



HKSCAN

Q3/2017 Interim report

Tuomo Valkonen, CFO
8 November 2017

**Weak result – efficiency
improvement actions on going**

HKScan Group Q3/2017



Highlights

- Product net sales and market share made an upward turn in Sweden
- Meal components continued to develop positively and increasing market share
- Margins of red meat improved from 2016
- Production efficiency continued to improve in Denmark
- In Baltics EBIT nearly on 2016 level – branded products and export sales ahead of 2016, poultry margins improved
- Group cash flow before investments improved thanks to decreased working capital



Lowlights

- Rauma's ramp-up burdened EBIT and weakened poultry delivery capability in Finland
- Group gross margin behind 2016 level
- In cold cuts and sausages both volumes and prices continued to decrease
- In Sweden, production costs increased
- In Finland, market share made a negative turn, scarcity of beef
- Challenges with organic chicken in Denmark
- African Swine Fever limits exports and increases handling costs in the Baltics

HKScan Group Q3/2017

EUR million	Q3/2017	Q3/2016	Q1-Q3/2017	Q1-Q3/2016	2016
Net Sales	452,4	465,9	1 332,7	1 387,7	1 872,9
EBIT	-0,8	8,1	-18,1	5,5	9,7
- % of net sales	-0,2 %	1,7 %	-1,4 %	0,4 %	0,5 %
Profit/loss before taxes	-3,6	5,7	-24,4	-1,3	0,9
- % of net sales	-0,8 %	1,2 %	-1,8 %	-0,1 %	0,0 %
Profit/loss for the period	-2,9	4,3	-21,3	-5,3	-3,6

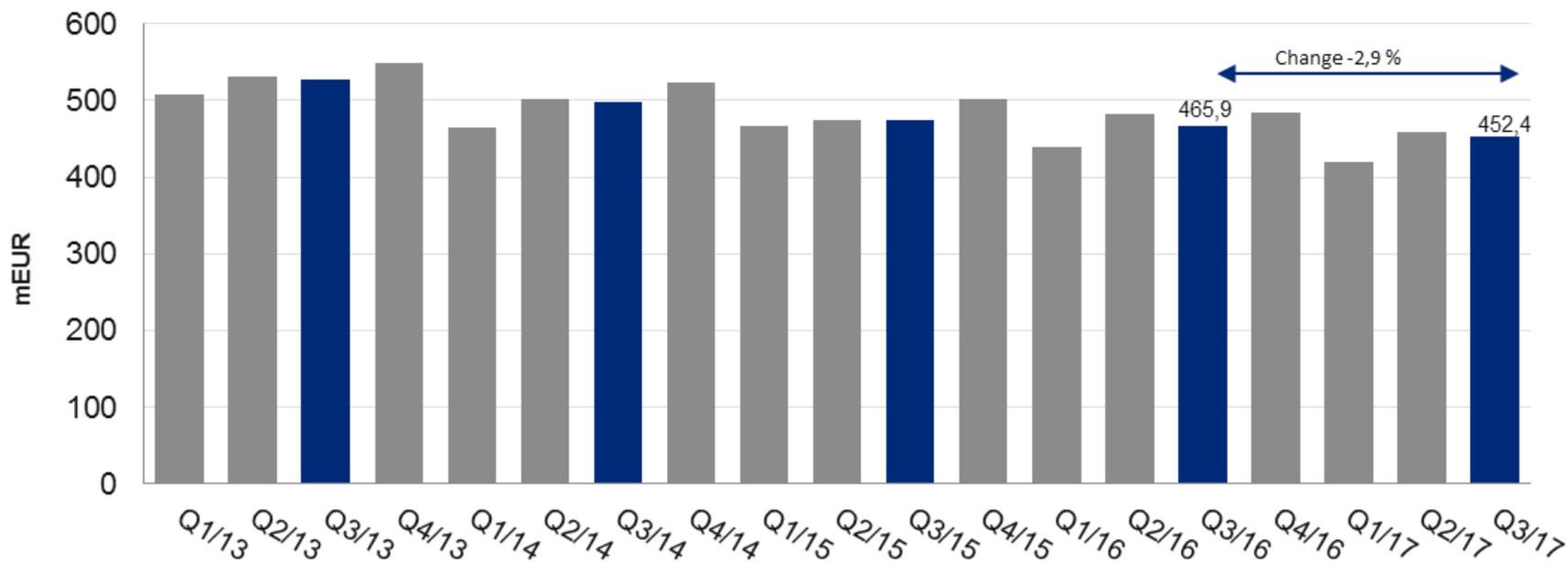
Comparable EBIT	2,7	8,1	-5,3	7,2	13,2
- % of net sales	0,6 %	1,7 %	-0,4 %	0,5 %	0,7 %
Comparable profit/loss before taxes	-0,1	5,7	-11,7	0,4	4,4
- % of net sales	0,0 %	1,2 %	-0,9 %	0,0 %	0,2 %

EPS, EUR	-0,07	0,07	-0,43	-0,12	-0,10
Return on capital employed (ROCE) before taxes, %	-1,9 %	1,3 %	-1,9 %	1,3 %	2,1 %
Comparable ROCE before taxes, %	0,6 %	3,6 %	0,6 %	3,6 %	2,7 %

Net gearing, %	51,4 %	39,8 %	51,4 %	39,8 %	33,5 %
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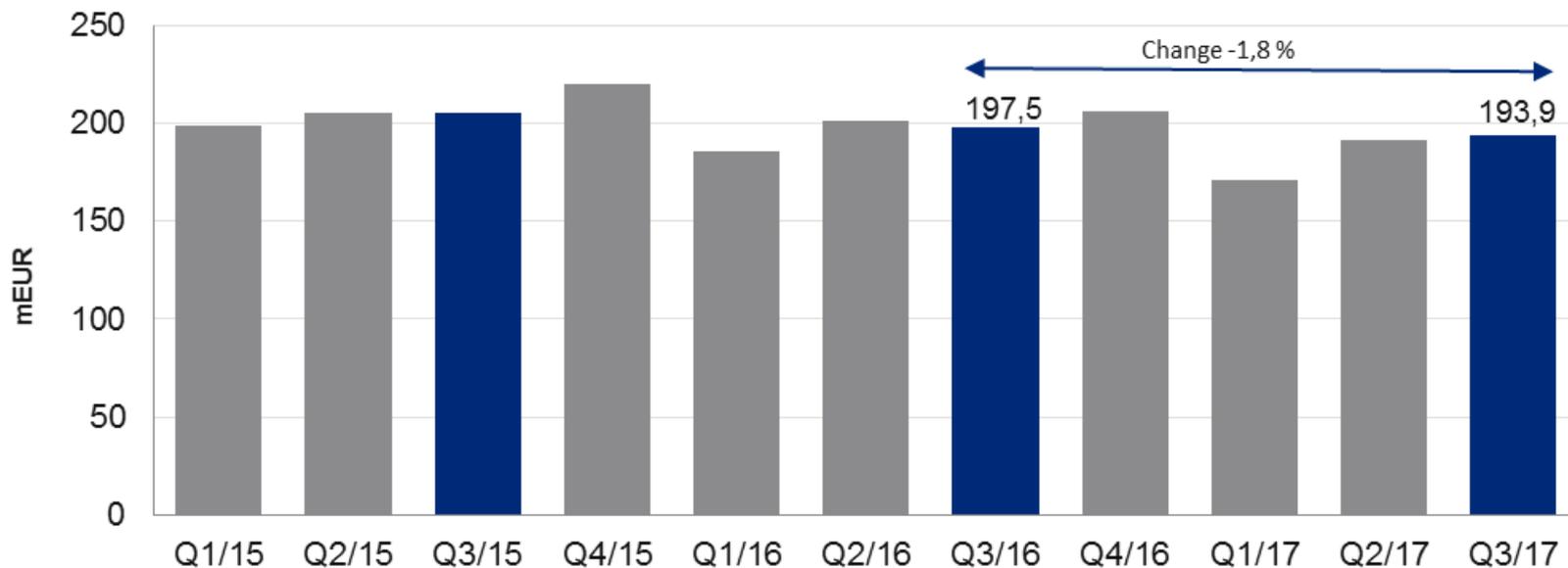
Personnel			7 394	7 400	7 319
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Group net sales decreased – Baltics and Denmark increased



