



HKSCAN

**Interim Report
Q1 2020**

HKScan's Interim report 1 January–31 March 2020

HKScan's annual comparable EBIT turned positive

January–March 2020

- HKScan's net sales increased by 6.8 per cent and were EUR 428.9 (401.8) million.
- EBIT improved by EUR 10.8 million to EUR -3.9 (-14.7) million.
- Comparable EBIT improved by EUR 6.2 million to EUR -3.9 (-10.1) million.
- On an annual level (rolling 12 months), comparable EBIT turned positive and was EUR 3.9 million.
- Commercial successes and growth of sales volumes as well as operational efficiency measures were the most significant factors strengthening the EBIT.
- Cash flow from operating activities improved by EUR 10.2 million to EUR -7.3 (-17.5) million.
- Interest-bearing net debt was EUR 298.0 (364.7) million and net gearing 96.8 (119.8) per cent.
- HKScan has implemented numerous special actions to ensure consumer and customer satisfaction, the safety of its personnel and the continuity of its production during the exceptional circumstances caused by the Covid-19 epidemic in all its market areas. In March, HKScan's retail sales increased significantly but sales in the food service channel decreased clearly. Due to increased costs, the total impact on EBIT was minor.
- After the review period, HKScan announced that it had purchased the plot of land on which its production unit is located in Vantaa, enabling the company to continue operations in the current location for a long time. The purchase price was approximately EUR 36 million.

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

Outlook 2020

HKScan estimates that the Group's comparable EBIT in 2020 will improve compared to 2019.

Key figures, net sales

(EUR million)	1-3/2020	1-3/2019	2019
Net sales	428.9	401.8	1 744.4
Finland	181.9	173.8	770.6
Sweden	153.4	154.3	652.1
Baltics	43.3	38.3	168.5
Denmark	50.3	35.4	153.3

Key figures, EBIT

(EUR million)	1-3/2020	1-3/2019	2019
EBIT	-3.9	-14.7	-23.2
- % of net sales	-0.9	-3.6	-1.3
Comparable EBIT	-3.9	-10.1	-2.2
- % of net sales	-0.9	-2.5	-0.1
Comparable EBIT, Finland	-3.5	-3.0	-1.7
- % of net sales	-1.9	-1.7	-0.2
Comparable EBIT, Sweden	1.5	-1.0	12.0
- % of net sales	1.0	-0.6	1.8
Comparable EBIT, Baltics	1.0	-0.7	5.1
- % of net sales	2.2	-1.7	3.0
Comparable EBIT, Denmark	0.6	-2.6	-5.3
- % of net sales	1.2	-7.4	-3.5

Key figures, other

(EUR million)	1-3/2020	1-3/2019	2019
Profit before taxes	-6.5	-17.4	-34.5
- % of net sales	-1.5	-4.3	-2.0
Profit for the period	-6.9	-16.9	-37.5
- % of net sales	-1.6	-4.2	-2.2
EPS, EUR	-0.08	-0.33	-0.52
Comparable EPS, EUR	-0.08	-0.24	-0.26
Cash flow from operating activities	-7.3	-17.5	59.2
Cash flow after investing activities	-18.5	-27.9	27.6
Return on capital employed (ROCE) before taxes, %	-1.4	-6.1	-3.1
Interest-bearing net debt	298.0	364.7	275.8
Net gearing, %	96.8	119.8	84.8

HKScan's CEO Tero Hemmilä

HKScan's Turnaround programme proceeded according to plan. The Covid-19 epidemic caused unexpected changes in all our market areas and the first quarter ended in a rather exceptional situation. I want to thank all HKScan's employees, our contract farmers and other partners for their good work in the exceptional circumstances. Appreciation for domestic food production has increased significantly. The strategic importance of HKScan's long value chain, from farms to consumers' food moments every day of the year, is increasing in all of our home markets.

Characteristically for the industry, the first quarter is challenging profit-wise. However, HKScan's net sales increased by almost 7 per cent. In comparable figures, growth was seen in all the market areas and in all the key product categories. As a whole, I am pleased with HKScan's profit improvement of EUR 6.2 million in the first quarter although the performance of all business units was not satisfactory. Our comparable EBIT was still EUR -3.9 million negative. On an annual basis, rolling 12 months, the company's comparable EBIT turned positive already in January and was EUR 3.9 million positive at the end of March. I am very pleased that we have, in just over a year, improved our comparable EBIT by over EUR 50 million from 2018. There is still a long way to go to reach the target level of profitability, but the direction is right.

Denmark, Sweden and the Baltics achieved their targets and clearly improved their comparable EBIT. Improvements were seen in all areas of business. Finland fell slightly short of its goals in some areas of business. We have identified the reasons and initiated corrective actions. The Finnish poultry business continued to improve its performance. In Rauma, the process is stable, but in order to meet a faster than expected consumption growth and to secure both supply reliability and productivity improvement, we decided to invest in the poultry unit's slaughtering process in January.

Meeting the sudden changes in demand caused by the Covid-19 epidemic resulted in additional costs. The strongly growing retail sales and the demand focusing on basic home cooking products in poultry, pork, beef and processed meat secure the company's sales also in exceptional circumstances. Weakening demand in the food service channel is hampering our operations, but our strong position in the retail trade compensates for this. We estimate that retail sales and demand for meat and processed meat products will continue positive over the coming months. Online food sales and deliveries directly to consumers' homes have also clearly increased. Both are likely to have a stronger role in the market even after the epidemic.

The Covid-19 epidemic has also impacted our exports to China. Planned export volumes to China were not fully achieved, but exports increased from the comparison period. Exports to China returned close to the target level at the end of the quarter. We directed sales to other export markets, which compensated the challenges seen with China at the beginning of the year. The situation has led to higher costs in export logistics. As a result of the epidemic, volatility in the international meat market is expected to continue. We will continue to work closely with the authorities in our home markets to obtain export licenses also for poultry and beef in China.

