

# HKScan

## HKScan Corporation Financial Statement 2010

CEO Matti Perkonaja

Media and investor briefing 18 February 2011

# 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.

# HKScan - Significant Northern European Food Company



- Net sales 2010 EUR 2 113.9 million
- Employees, ca. 11 300:
  - Finland 2 464
  - Sweden 3 143
  - Denmark 913 (31.12.2010)
  - Baltics 1 884
  - Poland 5 734 (50% 2 867)
- Locations in nine countries
- A core business principle of HKScan is consumer and customer satisfaction, which calls for high quality products and service at every stage of the value chain.

# Group structure

## HKScan Corporation

Net sales in 2010: EUR 2 113.9 million\*, CEO Matti Perkonoja

Pro forma net sales 2010: EUR 2 325.5 million \*\*

### Finland

Net sales in 2010:  
EUR 718.5 million

HKScan Finland Oy  
Managing Director  
Jari Leija



### Sweden

Net sales in 2010:  
EUR 997.1

Scan AB  
Managing Director  
Denis Mattsson



### Denmark

Net sales in  
2009/2010:  
appr. EUR 218.3  
million

Rose Poultry A/S  
Managing Director  
Olli Antniemi



### Baltics

Net sales in 2010:  
EUR 160.4 million

AS Rakvere  
Lihakombinaat  
Managing Director  
Anne Mere  
AS Tallegg  
Managing Director  
Teet Soorm



### Poland

Net sales in 2010:  
EUR 279.3 million\*\*\*

Saturn Nordic  
Holding AB  
-> Sokolów  
Managing Director  
Boguslaw Miszczuk



- Production facility
- Sales office

\* Between segments - Finland, Sweden, Baltic and Poland - EUR -63.3 million.

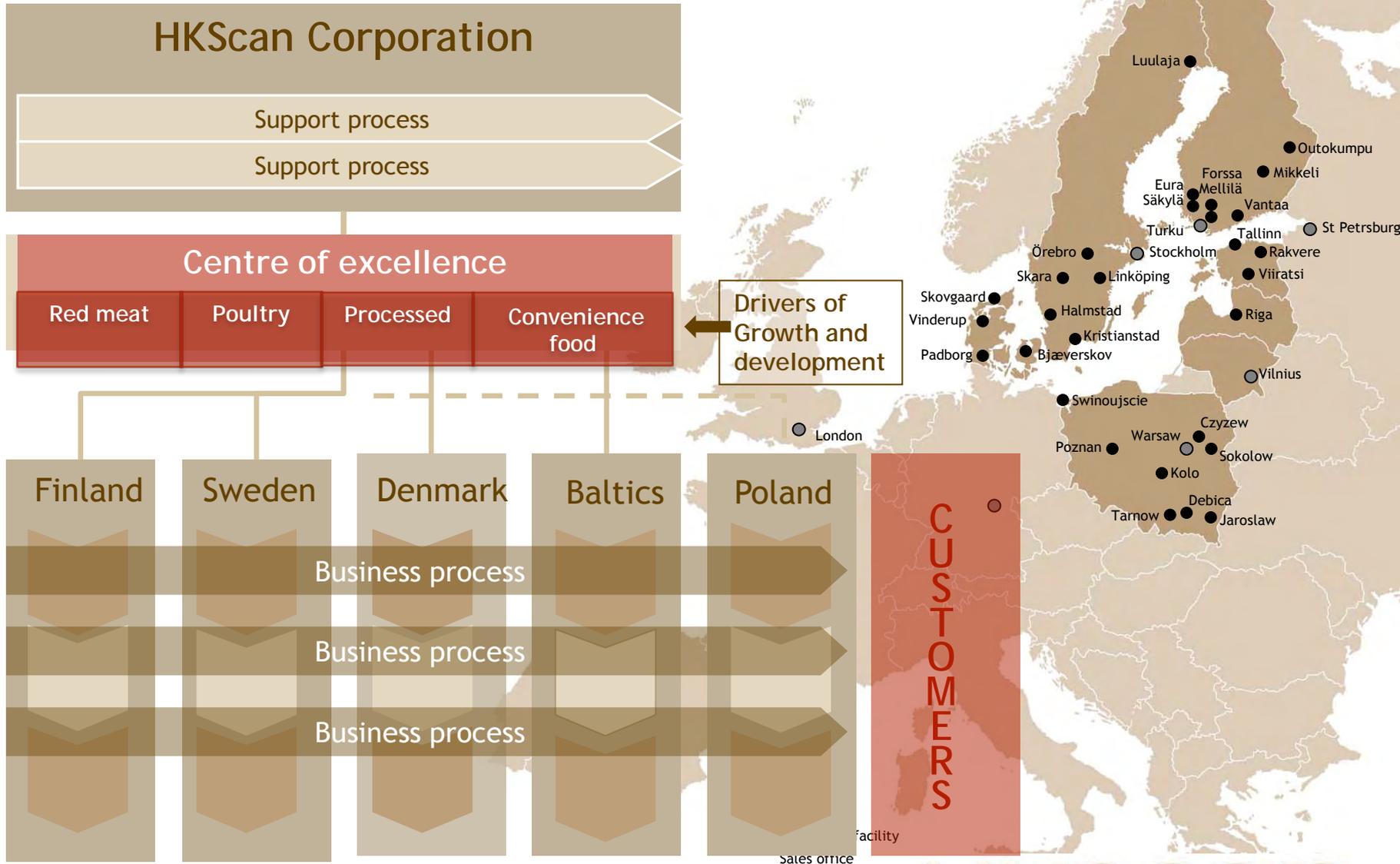
\*\* Includes as pro forma figures the net sales of operations acquired in 2010.

