



HKSCAN

Interim Report Q2/2014 Group Overview

**Hannu Kottonen, President and CEO
6 August 2014**

**Strong balance sheet
– business result remained weak**

HKScan Group, Q2/2014

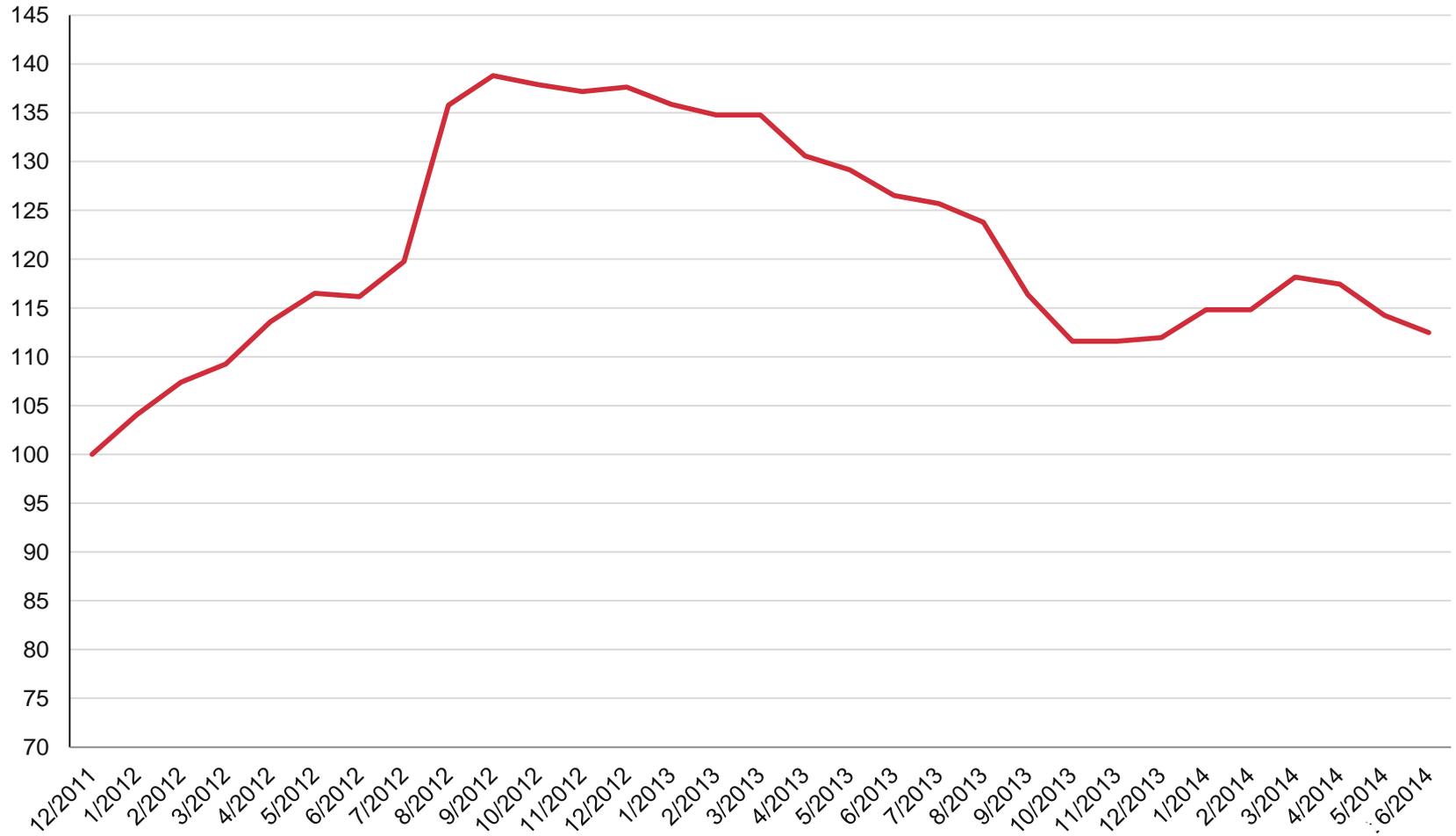
- Net sales and EBIT remained below expectations
 - Challenging market situation, especially in retail
 - Tough sales price competition and decline in sales volumes in all markets
 - Private labels continued to increase market share in general
 - Positive development in food service sector, but challenges in export
 - Russian ban on pork imports from the EU continued to fuel oversupply
 - Weather conditions changed from one extreme to the other, influencing barbeque season
- Highlights of the quarter
 - Sale of all shares (50%) in Saturn Nordic Holding AB to Danish Crown
 - > Strong financial position
 - Good performance and increased market share in HKScan's branded products
 - Restructuring work advanced on several fronts
 - Progress with the profitability programme continued
 - Frozen stock inventories well under control
 - Annual strategy review completed

HKScan Group

EUR million	Q2/2014	Q2/2013*	Q1-Q2/ 2014	Q1-Q2/ 2013*	2013*
Net sales	501.7	531.3	967.1	1 038.4	2 113.2
EBIT	58.5	0.4	41.1	-6.1	11.7
- EBIT %	11.7	0.1	4.2	-0.6	0.6
Profit before taxes	57.4	0.3	41.1	-6.4	6.7
Profit for the period	59.3	0.4	46.4	-3.7	9.8
EPS. EUR	1.10	0.01	0.86	-0.07	0.16
EBIT excl. non-recurring items	-1.1	0.4	-8.2	-3.0	11.2
- EBIT %	-0.2	0.1	-0.9	-0.3	0.5

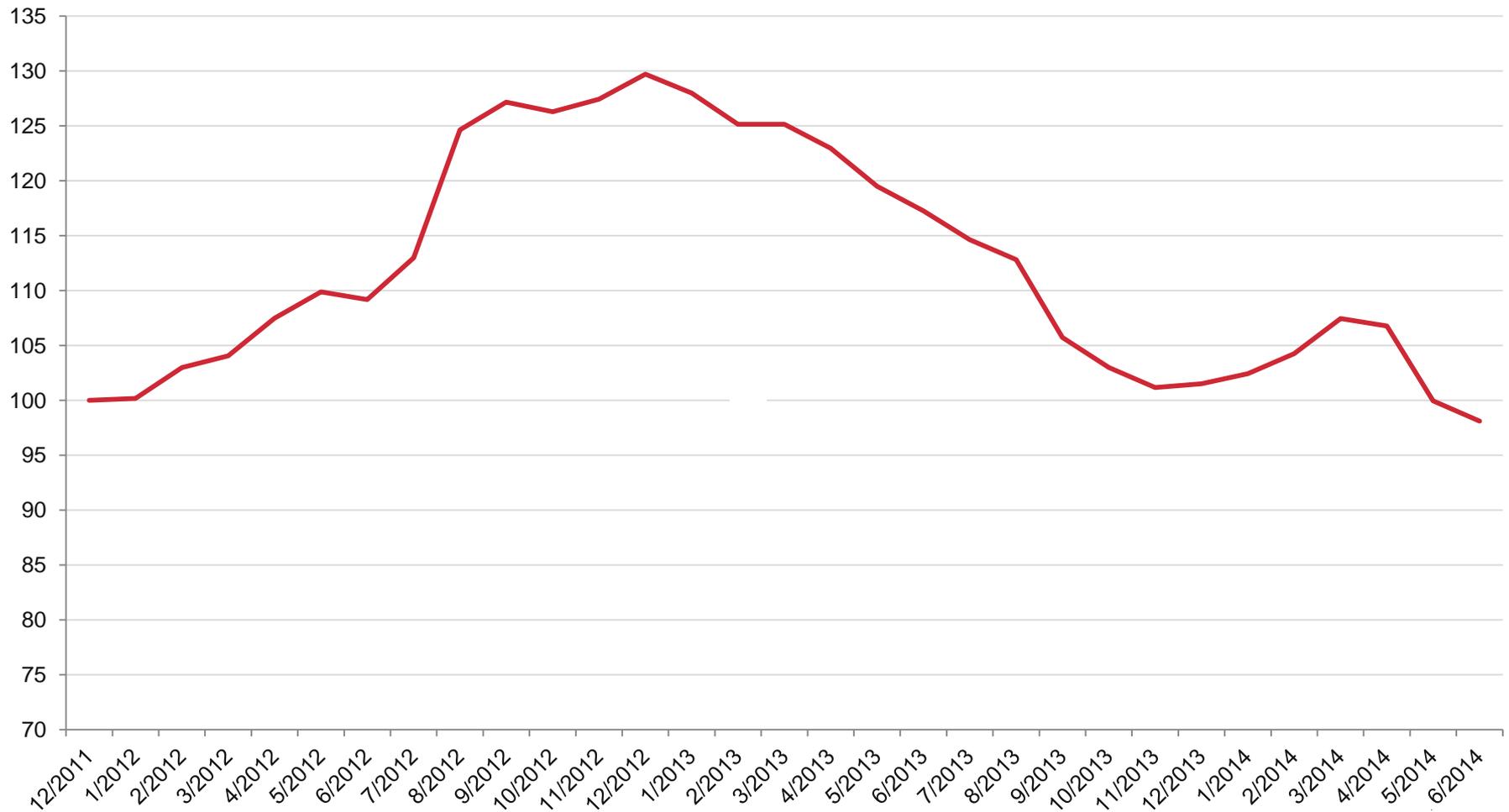
*Restated

Feed Basket – Poultry



Source: HKScan BI

Feed Basket – Pork



Source: HKScan BI

Market Area Finland

EUR million	Q2/2014	Q2/2013*	Q1-Q2/ 2014	Q1-Q2/ 2013*	2013*
Net sales	199.5	199.4	378.7	393.5	804.1
EBIT	-12.7	0.6	-14.1	-0.6	3.2
- EBIT %	-6.4	0.3	-3.7	-0.2	0.4
EBIT excl. non-recurr. items	-0.7	0.6	-2.2	2.6	6.9
- EBIT %	-0.4	0.3	-0.6	0.7	0.9

*Restated

- In retail, low demand continued, resulting in soft sales. The earlier sales value gap was nevertheless bridged.
- Russia's ban on EU pork imports pushed down prices.
- Branded products won market share; several new products were launched for the barbeque season.
- Frozen stock lower than last year
- Animal purchasing prices and volumes decreased
- "LIHA" ("Meat") book awarded as the world's best cookbook in its category

New products in Finland



Market Area Finland

- In order to improve profitability in Finland, HKScan plans to continue harmonizing its organisation and consolidating its structure.
- With the planned restructuring, HKScan aims to:
 - reduce costs
 - improve operational efficiency
 - ensure a business-driven way of working.
- The targeted annual profit improvement is approx. EUR 4 million.
- Statutory employee negotiations will start on 11 August 2014.
- The process will impact the majority of HKScan Group's white-collar employees in Finland, totalling approx.400 employees.
- The anticipated headcount reduction is estimated to affect no more than 75 white-collar employees.
- The restructuring process is to be completed by the end 2014.