In this exceptional situation, it is extremely important for us, as a company, to take care of the health of our employees and consequently, the operation of our production units. In terms of hygiene, particularly in production and logistics, the focus has been on precautionary measures that have been even tighter than usual. We have also instructed our contract farmers to take preventive measures.

The company's strategy has been resolutely taken forward. During the first quarter, our focus has been to lead the Turnaround programme and to implement the Group's new profit centre-based operating model. HKScan's strategic target is to grow profitably into a versatile food company. In our strategy and its implementation, we take into account the potential impact of the epidemic on consumer behaviour.

At the beginning of April, HKScan purchased the plot of land of our Vantaa production unit from LSO Osuuskunta. The arrangement was conducted in a good understanding with our financing banks. The purchase of the land was important for us to be able to secure the continuation of our operations in the current location for a long time as the techno-economic life of the Vantaa production unit and logistics centre, serving the entire Finnish food market, will continue until the 2030s. To further develop the land, our goal is to expand the ownership base to meet the future needs.

HKScan's profit improvement and continued strengthening of cash flow will provide the company with a solid basis to continue the ongoing profitability improvement and to build the conditions for growth. With some 7,000 employees, nearly 20 production units and thousands of farms producing domestic meat raw materials, HKScan has a key role in the food supply and food security in all of its home markets. That is our position today, as it has been during our over 100-year history. We do our utmost to secure the company's operations under the exceptional circumstances. Food is needed every day and HKScan has a key role in this in all of its home markets. HKScan's strategic foundation is to resolutely develop the entire value chain from farms to consumers' food moments and to generate strengthening shareholder value as a versatile food company.

Group net sales and EBIT

Net sales

HKScan's net sales increased by 6.8 per cent to EUR 428.9 (401.8) million. Net sales grew by EUR 27.1 million. The most significant factors improving net sales were commercial successes and growth of sales volumes as well as the increased consumer demand brought about by the Covid-19 epidemic at the end of March.

The impact of the exchange rate change of the Swedish krona, i.e. the conversion of net sales made in local currency to euro, was EUR -3.8 million. In comparable figures, HKScan's net sales increased in all market areas and in all key product categories. HKScan's sales of poultry products increased by more than 15 per cent and the sales of pork and beef by more than 4 per cent.

The Covid-19 epidemic has also impacted our exports to China. Planned export volumes to China were not fully achieved, but exports increased from the comparison period. Exports to China returned close to the target level at the end of the quarter. Substitute sales was targeted to other export markets, which compensated the China export related challenges in the beginning of the year. Global shortage of shipping containers and connections increased shipping costs to an unexpectedly high level. In China, the demand for pork is predicted to remain on a good level also in 2020. The impact of exports to China on the Group figures is minor.

The exceptional situation caused by the epidemic was reflected in March in the strong growth of HKScan's retail sales and a clear decline in food service sales. The increase of home cooking boosted the demand of poultry products, minced meat, meal components and sausages in particular.

EBIT

The Group's comparable EBIT improved by EUR 6.2 million to EUR -3.9 (-10.1) million. EBIT was EUR -3.9 (-14.7) million, showing an increase of EUR 10.8 million. The change in the exchange rate of the Swedish krona had no impact on the EBIT during the review period. There were no non-recurring items affecting the EBIT during the review period. The EBIT of the comparison period included non-recurring items amounting to EUR -4.6 million, the most significant of which was the EUR -4.5 million impairment loss made in the Danish balance sheet as a result of an impairment test.

The most significant factors improving the EBIT were commercial successes in all business areas, growth of sales volumes and operational efficiency measures. All business units except Finland delivered a profitable comparable EBIT. The greatest financial performance improvement was seen in the business unit Denmark, which turned its EBIT positive.

The impacts of the corona situation on HKScan's EBIT were minor, as responding to the growing consumer demand and ensuring customer satisfaction were reflected in higher personnel costs due to overtime, increases in other costs and additional expenses relating to ensuring production continuity.

Balance sheet, cash flow and financing

At the end of March, the company's balance sheet total was EUR 946.9 (967.3) million.

The Group's interest-bearing debt at the end of March was EUR 343.7 (370.6) million including an IFRS 16 lease liability of EUR 44.6 (44.7) million. Net debt was EUR 298.0 (364.7) million. It decreased by EUR 66.7 million from the comparison period in the previous year and showed a seasonal increase of EUR 22.2 million from the year-end. The net gearing ratio was 96.8 (119.8) per cent. The impact of the IFRS 16 lease liability on the net gearing ratio was approximately 14.5 percentage points.

A hybrid bond issued in 2018 amounting to EUR 25.9 million is included in the balance sheet. The coupon of the hybrid bond is 8 per cent per annum. The hybrid bond is treated as equity. The hybrid bond does not have a specified maturity date but HKScan is entitled to redeem the hybrid bond for the first time on the fifth anniversary of the issue date, and subsequently, on each annual coupon interest payment date.

The Group's liquidity remained good. Committed credit facilities at the end of March stood at EUR 100.0 (100.0) million and were entirely undrawn. The EUR 200.0 million commercial paper programme had been drawn to the amount of EUR 68.0 (37.0) million.

Net financial expenses in the first quarter were EUR -3.0 (-2.8) million.

As a result of the Group's improved profitability, cash flow from operating activities improved by EUR 10.2 million from the comparison period. Cash flow from operating activities was EUR -7.3 (-17.5) million. Cash flow after investments was EUR -18.5 (-27.9) million.

The impact of the plot purchase at Vantaa on the net gearing ratio is approximately 10 percentage points.

