



# HKScan Group Interim Report Q1-Q2/2012

Hannu Kottonen, CEO  
Information meeting 10 August 2012

# HKScan Group

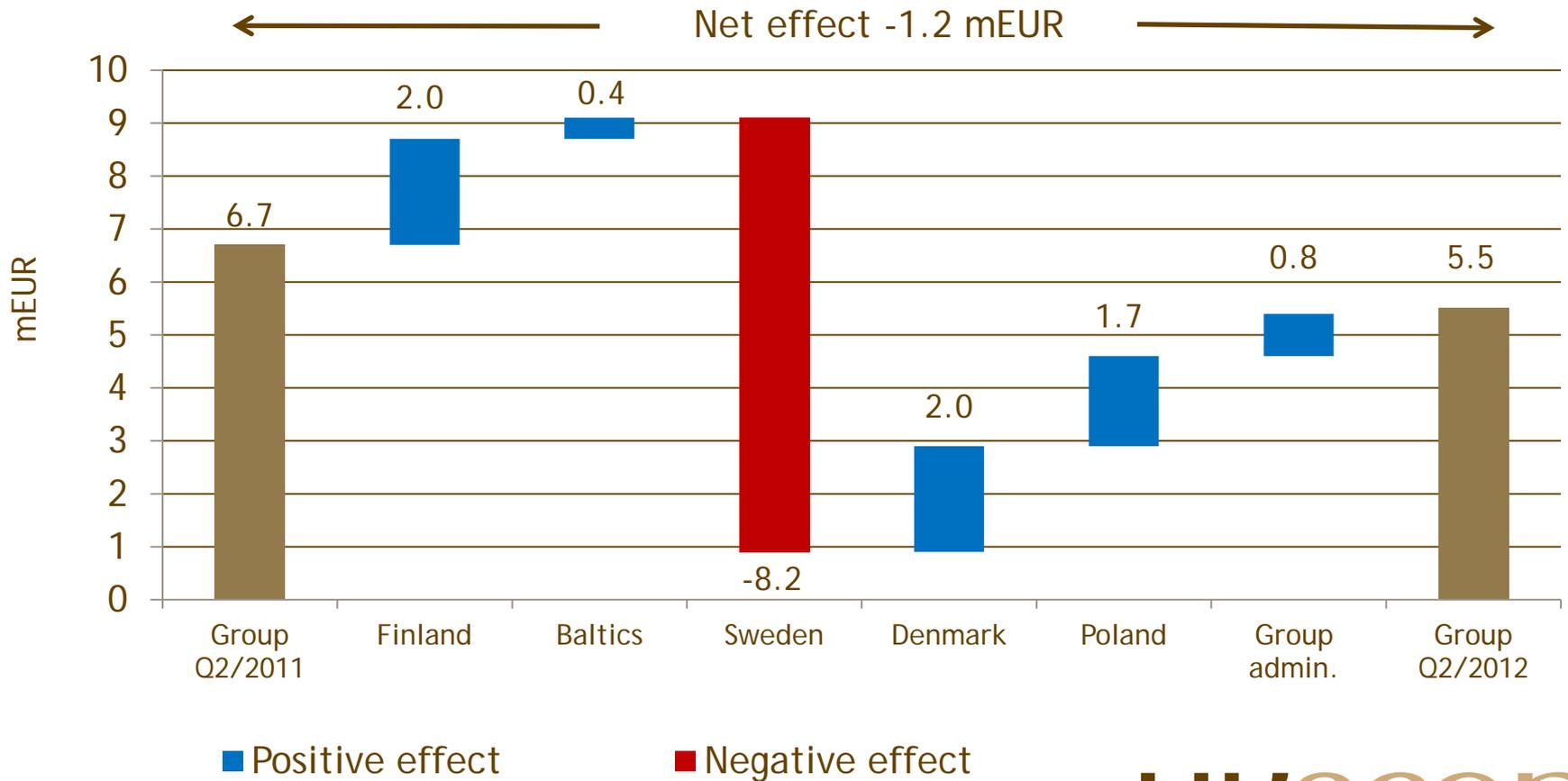
	Q2/2012	Q2/2011	Q1-Q2/ 2012	Q1-Q2/ 2011	2011
Net sales, EUR million	644.3	630.6	1 250.4	1 223.3	2 491.3
EBIT, EUR million	5.5	6.7	4.9	8.0	39.6
- EBIT %	0.9	1.1	0.4	0.7	1.6
Profit/loss before taxes, EUR m	-1.6	-0.1	-9.4	-3.5	11.3
Result/share, EUR	0.00	0.01	-0.09	-0.05	0.18