Market Area Baltics

EUR million	Q2/2014	Q2/2013*	Q1-Q2/ 2014	Q1-Q2/ 2013*	2013*
Net sales	41.2	43.8	82.0	85.6	175.1
EBIT	1.8	1.1	2.0	1.7	7.7
- EBIT %	4.5	2.5	2.4	2.0	4.4

*Restated

- The overall market remained on the previous year's level
- The Baltics suffered most from Russia's ban on EU pork imports
- Positive performance in poultry continued
- Domestic market position maintained successfully, difficulties in exports
- Primary production costs well under control, animal raw material costs decreased
- AS Rakvere Lihakombinaat and AS Tallegg merged to form AS HKScan Estonia
- Company names harmonized also in Latvia and Lithuania

New products in the Baltics



Market Area Sweden

EUR million	Q2/2014	Q2/2013*	Q1-Q2/ 2014	Q1-Q2/ 2013*	2013*
Net sales	232.7	242.1	443.1	471.3	966.5
EBIT	0.6	2.2	-11.4	-0.6	8.0
- EBIT %	0.3	0.9	-2.6	-0.1	0.8
EBIT excl. non-recurring items	1.5	2.2	-0.3	-0.6	10.2
- EBIT %	0.6	0.9	-0.1	-0.1	1.1

*Restated

- Russia's pork import ban increased the volume of imported meat
- Frozen stock levels below the prior year
- Market share gained in some branded products, strong price pressure in red meat and cold cuts
- Animal purchasing prices decreased for pork, but remained unchanged for beef
- Lower pork and beef sourcing volumes, in line with the rebalancing plan
- Production efficiency improved, the restructuring project proceeded as planned
- LOI signed with Lantmännen for partnership in feed and advisory services
- Höglandsprodukter AB and sales of Annerstedt Flodin integrated into HKScan Sweden

New products in Sweden



Market Area Denmark

EUR million	Q2/2014	Q2/2013*	Q1-Q2/ 2014	Q1-Q2/ 2013*	2013*
Net sales	52.6	60.2	106.6	116.4	225.3
EBIT	-6.0	-0.5	-6.7	-0.8	3.6
- EBIT %	-11.4	-0.8	-6.3	-0.7	1.6
EBIT excl. non-recurring items	-0.8	-0.5	-1.5	-0.8	-2.8
- EBIT %	-1.6	-0.8	-1.4	-0.7	-1.2

*Restated

- Poultry purchasing prices and volumes decreased from the previous year as planned
- Sales price pressure remained tough, especially in frozen products
- Actions to decrease frozen stock continued, which decreased margins
- Fresh and cooked chicken products sales and offering development continued
- Frozen products continued to face severe sales price competition
- Turnaround efforts in progress with minor results so far
- Sales price increases and production efficiency improvement actions in pipeline

New products in Denmark



HKScan Strategy 2012–2015 - Status Today

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

2. Upgrading Group Operational Efficiency

3. Managing Actively Future Business Dynamics

4. Improving Capital Structure and Group Reporting

Mission & Values

The Nordic meat experts

Trust. Team. Improve.



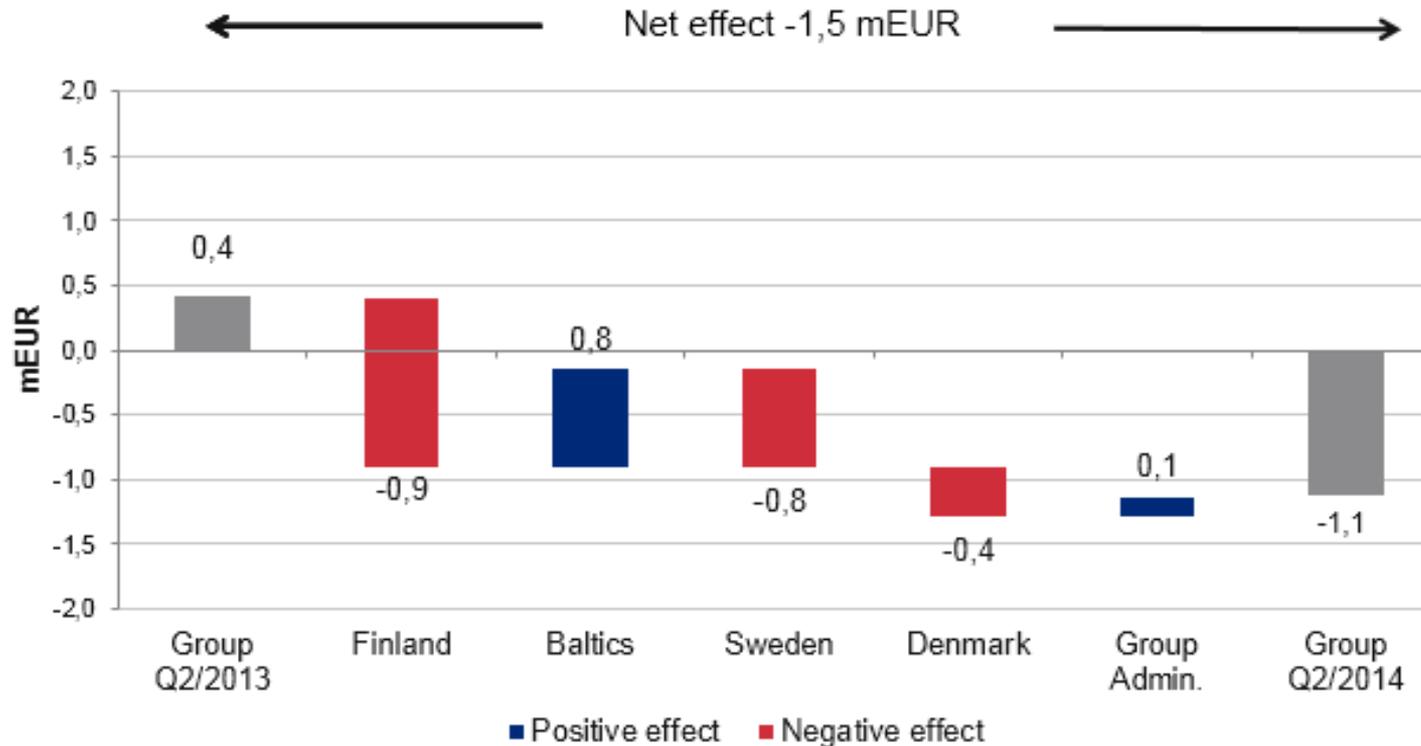
HKSCAN

Interim Report Q2/2014 Group Financials

Tuomo Valkonen. CFO
6 August 2014

Group EBIT*)

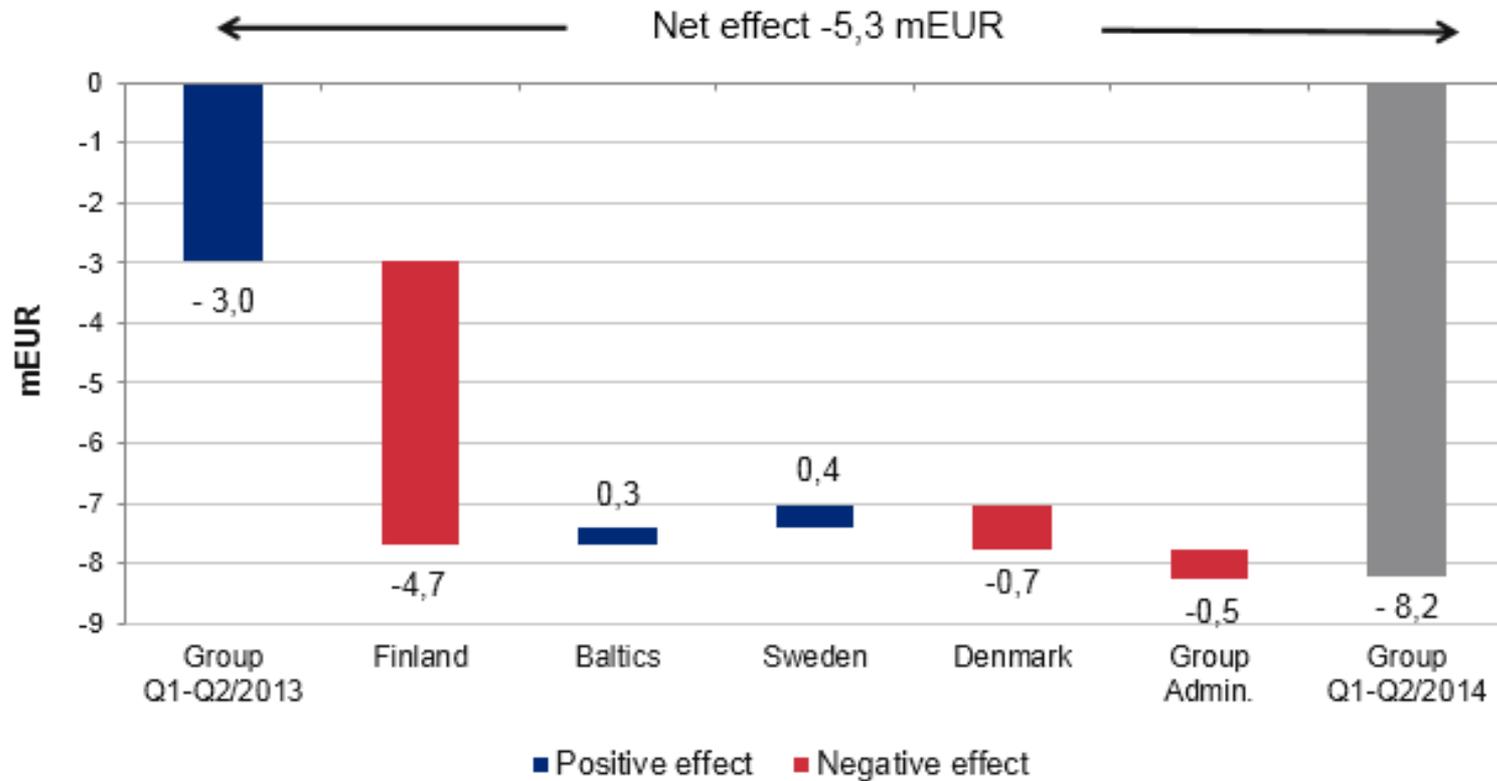
Q2/2013 vs. Q2/2014



*) Excluding non-recurring items

Group EBIT*)