Investments

The Group's investments totalled EUR 7.9 (10.7) million in January–March. In addition, IFRS 16 increases to right-of-use assets were made to the amount of EUR 1.5 (1.1) million. During the review period, investments were made in all market areas. The investments were targeted at maintenance and improving productivity. In 2020, HKScan increases its investments from the previous year as part of its Turnaround-programme.

In January 2020, HKScan announced an investment of approximately EUR 6 million on the new slaughter process of the Rauma poultry unit. The investment will clearly improve raw material yield, productivity and operational reliability while ensuring the capacity needed to respond to the strongly growing demand. The investment will be implemented in stages starting at the end of 2020 in a way that does not jeopardise the delivery reliability of the unit, stabilised in 2019.

Operating environment

Changes in key sales channels and product categories

During the review period, the Covid-19 epidemic caused significant changes in HKScan's sales channels and sales mix. The changes were evident in all the company's home markets, and they strengthened towards the end of the review period. Retail demand for food increased considerably while demand in the food service channel declined clearly. Online sale of food and home deliveries to consumers increased.

Consumers engaged in home cooking more than before, which increased the retail sales of meat and processed meat products. The retail sale of pork, beef, poultry and processed meat products increased in each of the company's market areas and in all key product categories. The impact was greatest in March due to the sudden and strong growth of food demand caused by the epidemic.

We estimate that with the focus of consumers' meals shifting to home cooking, the demand for domestic meat increased and the share of imported meat declined in HKScan's home markets. The epidemic has increased consumers' awareness of the significance of domestic food and food security, increasing the appreciation of domestic primary production in all the company's home markets. As the epidemic continues, HKScan estimates that the demand for meat and processed meat will remain on a good level.

The Covid-19 epidemic has caused volatility in the international meat market. Food service sales declined at the end of the review period both in home markets and in other markets, having both direct and indirect impact. The volatility has also been evident in exports to China, reflected in volumes as well as prices.

HKScan's actions to minimise the impacts of the Covid-19 epidemic

HKScan takes the exceptional situation caused by the Covid-19 epidemic seriously. The food industry has been classified as a critical industry in all the company's home markets. The basis for HKScan's operations is to ensure the health and safety of personnel as well as consumers and to secure the disturbance-free operations of production, business and the food value chain in all situations.

HKScan has so far secured the operations of the food value chain with wide-ranging contingency plans. The plans cover all key functions in HKScan's value chain, including animal and material sourcing, production and logistics, customer cooperation and sales as well as support functions.

The company aims to anticipate the impacts of the epidemic on consumer behaviour as well as possible and to account for the effects of different scenarios in the company's operations both in short and long term. The assessment of long-term change needs will be made in the coming months.

HKScan has increased exports to other countries besides China. The goal is to balance exports and mitigate market risks.

Business Unit Finland

(EUR million)	1-3/2020	1-3/2019	2019
Net sales	181.9	173.8	770.6
EBIT	-3.5	-3.0	-10.3
- EBIT margin, %	-1.9	-1.7	-1.3
Comparable EBIT	-3.5	-3.0	-1.7
- EBIT margin, %	-1.9	-1.7	-0.2

In the first quarter, business unit Finland's net sales increased by 4.6 per cent and were EUR 181.9 (173.8) million. The most significant growth was seen in the retail sales of poultry products, and the market share of the Kariniemen® brand continued to strengthen.

In March, Finland's net sales increased by more than 6 per cent due to the increased consumer demand caused by the Covid-19 epidemic. In Finland, retail sales increased strongly, but food service sales declined clearly. In March, the retail channel saw growth in all HKScan's product categories except ready meals. The increased popularity of home cooking boosted the demand of poultry products, minced meat, meal components and sausages in particular.

Finland's EBIT was EUR -3.5 (-3.0) million and did not reach the targeted level. During the spike in demand caused by the exceptional situation, HKScan secured the reliability of its deliveries to customers, which created additional costs. The Rauma poultry unit improved its performance from the comparison period but remained below the targeted level. Furthermore, the epidemic increased costs of export logistics to China. Marketing investments were also higher than during the comparison period, as projected. The depreciations were slightly higher than in the comparison period.

HKScan sees partnerships as a central part of its strategy. The sales of Kivikylän Kotipalvaamo increased clearly and profitability improved. The sales of Lihatukku Harri Tamminen were at the same level as in the comparison period. Both are HKScan's subsidiaries. HKScan started the sales of Hes-Pro's plant protein products in the food service channel, as planned.

Investments made in Finland were targeted at maintenance and productivity improvements. In January 2020, HKScan made a decision to invest in the slaughter process of the Rauma poultry unit. The investment significantly improves raw material yield, productivity and operational reliability while securing the capacity required by the strongly growing demand.

Business Unit Sweden

(EUR million)	1-3/2020	1-3/2019	2019
Net sales	153.4	154.3	652.1
EBIT	1.5	-1.0	7.1
- EBIT margin, %	1.0	-0.6	1.1
Comparable EBIT	1.5	-1.0	12.0
- EBIT margin, %	1.0	-0.6	1.8

Business unit Sweden's net sales were EUR 153.4 (154.3) million. Commercial successes were the most significant factor boosting net sales.

The impact of the exchange rate change of the Swedish krona on net sales was EUR -3.8 million. In addition, Sweden's net sales were reduced by EUR -5.5 million by the transfer of sales responsibility for Danish poultry meat sold in Sweden to business unit Denmark, which took place last year. In comparable figures, Sweden's net sales increased in the first quarter by approximately 5 per cent in local currency.

In March, HKScan's retail sales increased strongly but sales in the food service channel declined clearly due to the Covid-19 epidemic. Retail sales of pork, beef, sausages and ready meals grew particularly well.

