

HKScan

HKScan Corporation
Q2 Interim report 2010

CEO Matti Perkonaja

Media and investor briefing 10 August 2010

HKScan's mission and vision



Mission statement:

MEAT AND MORE

HKScan is a responsible food company which creates economic value added for its stakeholders through its meat-based product portfolio, food concepts and tasty products that are designed to contribute to the lives of consumers by making cooking easy and enjoyable.

Vision:

MEAT INDUSTRY SHAPER

HKScan is a responsible food company which sets the standard for best practices in the meat industry in Europe through strong brands, innovative products, an efficient and transparent production chain and skilled employees.

Group structure

HKScan Corporation Net sales in 2009: EUR : 2 124.7m* , CEO Matti Perkonoja			
Finland	Sweden	Baltics	Poland
net sales in 2009: EUR 732.5m	net sales in 2009: EUR 1 037.4m	net sales in 2009: EUR 156.9m	net sales in 2009: EUR 251.7m**
<ul style="list-style-type: none"> • HKScan Finland Oy Managing director Jari Leija 	<ul style="list-style-type: none"> • Scan AB Managing director Denis Mattsson 	<ul style="list-style-type: none"> • AS Rakvere Lihakombinaat Managing director Anne Mere • AS Tallegg Managing director Teet Soorm 	<ul style="list-style-type: none"> • Saturn Nordic Holding AB → Sokolów S.A. Managing director Boguslaw Mischczuk

* Between segments EUR -53.9 million

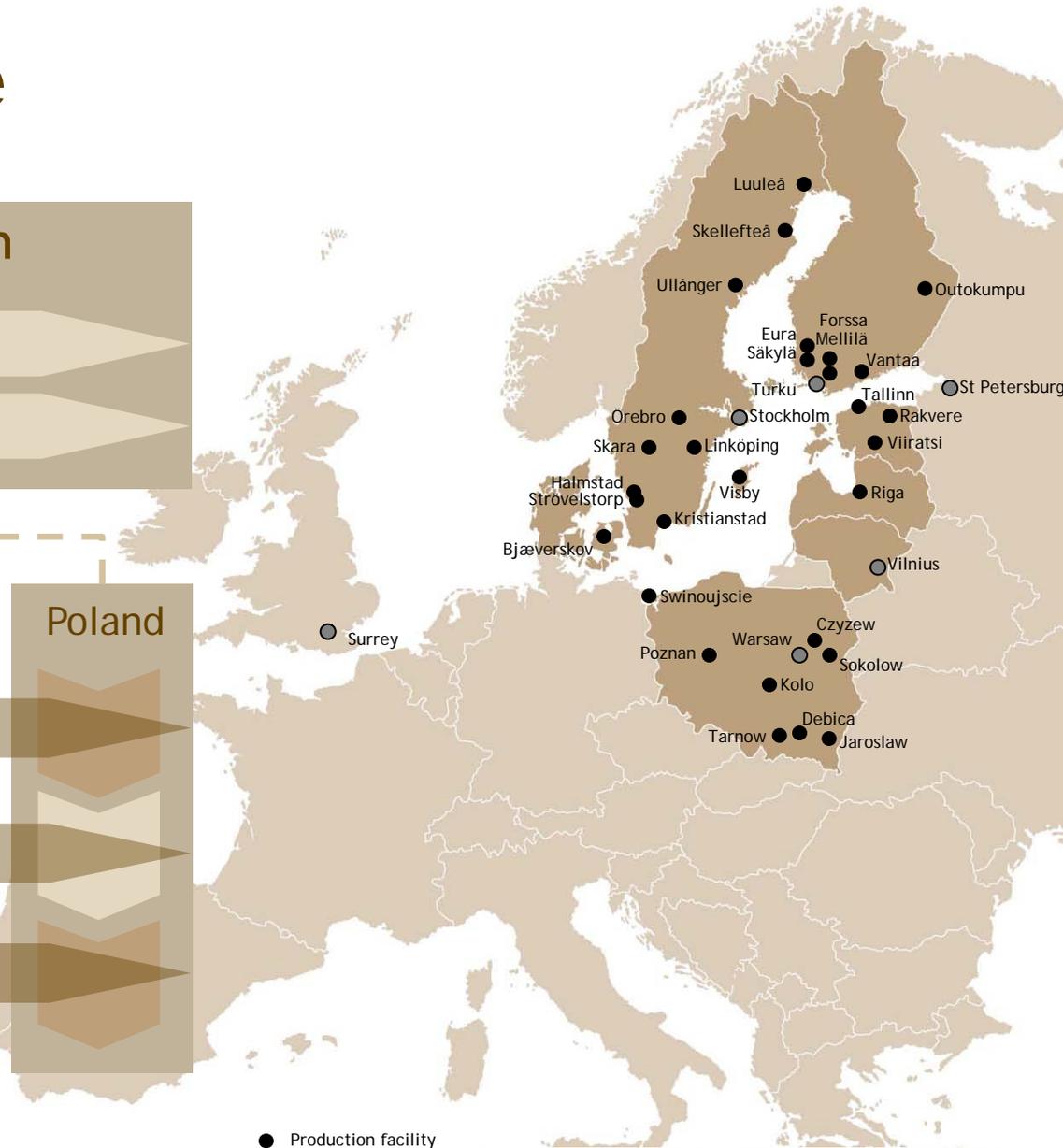
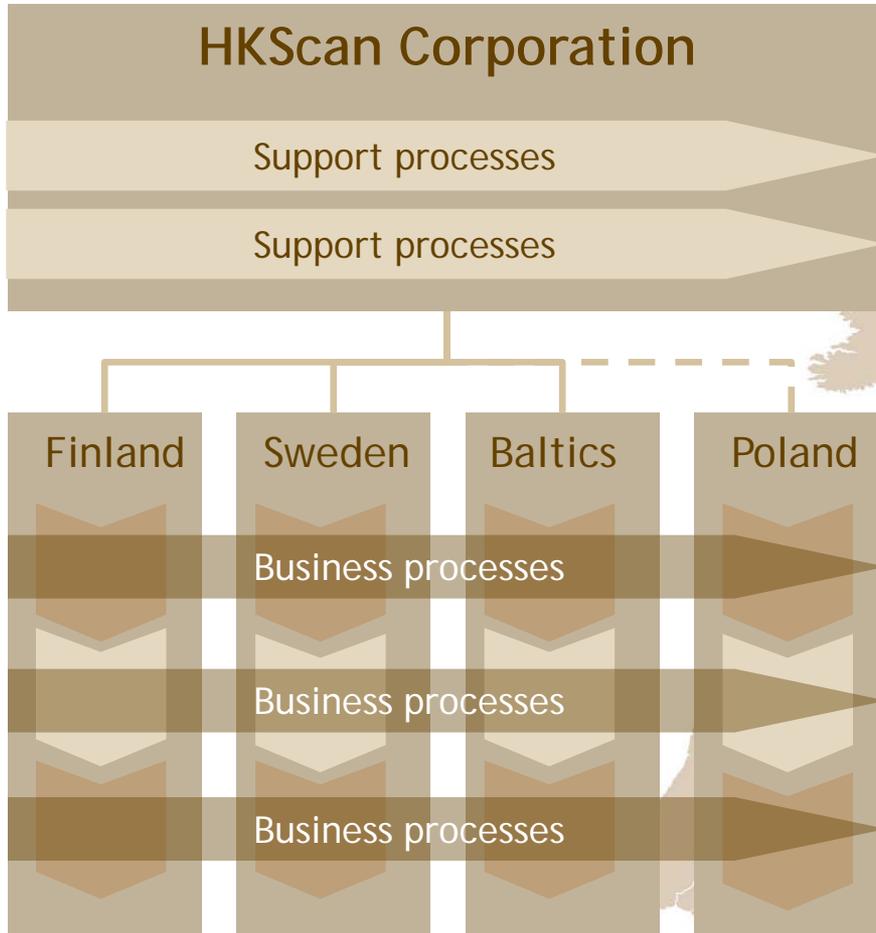
** Joint venture Saturn Nordic Holding owned 50/50 by HKScan and Danish Crown holds 100% of shares in Sokolów. In 2009, half of Sokolów's net sales i.e. EUR 251.7 million were accounted for in HKScan Group figures.



