NOTES TO THE FINANCIAL STATEMENTS FOR 2015

BASIC INFORMATION ABOUT THE ENTITY

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

HKScan Corporation and its subsidiaries (together 'the Group') produce, sell and market high-quality and responsibly-produced pork, beef, poultry and lamb products, processed meats and convenience foods under strong brand names. Its customers are the retail, away-from-home and export sectors.

The Group is active in Finland, Sweden, Estonia, Latvia, Lithuania, Poland, Denmark, the UK, Russia, Germany and China. HKScan Corporation's A share has been quoted on Nasdaq Helsinki since 1997.

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

The Board of Directors of HKScan Corporation approved the publication of these financial statements at its meeting of 9 February 2016. Under the Finnish Companies Act, shareholders may approve or reject the financial statements at the Annual General Meeting held subsequent to their publication. The Annual General Meeting can also modify the financial statements.

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

ACCOUNTING POLICIES

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

BASIS OF PREPARATION

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the IAS standards and SIC and IFRIC interpretations effective on 31 December 2015. 'International Financial Reporting Standards' refer, in the Finnish Accounting Act and in the provisions given thereupon, to the standards approved for application within the EU according to the procedure as established in EU Regulation (EC) No. 1606/2002 and the interpretations thereof. The notes to the financial statements also conform to Finnish accounting and corporate legislation supplementing IFRS requirements.

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

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

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

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

The consolidated financial statements have been prepared in compliance with the same accounting policies as in 2014.

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

There have been no new standards, amendments or interpretations, which are effective for the financial year beginning on 1 January 2015 that affect the Group's accounting policies or any of the disclosures.

COMPARABILITY WITH PREVIOUS YEARS

The years 2015 and 2014 are comparable with each other. Group's joint venture company in Poland (Sokołów) has been consolidated proportionately in accordance with the ownership interest line by line until 31 December 2012 and after that with the equity method. Some figures in five-year historical data are not available due to changes in accounting treatment.

CONSOLIDATION OF SUBSIDIARIES

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

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

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

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

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

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

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

ASSOCIATES

Associates are companies over which the Group exercises a significant influence which arises when the Group holds 20–50 per cent of a company's voting rights. Associates have been consolidated using the equity method. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. If the Group's share of the losses of an associate exceeds the investment's carrying amount, the investment is recognized as having no value and, unless the Group is committed to meeting the obligations of associates, no losses exceeding the carrying amount are consolidated. Investments in associates include the goodwill arising on their acquisition. Dividends received from associates have been eliminated in the consolidated financial statements. The associates mentioned below in Note 29. 'Related Party Transactions' have been consolidated into the consolidated financial statements. The share of associates' results is presented below EBIT.

The Group's share in associates' changes recognized in other items of comprehensive income are recognized in the Group's other items of comprehensive income. The Group's associates have not had any such items during the 2014–2015 financial periods.

JOINT VENTURES

A joint venture is a company in which the Group exercises joint control with another party. Joint ventures are consolidated using the equity method. HKScan Group's joint venture Saturn Nordic Holding (that holds 100 per cent of the Polish company Sokołów S.A.) has been sold in 2014 and the Group has not had joint ventures since.

More detailed information about holdings in Group companies and associates is presented in Note 29. 'Related party transactions'.

FOREIGN CURRENCY TRANSLATION

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

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

Group companies recognize transactions in foreign currencies at the rate prevailing on the day of the transaction. Trade receivables, trade payables and loan receivables denoted in foreign currencies and foreign currency bank accounts have been translated into the operational currency at the exchange rates quoted on the balance sheet date. Exchange rate gains and losses on loans denoted in foreign currencies are included in financial income and expenses below EBIT, except for gains and losses arising from loans designated as hedges for net investments made in foreign units and which perform effectively. These gains and losses are recognized under translation differences in equity. As a rule, exchange rate gains and losses related to business operations are included in the corresponding items above EBIT.

PROPERTY, PLANT AND EQUIPMENT

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

The expected useful lives are as follows:

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

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

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

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

GOVERNMENT GRANTS

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

INTANGIBLE ASSETS

GOODWILL

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

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

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

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

RESEARCH AND DEVELOPMENT COSTS

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

OTHER INTANGIBLE RIGHTS AND ASSETS

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

INVENTORIES

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

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

BIOLOGICAL ASSETS

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

Biological assets are included in inventories on the balance sheet and changes in the fair value are included in material costs in the income statement.

LEASES

THE GROUP AS LESSEE

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

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

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

THE GROUP AS LESSOR

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

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

ARRANGEMENTS THAT MAY INCLUDE A LEASE AGREEMENT

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

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

EMPLOYEE BENEFITS

PENSION OBLIGATIONS

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

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

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

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

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

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

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

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

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

SHARE-BASED PAYMENTS

Based on IFRS 2, the fair value of share based incentives is determined at grant date and the fair value is expensed until vesting. If the share reward is paid as a combination of shares and cash, the fair value determination is divided into equity-settled and cash-settled portions. The equity-settled portion is booked into equity and cash-settled into liabilities. The fair value of equity-settled portion is the fair value of Company share at grant date deducted with expected dividends to be paid before reward payment. Furthermore, the share purchase and ownership requirement in performance period is taken into account by deducting the estimated financing costs of the share purchases from the fair value. The fair value of cash settled portion is recalculated on each reporting date until reward payment.

