



HKSCAN

Interim report Q1-3/2016

Aki Laiho, COO
2 November 2016

Meat business environment in Q1-3/2016



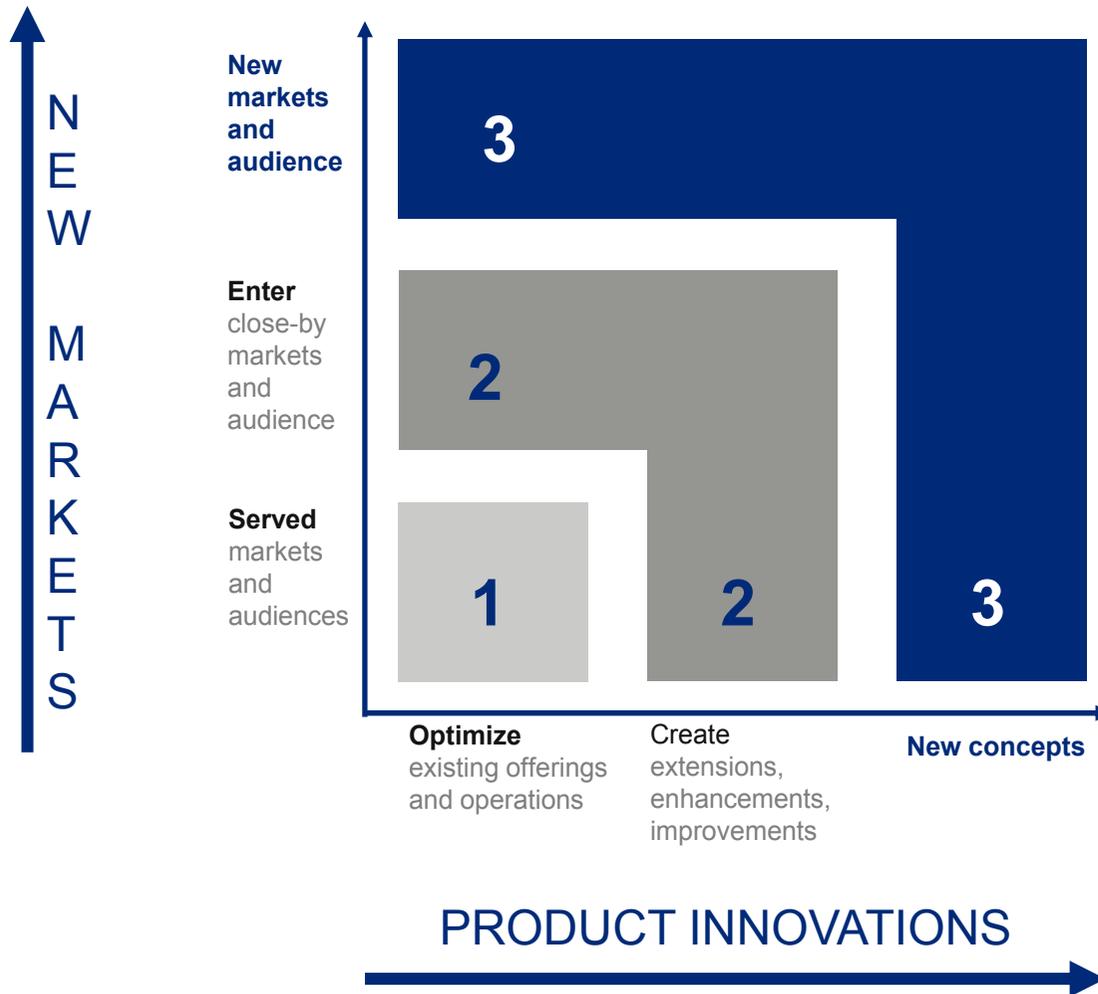
- The Nordic meat market remained challenging
 - Growth in Sweden and Denmark
 - Decline in Finland and the Baltics
- Meat prices generally low and price competition in retail continued
- Unbalance in animal raw material supply has influenced the business throughout the year
 - Low beef raw material availability and rapidly increasing purchase prices, especially in Sweden
 - In Finland pork supply volumes stabilizing thanks to ongoing special actions
- Risks related to African Swine Fever prevail in the Baltics (Estonia)
 - Activities for mitigating the spread to own farms continue

Extracts from the third quarter



- Development of the BBQ assortment succeeded well on all home markets
- Profitability of exports improved thanks to recovered export prices of pork
- Finland succeeded in increasing its sales and EBIT despite the declining market and decreasing sales prices
- Sustainability related communications activities in Sweden under “Framtidens Kött” (Meat of the Future) concept

2016–2018: Focus on new markets and new products



Source: Modified from Doblin, Ten Types of Innovation

Focus on new products

New concepts and concept extensions



Source: Modified from Doblin, Ten Types of Innovation

The Finnish Rauma poultry plant



- The project is proceeding on schedule and according to plan
- Construction will be completed in spring 2017
- Installation of equipment will begin in spring 2017
- The plant will be commissioned in autumn 2017

The Polish Świnoujście bacon plant

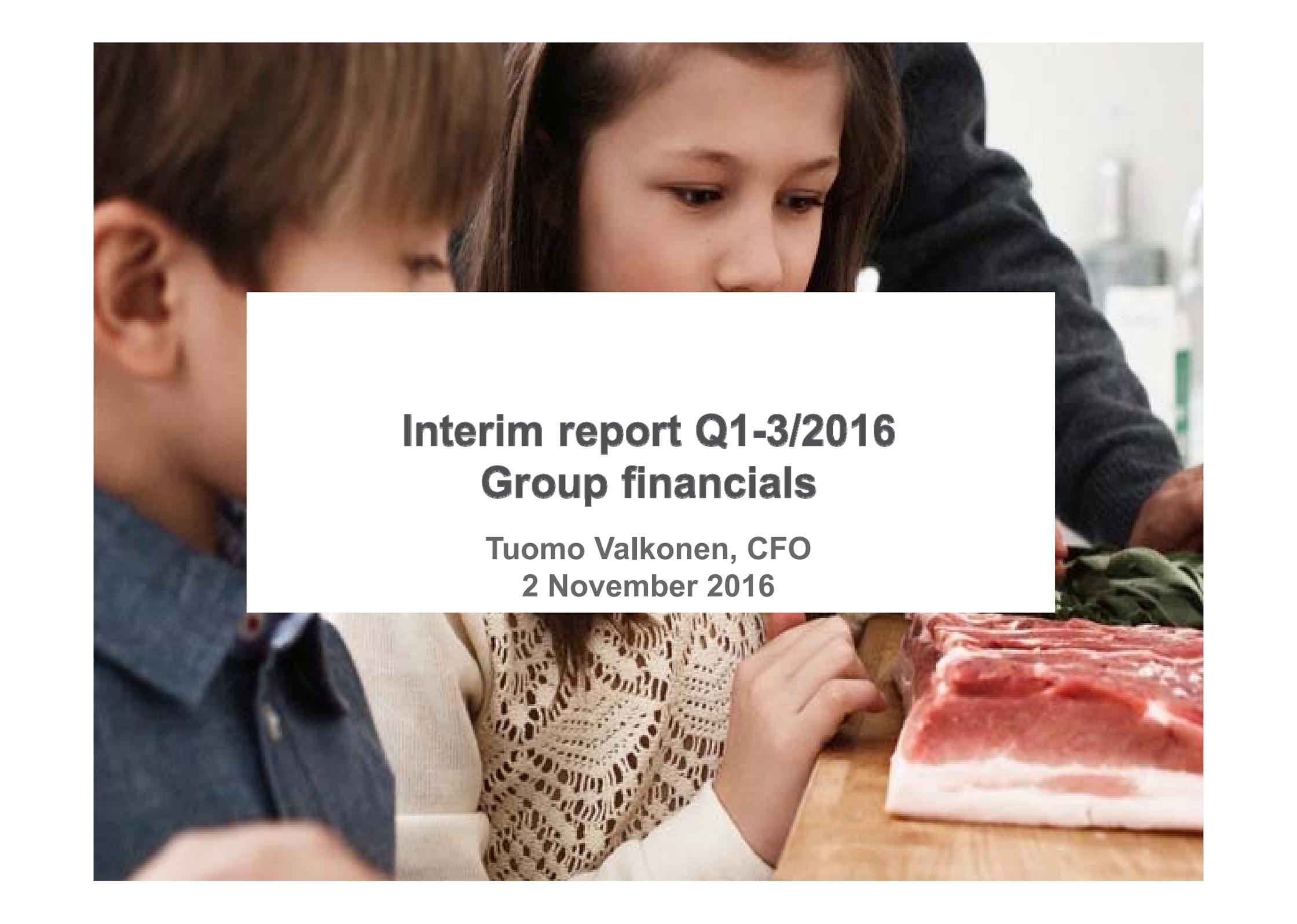


- Design phase of the expansion investment in progress
- Contract negotiations with architect on a final path
- Machine supplier selection on-going
- Final requirements re. building and technology under definition

Agreement for contract slaughtering with Ello i Lammhult AB in Sweden



- HKScan Sweden AB has signed an agreement for contract slaughtering with Ello i Lammhult AB in the Småland locality of Lammhult in Sweden.
- The new agreement
 - Will improve the availability of Swedish beef sourced by HKScan in Sweden, ca. 3-5 per cent on an annual basis
 - Enables HKScan to establish a stronger foothold in Southern Sweden and deliver benefits to local beef producers
 - Around 1000 Ello's contract producers will have the opportunity to sign a production agreement with HKScan and benefit from HKScan's producer services
- The agreement marks the continuation of long-term collaboration between HKScan and Ello, bringing mutual benefits to both partners as well as to local beef producers in Sweden

A photograph of children in a kitchen. In the foreground, a young girl with long dark hair is looking down at something on a wooden table. To her right, a large piece of raw meat, possibly pork belly, is visible. In the background, another child is partially visible, and a person's arm in a dark sweater is seen. The scene is brightly lit, suggesting a kitchen environment.

Interim report Q1-3/2016
Group financials

Tuomo Valkonen, CFO
2 November 2016

**Net sales and EBIT still behind
the previous year,
although EBIT improved
for the third quarter**

HKScan Group Q1-3/2016

- Group's net sales decreased both for Q1-3 and in Q3
 - Finland grew – higher sales volume and better product mix
 - Other market areas behind – especially Sweden due to lower sales performance with processed products and shortage of beef
- BBQ assortment and novelties developed well on all the market areas
- Group's EBIT lagged behind for Q1-3
 - Sweden declined – lower sales volume and unfavourable product mix, high animal purchase price in beef
 - Finland declined – in H1 rise in operational costs due to i.a. pork oversupply
 - Denmark and Baltics improved
- Group's EBIT over the previous year in Q3
 - Finland and Baltics up – Finland gained in sales margin and Baltics in operational costs
 - Sweden and Denmark down – Sweden due to sales volume and product mix
- Group's inventories slightly up due to increase in Sweden and Denmark, down in Finland and Baltics
- Profit warning on 21 October

HKScan Group

EUR million	Q3/2016	Q3/2015	Q1-Q3/2016	Q1-Q3/2015	2015
Net sales	465,9	474,9	1 387,7	1 415,6	1 917,1
EBIT	8,1	7,3	5,5	10,2	9,6
- % of net sales	1,7	1,5	0,4	0,7	0,5
Profit/loss before taxes	5,7	6,4	-1,3	4,5	2,2
- % of net sales	1,2	1,3	-0,1	0,3	0,1
Profit/loss for the period	4,3	5,1	-5,3	3,3	1,9
Comparable EBIT	8,1	7,3	7,2	10,2	21,5
- % of net sales	1,7	1,5	0,5	0,7	1,1
Comparable profit/loss before taxes	5,7	6,4	0,4	4,5	14,1
- % of net sales	1,2	1,3	0,0	0,3	0,7
EPS, EUR	0,07	0,09	-0,12	0,05	0,01
Return on capital employed (ROCE) before taxes, %			1,3	3,4	2,3
Comparable ROCE before taxes, %			3,6	4,4	4,3
Net gearing, %			39,8	34,6	33,8

Market area Sweden

EUR million	Q3/2016	Q3/2015	Q1-Q3/2016	Q1-Q3/2015	2015
Net sales	201,1	208,6	595,3	619,0	841,9
EBIT	5,3	7,2	9,7	12,7	21,1
- EBIT %	2,6	3,5	1,6	2,0	2,5
Comparable EBIT	5,3	7,2	9,7	12,7	21,6
- EBIT %	2,6	3,5	1,6	2,0	2,6

Market area Finland

EUR million	Q3/2016	Q3/2015	Q1-Q3/2016	Q1-Q3/2015	2015
Net sales	198,7	196,4	593,1	585,4	801,6
EBIT	4,6	2,8	7,6	10,2	4,9
- EBIT %	2,3	1,4	1,3	1,7	0,6
Comparable EBIT	4,6	2,8	7,6	10,2	16,3
- EBIT %	2,3	1,4	1,3	1,7	2,0