- Net sales grew by 2%, EBIT modest due to the losses of the business in Sweden
- At the beginning of April, the Group launched an extensive development programme until the end of 2013. The programme is progressing as planned
- The focus for the development programme is to improve profitability in the market area of Sweden → a new plan to enhance the business annually by EUR 10 m.
- Business in the market areas of Finland, the Baltics and Poland performed as planned → EBIT improved
- Production break due to the fire in early June at the Vinderup plant → interrupted good development during the beginning of the year in Denmark
- Net financial expenses stood at EUR -16.0 million (EUR -12.9 m)
- Strategy reshape, and the renewals of the management and operating model as well as the organisation announced on 10 August 2012



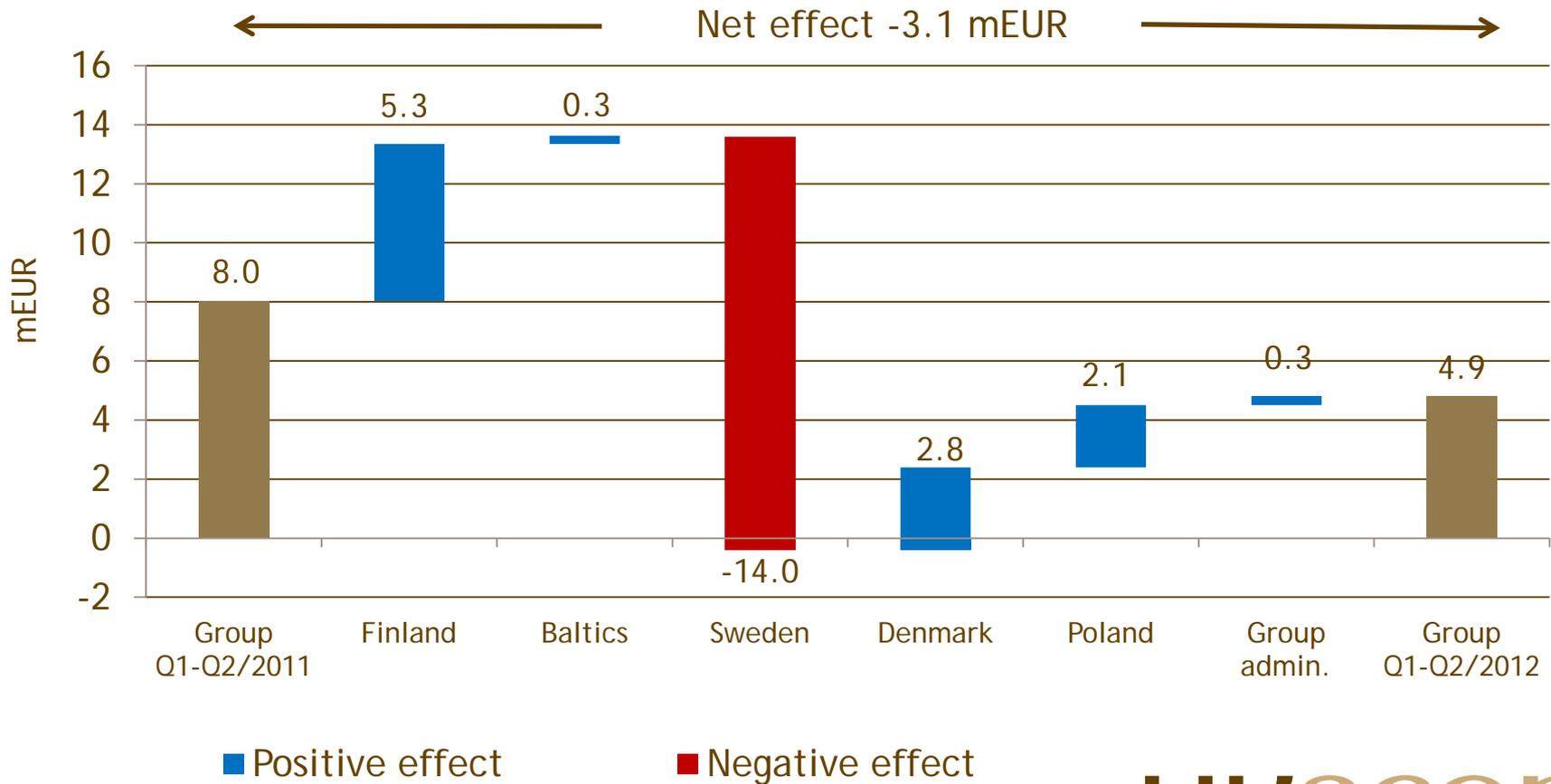
# Group EBIT Bridge

Q2 /2012 vs. Q2 /2011



# Group EBIT "Bridge"

Q1-Q2 /2012 vs. Q1-Q2/2011



# Market area Finland



	Q2/2012	Q2/ 2011	Q1-Q2/ 2012	Q1-Q2/ 2011	2011
Net sales, EUR million	212.8	207.9	410.4	395.9	812.4
EBIT, EUR million	2.7	0.7	5.4	0.1	12.1
- EBIT %	1.3	0.3	1.3	0.0	1.5