EBIT was EUR 1.5 (-1.0) million. Factors contributing to the EBIT improvement were commercial successes, reduced administrative costs and clear improvement in operational efficiency. In Sweden, the availability of domestic pork improved, but the price of pork meat raw material was clearly higher than in the comparison period. The change in the exchange rate had no impact on the EBIT of the review period. The impact of the transfer of responsibility for the sale of Danish poultry meat sold in Sweden was minor.

In Sweden, investments were directed at maintenance and profitability improvements.

Business Unit Baltics

(EUR million)	1-3/2020	1-3/2019	2019
Net sales	43.3	38.3	168.5
EBIT	1.0	-0.7	5.0
- EBIT margin, %	2.2	-1.9	3.0
Comparable EBIT	1.0	-0.7	5.1
- EBIT margin, %	2.2	-1.7	3.0

In the Baltics, net sales increased by 13.2 per cent and were EUR 43.3 (38.3) million. The most significant factors boosting net sales were commercial successes and higher sales volumes. Net sales increased by 21 per cent in March as the higher consumer demand caused by the epidemic boosted sales.

The retail sales of pork and poultry meat grew particularly well in the review period. Sales of pork also increased in the food service channel and industrial sales. Export of processed meat products to Germany increased.

EBIT was EUR 1.0 (-0.7) million. The EBIT was boosted by the positive development of sales and sales volume as well as improved operational efficiency. The net sales increase, caused by the Covid-19 epidemic, had a minor impact on EBIT. The change of biological asset revaluation on the balance sheet amounted to EUR -0.1 (0.7) million.

In the Baltics, investments were directed at maintenance and productivity improvements. In February 2020, HKScan announced that it had signed a contract for constructing a new logistic centre in Tallinn. The company signed a long-term lease agreement on the logistics centre with the contractor. The goal is to respond to the change in customer needs, improve operational productivity and reliability as well as to reduce environmental impacts.

Business Unit Denmark

(EUR million)	1-3/2020	1-3/2019	2019
Net sales	50.3	35.4	153.3
EBIT	0.6	-7.1	-9.8
- EBIT margin, %	1.2	-20.1	-6.4
Comparable EBIT	0.6	-2.6	-5.3
- EBIT margin, %	1.2	-7.4	-3.5

Denmark's net sales increased by 42.2 per cent and were EUR 50.3 (35.4) million. The most significant factors boosting net sales were new contracts with Danish retailers. Denmark's net sales were increased by EUR 5.5 million by the transfer of sales responsibility for Danish poultry meat sold in Sweden to business unit Denmark, implemented last year, as well as the continuing sales growth to Swedish customers. As domestic demand increased, exports to other markets declined.

During the review period, the increased consumer demand caused by the Covid-19 epidemic was reflected in the growth of retail sales and industrial sales. Correspondingly, sales in the food service channel declined clearly. In Denmark, the value-adding change from frozen poultry products to fresh ones, in line with targets, increased net sales and improved profitability.

The EBIT of business unit Denmark improved clearly and was EUR 0.6 (-7.1) million. Comparable EBIT was EUR 0.6 (-2.6) million. The EBIT was boosted by commercial successes and increased sales volumes as well as the increase of added-value products. The operational efficiency measures continued, as well. The Danish EBIT of the comparison period included an EUR -4.5 million impairment loss made in the balance sheet.

An investment in a new bird reception area to improve the productivity of the process at the Danish Vinderup production unit is under way. At the Skovsgaard factory, an investment increasing the degree of processing of products to cooked poultry products is ongoing. The investments will become operational in summer 2020.

HKScan's strategy

HKScan's strategy focuses on the Turnaround programme to improve the company's profitability. Implementation of the Turnaround programme creates financially strong foundation for the company's future growth. At the same time, also other forward-looking development measures pave the way for profitable future growth.

HKScan aims to grow profitably into a versatile food company and to strengthen its market position in evolving markets together with its customers. HKScan is investing in growth and strengthening its position in the retail and food service channels. Strong partnerships are part of the company's new strategy, supporting the achievement of goals.

The Group's strong, innovative poultry range as well as meals and meal components are the company's growth drivers. Responsibly produced meat and meat products are at the core of the company's operations and will continue to play a major role. With changing consumption habits, HKScan is looking into expanding its business into new product categories and raw materials. Together with the strengthening product portfolio, new commercial concepts and digital solutions are the company's growth drivers.

Growth in consumers' food moments, performance excellence, advanced corporate responsibility and competitive farming community are the company's strategic priorities. HKScan also invests in the growth of exports, particularly to Asia. In addition, HKScan will continue its strategic assessment regarding the company structure and to review the positioning of different market areas as part of the Group's operations.

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

Research and development

HKScan's research and development activities aim to develop the product offering and categories on all markets to answer the changing needs of consumers and customers. In its product development, HKScan takes into account the existing and new product categories defined in the Group strategy, the different needs of evolving sales channels, changes in consumer behaviour as well as sustainability aspects.

Personnel and Group management

HKScan employed 6,940 (6,791) people at the end of March 2020. The average number of employees in the review period was 6,806 (6,756). Of that number, 39.7 (39.3) per cent were located in Finland, 29.2 (29.0) per cent in Sweden, 21.7 (22.9) per cent in the Baltics and 9.4 (8.8) per cent in Denmark. The increase of personnel numbers from the comparison period was caused by the company taking over the responsibility for production facility maintenance in Finland. Additionally, seasonal employees began their work earlier due to the increased demand brought on by the Covid-19 epidemic situation.

Salaries and remunerations to employees, including social costs, totalled EUR 80.0 (77.6) million in January–March.

At the beginning of January 2020, HKScan implemented a new country-level profit centre organisation. The objective of the new operating model is to strengthen the company's market-area level profit responsibility and management as well as a more customer and consumer-oriented way of operating. The change of operating model has a central role in the implementation of the company's Turnaround programme and the new strategy. The Group's business units are Finland, Sweden, the Baltics and Denmark. Group functions ensure good governance and support the business units in reaching their goals.