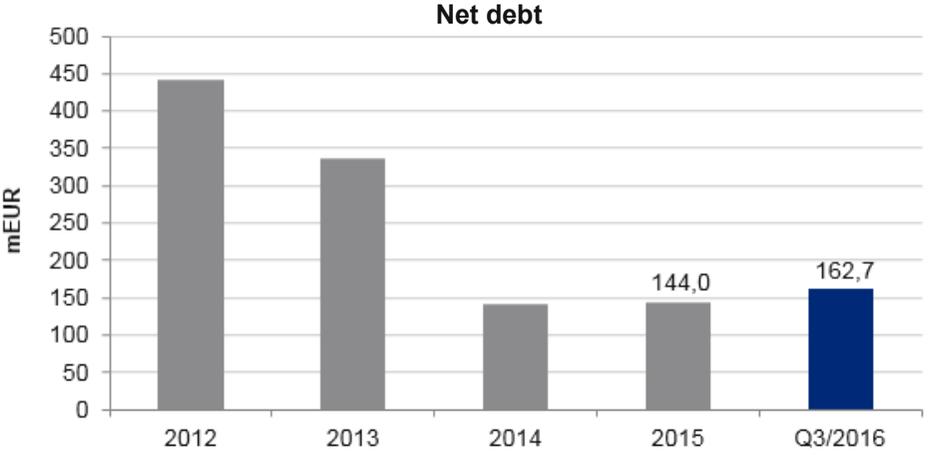
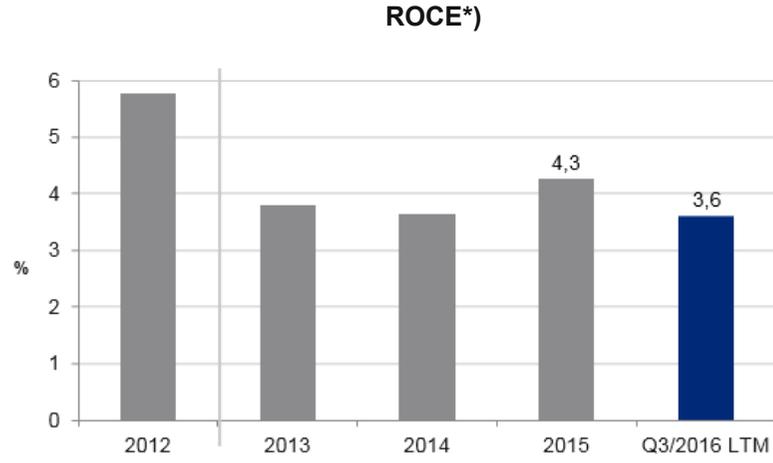
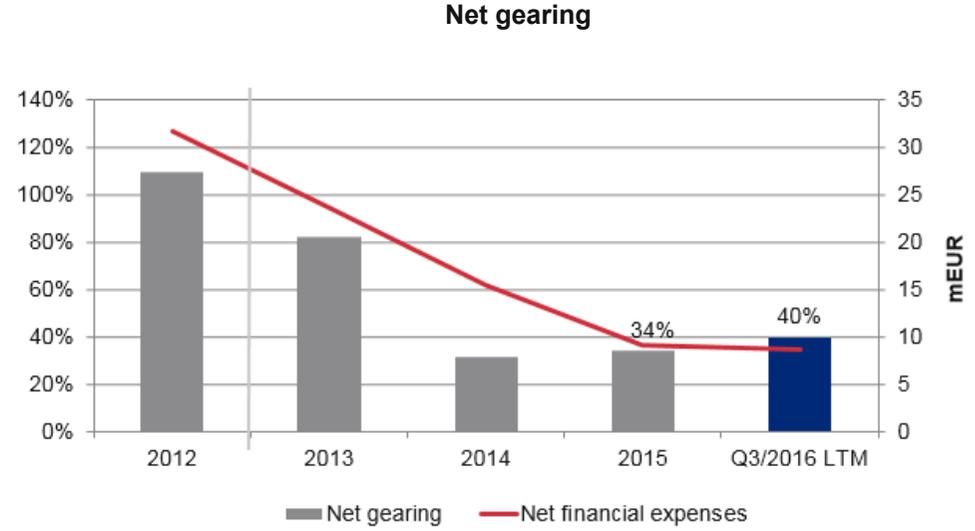
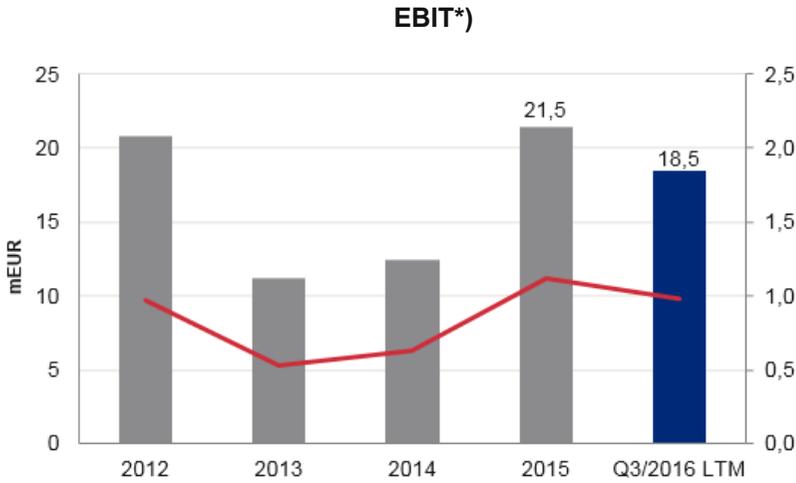
Market area Denmark

EUR million	Q3/2016	Q3/2015	Q1-Q3/2016	Q1-Q3/2015	2015
Net sales	42,6	43,8	133,9	138,2	175,9
EBIT	-2,1	-1,5	-6,9	-7,4	-9,3
- EBIT %	-4,9	-3,5	-5,2	-5,4	-5,3
Comparable EBIT	-2,1	-1,5	-6,5	-7,4	-9,3
- EBIT %	-4,9	-3,5	-4,8	-5,4	-5,3

Market area Baltics

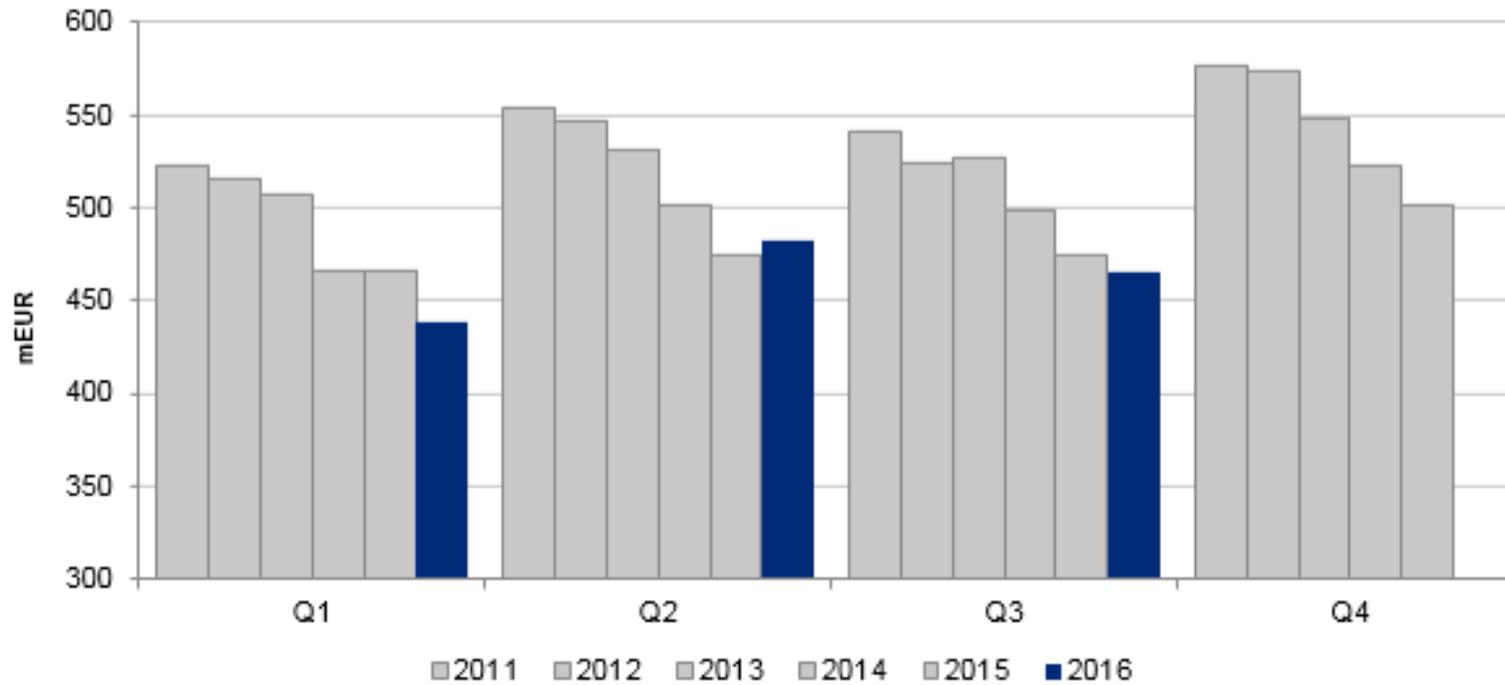
EUR million	Q3/2016	Q3/2015	Q1-Q3/2016	Q1-Q3/2015	2015
Net sales	41,4	44,8	120,9	130,3	173,6
EBIT	3,3	1,9	5,3	4,4	5,4
- EBIT %	7,9	4,2	4,4	3,4	3,1
Comparable EBIT	3,3	1,9	5,3	4,4	5,4
- EBIT %	7,9	4,2	4,4	3,4	3,1

