing and leverage, which are the company's covenants. In January-March 2023, the impact of the weakening consumer demand on the company's profitability and cash flow was offset by cost savings, efficiency improvements and working capital management. In April-December 2023, consumer demand strengthened slightly, but the company continued and launched new measures to strengthen profitability and cash flow.

The uncertainty related to the increase in cost inflation in 2024 has decreased. Especially the uncertainty related to energy and electricity prices has been reduced for 2024, based on the electricity price forecasts for the next 12 months updated during the period under review.

Uncertainty for the year 2024 remains related to the consumer demand in the environment of high inflation and high interest rates. If consumer demand weakens significantly and HKScan's sales volumes fall considerably, this will have a negative impact on the company's profitability. The developments described above may also lead to a temporary increase in working capital, which would weaken profitability and have a negative impact on the company's cash flow and asset values. This could result in a breach of the covenants. If a breach of the covenants would seem to be apparent due to unforeseen changes in the business environment, management will enter into negotiations with the banks on a temporary modification of the covenants and their terms. During the first half 2024, HKScan will commence negotiations to refinance the debt maturing in 2025. However, this does not impact the going concern assessment of the company's financial statements 2023 as the company has sufficient committed financing until the end of the going concern period 31 December 2024.

HKScan's covenants for bank loans and revolving credit facilities are the net gearing ratio, the ratio of net debt to EBITDA and liquidity covenant. The EBITDA includes the share of profits from associates and joint ventures. The liquidity covenant is defined as available cash and unused stand-by loan less the face value of commercial papers issued.

The limit on the net gearing ratio is 125 per cent for the bank loans and 130 per cent for the bond. The ratio of net debt to EBITDA limit was 5.0 from October 2023 and is 4.5 from January 2024. The limit of the liquidity covenant was EUR 20.0 million in December 2023 and is EUR 15 million from 1 January 2024 until 31 October 2024.

In December 2023, HKScan had a net gearing ratio of 121.0 per cent, a net debt to EBITDA ratio of 3.7 and a liquidity of EUR 35.5 million.

The uncertainties and risks associated with the business environment have considerably decreased during the second half of 2023 along with improved profitability and cash flow of the continuing business units and especially due to the signing and expected closing of the divestment of the Swedish businesses which will significantly improve the company's financial status. HKScan's management has assessed the cash flow forecasts of the business over the next 12 months, which indicates that the covenants will remain close to their limits in the first half of 2024 until the sale of the Swedish businesses is closed but will not be breached and that financing is secured for 12 months from 31 December 2023.

There are risks and uncertainties to the going concern as described above, but HKScan's management assesses it can manage these. There is no material uncertainty relating to the going concern when preparing the 2023 financial statement in accordance with IFRS standards.

Analysis by segment

(EUR million)	10-12/2023	10-12/2022	1-12/2023	1-12/2022
NET SALES				
- Finland				
Sales, goods	248.9	250.9	929.5	873.2
Sales, services	0.8	1.0	3.5	3.9
- Denmark				
Sales, goods	52.2	54.3	230.2	220.4
Sales, services	0.0	0.0	0.0	0.0
Group total	302.0	306.3	1,163.2	1,097.5
EBIT				
- Finland	6.3	4.0	20.7	6.4
- Denmark	-0.1	0.4	3.1	1.4
Segments total	6.2	4.4	23.8	7.8
Group administration costs	-3.2	-2.6	-6.4	-10.3
Group total	3.0	1.7	17.4	-2.6
INVESTMENTS				
- Finland				
Gross capital expenditure on PPE	6.4	9.3	15.9	17.3
Additions in right-of-use assets	2.8	1.9	10.6	3.0
Investments total	9.2	11.2	26.5	20.3
- Denmark				
Gross capital expenditure on PPE	0.9	1.9	5.6	3.5
Additions in right-of-use assets	0.6	0.7	2.5	1.9
Investments total	1.5	2.6	8.1	5.4
Total	10.6	13.9	34.6	25.7
AVERAGE NUMBER OF EMPLOYEES, FTE				

