

# HKScan

## HKScan Corporation Financial statements for 2007

CEO Kai Seikku

26 February 2008

# HKScan Corporation

	Q4/ 2007	Q4/ 2006	Q1-Q4/ 2007	Q1-Q4/ 2006
Net sales, EUR million	552.2	242.8	2 107.3	934.3
EBIT, EUR million	11.5	13.7	55.3	40.4
- EBIT margin, %	2.1	5.7	2.6	4.3
EBIT from operations	17.5	12.8	65.2	41.8
- EBIT margin from operations, %	3.2	5.3	3.1	4.5
Profit before taxes	6.9	11.5	36.3	33.6
Profit for the period	6.0	9.2	29.5	27.8
Earnings/share	0.14	0.27	0.72	0.79

- HKScan's first year of operations with the new Group structure in place
- Key themes in the year were the integration of the Swedish business, industrial restructuring of the business in Finland and the sharp rise in the price of feed grain across the world in the latter half of the year.
- The rising costs of raw materials could not be passed on to product prices at the same rate.
- New product launches were an area of emphasis
- The Group's capital expenditure was exceptionally high. Strengthening cash flow and increasing equity ratio are key areas for improvement in 2008.

# HKScan's EBIT Q4/2007

(EUR million)	Group admin.	Finland	Sweden	Baltics	Poland	HKScan tot.
Reported EBIT	-0.4	3.3	7.7	0.9	0.1	11.5
EBIT margin, %		1.9	2.6	2.3	0.3	2.1
Non-recurring						
- additional labour costs from restructuring		1.0				
- additional transfer and logistical costs from restructuring		5.0				
Comparable EBIT from operations	-0.4	9.3	7.7	0.9	0.1	17.5
EBIT margin, %		5.3	2.6	2.3	0.3	3.2

\* Group administration costs

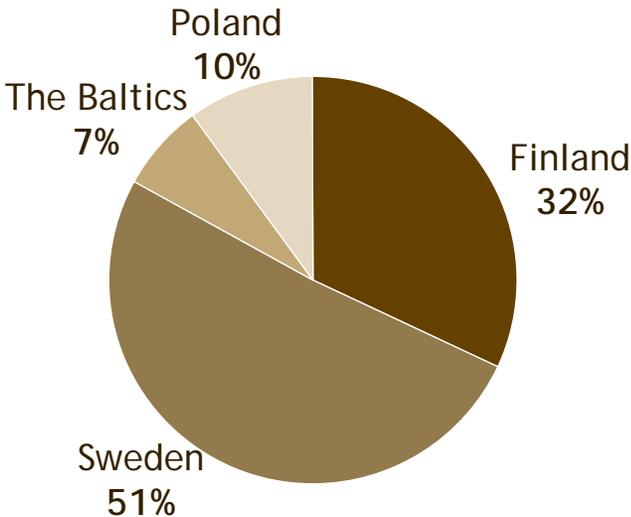
# HKScan's EBIT Q1-Q4/2007

(EUR million)	Group admin.	Finland	Sweden	Baltics	Poland	HKScan tot.
Reported EBIT	-5.0	22.8	23.0	10.7	3.7	55.3
EBIT margin, %		3.4	2.1	7.4	1.7	2.6
Non-recurring						
- additional labour costs from restructuring		2.9				
- additional transfer and logistical costs from restructuring		7.6				
- gain on disposal				-0.6		
Comparable EBIT from operations						
Comparable EBIT from operations	-5.0	33.3	23.0	10.1	3.7	65.2
EBIT margin, %		4.9	2.1	6.9	1.7	3.1

