



HKSCAN

Interim Report Q3/2014 Group Overview

**Hannu Kottonen, President and CEO
5 November 2014**

Restructuring continues – cash flow improving

HKScan Group, Q3/2014

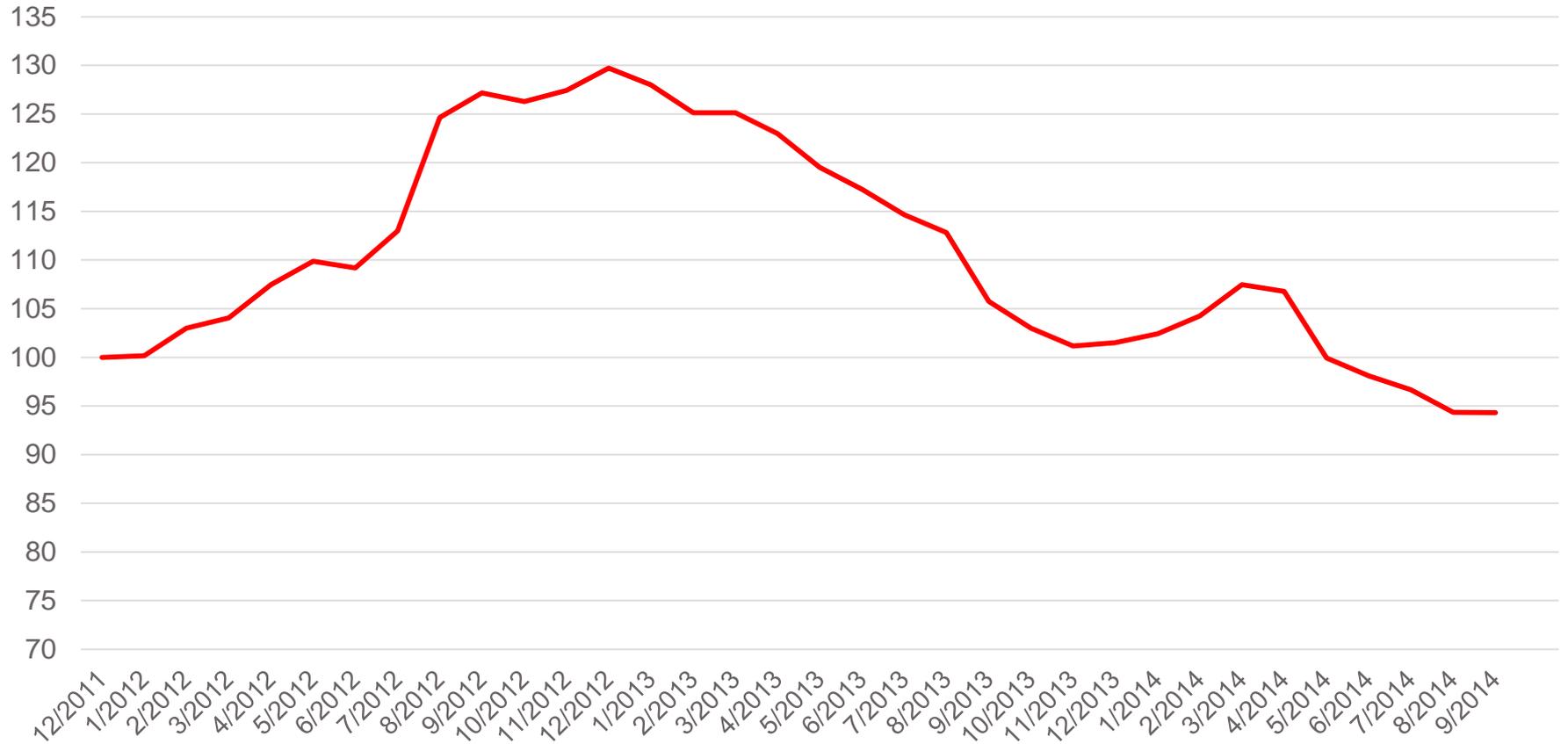
- Cash flow improving – profit performance remained modest
 - All markets remained weak. Tough sales price competition and declining sales volumes
 - Weak demand but HKScan won market share with branded products
 - Group's overall financial position remained strong, net financial expenses reducing remarkably
 - EBIT decline halted
 - Russian ban on EU pork continued, oversupply remained
- Highlights of the quarter
 - EBIT performance matched the prior year, improvement in cash flow
 - Positive development in inventory and working capital management
 - Production restructuring (Finland, Sweden) and profit development program proceeding as planned
 - Implementation of the revised strategy for profitable growth was kicked off with two major strategic investment initiatives
 - Brand development and innovations proceeding

HKScan Group

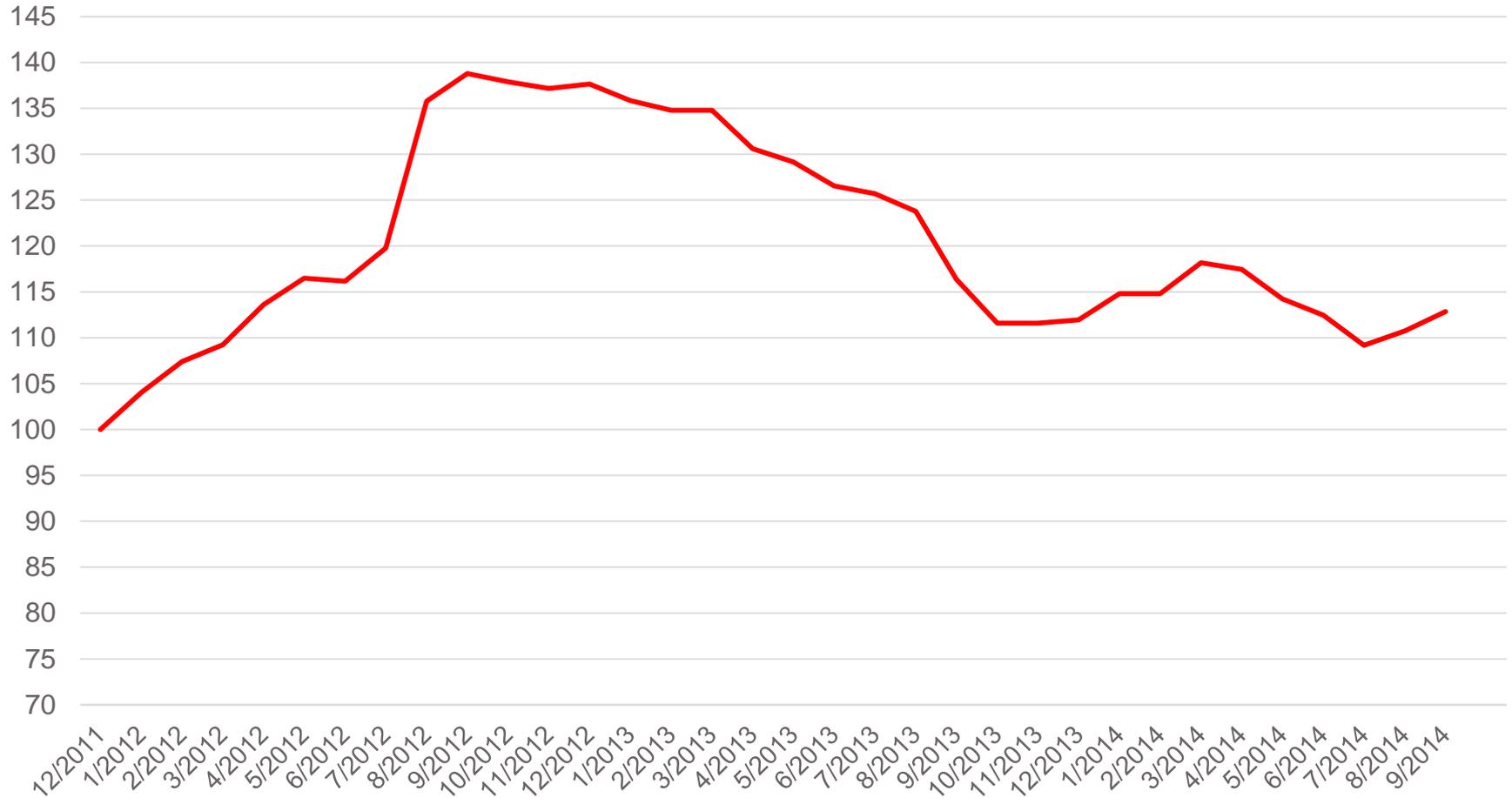
EUR million	Q3/2014	Q3/2013*	Q1-Q3/2014	Q1-Q3/2013*	2013*
Net sales	498,4	526,9	1 465,6	1 565,3	2 113,2
EBIT	7,3	7,0	48,3	0,9	11,7
- EBIT %	1,5	1,3	3,3	0,1	0,6
Profit/loss before taxes	5,8	5,3	46,9	-1,1	6,7
Profit for the period	5,6	7,0	52,0	3,3	9,8
EPS, EUR	0,10	0,12	0,97	0,06	0,16
EBIT excl. non-recurring items	7,3	7,4	-1,0	4,5	11,2
- EBIT %	1,5	1,4	-0,1	0,3	0,5

*Restated

Feed Basket – Pork



Feed Basket – Poultry



Market Area Finland

EUR million	Q3/2014	Q3/2013*	Q1-Q3/2014	Q1-Q3/2013*	2013*
Net sales	194,7	200,4	573,4	593,9	804,1
EBIT	3,0	2,1	-11,2	1,5	3,2
- EBIT %	1,5	1,1	-1,9	0,3	0,4
EBIT excl. non-recurring items	3,0	2,6	0,8	5,2	6,9
- EBIT %	1,5	1,3	0,1	0,9	0,9

*Restated

- Total market continued to decrease.
- Consumer purchasing power and willingness to spend remained low and pushed down sales volumes.
- Russia's ban on EU meat imports continued to result in oversupply.
- Some market share gained in branded products and in total.
- Demand management, deliveries and frozen stock well-managed, clearly stronger cash flow.
- Statutory negotiations: reduction of over 50 white-collar FTEs resulting four million cost savings in 2015.

Market Area Baltics

EUR million	Q3/2014	Q3/2013*	Q1-Q3/2014	Q1-Q3/2013*	2013*
Net sales	47,3	44,7	129,2	130,4	175,1
EBIT	2,8	4,1	4,8	5,8	7,7
- EBIT %	6,0	9,1	3,7	4,4	4,4

*Restated

- Suffers the most from Russia's ban on EU meat imports
- Pork sales prices under heavy pressure due to pork oversupply
- Sales margins kept thanks to positive cost development in primary production. Cost inflation increased personnel and overhead costs.
- Successful launch of novelties and campaigns supported the market position
- African Swine Fever (ASF) has been identified in Estonia. High-level mitigation actions implemented in all pork primary production locations.

Market Area Sweden

EUR million	Q3/2014	Q3/2013*	Q1-Q3/2014	Q1-Q3/2013*	2013*
Net sales	227,4	239,0	670,5	710,3	966,5
EBIT	5,1	5,1	-6,4	4,4	8,0
- EBIT %	2,2	2,1	-1,0	0,6	0,8
EBIT excl. non-recurring items	5,1	5,1	4,8	4,4	10,2
- EBIT %	2,2	2,1	0,7	0,6	1,1

*Restated

- Russia's ban on EU pork imports drove down sales prices, esp. in red meat and cold cuts.
- Private-labels kept gaining market share. HKScan won market share in branded products.
- Five-year-deal with Coop Sverige
- Sales of Svensk Rapsgris®, and the launch of fresh chicken progressed as planned.
- Good progress in frozen stock levels, trade payables, investments; stronger cash flow
- Pork purchasing prices decreased, beef purchasing prices higher than expected
- Pork sourcing volumes lower in line with the rebalancing plan
- Production efficiency continued to improve. Restructuring proceeded as planned, Skara pig slaughtering closed in September.

Market Area Denmark

EUR million	Q3/2014	Q3/2013*	Q1-Q3/2014	Q1-Q3/2013*	2013*
Net sales	51,6	56,5	158,1	172,9	225,3
EBIT	-1,5	-2,0	-8,2	-2,8	3,6
- EBIT %	-3,0	-3,5	-5,2	-1,6	1,6
EBIT excl. non-recurring items	-1,5	-2,0	-3,1	-2,8	-2,8
- EBIT %	-3,0	-3,5	-1,9	-1,6	-1,2

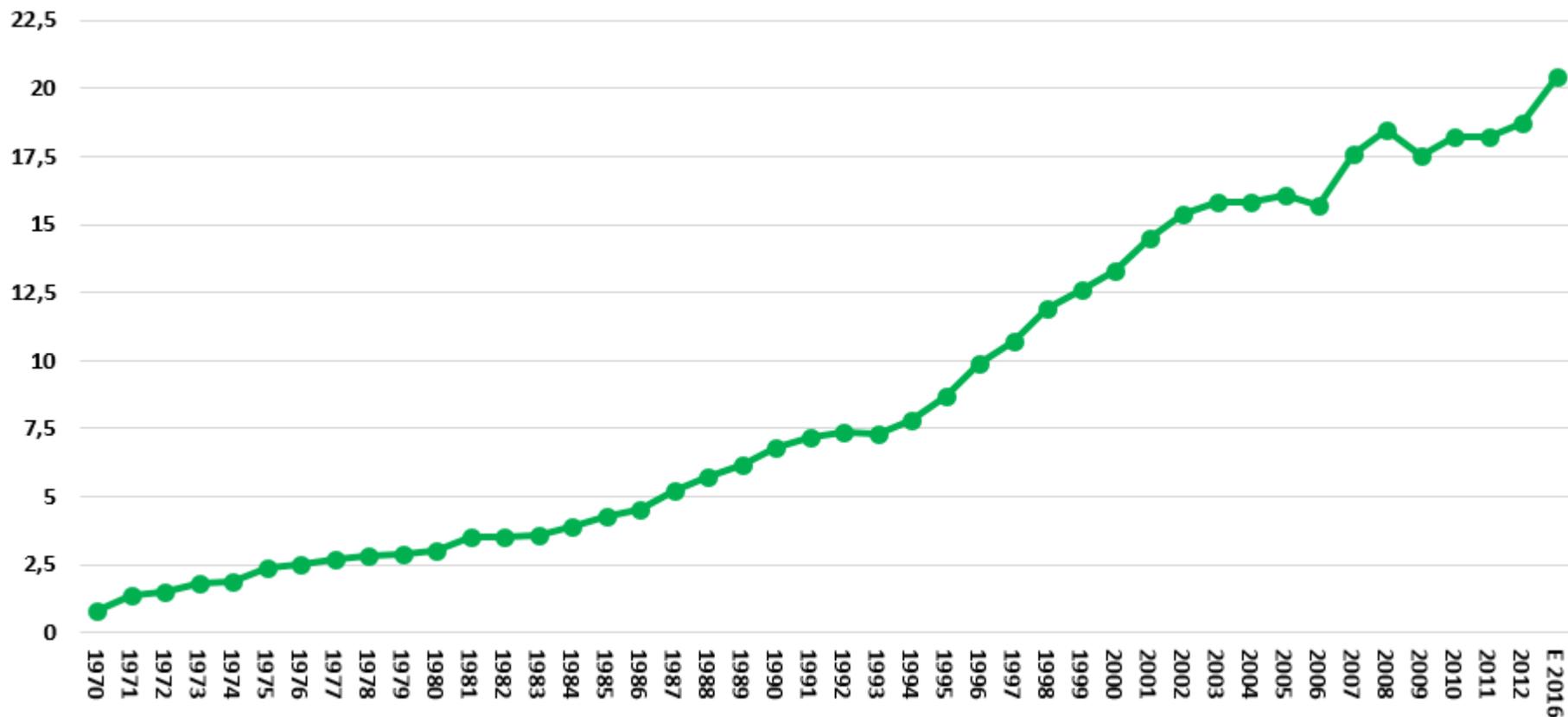
*Restated

- Poultry purchasing prices and volumes kept decreasing from the previous year, sales price competition remained tough.
- Actions to decrease frozen stock continued decreasing margins.
- Margins in fresh chicken products remained good, but stayed weak in frozen products.
- Cash flow remained weak due to low margins and low working capital turn.
- Turnaround efforts underway: new management team and General Manager, new product launches, production efficiency improvements and volume rebalancing actions

HKScan plans major production investments in Finland and in Estonia

- Two major investment projects planned:
 - EUR 35-65 million facility in western Finland for growing poultry product segment and the Kariniemen brand
 - EUR 20 million production facility in Rakvere, Estonia for growing value-added product segments
 - The final sums depend on the chosen options
- Detailed feasibility studies ongoing, ready next summer . Decision making to follow.
- The investments enable HKScan to
 - Develop branded offering for growing segments
 - Further streamline production structure, integrate technology and improve operational efficiency

Consumption of poultry, Finland 1970 - 2014



Value-added product segments are growing

”Save the time”



”Slow food – shared moments”



”Easy preparation”



”Chef’s help”





