



HKSCAN

Interim Report Q3/2018

Mikko Forsell, CFO
7 November 2018

Q3 result still negative due to Rauma poultry unit ramp-up, Sweden on par with previous year



Highlights

- EBIT on par in Sweden despite of fierce price competition and weaker Swedish Krona
- Rauma poultry unit ramp-up proceeded and negative impact decreased from the previous quarter
- Good development in branded sales and novelties in Baltics continued



Lowlights

- Despite of improvements in the Rauma unit, ramp-up challenges still had a negative impact on result
- Warm summer affected negatively on demand of red meat especially in Sweden
- Cost increases and low European pork prices are still burdening the performance in Baltics

HKScan Group Q3/2018

EUR million	Q3/2018	Q3/2017	Q1-Q3/2018	Q1-Q3/2017	2017
Net Sales	416,2	452,4	1 260,7	1 332,7	1 808,1
EBIT	-10,1	-0,8	-45,7	-18,1	-40,3
- % of net sales	-2,4 %	-0,2 %	-3,6 %	-1,4 %	-2,2 %
Profit/loss before taxes	-12,6	-3,6	-53,3	-24,4	-49,2
- % of net sales	-3,0 %	-0,8 %	-4,2 %	-1,8 %	-2,7 %
Profit/loss for the period	-9,6	-2,9	-43,3	-21,3	-42,4

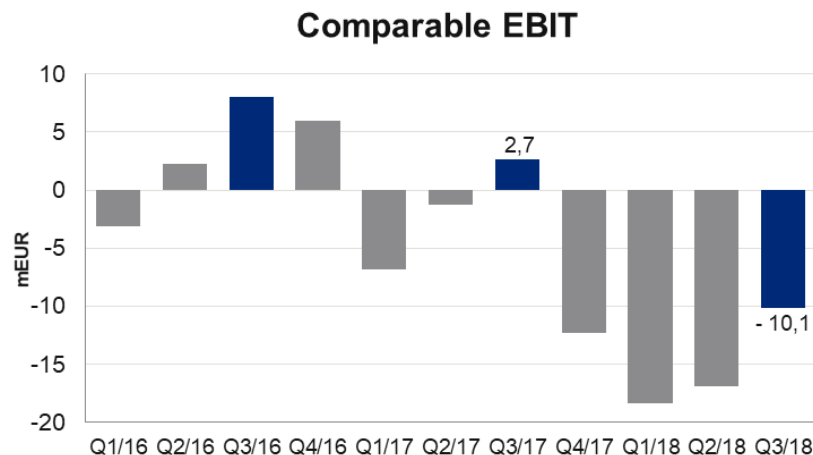
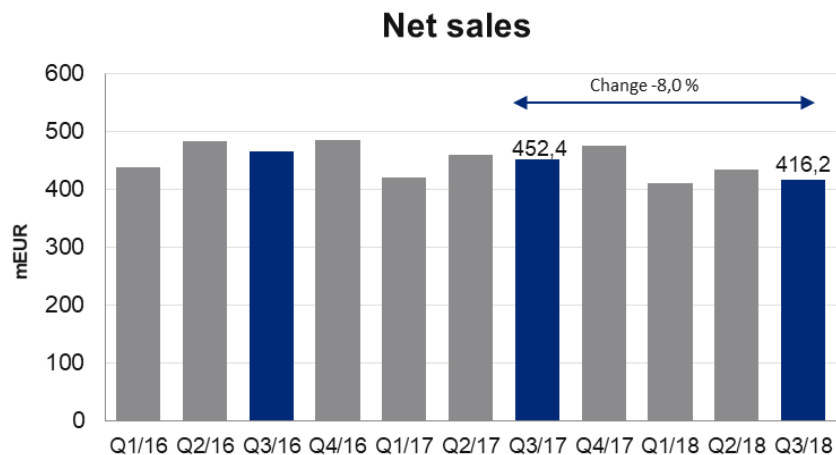
Comparable EBIT	-10,1	2,7	-45,3	-5,3	-17,6
- % of net sales	-2,4 %	0,6 %	-3,6 %	-0,4 %	-1,0 %
Comparable profit/loss before taxes	-12,6	-0,1	-53,0	-11,7	-26,5
- % of net sales	-3,0 %	0,0 %	-4,2 %	-0,9 %	-1,5 %

EPS, EUR	-0,19	-0,07	-0,82	-0,43	-0,84
Return on capital employed (ROCE) before taxes, %	-10,1 %	-1,9 %	-10,1 %	-1,9 %	-6,3 %
Comparable ROCE before taxes, %	-8,5 %	0,6 %	-8,5 %	0,6 %	-2,4 %