HKScan's Management Team's specified responsibility areas from 1 January 2020:

CEO Tero Hemmilä, EVP Business Unit Finland Jari Leija, EVP Business Unit Sweden Denis Mattsson, EVP Business Unit Baltics Anne Mere, EVP Business Unit Denmark Jukka Nikkinen, CFO Jyrki Paappa, EVP Administration Markku Suvanto, EVP Export, import and meat balance Juha Ruohola and EVP Strategic business development and investments Mika Koskinen.

Shares and shareholders

At the end of March 2020, HKScan Corporation's paid and registered share capital stood at EUR 66,820,528.10. The Corporation's total number of shares issued, 98,951,781, was 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%). The A Shares are quoted on Nasdaq Helsinki Ltd. The K Shares are held by LSO Osuuskunta (4,735,000 shares) and Lantmännen ek. för. (665,000 shares) and are not listed. There were no changes in the number of K Shares of LSO Osuuskunta and Lantmännen ek. för.

At the end of March 2020, the company held 2,000,000 (992,348) A shares as treasury shares, corresponding to 2.02 per cent of the company's total number of shares and 1.0 per cent of the total number of votes.

The market cap of HKScan's shares at the end of March 2020 stood at EUR 188.2 (95.5) million. Series A shares had a market value of EUR 177.9 (86.0) million, and the unlisted Series K shares a calculational value of EUR 10.3 (9.5) million.

In January–March, a total of 12,301,805 (3,832,307) of the company's shares were traded with a total value of EUR 25,909,970 (6,750,987). In the period under review, the highest price quoted was EUR 2.85 (2.00) and the lowest was EUR 1.60 (1.48). The average price was EUR 2.11 (1.76). At the end of March 2020, the closing price was EUR 1.90 (1.77).

Share-based long-term incentive plan

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

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

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

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

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

Annual General Meeting 2020

HKScan's Annual General Meeting was planned to be held after the review period on 15 April 2020. Following the policies restricting assembly set by the Finnish government in response to the corona epidemic, the company has decided to postpone its 2020 Annual General Meeting. The new date will be announced later. The agenda of the meeting has been published on the company website at www.hkscan.com.

Short-term risks and uncertainty factors

In the short term, the Covid-19 epidemic is a significant uncertainty factor for HKScan's business. HKScan's operations are based on ensuring the health and safety of consumers and employees and on securing the disturbance-free operations of the entire food value chain also during the epidemic. The company follows strict hygiene processes and instructions set by the authorities and has implemented numerous contingency actions. Disruption of production due to potential illness of personnel poses a risk for the company. In addition, if the epidemic is prolonged, it may impact the availability and prices of some raw materials, production inputs, packaging materials and protective equipment. The epidemic may also affect the price and volume development of certain products in sales channels in which demand has significantly declined due to the epidemic. This applies to home markets as well as export markets. The corona epidemic may also cause unexpected delays in the implementation of investments, which may affect the company's Turnaround-programme.

Other significant uncertainty factors in HKScan Group's business are related to the availability, price and quality of key production inputs as well as to raw material and sales prices. In short-term, the demand-driven market situation of domestic pork creates pressure for the increase of raw material prices.

In the food industry's long production chain, food safety is essential. Risks of animal diseases, such as the African Swine Fever (ASF), or any international or regional food scandals impacting the overall consumption outlook cannot be fully excluded. The discussion around climate change may for its part impact the consumer demand for meat products.

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

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

HKScan's risks are reported in more detail in the risk management section of the Annual Report. More information is available in the Group's Report of Non-financial Information.

Events after the reporting period

On 3 April 2020, HKScan announced that it had bought the plot of land on which its factory and logistics centre are located in Vantaa. HKScan bought the plot of land from LSO Osuuskunta using the right of first refusal included in the land lease agreement. The purchase price was approximately EUR 36 million.

Based on the related party relationship between HKScan and LSO Osuuskunta, the land transaction is defined as a related party transaction. The purchase price paid by HKScan corresponds to the offer LSO Osuuskunta received for the plot of land from a third party. The City of Vantaa has announced that it will not use its right of first refusal.

It is important for HKScan to secure its operations in the current location in Vantaa for a long time to come. The operating life of the Vantaa production unit and logistics centre will continue until the 2030s. The land in Vantaa is centrally located also in terms of the future development of the area for other purposes. The aim is to expand the ownership base of the land so that it can be developed further to meet future needs.

Information meeting for analysts and media

An information meeting related to HKScan's January–March 2020 interim report for analysts, institutional investors and media will be organised as a webcast on 7 May 2020 at 10 a.m. via <https://hkscan.videosync.fi/q1-2020-tulokset>. The interim report will be presented by CEO Tero Hemmilä and CFO Jyrki Paappa. The event will be held in Finnish.

Conference calls in English will be arranged upon separate request. Kindly contact Marjukka Uutela-Hujanen, phone +358 10 570 6218, to make an appointment.

Financial reports

HKScan's half year financial report 2020 will be published on 16 July 2020. The January–September 2020 interim report will be published on 5 November 2020.

Vantaa, 7 May 2020

HKScan Corporation
Board of Directors

For further information

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Jyrki Paappa, CFO, tel. +358 10 570 2512
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HKScan's target is to grow into a versatile food company. With over 100 years of experience, we make tasty, healthy and responsibly produced food responding to the needs of consumers and customers. For us at HKScan, responsibility includes the development of food production throughout the value chain, from farms to consumers. Our home markets cover Finland, Sweden, Denmark and the Baltics. Our nearly 7,000 HKScan professionals ensure tastier life - today and tomorrow. Our diverse product portfolio includes poultry, pork and beef, as well as meat products and meals. Our strong brands are HK®, Kariniemen®, Via®, Scan®, Pärsons®, Rakvere®, Tallegg® and Rose®. In 2019, net sales of the publicly listed HKScan totalled EUR 1.7 billion.