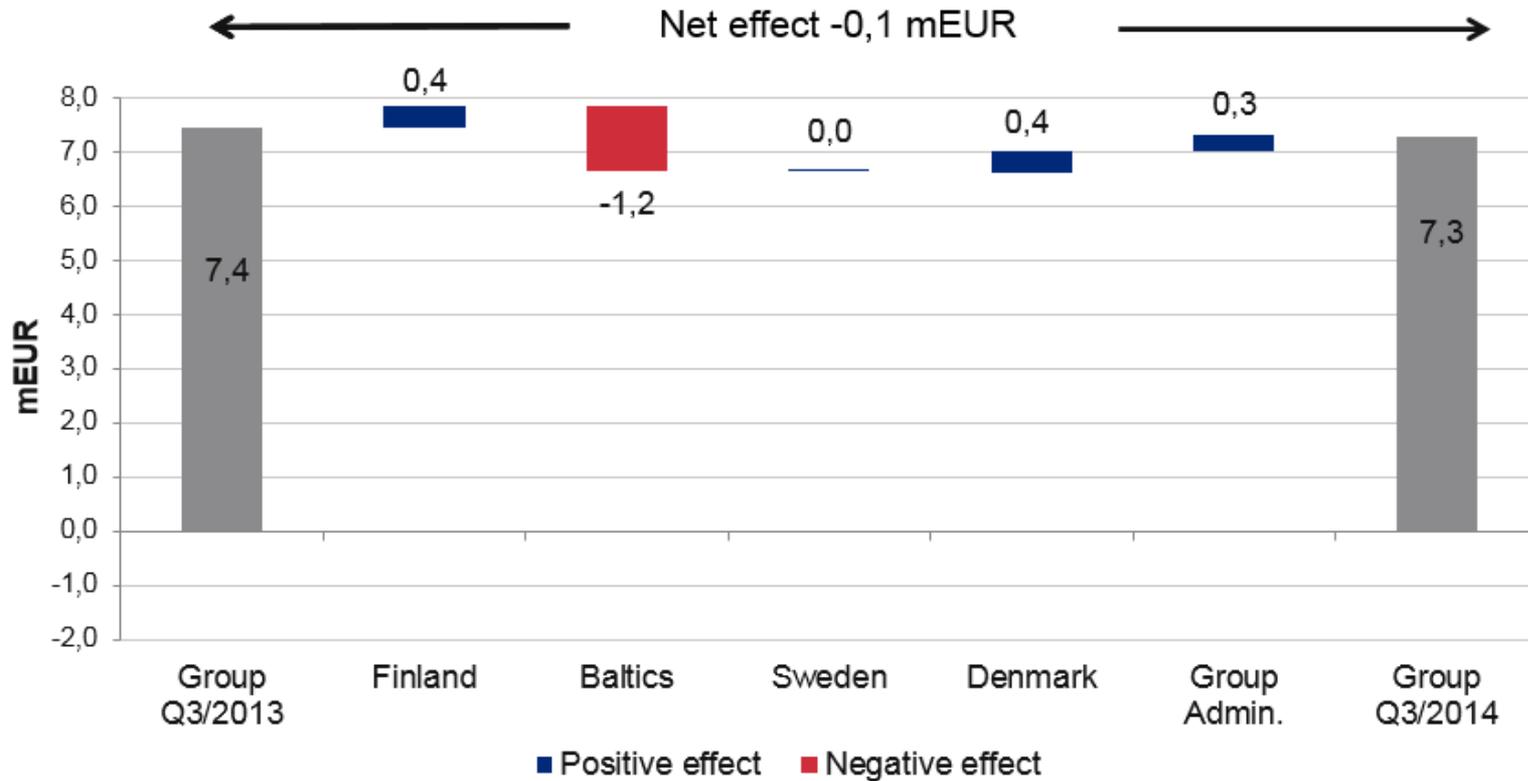
HKSCAN

Interim Report Q3/2014 Group Financials

Tuomo Valkonen, CFO
5 November 2014

Group EBIT*)

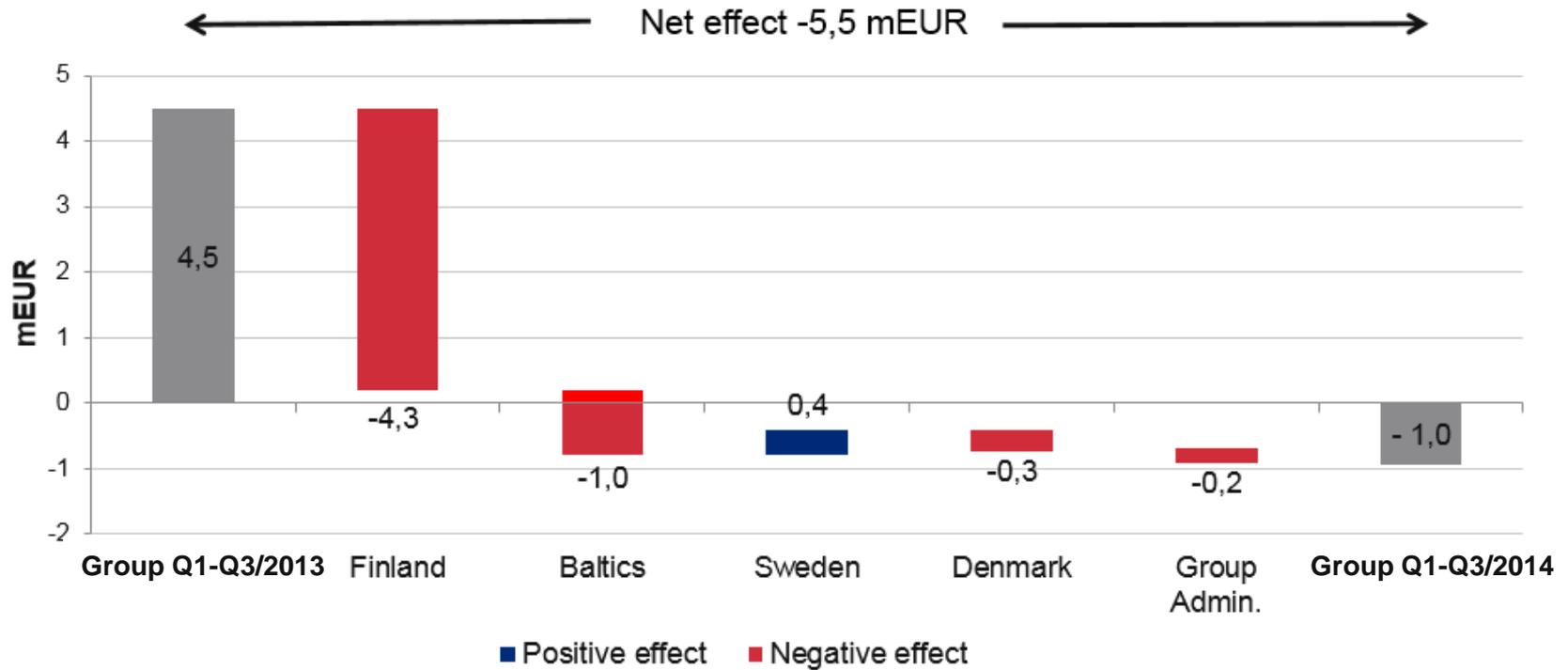
Q3/2013 vs. Q3/2014



*) Excluding non-recurring items

Group EBIT*)