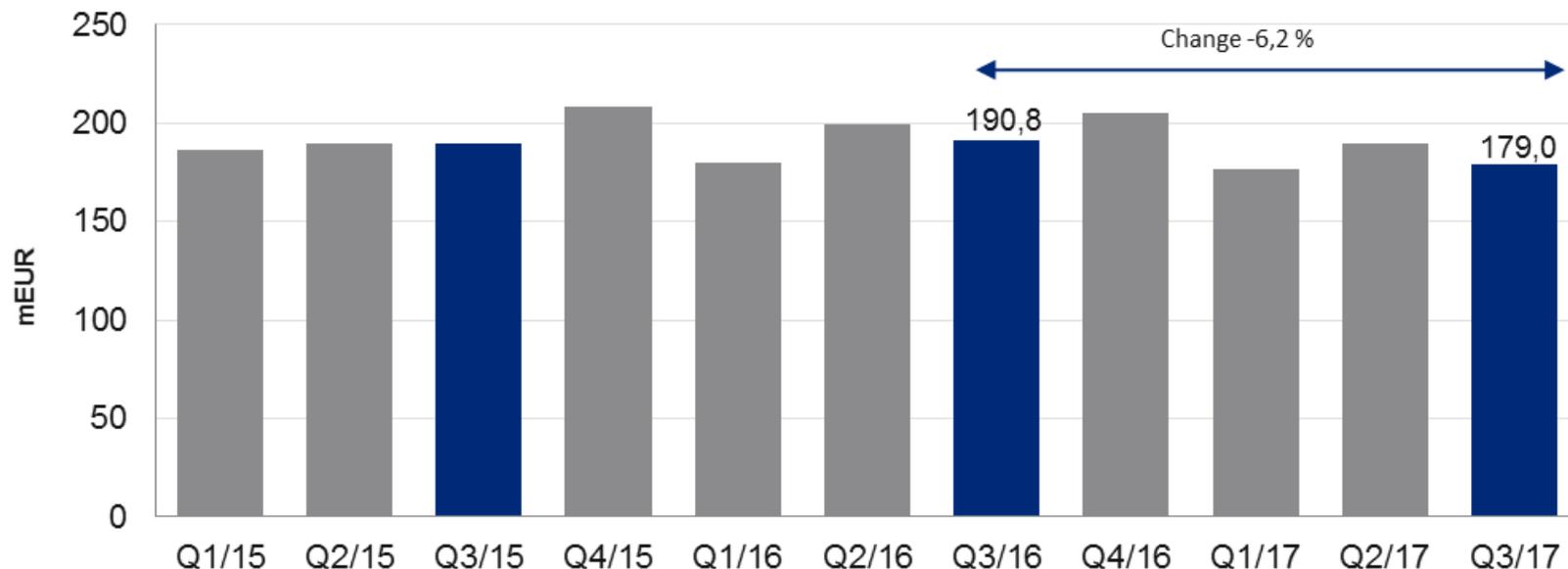
Product sales improved – animal trading decreased

Sweden net sales



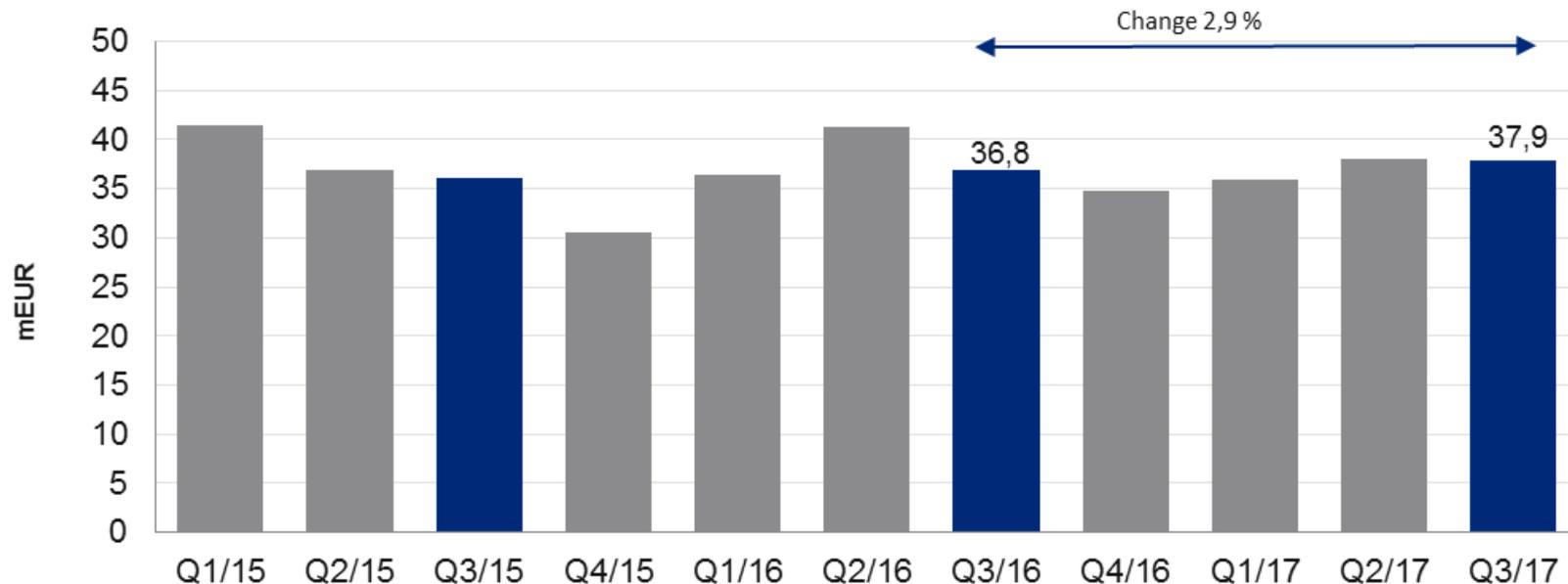
Meal components growing – total net sales decreased