- Profitability level still weak, development on the right track.
- Scarcity of the meat raw material of pork and beef challenged the company's ability to deliver.
  - growing demand of Finnish meat raw material
  - simultaneously decreasing meat production
- Contract reform concerning pork procurement progressing as planned
- Midsummer season sales succeeded as expected. HK Rapeseed Pork and Kariniemen Chicken BBQ products well received on the market.
- As part of the development programme the corporate structure in Finland simplified



# Market area Baltics



	Q2/2012	Q2/ 2011	Q1-Q2/ 2012	Q1-Q2/ 2011	2011
Net sales, EUR million	46.8	44.1	87.3	83.5	173.3
EBIT, EUR million	3.1	2.7	3.8	3.6	9.8
- EBIT %	6.7	6.1	4.4	4.3	5.6

- Net sales grew by 6%, EBIT level 6.7%
- Local brands succeeded:
  - In Estonia e.g. Tallegg's grill products and Rakvere's new product series "Lihakas"
  - In Latvia Jelgava's smoked and cold smoked products
- Rakvere's products awarded in the "Best Estonian food product 2012" competition
- High price levels of feed raw materials and energy → increases in meat product prices
- Competitiveness strengthened:
  - energy saving projects in pig primary production
  - developing shared processes of Rakvere Lihakombinaat and Tallegg
- Ban on live animal imports set by Russia has increased meat exports from the Baltics

# Market area Sweden



	Q2/2012	Q2/ 2011	Q1-Q2/ 2012	Q1-Q2/ 2011	2011
Net sales, EUR million	267.0	263.0	513.9	515.4	1 045.7
EBIT, EUR million	-4.2	4.0	-9.7	4.3	17.2
- EBIT %	-1.6	1.5	-1.9	0.8	1.6

- Net sales on the same level as in 2011
- EBIT at the lowest at the beginning of Q2, EBIT of the whole quarter weak → reasons same as in Q1
- Increases in sales prices have been implemented → not adequate with regard to higher raw material costs
- Launch of Swedish rapeseed pork (Svensk Rapsgris) for the HoReCa customers succeeded. Launch to retail customers in August. Slaughtering and cutting of Rapsgris pigs is concentrated in Skara
- Chosen By Farmers concept well received





# HKScan to increase efficiency in Sweden

- Part of HKScan's extensive development programme
- The aim is to clarify and streamline the business in Sweden in line with the Group's new operating model
- The new plan aims to achieve an annual performance improvement of approximately EUR 10 million
- The changes are planned to be implemented by the middle of 2013
- Entails investments of approximately EUR 1 million during 2013 and write-downs of some EUR 0.5 million
- In addition, a number of other non-recurring costs will be incurred, the amount of these will become clear later on
- Strategic review and implementation of the development programme in Sweden will continue



# HKScan to increase efficiency in Sweden

## Actions planned

- Wholly-owned subsidiaries of the subgroup in Sweden will be merged into a single business entity → to be known as HKScan Sweden
- Scan and Pärsons, which have previously operated as business units, will continue as brands in HKScan's business in Sweden
- Developing of the brands and the product offering, as well as raising the added-value of the products
- Streamlining of the structure of production and revamping of the organisation
- Merging of commercial, production and logistics organizations and other operations supporting the business, located in Sweden
- Implementing of the transfer of the production of semi-finished products from Strövelstorp to the production facilities located in Halmstad and Kristianstad
- Will mean a workforce reduction of approximately 100 white-collar employees and 50 blue-collar employees.



# Market area Denmark

	Q2/2012	Q2/ 2011	Q1-Q2/ 2012	Q1-Q2/ 2011	2011
Net sales, EUR million	51.4	55.9	109.1	113.5	228.1
EBIT, EUR million	1.5	-0.5	1.7	-1.0	-3.7
- EBIT %	2.8	-1.0	1.6	-0.9	-1.6

- Sales and the launch of fresh poultry products onto the Swedish market progressed as planned during April-May
- Sales of fresh products, as well as the investment programme (almost at its final phase) were partly interrupted after the fire at the Vinderup plant on 6 June 2012
- Insurances are estimated to cover both the material damages and those caused by the business interruption (estimation exceeds EUR 50 million, the amount in euros will be specified during the rest of the year)
- Reparations have proceeded well → ready in December