\*\*\*Joint venture Saturn Nordic Holding AB owned 50/50 by HKScan and Danish Crown holds 100% of shares in Sokolów. In 2010 half of Sokolów's net sales, i.e. EUR 279.3 million were accounted for in HKScan Group figures.

# HKSCAN

MEAT INDUSTRY SHAPER

# Group structure



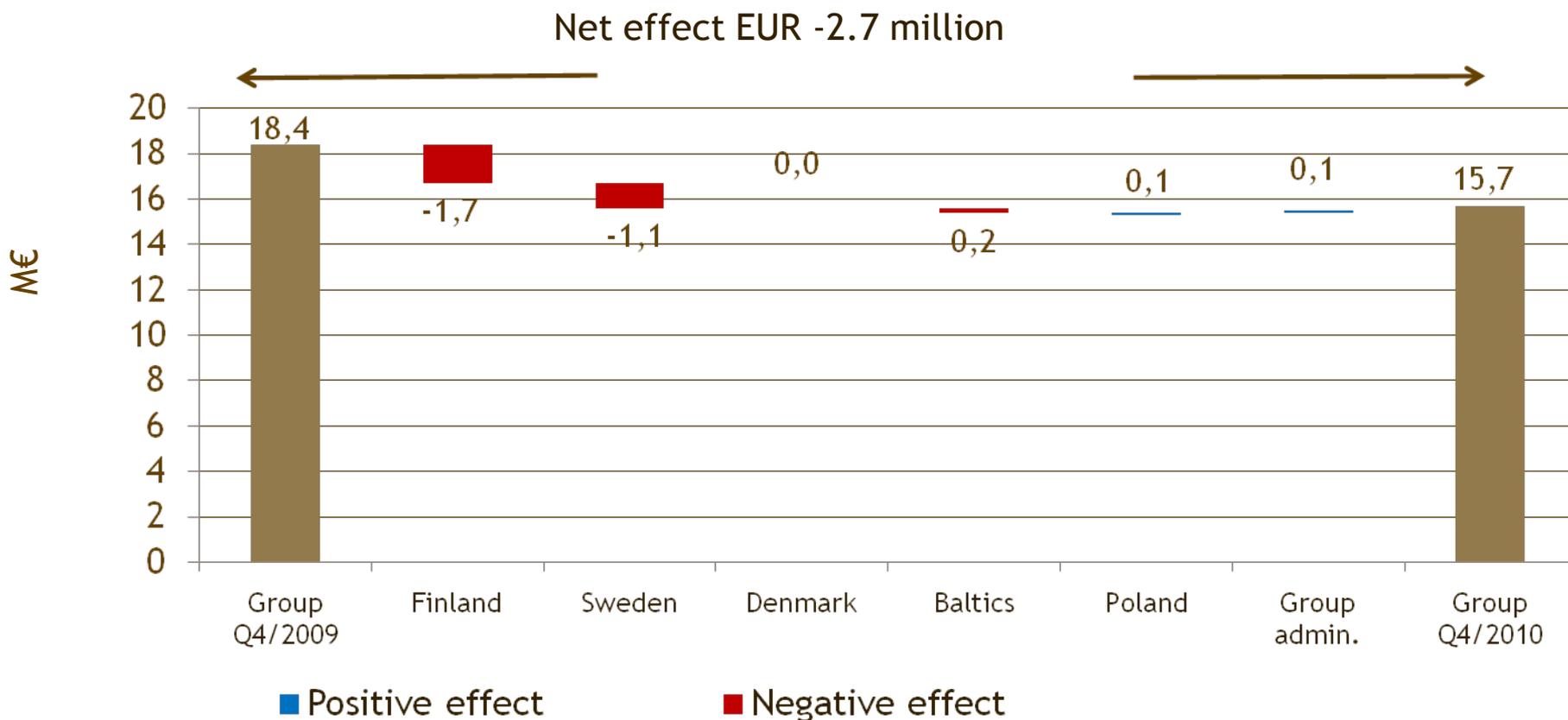
# HKScan Corporation

	Q4/ 2010	Q4/ 2009	2010	2009
Net sales, EUR million	595.7	557.5	2 113.9	2 124.7
EBIT, EUR million	15.7	18.4	48.0	55.1
- EBIT margin %	2.6	3.3	2.3	2.6
Profit before taxes	11.1	15.4	36.5	37.3
Earnings per share. EUR	0.15	0.28	0.52	0.64

- The HKScan Group's net sales, EUR 2 113.9 million, were at the level of the previous year. EBIT was EUR 48.0 million.
- Profit before taxes, EUR 36.5 million, remained almost unchanged.
- In Finland and Sweden, the year was affected by numerous exceptional internal supply chain problems, which caused substantial costs and loss of income.
- EBIT was improved by the gains on the disposal of properties in Sweden amounting to some EUR 8 million.
- Profitability remained good in the Baltics and improved particularly in Poland.
- In Sweden, the increasing import of cheaper meat has significantly weakened the competitiveness of production based on Swedish meat raw material.
- At the end of November the transaction concerning the Danish company Rose Poultry was completed, making HKScan a leading player in the poultry market in northern Europe.
- The Group's full-year EBIT is expected to improve compared with 2010.