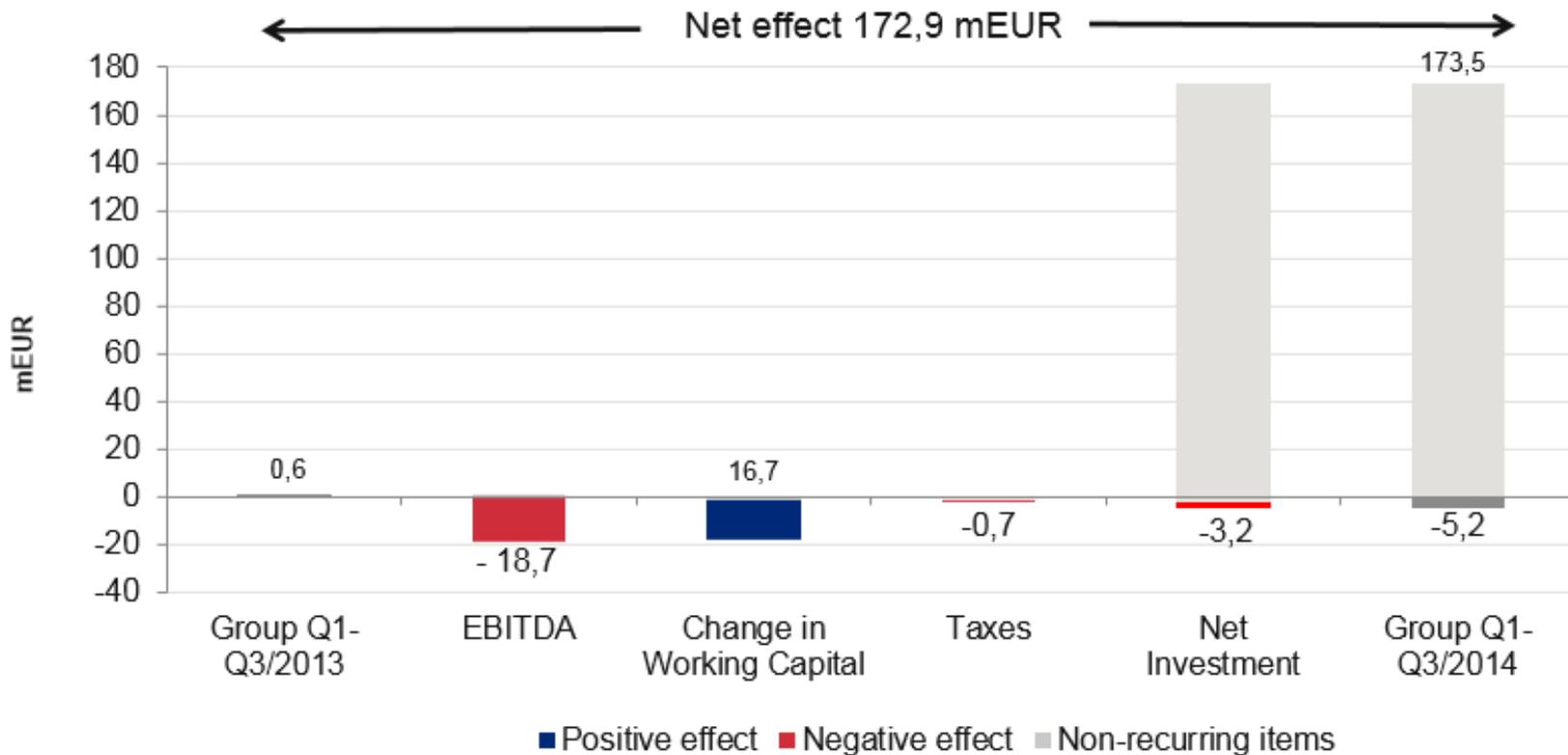
Q1-Q3/2013 vs. Q1-Q3/2014



*) Excluding non-recurring items

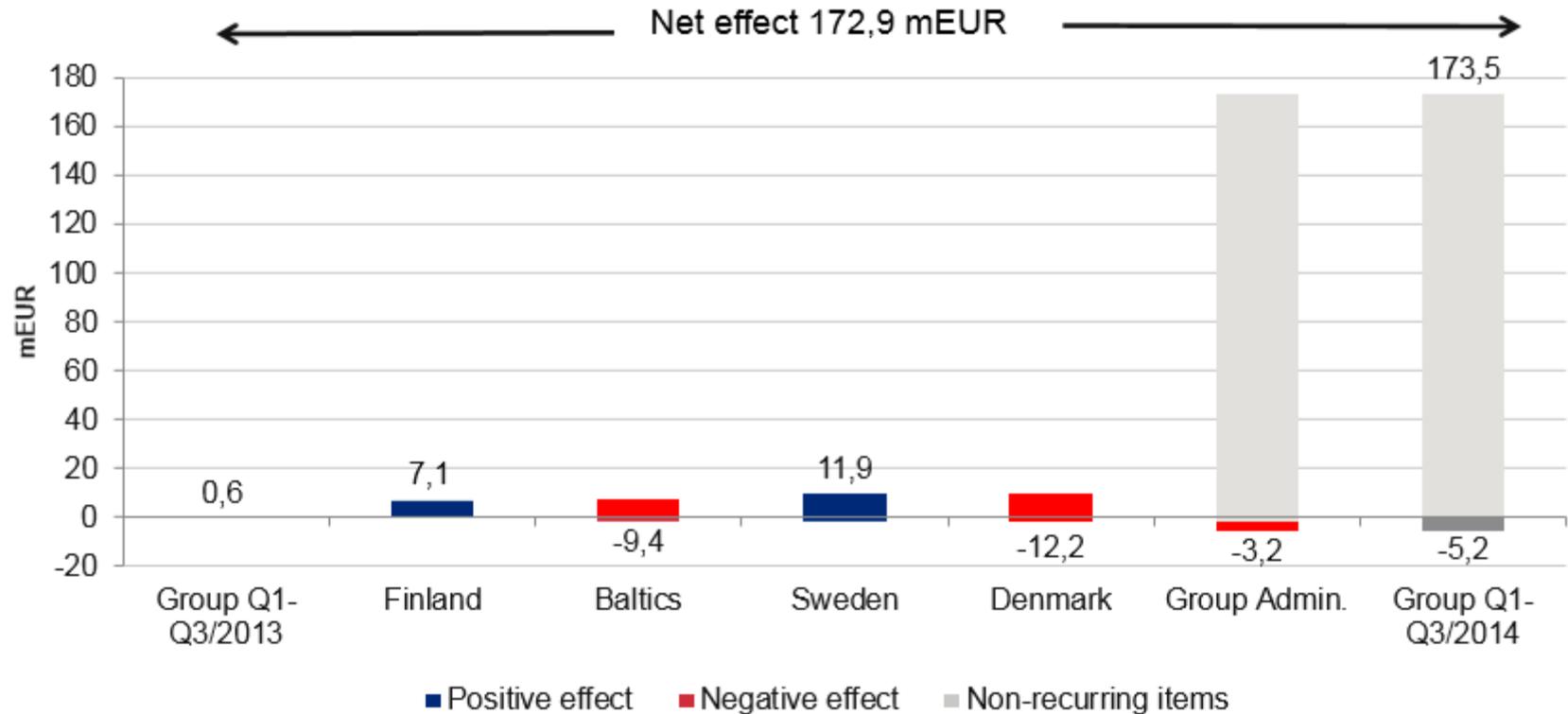
Group Cash Flow before Debt Service

Q1-Q3/2013 vs. Q1-Q3/2014



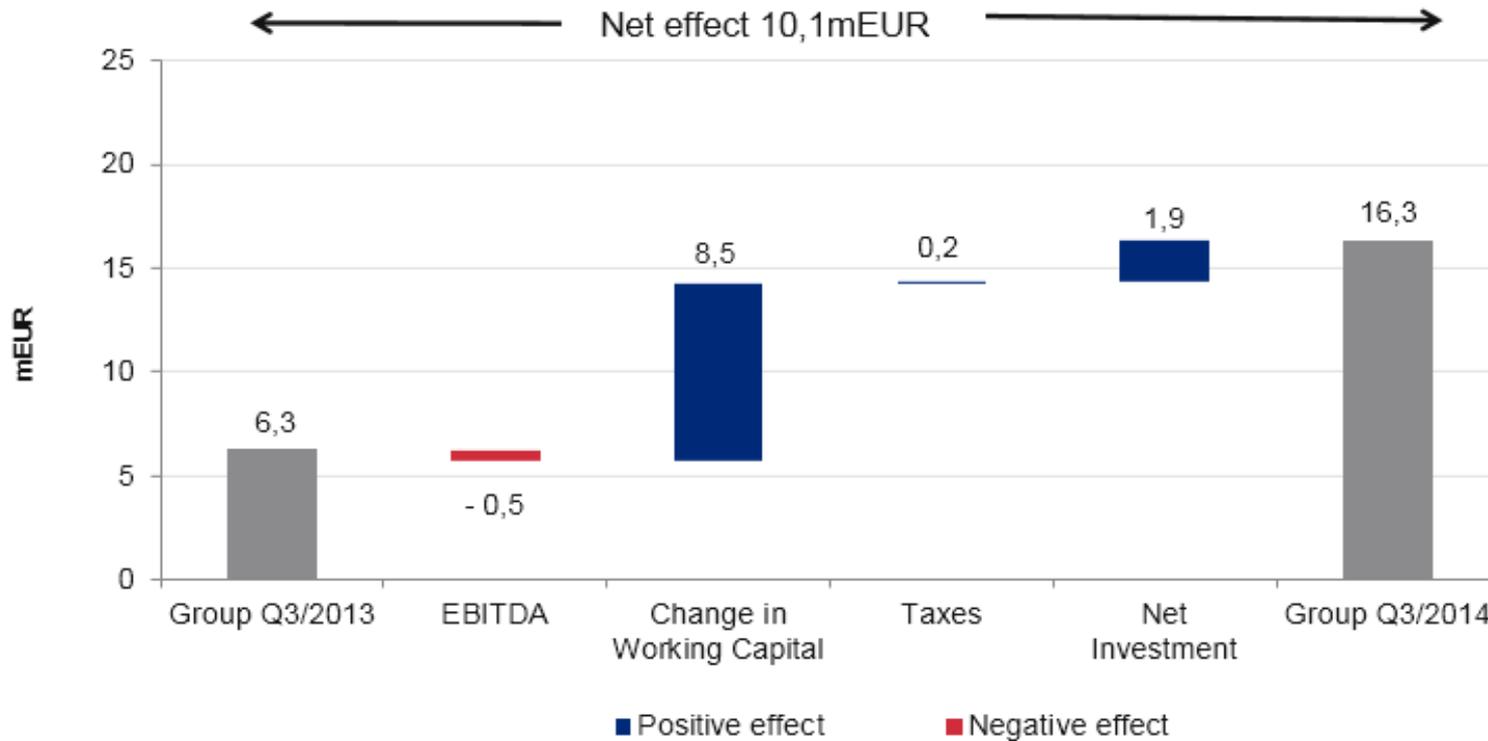
Group Cash Flow before Debt Service

Q1-Q3/2013 vs. Q1-Q3/2014



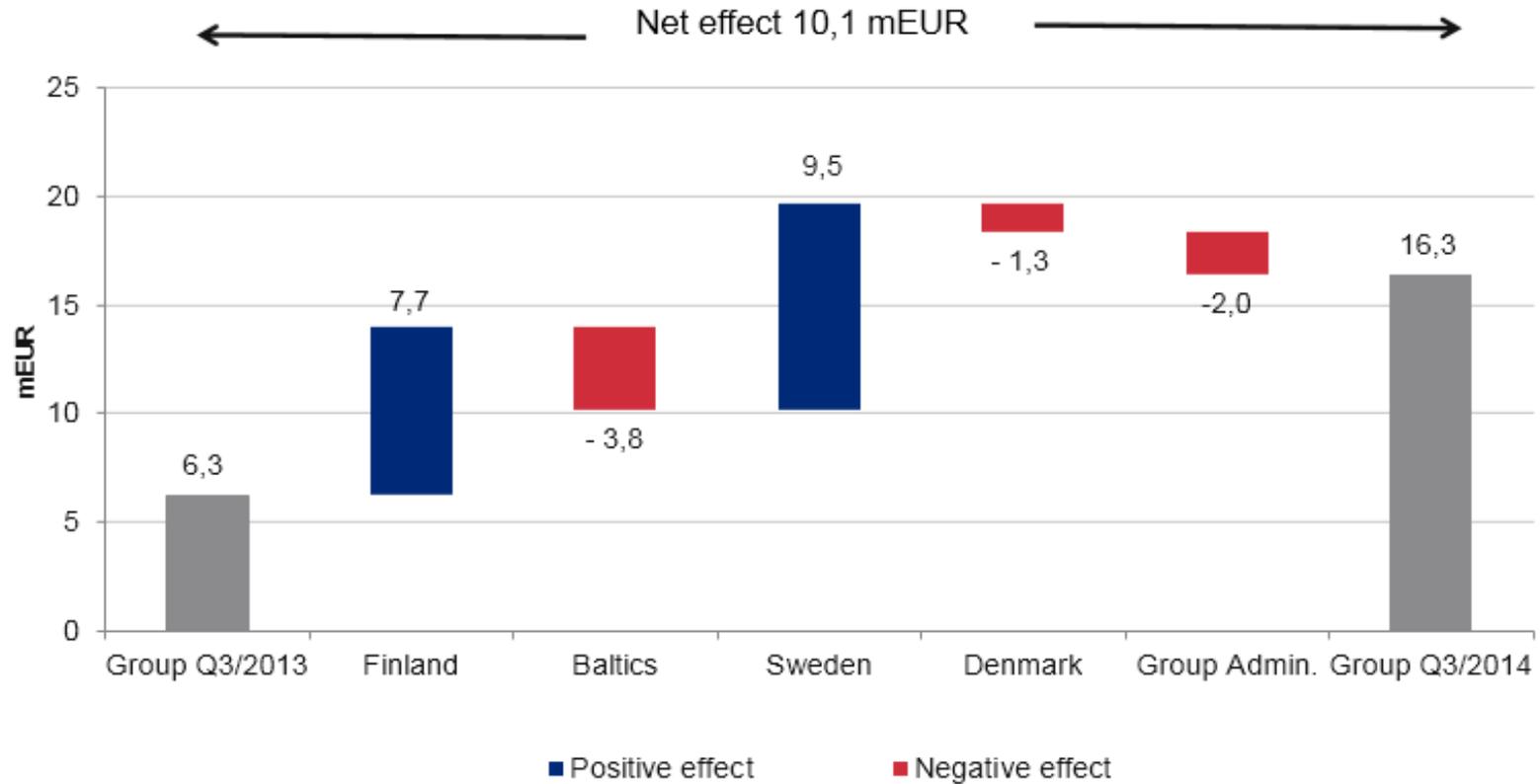
Group Cash Flow before Debt Service

Q3/2013 vs. Q3/2014

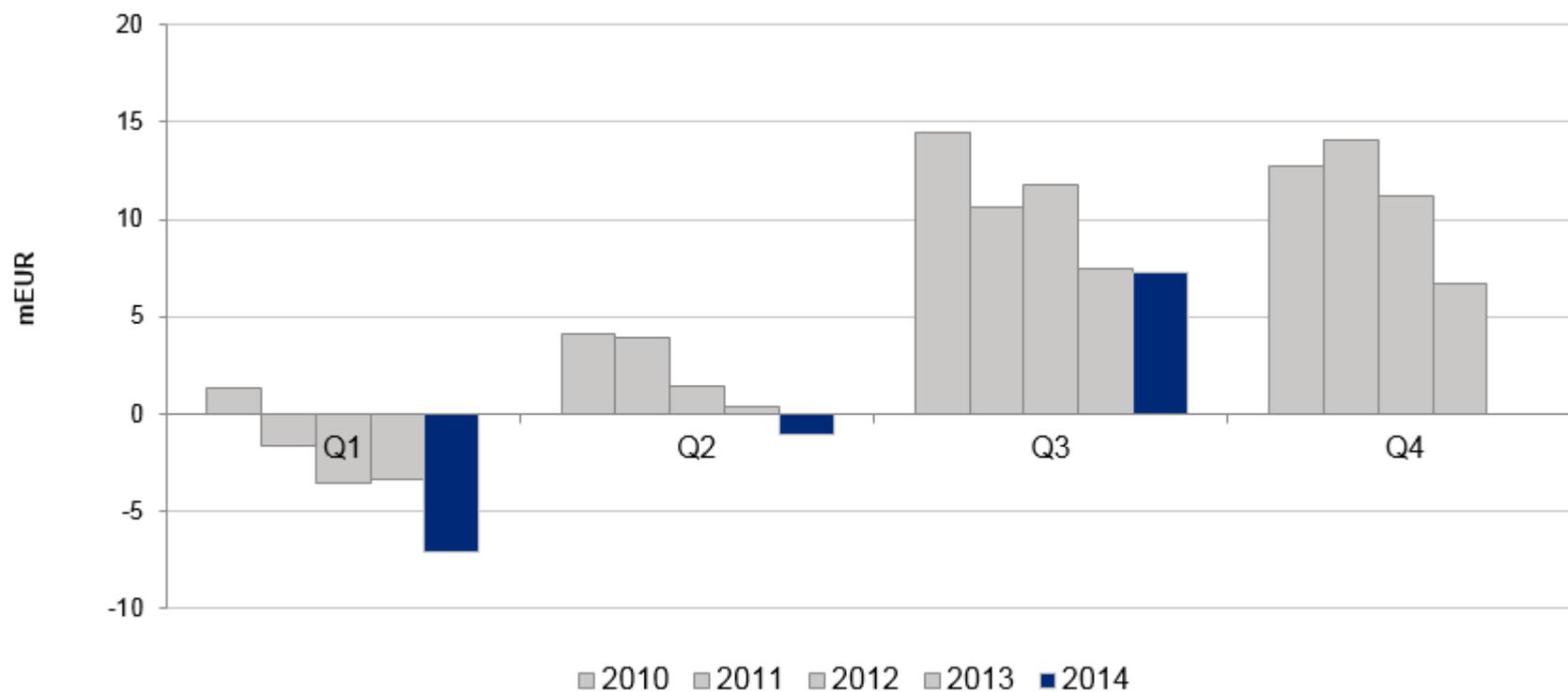


Group Cash Flow before Debt Service

Q3/2013 vs. Q3/2014

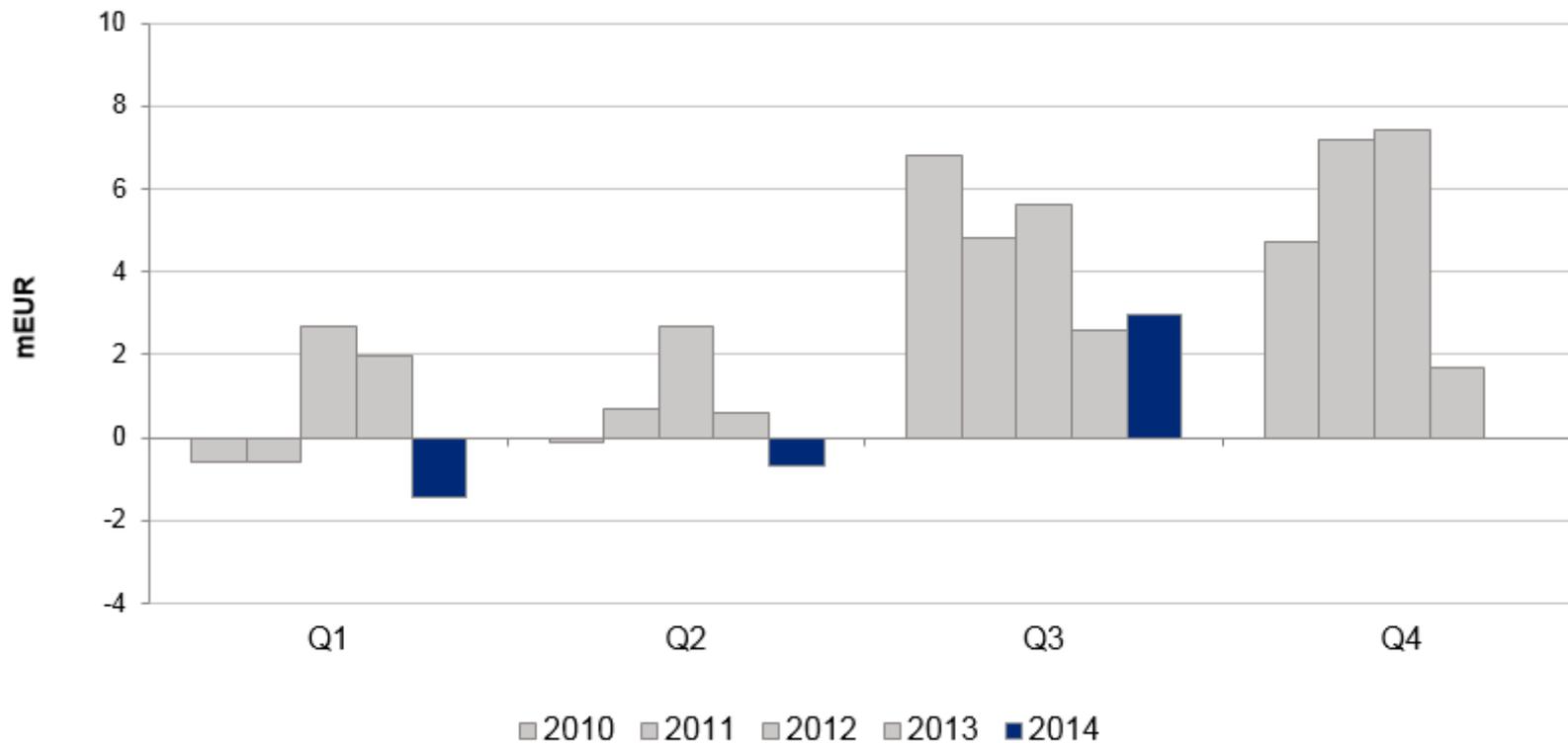


Group EBIT*)



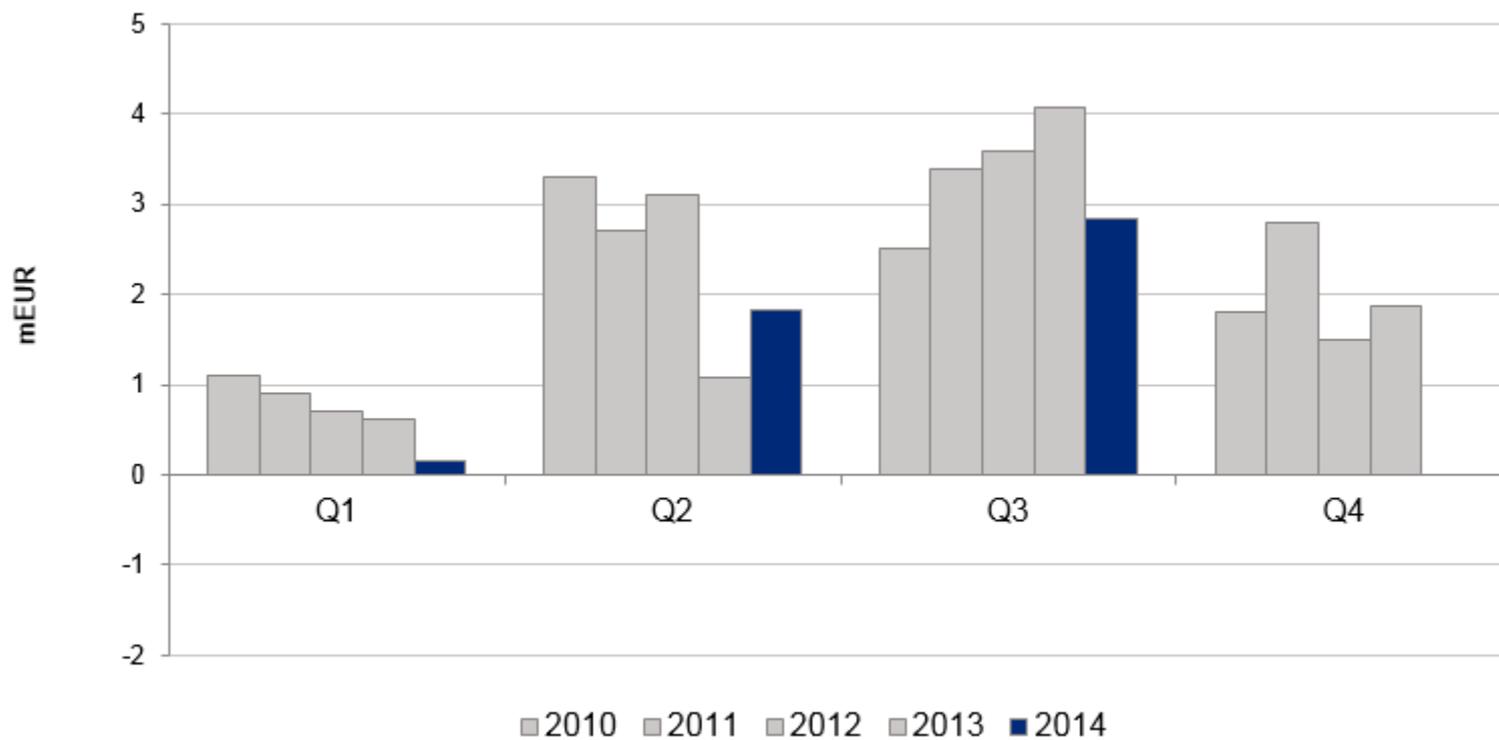
*) Excluding non-recurring items

Finland EBIT*)