# Market area Poland



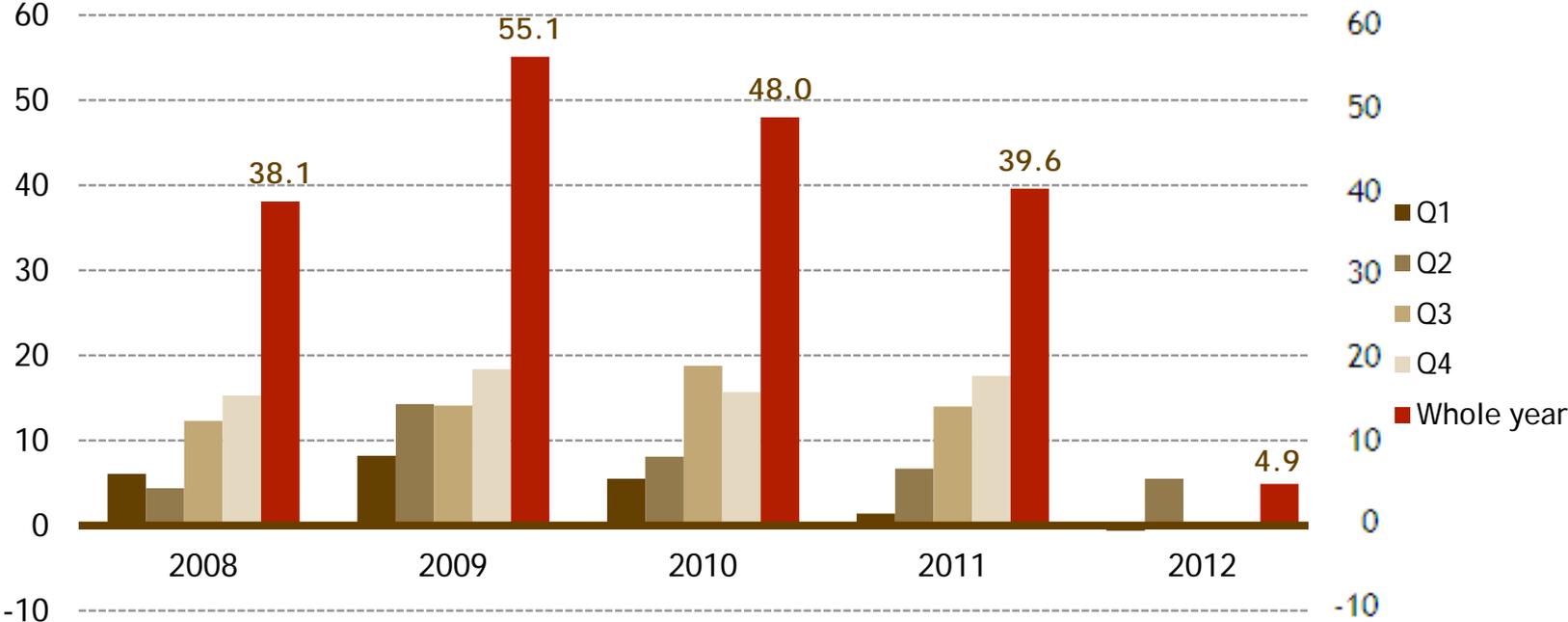
*)	Q2/2012	Q2/ 2011	Q1-Q2/ 2012	Q1-Q2/ 2011	2011
Net sales, EUR million	86.9	77.0	167.3	147.5	298.9
EBIT, EUR million	4.5	2.8	7.9	5.8	12.7
- EBIT %	5.1	3.6	4.7	3.9	4.2

\*) Figures refer to the share of HKScan (50%) of the Sokolów group figures.

- Net sales growth 13% in April-June
- Good Q2 despite the tough market situation and the fierce price competition in retail
- Sales of processed products increased and the Sokolów brand strengthened
- Sokolów received a license for its exports to China
- Full SAP system was implemented in the company's own distribution network in June
- Slaughtering line at Tarnów and cold cuts plant at Sokolów Podlaski were taken into use in most parts