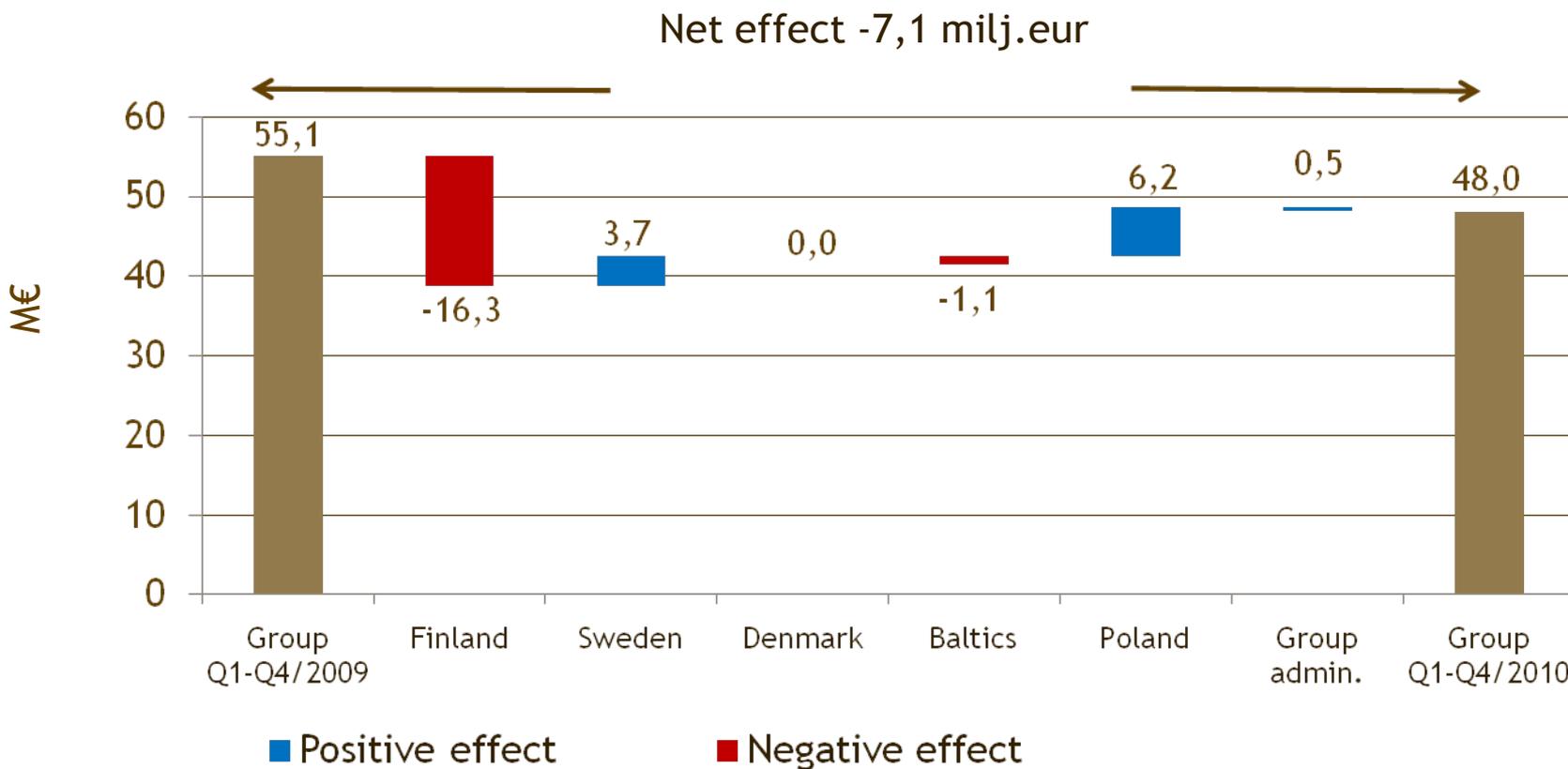
# Group EBIT Bridge

- Q4 /2009 vs. Q4 /2010



# Group EBIT Bridge

- Q1-Q4 /2009 vs. Q1-Q4 /2010



# Market area: Finland



	Q4/ 2010	Q4/ 2009	2010	2009
Net sales, EUR million	198.2	185.4	718.5	732.5
EBIT, EUR million	4.7	6.4	10.7	27.0
- EBIT margin %	2.4	3.5	1.5	3.7

- In Finland, net sales were EUR 718.5 million and EBIT EUR 10.7 million.
- Earnings development in HK Ruokatalo (principal company in Finland) was weakened by:
  - Industrial action during the spring, which is estimated to have resulted in loss of earnings of at least EUR 7 million.
  - Price competition in poultry meat during the early part of the year
  - Weak profitability of pork
  - Ban on pork exports to Russia lasting from July to December and the resultant growth in stocks
- In September, a new productivity improvement programme was announced, which aims to deliver annual productivity benefits of EUR 12 million.  
Of this amount, EUR 6 million are expected to be achieved during 2011.
- HK Ruokatalo's
  - Summer's barbecue season and Christmas sales succeeded well
  - With respect to poultry meat, the year improved towards the end remaining as a whole, short of the target
  - Market position was retained in the challenging market situation
  - Rapeseed pork was announced in spring 2010, the products were launched in February 2011
- HKScan Finland and the other subsidiaries and associates succeeded well throughout the year.



M. Perkonoja 18.2.2011

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# HKScan

MEAT INDUSTRY SHAPER

# Market area: Sweden



	Q4/ 2010	Q4/ 2009	2010	2009
Net sales, EUR million	275.0	278.3	997.1	1 037.4
EBIT, EUR million	8.0	9.1	20.4	16.7
- EBIT margin %	2.9	3.3	2.0	1.6

- Scan AB's net sales were EUR 997.1 million and EBIT EUR 20.4 million.
- The Christmas season did not entirely meet set targets in Scan (principal company in Sweden).