Financial performance

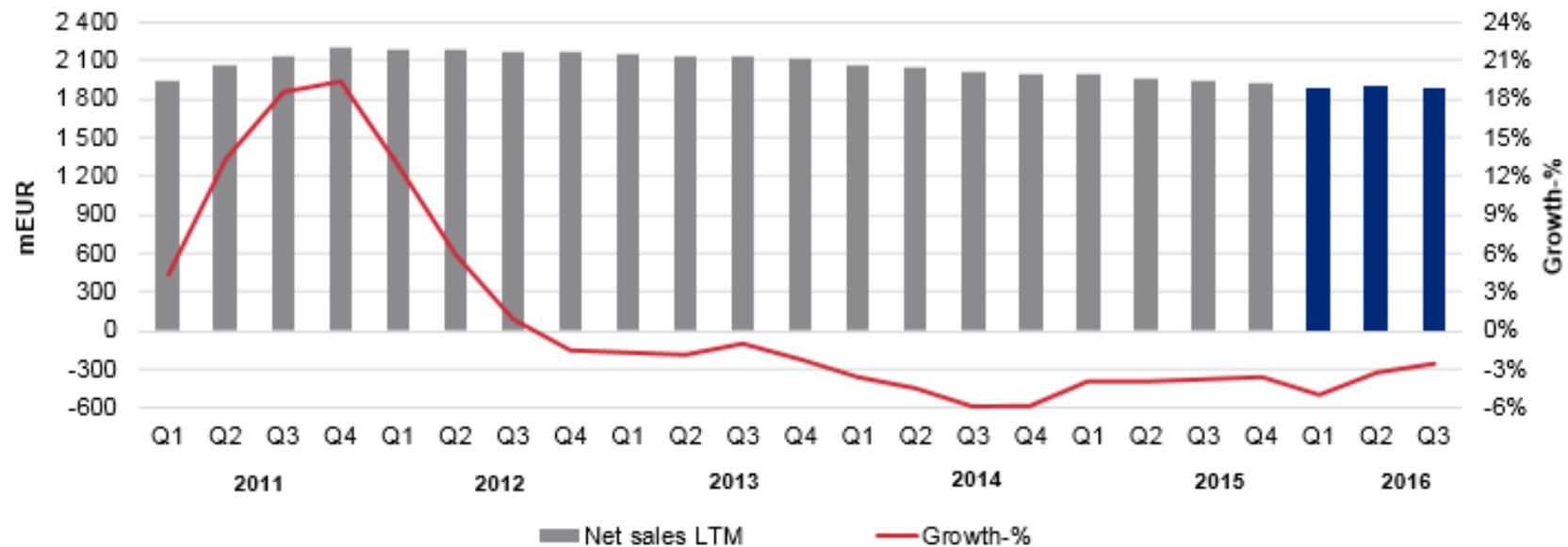


*) Comparable

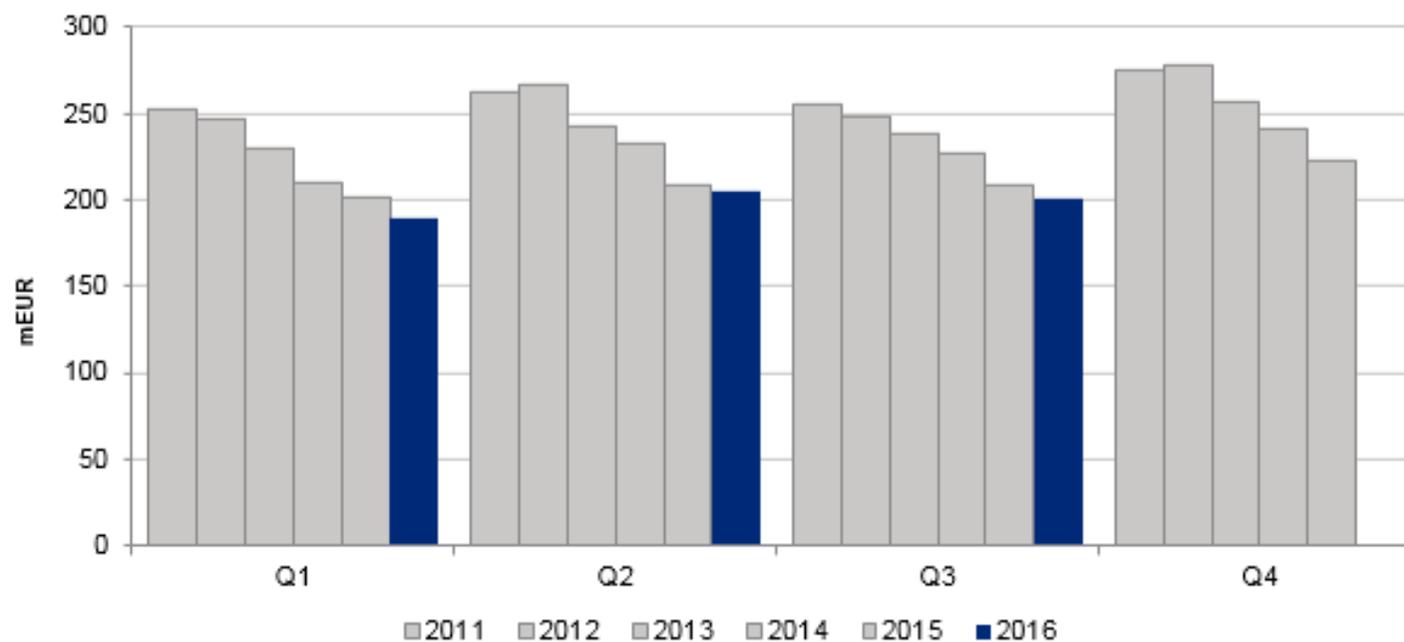
Group net sales



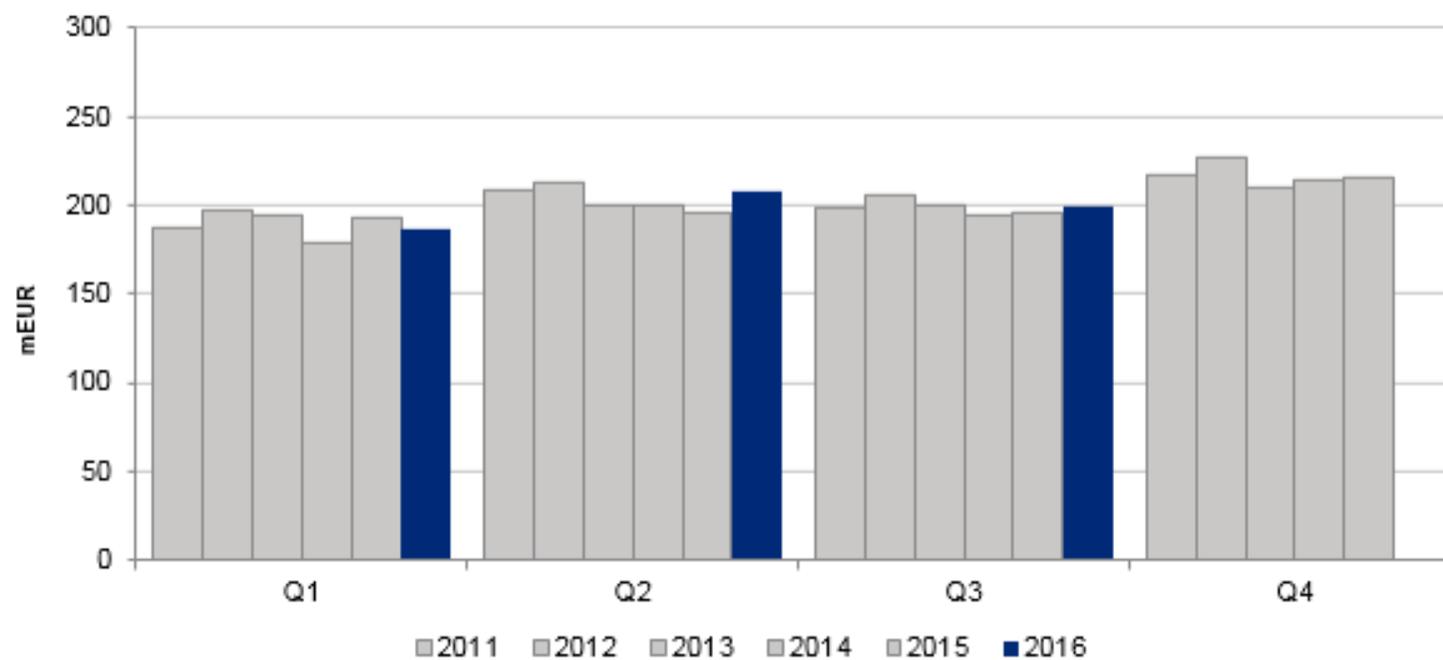
Group net sales, last twelve months



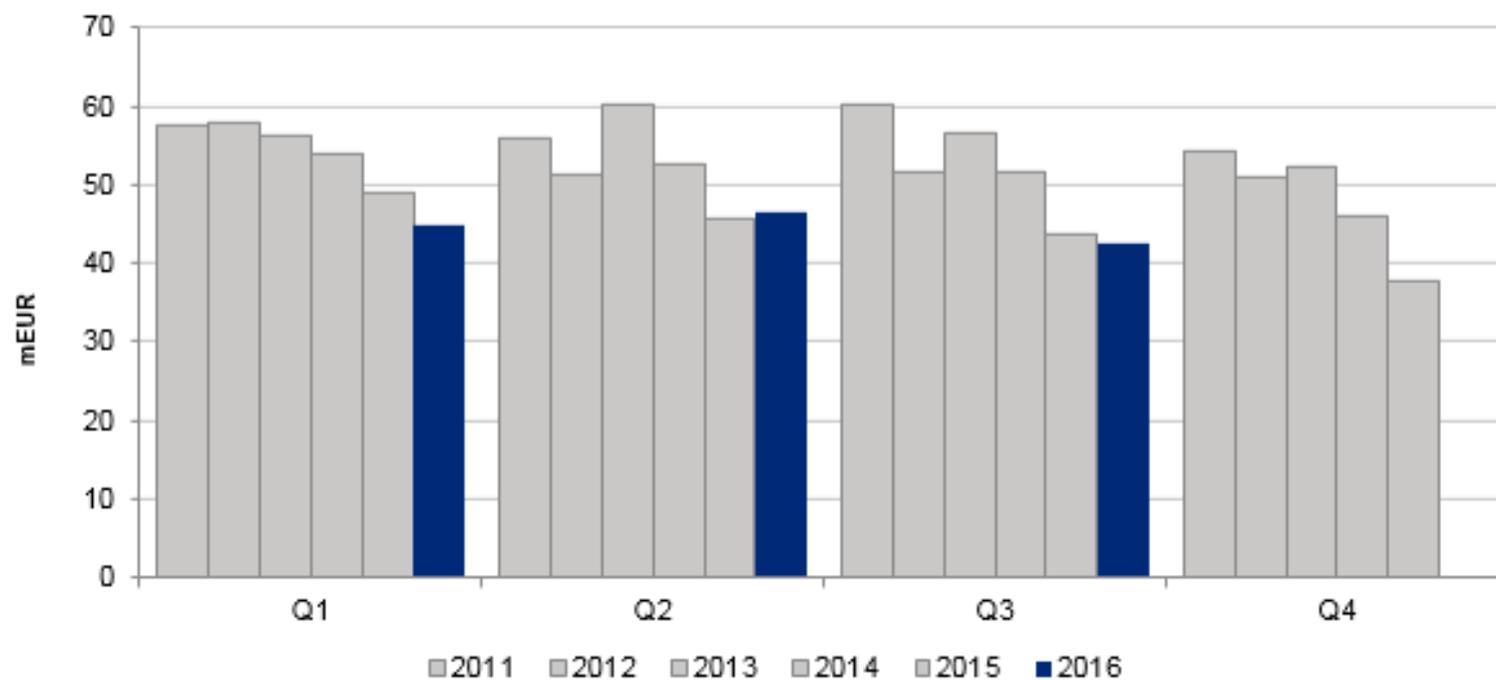
Sweden net sales



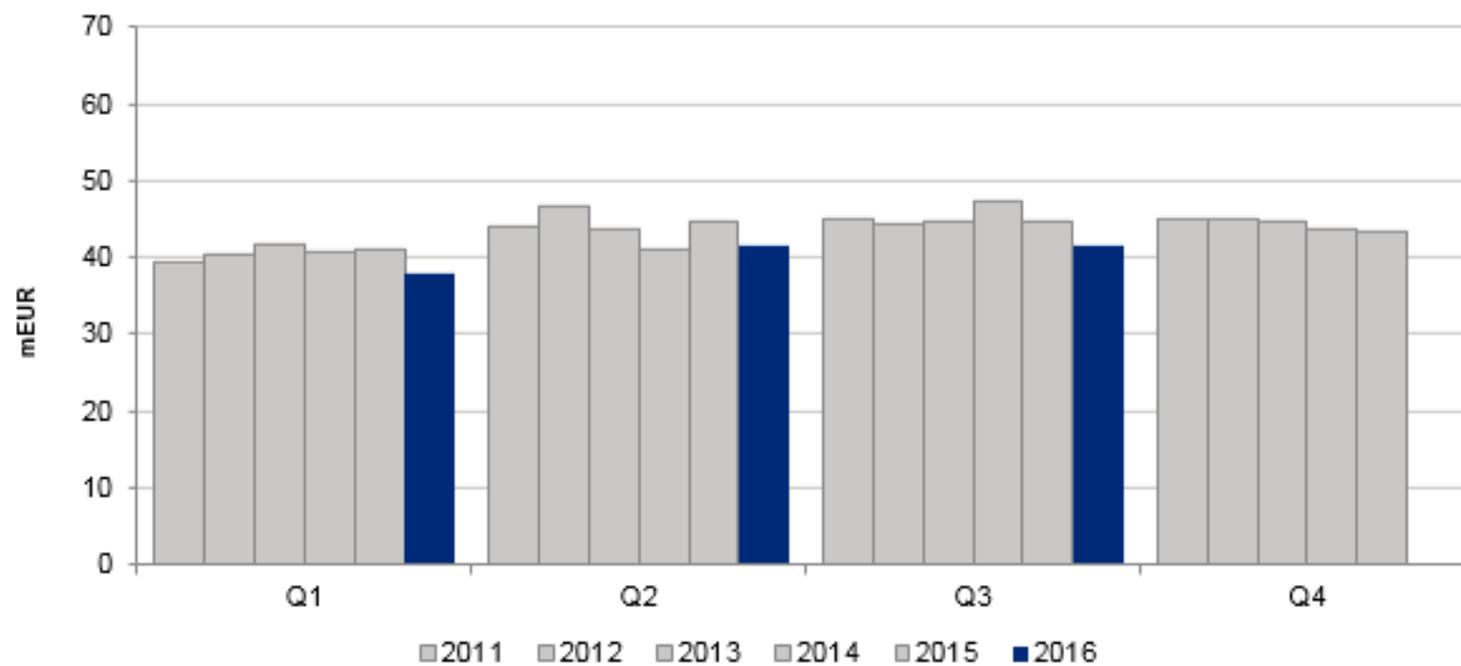
Finland net sales



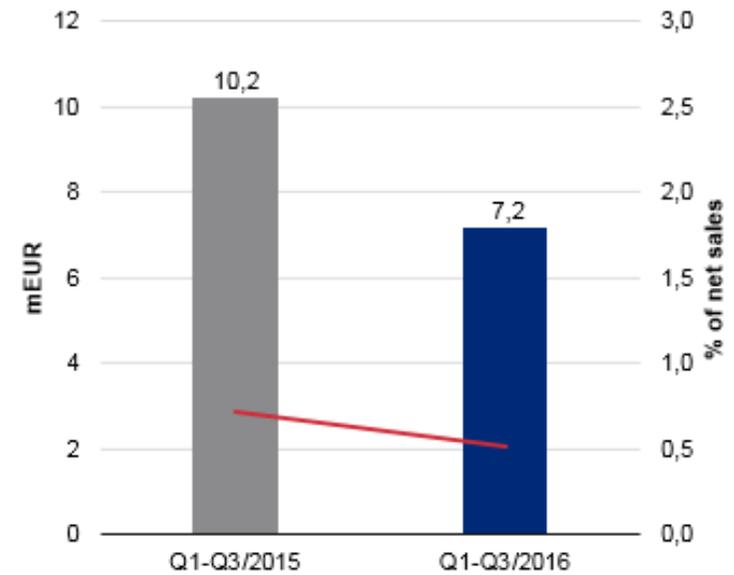
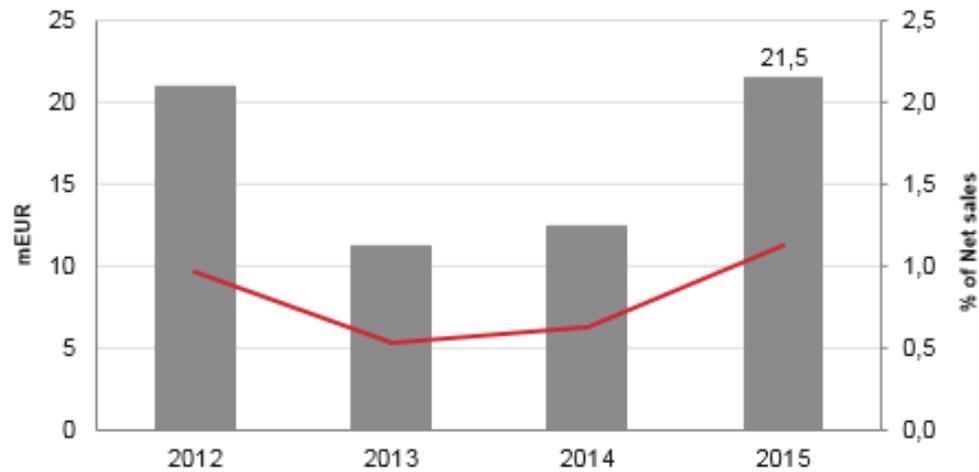
Denmark net sales



Baltics net sales



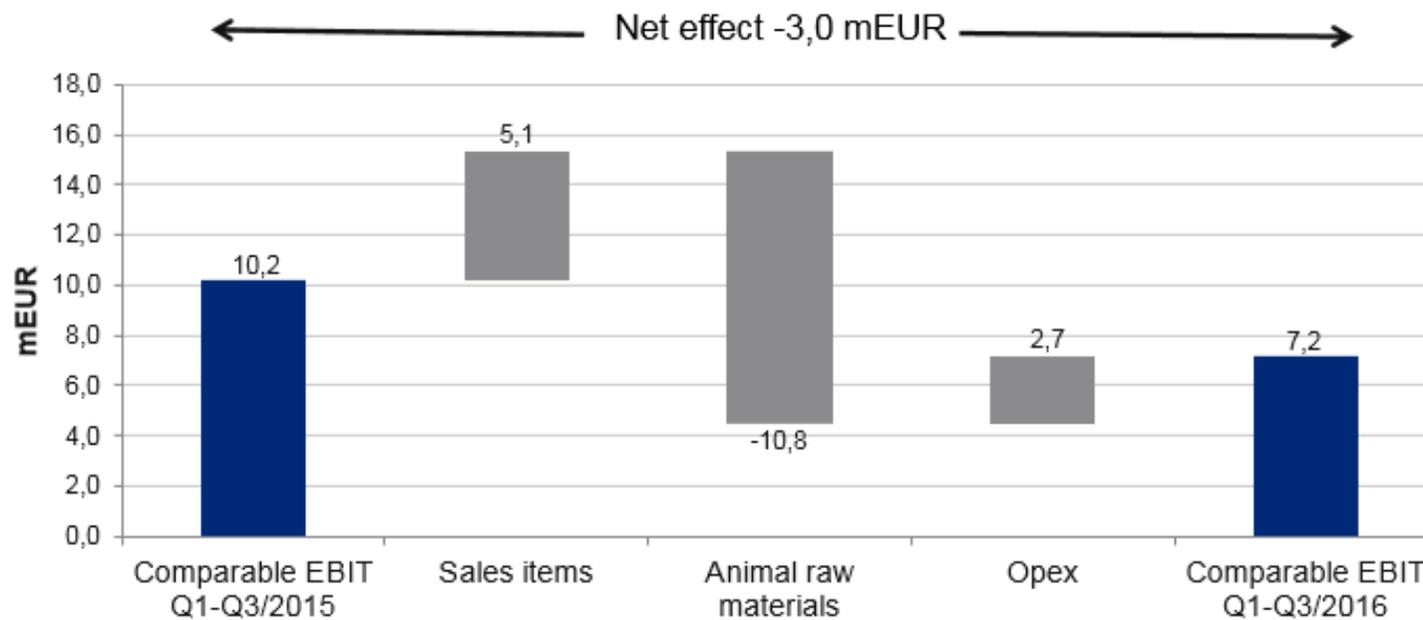
Group EBIT development *)



*) Comparable

Group EBIT*)