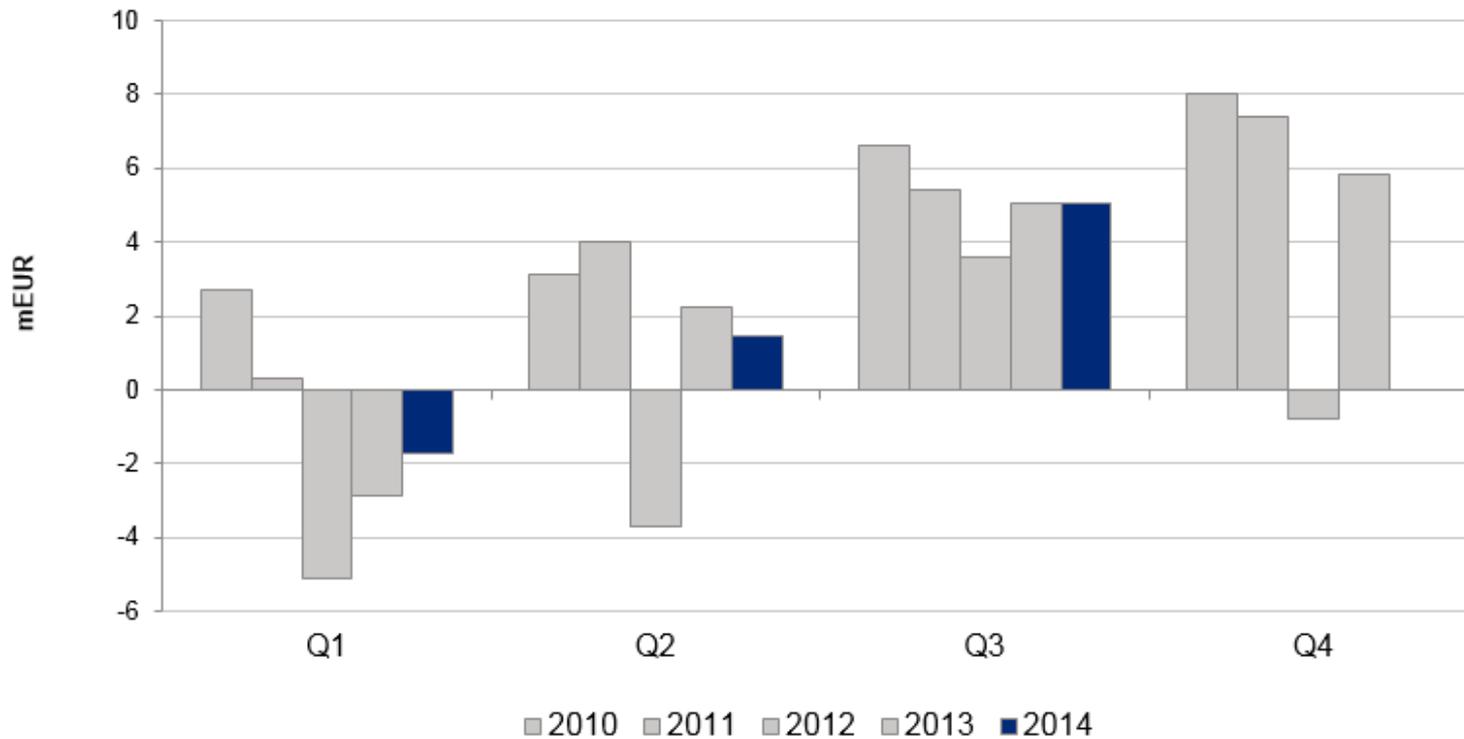


*) Excluding non-recurring items

Baltics EBIT

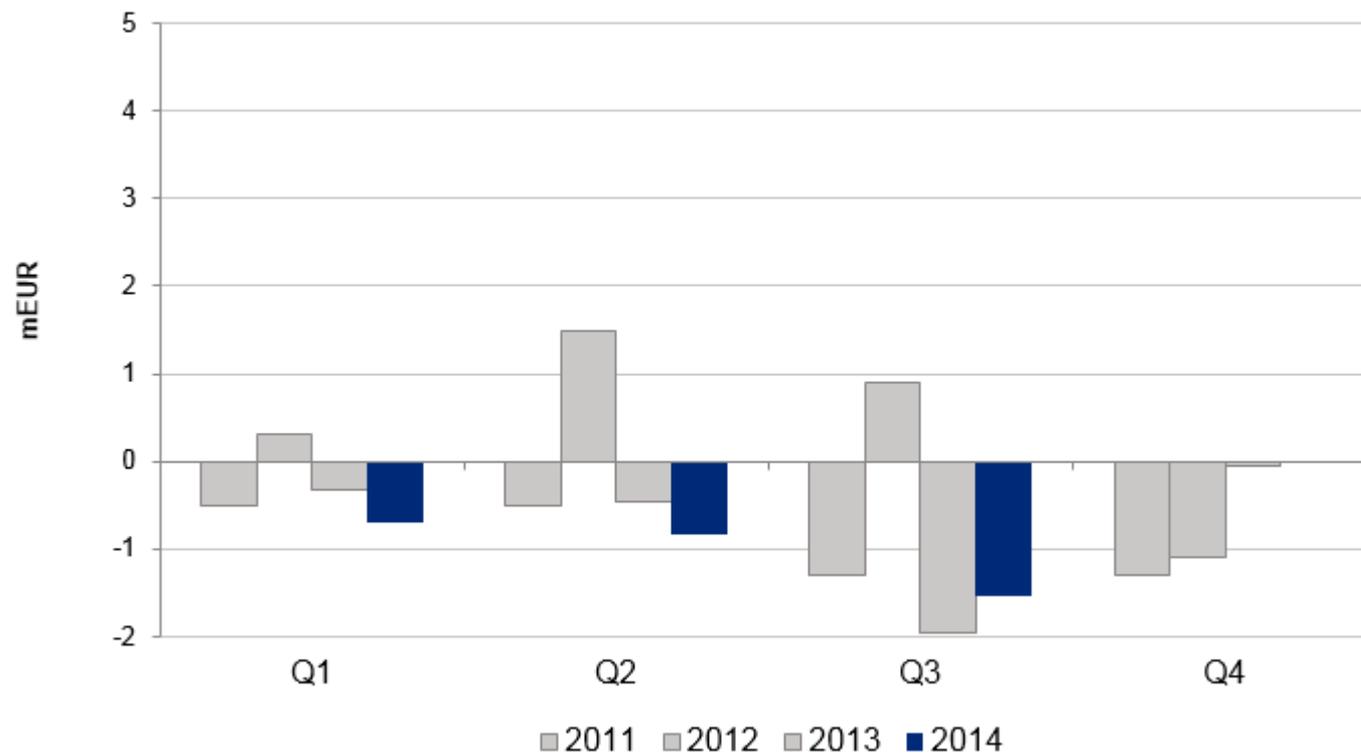


Sweden EBIT*)



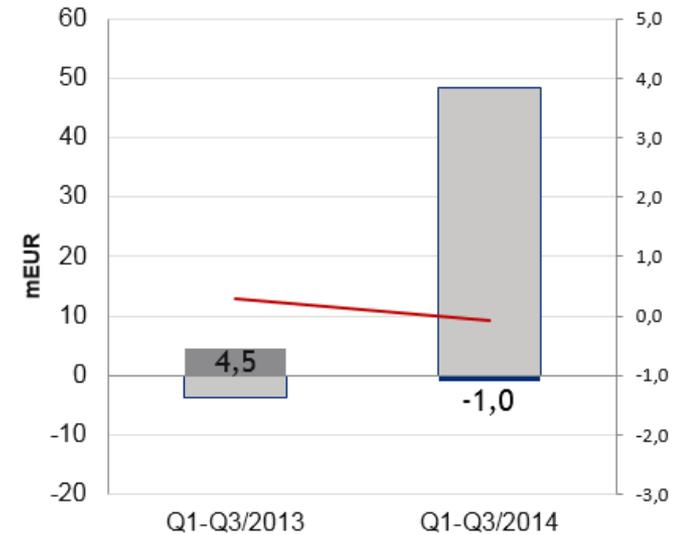
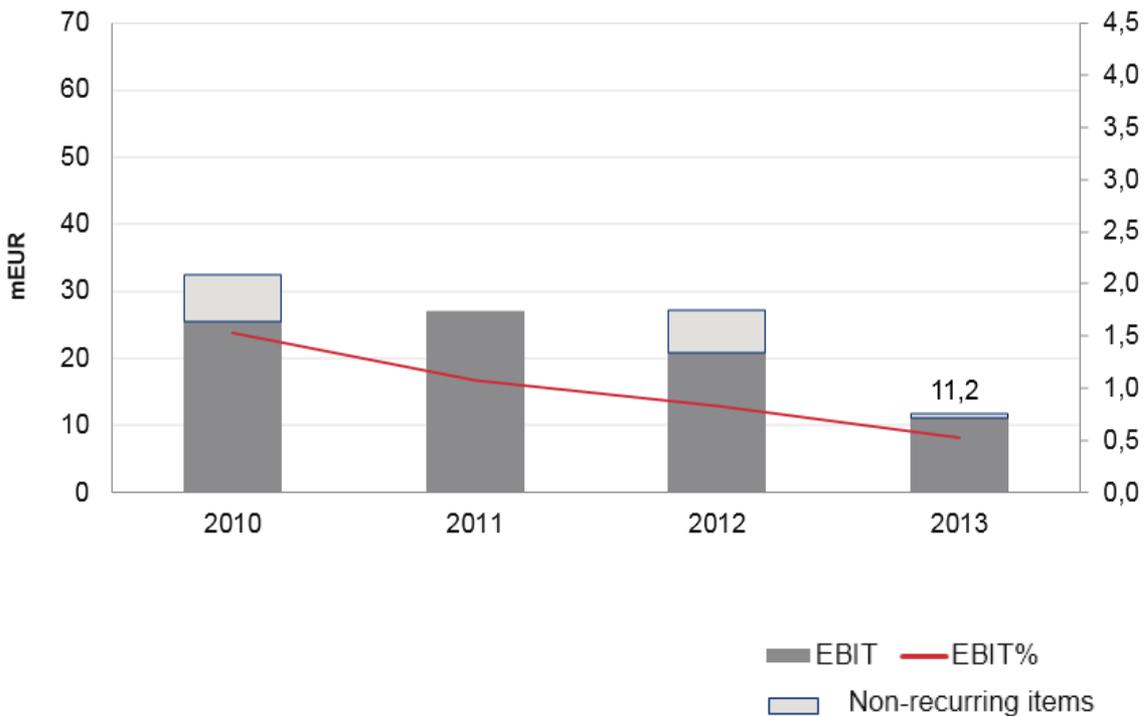
*) Excluding non-recurring items

Denmark EBIT*)

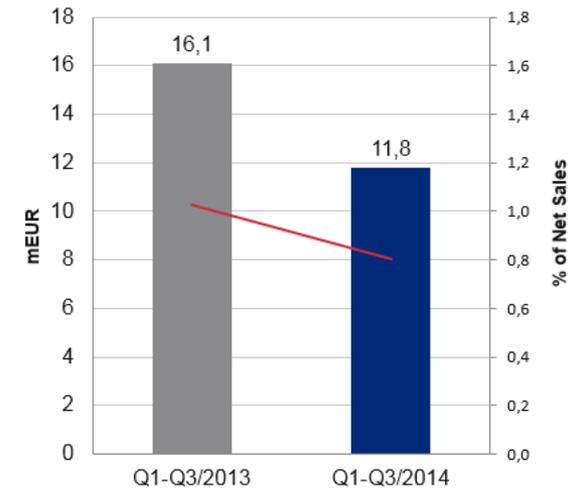
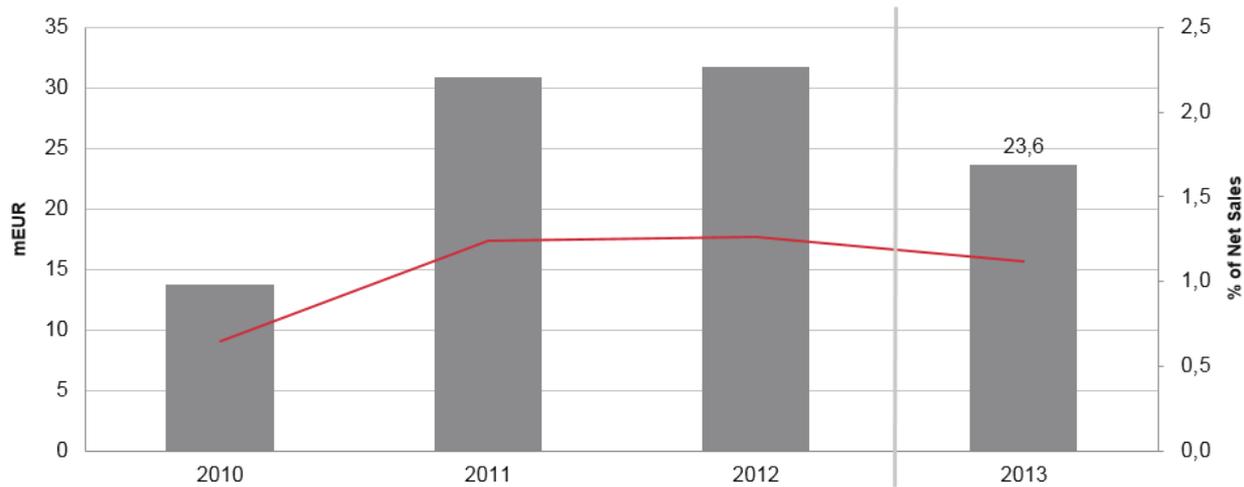


*) Excluding non-recurring items

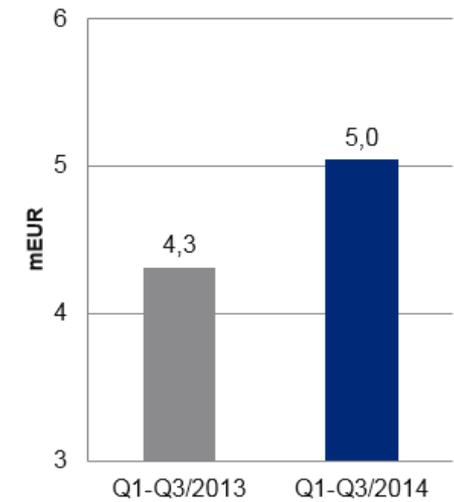
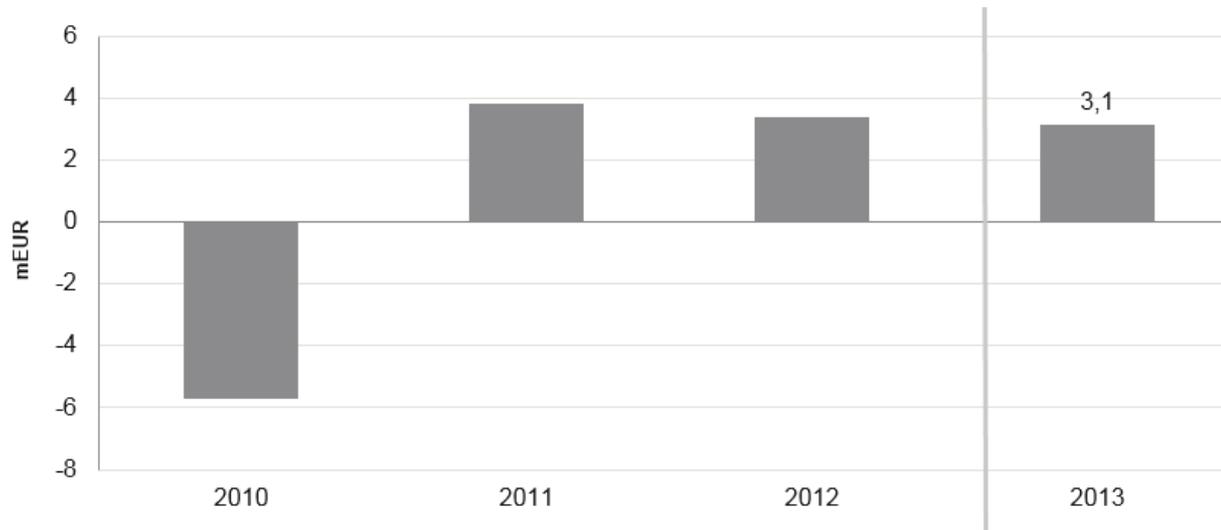
Group EBIT Development