● Production facility
○ Sales office

HKSCAN

Group structure



- Production facility
- Sales office

HKSCAN

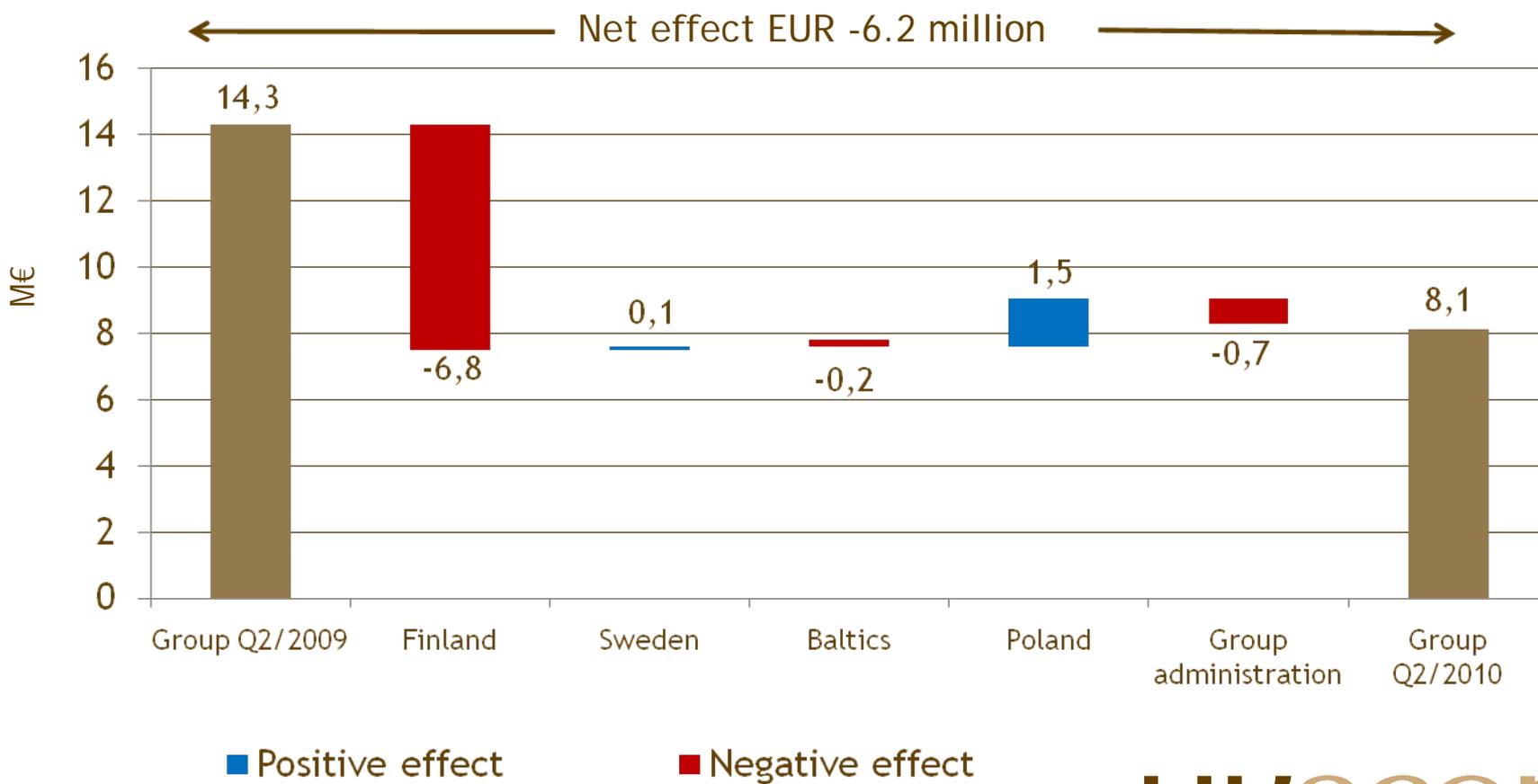
HKScan Corporation

	Q2/ 2010	Q2/ 2009	Q1-Q2/ 2010	Q1-Q2/ 2009	2009
Net sales, EUR mill.	502.3	541.6	985.9	1 033.6	2 124.7
EBIT, EUR mill.	8.1	14.3	13.6	22.5	55.1
- EBIT margin, %	1.6	2.6	1.4	2.2	2.6
Profit before taxes	5.0	9.4	8.9	11.1	37.3
EPS, EUR	0.07	0.16	0.13	0.15	0.64

- The profitability of the HKScan Group continued to develop in Sweden and the Baltics and especially in Poland.
- In Finland, the industrial action in April/May had a considerable impact on earnings in the early part of the year.
- Group EBIT for the entire first half of the year fell short of 2009 and stood at EUR 13.6 million (EUR 22.5m).
- Group net sales were EUR 985.9 million (EUR 1 033.6m). The lower net sales are attributable to lower sales volume caused in turn mainly by the labour market disputes in Finland and the cattle shortage in Sweden.
- The company reaffirms its earnings guidance given in the Q1 interim report. Full-year EBIT exclusive of non-recurring items is estimated to fall somewhat short of the level seen in 2009.