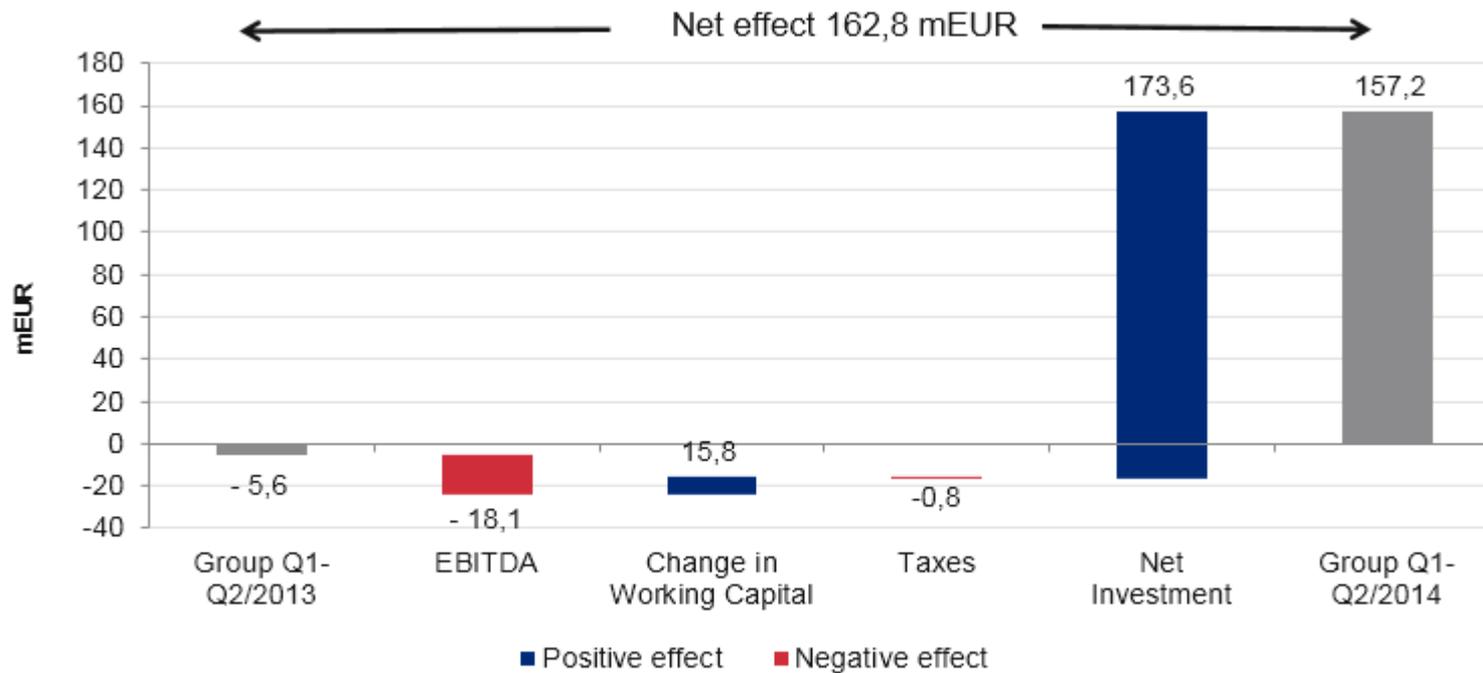
Q1-Q2/2013 vs. Q1-Q2/2014



*) Excluding non-recurring items

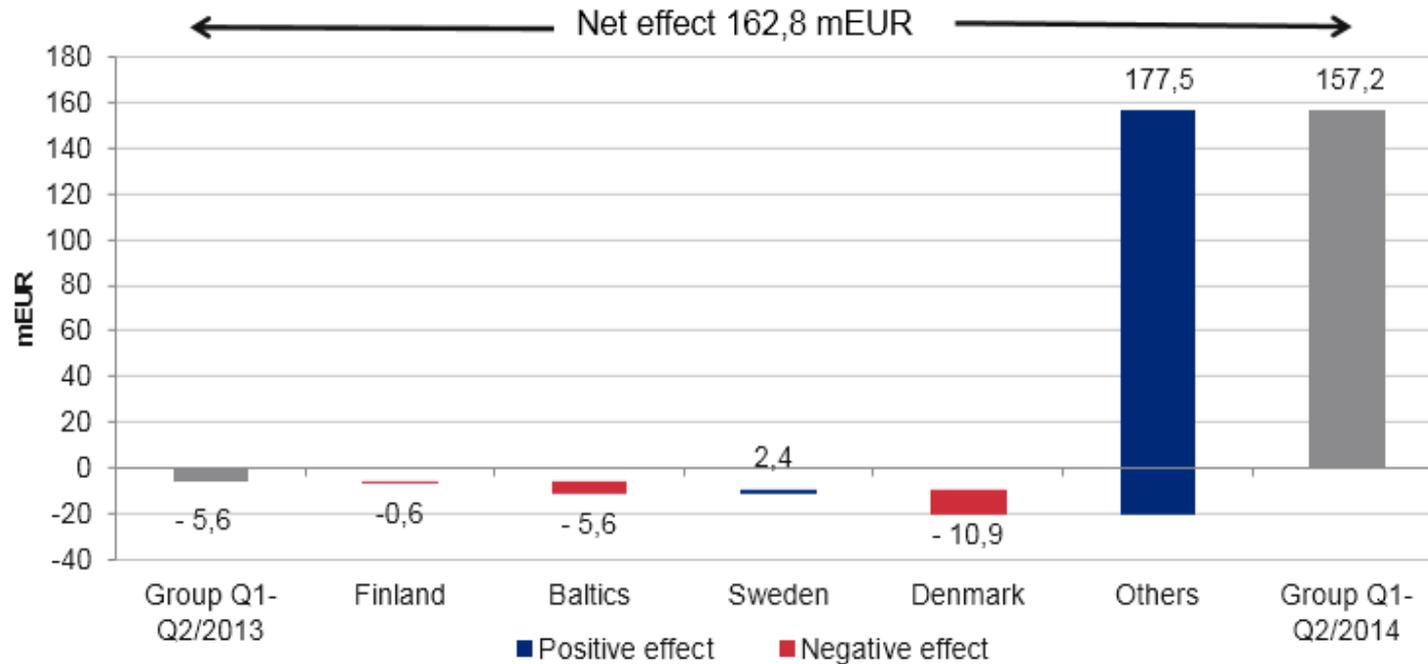
Group Cash Flow before Debt Service

Q1-Q2/2013 vs. Q1-Q2/2014

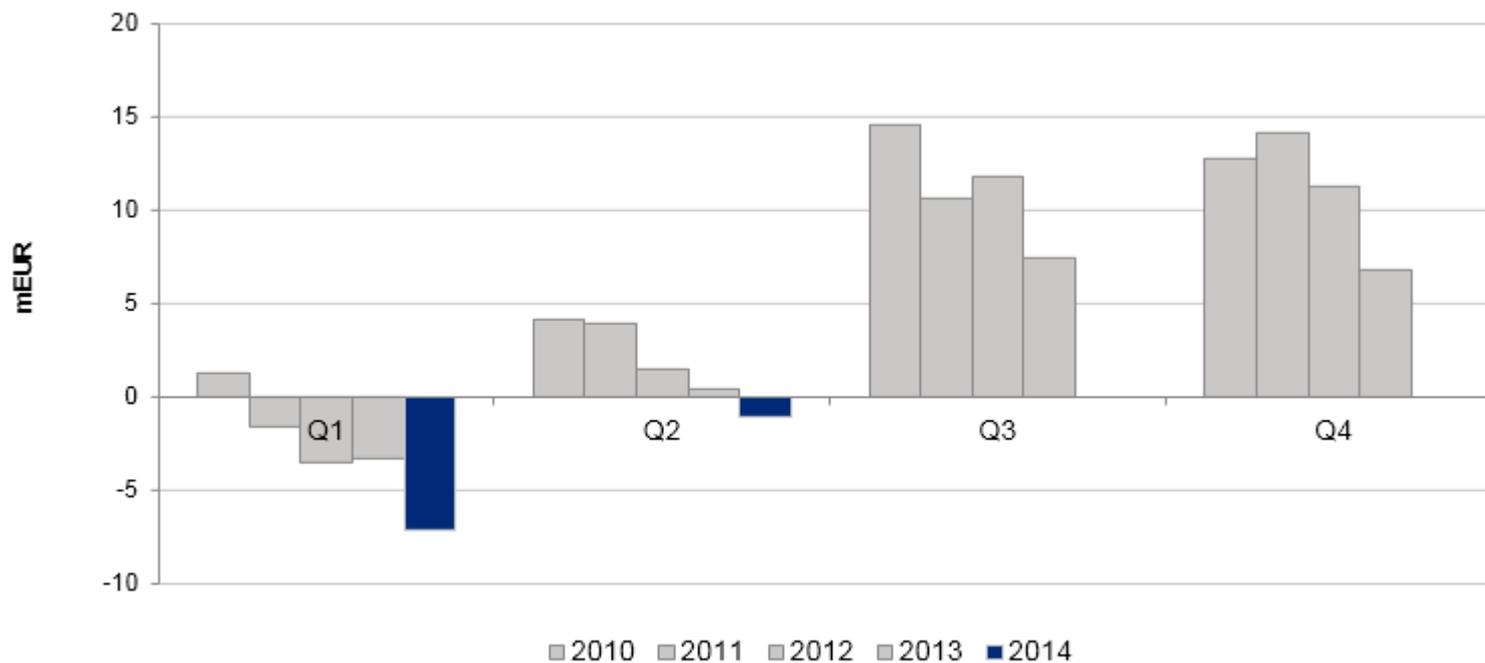


Group Cash Flow before Debt Service

Q1-Q2/2013 vs. Q1-Q2/2014

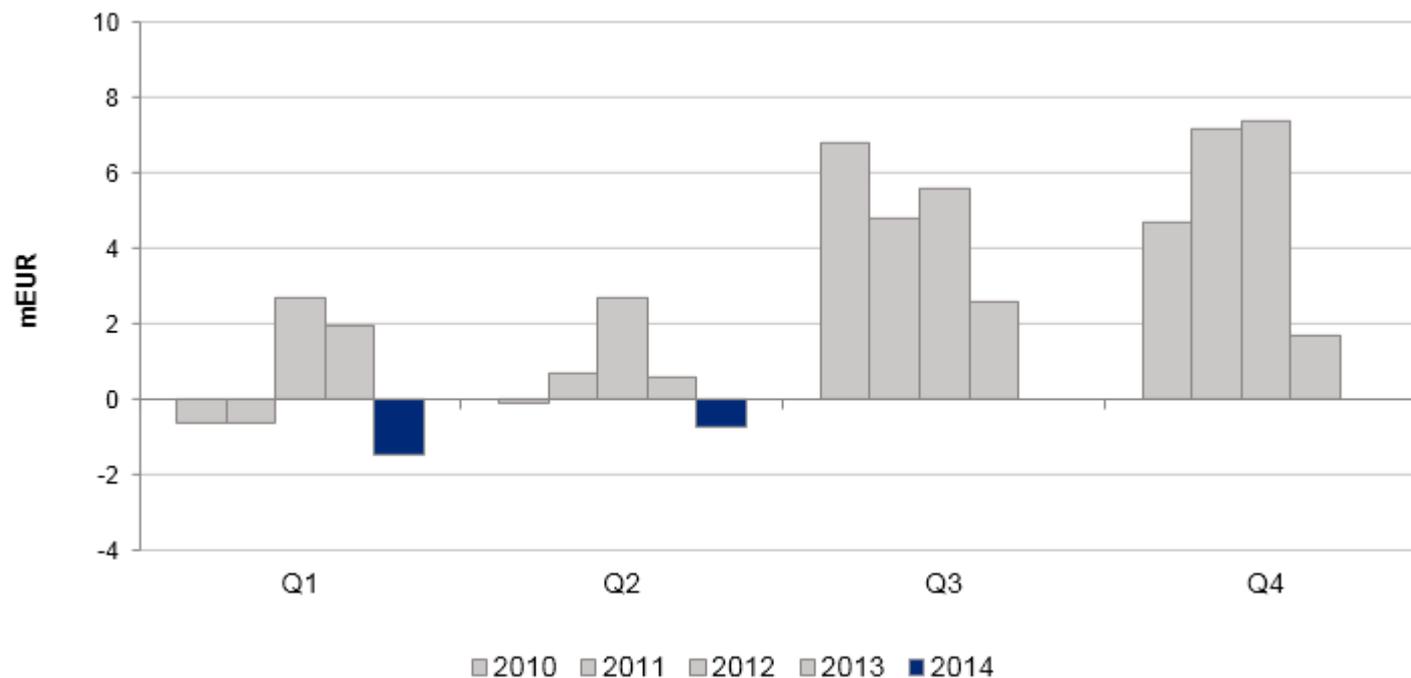


Group EBIT*)