- The strengthened Swedish krona has increased the amount of imported raw material and significantly weakened the competitiveness of Swedish raw material-based production, which is reflected in a fall in volumes.
- The efficiency programme was expanded:
  - Largest development project implemented in meat companies in HKScan's market areas in decades
  - Development benefits of EUR 30 million by the end of 2012
  - Implementation of the project within a tight schedule alongside routine business operations has caused problems in cost management, which has been reflected as exceptional expenditure of some EUR 10 million
  - Benefits in relation to the original schedule are overdue – expected to appear gradually by the end of 2012
- Scan's subsidiaries succeeded. Sales of the Pärsons brand of cold cuts especially developed well.

# Market area: Denmark



	Q4/ 2010	Q4/ 2009	2010	2009
Net sales, EUR million	21.8	-	21.8	-
EBIT, EUR million	-0.0	-	-0.0	-
- EBIT margin %	0.0	-	0.0	-

- The Rose Poultry A/S transaction was completed at the end of November
  - The company has been consolidated into the HKScan Group since 29 November 2010
  - The Danish market area is reported as a separate segment
- Aim:
  - To develop Rose Poultry's product range for HKScan's through strong fresh produce know-how
  - To further strengthen the company's position in its home markets in Denmark, in Sweden and in the UK

Rose Poultry - Group for the financial year 1 Oct 2009 - 30 Sep 2010	30.9.2010 DKK mill.	30.9.2010 EUR mill.
Net sales	1 625.4	218.3
EBIT	46.8	6.3
Balance sheet total	648.9	87.1

**Pro forma figures on the HKScan Group as at 31 December 2010, had Rose Poultry been consolidated from 1 January 2010.**

	31.12.2010 EUR mill.
Net sales	2 314.2
EBIT	52.7

# Market area: Baltics



	Q4/ 2010	Q4/ 2009	2010	2009
Net sales, EUR million	42.0	38.1	160.4	156.9
EBIT, EUR million	1.8	2.0	8.7	9.8
- EBIT margin %	4.3	5.1	5.4	6.3