Net gearing, %	89,7 %	51,4 %	89,7 %	51,4 %	59,3 %
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Personnel			7 275	7 394	7 292
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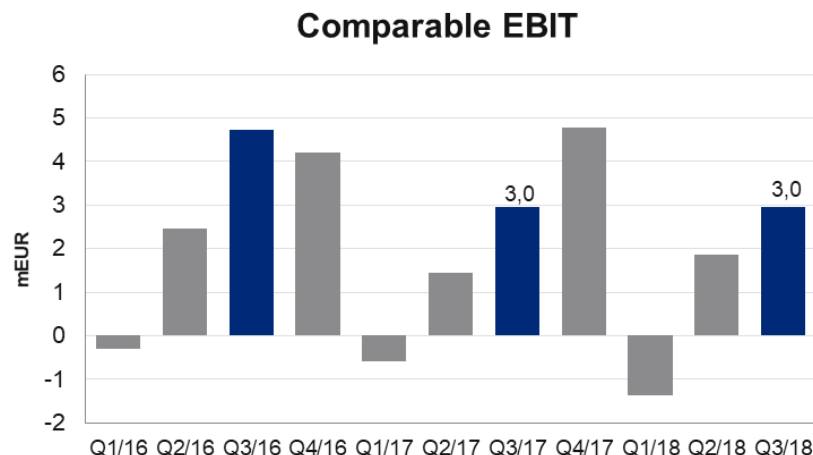
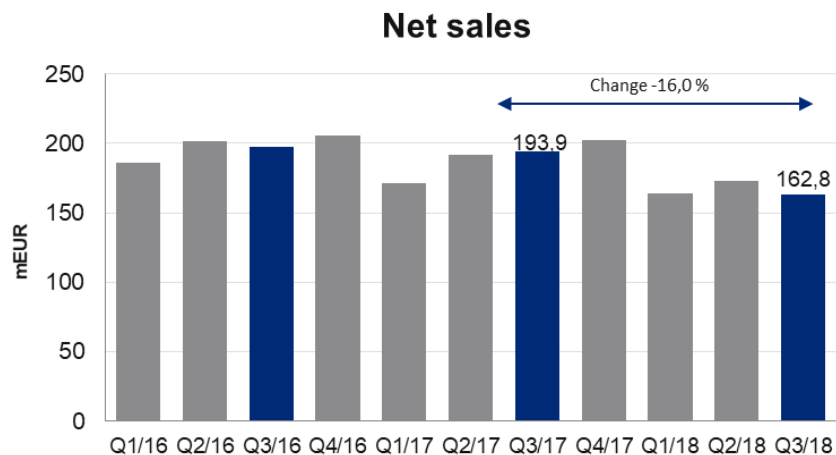
HKScan Group – Net sales and profitability decreased



- Net sales decreased due to weakening of Swedish krona as well as postponed poultry campaigns in Finland

- Rauma ramp-up still burdened Group's EBIT. However, the negative impact decreased from the previous quarter.
- Rauma EBIT impact per quarter:
Q4/17: -18 mEUR, Q1/18: -10 mEUR Q2/18: -13 mEUR Q3/18: -8mEUR

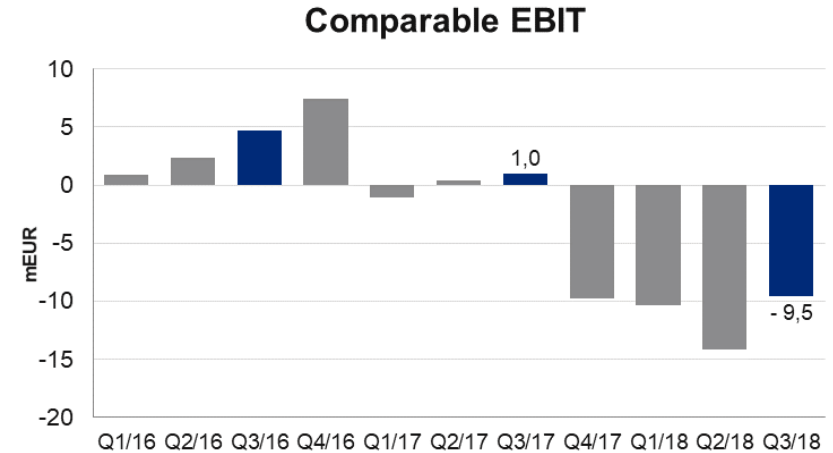
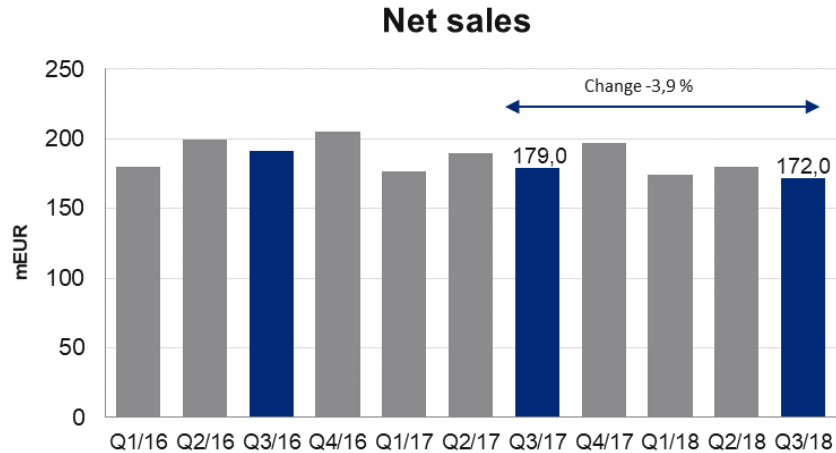
Sweden – EBIT on par with previous year despite of fierce price competition and weaker Swedish krona



- Net sales decreased mainly due to weakening of Swedish krona. A slight net sales decrease was seen also in local currency.
- Fierce price competition, together with hot and dry summer, decreased demand in red meat category

- Despite of weaker SEK, comparable EBIT remained on par with the previous year mainly as a result of improved efficiency in operations and lower administration costs
- The EBIT in local currency improved