Finland net sales



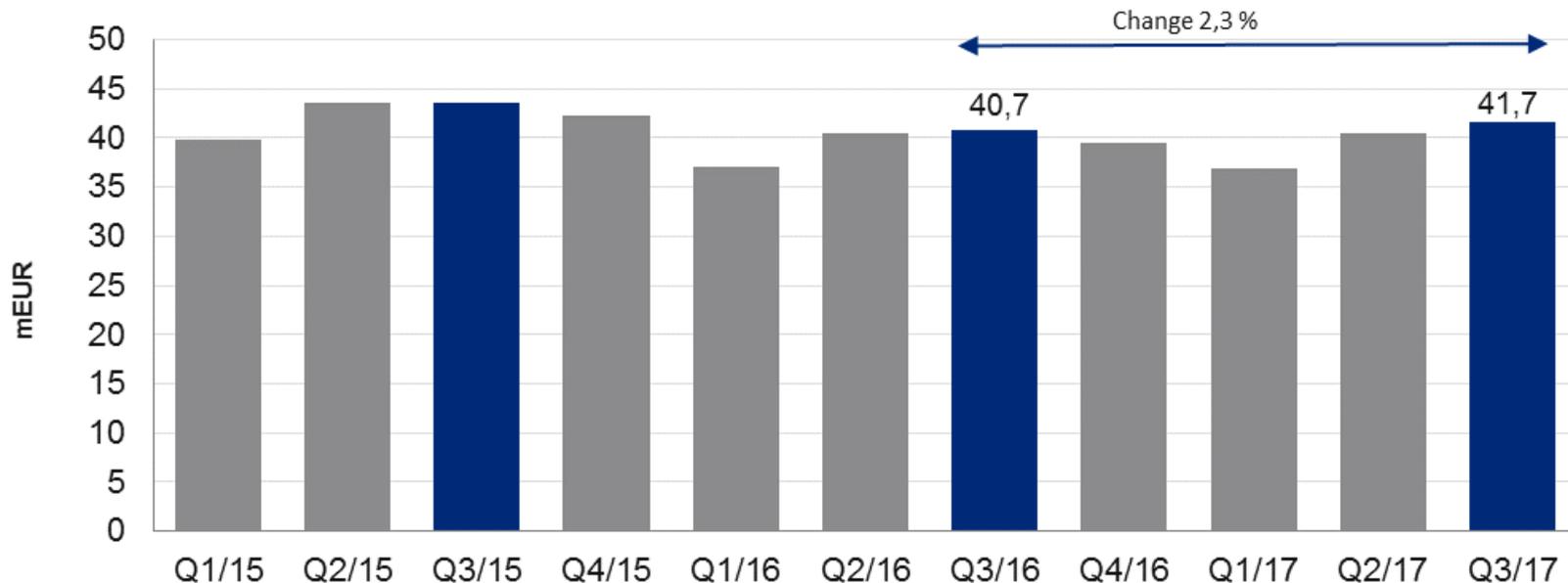
Net sales made an upward turn

Denmark net sales



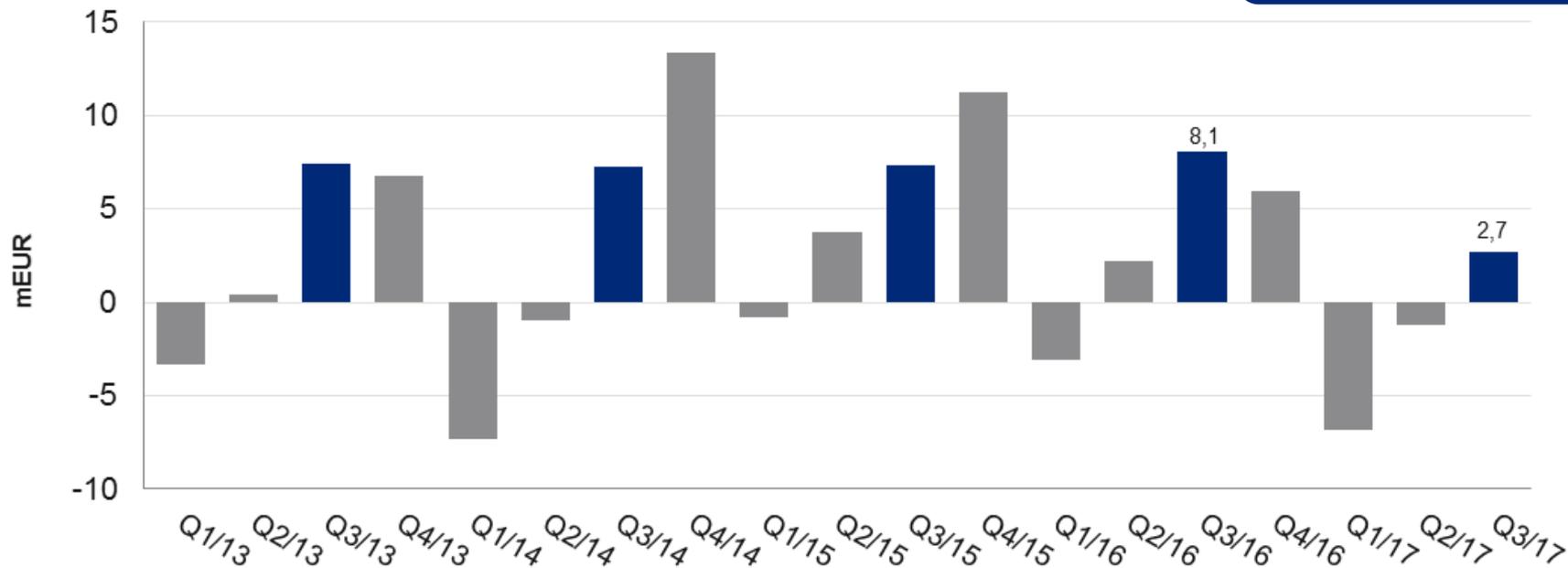
Net sales improved

Baltics net sales



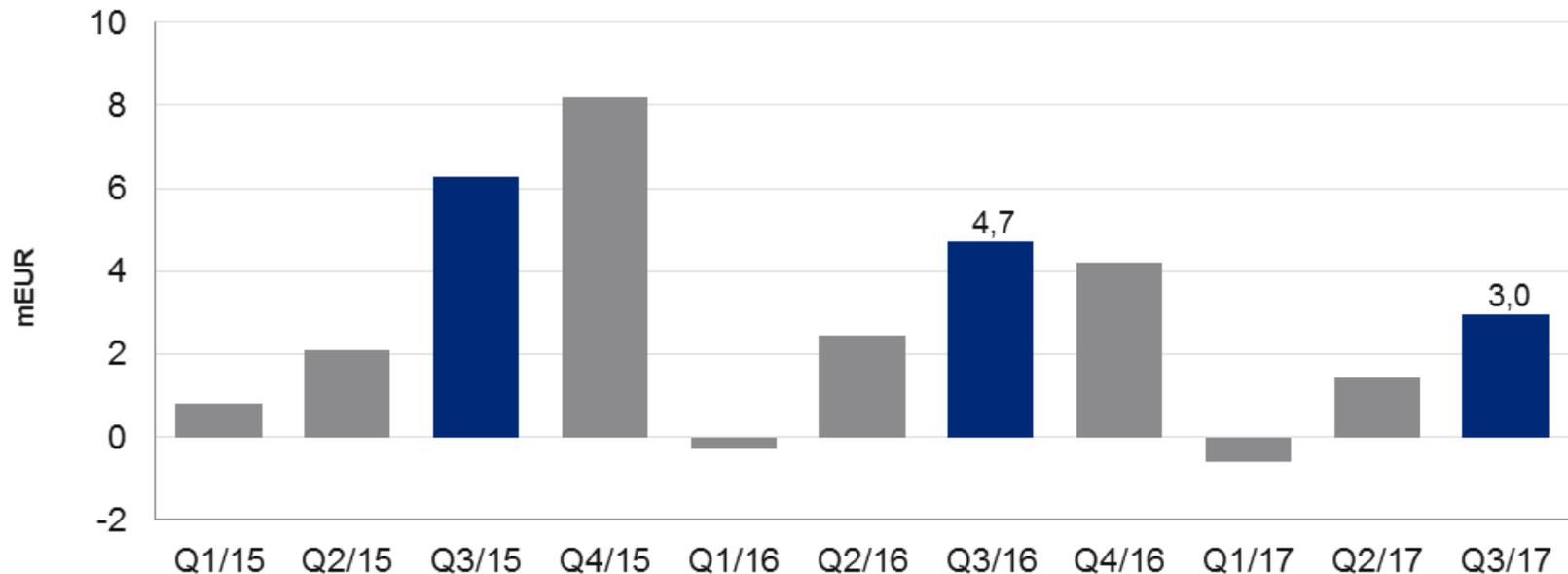
Group comparable EBIT

Rauma EBIT impact
Q2/2017: -0,9 mEUR
Q3/2017: -2,2 mEUR



Gross margin improved but stayed behind 2016

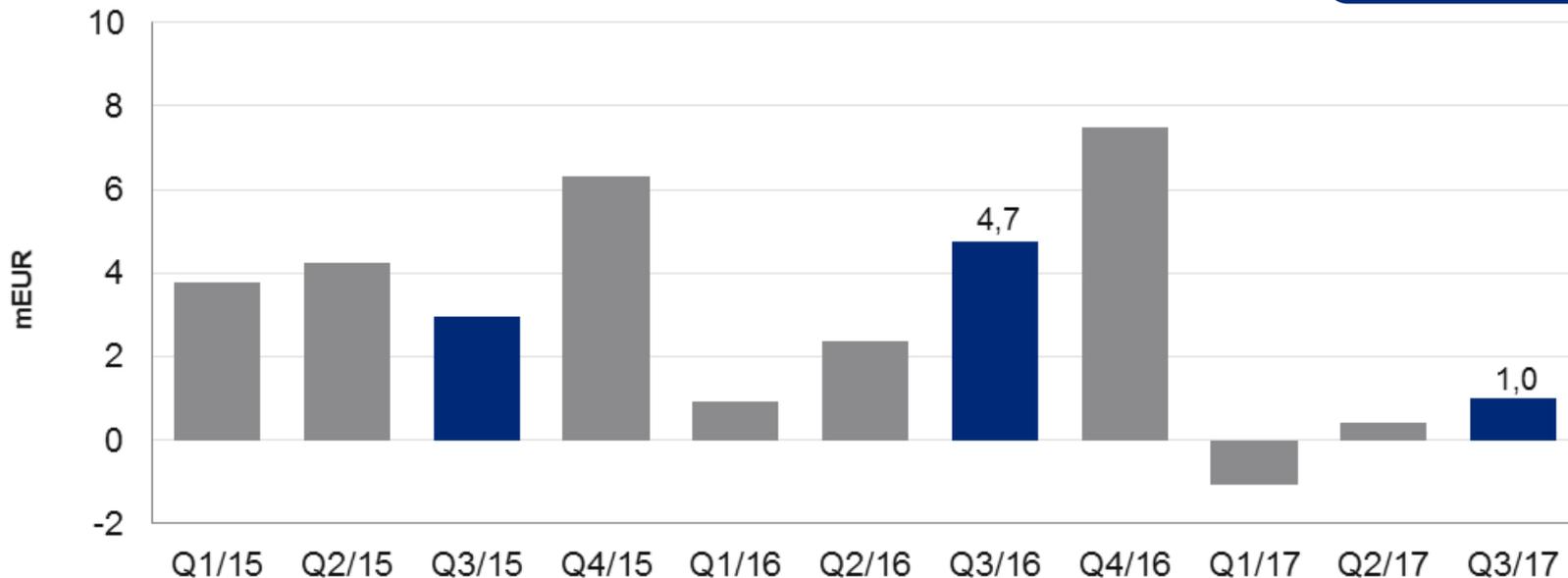