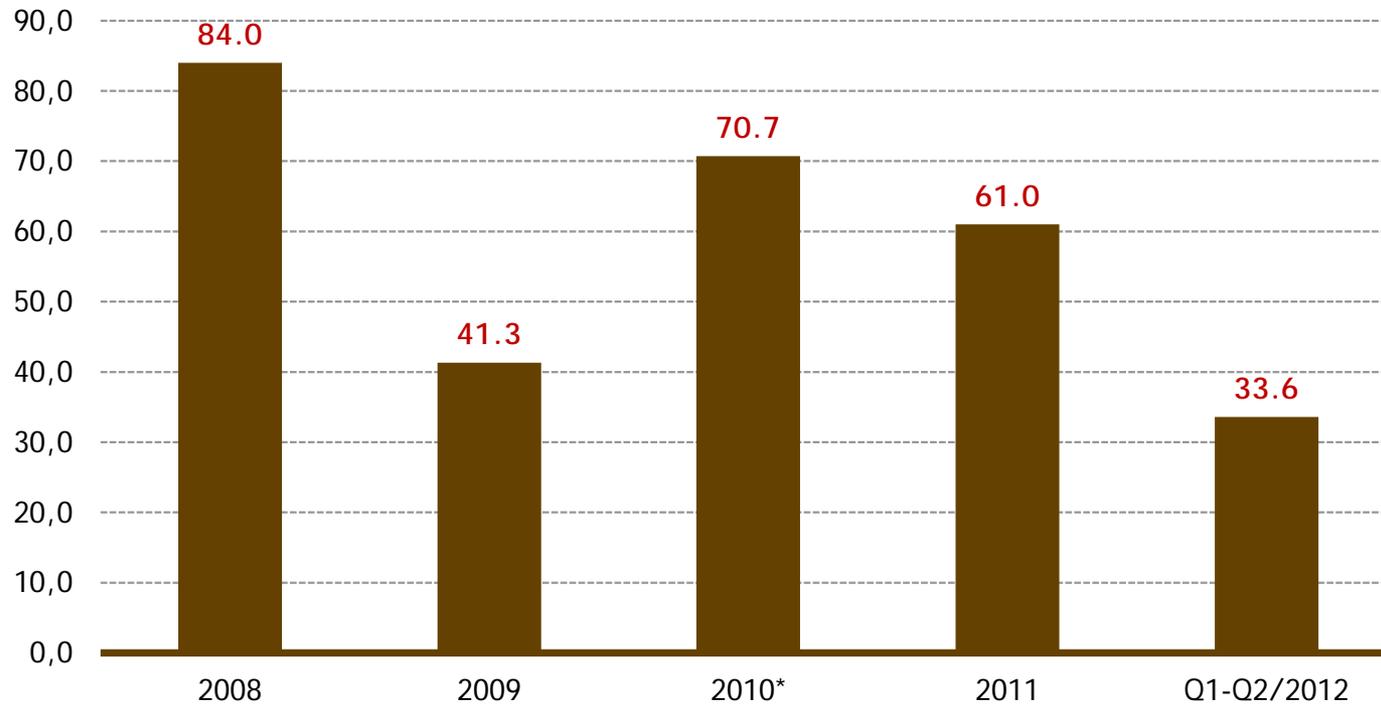
# EBIT development by quarter

EUR m



# Investments

EUR m



\* Excluding acquisition price of Rose Poultry A/S, EUR 23.4 million

## Future outlook

Consumer demand for meat is expected to remain steady in the Group's home markets.

Control of the sector is highly challenging, because prices of meat raw material are difficult to predict under cost pressure in primary production. The Group will improve its profitability through its development programmes, raising sales prices and through the controlled adjustment of procurement volumes. Rectifying the performance level of the business in Sweden will have a significant impact on the Group during the end of the year.