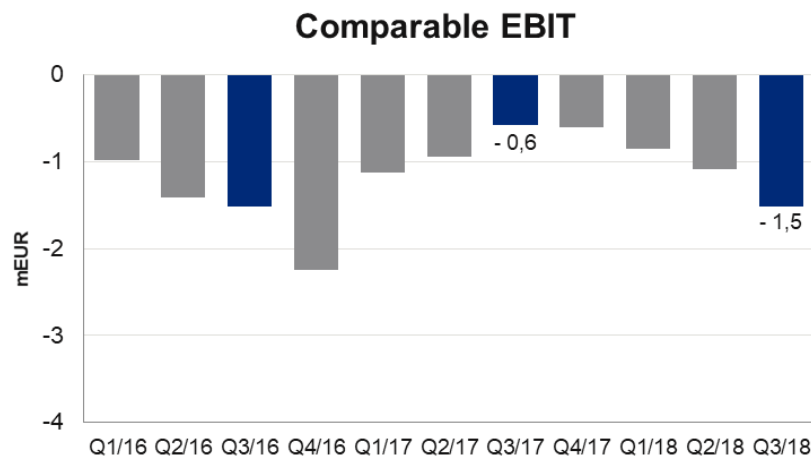
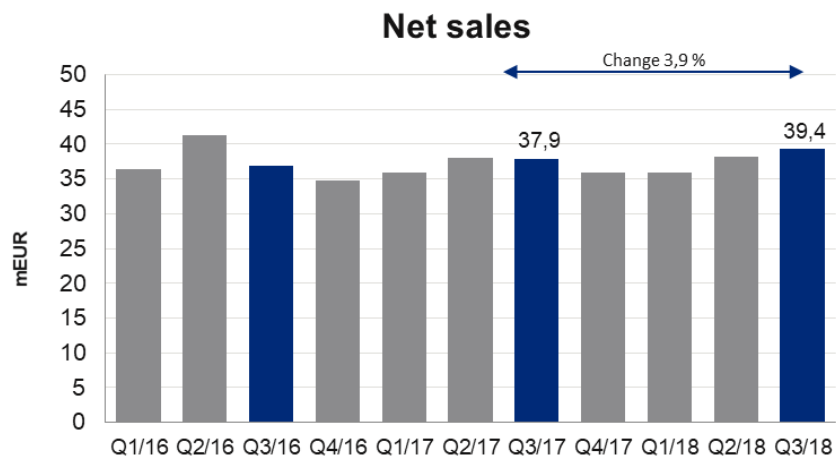
Finland – Net sales and EBIT still impacted by the ramp-up of Rauma poultry unit



- Rauma ramp-up postponed poultry product campaigns and decreased market share in white meat
- Sales of red meat decreased while positive sales development of meals and meal components continued

- Rauma ramp-up still burdened the EBIT, but the negative impact decreased clearly from the previous quarter
- Rauma ramp-up EBIT impact per quarter:
Q4/17: -18 mEUR, Q1/18: -10 mEUR Q2/18: -13 mEUR Q3/18: -8mEUR

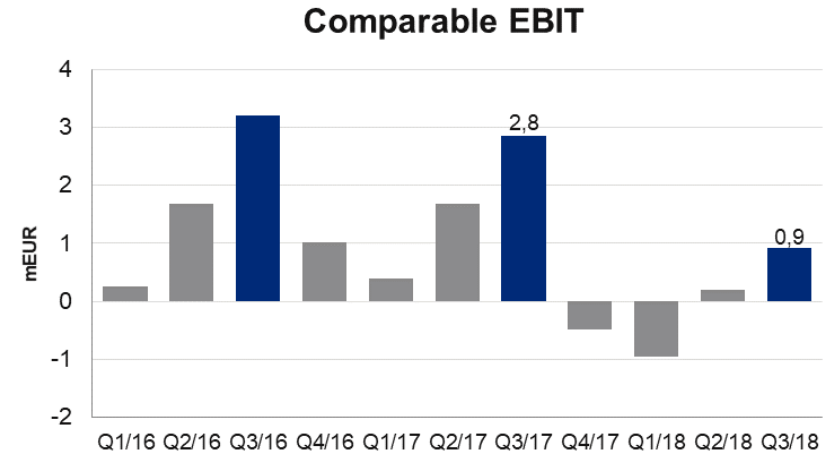
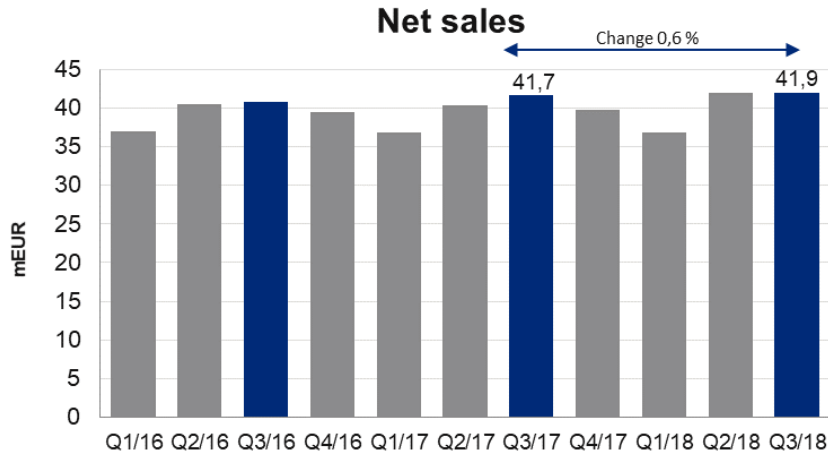
Denmark – Net sales increased, EBIT decreased due to changes in the sales mix



- Net sales increased thanks to higher export volumes offsetting a slight decrease in domestic retail sales.

- Comparable EBIT fell from the previous year due to changes in the sales mix. The decrease was partly offset by improved cost control.