- Finland			2,946	2,967
- Denmark			677	664
Total			3,623	3,631

Notes to the income statement

1. Items affecting comparability

(EUR million)	10-12/2023	10-12/2022	1-12/2023	1-12/2022
Comparable EBIT, continuing operations	2.8	-0.2	14.9	**-2.9**
Termination of employment, Group management 1)	-	-0.4	-	-1.8
Termination of employment, Finland 1)	-	-	-0.3	-
Reversal of environmental provision, Finland 2)	-	-	0.5	-
Loss of prepayment, Finland 4)	-	-	-	-0.2
Reversal of impairment of assets, Finland 2) 3)	-	2.3	-	2.3
Reclassification adjustment of electricity derivatives, Group management 2)	-	-	2.6	-
Change in fair value of electricity derivatives, Group management 2)	0.2	-	0.0	-
Impairment of associated company, Denmark 3) 4)	-	-	-0.2	-
EBIT, continuing operations	**3.0**	**1.7**	**17.4**	**-2.6**

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

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

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

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

Notes to the statement of financial position

2. Changes in intangible assets

(EUR million)	31 Dec. 2023	31 Dec. 2022
Opening balance	113.8	144.2
Translation differences	0.3	-6.6
Additions	0.9	2.0
Depreciation and impairment	-4.0	-20.0
Reclassification between items	2.3	1.3
Assets of disposal group classified as held for sale	-69.4	-7.0
Closing balance	44.0	113.8

3. Changes in tangible assets

(EUR million)	31 Dec. 2023	31 Dec. 2022
Opening balance	378.6	459.7

Translation differences	0.9	-6.8
Additions	47.9	53.2
Disposals	-7.3	-1.0
Depreciation and impairment	-43.8	-51.9
Reclassification between items	-2.7	-1.3
Assets of disposal group classified as held for sale	-88.7	-73.3
Closing balance	284.9	378.6

4. Right-of-use assets and lease liabilities

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1 Jan. 2023	2.2	80.3	13.8	96.3	101.7
Translation differences	-	0.0	0.0	0.0	0.0
Additions	0.1	9.2	6.4	15.7	15.7
Disposals	-2.2	-	0.0	-2.2	-2.2
Depreciation for the financial period	0.0	-8.1	-5.1	-13.2	-
Payments	-	-	-	-	-11.5
Assets and liabilities of disposal group classified as held for sale	-	-11.1	-2.5	-	-14.1
Closing balance on 31 Dec. 2023	0.0	70.3	12.7	96.5	89.6

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1 Jan. 2022	2.2	92.1	15.3	109.5	113.4
Translation differences	-	-0.8	-0.2	-1.1	-1.1
Additions	0.1	3.7	5.8	9.6	9.6
Depreciation for the financial period	-0.1	-8.4	-5.5	-14.0	-
Payments	-	-	-	-	-12.1
Assets and liabilities of disposal group classified as held for sale	-	-6.3	-1.6	-7.9	-8.1
Closing balance on 31 Dec. 2022	2.2	80.3	13.8	96.3	101.7

(EUR million)	10-12/2023	10-12/2022	1-12/2023	1-12/2022
Depreciation expense of right-of-use assets, continuing operations	-2.7	-2.6	-10.4	-9.8
Interest expense on lease liabilities, continuing operations	-1.1	-1.0	-4.4	-4.1
Total amounts recognised in profit or loss, continuing operations	**-3.9**	-3.6	-14.9	-13.9

5. Deferred tax assets

Out of the total EUR 25.1 million, EUR 23.9 million of the deferred tax asset arise from adopted losses, postponed depreciations, and non-deductible interest expenses in the Group’s operations in Finland. The increased deferred tax asset arising from tax losses in Finland in 2018 was losses incurred during the Rauma unit ramp up and were therefore temporary in nature.

Deferred tax assets are assumed to be used from losses in 2027 and postponed depreciations and non-deductible interest expenses to material respect by the end of the current decade. The company has not reached earlier estimates and this has prolonged the deferred tax asset utilisation time by one year. Consideration is based on management's plans for the near future. As plans contain uncertainties, these are mitigated in consideration with very conservative assumption on EBIT growth in 2026 and beyond. Utilisation of deferred tax asset is based on taxable profits in the future and the assumption that there are no significant adverse changes in tax legislation. In addition, postponing tax depreciations and deductibility restrictions of interest expense can be used to speed up the utilisation of losses before they expire. Utilisation of postponed tax depreciations and non-deducted interest expense do not have a time limit. Unrecognized Finnish deferred tax asset at the end of December 2023 was EUR 29.2 million.