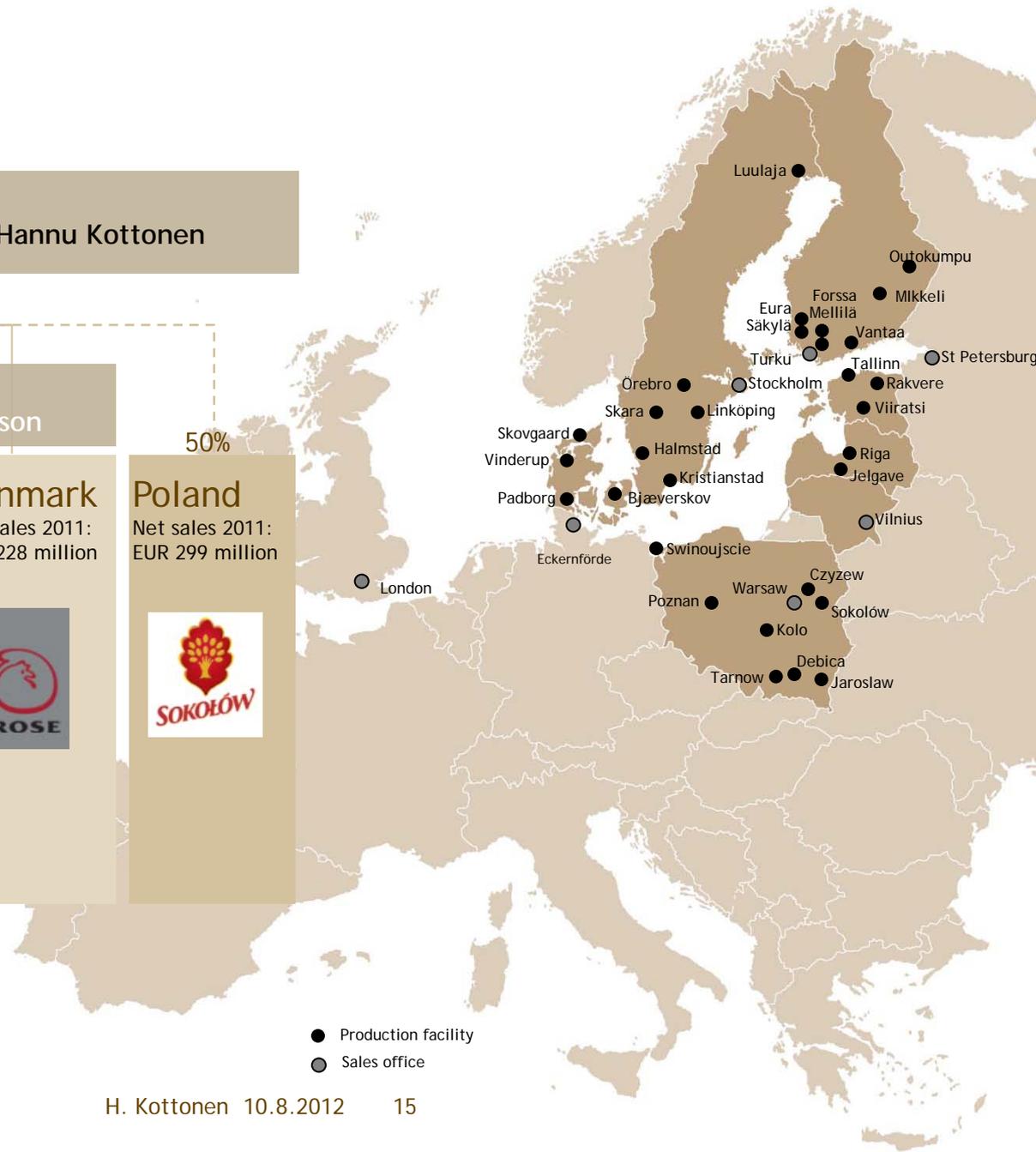
HKScan keeps unchanged the 2012 outlook given in the January-March interim report: due to the weak development of business in Sweden, there is a risk that the Group's EBIT for 2012 will come out below the level of 2011.



# Group structure

## HKScan Group

Net sales 2011: EUR 2.5 billion, CEO Hannu Kottonen



● Production facility  
 ● Sales office

# HKScan Strategy 2012 - 2015

## Vision

**Meat Industry Shaper**

## Strategy

### Delivering Profitable Performance

We improve our performance by more efficient and transparent Group-wide business processes, competences, leadership and communication. We increase our profitability by developing brands, offerings and cutting nonperforming activities. Every action we do is sustainable and brings value to our business, stakeholders and consumers. We focus especially on our home markets and create competitive edge by firm strategy implementation.

## Must-Win Battles

1. Building Brand Value and Demand	3. Managing Actively Future Business Dynamics
2. Upgrading Group Operational Efficiency	4. Improving Capital Structure and Group Reporting