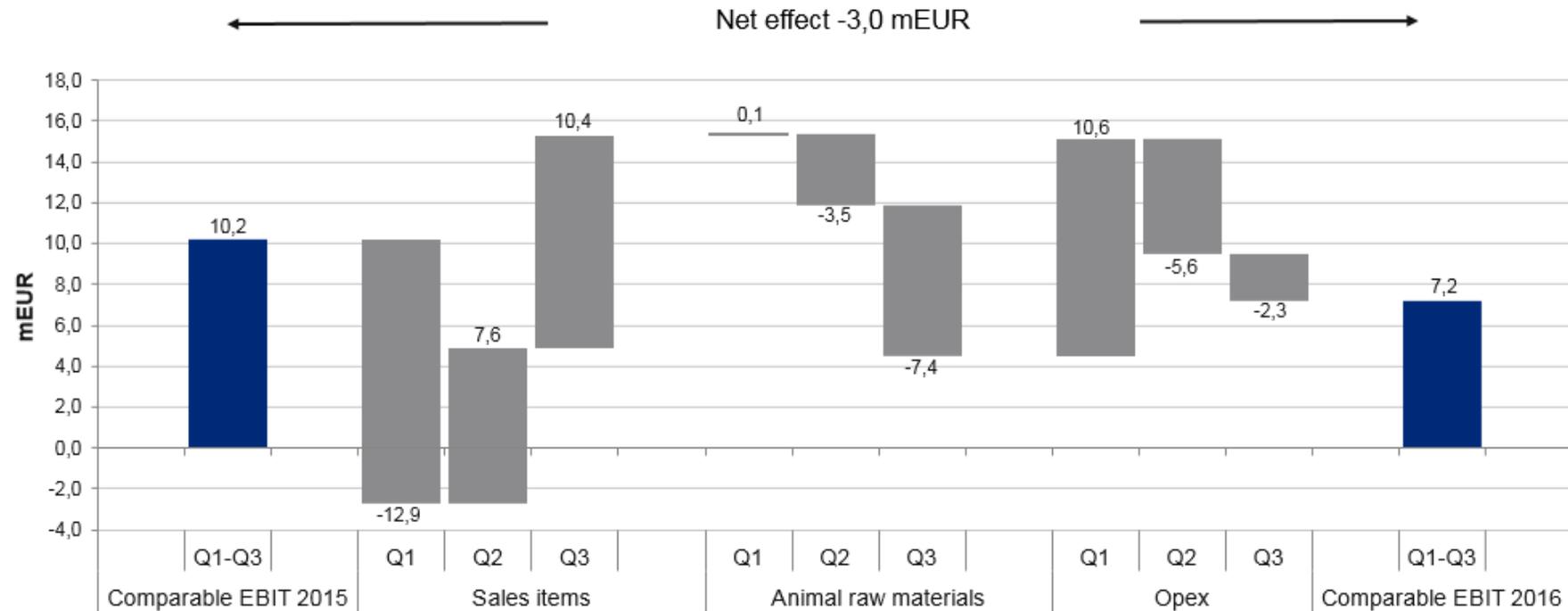
Q1-Q3/2015 vs Q1-Q3/2016



*) Comparable

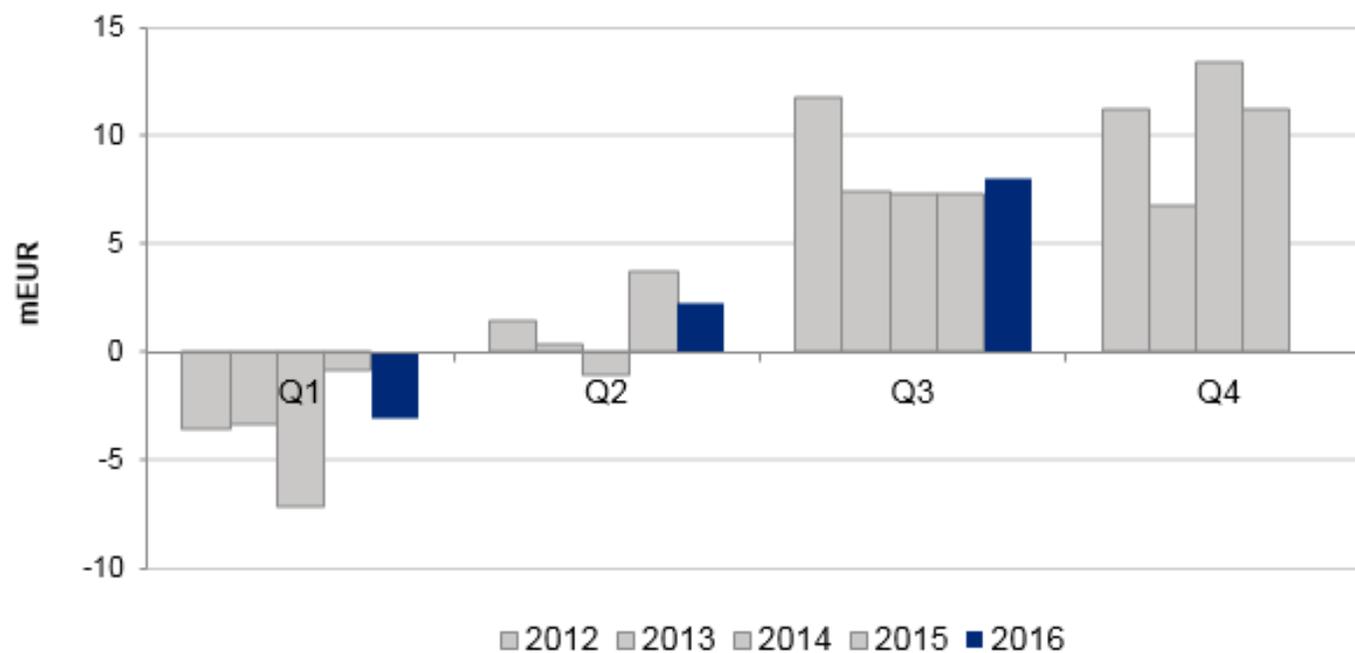
Group EBIT*)

Q1-3/2015 vs Q1-3/2016



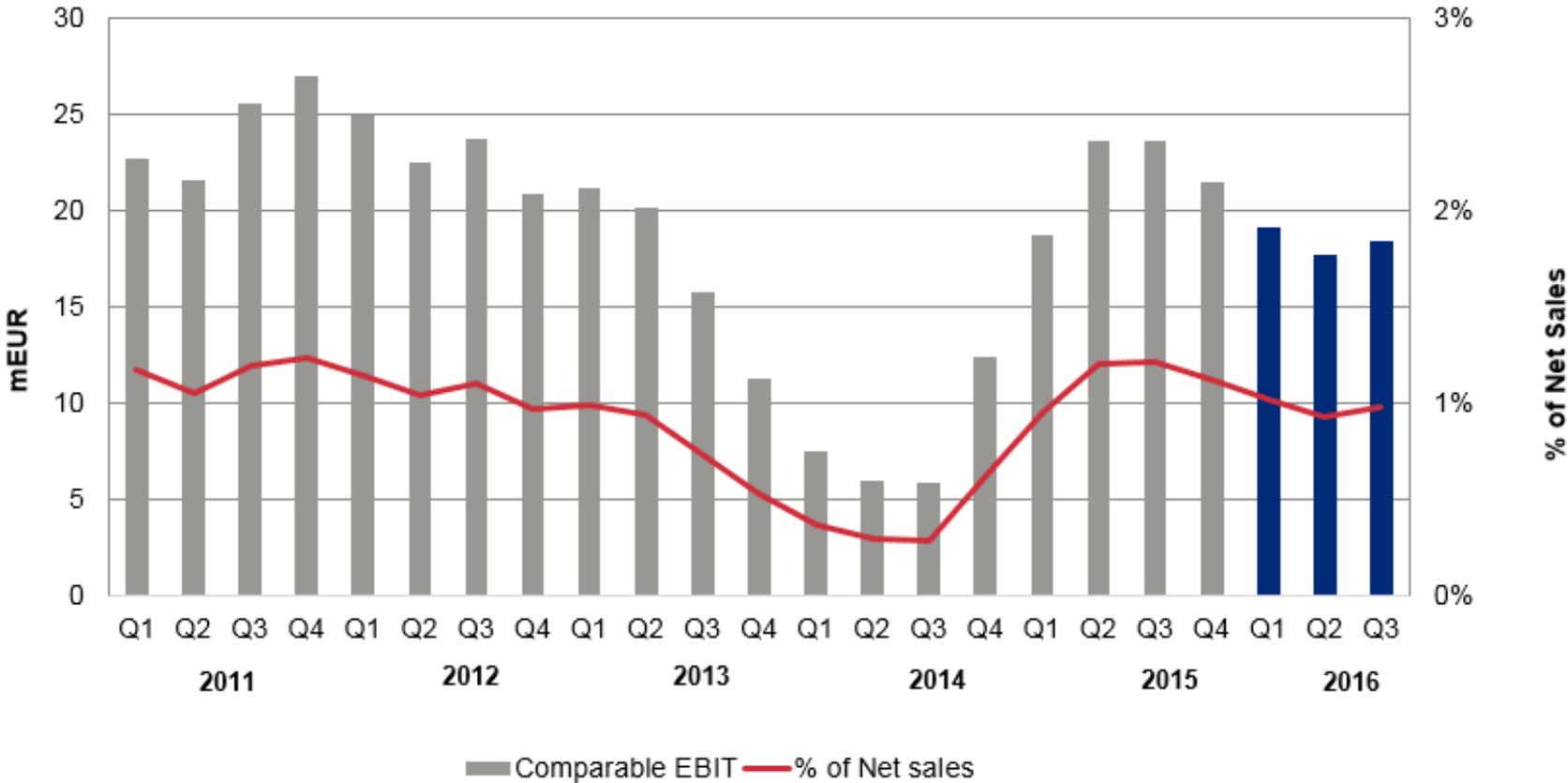
*) Comparable

Group EBIT*)



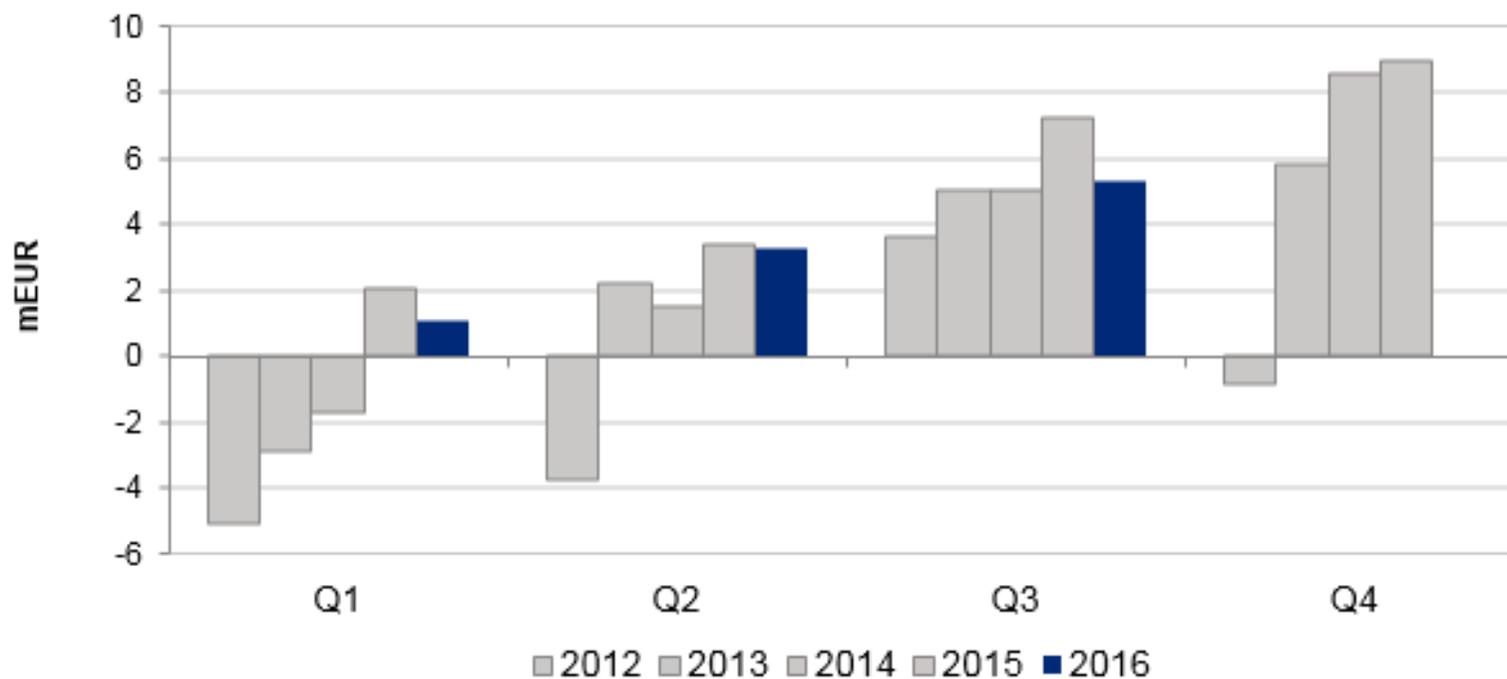
*) Comparable

Group EBIT last twelve months^{*)}



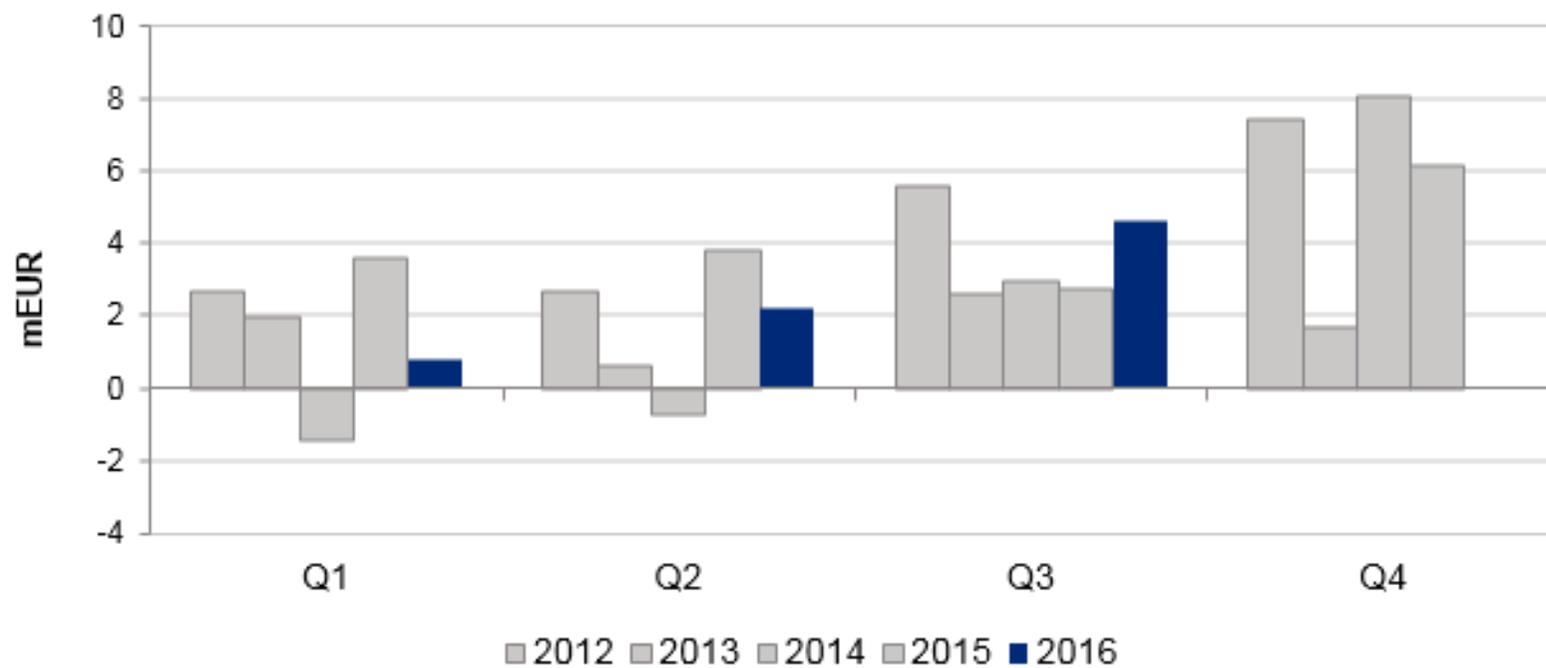
^{*)} Comparable

Sweden EBIT*)