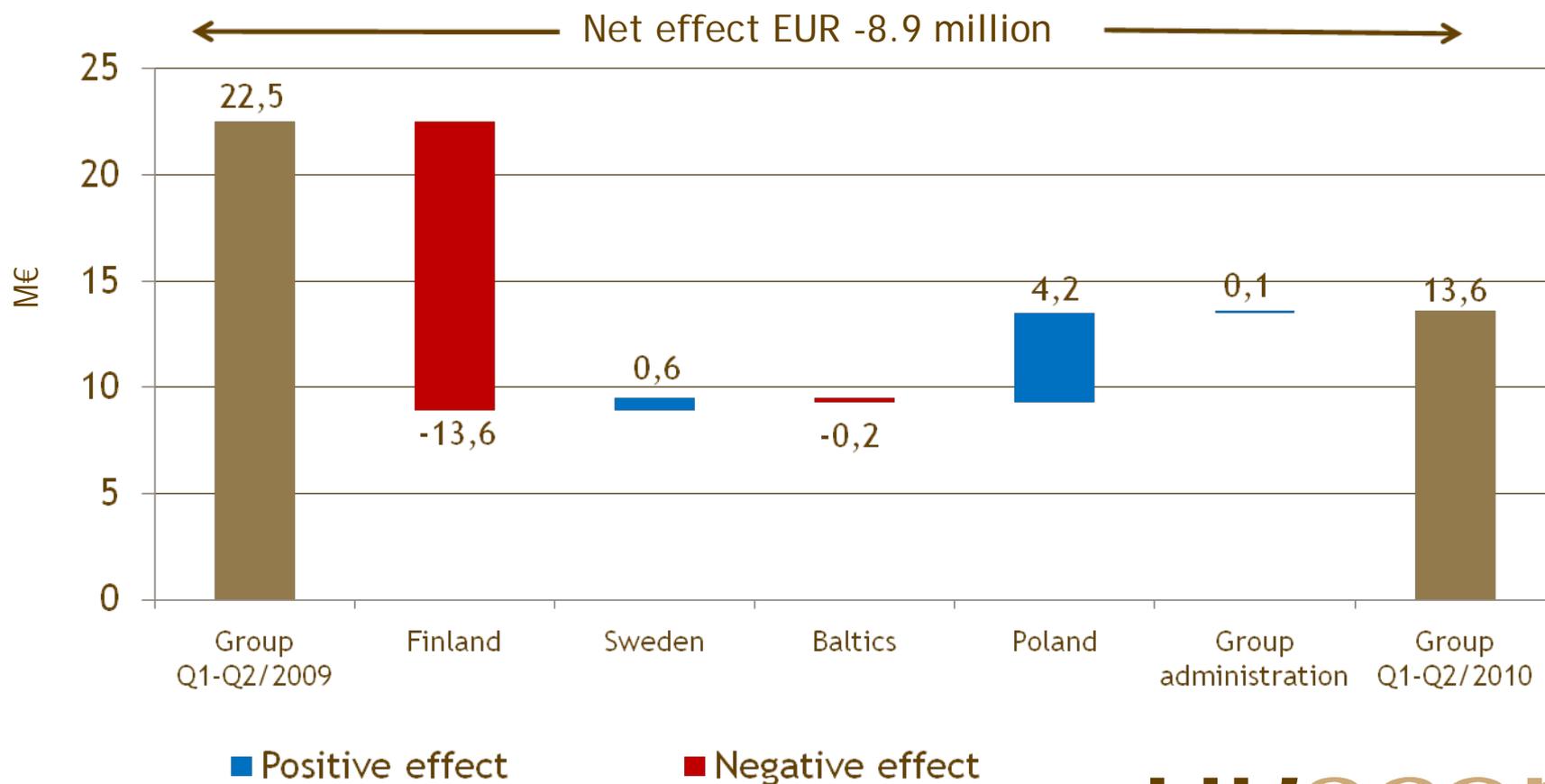
Group EBIT Bridge, Reported EBIT

- Q2 /2009 vs. Q2 /2010



Group EBIT Bridge, Reported EBIT

- Q1-Q2 /2009 vs. Q1-Q2 /2010

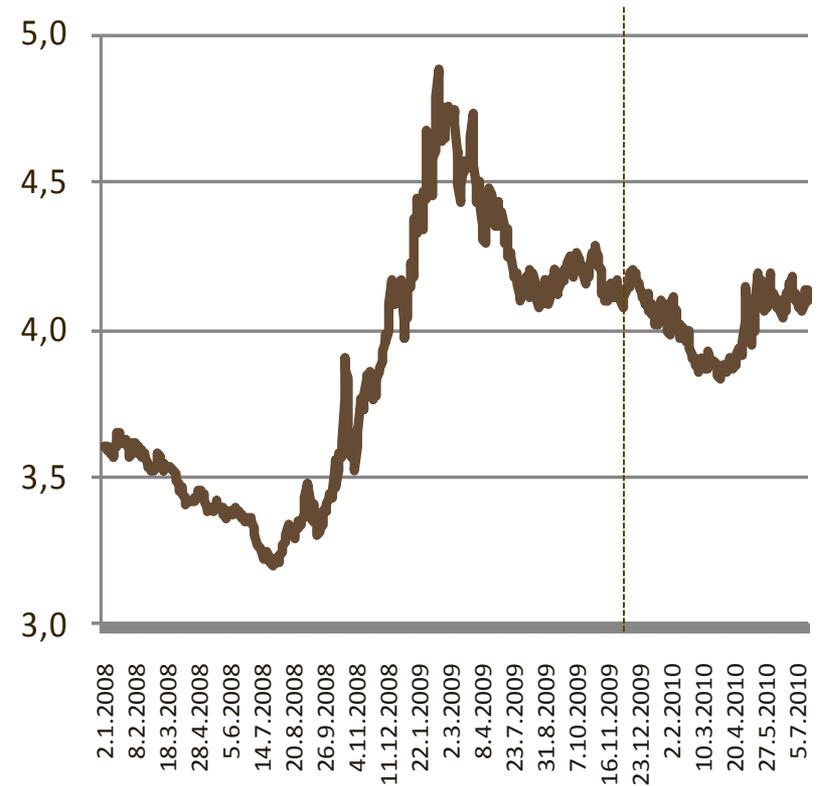


Exchange rate trends

Euro against the Swedish crown, SEK



Euro against the Polish zloty, PLN



Source: European Central Bank

Market area: Finland



	Q2/ 2010	Q2/ 2009	Q1-Q2/ 2010	Q1-Q2/ 2009	2009
Net sales, EUR mill.	173.5	190.2	341.3	365.5	732.5
EBIT, EUR mill.	-0.1	6.7	-0.7	12.9	27.0
- EBIT margin, %	-0.1	3.5	-0.2	3.5	3.7

- The industrial action in the food industry taking place in April/May had a clear depressive effect on sales and earnings in the business segment of Finland in Q2. The negative earnings impact of the industrial action is estimated at roughly EUR -0.5 million per day. The effects will continue into Q3.
- Q2 EBIT in Finland was in the red at EUR -0.1 million (EUR 6.7m).
- In Finland:
 - The amended EU marketing standard for poultry meat will in the long run strengthen the market standing of locally produced fresh poultry meat.
 - The earnings development seen in the early part of the year has brought forward the implementation of business chain development projects in Finland.
 - HK Ruokatalo will centralize meat procurement, primary production and feed trade into a single company at the beginning of 2011.
 - On 24 June 2010, HKScan Finland Oy and Järvi-Suomen Portti Oy agreed on plans to establish a new company to carry on the production of processed meats at Portti's current plant in Mikkeli. The planned transaction includes the production machinery at the Tikkala plant as well as Järvi-Suomen Portti's brands. The arrangement is subject to the approval of the Finnish Competition Authority.