Sweden comparable EBIT*



Weak sales margin and Rauma ramp-up burdens result

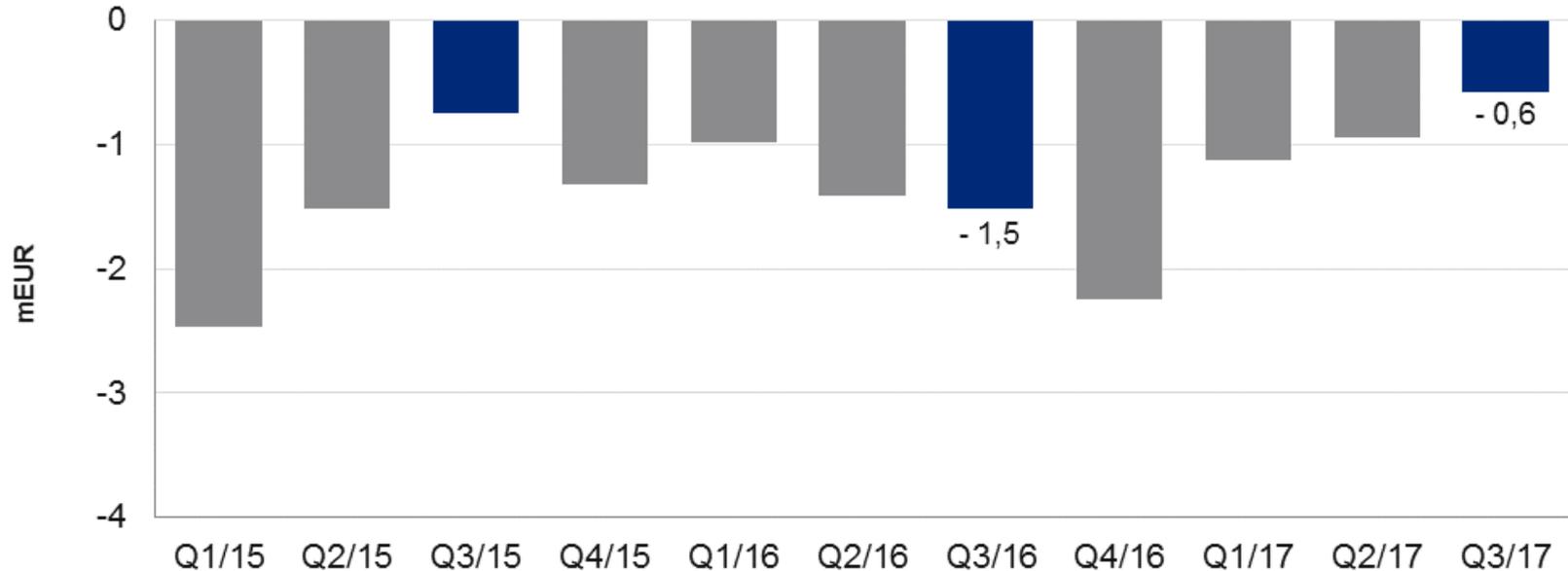
Finland comparable EBIT*

Rauma EBIT impact
Q2/2017: -0,9 mEUR
Q3/2017: -2,2 mEUR



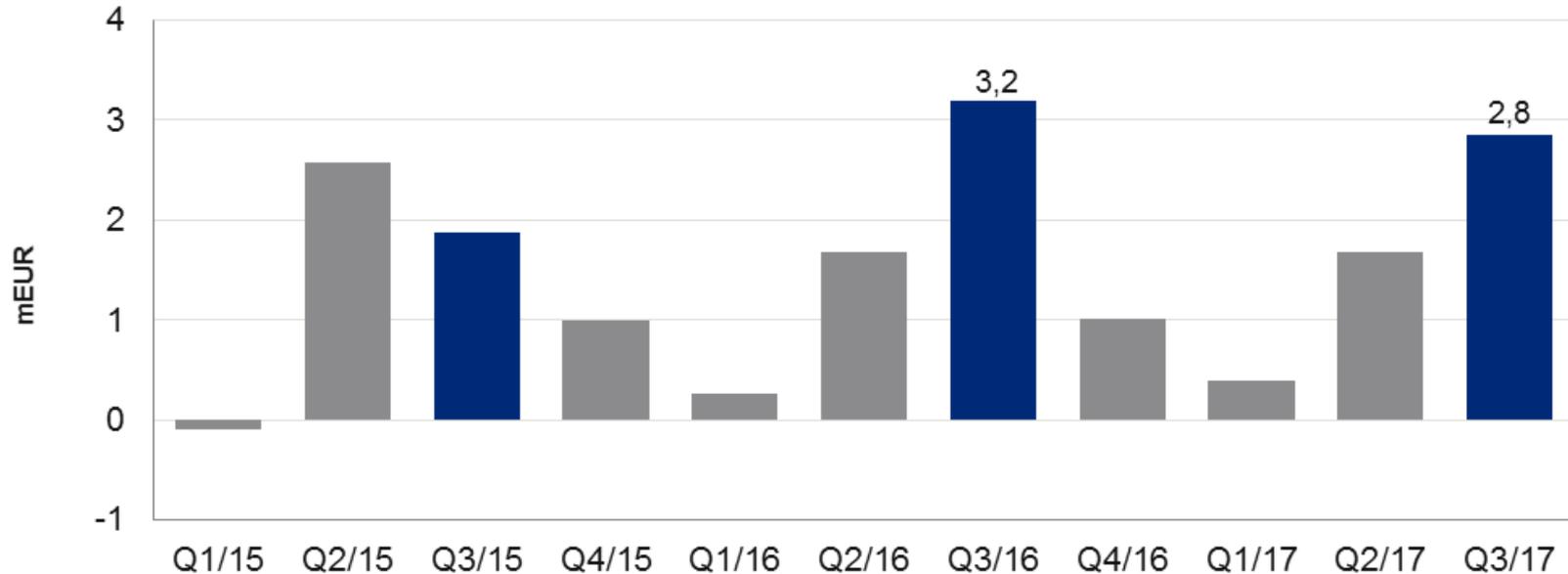
Improved production efficiency decreased loss

Denmark comparable EBIT*



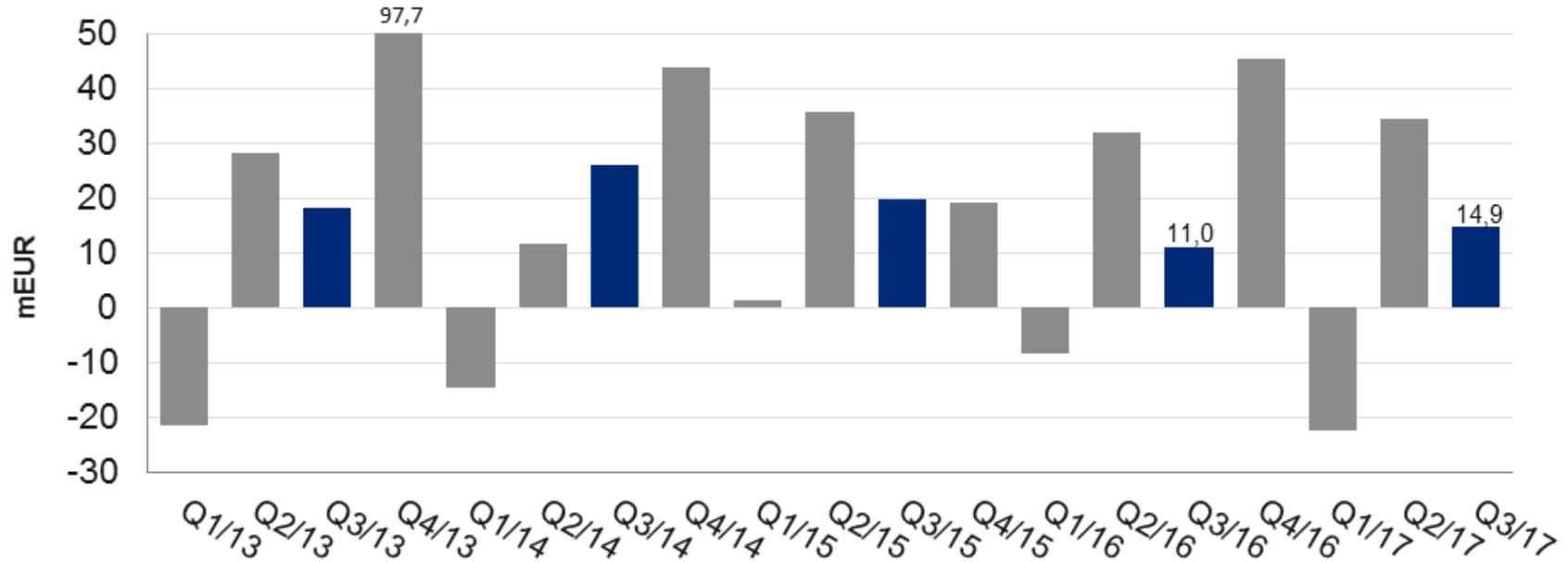
Improved sales prices kept EBIT in balance