The company has utilized tax losses in Finland every year in 2019–2023, and losses have not expired. In 2023, the company was able to utilize tax losses and EUR 4.1 (0.2) million deferred tax asset was used and recognized as a tax expense. The losses in taxation in Finland expire with the following schedule: EUR 4.7 million in 2024, EUR 5.5 million in 2025, EUR 17.8 million in 2027, EUR 23.2 million in 2028, EUR 10.0 million in 2029 and EUR 1.6 million in 2031.

6. Inventories

(EUR million)	31 Dec. 2023	31 Dec. 2022
Materials and supplies	37.5	66.2
Semi-finished products	4.1	6.1
Finished products	25.4	41.9
Spare parts	5.5	7.9
Inventories, advance payments	2.6	1.7
Total inventories	75.2	123.9

7. Assets and liabilities of disposal group classified as held for sale and discontinued operations

Sale of operations in Baltics

On 31 August 2023, HKScan and AS Maag Grupp closed the previously announced arrangement whereby HKScan sells its Baltic operations to AS Maag Grupp of Estonia. The transaction involved the shares of AS HKScan Estonia, AS HKScan Latvia and UAB HKScan Lietuva, the subsidiaries that constituted HKScan's Business Unit Baltics. The debt-free purchase price was EUR 90 million, of which EUR 20 million is conditional on the combined performance of the separately defined meat business subject to the transaction and Maag Grupp's Baltic meat business in the following years. Of the EUR 70 million fixed purchase price, EUR 55 million was paid at the closing of the transaction and the remainder will be paid over the next three years. HKScan received EUR 40.8 million cash at the closing. Sold companies had EUR 2.8 million cash at the closing.

Baltics business unit was classified as assets and liabilities held for sale in 31.12.2022 balance sheet and it is presented in 2023 and 2022 income statement as discontinued operations. At the end of December 2023, the Group has a purchase price receivable of EUR 24.5 million on its balance sheet. The fixed and unsecured purchase price receivable of EUR 15 million is measured at amortised cost and discounted at 5 per cent. The conditional purchase price receivable is measured at fair value through profit and loss, and it includes management judgement and estimation. Management has estimated the probability of the earn-out taking into account the uncertainty about the development of profitability. The EBITDA required for the realisation of the earn-out for the divested business is lower than the Group has previously used for valuation purposes, as the realisation of the earn-out is also significantly influenced by the development of the buyer's meat business and the achievable synergies. The conditional purchase price fair value is estimated at EUR 10.5 million at the end of December 2023.

The Group's significant internal transactions between continuing and discontinued operations included the sale and purchase of products between the Baltic operations and the rest of the Group, the Group's administrative service fee from the Baltics and the Group's financial gain on the Baltic lending. The figures for continuing and discontinued operations reflect external sales and their costs in accordance with the Group's segment reporting. External financing costs for the Baltics are shown as a financing cost of discontinued operations.

Sale of operations in Sweden

HKScan has on 29 December 2023 agreed on selling the shares of its Swedish subsidiary HKScan Sweden AB to the Swedish Lantmännen ek för. The transaction does not include the Polish bacon unit, which has been previously reported as part of the Business Unit Sweden. The Polish unit’s figures are reported as part of the Business Unit Finland in the financial statement. In HKScan's 2023 financial statements, Business Unit Sweden, excluding the Polish unit, is classified as assets and liabilities held for sale and presented as discontinued operations. The purchase price for the shares in HKScan Sweden AB amounts to approximately EUR 60 million in cash as well as the A shares (6,869,750) and K shares (665,000) in HKScan Corporation held by Lantmännen. Lantmännen will also repay an intragroup loan between HKScan Corporation and HKScan Sweden AB to the amount of approximately EUR 50 million. HKScan Corporation will also reduce off-balance sheet factoring financing of approximately EUR 55 million and approximately EUR 13 million of IFRS 16 leasing liabilities. A prepayment of EUR 25 million of the purchase price was made upon signing of the agreement. Bank guarantee has been taken for the prepayment. The remainder of the purchase price will be paid at the closing of the transaction. The cash consideration will be adjusted at the time of the transaction by the usual adjustments. The total number of A and K shares held by Lantmännen to be transferred to HKScan as purchase price is 7,534,750 shares, with a calculational market value of EUR 5.5 million at the time of signing the agreement.

The transaction is expected to be closed in the first half of 2024 and is subject to clearance by the EU Commission and further clearance by the Swedish authorities for foreign direct investment (FDI) control. HKScan’s Board of Directors will convene an Extraordinary General Meeting to confirm and approve the transaction, at which time the Board will submit to the Extraordinary General Meeting the approvals necessary to close the transaction, including the authorization to complete the directed acquisition of the A and K shares in HKScan held by Lantmännen.