 - The four-year collective agreement concluded in May and the ensuing duty to maintain industrial peace provide a foundation for the stable development of operations

Market area: Sweden



	Q2/ 2010	Q2/ 2009	Q1-Q2/ 2010	Q1-Q2/ 2009	2009
Net sales, EUR mill.	241.9	264.5	472.3	502.9	1 037.4
EBIT, EUR mill.	3.1	3.0	5.7	5.1	16.7
- EBIT margin, %	1.3	1.1	1.2	1.0	1.6

- In Sweden, net sales declined when measured in both euro and krona due to e.g. delivery issues resulting from the cattle shortage and the ramp-up of the logistics centre.
- EBIT for the quarter came in at EUR 3.1 million (EUR 3.0m).
- In Sweden:
 - The short supply of Swedish beef cattle hampered earnings development in the market area.
 - The industrial restructuring launched in September 2009 at Scan is proceeding on schedule and according to plans: in Q2, the consumer-packed meat facility has been transferred from Uppsala to Linköping, where the new logistics centre is also at the ramp-up stage.
 - The restructuring will in Q3 continue to give rise to additional expenditure relating to logistics and production transfers.
 - In early June, Scan AB signed an agreement to sell its production facility in Visby on the island of Gotland to a new company, Gotlands Slakteri AB, which is to start up in September 2010. The company is owned by Svenskt Butikskött and Scan AB with holdings of 75 and 25 percent, respectively. At the same time, Scan will take a 25-percent stake in Svenskt Butikskött.