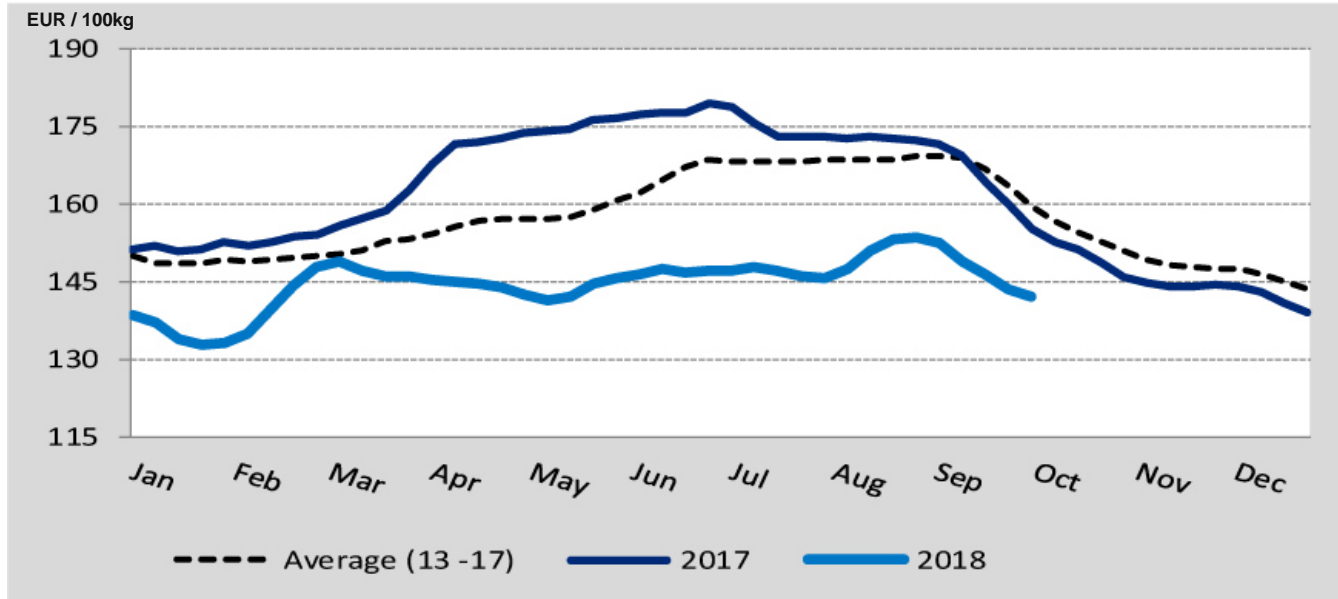
Baltics – Good development in sales continued, cost increases eroded the result



- The increase in net sales was driven by well-developed branded sales and improved product mix.

- EBIT decreased from the previous year due to lower pork market price, increased costs in animal procurement as well as rising personnel costs
- The change in the fair value of the biological assets amounted to EUR -0.2 (0.3) million

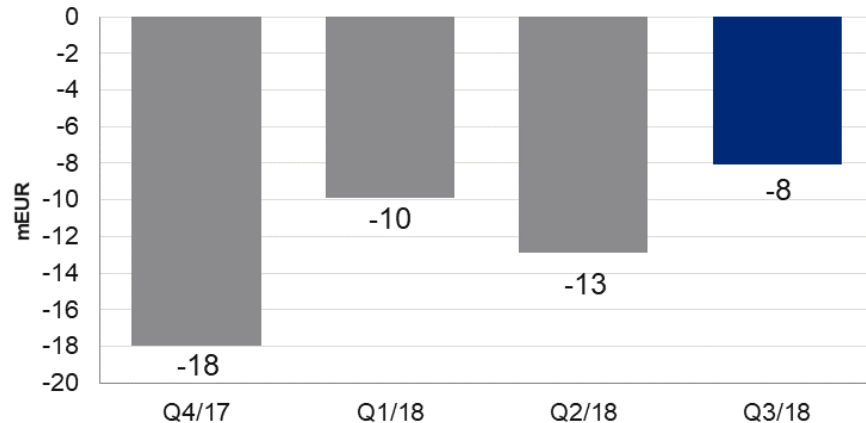
Development of the EU pig carcasse prices



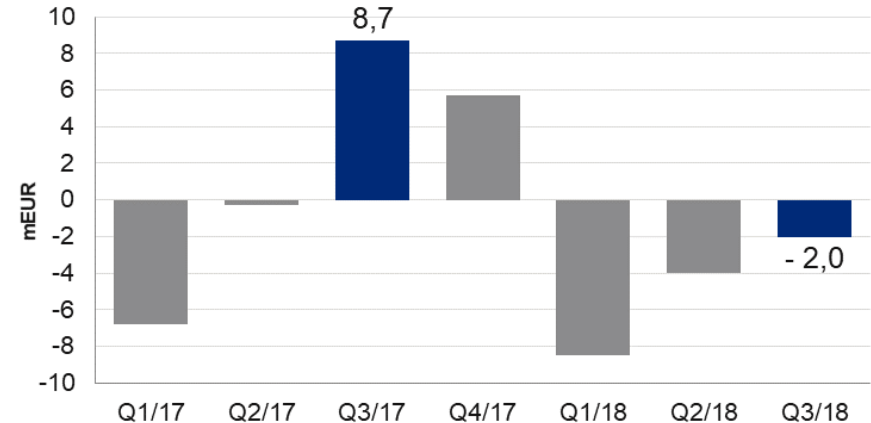
Source: MSs (Weekly communications under Reg. 2017/1185)