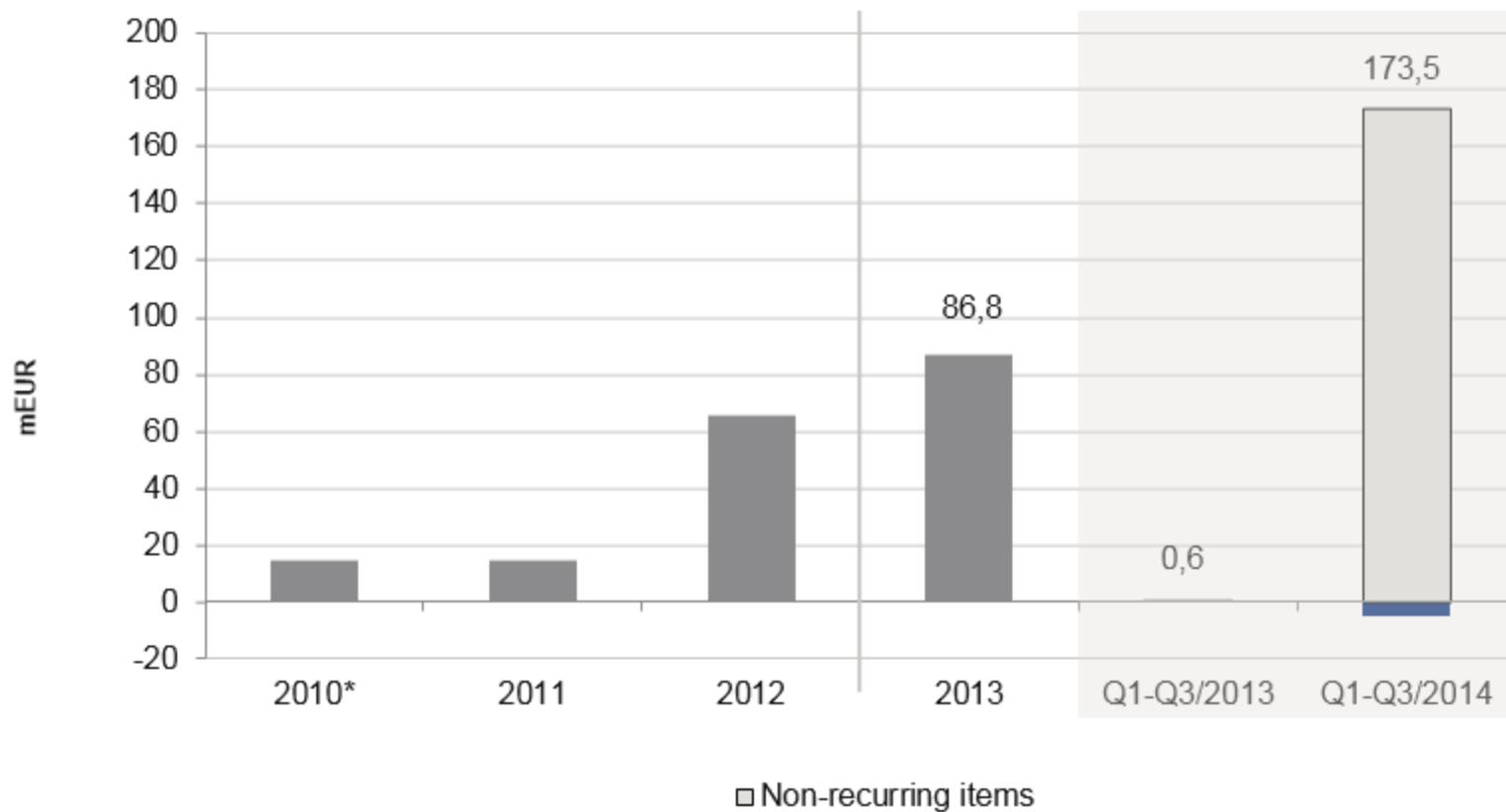
Group Net Financial Expenses



Group Income Tax

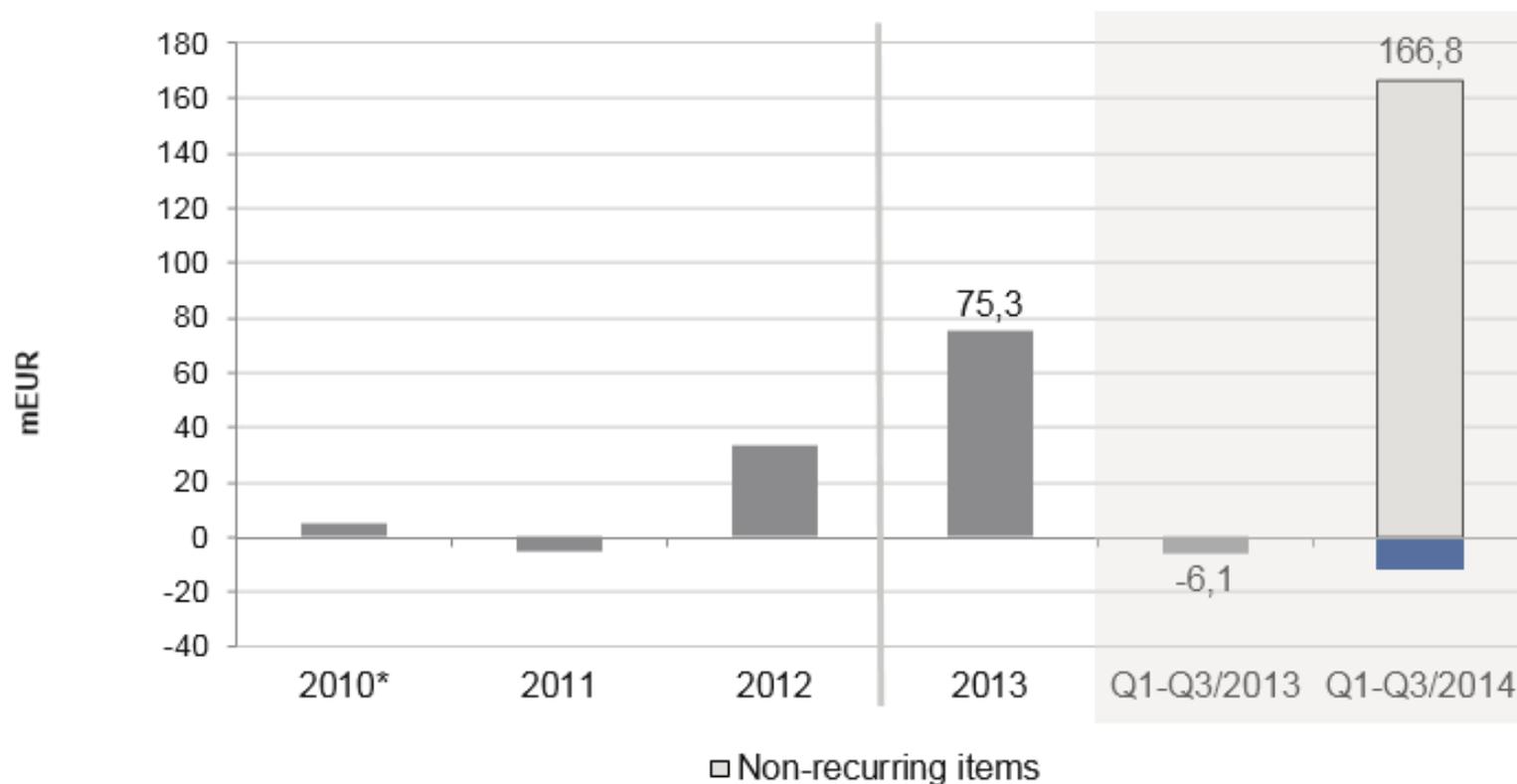


Group Cash Flow before Debt Service



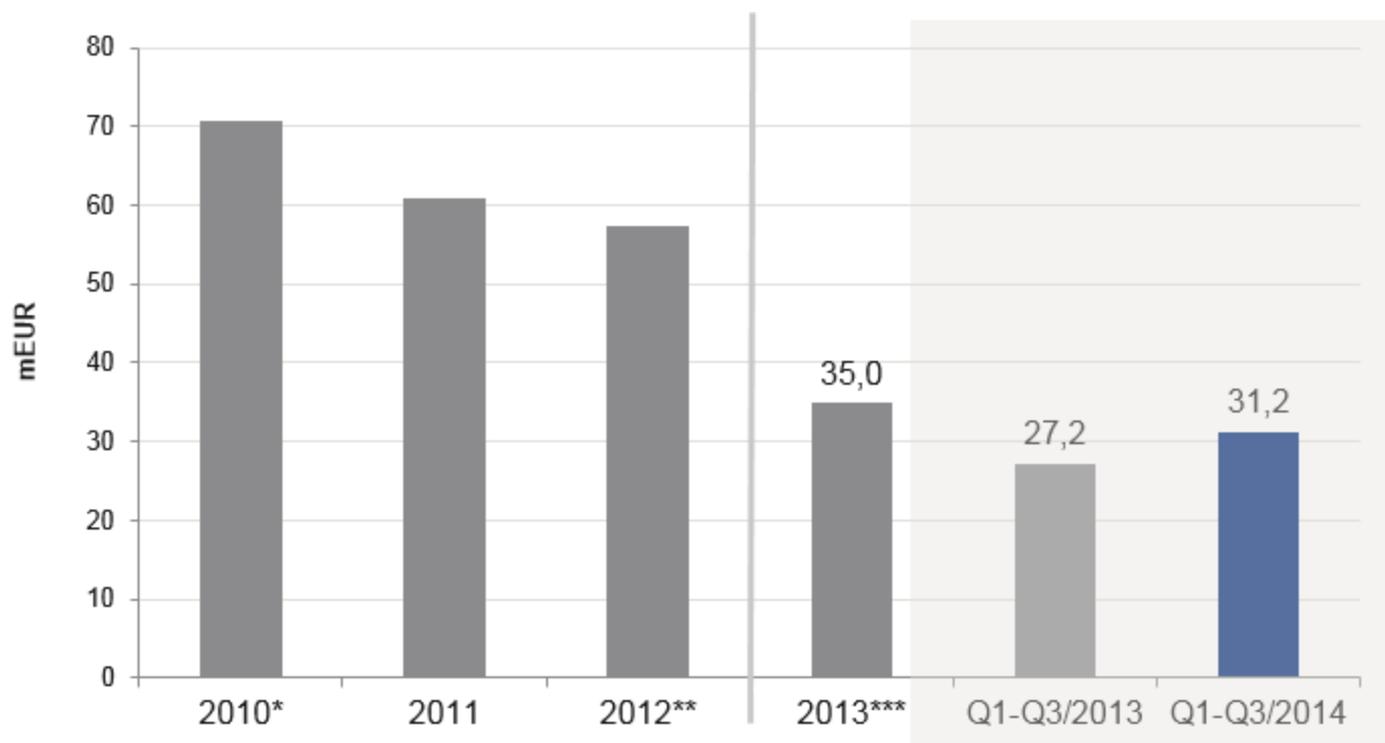
* Excluding acquisition price of Rose Poultry A/S, EUR 23.4 million

Group Cash Flow before Financing Activities



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

Group Investments

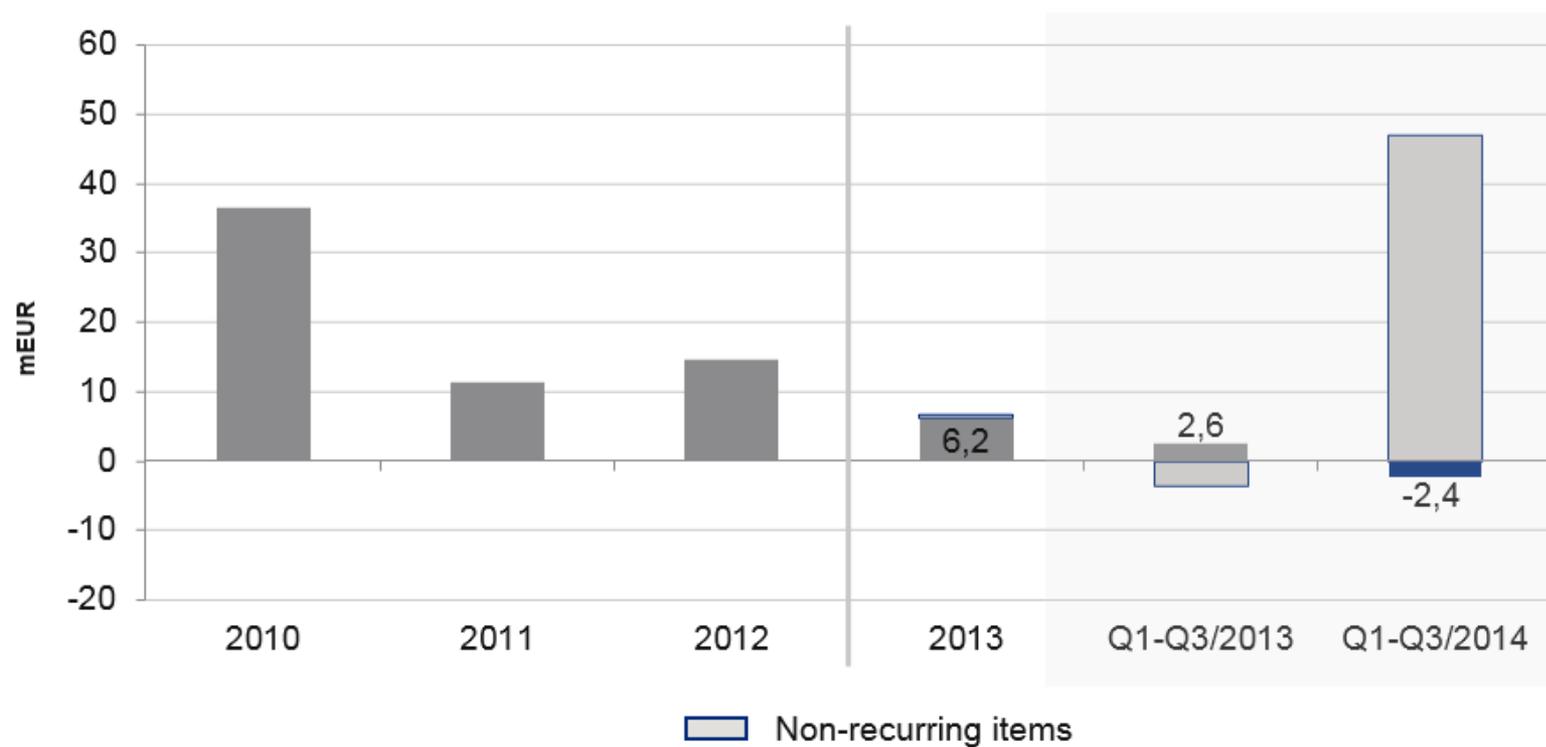


* Excluding acquisition price of Rose Poultry A/S, EUR 23.4 million

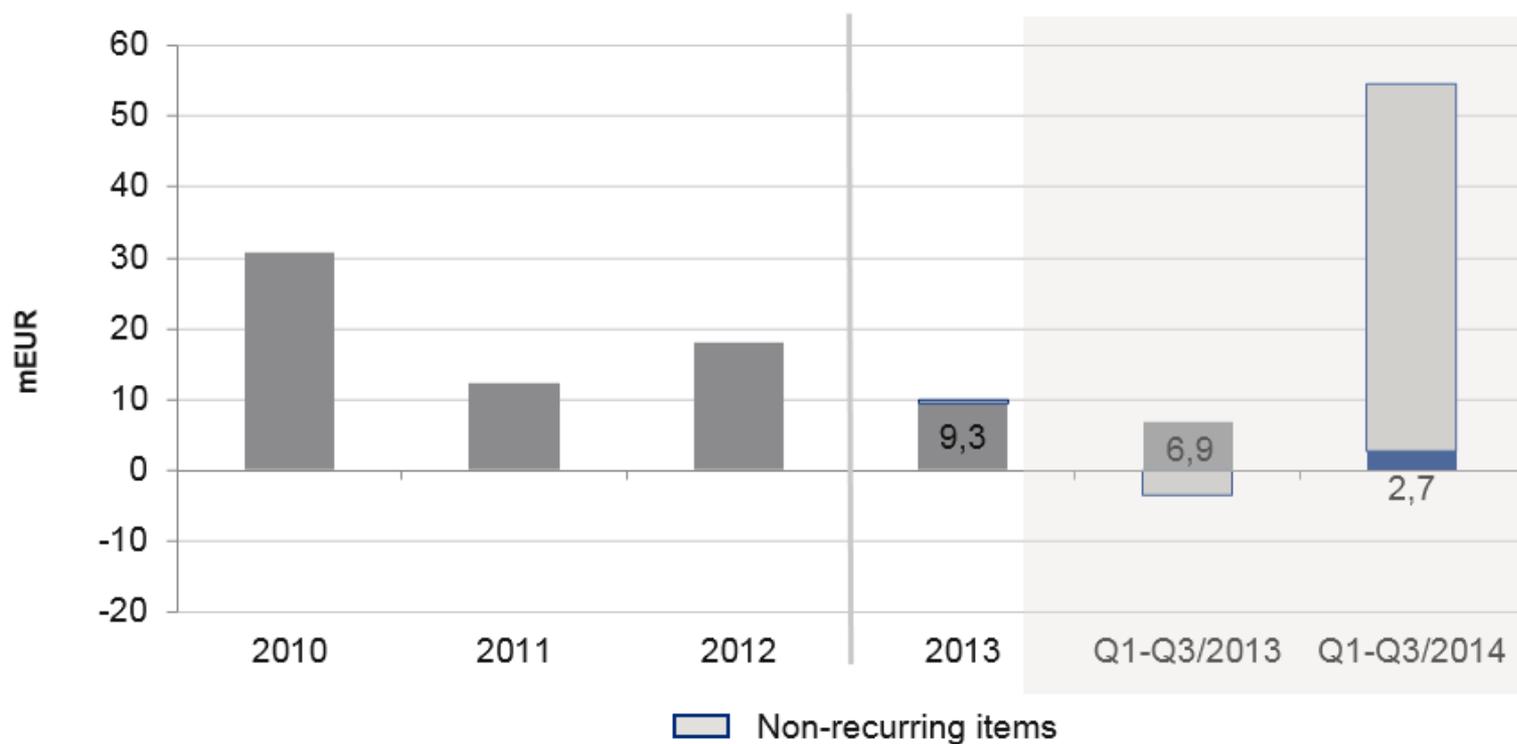
** EUR 57.3 million excluding rebuild of the Vinderup plant EUR 19.3 million