DISTRIBUTION:
Nasdaq Helsinki,
Main media,
www.hkscan.com

Consolidated interim report 1 January – 31 March 2020

Consolidated income statement

(EUR million)		1-3/2020	1-3/2019	2019
Net sales		428.9	401.8	1 744.4
Cost of goods sold	1.	-409.1	-393.0	-1 668.2
Gross profit		19.9	8.8	76.2
Other operating items total	1.	2.5	2.0	4.9
Sales and marketing costs	1.	-11.4	-9.7	-38.5
General administration costs	1.	-15.0	-15.8	-65.8
Operating profit		-3.9	-14.7	-23.2
Financial income		0.4	0.4	2.2
Financial expenses		-3.4	-3.2	-13.9
Share of profit/loss in associates and joint ventures		0.4	0.1	0.4
Profit/loss before taxes		-6.5	-17.4	-34.5
Income tax		-0.4	0.5	-3.0
Profit/loss for the period		-6.9	-16.9	-37.5
Profit/loss for the period attributable to:				
Equity holders of the parent		-7.2	-17.0	-39.9
Non-controlling interests		0.3	0.1	2.3
Total		-6.9	-16.9	-37.5
Earnings per share calculated on profit attributable to equity holders of the parent:				
EPS, undiluted, continuing operations, EUR/share		-0.08	-0.33	-0.52
EPS, diluted, continuing operations, EUR/share		-0.08	-0.33	-0.52

Consolidated statement of comprehensive income

(EUR million)	1-3/2020	1-3/2019	2019
Profit/loss for the period	-6.9	-16.9	-37.5
OTHER COMPREHENSIVE INCOME (after taxes):			
Exchange differences on translating foreign operations	-5.2	-1.3	-1.6
Cash flow hedging	-5.3	-2.5	-4.2
Actuarial gains or losses	-	-	-4.2
TOTAL OTHER COMPREHENSIVE INCOME	-10.5	-3.8	-10.0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-17.4	-20.6	-47.5
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the parent	-17.8	-20.8	-49.8
Non-controlling interests	0.3	0.1	2.3
Total	-17.4	-20.6	-47.5

Consolidated balance sheet

(EUR million)	Note	31 March 2020	31 March 2019	31 Dec. 2019
ASSETS				
Intangible assets	2.	137.1	135.7	136.4
Tangible assets	3.4	422.1	468.6	439.1
Holdings		32.1	33.0	32.5
Deferred tax asset	5.	43.7	43.8	43.4
Other non-current assets		4.7	3.3	3.5
TOTAL NON-CURRENT ASSETS		639.7	684.4	654.9
Inventories	6.	127.9	139.7	115.5
Current receivables		133.7	137.3	127.6
Cash and cash equivalents		45.7	5.9	37.5
TOTAL CURRENT ASSETS		307.2	282.9	280.6
TOTAL ASSETS		946.9	967.3	935.6
EQUITY AND LIABILITIES				
EQUITY	7.	307.9	304.3	325.1
Non-current loans, interest-bearing	4.	260.2	273.4	262.7
Non-current liabilities, non-interest-bearing		63.0	62.5	67.0
TOTAL NON-CURRENT LIABILITIES		323.3	335.8	329.8
Current loans, interest-bearing	4.	83.4	97.2	50.6
Current liabilities, non-interest-bearing		232.3	229.9	230.1
TOTAL CURRENT LIABILITIES		315.7	327.2	280.7
TOTAL EQUITY AND LIABILITIES		946.9	967.3	935.6

Statement of changes in consolidated equity

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2020	66.8	72.9	1.0	215.4	25.9	10.3	-13.4	-4.8	-66.2	307.9	17.2	325.1
Result for the financial period	-	-	-	-	-	-	-	-	-7.2	-7.2	0.3	-6.9
Other comprehensive income (+) / expense (-)												
Transl. diff.	-	-	-	-	-	-	-5.2	-	-	-5.2	-	-5.2
Cash flow hedging	-	-	-5.3	-	-	-	-	-	-	-5.3	-	-5.3
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total compreh. income for the period	-	-	-5.3	-	-	-	-5.2	-	-7.2	-17.8	0.3	-17.4
Direct recognitions	-	-	-	-	-	0.0	-	-	0.2	0.2	-	0.2
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-
EQUITY ON 31 March 2020	66.8	72.9	-4.3	215.4	25.9	10.3	-18.6	-4.8	-73.2	290.4	17.5	307.9

(EUR million)	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
EQUITY ON 1 Jan. 2019	66.8	72.9	5.1	143.5	40.0	10.3	-11.9	0.0	-17.2	309.5	15.4	325.0
Result for the financial period	-	-	-	-	-	-	-	-	-17.0	-17.0	0.1	-16.9
Other comprehensive income (+) / expense (-)												
Transl. diff.	-	-	-	-	-	-	-1.3	-	-	-1.3	-	-1.3
Cash flow hedging	-	-	-2.5	-	-	-	-	-	-	-2.5	-	-2.5
Actuarial gains or losses	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-2.5	-	-	-	-1.3	-	-17.0	-20.8	0.1	-20.6
Direct recognitions	-	-	-	-	-	0.0	-	-	0.0	0.0	-	0.0
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-
EQUITY ON 31 March 2019	66.8	72.9	2.6	143.5	40.0	10.3	-13.1	0.0	-34.2	288.8	15.6	304.3