Rauma ramp-up impact decreased from the previous quarter

Rauma impact



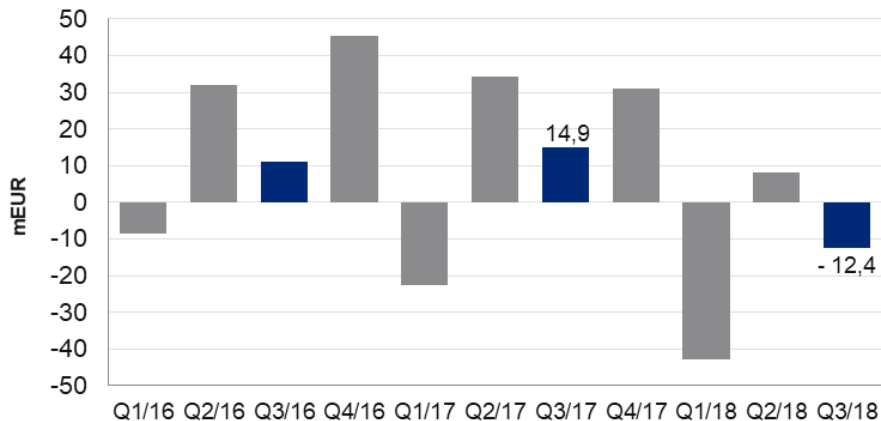
Group EBIT excluding Rauma



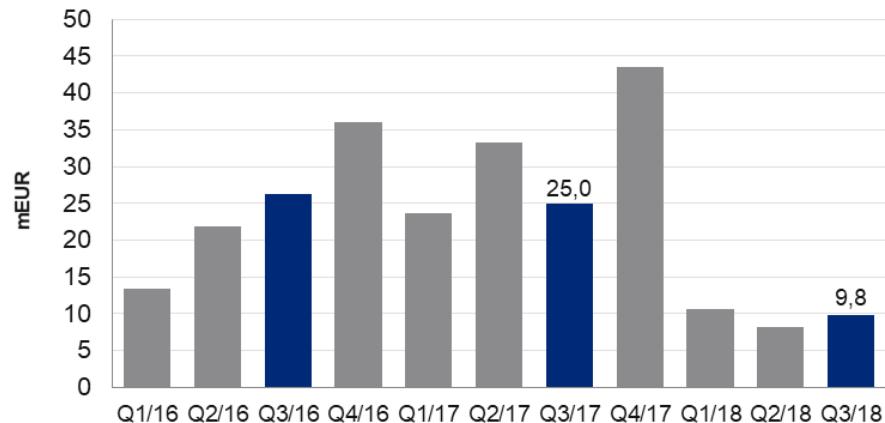
- Development of the EU pork prices
- Challenges related to red meat in Finland