- In the market area of the Baltics, net sales were EUR 160.4 million and EBIT EUR 8.7 million.
- The business environment continues to present a challenge due to the state of the region's economies. Weak consumer purchasing power was in evidence in all the Baltic countries.
- AS Rigas Miesnieks acquired 98.8 percent of AS Jelgavas Galas Kombinats, a Latvian company specializing in smoked meat products.
- In Estonia, the market positions of Rakvere Lihakombinaat and Tallegg strengthened.
- In Latvia, with Jelgavas Galas Kombinats the market share has risen to a third of the overall market.

# Market area: Poland



*)	Q4/	Q4/	2010	2009
	2010	2009	2010	2009
Net sales, EUR million	72.6	65.1	279.3	251.7
EBIT, EUR million	3.0	2.9	15.5	9.3
- EBIT margin %	4.1	4.4	5.6	3.7

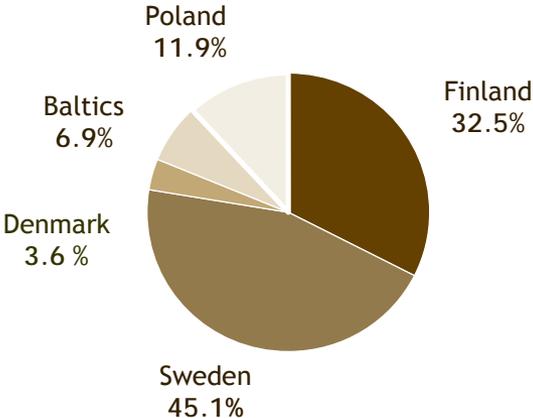
\*) The figures refer to HKScan's share (50%) of the Sokolow Group's figures.

- In Poland, Sokolow's net sales growth and profitability improvement continued in 2010.
- Net sales were EUR 279.3 million and EBIT rose substantially to EUR 15.5 million.
- Strong platform for maintaining and enhancing the profitability of the business:
  - Good utilization rate of industrial production capacity
  - Positive development in sales volumes
- Year 2010 in Sokolow:
  - Focused strengthening of the position in modern retail chains
  - Profitable export growth
  - Tight cost control
  - Economic recession had no major impact on the food purchase decisions of Polish consumers