Assets and liabilities held for sale are measured at a purchase price of EUR 115.5 million deducted with transaction costs, which led to EUR 17.3 million impairment in book value, which was allocated to goodwill, and EUR 2.7 million transaction costs are included in profit for the discontinued operations. Group’s translation difference in equity comes almost entirely from Swedish operations and at closing it will be recorded from comprehensive income statement into income statement.

The significant transactions between continuing and discontinued operations are Sweden’s product sales and purchases with the Group companies, the Group's service fee from Sweden and the Group's financial income from financing Sweden. Figures for continuing and discontinued operations represent external sales and its costs according to Group’s segment reporting. Sweden’s external financial expenses are shown as financial expenses for the discontinued operation.

Income statement and cash flow presented below include Swedish operations from full years 2022-2023 and Baltics operations until August 2023. Balance sheet information include Swedish operations in 2023 and Baltics operations in 2022.

Profit/loss for discontinued operations

(EUR million)	10-12/2023	10-12/2022	1-12/2023	1-12/2022
Net sales	192.8	259.5	862.5	931.9
Cost of goods sold	-183.9	-252.3	-822.7	-914.4
Other operating items total	-5.4	-8.6	-29.0	-35.1
Operating profit	3.5	-1.4	10.7	-17.6*
Financial income and expenses	-0.3	-0.5	-1.8	-0.5
Share of profit/loss in associates and joint ventures	-0.1	0.0	0.0	0.1
Income tax	-0.6	0.3	-0.7	-1.3
Profit/loss for the period	2.5	-1.8	8.2	-19.4
Impairment from fair-value measurement	-19.5	-30.6	-17.3	-30.6
Equity item transfer to result for the period	-	-	2.2	-
Profit/loss for the period from discontinued operations	-17.0	-32.4	-6.9	-50.0

* Includes an impairment to goodwill amounting to EUR 15.6 million.

Cash flow of discontinued operations

(EUR million)	10-12/2023	10-12/2022	1-12/2023	1-12/2022
Cash flow from operating activities	3.4	4.0	12.4	12.1
Cash flow from investing activities	-6.7	-12.6	48.9	-22.7
Cash flow from financing activities	-0.7	-1.0	-3.5	-4.1
Cash flow total	-4.0	-9.5	57.7	-14.7

Assets and liabilities of disposal group classified as held for sale

(EUR million)	31 Dec. 2023	31 Dec. 2022
Intangible assets	52.1	-
Tangible assets	88.7	49.7
Other non-current assets	20.2	-
Inventories	39.0	34.4
Receivables	45.7	17.2
Cash and cash equivalents	0.3	0.6
Total assets (A)	**246.0**	**101.9**
Lease liabilities	14.1	8.1
Trade payables and other liabilities	124.9	32.2
Total liabilities (B)	**139.0**	**40.4**
Net balance sheet value (A-B)	**107.1**	**61.5**

Key figures of continuing and discontinued operations 2022-2023

(EUR million)	Q1/2022	Q2/2022	Q3/2022	Q4/2022	2022	Q1/2023	Q2/2023	Q3/2023	Q4/2023	2023
Net sales										
- Finland	185.2	216.3	223.7	251.9	877.2	218.0	234.1	231.2	249.7	933.0
- Denmark	49.4	57.4	59.2	54.3	220.4	61.4	59.1	57.5	52.2	230.2
Group total, continuing operations	234.6	273.7	283.0	306.3	1,097.5	279.4	293.2	288.7	302.0	1,163.2
Discontinuing operations total	202.6	232.0	237.9	259.5	931.9	227.7	235.5	206.5	192.8	862.5
Group total	437.2	505.7	520.8	565.8	2,029.5	507.1	528.7	495.2	494.7	2,025.7

(EUR million)	Q1/2022	Q2/2022	Q3/2022	Q4/2022	2022	Q1/2023	Q2/2023	Q3/2023	Q4/2023	2023
EBIT										
- Finland	-1.2	1.7	1.9	4.0	6.4	0.5	6.2	7.6	6.3	20.7
- Denmark	0.5	0.3	0.2	0.4	1.4	1.0	1.1	1.1	-0.1	3.1
- Group administration	-2.8	-2.7	-2.2	-2.6	-10.3	-0.8	-1.9	-0.5	-3.2	-6.4
Group total, continuing operations	-3.5	-0.7	-0.1	1.7	-2.6	0.6	5.5	8.3	3.0	17.4
Discontinuing operations total	-5.4	-13.6	2.8	-32.0	-48.2	-2.3	4.1	9.8	-16.0	-4.4
Group total	-8.9	-14.3	2.7	-30.3	-50.8	-1.7	9.6	18.1	-13.0	13.0