Cash flow still impacted by Rauma ramp-up

Cash flow before investments

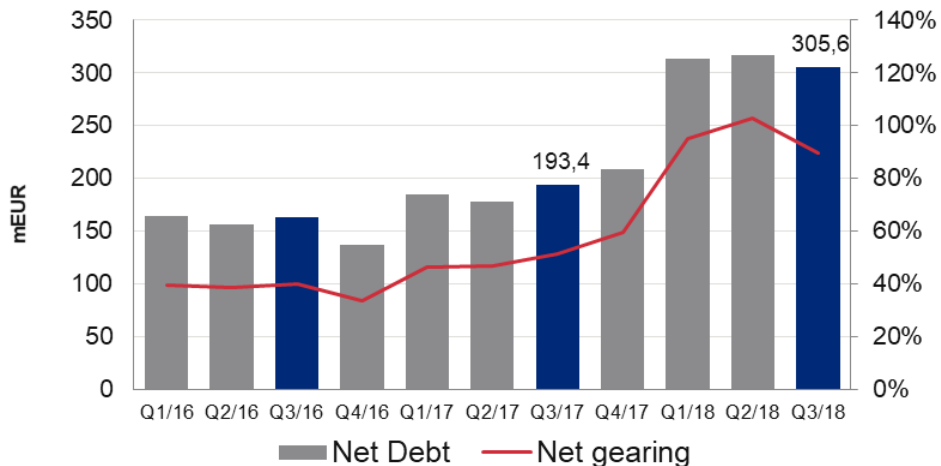


Capital expenditure

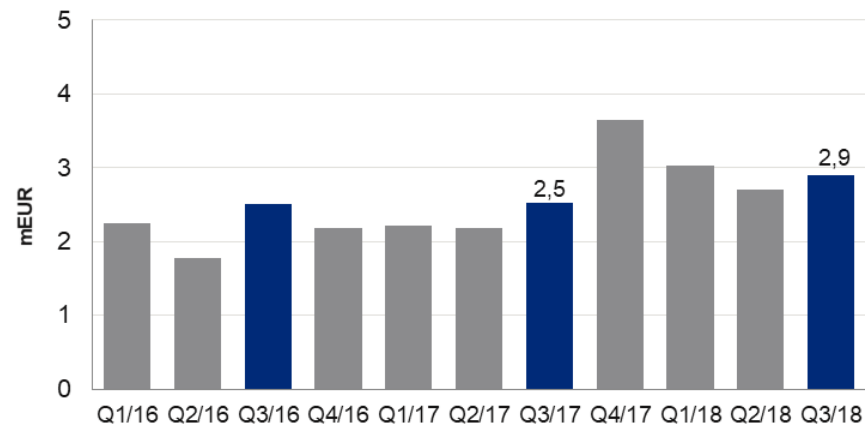


Gearing ratio improved as a result of 40 mEUR hybrid bond issue in September

Net debt and net gearing

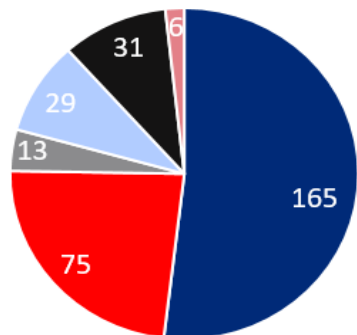


Net financial expenses



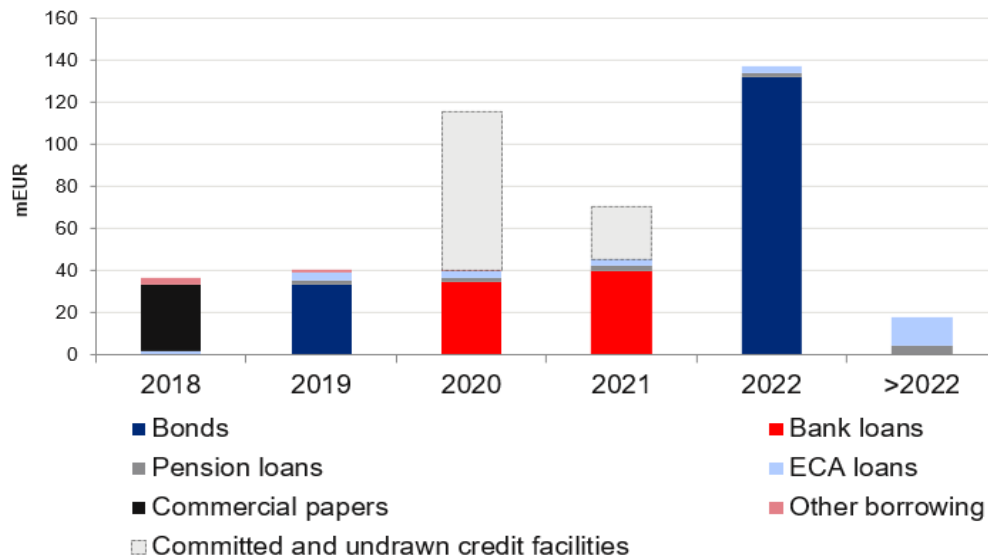
Debt profile and maturity structure well in balance

Interest-bearing debt
by credit type



Total interest-bearing debt:
318,8 mEUR

Maturity of Group's interest-bearing debt (EUR million)*



*EUR 40 million hybrid bond is treated as equity
(early redemption option in Sept. 2023)

Outlook for 2018 (Unchanged)

Global meat consumption is projected to increase 1.6 per cent per annum during the coming years. Consumption growth is estimated to be led by poultry. There are also several value related consumption trends, which support HKScan's strategy implementation.

In 2018, HKScan expects its strategy implementation to start recording results in terms of value growth in sales and operational efficiency in production.

The Company will emphasize implementation of the 'From Farm to Fork' strategy through the five focus areas which are Focus on meat, Leadership in poultry, Continue growing meals business, Cooperate with our farming community and Drive efficiency and cost-competitiveness.



Thank you



HKSCAN

Strategy implementation proceeds

Jari Latvanen, President and CEO
7 November 2018

Must-win battles to reach our objectives

1

COOPERATE WITH OUR FARMING COMMUNITY

- Secure high quality raw material
- Commercial innovation and differentiation

2

DRIVE EFFICIENCY AND COST COMPETITIVENESS

- Improve on-site efficiency by benchmarking and sharing
- Develop production network to bring up asset utilisation

3

FOCUS ON MEAT

- Invest in new concepts, products and sustainability
- Differentiate with high quality and full control of the value chain
- Build a position closer to consumers

4

LEADERSHIP IN POULTRY

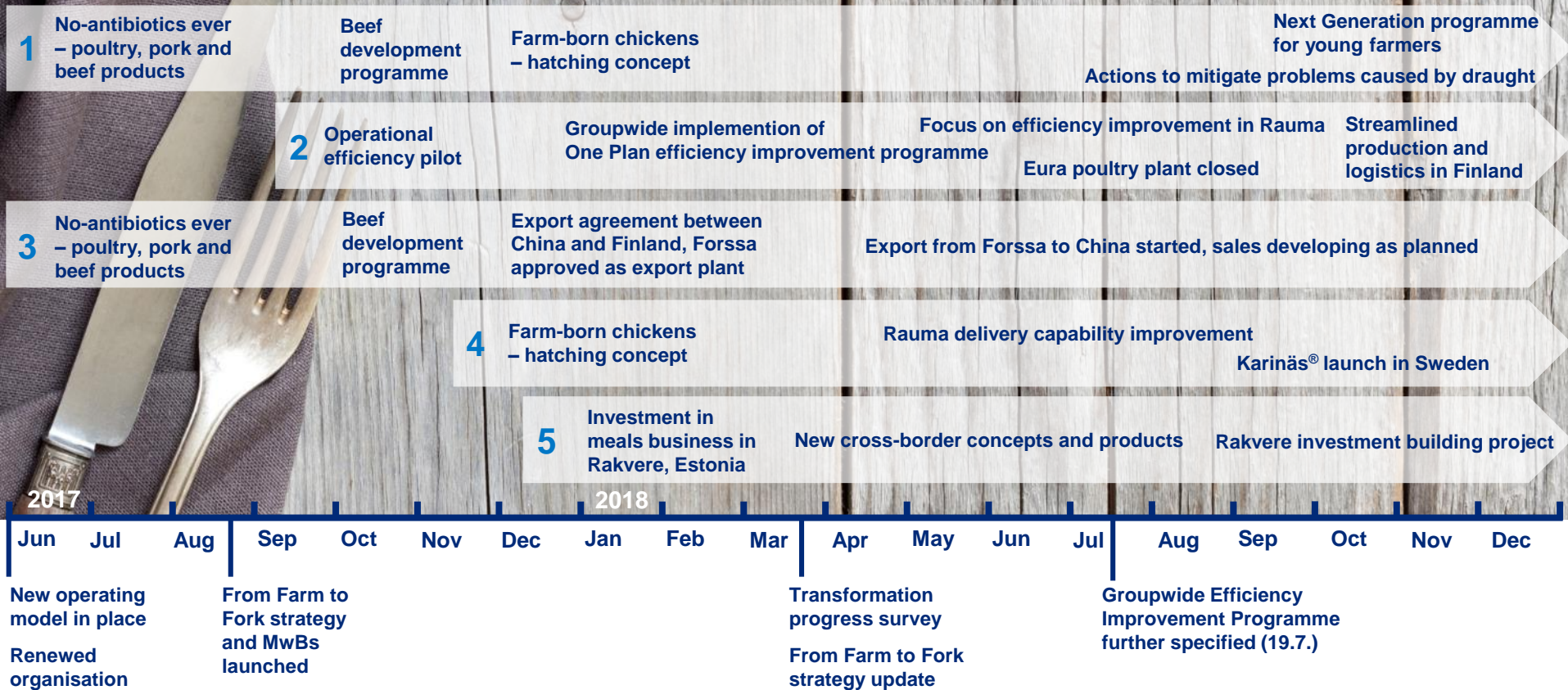
- Capitalise on the growth trend and utilise full food value chain control and Rauma potential
- Invest in new concepts to defend against commoditising