Baltics comparable EBIT*



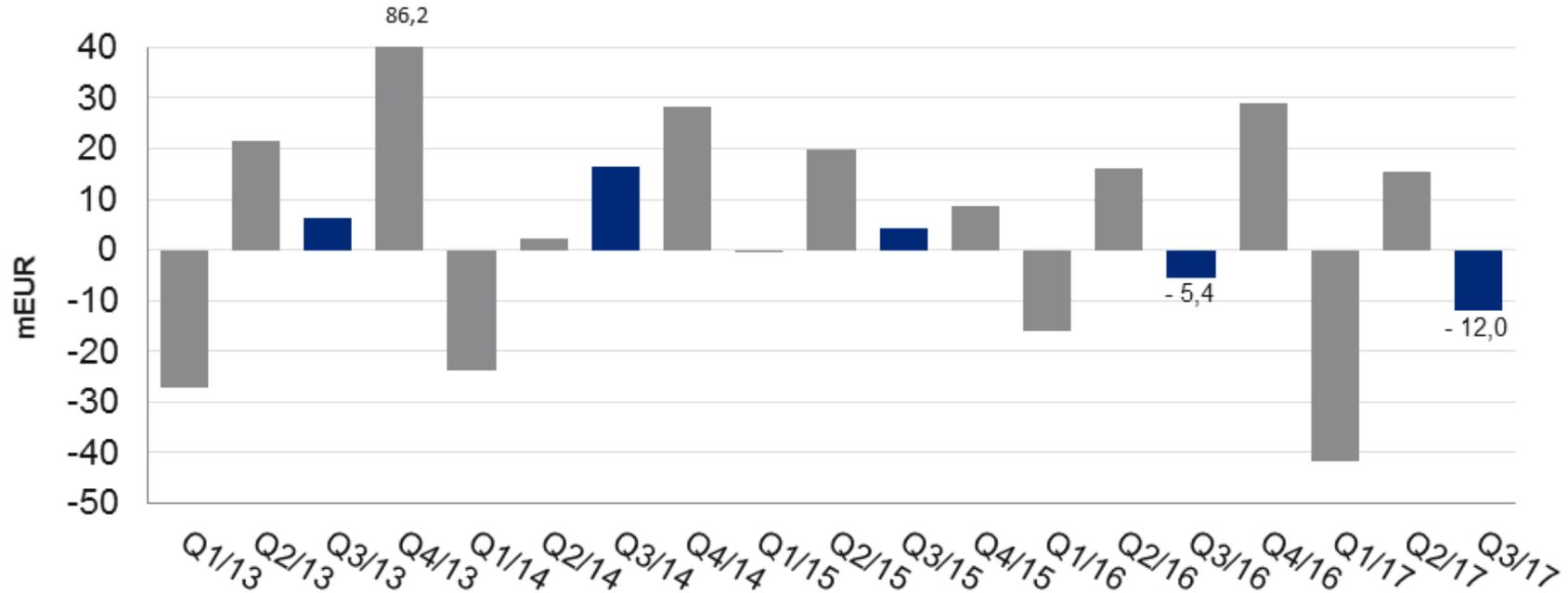
Decreased working capital improved cash flow

Group cash flow before investments



Rauma investment decreased cash flow before debt service

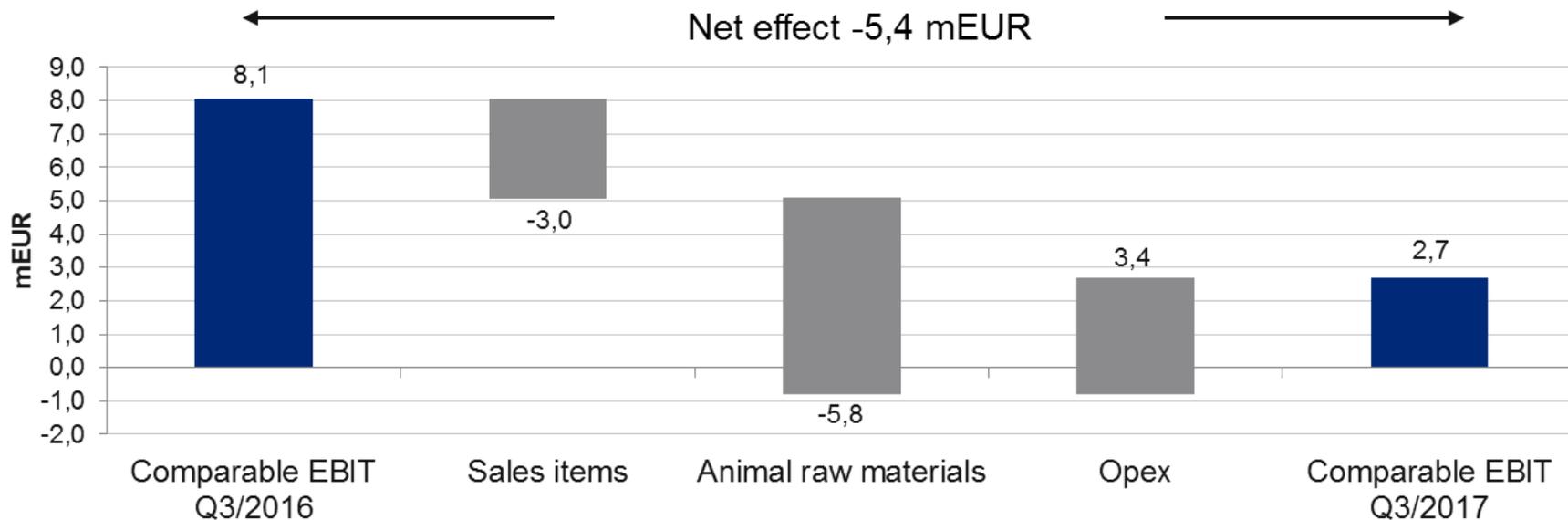
Group cash flow before debt service



Sales margins behind 2016

Q3/2016 vs Q3/2017

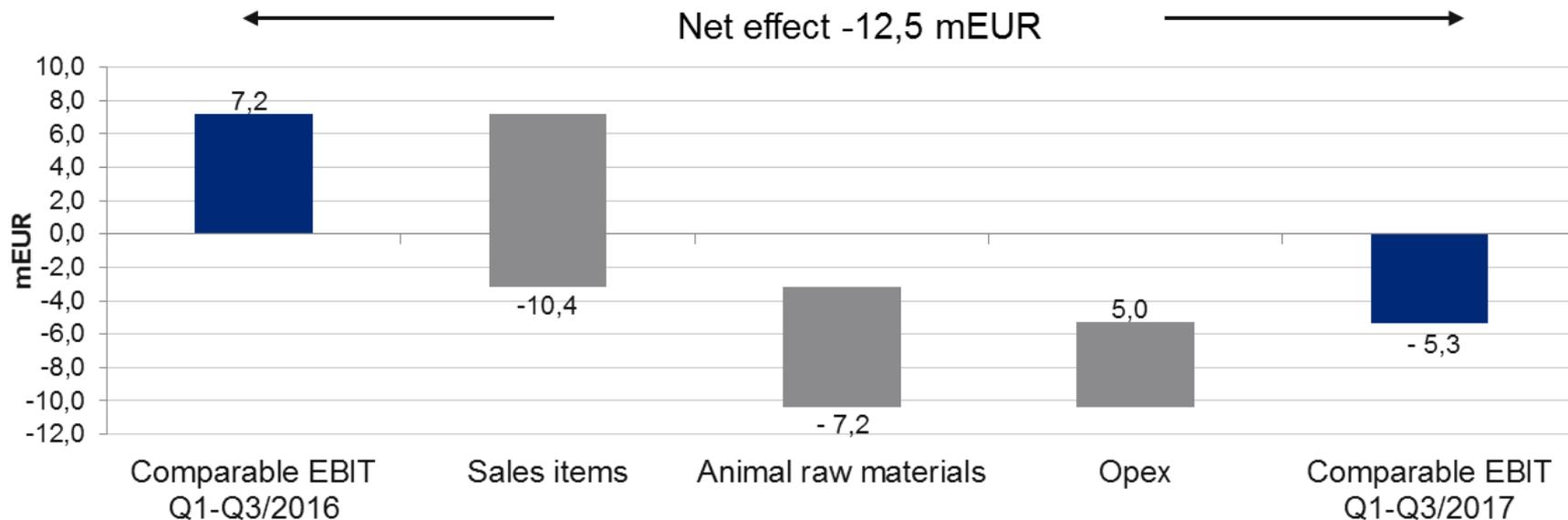
Rauma impact on EBIT:
Q3/2017: -2,2 mEUR