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

Cash flow statement

(EUR million)	1-3/2020	1-3/2019	2019
Cash flow before change in net working capital	11.9	6.7	58.3
Change in net working capital	-19.9	-22.0	13.2
Financial items and taxes	0.6	-2.2	-12.2
CASH FLOW FROM OPERATING ACTIVITIES	-7.3	-17.5	59.2
Cash flow from investing activities	-11.2	-10.4	-31.6
CASH FLOW AFTER INVESTING ACTIVITIES	-18.5	-27.9	27.6
Hybrid loan	-	-	-2.1
Share issue	-	-	43.7
Share issue costs	-	-	-3.0
Change in loans	29.1	4.3	-52.0
Purchase of own shares	-	-	-4.7
Dividends paid	-	-	-0.6
CASH FLOW FROM FINANCING ACTIVITIES	29.1	4.3	-18.8
NET CASH FLOW	10.6	-23.5	8.9
Cash and cash equivalents at beginning of period	37.5	29.4	29.4
Translation differences	-2.4	0.0	-0.8
Cash and cash equivalents at end of period	45.7	5.9	37.5

Financial indicators

(EUR million)	31 March 2020	31 March 2019	31 Dec. 2019
Earnings per share (EPS), undiluted, EUR	-0.08	-0.33	-0.52
Earnings per share (EPS), diluted, EUR	-0.08	-0.33	-0.52
Equity per share, EUR	3.00	5.34	3.18
Equity ratio, %	32.5	31.5	34.8
Adjusted average number of outstanding shares, mill.	97.0	54.0	79.9
Gross capital expenditure on PPE, EUR mill.	7.9	10.7	31.7
Additions in right-of-use assets, EUR mill.	1.5	1.1	11.3
Depreciation, EUR mill.	16.6	21.3	80.4
Employees, end of month average	6,806	6,756	6,928

Calculation of financial indicators

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

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

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

Notes to the interim report

Accounting policies

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

Analysis by segment

(EUR million)	1-3/2020	1-3/2019	2019
NET SALES			
- Finland			
Sales, goods	181.2	173.1	767.4
Sales, services	0.7	0.8	3.1
- Sweden			
Sales, goods	153.4	154.3	652.1
Sales, services	0.0	0.0	0.0
- Baltics			
Sales, goods	43.3	38.3	168.0
Sales, services	0.0	0.0	0.5
- Denmark			
Sales, goods	50.3	35.4	153.3
Sales, services	0.0	0.0	0.0
Group total	428.9	401.8	1 744.4
EBIT			
- Finland	-3.5	-3.0	-10.3
- Sweden	1.5	-1.0	7.1
- Baltics	1.0	-0.7	5.0
- Denmark	0.6	-7.1	-9.8
Segments total	-0.4	-11.8	-8.0
Group administration costs	-3.5	-2.9	-15.2
Group total	-3.9	-14.7	-23.2
INVESTMENTS			
- Finland			
Gross capital expenditure on PPE	2.2	2.0	9.7
Additions in right-of-use assets	0.5	0.6	8.6
Investments total	2.8	2.6	18.2
- Sweden			
Gross capital expenditure on PPE	2.6	4.0	8.4
Additions in right-of-use assets	0.6	0.3	1.9
Investments total	3.2	4.3	10.4
- Baltics			
Gross capital expenditure on PPE	1.1	4.3	11.6

Additions in right-of-use assets	0.1	0.0	0.3
Investments total	1.2	4.4	11.9
- Denmark			
Gross capital expenditure on PPE	2.0	0.4	2.0
Additions in right-of-use assets	0.3	0.1	0.6
Investments total	2.4	0.5	2.6
Total	9.5	11.8	43.0
AVERAGE NUMBER OF EMPLOYEES			
- Finland	2 704	2 652	2 774
- Sweden	1 986	1 962	2 013
- Baltics	1 475	1 549	1 512
- Denmark	641	594	628
Total	6 806	6 756	6 928

Notes to the income statement

1. Items affecting comparability

(EUR million)	1-3/2020	1-3/2019	2019
Comparable EBIT	-3.9	-10.1	-2.2
Termination of employment, Sweden 1)	-	-	-1.5
Impairment of assets, Finland 2) 3)	-	-	-7.3
Termination of employment, Group Management 1)	-	-	-1.6
Termination of employment, Sweden 2)	-	-	-0.4
Termination of employment, Finland 1)	-	-	-0.8
Termination of employment, Finland 2)	-	-	-0.4
Termination of employment, Baltics 1)	-	-0.1	-0.1
Termination of employment, Baltics 2)	-	0.0	-0.0
Impairment of assets, Denmark 2) 3)	-	-4.5	-4.5
Impairment of assets, Group Management 1) 3)	-	-	-1.3
Impairment of associated company balances, Sweden 1) 2) 4)	-	-	-2.9
EBIT	-3.9	-14.7	-23.2

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

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

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

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

Notes to the statement of financial position

2. Changes in intangible assets

(EUR million)	31 March 2020	31 March 2019	31 Dec. 2019
Opening balance	136.4	137.5	137.5
Translation differences	-4.6	-1.2	-1.6
Additions	0.3	0.0	0.7
Depreciation and impairment	-1.0	-0.7	-3.1
Reclassification between items	6.1	0.1	2.8
Closing balance	137.1	135.7	136.4

3. Changes in tangible assets

(EUR million)	31 March 2020	31 March 2019	31 Dec. 2019
Opening balance	439.1	478.5	478.5
Translation differences	-4.0	-0.9	-1.2
Additions	9.2	11.9	42.3
Disposals	-0.6	-0.2	-0.3
Depreciation and impairment	-15.6	-20.6	-77.3
Reclassification between items	-6.1	-0.1	-2.8
Closing balance	422.1	468.6	439.1