5

CONTINUE GROWING MEALS BUSINESS

- Tap into a growing and high-margin market with white spots and premiumisation opportunities
- Reduce complexity to gain resource and cost effectiveness

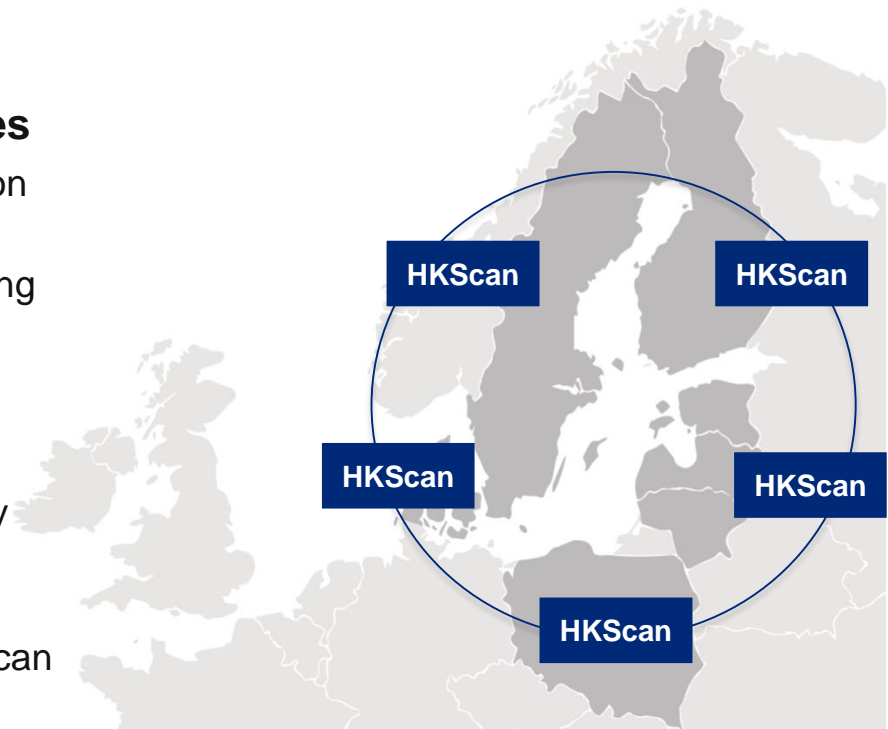
Strategy implementation proceeds



Our footprint around the Baltic sea enables operational efficiency improvement

Multi-country production network

- **Offers potential for efficiency measures**
 - Flexible and efficient utilisation of production assets and logistic synergies
 - Potential for production footprint streamlining
 - Mitigation of business interruption risks
- **Offers potential for specialisation**
 - HKScan's production network will gradually be developed to become a group of specialised centres of excellence
 - Further synergies in offering development can be reached



Finnish production operations are being rationalised

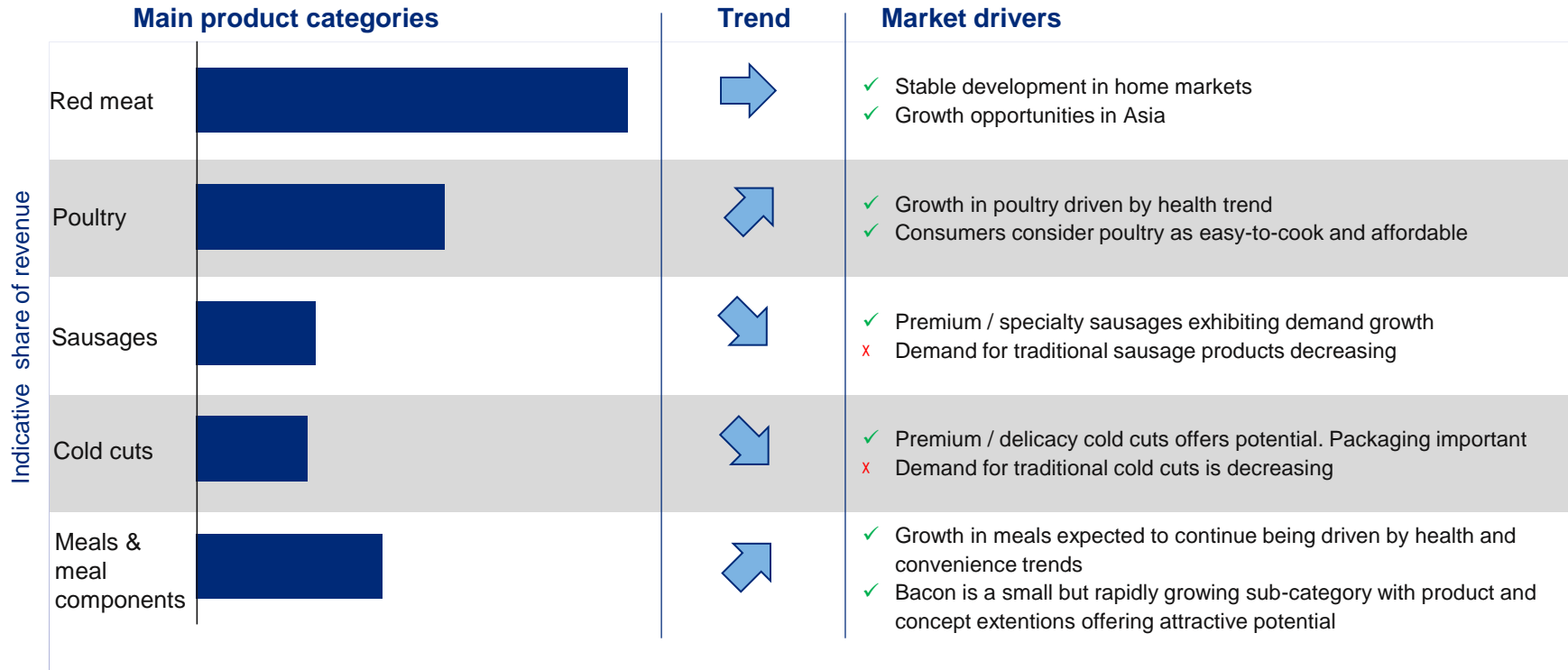
- Annual savings of 7 million euros will be reached