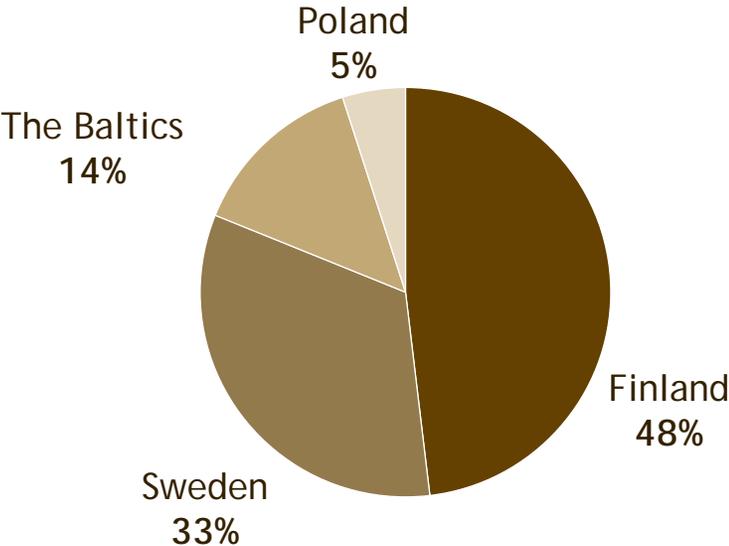
\* Group administration costs

# Breakdown of net sales and EBIT

Net sales EUR 2 107.3m



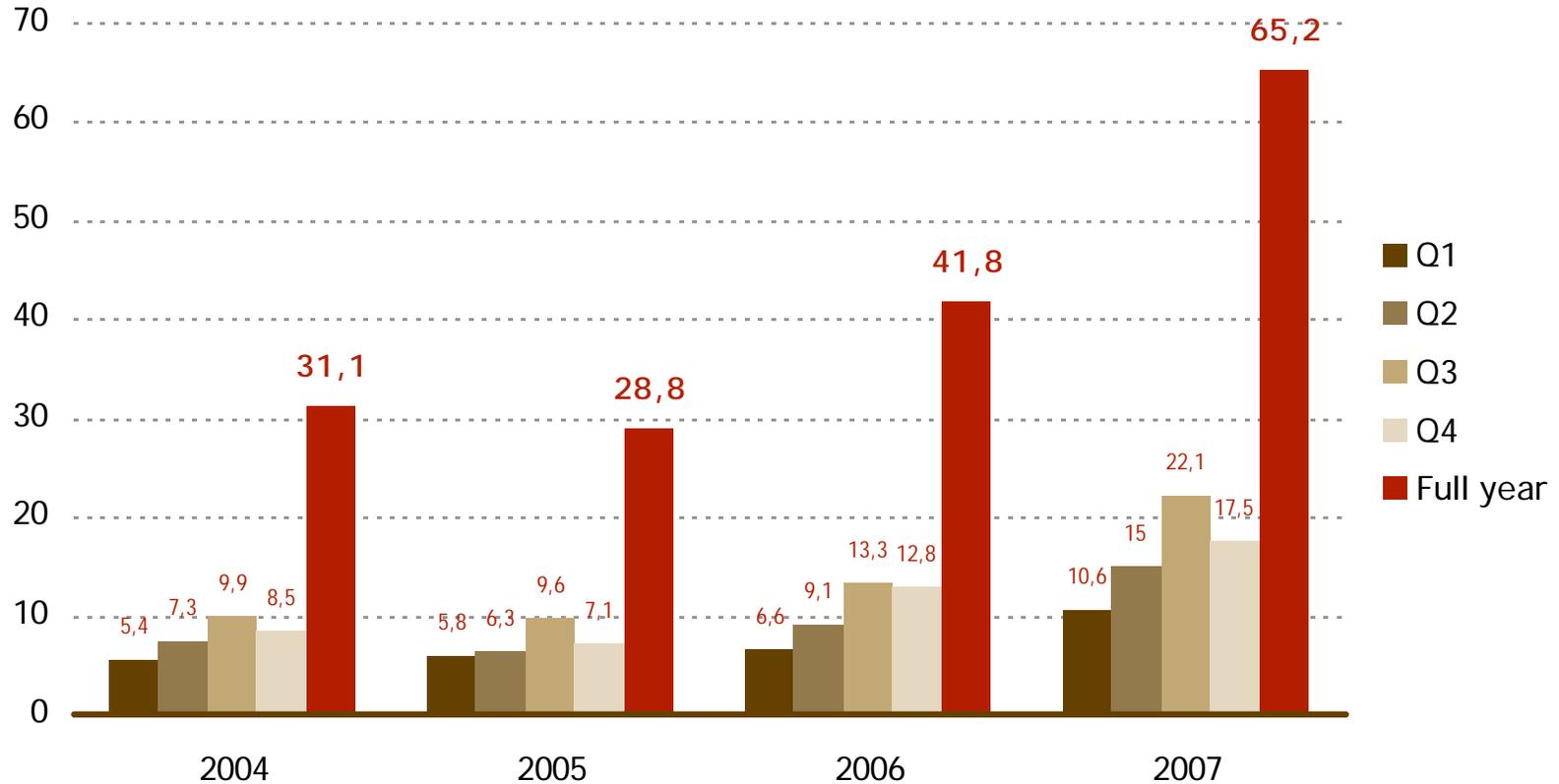
EBIT\* EUR 65.2m



\* Comparable EBIT from operations, shares calculated excluding Group administration costs

# Quarterly EBIT\* development

EUR million



\* comparable EBIT from operations

# Market area: Finland



	Q4/ 2007	Q4/ 2006	Q1-Q4/ 2007	Q1-Q4/ 2006
Net sales, EUR million	176.3	162.9	674.3	608.0
EBIT, EUR million	3.3	10.9	22.8	25.4
- EBIT margin, %	1.9	6.7	3.4	4.2
EBIT from operations	9.3	10.0	33.3	27.4
- EBIT margin from operations, %	5.3	6.1	4.9	4.5

- Total non-recurring additional labour, production transfer and logistical costs came to EUR 10.5 million in 2007.
- Management changes were implemented in December 2007 in the Finnish business to accelerate the completion of the industrial restructuring.
- The logistical issues and inadequate delivery dependability experienced in 2007 will be resolved in full in Q1/2008.
- The profitability of the meat business was eroded in autumn by the rapid rise in feed raw materials. The higher costs could only be passed on to sales prices in early 2008.
- The poultry business gained momentum from a sharp rise in consumption.

# Market area: Sweden



	Q4/ 2007	Q4/ 2006	Q1-Q4/ 2007	Q1-Q4/ 2006
Net sales, EUR million	295.7	-	1 111.9	-
EBIT, EUR million	7.7	-	23.0	-