# Breakdown of net sales and EBIT

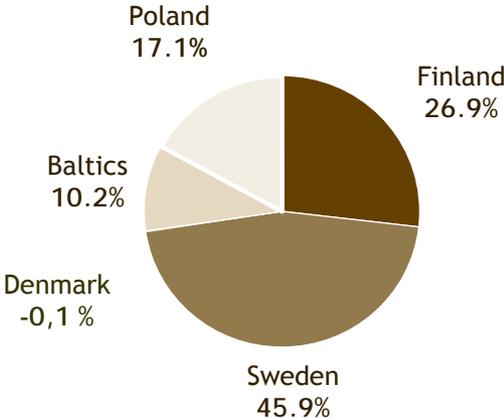
Q4/2010

Net sales\* EUR 595.7 million



\* shares calculated including internal sales

EBIT \* EUR 15.7 million

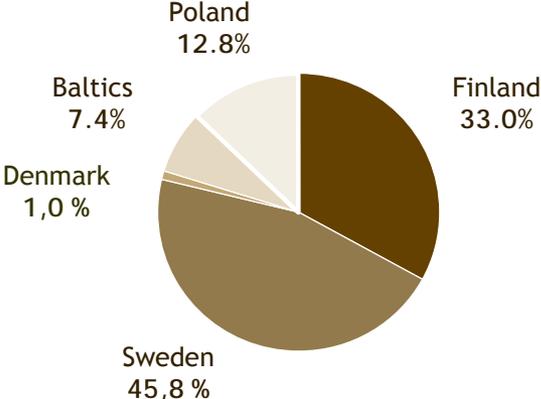


\* shares calculated exclusive of Group administration costs

# Breakdown of net sales and EBIT

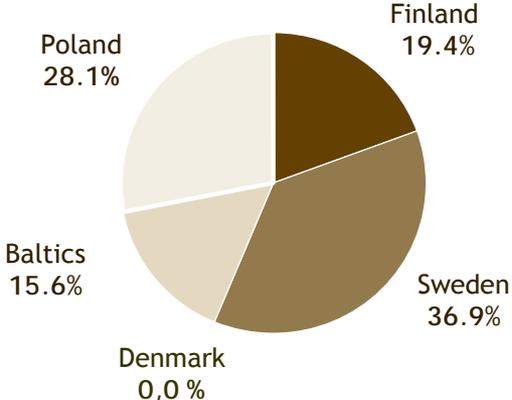
2010

Net sales\* EUR 2 113.9 million



\* shares calculated including internal sales

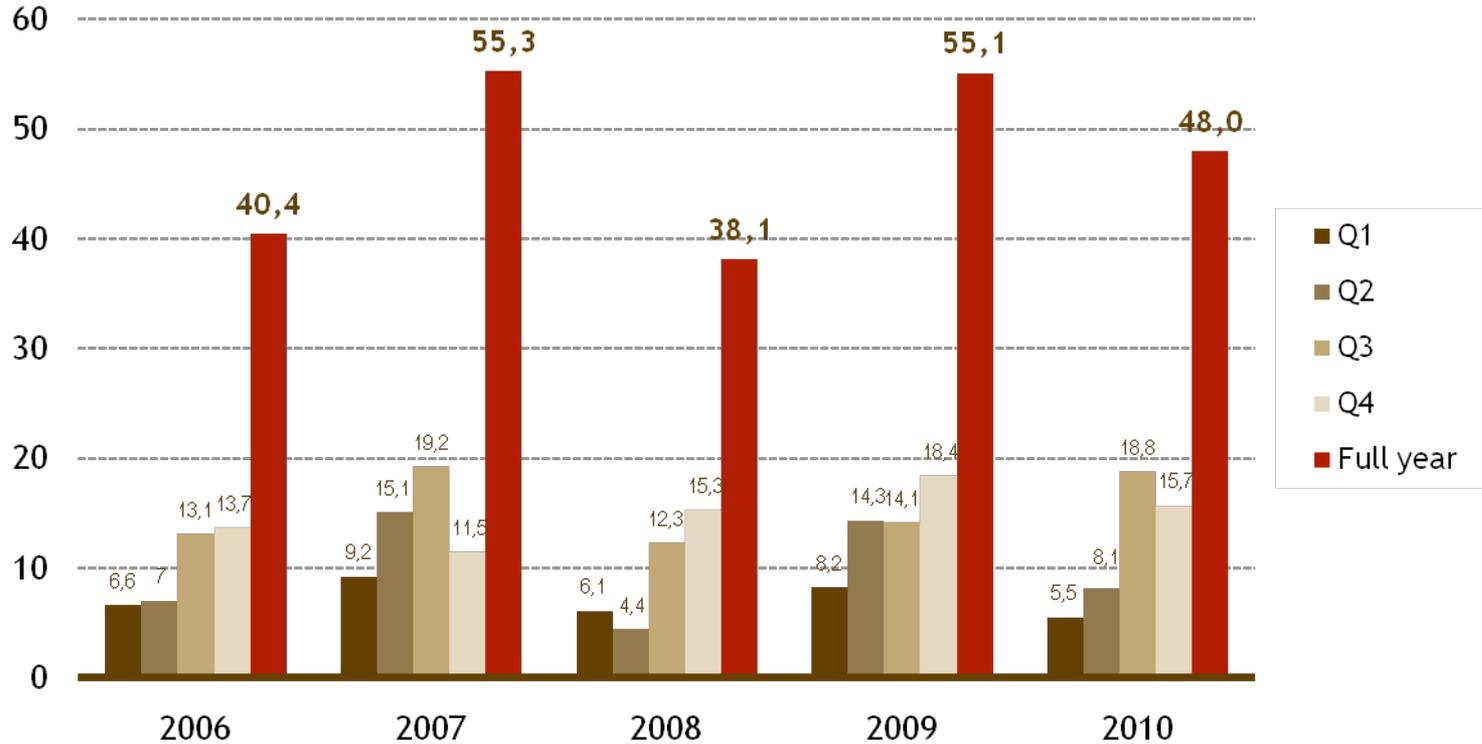
EBIT\* EUR 48.0 million



\* shares calculated exclusive of Group administration costs

# Quarterly EBIT \* development

EUR  
million



\* reported

# Exchange rate trends

## Euro against the Swedish krona, SEK



Source: European Central Bank

## Euro against the Polish zloty, PLN



# Future outlook

Consumer demand for food is expected to remain steady in the Group's domestic markets. The business's decentralized structure consisting of different product groups and geographical areas, and the initiated and planned efficiency programmes provide the foundation for stronger development of the Group's competitiveness and profitability.

The exceptional internal supply chain problems that burdened 2010 have for the most part been solved in the businesses in Finland and Sweden. Progress in the Baltics and Poland is still on a sound footing. The ongoing integration of the business in Denmark with the Group will bring synergy and other benefits during the year.