Market area: Baltics



	Q2/ 2010	Q2/ 2009	Q1-Q2/ 2010	Q1-Q2/ 2009	2009
Net sales, EUR mill.	40.2	40.9	76.0	78.2	156.9
EBIT, EUR mill.	3.3	3.5	4.3	4.5	9.8
- EBIT margin, %	8.1	8.6	5.7	5.8	6.3

- The business environment in the Baltics continued to present a challenge due to recession, intensifying competition and erosion in consumer purchasing power.
- The net sales of HKScan's Baltic Group in the second quarter were in line with the previous year. Second-quarter earnings were EUR 3.3 million (EUR 3.5 million).
- In the Baltics:
 - Rakvere Lihakombinaat and Tallegg maintained their competitiveness through adaptation of the product portfolio and tight cost control.
 - HKScan's Baltic Group delivered an EBIT margin of 8.1% (8.6%).
 - AS Rigas Miesnieks signed in March an agreement on acquiring a holding in excess of 90 percent in the Latvian AS Jelgavas Galas Kombinats. The deal was approved by the Latvian competition authorities in late June. In order to streamline operations in Latvia, the sales and logistics functions of Rigas Miesnieks and Jelgavas Galas Kombinats will be consolidated as of September. Most of the production-related activities in Riga will be transferred to Jelgava's plant in the coming year. The company's dispatching department and administration will remain in Riga.



Market area: Poland

*)	Q2/ 2010	Q2/ 2009	Q1-Q2/ 2010	Q1-Q2/ 2009	2009
Net sales, EUR mill.	66.0	60.9	129.9	117.3	251.7
EBIT, EUR mill.	4.0	2.5	8.3	4.1	9.3
- EBIT margin, %	6.1	4.1	6.4	3.5	3.7

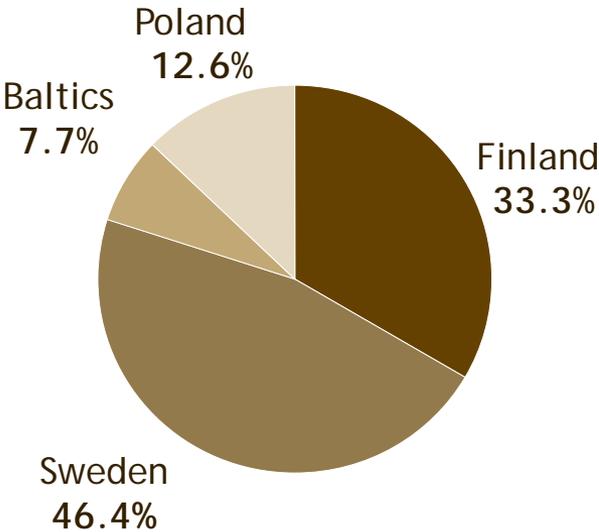
*) The figures refer to HKScan's share (50%) of the figures of the Sokolów Group.

- In Poland, Sokolów's Q2 net sales grew by 8.3 percent from the corresponding period in 2009 when measured in euro but fell by 2.4 percent when measured in zloty.
- The decline in net sales was attributable to:
 - sales prices of meat depressed by intense competition
 - spring floods in Poland
- Q2 EBIT increased to EUR 4.0 million (EUR 2.5m in 2009):
 - robust progress in modern retail chains
 - accomplished cost control
 - good subsidiary performance
 - momentum in exports
- Sokolów's profitability has climbed to a new high in the first half of the year and the company exceeds the Group's long-term EBIT target.