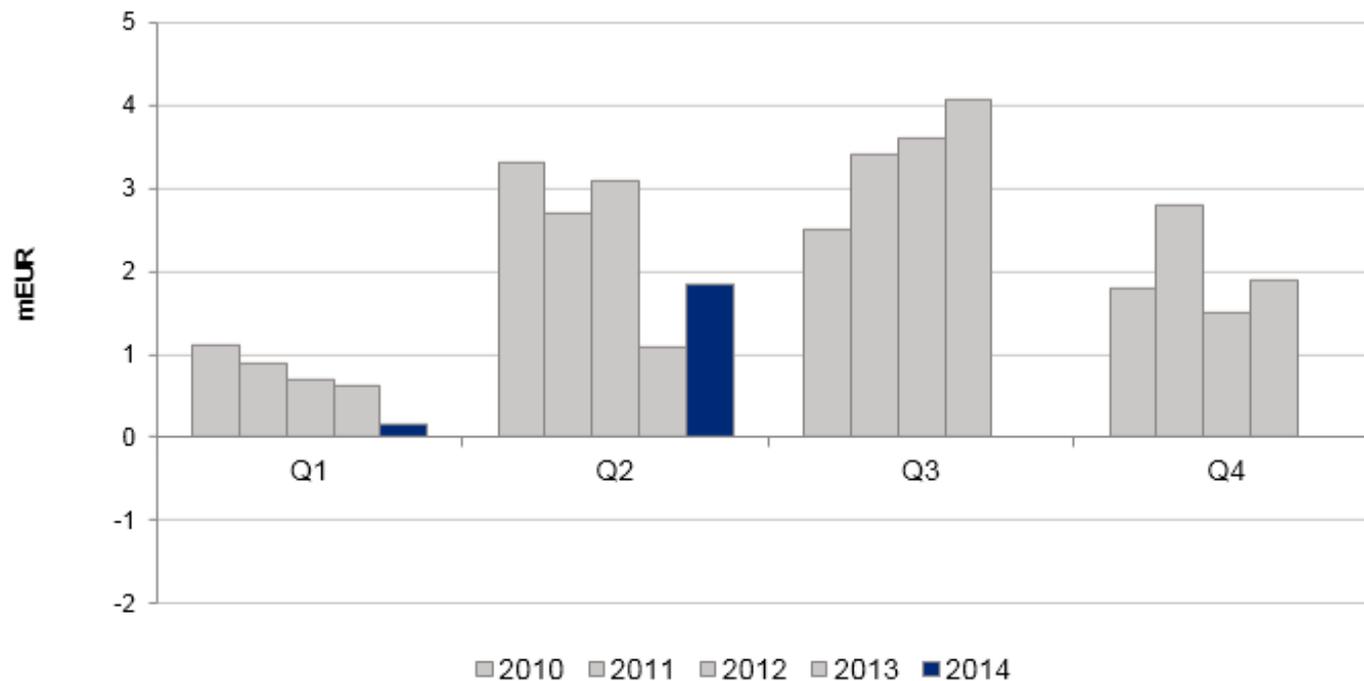
*) Excluding non-recurring items

Finland EBIT*)

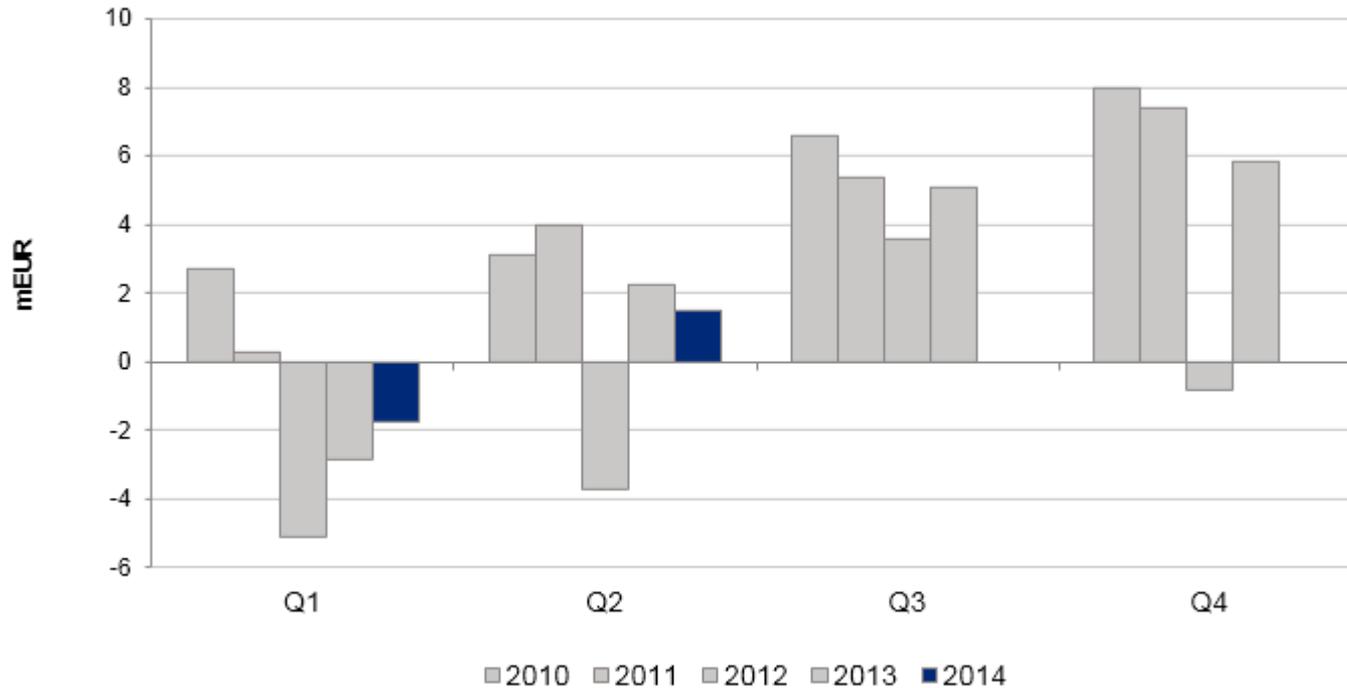


*) Excluding non-recurring items

Baltics EBIT

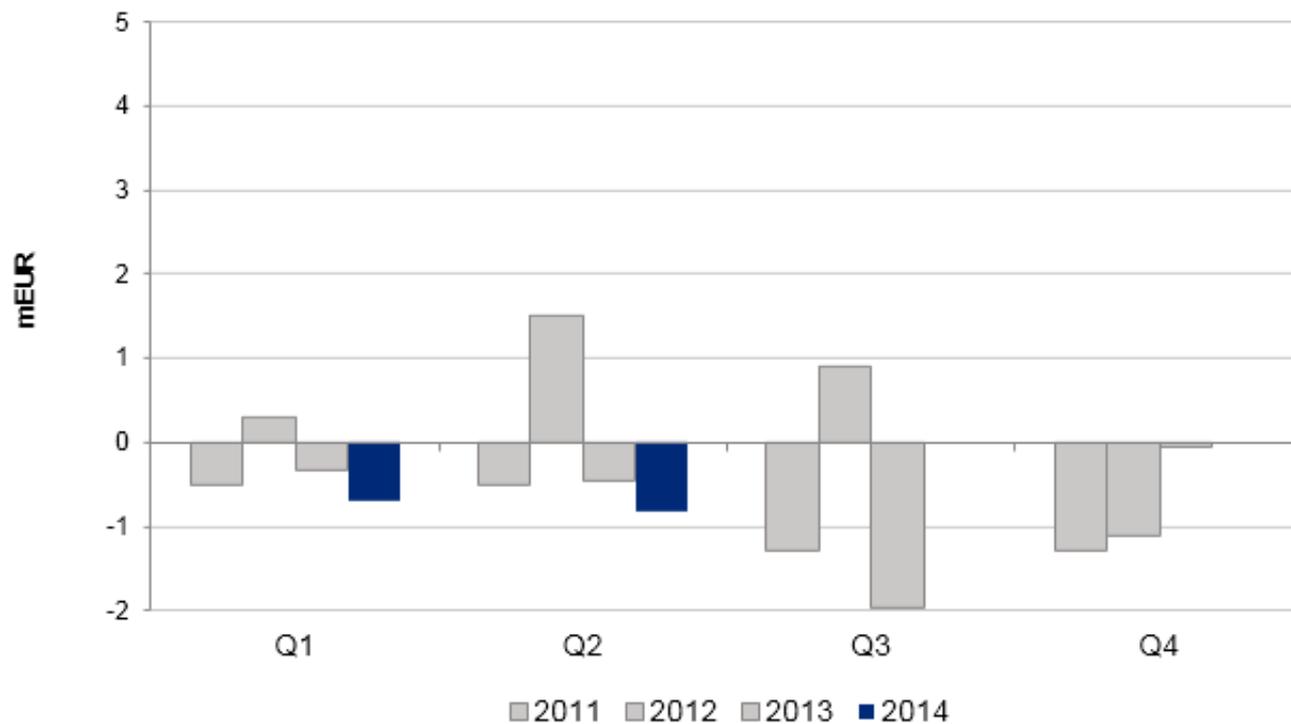


Sweden EBIT*)



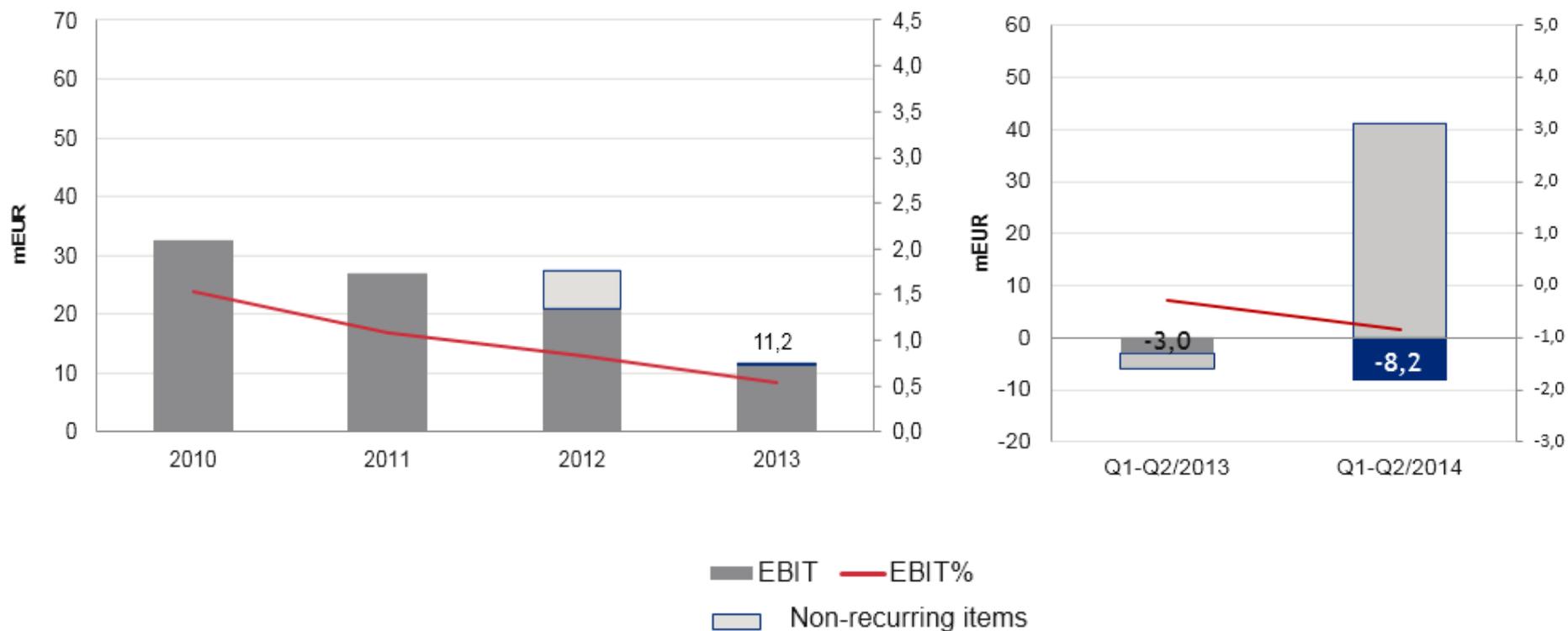
*) Excluding non-recurring items

Denmark EBIT*)