Sales margins behind 2016

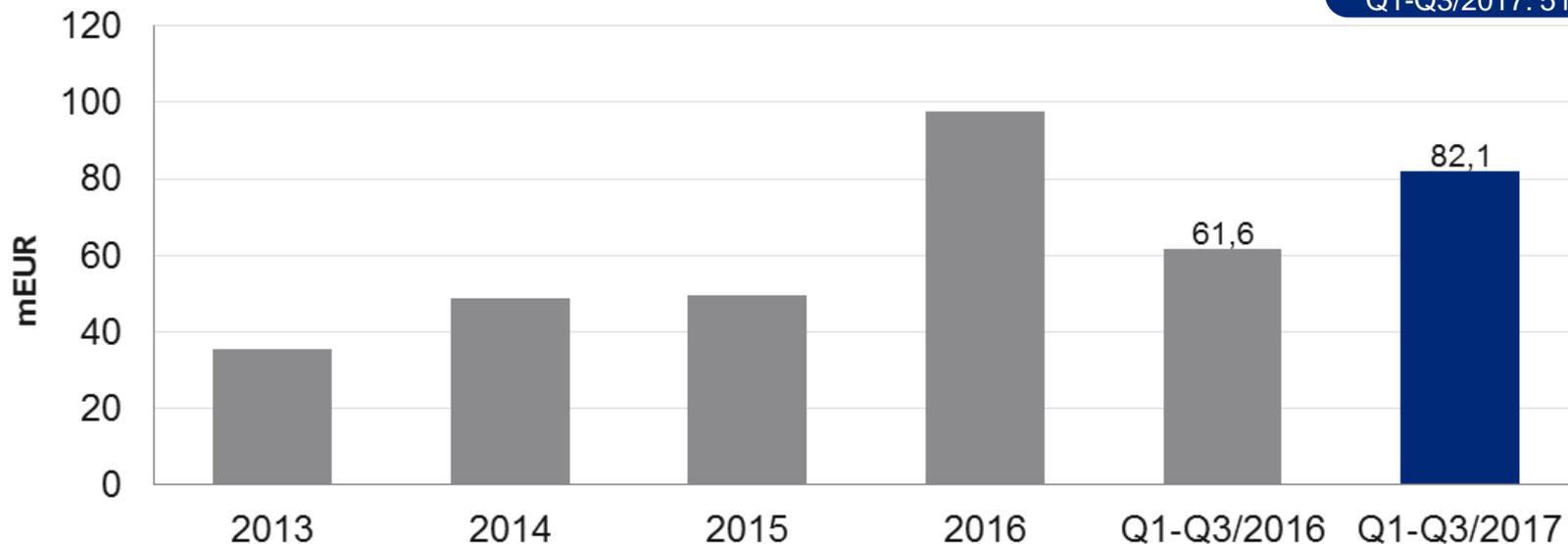
Q1-Q3/2016 vs Q1-Q3/2017

Rauma impact on EBIT:
Q1-Q3/2017: -3,1 mEUR

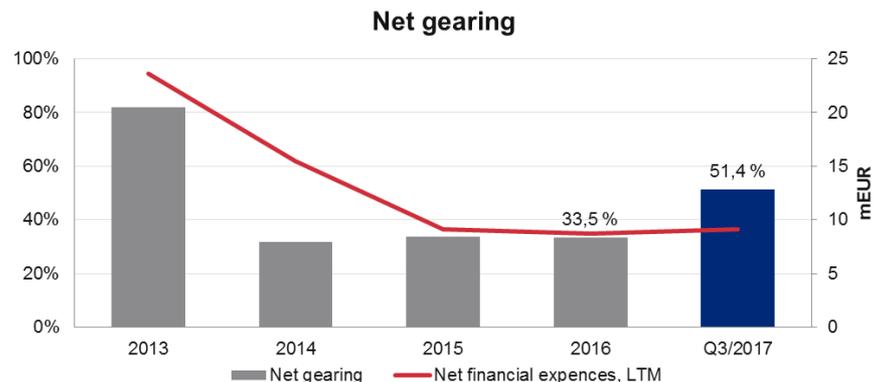
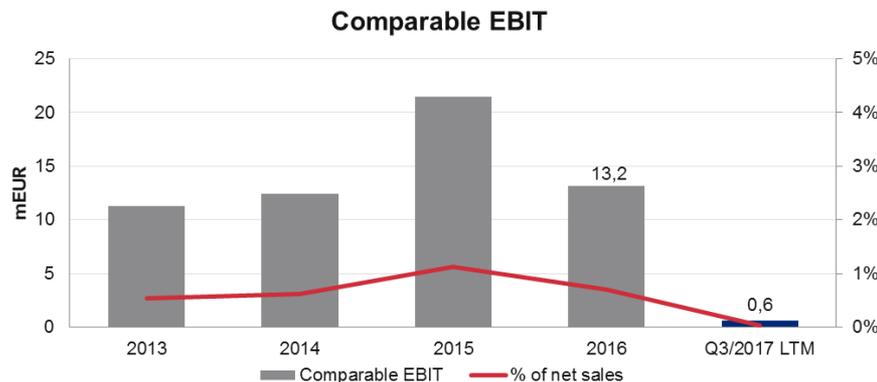
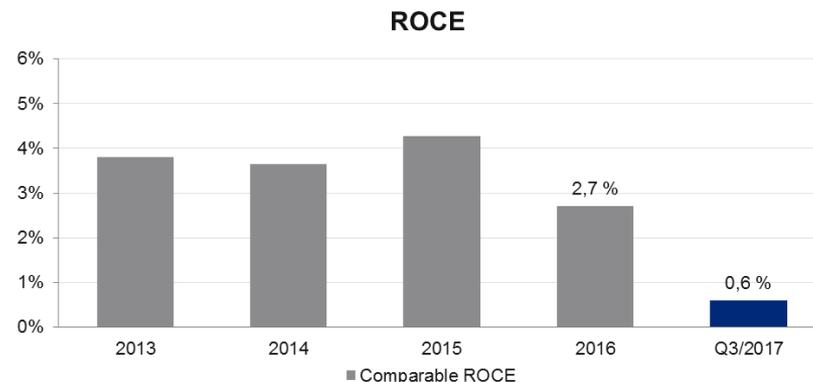
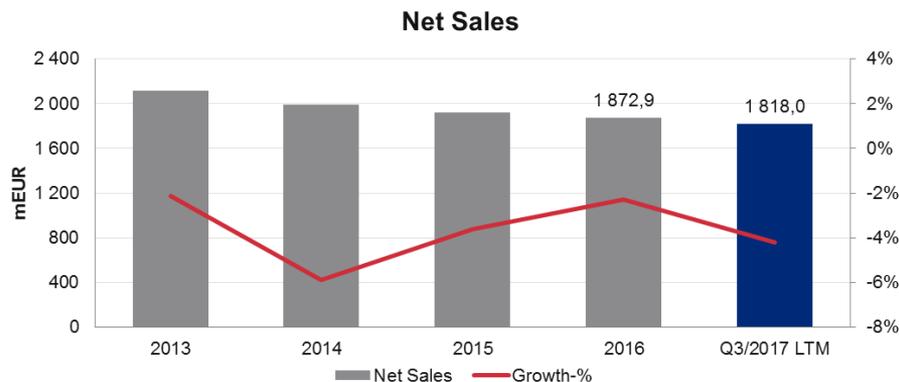