Breakdown of net sales and EBIT

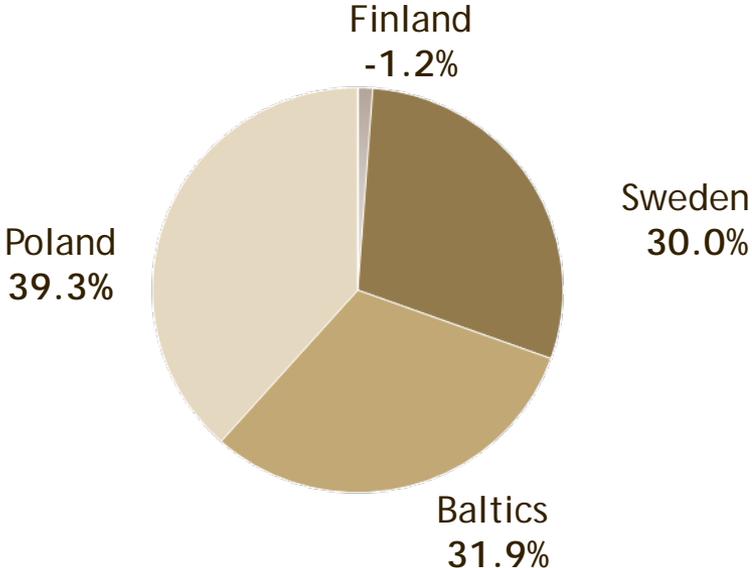
Q2/2010

Net sales EUR 502.3 million



* shares calculated including internal sales

EBIT EUR 8.1 million

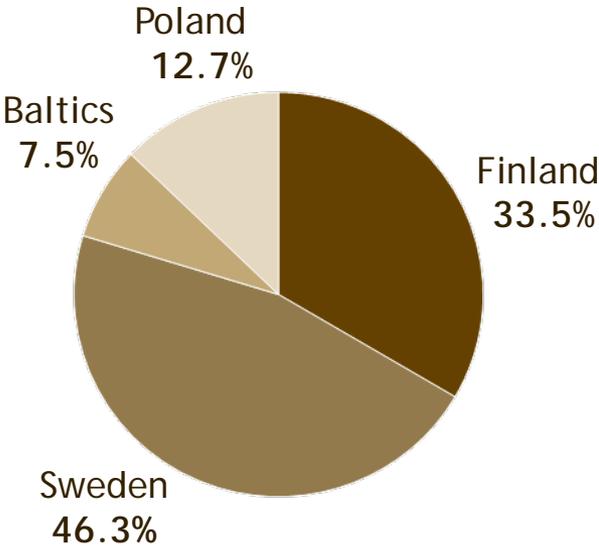


* shares calculated exclusive of Group administration costs

Breakdown of net sales and EBIT

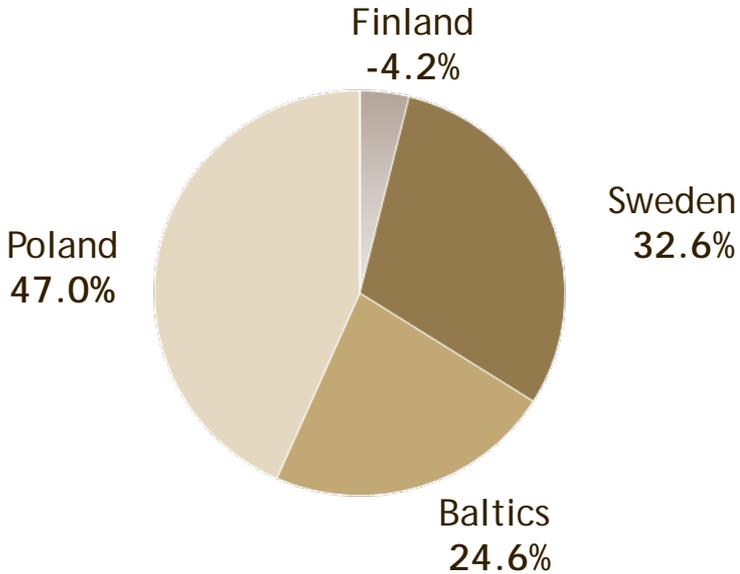
Q1-Q2 /2010

Net sales EUR 985.9 million



* shares calculated including internal sales

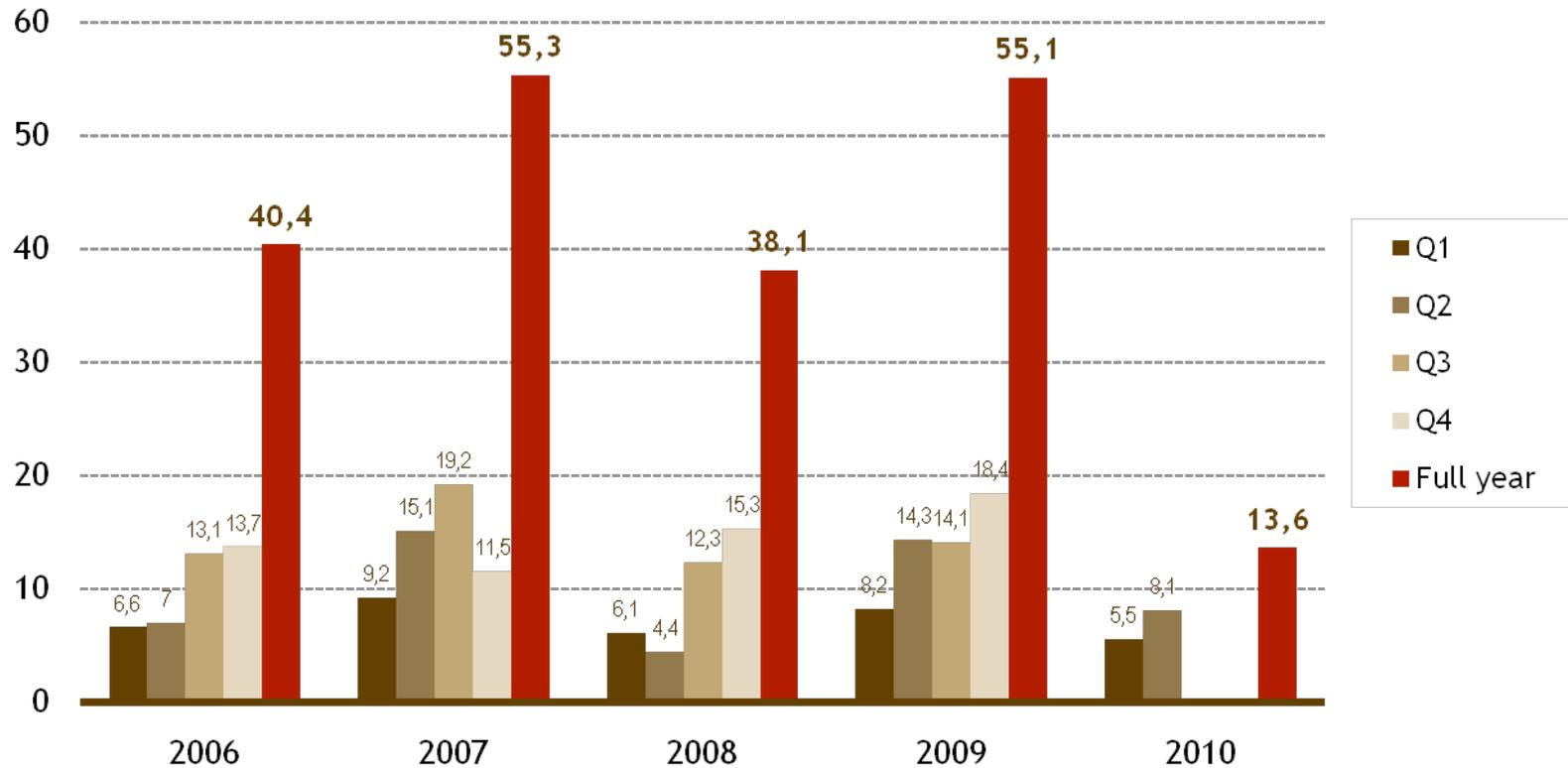
EBIT EUR 13.6 million



* shares calculated exclusive of Group administration costs

Quarterly EBIT* development

Meur



* reported

Future outlook



Consumer demand for food is still expected to remain steady in the Group's home markets and export markets are anticipated to pick up somewhat towards the end of the year. Business streamlining programmes, in particular the progress of the restructuring programme in Sweden and the launch of the streamlining programme planned in Finland, provide the foundation for the stronger development of the Group's competitiveness and profitability. Improved profitability furthermore requires the business in Finland to be restored from the effects of the labour market disturbances.

This anticipation of the future gains further support from the good performance of segments of the Baltics and Poland, which in part serves to even out the earnings development of the entire Group.