In Sweden, the growing import of substantially cheaper pork has led to a change that has weakened the market situation and profitability. If the change is long-term, the company will consider increasingly using imported raw material which meets the Group's quality and price criteria. Swedish consumers, whose purchasing decisions guide the company's solutions, will rise to play a key role.

In 2011, the Group's full-year EBIT is expected to improve compared with 2010.



# HKScan income statement

(EUR million)	2010	2009
<b>NET SALES</b>	<b>2 113.9</b>	<b>2 124.7</b>
Change in inventories of finished goods and work in progress	3.5	5.1
Work performed for own use and capitalised	1.3	0.9
Other operating income	13.6	6.7
Share of associates' results	1.8	0.9
Materials and services	-1 445.9	-1 474.5
Employee benefits expenses	-316.6	-306.7
Depreciation and amortization	-61.5	-57.2
Other operating expenses	-262.0	-244.8
<b>EBIT</b>	<b>48.0</b>	<b>55.1</b>
- % of net sales	2.3	2.6
Financial income	8.1	5.2
Financial expenses	-21.9	-24.9
Share of associates' results	2.2	2.0
<b>PROFIT/LOSS BEFORE TAXES</b>	<b>36.5</b>	<b>37.3</b>
- % of net sales	1.7	1.8
Income taxes	-5.7	-4.9
<b>PROFIT/LOSS FOR THE PERIOD</b>	<b>30.8</b>	<b>32.5</b>
Equity holders of the parent	27.9	29.9
Non-controlling interests	2.9	2.6
Earnings/share (EPS), EUR undiluted/diluted	0.52	0.64

# HKScan statement of comprehensive income

(EUR million)	2010	2009
PROFIT/LOSS FOR THE PERIOD	30.8	32.5
OTHER COMPREHENSIVE INCOME (after taxes):		
Exchange differences on translating foreign operations	13.5	1.8
Available-for-sale investments	0.0	0.4
Cash flow hedging	1.8	-7.1
TOTAL OTHER COMPREHENSIVE INCOME	8.6	-4.8
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	46.1	27.6
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:		
Equity holders of the parent	42.6	24.8
Non-controlling interests	3.5	2.8
Total	46.1	27.6

# Consolidated balance sheet

(EUR million)	31.12.2010	31.12.2009
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	77.1	65.7
Goodwill	100.4	88.2
Property, plant and equipment	537.8	469.1
Shares in associates	27.0	20.9
Trade and other receivables	25.3	18.2
Other long-term investments	13.1	10.5
Deferred tax asset	14.4	12.3
<b>Non-current assets</b>	<b>795.0</b>	<b>685.0</b>
<b>Current assets</b>		
Inventories	159.9	118.7
Trade and other receivables	240.6	194.3
Income tax receivable	0.3	0.2
Other financial assets	3.9	2.0
Cash and cash equivalents	69.5	73.9
<b>Current assets</b>	<b>474.1</b>	<b>389.0</b>
<b>ASSETS</b>	<b>1 269.2</b>	<b>1 074.0</b>