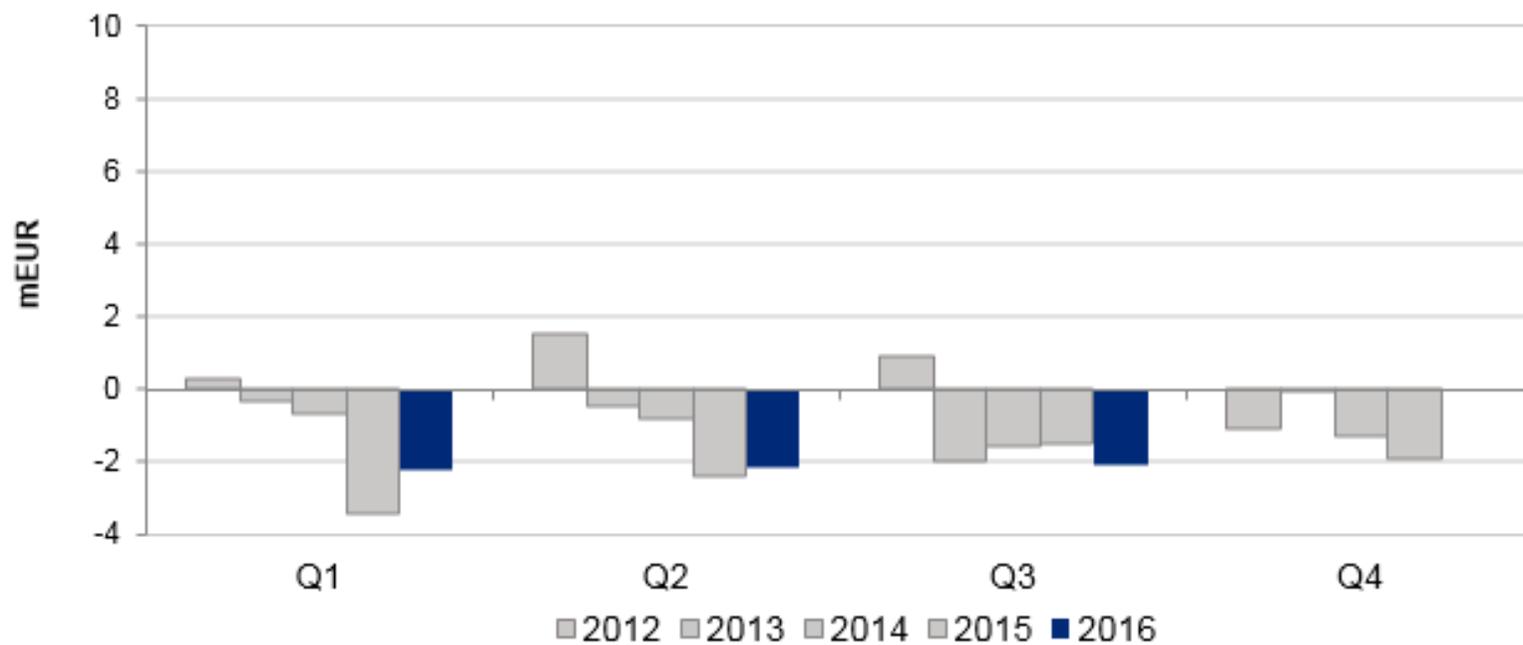
*) Comparable

Finland EBIT*)



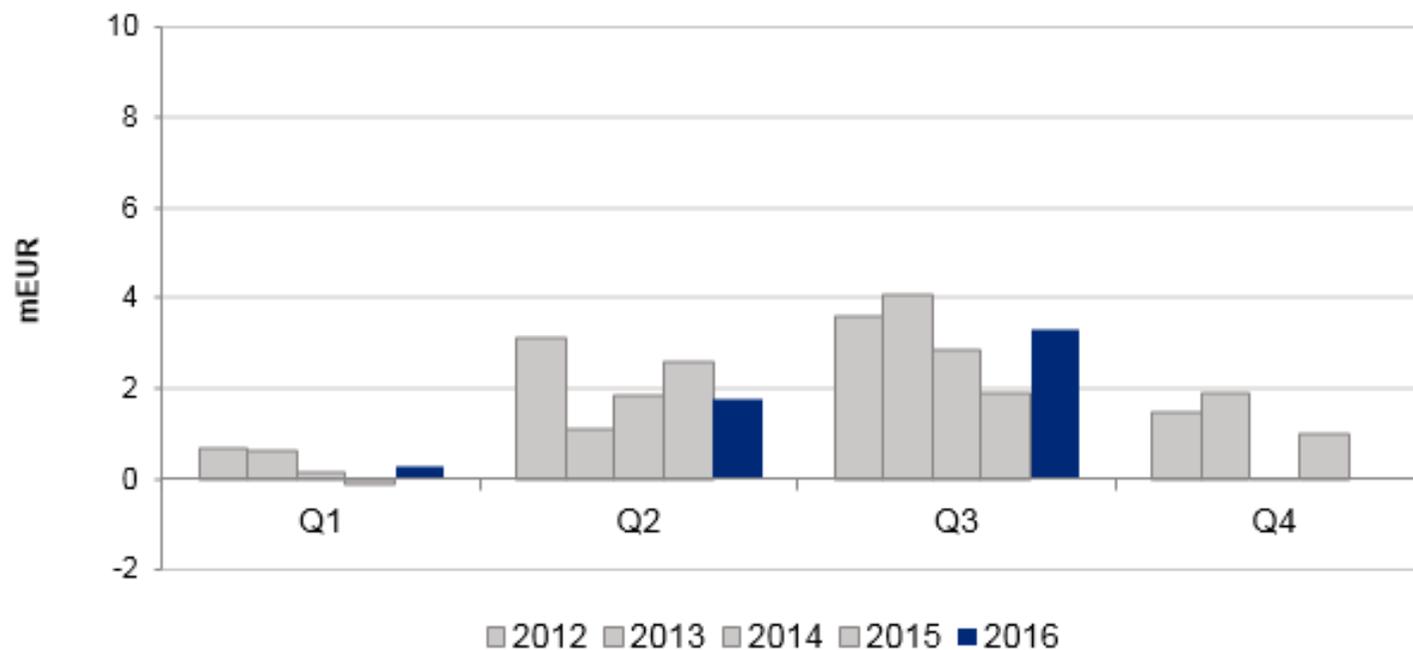
*) Comparable

Denmark EBIT*)



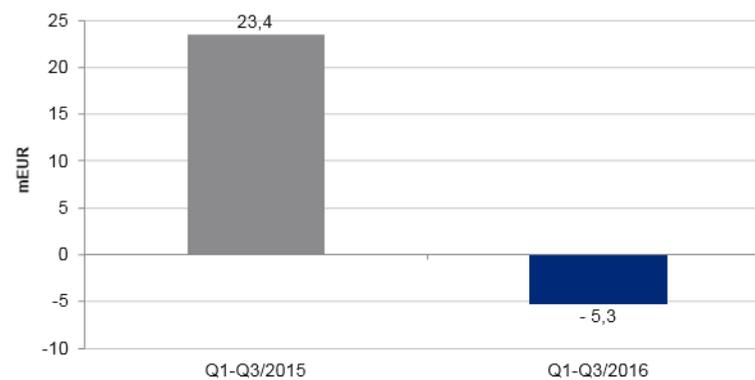
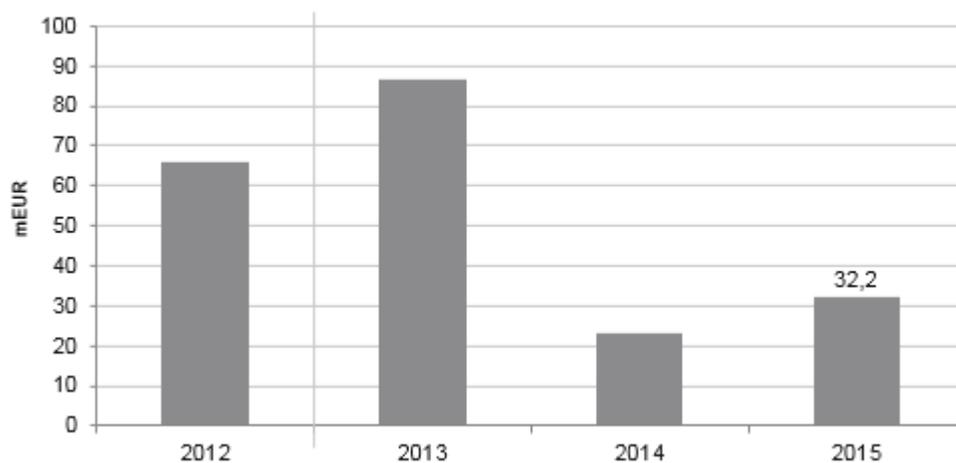
*) Comparable

Baltics EBIT*)