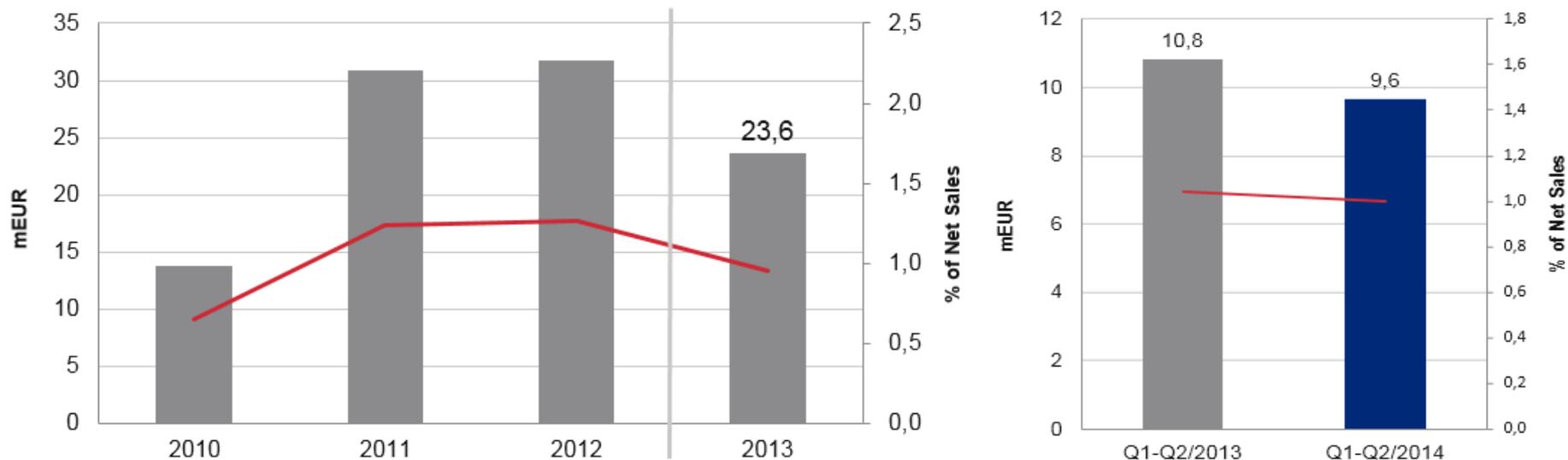


*) Excluding non-recurring items

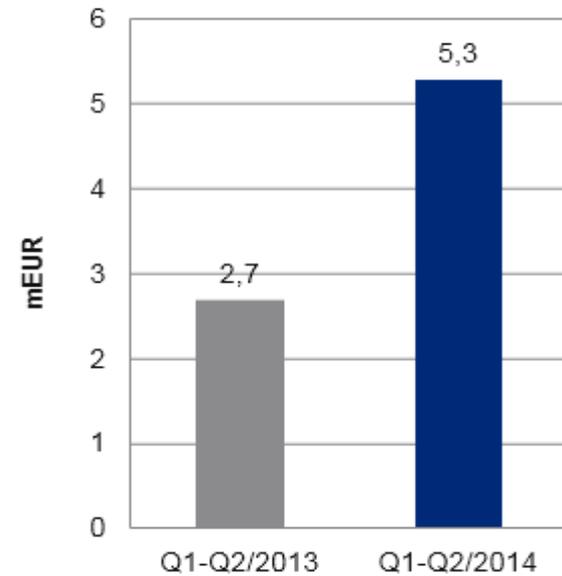
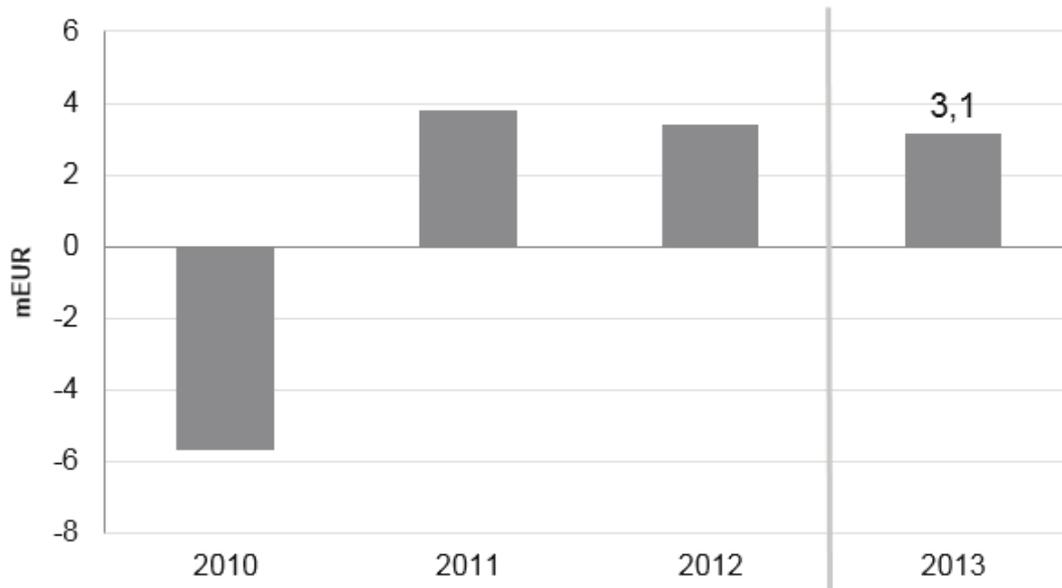
Group EBIT Development