# Consolidated balance sheet

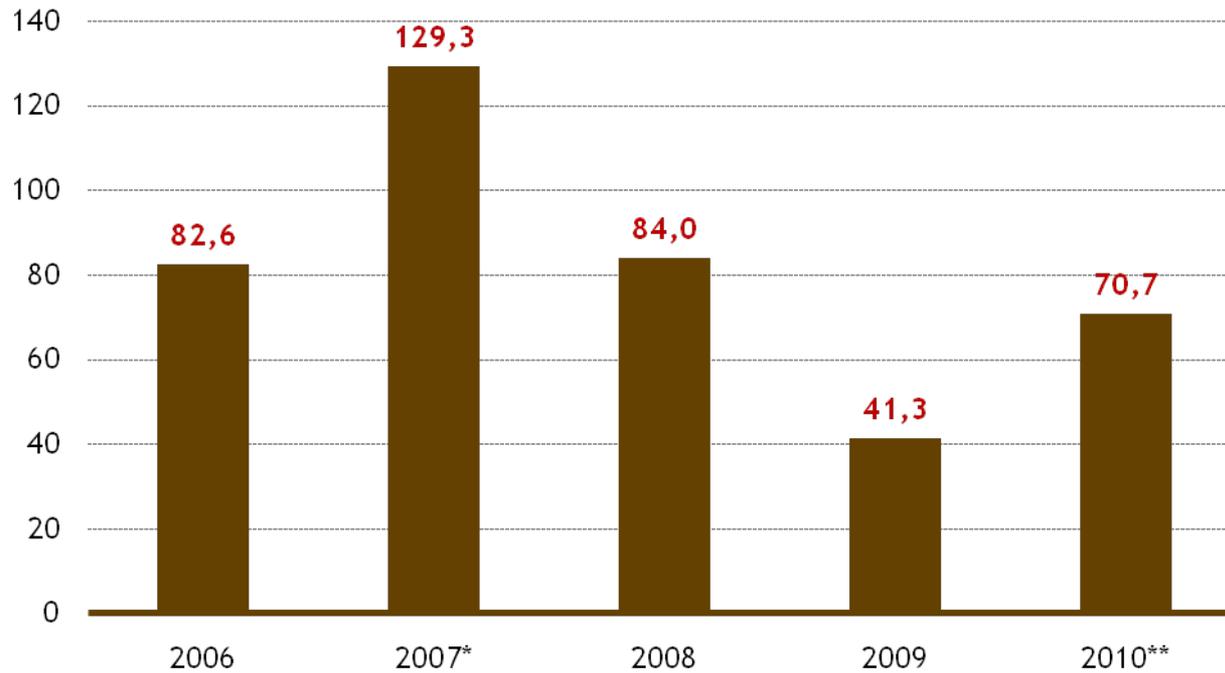
(EUR million)	31.12.2010	31.12.2009
<b>EQUITY AND LIABILITIES</b>		
Equity attributable to equity holders of the parent	419.6	389.3
Non-controlling interests	11.1	9.4
<b>Total shareholders' equity</b>	<b>430.6</b>	<b>398.7</b>
Deferred tax liability	38.9	32.2
Non-current interest-bearing liabilities	361.2	329.9
Non-current non-interest bearing liabilities	12.4	5.9
Pension obligations	3.1	3.6
Non-current provisions	2.4	8.5
<b>Non-current liabilities</b>	<b>418.0</b>	<b>380.1</b>
Current interest-bearing liabilities	153.0	87.5
Trade and other payables	262.5	202.0
Income tax liability	2.7	2.7
Current provisions	2.3	2.8
<b>Current liabilities</b>	<b>420.6</b>	<b>295.1</b>
<b>EQUITY AND LIABILITIES</b>	<b>1 269.2</b>	<b>1 074.0</b>

# Cash flow statement

(EUR million)	2010	2009
<b>Operating activities</b>		
EBIT and depreciation (incl. adjustments)	97.0	119.5
Change in net working capital	-3.7	2.5
Financial income and expenses t	-13.8	-19.7
Taxes	-5.7	-4.9
<b>Net cash flow from operating activities</b>	<b>73.8</b>	<b>97.4</b>
<b>Investing activities</b>		
Gross investments in PPE	-73.6	-43.7
Disposals of PPE	7.0	2.9
Investments in subsidiary	-25.2	-4.7
Shares in associates acquired and disposed	-0.3	-0.3
Loans granted and repaid	0.2	5.1
Loans granted and repaid	-91.9	-40.8
<b>Cash flow before financing activities</b>	<b>-18.1</b>	<b>56.6</b>
<b>Financing activities</b>		
Proceeds from share offering	0.0	76.8
Repayments of hybrid bond	0.0	-20.0
Loans raised and repaid	23.0	-121.8
Interest on hybrid bond	0.0	-2.1
Dividends paid	-11.9	-9.4
<b>Net cash flow from financing activities</b>	<b>11.1</b>	<b>-76.5</b>
<b>Change in cash and cash equivalents</b>	<b>-7.0</b>	<b>-19.9</b>

# Investments

EUR million



\* exclusive of enterprise value of Scan AB acquisition, appr. EUR 158 million

\*\* exclusive of enterprise value of Rose Poultry A/S EUR 23.4 million

# Financial highlights

	2010	2009
EPS, diluted, EUR	0.52	0.64
Equity / share, 31.12., EUR *)	7.63	7.21
Dividend per share	*)0.22	0.22
Equity ratio, %	34.0	37.1
Adjusted number of shares, mill.		
- average during the financial year	54.0	44.9
- at end of financial year	55.0	54.0
- fully diluted	55.0	54.0
Production-related investment, EUR mill.	70.7	41.3
Average no. of employees	7 491	7 429
*) Based on Board of Directors' dividend proposal		

# Financial targets and target achievement

## 2006 - 2010

		Achievement				
Target		2010	2009	2008	2007	2006
EBIT	over 5% of net sales	2.3	2.6	1.7	2.6	4.3
Return on equity	over 15%	7.4	9.0	2.3	9.2	11.9
Equity ratio	over 40%	34.0	37.1	29.5	29.3	43.7
Dividend distribution	at least 30% of net earnings	42.6 <sup>*)</sup>	34.5	199.3	37.7	34.2

<sup>\*)</sup> Based on Board of Director's dividend proposal

**SYDÄMELLE PAREMPI**



**RYPSPORSAS®**