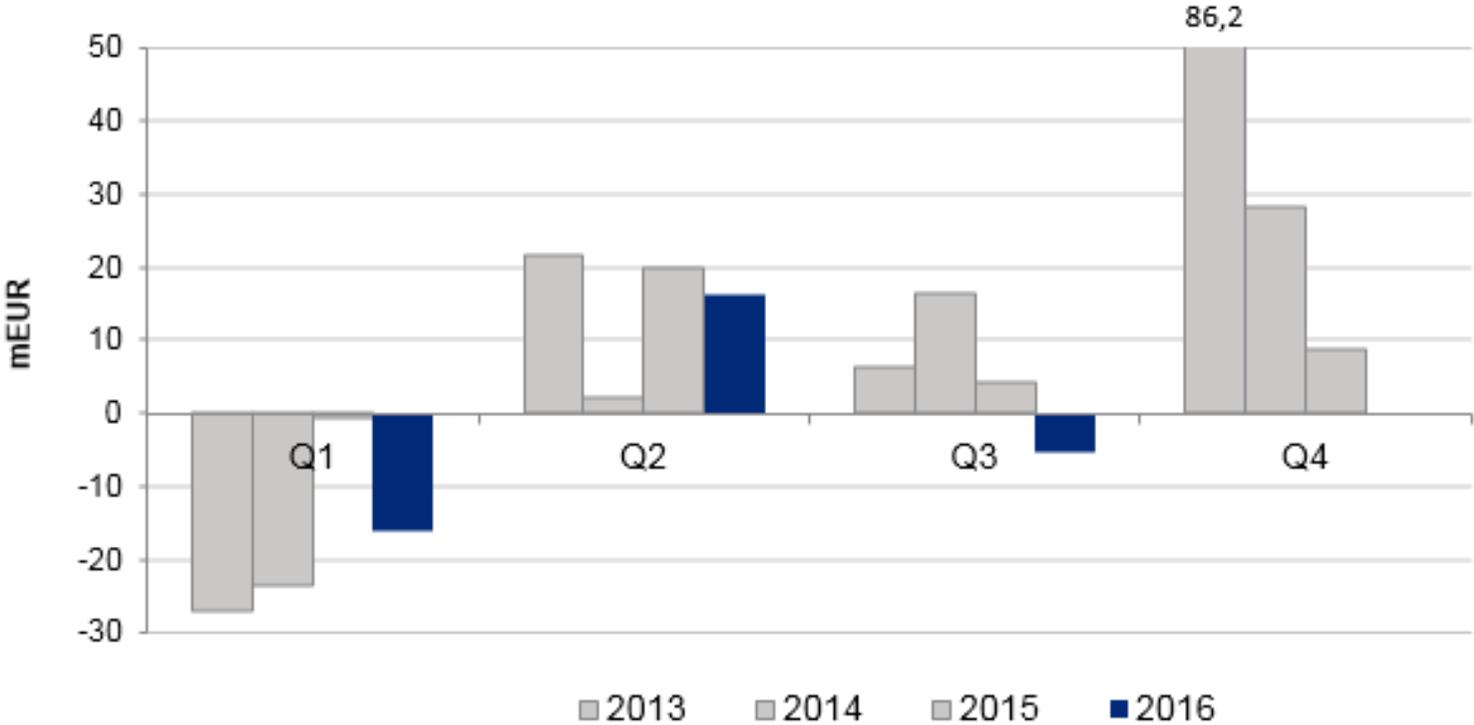
*) Comparable

Group cash flow before debt service^{*)}



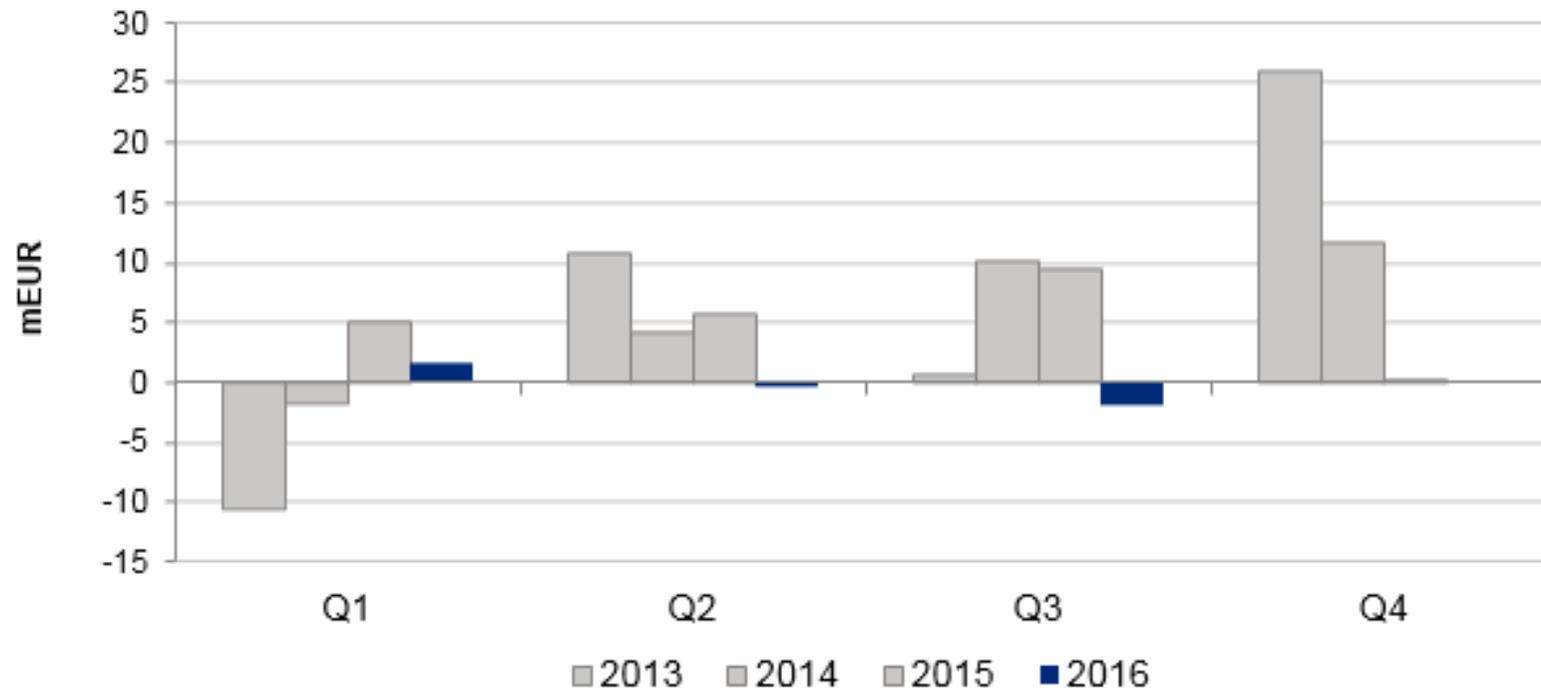
^{*)} Comparable

Group cash flow before debt service^{*)}



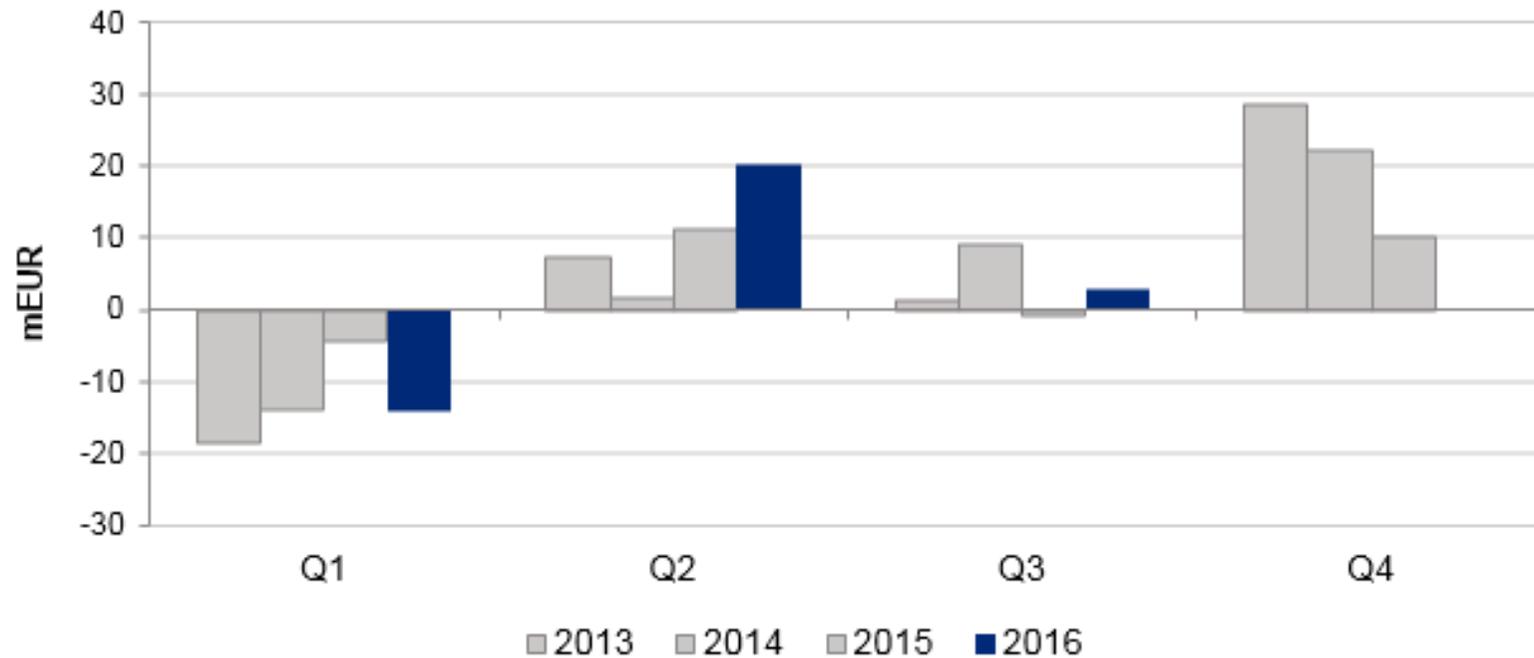
^{*)} Comparable

Sweden cash flow before debt service^{*)}



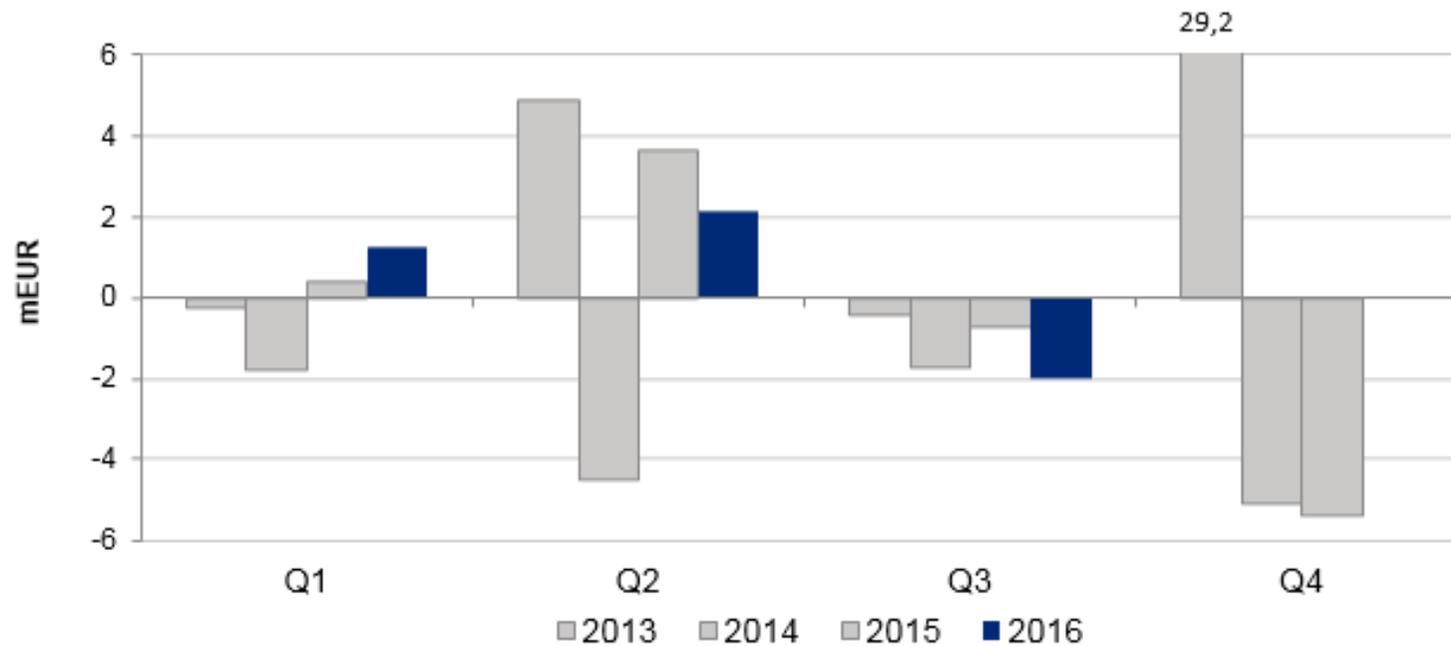
^{*)} Comparable

Finland cash flow before debt service^{*)}



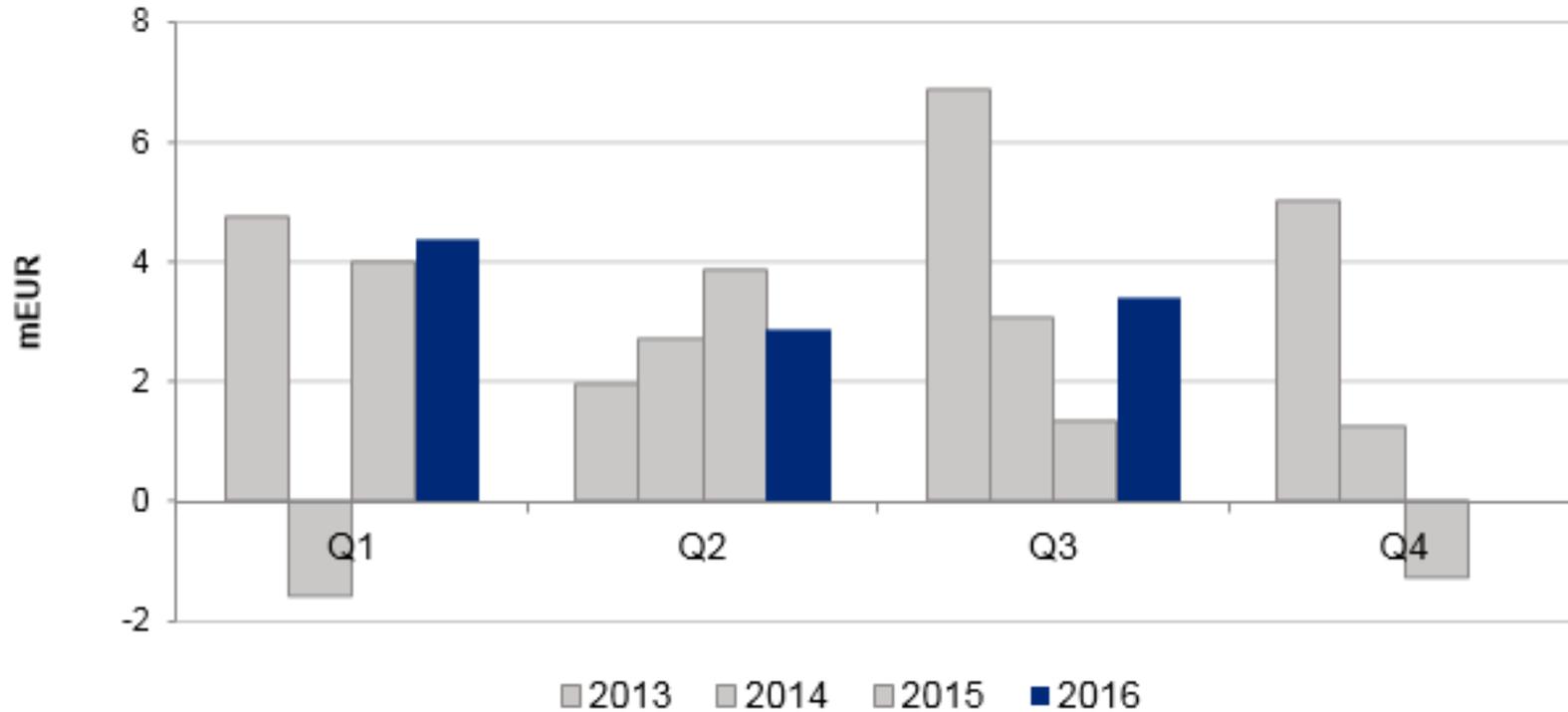
^{*)} Comparable

Denmark cash flow before debt service^{*)}



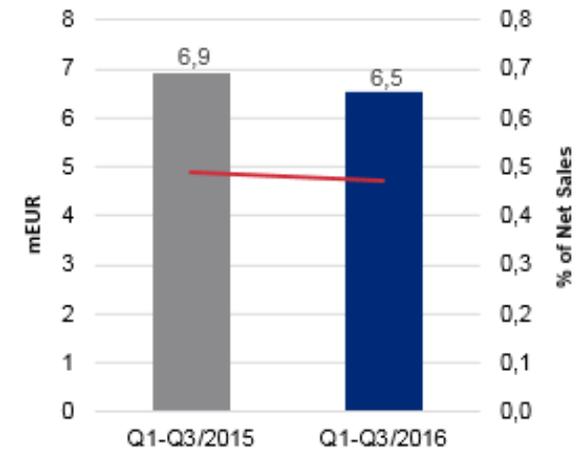
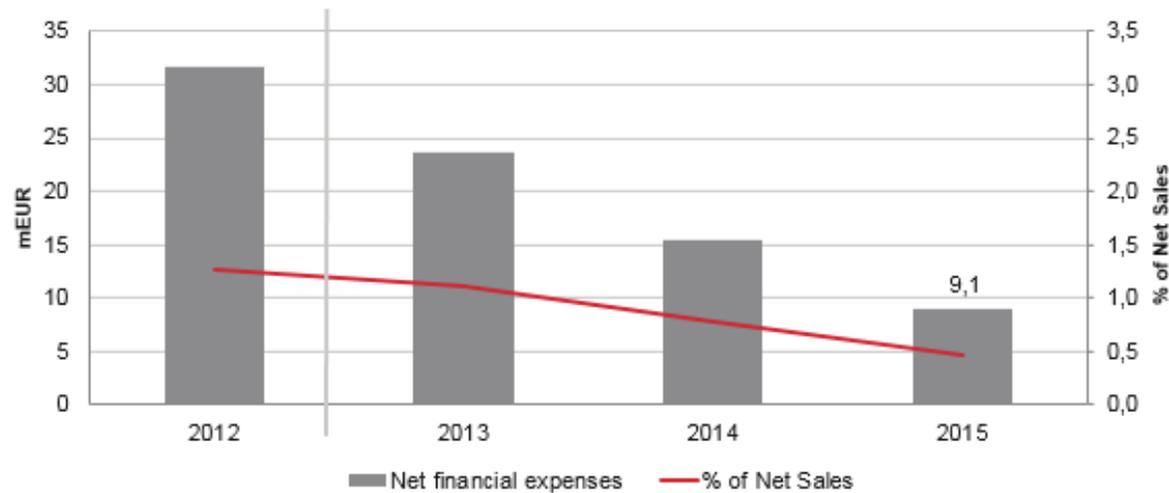
^{*)} Comparable

Baltics cash flow before debt service^{*)}

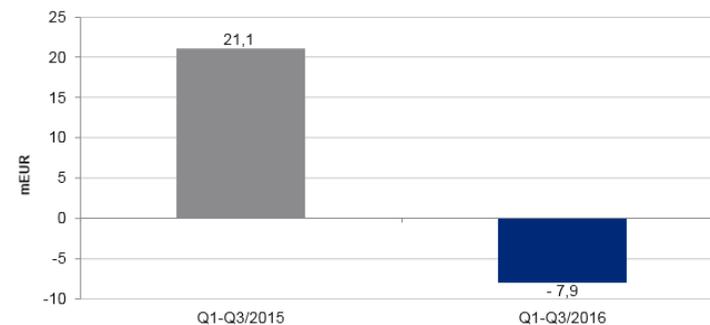
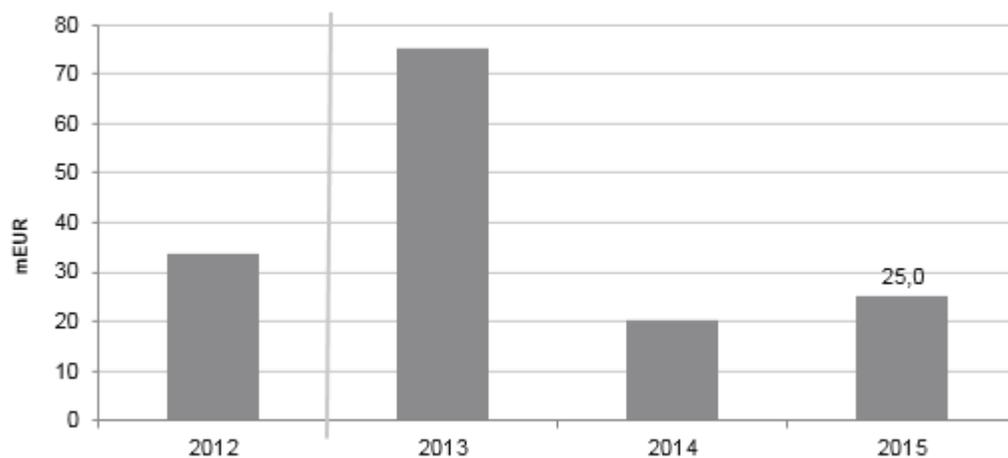