With performance in the first half of the year falling markedly short of the same a year ago, the Group's full-year EBIT exclusive of non-recurring items is estimated to be at a level somewhat lower than in 2009.

HKScan

HKScan income statement

(EUR million)	Q2/2010	Q2/2009	Q1-Q2/ 2010	Q1-Q2/ 2009	2009
NET SALES	502.3	541.6	985.9	1 033.6	2 124.7
Operating income and expenses	-479.9	-513.7	-944.0	-984.0	-2 013.3
Share of associates' results	0.3	0.1	0.8	0.2	0.9
Depreciation and impairment	-14.5	-13.6	-29.1	-27.2	-57.2
EBIT	8.1	14.3	13.6	22.5	55.1
- % of net sales	1.6	2.6	1.4	2.2	2.6
Financial income	1.3	1.3	3.5	3.1	5.2
Financial expenses	-4.9	-6.8	-9.7	-15.4	-24.9
Share of associates' results	0.5	0.6	1.5	0.9	2.0
PROFIT / LOSS BEFORE TAXES	5.0	9.4	8.9	11.1	37.3
- % of net sales	1.0	1.7	0.9	1.1	1.8
Income tax	-0.8	-0.9	-0.6	-2.2	-4.9
PROFIT / LOSS FOR THE PERIOD	4.3	8.5	8.3	8.9	32.5
PROFIT / LOSS FOR THE PERIOD ATTRIBUTABLE TO:					
Equity holders of the parent	3.6	7.5	7.0	7.6	29.9
Minority interests	0.7	1.0	1.2	1.3	2.6
TOTAL	4.3	8.5	8.3	8.9	32.5
Earnings/share, continuing operations, EUR	0.07	0.16	0.13	0.15	0.64

HKScan statement of comprehensive income

(EUR million)	Q2/2010	Q2/2009	Q1-Q2 /2010	Q1-Q2/ 2009	2009
Profit / loss for the period	4.3	8.5	8.3	8.9	32.5
OTHER COMPREHENSIVE INCOME (after taxes)					
Exchange differences on translating foreign operations	-0.2	2.8	7.0	-3.6	1.8
Available-for-sale investments	-0.4	0.1	0.0	-0.1	0.4
Cash flow hedging	-1.1	1.0	-3.9	0.4	-7.1
TOTAL OTHER COMPREHENSIVE INCOME	-1.7	3.9	3.1	-3.3	-4.8
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2.6	12.4	11.4	5.6	27.6
COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:					
Equity holders of the parent	1.9	11.2	9.9	4.3	24.8
Minority interests	0.7	1.2	1.5	1.3	2.8
Total	2.6	12.4	11.4	5.6	27.6

Consolidated balance sheet

(EUR million)	30.6.2010	30.6.2009	31.12.2009
ASSETS			
Non-current assets			
Intangible assets	69.2	60.7	65.7
Goodwill	90.9	83.7	88.2
Tangible assets	482.3	467.5	469.1
Holdings in associates	22.7	19.0	20.9
Trade and other receivables	20.6	19.8	18.2
Available-for-sale investments	11.3	10.0	10.5
Deferred tax asset	13.2	9.7	12.3
Total non-current assets	710.2	670.4	685.0
Current assets			
Inventories	134.0	133.1	118.7
Trade and other receivables	207.4	202.4	194.3
Income tax receivable	2.2	1.4	0.2
Other financial assets	2.2	2.2	2.0
Cash and cash equivalents	68.6	57.8	73.9
Total current assets	414.4	396.9	389.0
TOTAL ASSETS	1 124.6	1 067.2	1 074.0