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

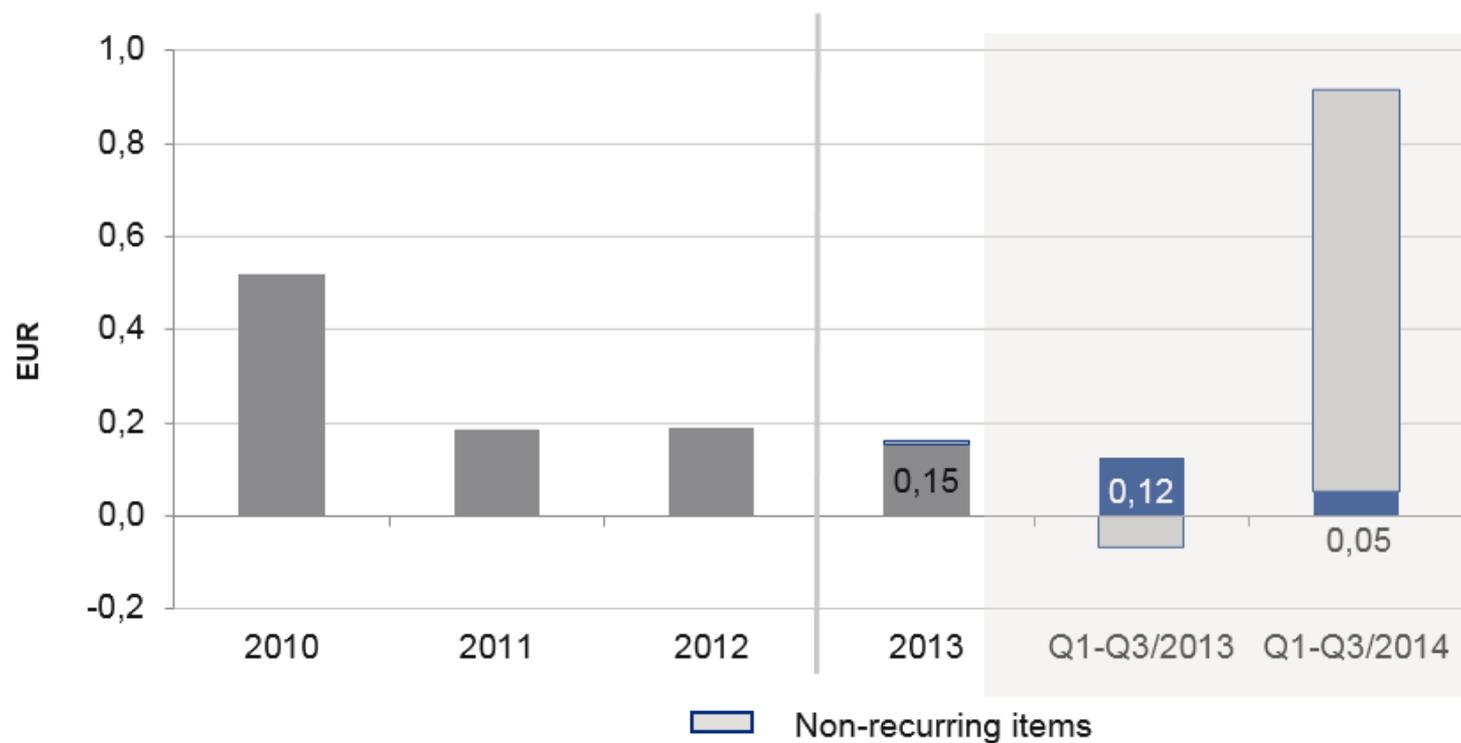
Profit before Taxes



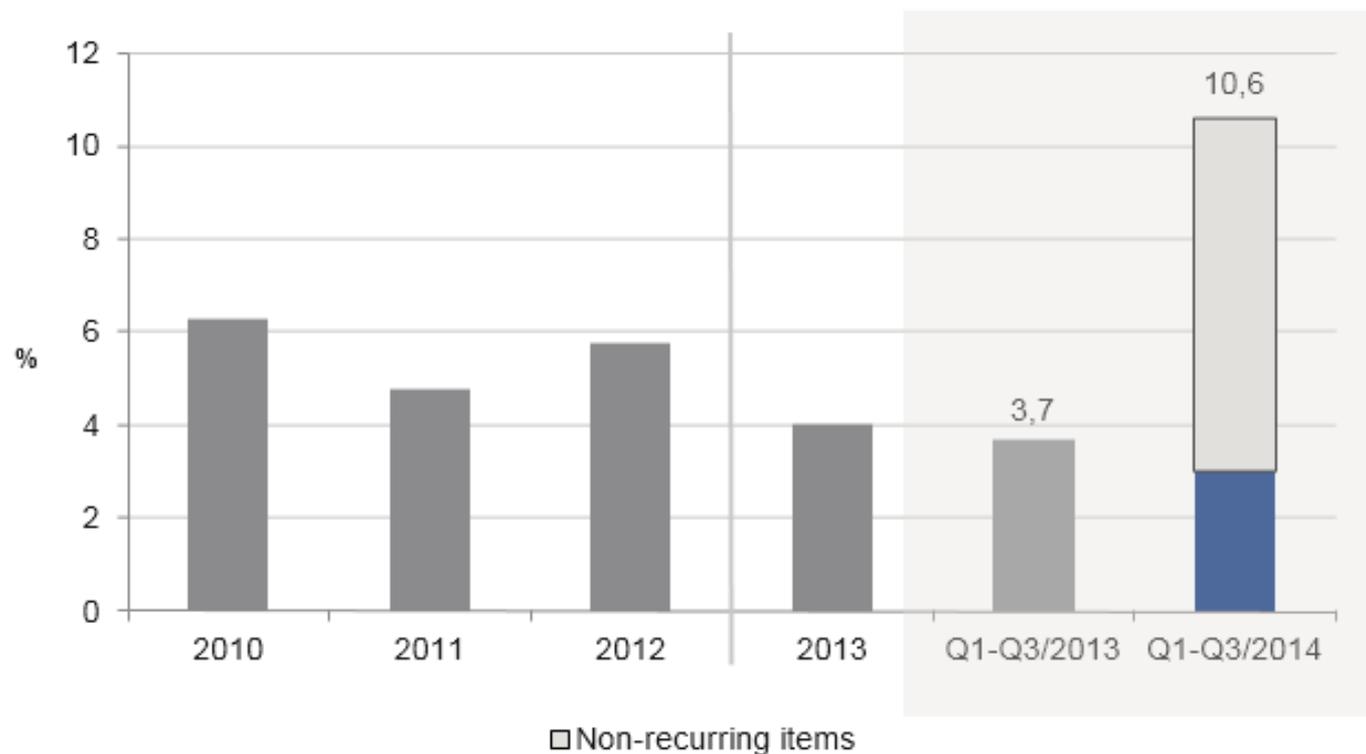
Profit for the Period



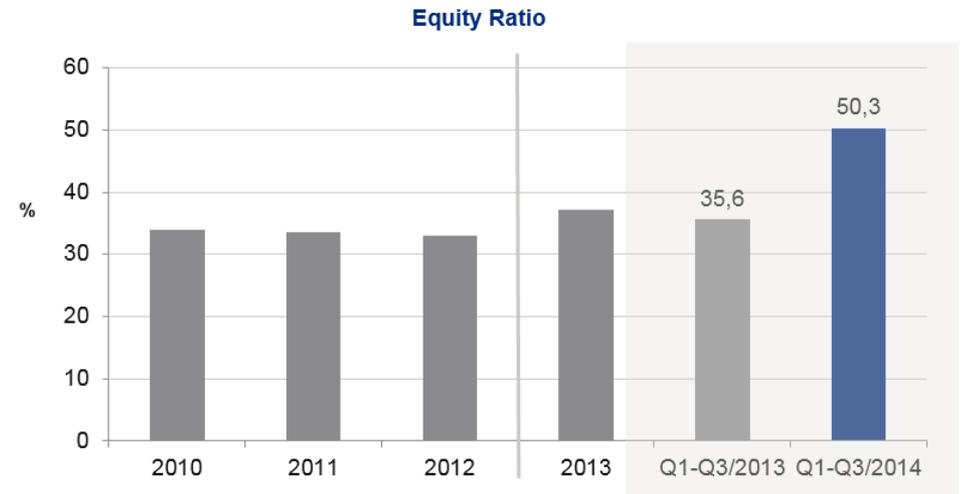
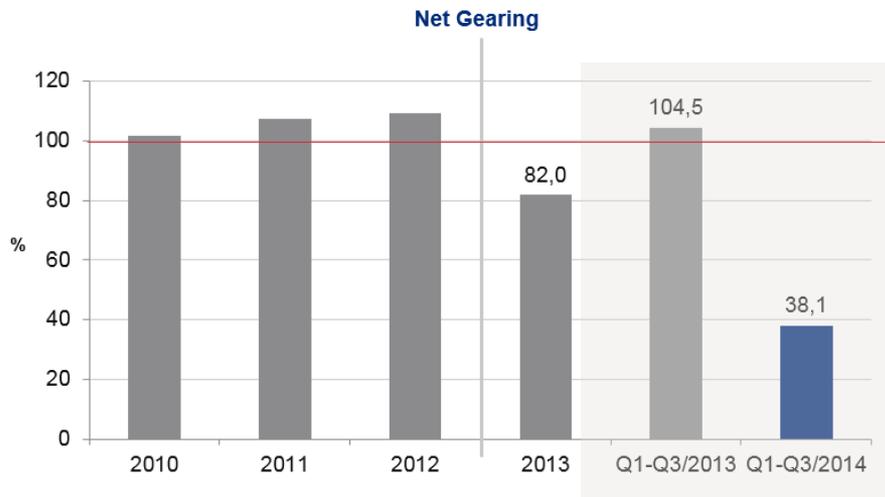
Earnings per Share (EPS)



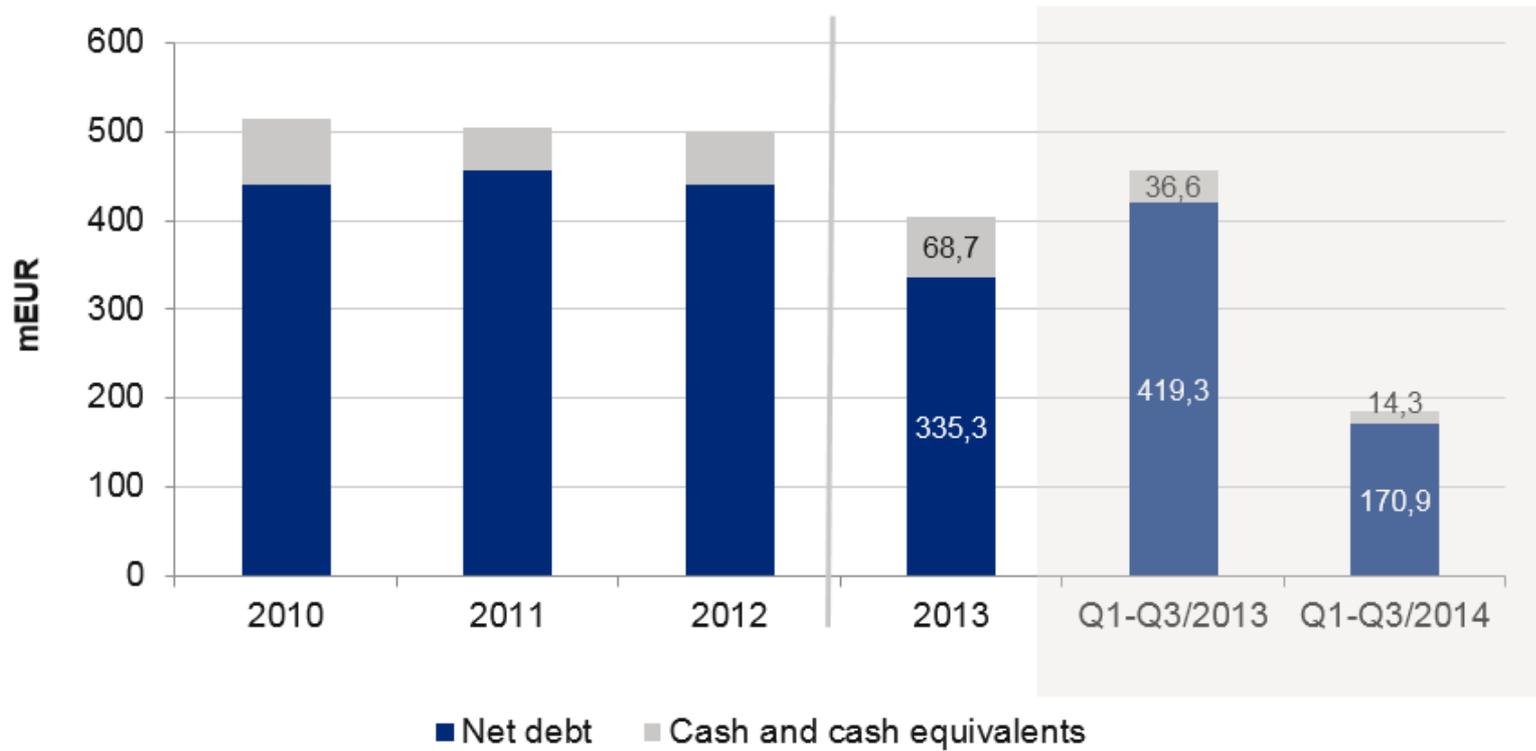
Return on Capital Employed (ROCE)



Net Gearing and Equity ratio

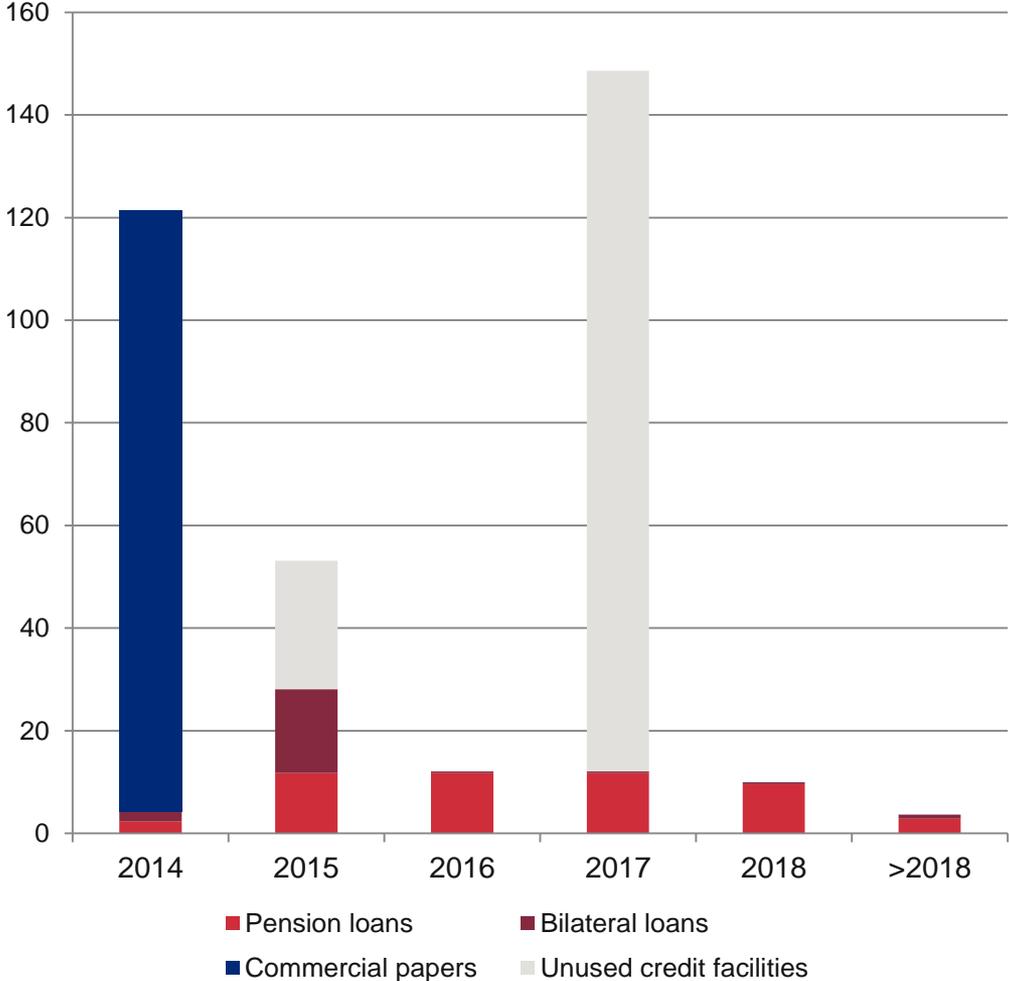
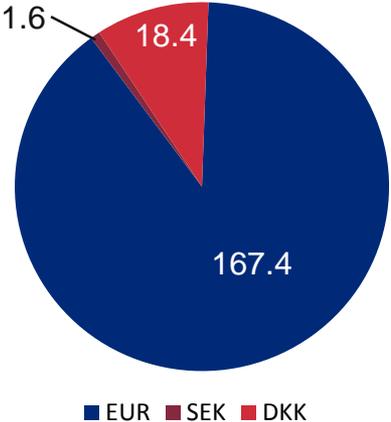
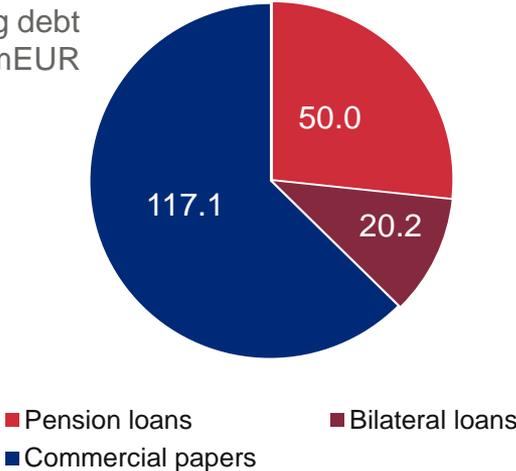