## Mission & Values

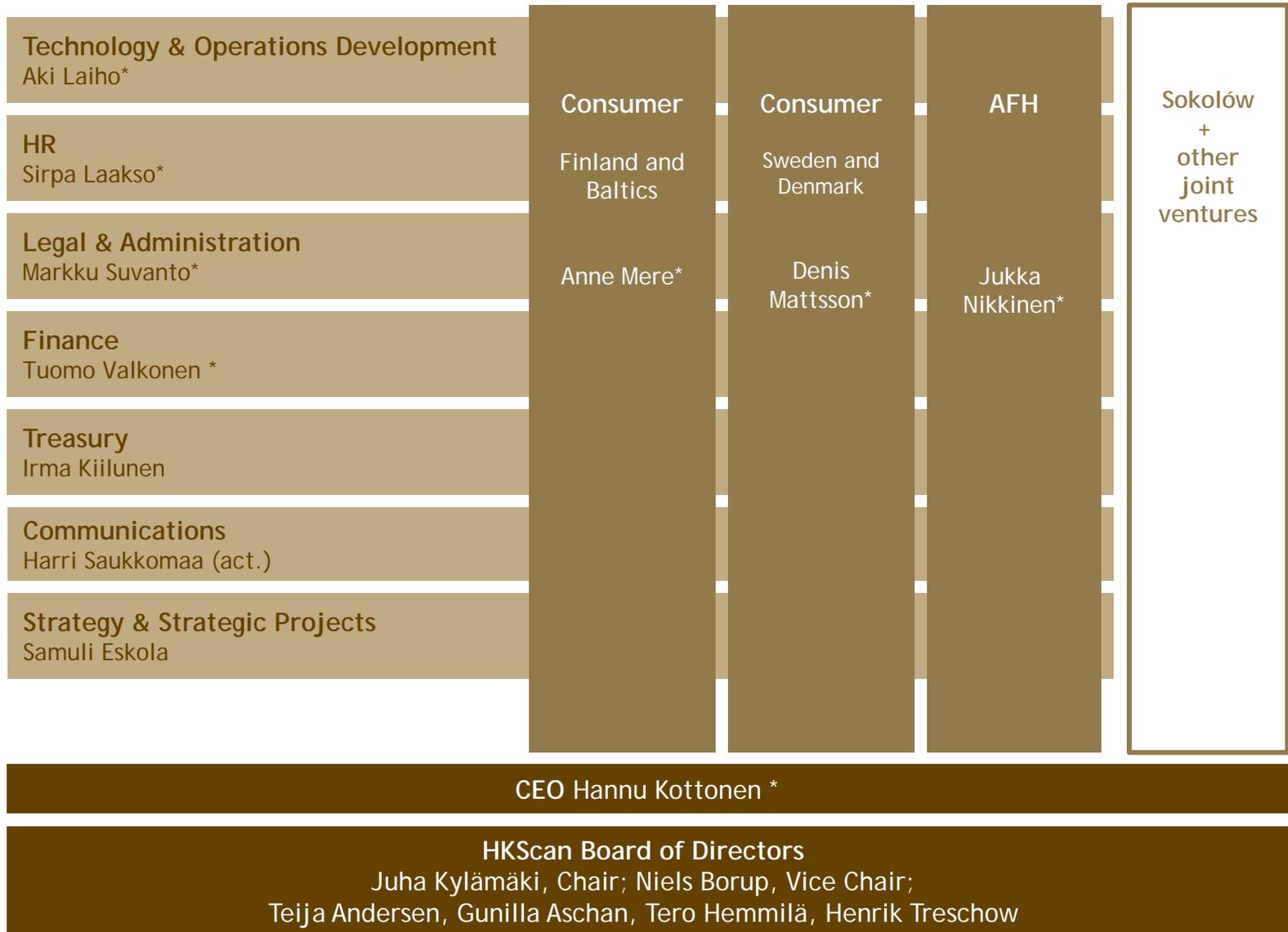
**Meat and More**

Success, Teamwork, Trust, Responsibility, Respect

**HKScan**



# HKScan operating model



\* member of the Management Team

# Tasty food!



# Income statement

(EUR million)	Q2/2012	Q2/2011	Q1-02/ 2012	Q1-Q2/ 2011	2011
<b>NET SALES</b>	644.3	630.6	1 250.4	1 223.3	2 491.3
Operating income and expenses	-615.1	-605.8	-1 203.5	-1 179.4	-2 380.5
Share of associates' results	-0.2	0.2	-0.3	0.4	1.1
Depreciation and impairment	-23.5	-18.3	-41.7	-36.3	-72.3
<b>EBIT</b>	5.5	6.7	4.9	8.0	39.6
% of net sales	0.9	1.1	0.4	0.7	11.3
Financial income	1.5	1.9	3.4	3.5	7.4
Financial expenses	-9.5	-9.5	-19.3	-16.4	-38.3
Share of associates' results	0.9	0.8	1.7	1.4	2.5
<b>PROFIT/LOSS BEFORE TAXES</b>	-1.6	-0.1	-9.4	-3.5	11.3
% of net sales	-0.2	-0.0	-0.8	-0.3	0.5
Income tax	1.8	1.1	4.3	1.8	1.0
<b>PROFIT/LOSS FOR THE PERIOD</b>	0.1	1.0	-5.1	-1.7	12.2
Attributable to:					
Equity holders of the parent	0.0	0.6	-5.1	-2.5	10.1
Non-controlling interests	0.1	0.4	0.0	0.8	2.1
<b>Total</b>	0.1	<sup>1</sup> 1.0	-5.1	-1.7	12.2

# Statement of comprehensive income

(EUR million)	Q2/2012	Q2/2011	Q1-Q2/ 2012	Q1-Q2/ 2011	2011
Profit/loss for the period	0.1	1.0	-5.1	-1.7	12.2
OTHER COMPREHENSIVE INCOME (after taxes):					
Exchange differences on translating foreign operations	-0.2	-2.8	4.1	-1.7	-2.5
Cash flow hedging	-0.9	-1.7	-0.4	1.0	-7.4
Revaluation	0.0	0.0	0.2	0.0	0.0
TOTAL OTHER COMPREHENSIVE INCOME	-1.1	-4.5	3.9	-0.8	-9.8
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD					
	-0.9	-3.5	-1.2	-2.5	2.4
ATTRIBUTABLE TO:					
Equity holders of the parent	-1.1	-4.0	-1.2	-3.2	0.3
Non-controlling interests	0.1	0.5	0.1	0.8	2.1
Total	-0.9	-3.5	-1.2	-2.5	2.4