Rauma investment doubles Group capital expenditures

Rauma CAPEX:
2016: 44,4 mEUR
Q1-Q3/2016: 25,2 mEUR
Q1-Q3/2017: 51,3 mEUR

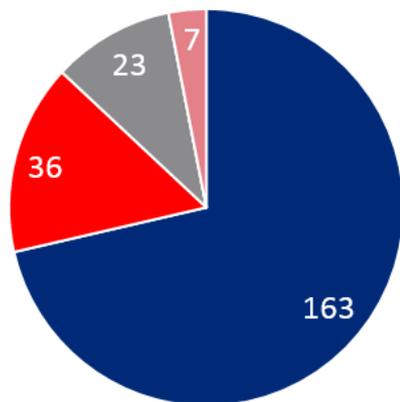


Financial performance



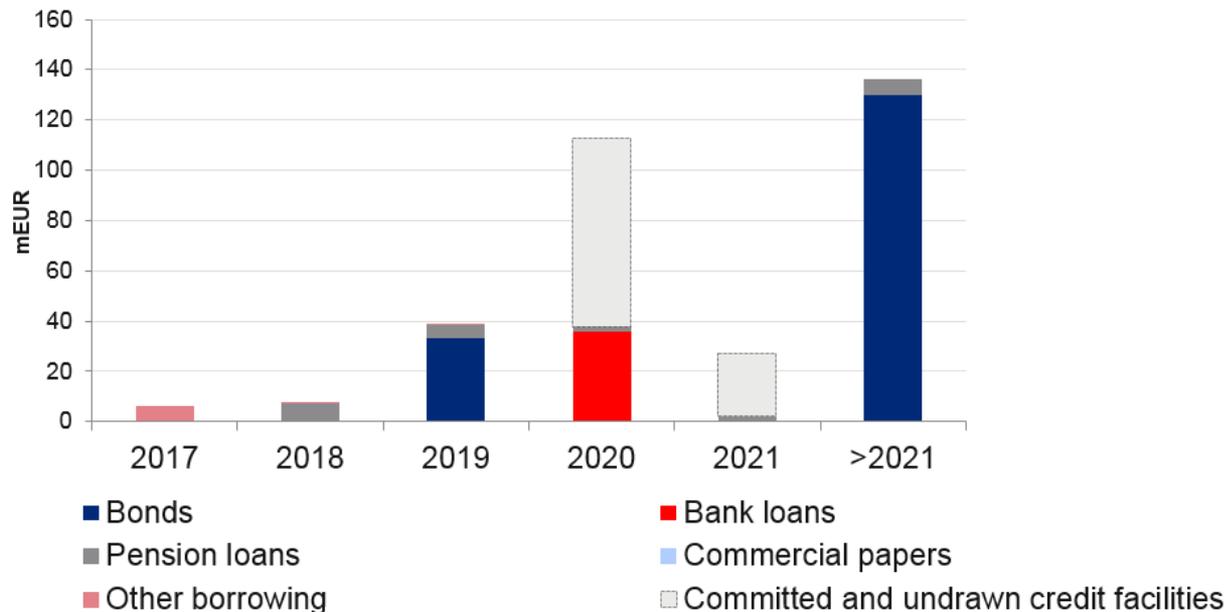
New bond in September

Interest-bearing debt by credit type



Total interest-bearing debt:
228,9 mEUR

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



Outlook for 2017 (revised 31 October 2017)

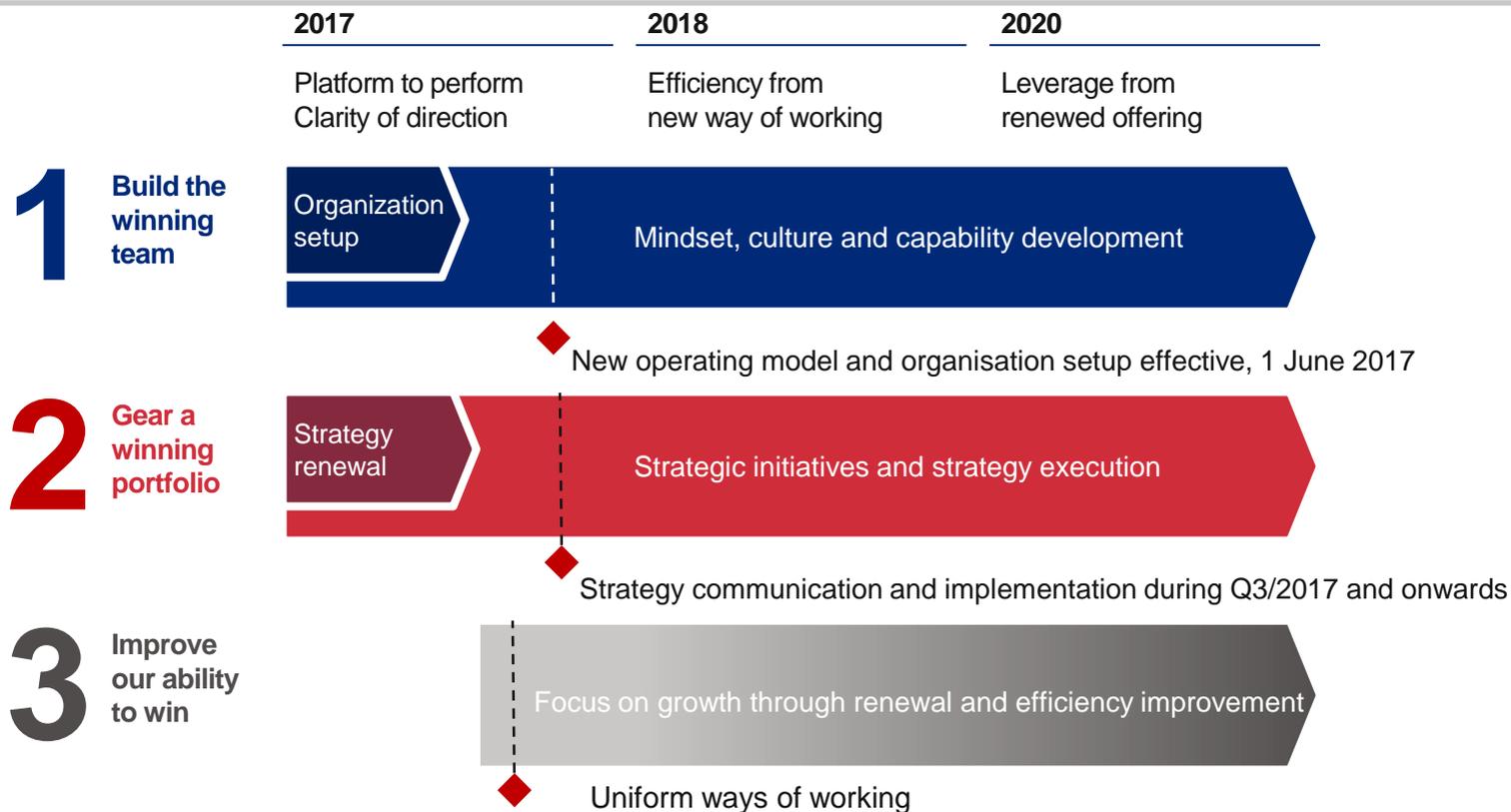
- HKScan estimates its comparable operating profit (EBIT) for 2017 to be at loss. Previous outlook: HKScan estimates its comparable operating profit (EBIT) for 2017 to stay below the previous year's level (EUR 13.2 million).
 - The reason for the revised outlook is the higher than anticipated ramp up cost of the new Rauma unit and also the temporary decreased delivery capability in poultry in Finland.

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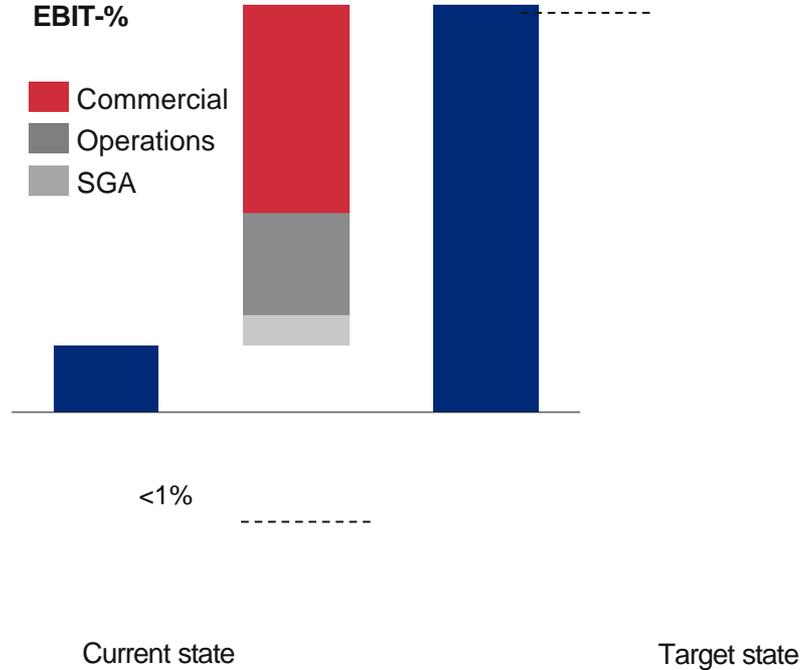
**Strategy implementation proceeds as
planned**