^{*)} Comparable

Group net financial expenses

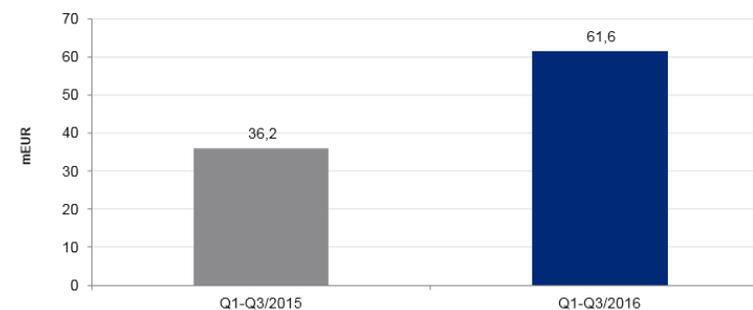
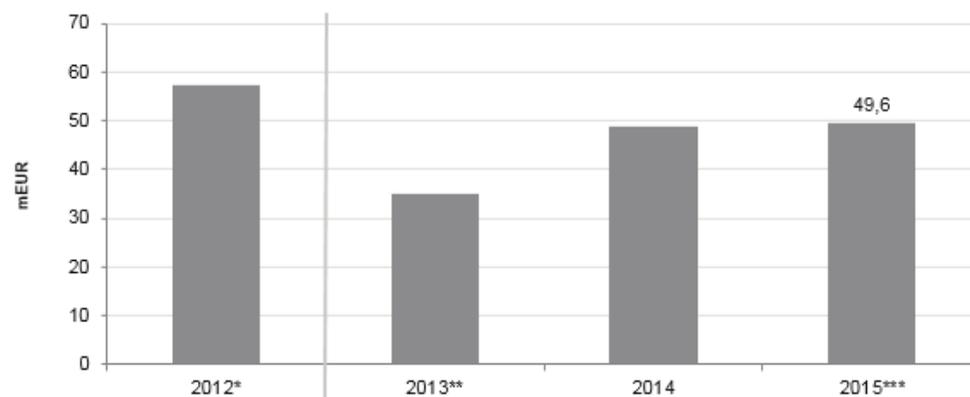


Group cash flow before financing^{*)}



^{*)} Comparable

Group investments

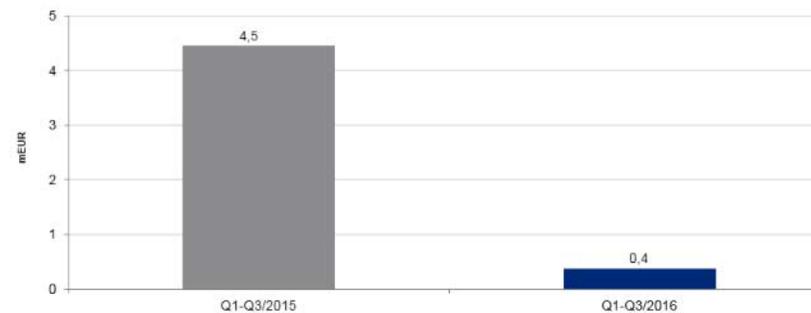
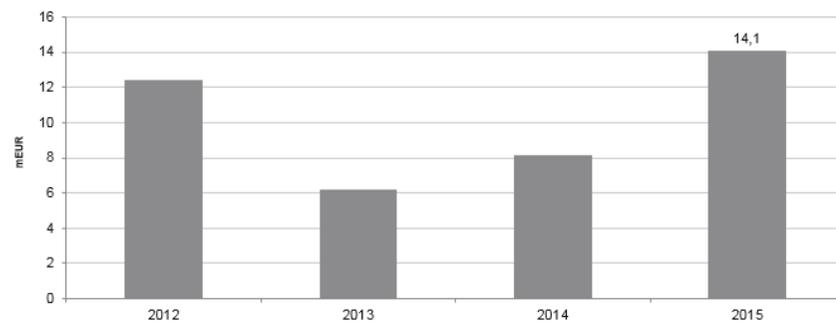


* EUR 57.3 million excluding rebuild of the Vinderup plant EUR 19.3 million

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

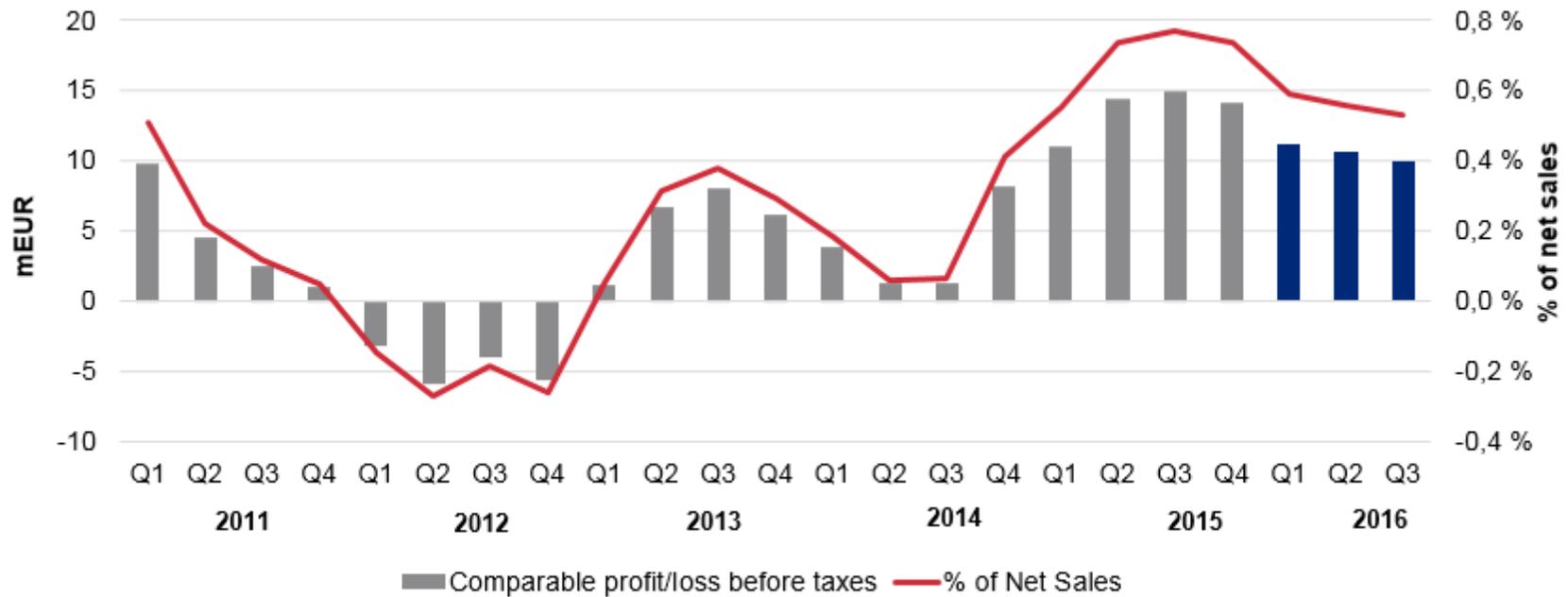
*** Excluding acquisition price of Paimion Teurastamo Oy

Profit before taxes^{*)}



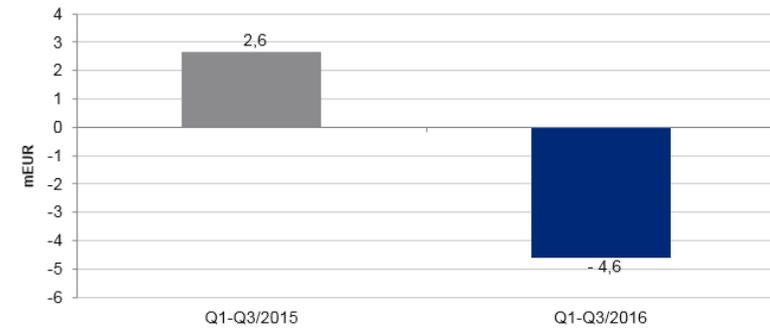
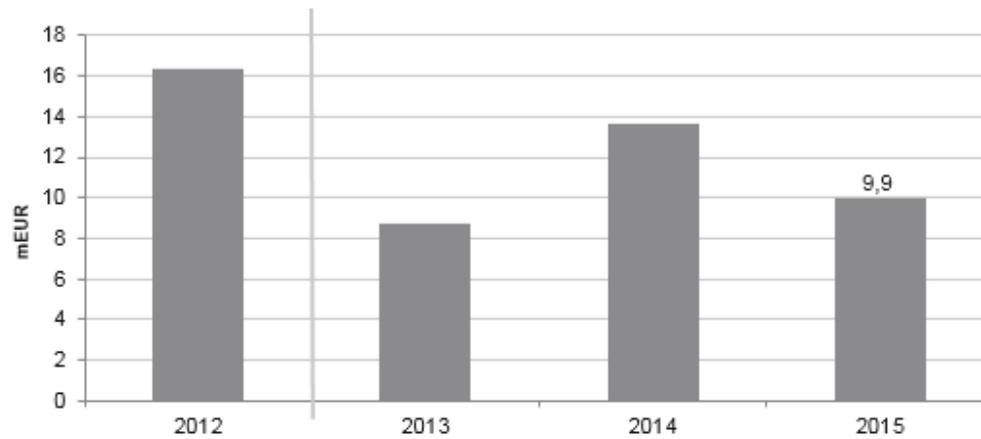
*) Comparable

Profit before taxes last twelve months^{*)}



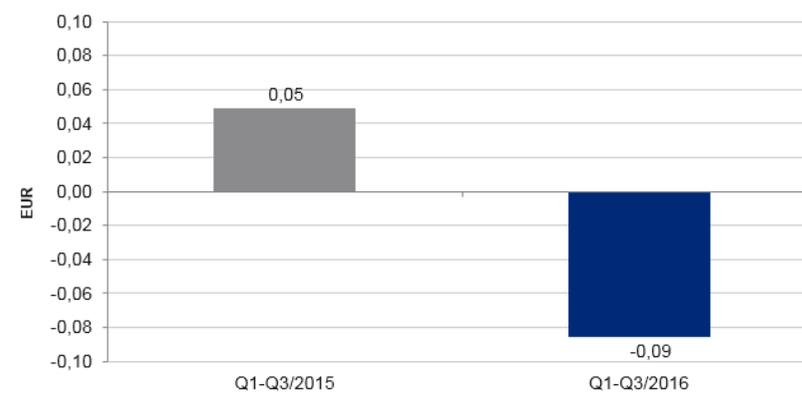
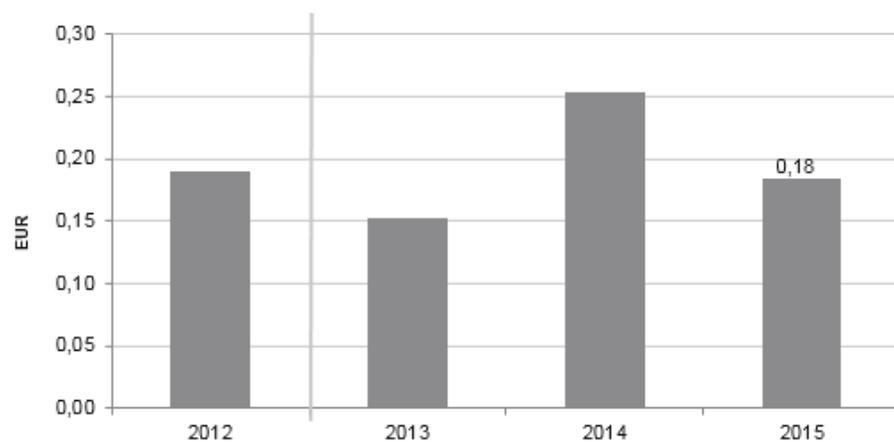
*) Comparable

Profit for the period^{*)}



^{*)} Comparable and attributable to shareholders of parent company

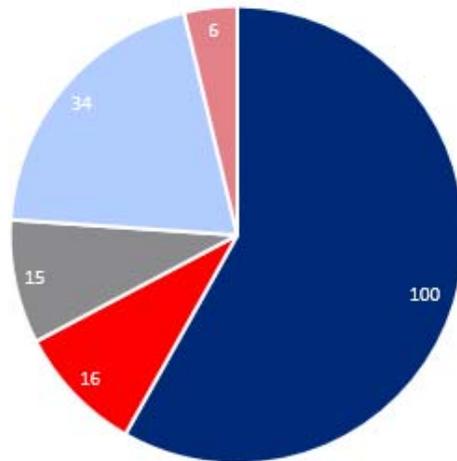
Earnings per share (EPS)*)



*) Comparable

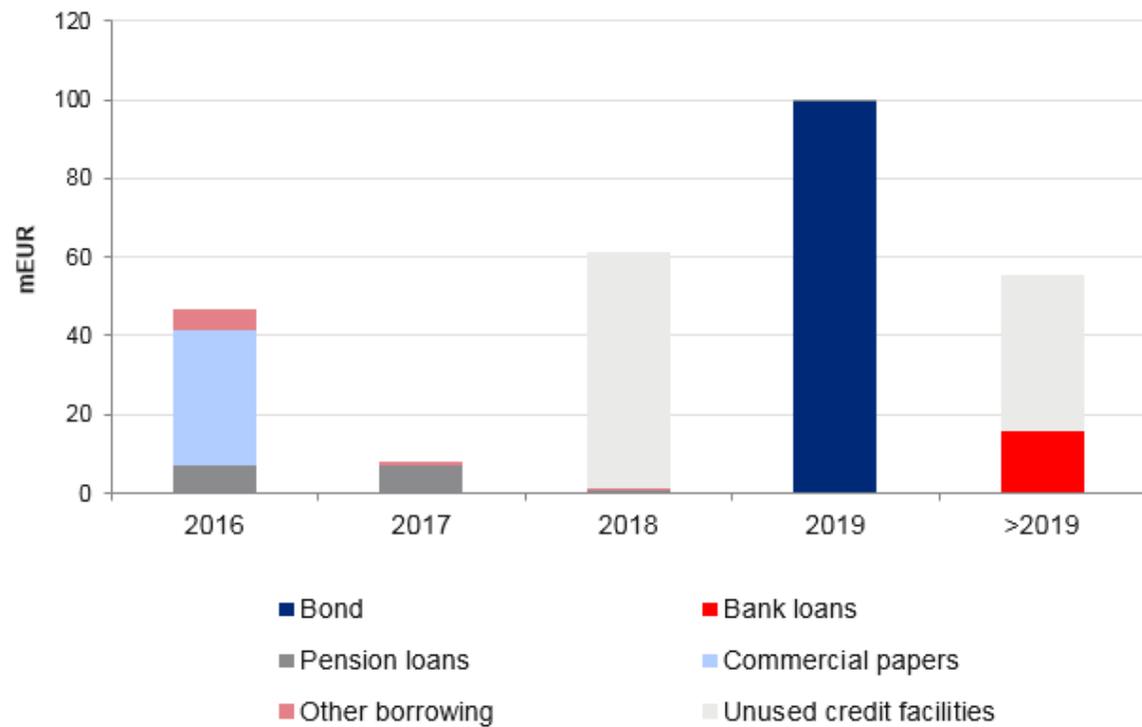
Interest-bearing debt and maturity structure