# Consolidated balance sheet

(EUR million)	30.6.2012	30.6.2011	2011
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	77.0	75.0	76.6
Goodwill	101.6	99.4	101.0
Tangible assets	513.0	530.2	516.5
Shares in associates	30.2	27.9	29.9
Trade and other receivables	35.2	29.0	31.1
Available-for-sale investments	13.4	12.1	13.0
Deferred tax asset	28.1	14.8	21.1
<b>NON-CURRENT ASSETS</b>	<b>798.5</b>	<b>788.4</b>	<b>789.2</b>
<b>CURRENT ASSETS</b>			
Inventories	183.8	174.3	190.2
Trade and other receivables	234.0	227.9	223.8
Income tax receivable	2.3	4.4	1.5
Other financial assets	0.4	0.4	0.4
Cash and cash equivalents	38.7	43.6	48.0
<b>CURRENT ASSETS</b>	<b>459.2</b>	<b>450.5</b>	<b>463.8</b>
<b>ASSETS</b>	<b>1 257.7</b>	<b>1 238.8</b>	<b>1 253.0</b>

# Consolidated balance sheet

(EUR million)	30.6.2012	30.6.2011	2011
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to equity holders of the parent	398.9	405.8	409.3
Non-controlling interests	11.4	10.9	12.2
<b>EQUITY</b>	<b>410.3</b>	<b>416.7</b>	<b>421.5</b>
Deferred tax liability	37.9	37.3	36.9
Non-current interest-bearing liabilities	334.6	407.6	333.5
Non-current non-interest-bearing liability	2.3	12.6	3.0
Non-current provisions	0.6	1.4	0.6
Pension obligations	3.0	3.0	3.1
<b>NON-CURRENT LIABILITIES</b>	<b>378.5</b>	<b>461.9</b>	<b>377.1</b>
Current interest-bearing liabilities	187.9	101.1	170.6
Trade and other payables	280.0	255.1	282.9
Income tax liability	0.4	3.2	0.1
Current provisions	0.7	0.8	0.7
<b>CURRENT LIABILITIES</b>	<b>468.9</b>	<b>360.2</b>	<b>454.4</b>
<b>EQUITY AND LIABILITIES</b>	<b>1 257.7</b>	<b>1 238.8</b>	<b>1 253.0</b>

# Cash flow statement

(EUR million)	Q1-Q2/2012	Q1-Q2/2011	2011
<b>Operating activities</b>			
Cash flow from operating activities	36.4	30.9	79.9
Financial items and taxes	-22.2	-13.6	-26.1
<b>Net cash flow from operating activities</b>	<b>14.2</b>	<b>17.3</b>	<b>53.9</b>
<b>Investments</b>			
Gross investments in property, plant and equip.	-32.7	-31.7	-60.4
Disposals of property, plant and equip.	0.8	1.0	1.9
Investments in subsidiary	-	-	-
Shares in associates purchased and sold	0.5	-0.2	-1.0
Loans granted and repaid	0.0	-1.0	0.3
<b>Net cash flow from investment activities</b>	<b>-31.5</b>	<b>-31.9</b>	<b>-59.2</b>
<b>Cash flow before financing activities</b>	<b>-17.3</b>	<b>-14.6</b>	<b>-5.4</b>
<b>Financing activities</b>			
Borrowings raised and paid	18.1	-1.8	-4.5
Dividends paid	-9.9	-12.1	-12.7
<b>Net cash flow from financing activities</b>	<b>8.1</b>	<b>-13.9</b>	<b>-17.1</b>
<b>Change in cash and cash equivalents</b>	<b>-9.1</b>	<b>-28.5</b>	<b>-22.5</b>
<b>Cash and cash equivalents 1 January</b>	<b>48.4</b>	<b>73.4</b>	<b>73.4</b>
Effect of changes in exchange rates	-0.2	-1.0	-2.5
<b>Cash and cash equivalents 30 June</b>	<b>39.0</b>	<b>43.9</b>	<b>48.4</b>

# Financial indicators

	30.6.2012	30.6.2011	2011
EPS, diluted, euro	-0.09	-0.05	0.18
Equity per share, euro	7.46	7.38	7.67
Dividend per share, euro			0.17
Equity ratio, %	32.7	33.7	33,6
Adjusted number of outstanding shares in millions			
- average during the period	55.0	55.0	55.0
Gross investments, EUR million	33.6	32.4	61.0
Average number of employees *	8 164	8 594	8 287

\* Personnel of Sokolów Poland (50%) not included