Net Debt

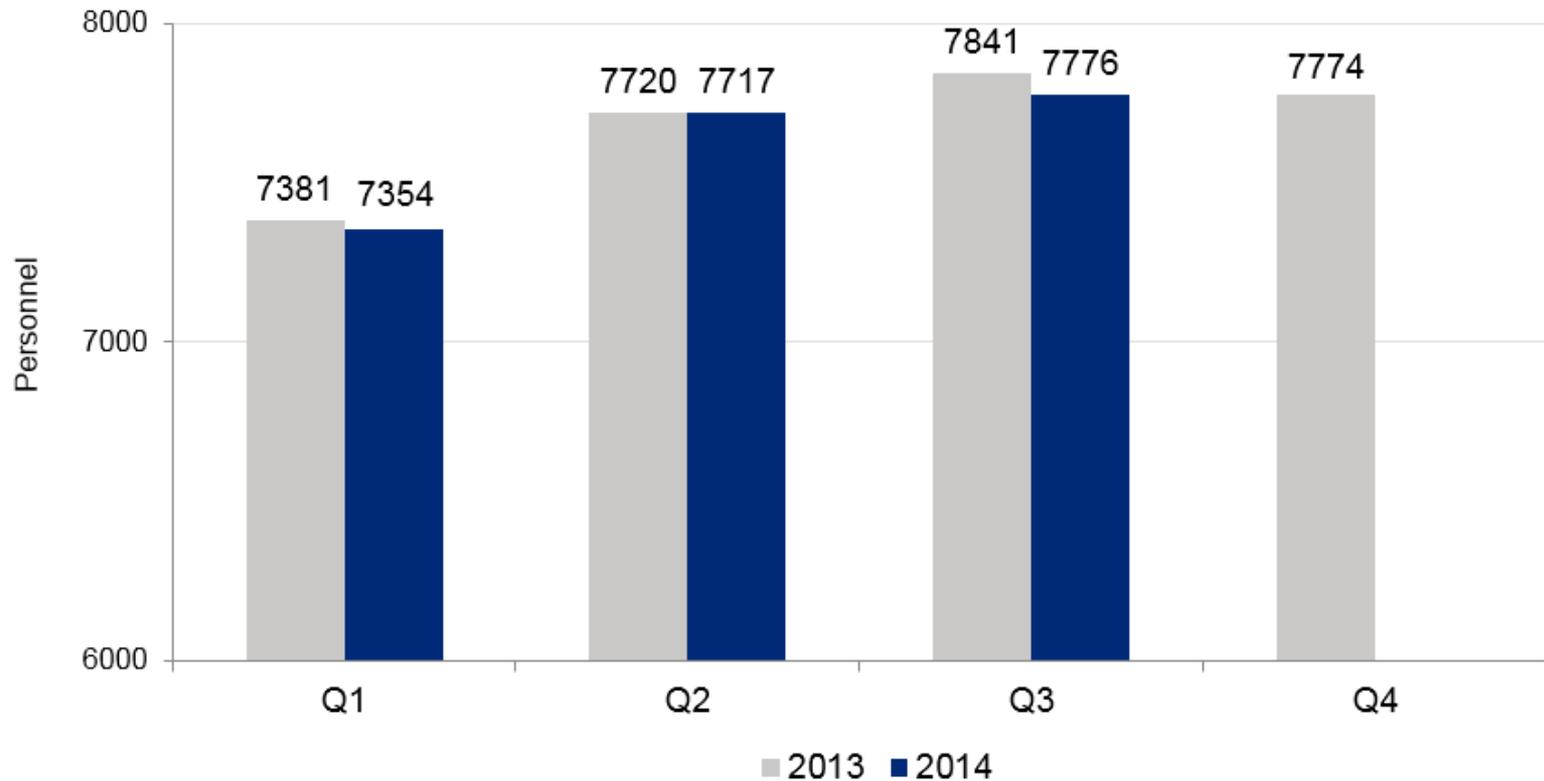


Interest-bearing debt and maturity structure

Total interest bearing debt 187,3 mEUR



Average Number of Personnel



Key Figures

EUR million	Q3/2014	Q3/2013	Q1-Q3/2014	Q1-Q3/2013	2013
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- EBIT %	1,5	1,4	-0,1	0,3	0,5
Profit before taxes	5,8	5,3	46,9	-1,1	6,7
Profit for the review period	5,6	7,0	52,0	3,3	9,8
EPS, EUR	0,10	0,12	0,97	0,06	0,16
Cash flow before debt service	16,3	6,3	173,5	0,6	86,8
Cash flow before financing activities	14,0	0,9	166,8	-6,1	75,3
ROCE before taxes, %			10,6	3,7	4,0
Net debt			170,9	419,3	335,3
Net gearing, %			38,1	104,5	82,0
Employees, end of month average			7 776	7 841	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

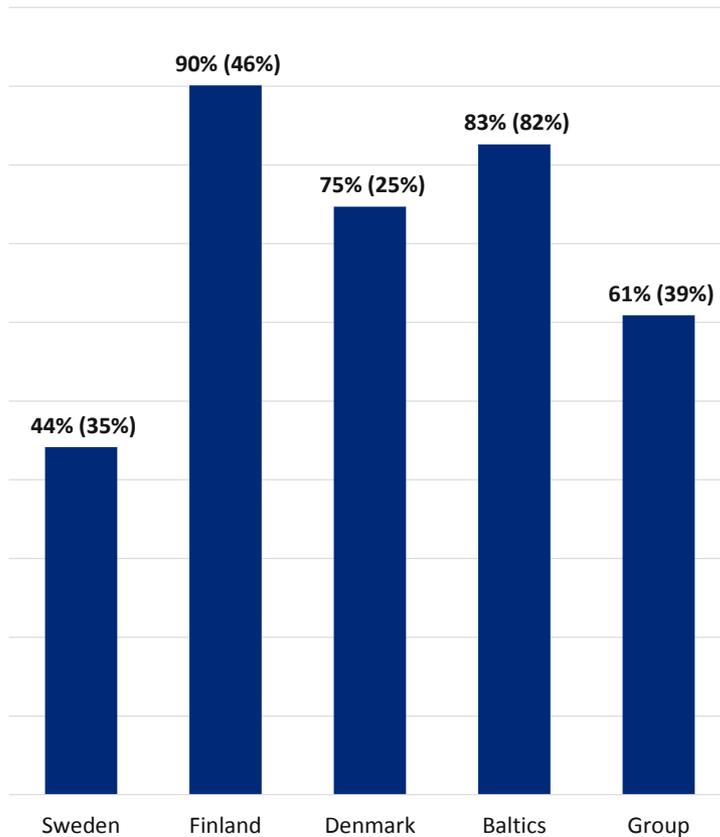
- Production yields
- Production costs
- Overhead costs

Working capital

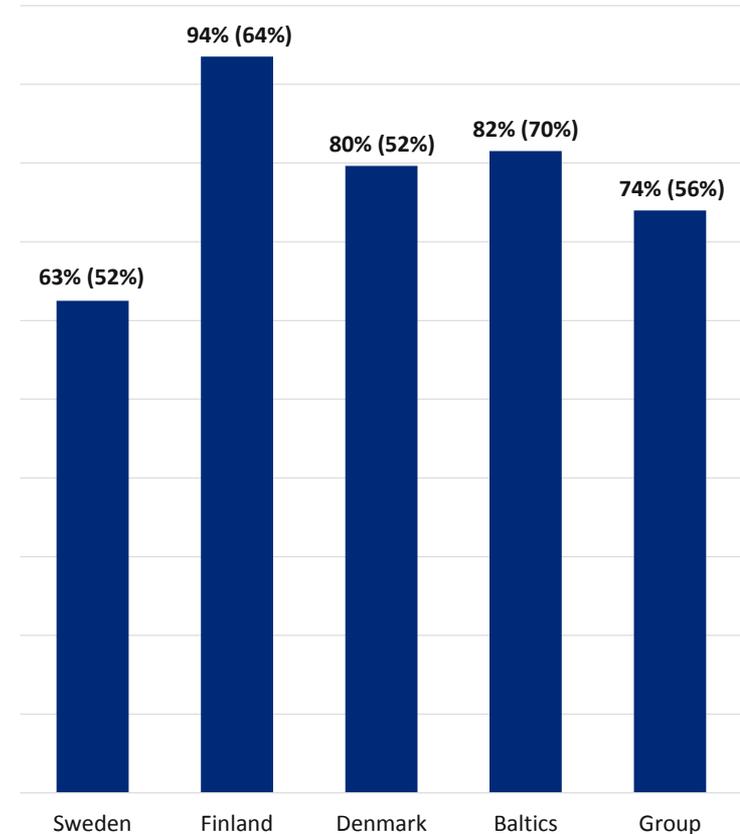
- Purchase payment terms
- Decrease in frozen stock

Development Programme 2014 – Completion Ratio (2/2)

Profit Improvement



Cash Flow Improvement



Outlook for 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. The corresponding full year figure for 2013 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's revised strategy for profitable growth

Consumer decides

“A fight for consumers’ calorie intake”

What to eat today?

Shall we cook something special during the weekend?

Where to find Rapeseed pork chops?

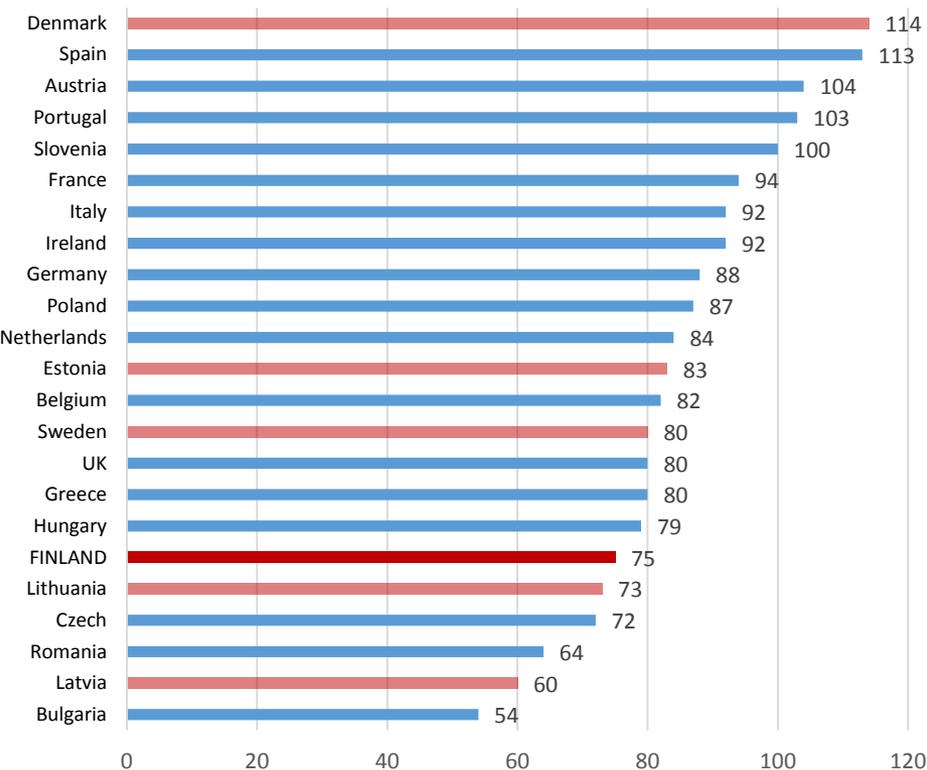
We like HK sausage bar – do you think they have it?

Black Angus is the best! Where to get entrecote steaks?

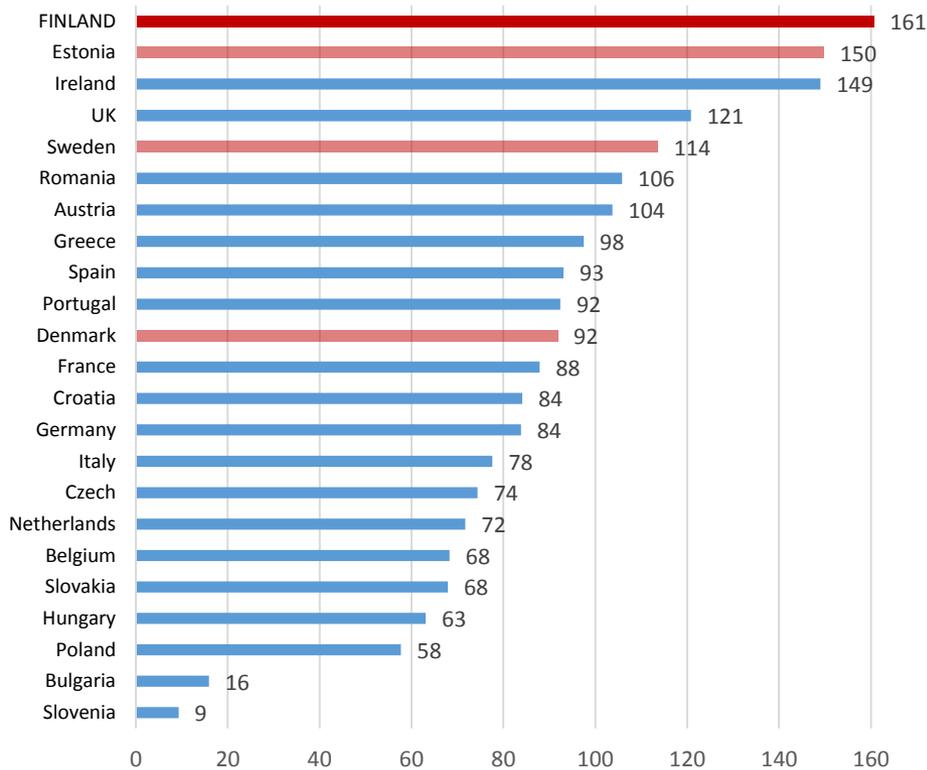


Consumption of meat and dairy products per capita - EU 2013

Meat consumption, EU 2013
kg per capita



Dairy products* consumption, EU 2013
kg per capita



* Milk, cheese and butter in total

Source: IDF

HKScan's Must-win battles 2012-2015

Building brand value and demand



Upgrading group operational efficiency



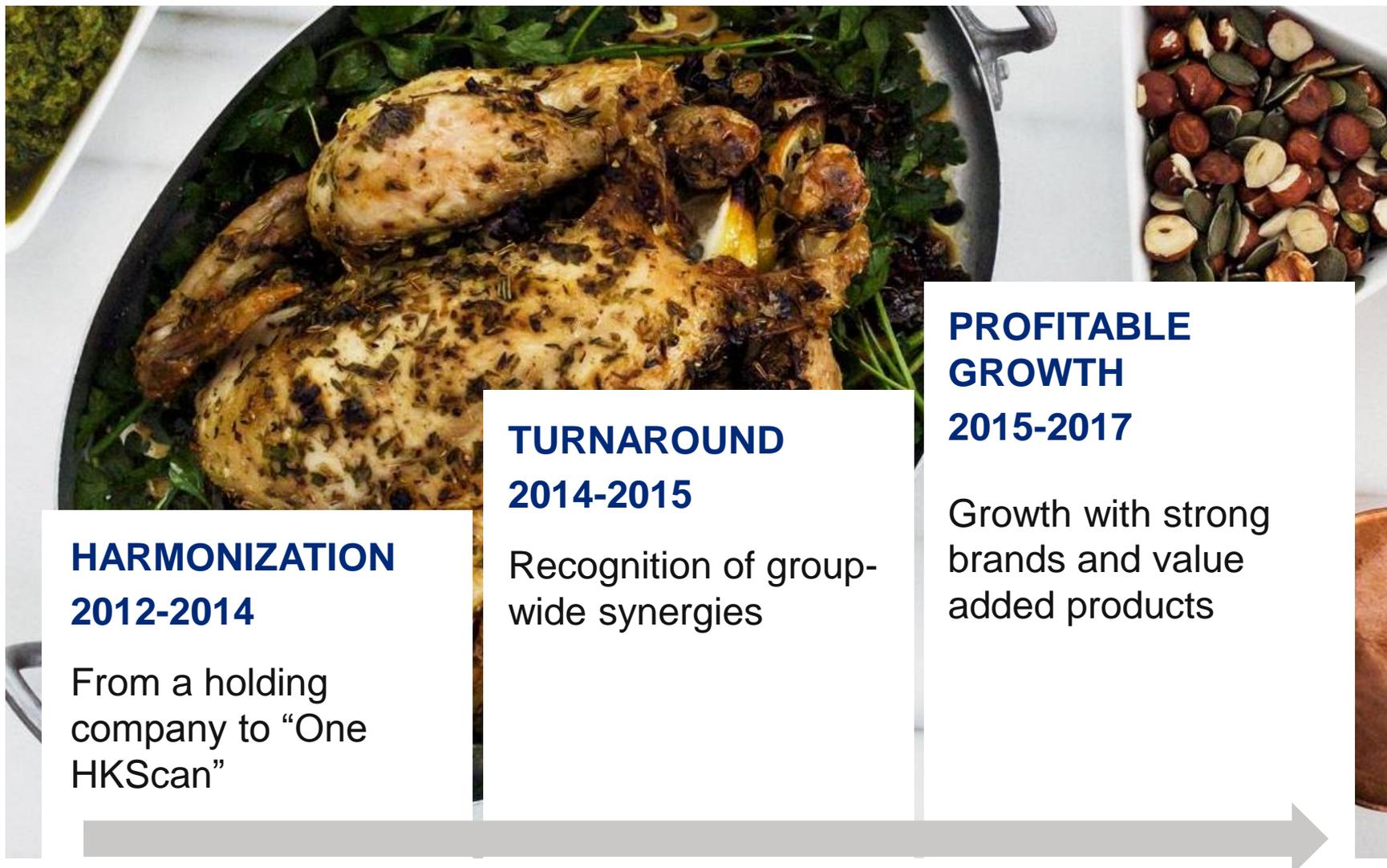
Managing actively future business dynamics



Improving capital structure and group reporting



HKScan roadmap



HARMONIZATION 2012-2014

From a holding company to “One HKScan”