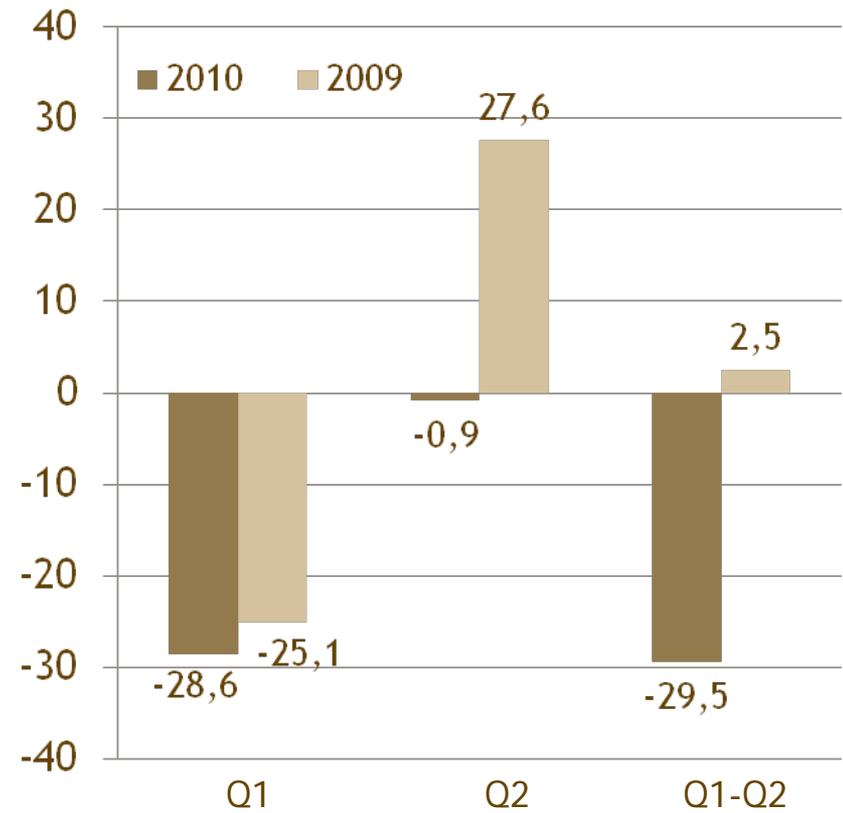
Consolidated balance sheet

(EUR million)	30.6.2010	30.6.2009	31.12.2009
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent	386.6	312.3	389.3
Minority interest	9.4	5.3	9.4
Total shareholders' equity	396.1	317.6	398.7
Deferred tax liability	32.5	33.5	32.2
Non-current interest-bearing liabilities	352.1	430.4	329.9
Non-current non-interest bearing liabilities	5.0	4.7	5.9
Pension commitments	3.5	3.6	3.6
Non-current provisions	2.8	3.2	8.5
Non-current liabilities	395.9	475.3	380.1
Current interest-bearing liabilities	113.5	65.2	87.5
Trade and other payables	213.3	206.1	202.0
Income tax liability	2.8	0.3	2.7
Current provisions	3.1	2.6	2.8
Current liabilities	332.7	274.3	295.1
EQUITY AND LIABILITIES	1 124.6	1 067.2	1 074.0

Cash flow statement

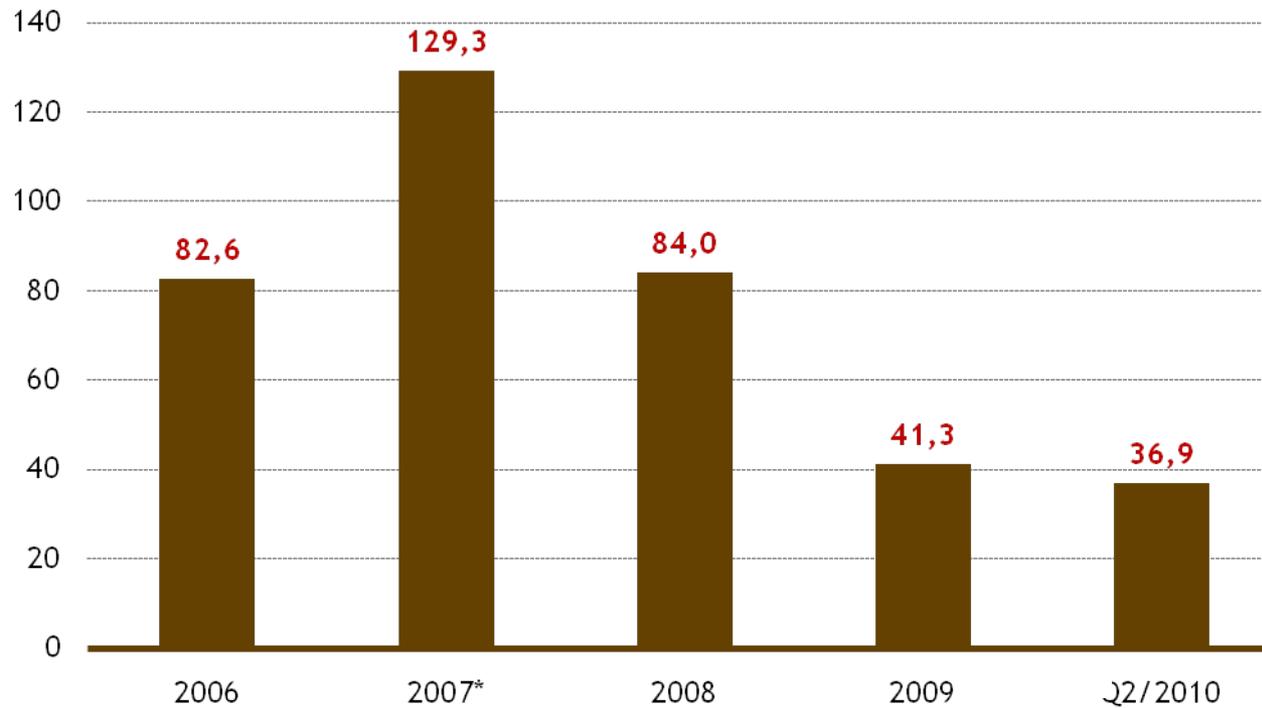
(EUR million)	30.6.2010	30.6.2009	2009
Operating activities			
EBIT and depreciation (incl. adjustments)	42.1	47.7	111.9
Change in provisions	-5.8	2.6	7.6
Change in net working capital	-25.4	-8.7	2.5
Financial income and expenses	-6.2	-12.3	-19.7
Taxes	-0.6	-2.2	-4.9
Net cash flow from operating activities	4.1	27.1	97.4
Investing activities			
Gross investments in PPE	-35.7	-26.0	-43.7
Disposals of PPE	2.3	1.5	2.9
Investments in subsidiary	0.0	-0.3	-4.7
Shares in associates acquired	0.0	0.0	-0.3
Loans granted and repaid	-0.2	0.2	5.1
Net cash flow from investing activities	-33.6	-24.6	-40.8
Cash flow before financing activities	-29.5	2.5	56.6
Financing activities			
Proceeds from share offering	0.0	0.0	76.8
Repayments of hybrid bond	0.0	0,0	-20.0
Loans raised and repaid	34.2	-25.3	-121.8
Interest on hybrid bond	0.0	-1.3	-2.1
Dividends paid	-12.0	-9.4	-9.4
Purchases of own shares	0.0	0.0	0.0
Net cash flow from financing activities	22.1	-36.0	-76.5
Change in cash and cash equivalents	-7.4	-33.5	-19.9

Cash flows after investments 2005-2010



Investments

Meur



* exclusive of enterprise value on Scan AB acquisition

Financial targets and target achievement

2006 - Q2/2010

	Target	Achievement				
		Q1-Q2/ 2010	2009	2008	2007	2006
EBIT	over 5% of net sales	1.4	2.6	1.7	2.6	4.3
Return on equity	over 15%	4.2	9.0	2.3	9.2	11.9
Equity ratio	over 40%	35.2	37.1	29.5	29.3	43.7
Dividend distribution	at least 30% of net earnings		34.5	199.3	37.7	34.2