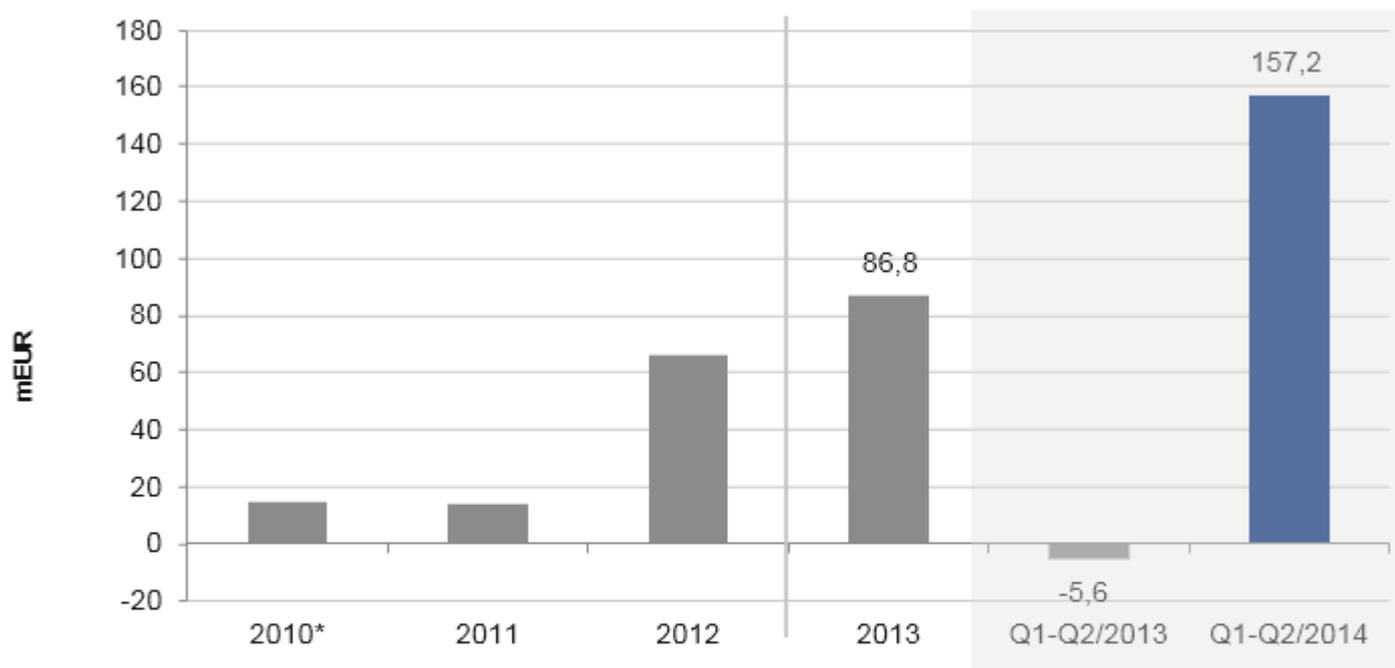
Group Net Financial Expenses



Group Income Tax

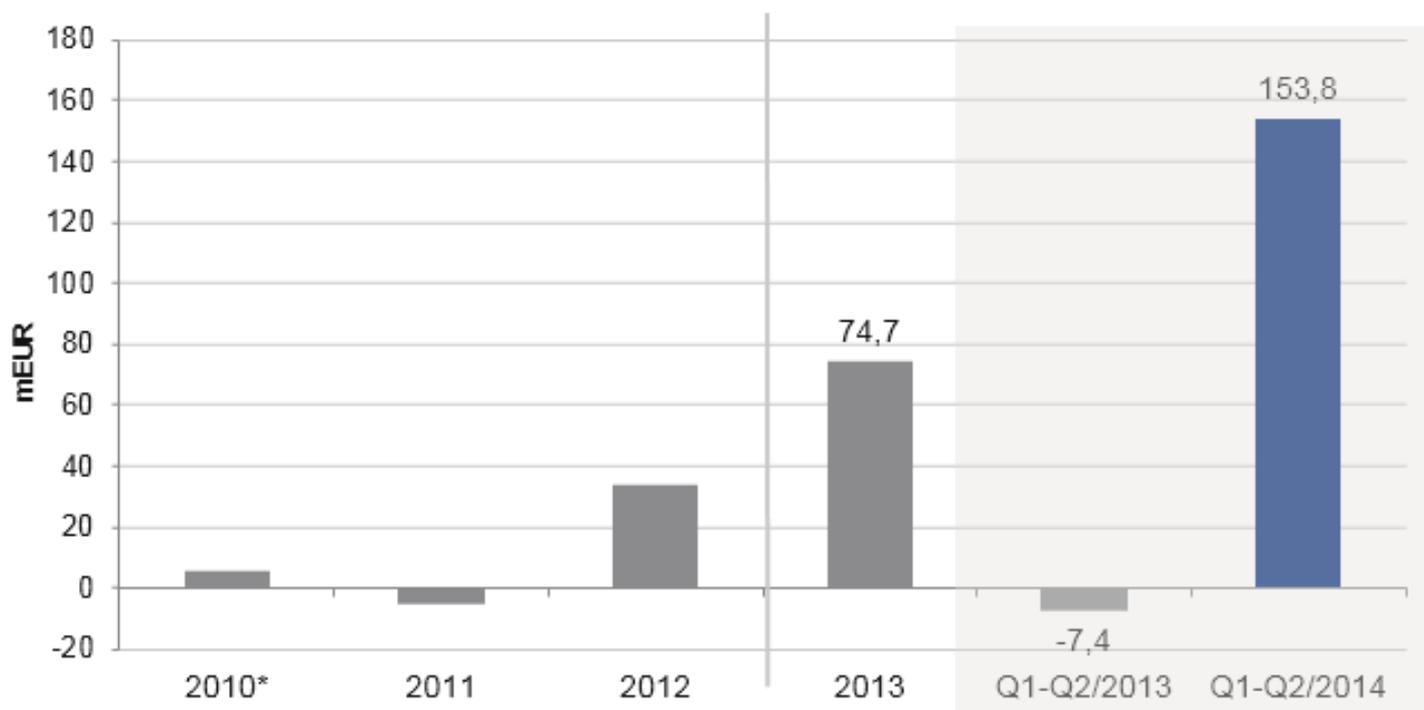


Group Cash Flow before Debt Service



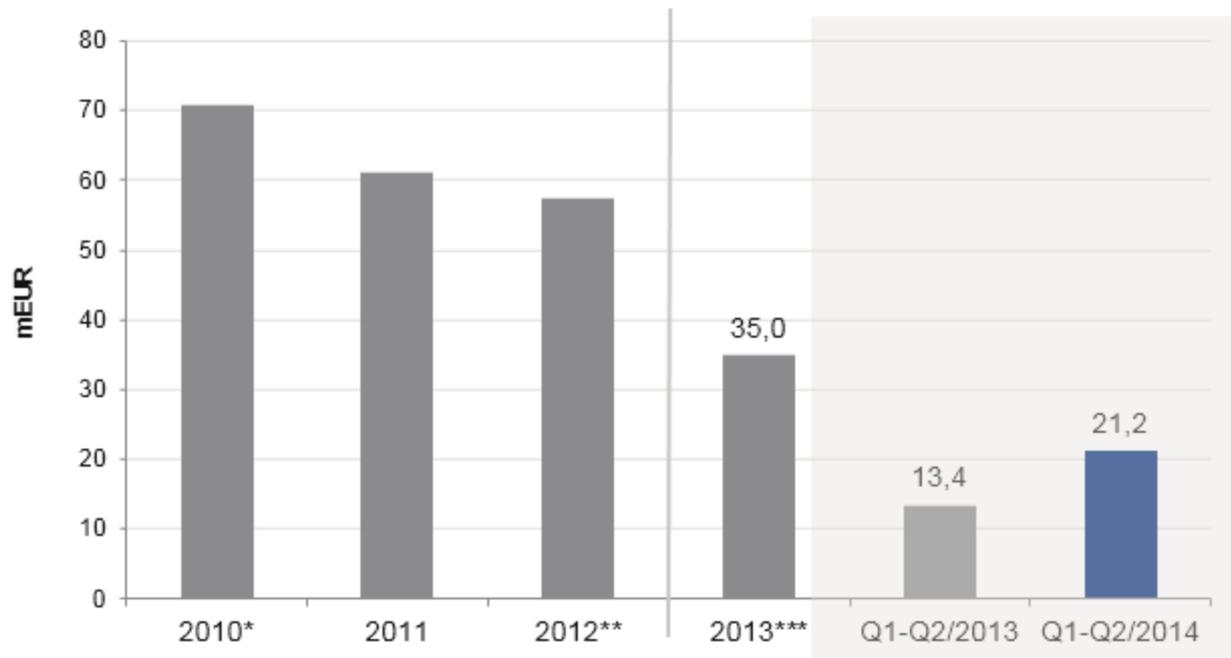
* Excluding acquisition price of Rose Poultry A/S, EUR 23.4 million

Group Cash Flow before Financing Activities



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

Group Investments

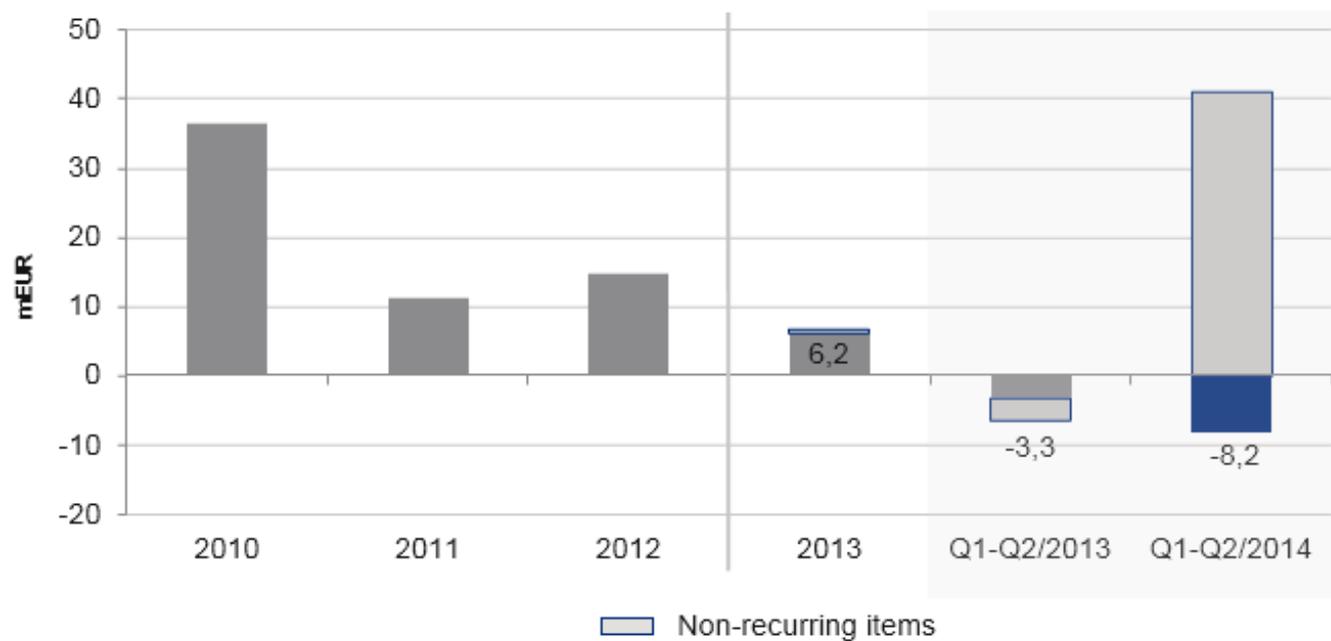


* Excluding acquisition price of Rose Poultry A/S, EUR 23.4 million

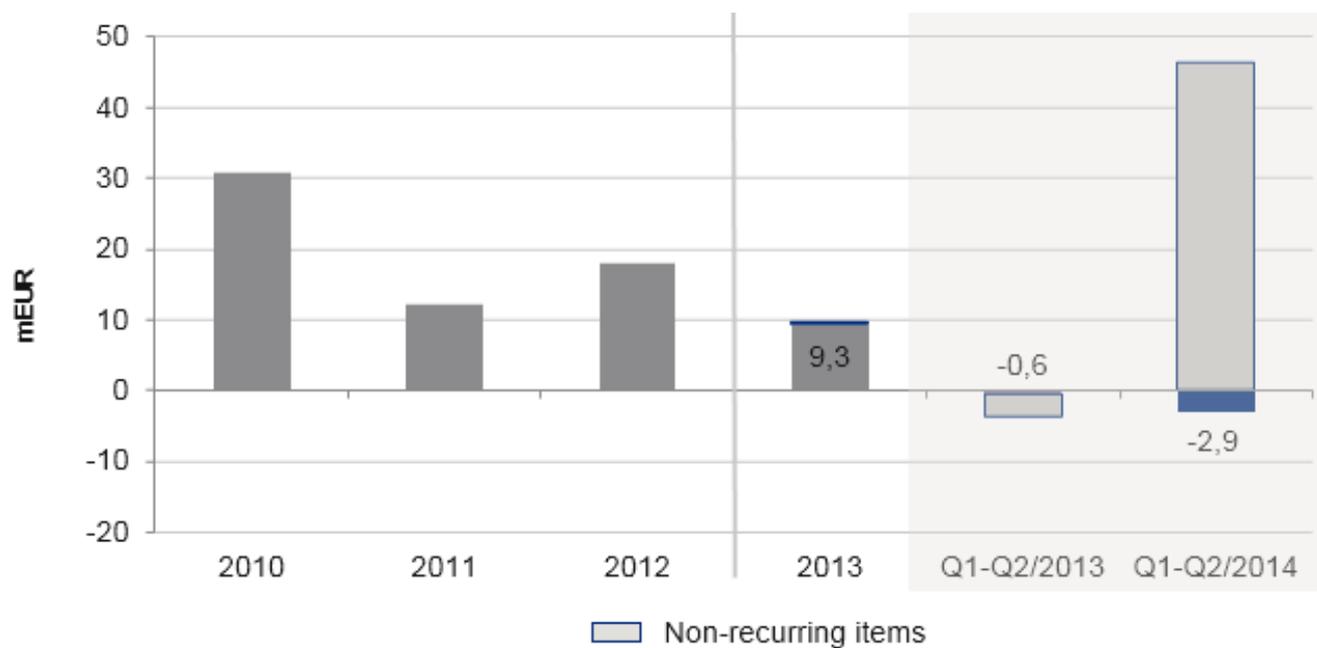
** EUR 57.3 million excluding rebuild of the Vinderup plant EUR 19.3 million