- Strategic review re. rationalisation of Finnish production operations started in end June 2018. Review and related statutory negotiations were completed on 10 October.
- As a result, the number of employees will decrease by a total of 165. There will also be location-specific temporary layoffs.
- The annual savings will be about seven million euros
- It was decided that production of skinless frankfurters will be transferred from Vantaa (Finland) to Rakvere (Estonia), where HKScan has modern production capacity available

Market development of HKScan's main categories in home markets

- We capture the potential of growing categories



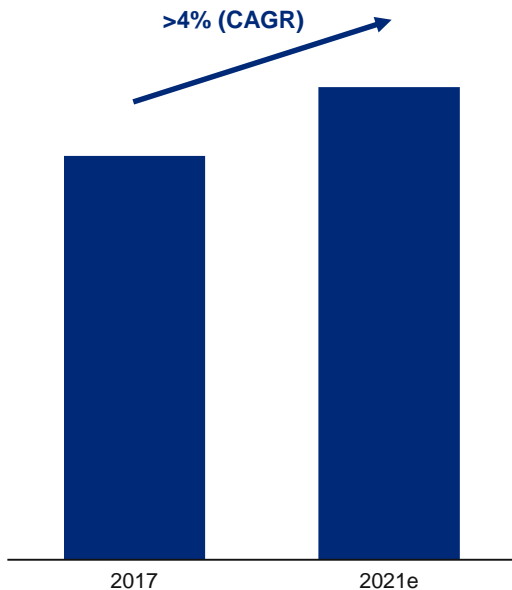
Source: Company data

 Strong growth
  Stable
  Mature

We capture the opportunities on the growing categories

- E.g. growing meals market

Meals market demonstrating attractive growth in our home markets



Source: Company data

HKScan capitalises on the market growth with several parallel actions

General

The attractive meals category continues to grow. HKScan targets to renew the category. There are various sub-segments with high growth rates. Consumer need evolve and offer opportunities for new product development.

Investments to production capacity

The ongoing Rakvere investment focuses on this strategic development area. Group synergies will be utilised at the maximum.

R&D

Products and concepts are being developed to meet the needs of all HKScan's market areas.



Rakvere unit to specialise in the growing meals market

- One of our strategic goals is to expand our presence in the attractive and growing meals business
- We continue expanding our meals range on all markets, and we have decided to invest in expanding our meal production capacity in Rakvere, Estonia
- The Rakvere unit will become one of the sites specialising in the rapidly growing meals category
- Another example of the specialisation is the Rauma unit that has specialised in poultry and also serves other markets with high quality poultry products



Finnish Karinäs® poultry products launched in Sweden from the specialised Rauma unit



- Products are initially sold through the largest retailer ICA's outlets under the Karinäs® (Kariniemen®) brand
- The launch gives Swedish consumers access to a new innovation: high welfare farm-born poultry novelties
- This new concept is one additional guarantee of a high standard of quality, animal welfare and product safety throughout the farm-to-fork chain

The Polish Świnoujście plant is HKScan's competence centre specialised in bacon

- Bacon is a trendy and rapidly growing product category. Value-adding product and packaging variations are welcomed by consumers.
- Świnoujście is the modern and efficient sourcing unit of bacon for all HKScan home markets
- A modern, efficient and centralised unit with quality, environmental and food safety systems complying with customer and consumer expectations; BRC, ISO 14001; ISO 22000
- The set-up secures competitiveness of domestic meat raw material at our home markets



Training programme “Next Generation” launched for young farmers

- Primary production is undergoing a major structural change shaping the future business environment radically
- HKScan wants to ensure the long term vitality of responsible Nordic primary production and strengthen commitment and ability of young farmers to continue and develop their farms
- HKScan’s three-year training programme
 - provides tools for developing and managing an innovative and successful farm
 - covers themes such as finance and investment, feeding, crop cultivation, production planning and management.



Omega-3 Pork[®] from Finnish family-owned farms will be sold to highly demanding Chinese consumers



- Exports from Forssa, Finland to China started in April 2018 and have advanced as planned
- HKScan is the first Finnish meat company to operate in the premium category in the Chinese market
- Nordic Lotus Food Co, HKScan & Zhejiang Qinglian Food's joint venture (officially registered at the end of September 2018) will sell and market premium products
- Customer presentations of the premium products selection and concept are going on

HKScan's strengths supporting strategy implementation

1.

Global meat market continues to grow – interesting growth pockets identified

2.

Strong brands and leading market position around Nordics and Baltics

3.

World class poultry operations

4.

Geographical footprint around the Baltic sea enables operational efficiency improvement

5.

Debt profile and maturity structure well in balance

6.

Stable ownership structure

7.

Quality, sustainability and full control of operations all the way – from farm to fork



Thank you