- EBIT margin, %	2.6	-	2.1	-
EBIT from operations	7.7	-	23.0	-
- EBIT margin from operations, %	2.6	-	2.1	-

- A year of mergers and acquisitions in the Swedish meat sector
- Scan business structure was clarified through the spin-off of the meat and processed meat and convenience food businesses.
- Short-term profitability developed in line with plans in 2007.
- Extensive revamping of Scan's product concept was initiated.
- The new efficiency programme seeks annual savings of EUR 18-22 million by 2010.
- Restructuring costs and writedowns on PPE in the amount of EUR 23 million resulting from the consolidation and efficiency programme have been taken into account when allocating purchase price.

# Market area: the Baltics



	Q4/ 2007	Q4/ 2006	Q1-Q4/ 2007	Q1-Q4/ 2006
Net sales, EUR million	37.6	33.2	145.3	130.8
EBIT, EUR million	0.9	3.2	10.7	12.6
- EBIT margin, %	2.3	9.6	7.4	9.6
EBIT from operations	0.9	3.2	10.1	11.2
- EBIT margin from operations, %	2.3	9.6	6.9	8.6

- Business progressed as planned and profitability remained on target until September.
- In Q4, the rise in production costs due to higher feed prices eroded the price competitiveness of local pork and led to a writedown of EUR 1.5 million on biological assets.
- The outbreak of Newcastle disease caused only minor financial losses. Production at Tallegg is estimated to return to normal in summer 2008.
- Market standing in the Baltics remained strong.