TURNAROUND 2014-2015

Recognition of group-wide synergies

PROFITABLE GROWTH 2015-2017

Growth with strong brands and value added products

Several market drivers support our business

Global growth in meat demand



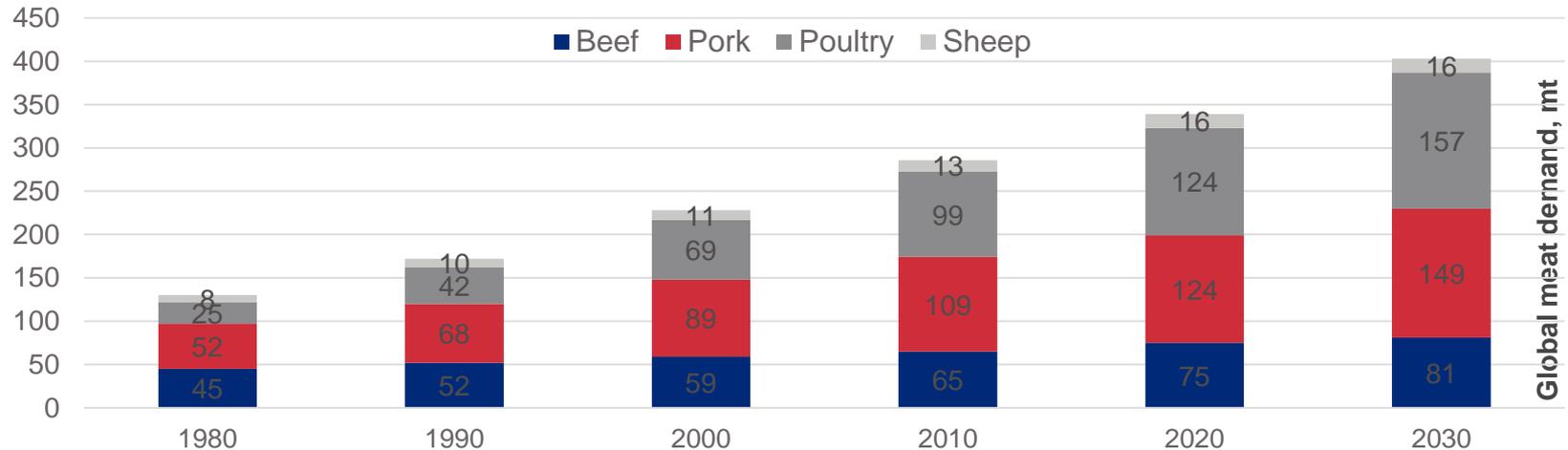
Meat industry competition favours larger players



Urban lifestyles increase the demand for convenience food



Pure and sustainable Nordic meat is valued by consumers



Source: OECD-FAO

HKScan's strengths

1

Strong brands and meat expertise in Nordics and Baltics

2

Leading market position in all home markets

3

Excellent geographical location for operational synergies

4

Strong balance sheet enabling the execution of profitable growth strategy

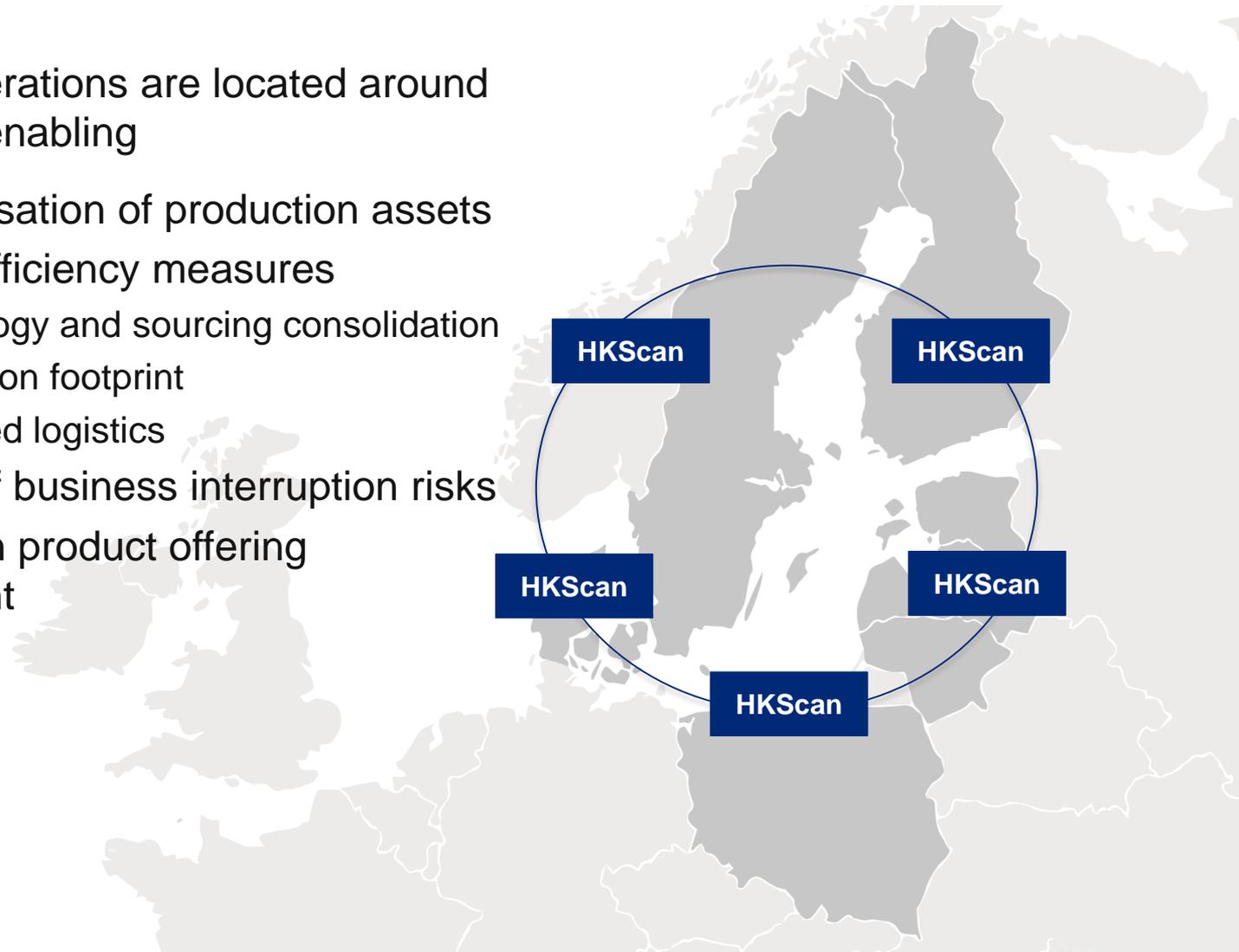
5

Strong turnaround actions underway

Excellent geographical location supports operational efficiency measures

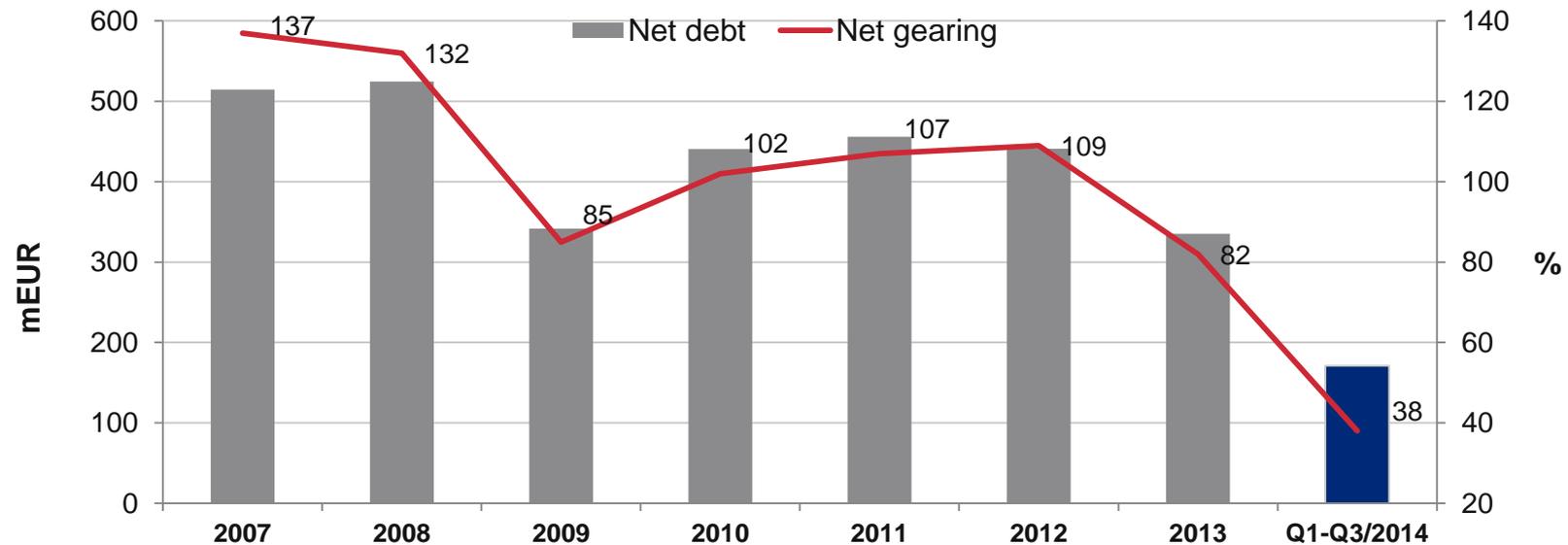
All HKScan operations are located around the Baltic Sea enabling

- Flexible utilisation of production assets
- Structural efficiency measures
 - Technology and sourcing consolidation
 - Production footprint
 - Simplified logistics
- Mitigation of business interruption risks
- Synergies in product offering development



Strong balance sheet enables the strategy execution

- HKScan balance sheet is one of the strongest among the EU meat industry
- Current financial position provides a good platform for executing the Group's profitable growth strategy
- Healthy balance sheet results in remarkable decrease in net financial expenses



Must-win battles 2015-2017

Renew
customer,
consumer
and channel
approach



Develop
brands and
offerings



Invest
for growth



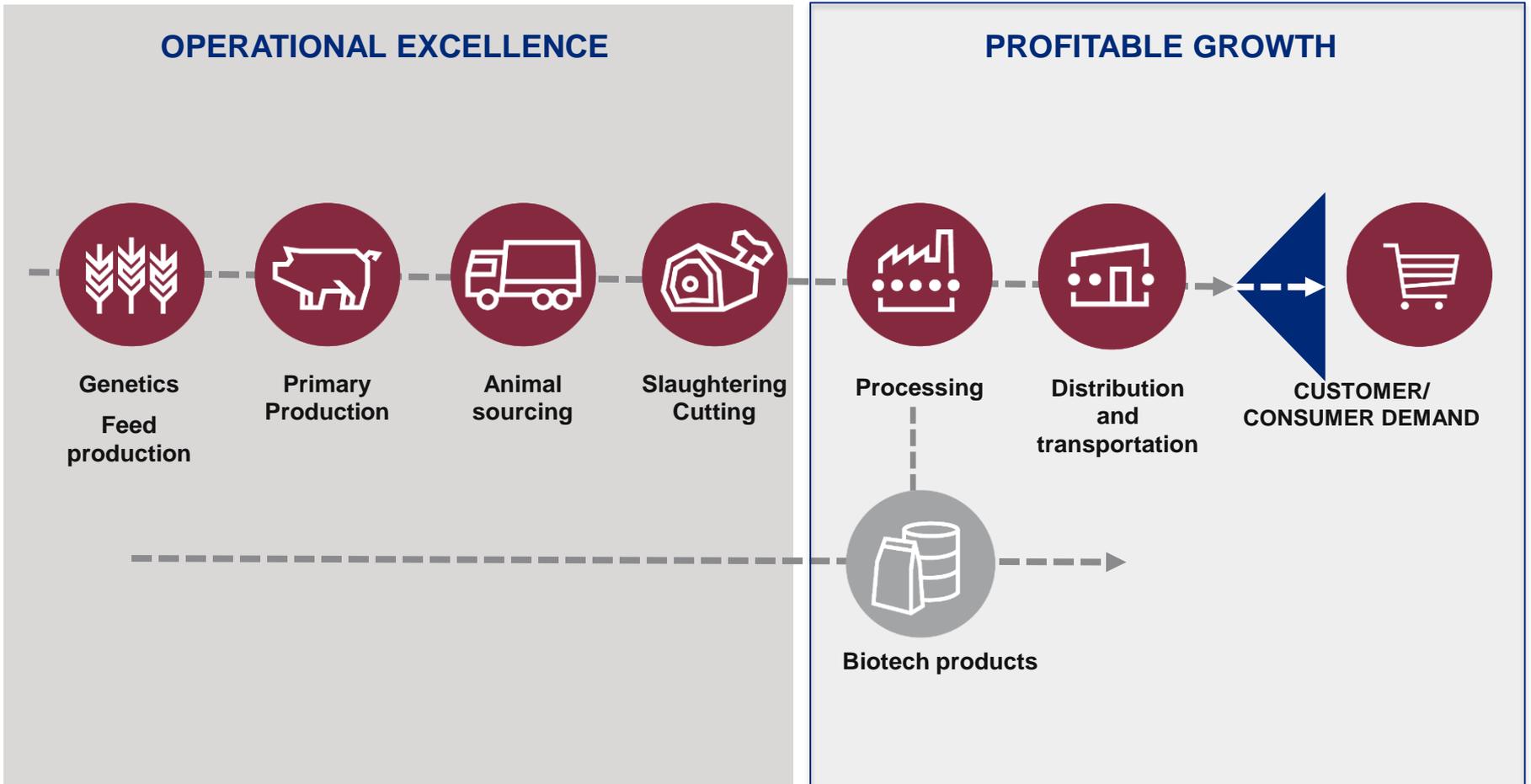
Drive
continuous
improvement



Brand portfolio development



Focus on consumer and value added meat



Leaders manage innovation as a portfolio of ambitions...

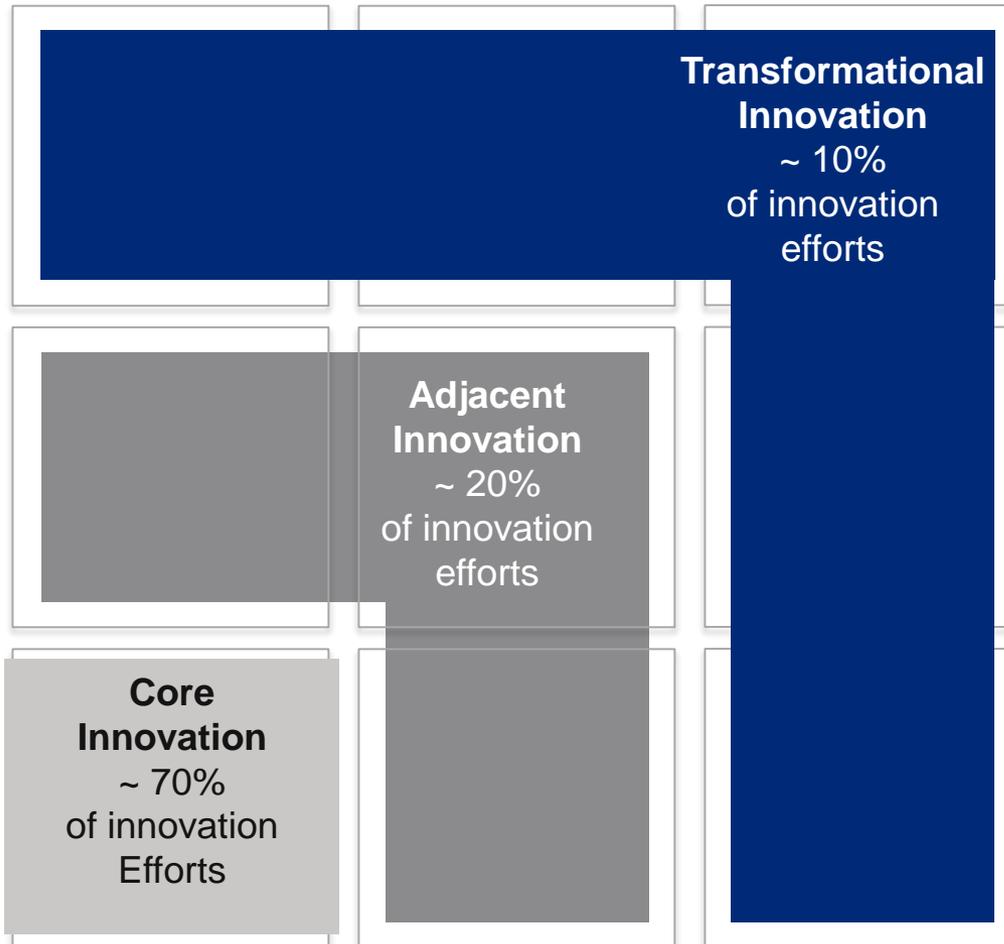
WHERE TO PLAY



Create new markets and audience

Enter new markets and audience

Served markets and audiences



HOW TO WIN



Leverage best practices

Extensions, enhancements, improvements

New businesses and structures

Source: Dublin / Deloitte Consulting

Ensuring supply chain quality from nose to tail



HKSCAN



3 TYPES:



Source: Dublin / Deloitte Consulting

A group of four people are seated around a dining table in a restaurant. A man on the right is pouring water from a white pitcher into a glass held by a woman in the center. They are all smiling and engaged in conversation. The table is set with plates of food, including a steak and broccoli, and glasses of water. A semi-transparent white box is overlaid on the center of the image, containing the text 'HKSCAN' and 'Thank you!'.

HKSCAN

Thank you!