(EUR million)	Q1/2022	Q2/2022	Q3/2022	Q4/2022	2022	Q1/2023	Q2/2023	Q3/2023	Q4/2023	2023
Comparable EBIT										
- Finland	-1.0	1.7	1.9	1.6	4.3	0.5	6.1	7.6	6.3	20.5
- Denmark	0.5	0.3	0.2	0.4	1.4	1.2	1.1	1.1	-0.1	3.3
- Group administration	-2.7	-2.5	-1.1	-2.3	-8.5	-2.7	-1.9	-1.0	-3.4	-8.9
Group total, continuing operations	-3.1	-0.5	1.0	-0.2	-2.9	-1.1	5.4	7.8	2.8	14.9
Discontinuing operations total	-5.4	2.0	2.8	-1.4	-2.0	-2.3	4.1	5.4	3.5	10.7
Group total	-8.5	1.5	3.8	-1.7	-4.9	-3.4	9.5	13.2	6.3	25.6

Derivative instrument liabilities

(EUR million)	31 Dec. 2023	31 Dec. 2022
Nominal values of derivative instruments		
Foreign exchange derivatives	98.4	91.8
Interest rate derivatives	20.0	48.5
Electricity derivatives	1.3	-1.7
Fair values of derivative instruments		
Foreign exchange derivatives	-1.7	0.7
Interest rate derivatives	0.2	0.3
Electricity derivatives	5.2	23.8

The previous negative nominal value of the electricity derivatives is the net value of the purchase derivatives against the increase in electricity prices and of the sales derivatives related to the partial closing of the position.

The nominal value has been negative because the sales derivatives were concluded at prices higher than the purchase derivatives.

Consolidated other contingent liabilities

(EUR million)	31 Dec. 2023	31 Dec. 2022
Debts secured by pledges or mortgages		
- loans from financial institutions	36.0	39.5
On own behalf		
- Assets pledged	44.3	61.5
On behalf of others		
- guarantees and other commitments	6.3	2.6
Other contingencies		
Leasing and rental commitments	0.2	0.2

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

Derivatives

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

Conditional purchase price receivable

Valuation principles of the conditional purchase price receivable are described in note 7.

(EUR million)	31 Dec. 2023	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
- Conditional purchase price receivable	10.5			10.5
- Trading derivatives				
- Interest rate swaps	0.2	-	0.2	-
- Foreign exchange derivatives	0.0	-	0.0	-
- Commodity derivatives	5.2	-	5.2	-
of which subject to cash flow hedging	3.3	-	3.3	-
Total	**15.9**	**-**	**5.4**	**10.5**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-	-	-	-
- Foreign exchange derivatives	-1.7	-	-1.7	-
- Commodity derivatives	-	-	-	-
of which subject to cash flow hedging	-	-	-	-
Total	**-1.7**	**-**	**-1.7**	**-**

(EUR million)	31 Dec. 2022	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
- Trading derivatives				
- Interest rate swaps	0.3	-	0.3	-
- Foreign exchange derivatives	0.8	-	0.8	-
- Commodity derivatives	27.5	-	27.5	-
of which subject to cash flow hedging	27.5	-	27.5	-
Total	**28.6**	**-**	**28.6**	**-**
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-	-	-	-
- Foreign exchange derivatives	0.0	-	0.0	-
- Commodity derivatives	-3.7	-	-3.7	-
of which subject to cash flow hedging	-3.7	-	-3.7	-
Total	**-3.7**	**-**	**-3.7**	**-**

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

Business transactions with related parties

(EUR million)	1-12/2023	1-12/2022
Sales to associates	12.7	14.9
Purchases from associates	47.6	45.4
Trade and other receivables from associates	2.0	2.0
Trade and other payables to associates	3.9	3.5
Animal purchases from related party*	28.3	21.3
Animal sales to related party*	6.4	5.1
Loan receivable from LSO Osuuskunta	4.1	1.6

*Members of the Group's Board of Directors and members of the Supervisory Board and Board of Directors of its parent entity LSO Osuuskunta.