# Market area: Poland

	Q4/ 2007	Q4/ 2006	Q1-Q4/ 2007	Q1-Q4/ 2006
Net sales, EUR million	54.8	49.5	220.9	203.6
EBIT, EUR million	0.1	1.0	3.7	6.0
- EBIT margin, %	0.3	2.0	1.7	2.9
EBIT from operations	0.1	1.0	3.7	6.0
- EBIT margin from operations, %	0.3	2.0	1.7	2.9

- Core business performed in line with targets, net sales continued to see strong growth. The fragmented corporate structure was streamlined.
- The start-up of Pozmeat is taking longer than estimated. HKScan's share of Pozmeat's losses in 2007 came to EUR 3.2 million. Pozmeat is estimated to break even in the second quarter of 2008.
- Writedowns of EUR 0.9 million were taken on biological assets.

# HKScan income statement

(EUR million)	Q4/ 2007	Q4/ 2006	Q1-Q4/ 2007	Q1-Q4/ 2006
Net sales	552.2	242.8	2 107.3	934.3
EBIT	11.5	13.7	55.3	40.4
- % of net sales	2.1	5.7	2.6	4.3
Share of associates' results	0.4	-0.4	0.4	0.0
Net financial income and expenses	-5.0	-1.9	-19.4	-6.8
Profit before taxes	6.9	11.5	36.3	33.6
- % of net sales	1.2	4.7	1.7	3.6
Income taxes	-0.9	-2.3	-6.8	-5.8
Profit for the period	6.0	9.2	29.5	27.8
Attributable to:				
Equity holders of the parent	5.6	9.3	27.8	27.2
Minority interests	0.4	-0.1	1.7	0.6
Total	6.0	9.2	29.5	27.8
EPS, diluted, EUR	0.14	0.27	0.72	0.79

# Consolidated balance sheet at 31 Dec 2007

(EUR million)	31.12.2007	31.12.2006
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	65.5	4.0
Goodwill	85.1	53.9
Tangible assets	476.6	294.5
Shares in associates	20.3	5.5
Trade and other receivables	18.0	4.1
Available-for-sale investments	11.4	0.3
Deferred tax asset	8.3	2.2
<b>Non-current assets, total</b>	<b>685.1</b>	<b>364.4</b>
<b>Current assets</b>		
Inventories	140.2	58.4
Trade and other receivables	244.9	112.1
Income tax receivable	2.5	2.5
Other financial assets	3.7	-
Cash and cash equivalents	53.2	12.1
<b>Current assets, total</b>	<b>444.5</b>	<b>185.1</b>
<b>TOTAL ASSETS</b>	<b>1 129.6</b>	<b>549.5</b>