PROVISIONS

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

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

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

TAXES AND DEFERRED TAXES BASED ON TAXABLE INCOME FOR THE PERIOD

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

Deferred tax assets and liabilities are calculated on all temporary differences in bookkeeping and taxation using the tax rate valid at the balance sheet date or expected date the tax is paid. The most significant temporary differences arise from measurement to fair value of derivative instruments, defined benefit pension plans, unclaimed tax losses and measurements to fair value in connection with acquisitions. No deferred tax is recognized on non-deductible goodwill.

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

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

RECOGNITION POLICIES

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

GOODS SOLD AND SERVICES PROVIDED

Revenue from the sale of goods is recognized when the significant risks and benefits of ownership have been transferred to the buyer. Revenue from service provision is recognized in the financial period in which the service is performed.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS

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

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

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

Investments held to maturity are non-derivative financial assets that have fixed or determinable payments, that mature on a given date and that the Group positively intends to and is able to hold until maturity. They are measured at amortised cost using the effective interest method and are included in non-current assets. The Group did not have any financial assets of this category during the financial period.

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

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

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

CASH AND CASH EQUIVALENTS

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

IMPAIRMENT OF FINANCIAL ASSETS

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

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

FINANCIAL LIABILITIES

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

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

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

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

DERIVATIVES AND HEDGE ACCOUNTING

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

FAIR VALUE HEDGING

Changes in the fair value of the derivatives contracts that satisfy the conditions for fair value hedge are recognized through profit or loss. Changes in the fair value of a hedged asset or debt item are treated in the same way with regard to hedged risk. During the financial year the Group did not have any derivative contract that satisfy the conditions for hedging fair value.

CASH FLOW HEDGING

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

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

HEDGING OF NET INVESTMENT IN A FOREIGN UNIT

The hedging of the net investment in a foreign unit is treated in accounting in the same manner as cash flow hedging. The effective portion of the change in the value of the hedging forward, i.e. the change in spot value, is recognized under other comprehensive income and the interest rate difference and the ineffective portion of the change in value through profit or loss under financial items. Gains and losses accumulated in translation differences within equity from net investment hedges are included in the income statement when the net investment is disposed of in part or in full. The fair values of derivatives to which hedge accounting applies are presented on the balance sheet under non-current assets or liabilities if the remaining maturity of the hedged item is more than 12 months. Otherwise they are included in current assets or liabilities.

OTHER HEDGING INSTRUMENTS WHERE HEDGE ACCOUNTING IS NOT APPLIED

Despite the fact that some hedging relationships satisfy the Group’s risk management hedging criteria, hedge accounting is not applied to them. Such instruments have included derivatives hedging against currency or interest-rate risk. In accordance with the Group’s recognition policy, changes in the fair value of these instruments are recognized in other financial income or expenses (interest rate derivatives), other operating income and expenses (foreign exchange derivatives hedging commercial currency flows) and financial income or expenses (forward exchange contracts hedging financial items). On the balance sheet, derivatives relating to currency-denominated trade receivables or trade payables are presented in other current receivables or liabilities.

Changes in the hedging reserve are presented in Note 21. ‘Notes relating to equity’ under ‘Other reserves’.

EMBEDDED DERIVATIVES

Embedded derivatives are included in such binding commercial agreements that are denominated in a currency which is not the operating currency of either contracting party and which is not generally used in the financial environment in which the business transaction is carried out. Such derivatives are usually forward exchange contracts. During the financial years presented, the Group did not have any embedded derivatives.

EQUITY

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

DIVIDEND

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

EBIT

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

MEASUREMENT TO FAIR VALUE OF ASSETS ACQUIRED IN BUSINESS COMBINATIONS

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

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

IMPAIRMENT TESTING

The Group tests goodwill annually for possible impairment. The recoverable amounts of cash generating units are determined in calculations based on value in use. The preparation of these calculations requires the use of estimates. Although the assumptions used are appropriate according to the Management, the estimated recoverable amounts may differ substantially from those realized in future.

The assumptions used in the Impairment calculation involve judgement that the Management has used in estimating the development of different factors. The sensitivity analysis emphasizes that the factors related to revenue growth are the most central sources of uncertainty in the methods, assumptions and estimates used in the calculations. This sensitivity derives from the challenging estimation of the future development of the previously mentioned factors.

VALUATION OF INVENTORIES

Management's principle is to recognize an impairment loss for slowly moving and outdated inventories based on the Management's best possible estimate of possibly unusable inventories in the Group's possession at the reporting date. The Group has a valuation policy for inventories which is approved by the Management. Management bases its estimates on systematic and continuous monitoring and evaluations.

MANAGEMENT JUDGEMENTS RELATING TO CHOICE AND APPLICATION OF ACCOUNTING POLICIES

The Group management makes judgement decisions on the choice and application of accounting policies. This applies in particular to cases where the IFRSs in force provide alternative manners of recognition, measurement and presentation.

APPLICATION OF NEW AND REVISED IFRS NORMS

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

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. The Group is yet to assess IFRS 9's full impact. The standard has not yet been endorsed for application in the EU.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017. The Group is assessing the impact of IFRS 15. The standard has not yet been endorsed for application in the EU.

IFRS 16, Leases will replace current IAS 17 guidance regarding lease agreements. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. IFRS 16 is effective from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15. According to IFRS 16, lessee is required to recognize assets and liabilities for all leases with a term of more than 12 months and depreciation of lease assets separately from interest on lease liabilities in the income statement. The Group is assessing the impact of IFRS 16. The standard has not yet been endorsed for application in the EU.

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