*** EUR 35.0 million excluding rebuild of the Vinderup plant EUR 7.2 million

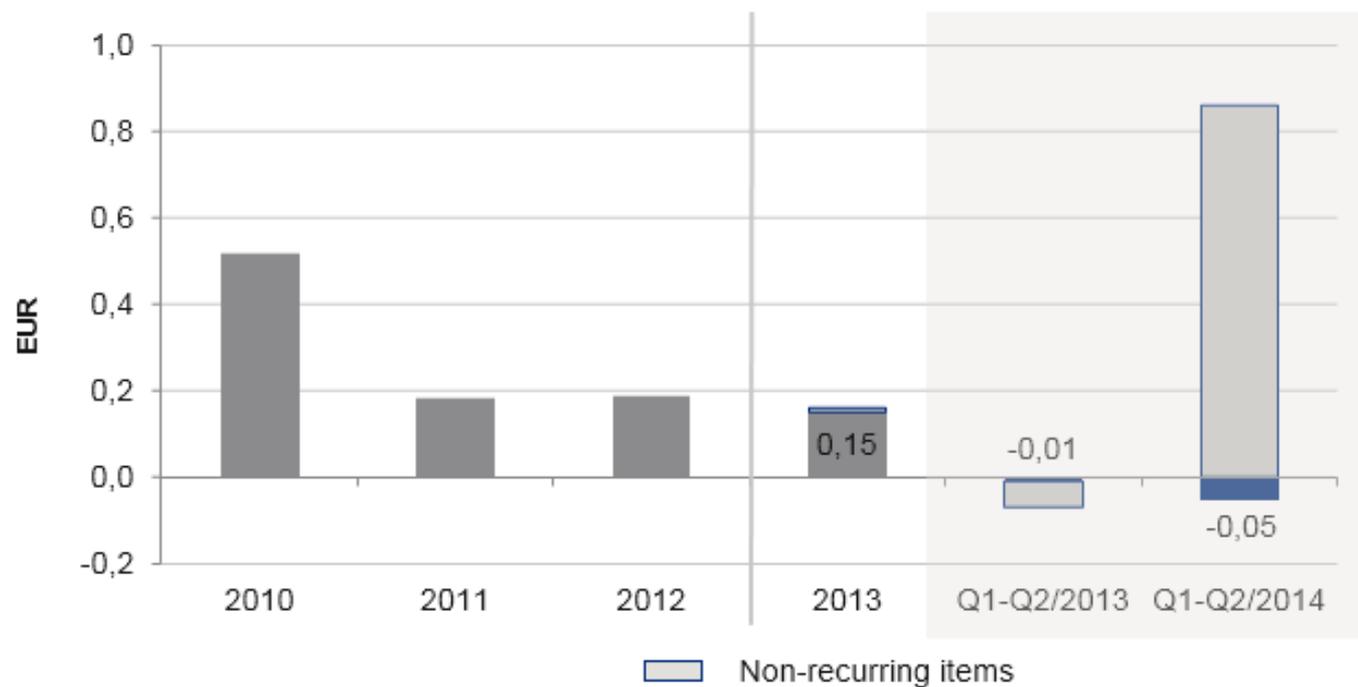
Profit before Taxes



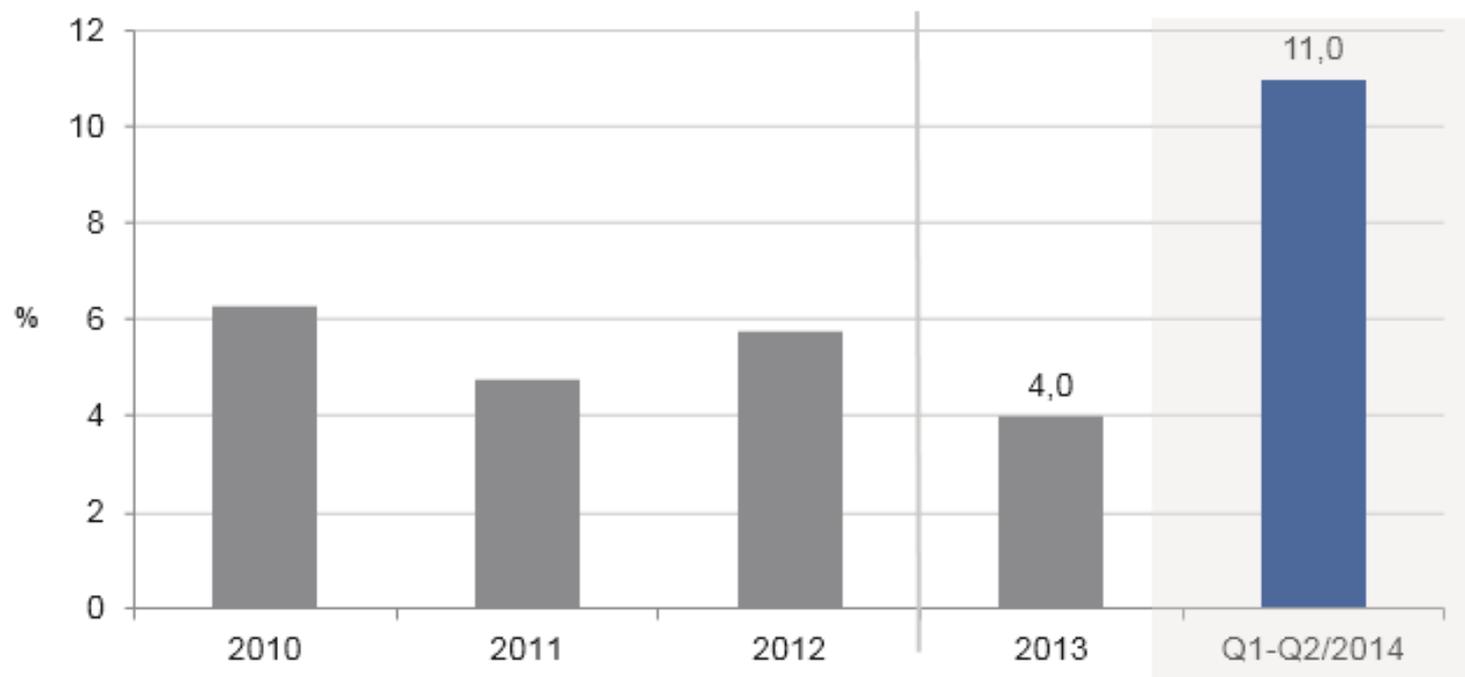
Profit for the Period



Earnings per Share (EPS)

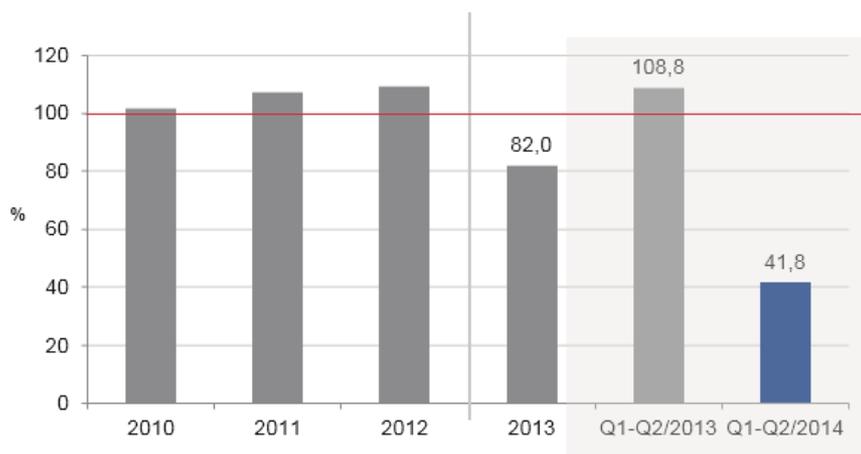


Return on Capital Employed (ROCE)

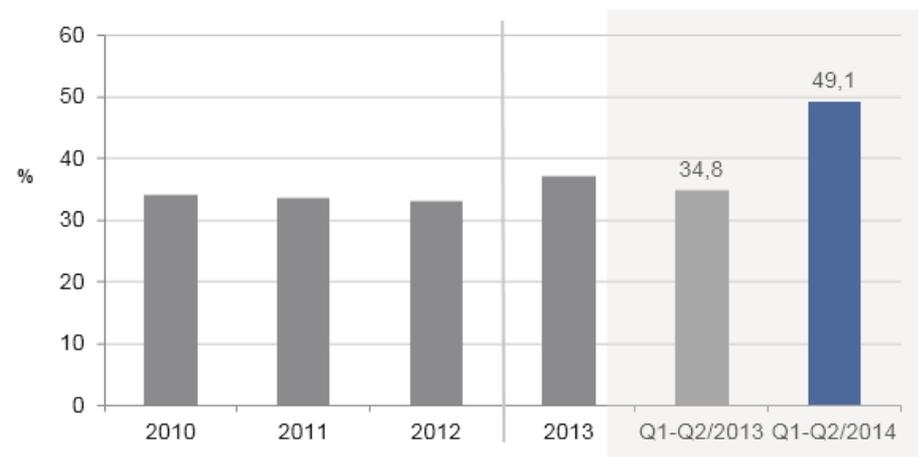


Net Gearing and Equity ratio

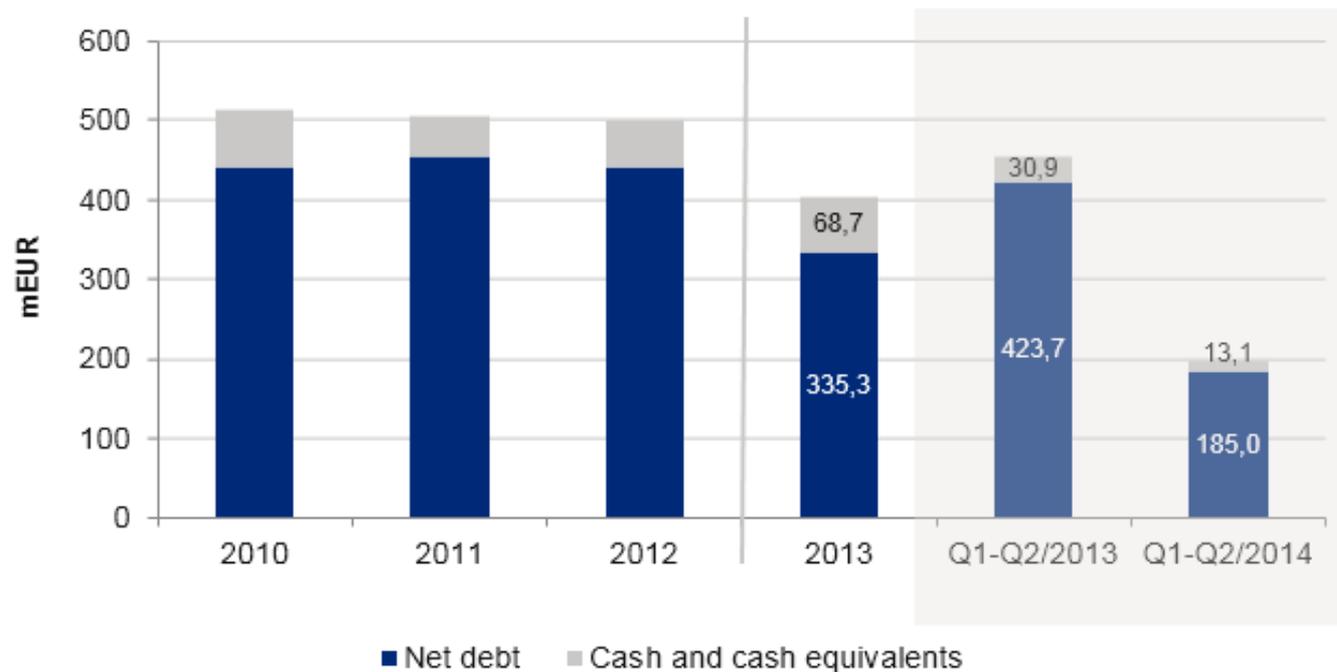
Net Gearing



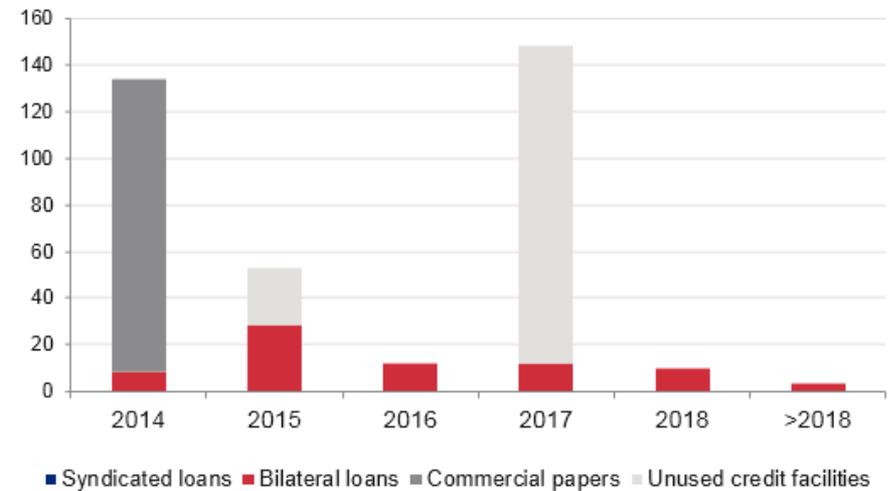
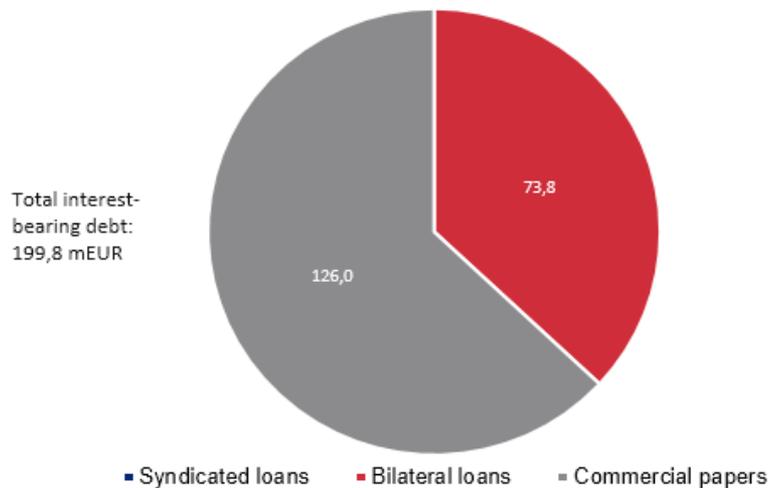
Equity Ratio