Interest-bearing debt by credit type

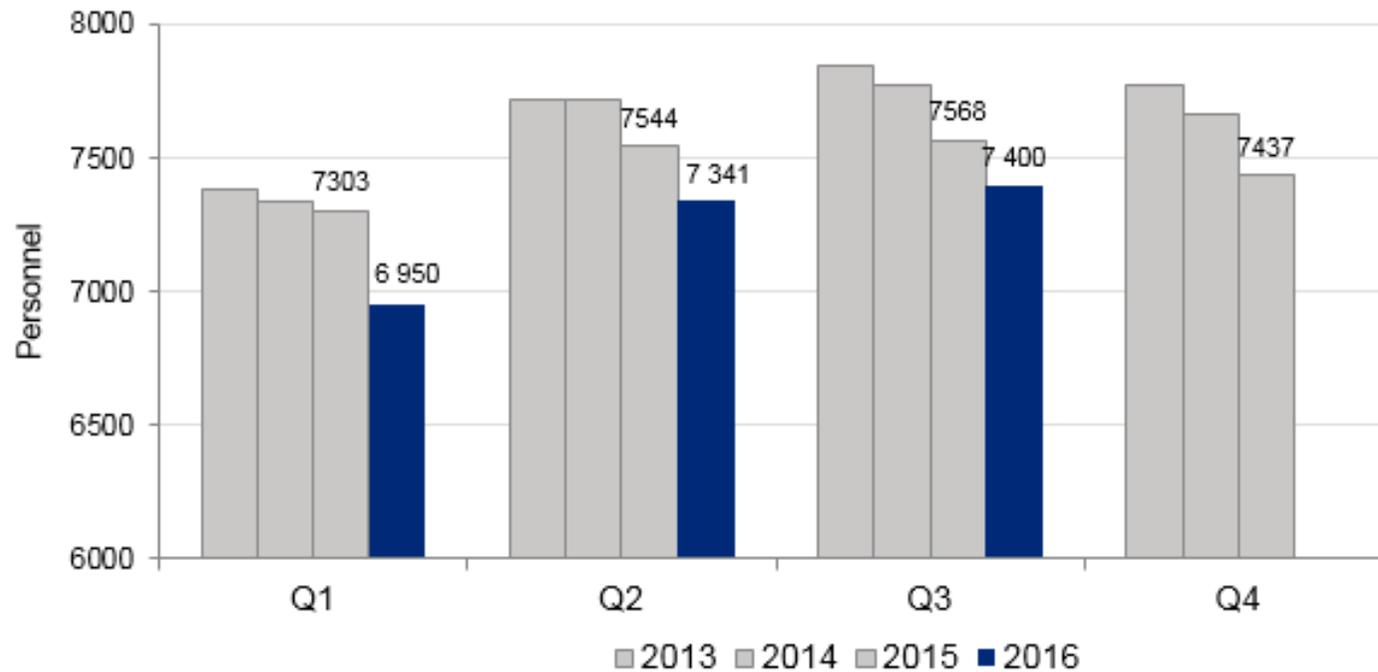


Total interest-bearing debt: 171,2 mEUR

Maturity of Group's interest-bearing debt (EUR million)



Group personnel^{*)}



^{*)} End of month average

Key figures

EUR million	Q3/2016	Q3/2015	Q1-Q3/2016	Q1-Q3/2015	2015
Net sales	465,9	474,9	1 387,7	1 415,6	1 917,1
EBIT	8,1	7,3	5,5	10,2	9,6
- EBIT %	1,7	1,5	0,4	0,7	0,5
Comparable EBIT	8,1	7,3	7,2	10,2	21,5
- EBIT %	1,7	1,5	0,5	0,7	1,1
Profit before taxes	5,7	6,4	-1,3	4,5	2,2
Profit for the review period	4,3	5,1	-5,3	3,3	1,9
EPS, EUR	0,07	0,09	-0,12	0,05	0,01
Cash flow before debt service	-5,4	4,3	-5,3	23,4	32,2
Cash flow before financing activities	-6,8	2,8	-7,9	21,1	25,0
ROCE before taxes, %			1,3	3,4	2,3
Net debt			162,7	147,0	144,0
Net gearing, %			39,8	34,6	33,8
Employees, end of month average			7 400	7 568	7 437

Outlook for 2016 (amended on 21 Oct)

- HKScan estimates that its comparable operating profit for 2016 will remain at or below the previous year's level.
 - The reason for the lowered outlook is the weaker performance of the market area Sweden, where the net sales have fallen, beef raw material purchase prices were high and the shortage of beef raw material prevailed.
- HKScan previously expected that its comparable operating profit (EBIT) would improve from 2015.



HKSCAN

**Jari Latvanen, President and CEO
2 November 2016**

Key employment history

Stora Enso Oyj, EVP, Consumer Board division 2015–10/2016

Findus Group, CEO, Findus Nordic 2010–2014

Nestlé Cesko, Market Head 2008–2010

Nestlé Zone Europe, Assistant Vice President 2007–2008

Nestlé Sverige Ltd, Country Manager Sweden 2003–2007

Zoegas Coffee Ltd , Managing Director 2003–2007

Nestlé Norden, Nordic Marketing Director 2001–2003

Suomen Nestlé Oy, National Sales Director 2000–2001

HK Ruokatalo Oy, Commercial and Sales Mgmt positions 1995–2000

Fazer Leipomot Oy, Sales Management positions 1989–1995

First reflections



Tens of interviews conducted between the new CEO and HKScan key employees

Stakeholder interviews in progress

Top three expectations that have emerged from the interviews are:

1. Create a **winning team** with good *alignment* and *leadership*
2. Clarify the overall **organisational model** to enhance common *way of working* and *accountability*
3. Create a compelling and simple **vision** and **strategy** that is based on *real choices* and is *actionable*

We will build on our *strengths* and utilise our *opportunities* at the maximum



- Food is fashion, protein is emphasized in diets
- Growing categories and segments exist
- Well-known brands, “iconic” products, leading position in many categories
- Innovations and new concepts raising consumers and customers interest
- Nordic, high-quality meat raw material
- Biggest player in Northern Europe with scale economies
- Strategic investments in poultry (Finland) and bacon (Poland)
- Sustainability, cooperation and reliability throughout the meat value chain
- Roots deep in society, long heritage
- Committed people with strong know-how
- Strong balance sheet

Examples from internal interviews by Jari Latvanen

Weaknesses need to be worked on and *threats* need to be proactively addressed

- Low profitability
- Limited utilisation of Group synergies
- Negotiation power of retail, hard discounters and private label
- Niche, small-scale local players taking market share
- Growing pressure from foreign producers
- Environmental and health concerns related to red meat
- Global trade restrictions, tightening laws and regulations
- Animal diseases

Examples from internal interviews by Jari Latvanen

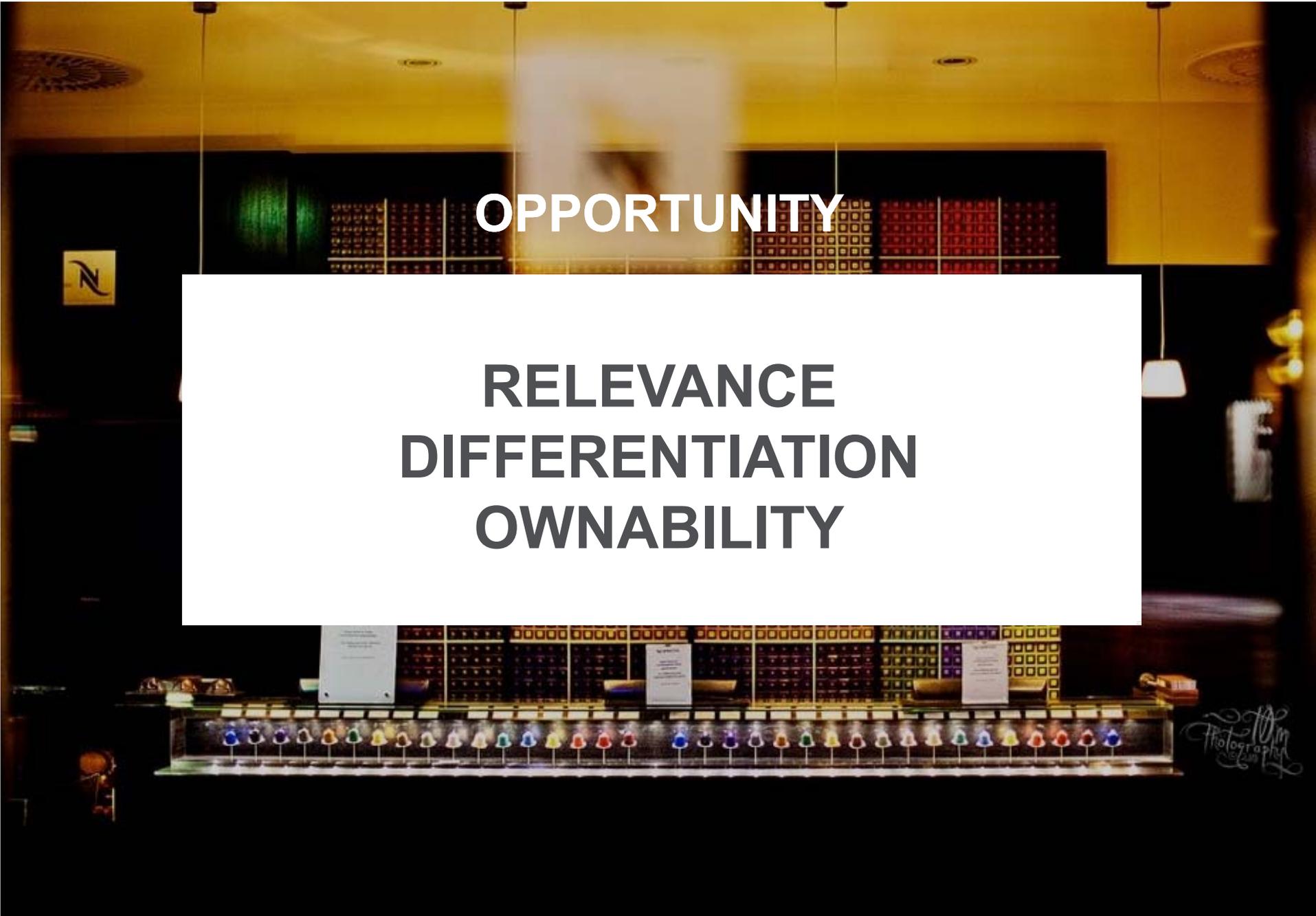


Latvanen's recipe for success



Ingredients:

- **Win** with the customers
- **Delight** the consumers
- **Grow** our categories
- **Gain** market share
- **Deliver** profit improvement
- **Build** highly motivated teams with people having outstanding capabilities and drive

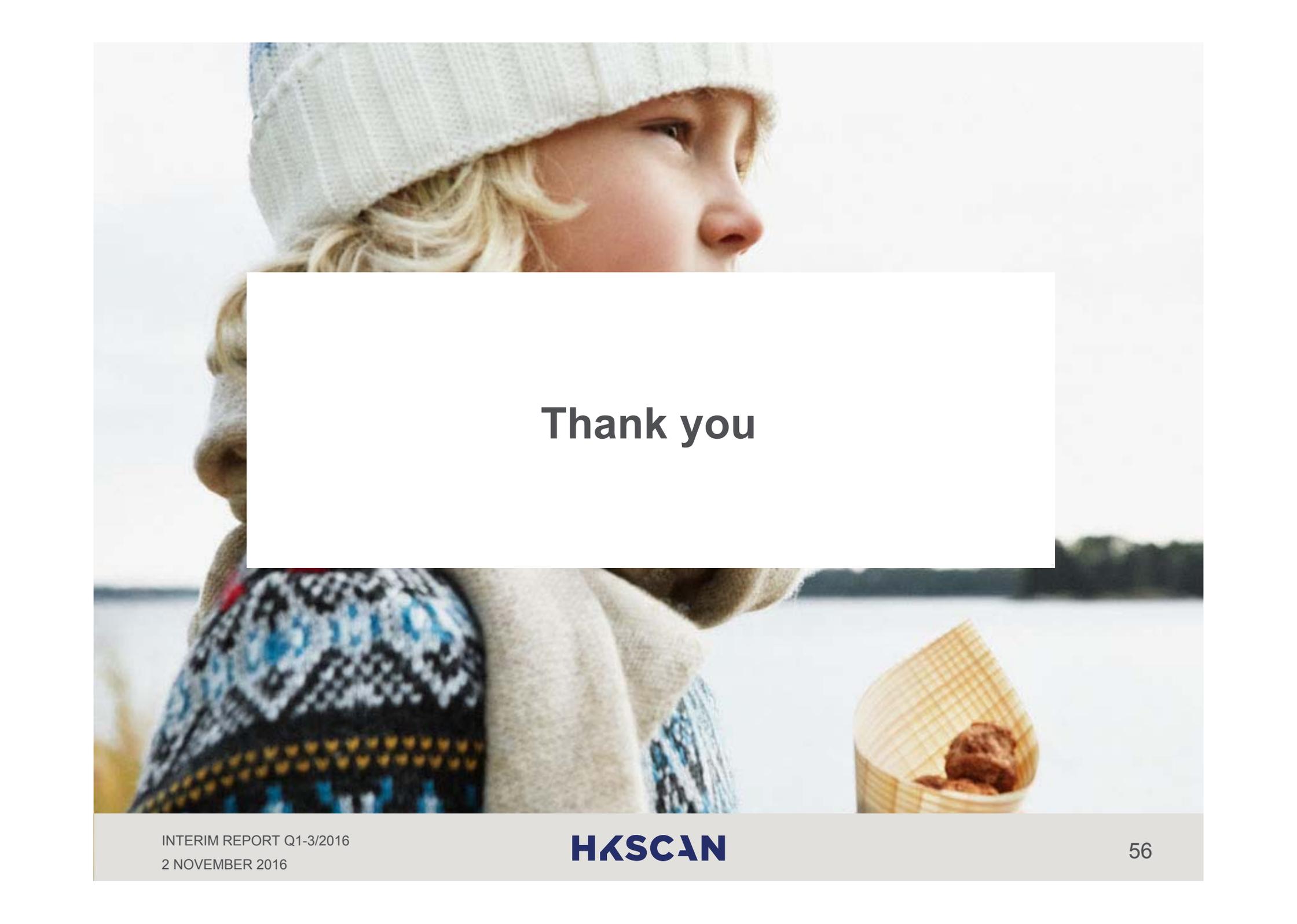


OPPORTUNITY

**RELEVANCE
DIFFERENTIATION
OWNABILITY**



**HKScan's future success is to be
built on our unique strengths**

A young child with blonde hair, wearing a white knit beanie and a patterned sweater, is shown in profile, looking out over a body of water. The child is holding a paper cone filled with food, possibly a hot dog or a similar snack. The background is a soft-focus view of a lake and distant trees under a bright sky.

Thank you