4. Right-of-use assets and lease liabilities

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1.1.2020	10.0	18.7	15.7	44.3	46.3
Translation differences	-	-0.3	-0.1	-0.5	-0.5
Additions	0.3	0.3	0.9	1.5	1.5
Disposals	-	-0.4	0.0	-0.4	-
Depreciation for the financial period	-0.3	-1.1	-1.1	-2.6	-
Reclassification between items	-	-	-	-	-
Payments	-	-	-	-	-2.7
Closing balance on 31 March 2020	10.0	17.1	15.4	42.4	44.6

(EUR million)	Land and Water	Buildings and structures	Machinery and equipment	Total	Lease liabilities
Opening balance on 1.1.2019	6.4	19.7	20.0	46.1	46.8
Translation differences	-	-0.1	0.0	-0.1	-0.1
Additions	-	0.5	0.7	1.2	1.2
Depreciation for the financial period	-0.3	-1.0	-1.3	-2.7	-
Reclassification between items	-	-	-1.8	-1.8	-
Payments	-	-	-	-	-3.1
Closing balance on 31 March 2019	6.1	19.0	17.5	42.6	44.7

(EUR million)	1-3/2020	1-3/2019	2019
Depreciation expense of right-of-use assets	-2.6	-2.7	-11.4
Interest expense on lease liabilities	-0.3	-0.3	-1.4
Total amounts recognised in profit or loss	-2.9	-3.0	-12.8

5. Deferred tax assets

EUR 35.4 million of the deferred tax asset arise from Group's operations in Finland and mostly from adopted losses, postponed depreciations and non-deductible interest expenses. Increased deferred tax asset arising from tax losses in Finland in 2018 was losses incurred during Rauma unit ramp up and are therefore temporary in nature.

The company has ability to mitigate the expiration risk of the tax losses by deferring use of tax depreciation. A gradual reduction of the asset is expected to take place when effects of the Turnaround programme takes effect. As a result of the successful share issue the expected decrease in interest expense will also positively affect on tax position.

Deferred tax assets are assumed to be used in less than 10 years. Consideration is based on current three years business plan of which implementation has so far proceeded according to original targeting. As plans always contain uncertainties, these are mitigated in consideration with very conservative assumption on EBIT growth in 2022 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 non-deductibility of interest expense can be used to speed up the utilisation of losses before they expire. Postponed tax depreciations and non-deducted interest expense can be utilised indefinitely.

Unrecognized Finnish deferred tax asset at the end March 2020 was EUR 13.0 million.

6. Inventories

(EUR million)	31 March 2020	31 March 2019	31 Dec. 2019
Materials and supplies	72.3	87.7	59.3
Semi-finished products	4.5	4.8	4.7
Finished products	41.9	39.7	41.8
Other inventories	0.2	0.2	0.2
Inventories, advance payments	2.0	1.2	1.9
Biological assets	7.1	6.2	7.5
Total inventories	127.9	139.7	115.5

7. Notes to equity

Share capital and share premium reserve	Number of outstanding shares	Share capital	Share premium reserve	Reserve for invested unrestricted equity	Treasury	Total
1 Jan. 2020	96,951,781	66.8	72.9	215.4	-4.8	350.3
31 March 2020	96,951,781	66.8	72.9	215.4	-4.8	350.3

Derivative instrument liabilities

(EUR million)	31 March 2020	31 March 2019	31 Dec. 2019
Nominal values of derivative instruments			
Foreign exchange derivatives	55.0	51.5	56.7
Interest rate derivatives	96.6	118.7	98.5
Electricity derivatives	13.1	12.4	12.9
Fair values of derivative instruments			
Foreign exchange derivatives	0.9	-0.1	-0.4
Interest rate derivatives	-5.3	-7.9	-5.8
Electricity derivatives	-5.6	2.5	0.5

Consolidated other contingent liabilities

(EUR million)	31 March 2020	31 March 2019	31 Dec. 2019
Debts secured by pledges or mortgages			
- loans from financial institutions	-	-	-
On own behalf			
- Mortgages given	-	-	-
- Assets pledged	-	-	-
On behalf of others			
- guarantees and other commitments	7.4	11.6	7.8
Other contingencies			
Leasing and rental commitments	0.6	1.1	0.7

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

Derivatives

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

(EUR million)	31 March 2020	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
- Trading securities	-	-	-	-
- Trading derivatives				
- Interest rate swaps	-	-	-	-
- Foreign exchange derivatives	1.0	-	1.0	-
- Commodity derivatives	-	-	-	-
of which subject to cash flow hedging	-	-	-	-
Total	1.0	-	1.0	-
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit or loss				
-Trading derivatives				
- Interest rate swaps	-5.3	-	-5.3	-
- Foreign exchange derivatives	-0.1	-	-0.1	-
- Commodity derivatives	-5.6	-	-5.6	-
of which subject to cash flow hedging	-5.6	-	-5.6	-
Total	-11.0	-	-11.0	-

(EUR million)	31 March 2019	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets recognised at fair value through profit or loss				
- Trading securities	-	-	-	-
- Trading derivatives				
- Interest rate swaps	-	-	-	-
- Foreign exchange derivatives	0.1	-	0.1	-
- Commodity derivatives	2.6	-	2.6	-
of which subject to cash flow hedging	2.6	-	2.6	-
Total	2.7	-	2.7	-
Liabilities measured at fair value				
Financial liabilities recognised at fair value through profit of loss				
-Trading derivatives				
- Interest rate swaps	-7.9	-	-7.9	-
- Foreign exchange derivatives	-0.2	-	-0.2	-
- Commodity derivatives	-0.1	-	-0.1	-
of which subject to cash flow hedging	-0.1	-	-0.1	-
Total	-8.2	-	-8.2	-

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)	1-3/2020	1-3/2019	2019
Sales to associates	3.1	4.8	17.7
Purchases from associates	8.8	9.3	35.5
Trade and other receivables from associates	0.9	2.8	1.6
Trade and other payables to associates	2.8	5.8	3.0