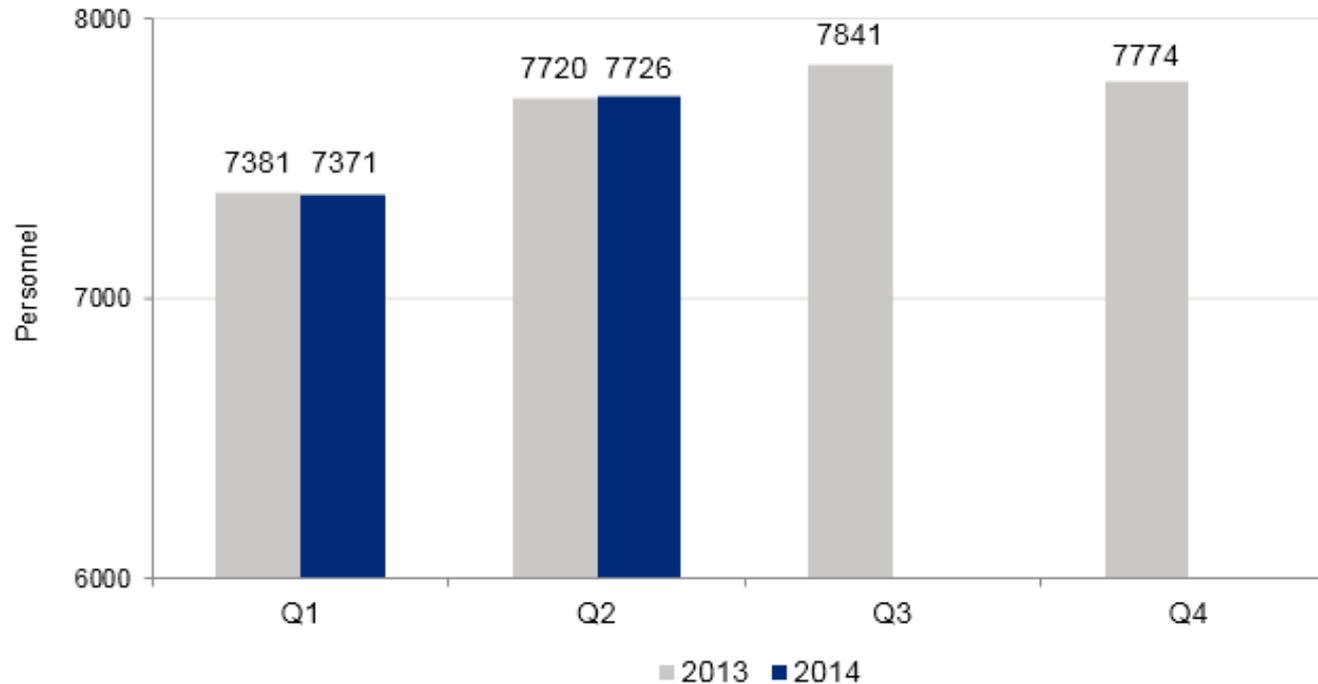
Net Debt



Interest-bearing debt and maturity structure



Average Number of Personnel



Key Figures

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- EBIT %	11,7	0,1	4,2	-0,6	0,6
EBIT excl. non-recurring items	-1,1	0,4	-8,2	-3,0	11,2
- EBIT %	-0,2	0,1	-0,9	-0,3	0,5
Profit before taxes	57,4	0,3	41,1	-6,4	6,7
Profit for the review period	59,3	0,4	46,4	-3,7	9,8
EPS, EUR	1,10	0,01	0,86	-0,07	0,16
Cash flow before debt service	180,9	21,5	157,2	-5,6	86,8
Cash flow before financing activities	182,2	24,4	153,8	-7,4	74,7
ROCE before taxes, %			11,0		4,0
Net debt			185,0	423,7	335,3
Net gearing, %			41,8	108,8	82,0
Employees, end of month average			7 726	7 720	7 774

Development Programme 2014 (1/2)

2014

- Cost saving and cash release programme
- Production restructuring
- Organisation restructuring
- Consolidation of Group sourcing
- Cash free up from
 - Trade receivables
 - Trade payables
 - Inventories
- Divestment of idle assets
- Investments required

Restructuring

- Production
- Organisation

Consolidation

- Group sourcing and logistics

Operational efficiency

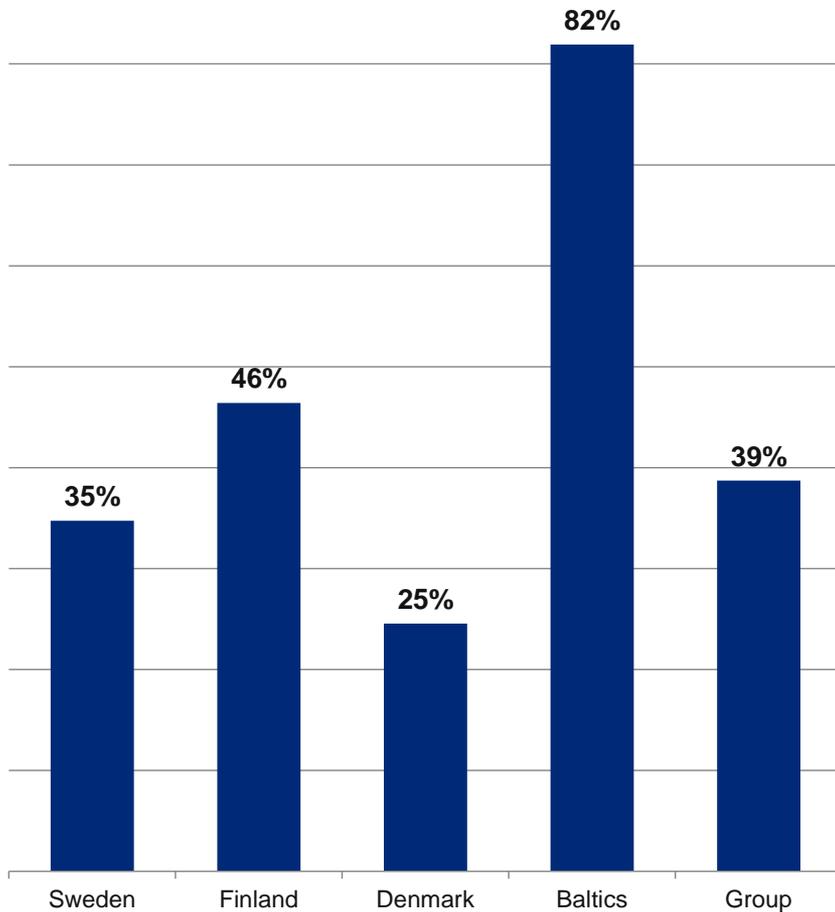
- Production yields
- Production costs
- Overhead costs

Working capital

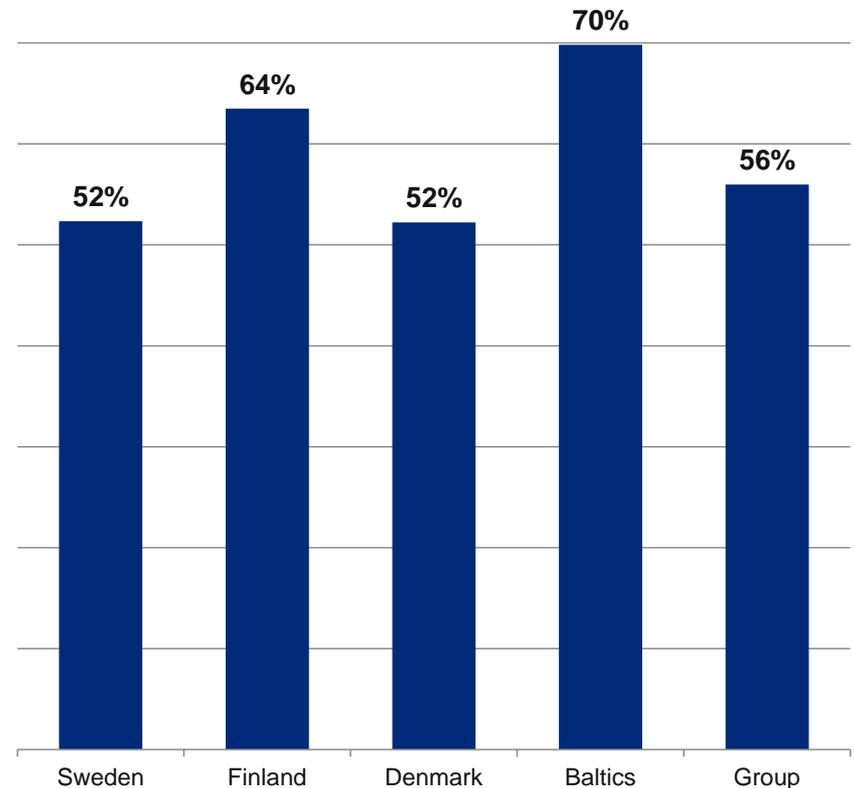
- Purchase payment terms
- Decrease in frozen stock

Development Programme 2014 – Completion Ratio (2/2)

Profit Improvement



Cash Flow Improvement



Sales of Shares in Saturn Nordic Holding AB (Sokolów)

Enterprise value EUR 208 million

Sales price of shares EUR 180 million

Dividend for 2013 EUR 8 million

Net debt EUR 20 million

Financial effect in Q2 2014

Capital gain EUR 77.6 million

Net debt decrease EUR 187.0 million

Net gearing decrease 56.5 %-units

Funding restructuring

1. Syndicated term loans repaid and securities released
2. Restructuring of the funding base – ie. bond issuance, credit facilities

→ Widening funding base – loan sources and maturity

Non-recurring items in Q2 2014

Item	Rationale	EUR million
Capital gain	Divestment of shares in Saturn Nordic Holding Ab (Sokolów)	+77.6
Impairment of assets, Finland	Write down the book value of production building asset to estimated future profit – overage and decline in volume	-12.0
Impairment of assets, Denmark	Write down the book value of a production line asset to estimated future profit – decline in volume	-5.2
Impairment of inventory 2011-2012, Sweden	Inventory accounting error concerning the capitalized processing costs of traded goods in 2011-2012	-0.8
TOTAL		+59.6
Share of profit in associates	Capital gain from Lihateollisuuden Tutkimuskeskus LTK's sale of the shares of MP-Maustepalvelu Oy	+3.6

Outlook 2014

- HKScan adjusted its full-year outlook on 16 June 2014. HKScan expects its full-year operating profit (EBIT) margin excluding non-recurring items to be 0.5-1.0 per cent. Performance in the last quarter is anticipated to be the strongest. In 2013, the corresponding figure for the full year was 0.5 per cent.
- The full-year reported operating profit including non-recurring items is estimated to be significantly higher as a result of the sale of HKScan's shares in Saturn Nordic Holding AB.



HKSCAN

Thank you!