# Consolidated balance sheet at 31 Dec 2007

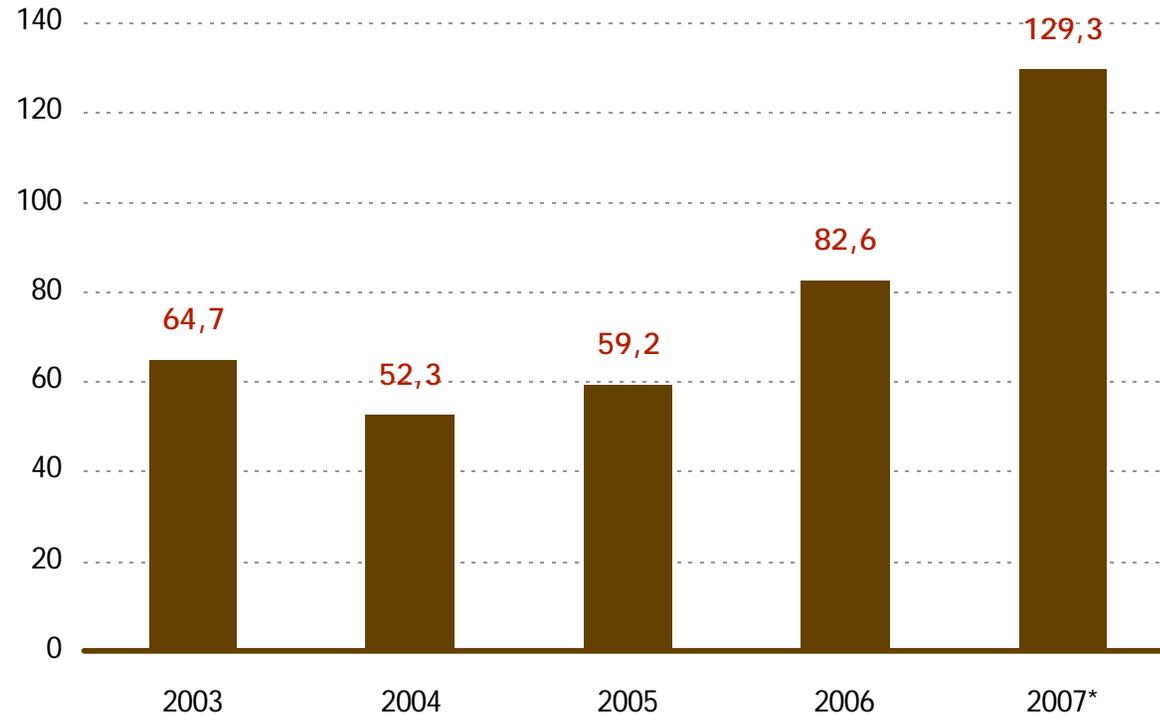
(EUR million)	31.12.2007	31.12.2006
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
Equity attributable to equity holders of the parent	328.5	236.4
Minority interest	2.9	0.6
<b>Total shareholders' equity</b>	<b>331.5</b>	<b>237.1</b>
Deferred tax liability	34.0	12.2
Interest-bearing liabilities	421.6	87.1
Zero-interest liabilities	6.9	0.0
Pension obligations	4.7	5.2
Provisions	0.0	0.0
<b>Non-current liabilities</b>	<b>467.2</b>	<b>104.4</b>
Interest-bearing liabilities	92.9	109.6
Trade and other payables	236.6	96.7
Income tax due	0.1	0.9
Provisions	1.3	0.6
<b>Current liabilities</b>	<b>330.9</b>	<b>208.0</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>1 129.6</b>	<b>549.5</b>

# Cash flow statement

(EUR million)	2007	2006
<b>Operating activities</b>		
EBIT and depreciation (incl. adjustment items)	97.2	70.4
Change in working capital	50.1	6.3
Financial income and expenses	-19.3	-6.8
Taxes	-6.8	-5.5
<b>Net cash flow from operating activities</b>	<b>121.2</b>	<b>64.4</b>
<b>Investing activities</b>		
Gross investment in PPE	-131.6	-82.6
Disposals of PPE	15.8	6.4
Investment in subsidiary	-70.1	-
Loans extended and repayments	-1.9	0.0
<b>Net cash flow from investing activities</b>	<b>-187.8</b>	<b>-76.2</b>
<b>Cash flow before financing activities</b>	<b>-66.5</b>	<b>-11.8</b>
<b>Financing activities</b>		
Borrowings raised and repaid	122.4	20.6
Change in non-current receivables	0.0	-0.2
Dividends paid	-9.3	-9.3
Buyback of treasury shares	-1.8	-
<b>Net cash flow from financing activities</b>	<b>111.3</b>	<b>11.1</b>
<b>Change in liquid assets</b>	<b>44.7</b>	<b>-0.7</b>

# Investing activities

EUR million



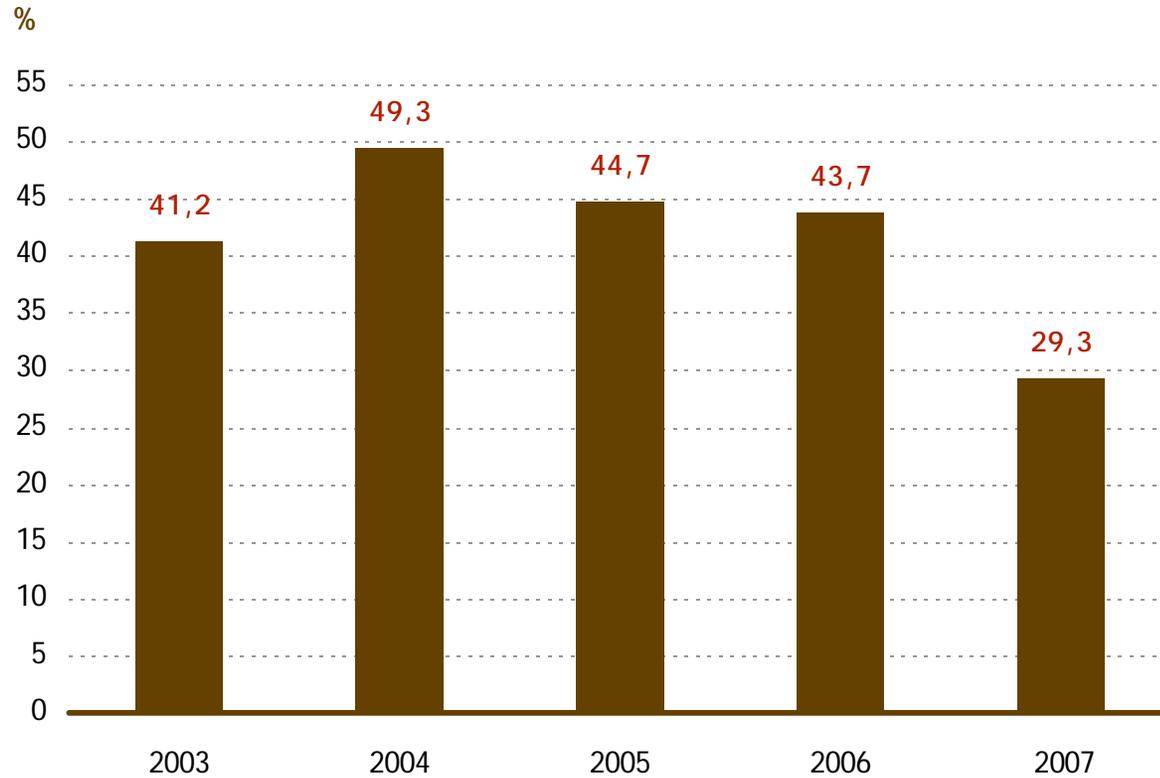
\* exclusive of enterprise value on Scan AB acquisition

# Financial highlights

31.12.2007 31.12.2006

EPS, diluted, EUR	0.72	0.79
Equity/share, EUR	8.36	6.86
Equity ratio, %	29.3	43.7
Number of shares (mill.)	39.3	34.5
Productional investments, EUR million	129.3	82.6
Workforce on average	7 840	4 418

# Equity ratio



# Financial targets

	Target	2007	2006
EBIT	Over 5% of net sales	2.6 %	4.3 %
Return on equity	over 15%	9.2 %	11.9 %
Equity ratio	over 40%	29.3 %	43.7 %
Dividend distribution	At least 30% of net profit	37.7 %*	34.2 %

\* Based on the Board's dividend recommendation

# Future outlook Q4/2007



- The deterioration of the international pork market which started in late 2007 continued in early 2008.
- It will significantly erode the profitability of the meat business and influence the entire company's performance in all markets, especially in Finland and the Baltics.
- The Group's Q1 EBIT will fall below the 2007 level.
- Full-year comparable EBIT from operations in line with the previous year is projected, provided that the company's estimate of the pork market evening out in the latter half of the year is realised.