Jari Latvanen
8 November 2017

Development roadmap, including the strategy implementation, is proceeding according to plan



We have initiated several parallel actions to secure our future financial health



Commercial

- Revitalize and focus on meat
- Leadership in poultry
- Growth in meal business

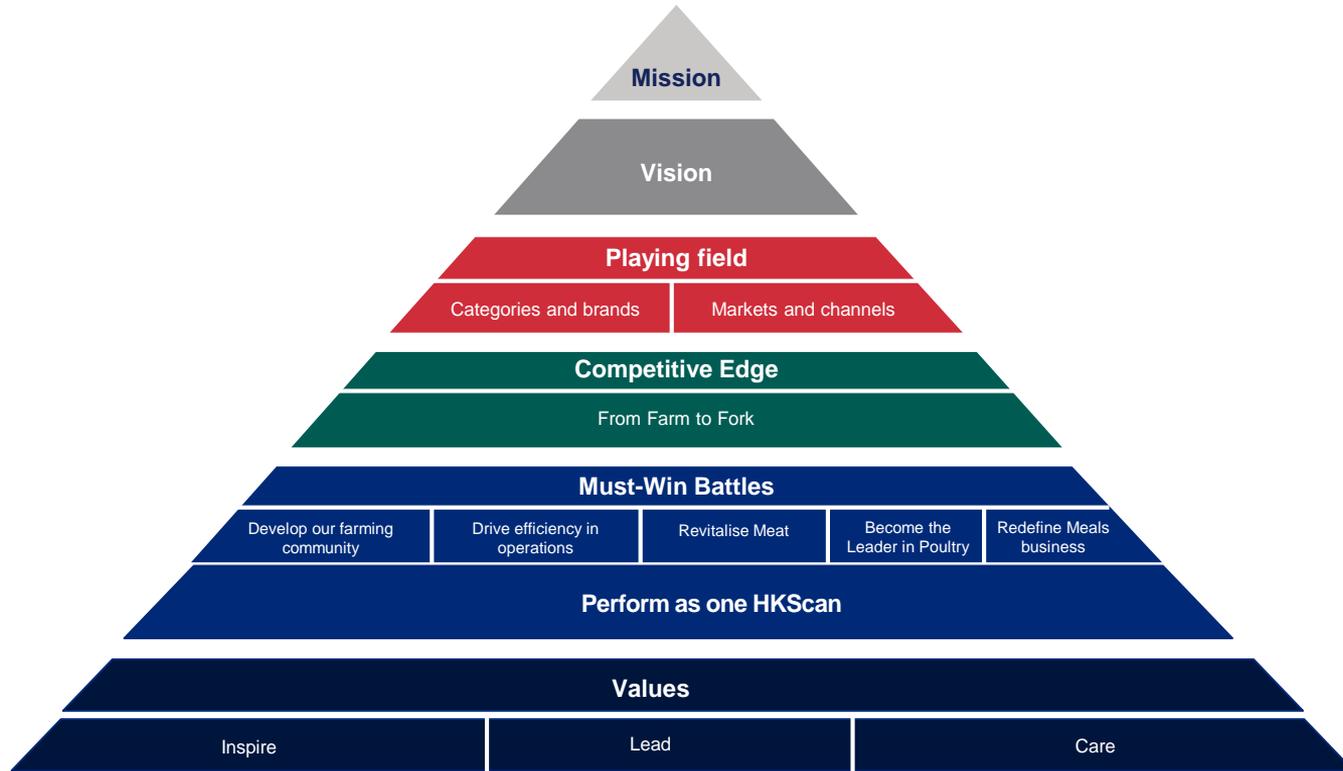
Operations

- Drive productivity and efficiency
- Partnering and developing the farming community

SGA

- Organization efficiency

Our Farm to Fork strategy in a nutshell



Must Win Battles to reach our objectives

Cooperate with our farming community

- Secure High quality raw material
- Commercial innovation and differentiation



Drive efficiency and cost competitiveness

- Improve **on-site efficiency** by benchmarking and sharing
- Develop **production network** to bring up **asset utilisation**



Focus on Meat

- Invest in **new concepts, products** and **sustainability**
- **Differentiate** with **high quality** and full **control of the value chain**
- Build a position **closer to consumers**



Leadership in Poultry

- **Capitalise** on the **growth** trend and utilise full food value chain control and Rauma
- Invest in **new concepts** to defend against commoditising



Continue growing Meals business

- Tap into a **growing and high-margin market** with white spots and premiumisation opportunities
- **Reduce complexity** to gain resource and cost effectiveness



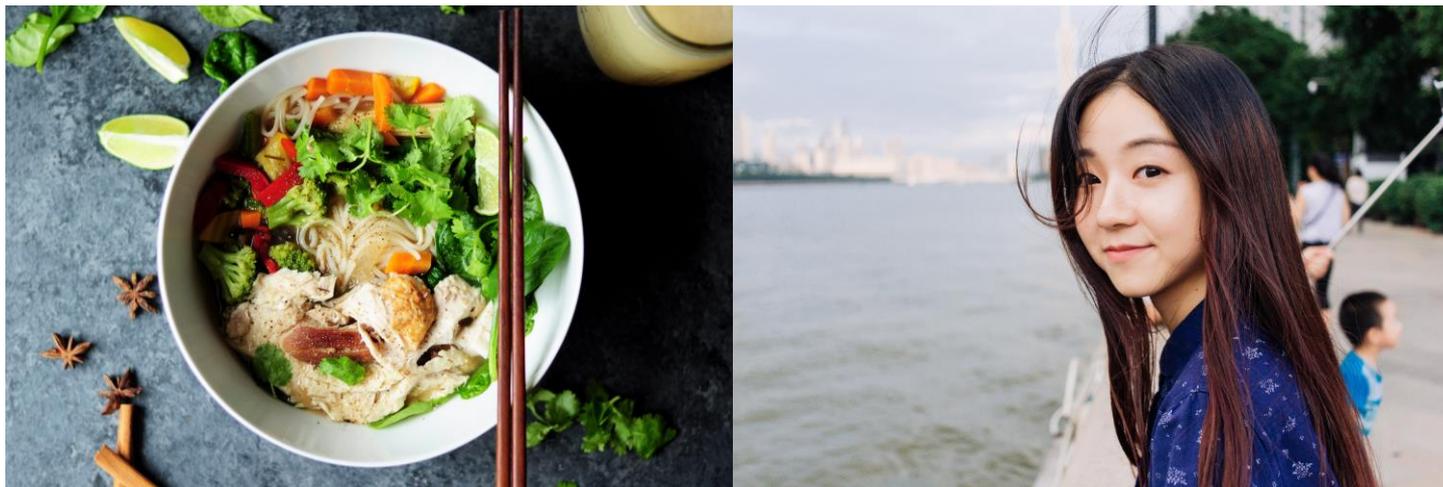
Leading the food value chain and emphasising the consumer



Actions executing our strategy



HKScan to launch pork exports to China – competitive edge from world-class work done on Finnish family farms



- The Forssa unit prepares for export to commence in 1H 2018
- Products to retail, industrial and HoReCa sectors
- Sales target in 1st year 3000 tonnes – 9000 tonnes by the year 2020
- Long-term goal is to initiate the export of poultry and other meat, and to launch exports to China from HKScan's other home markets

Programme for improving our operational excellence and productivity has started

We target to improve quality and cost efficiency, enhance planning as well as reduce waste

Vantaa pilot (Q3-4 2017)



Topics addressed:

- Equipment efficiency
- Labor efficiency
- Waste
- Maintenance and energy
- Demand and supply planning
- Product portfolio complexity

Group roll-out 2018

1 Drive factory efficiency



- Common KPIs
- Strengthen continuous improvement culture

2 Optimize capacity utilisation



- Increase flexibility and optimize operational footprint
- Support growth opportunities

3 Excel in meat balancing from Farm to Fork



- Implement new demand-supply management model
- Strengthen long term planning process

Expected efficiency deliverables:



Increased quality



Cost efficiency



More accurate demand and supply planning



Waste reduction

Group-wide roll-out with three focus areas

1

DRIVE FACTORY EFFICIENCY

- *Implement uniform KPI system*
- *Accelerate focus on continuous improvements*

2

OPTIMISE CAPACITY FOOTPRINT

- *Increase flexibility and rationalize structure*
- *Support growth opportunities*

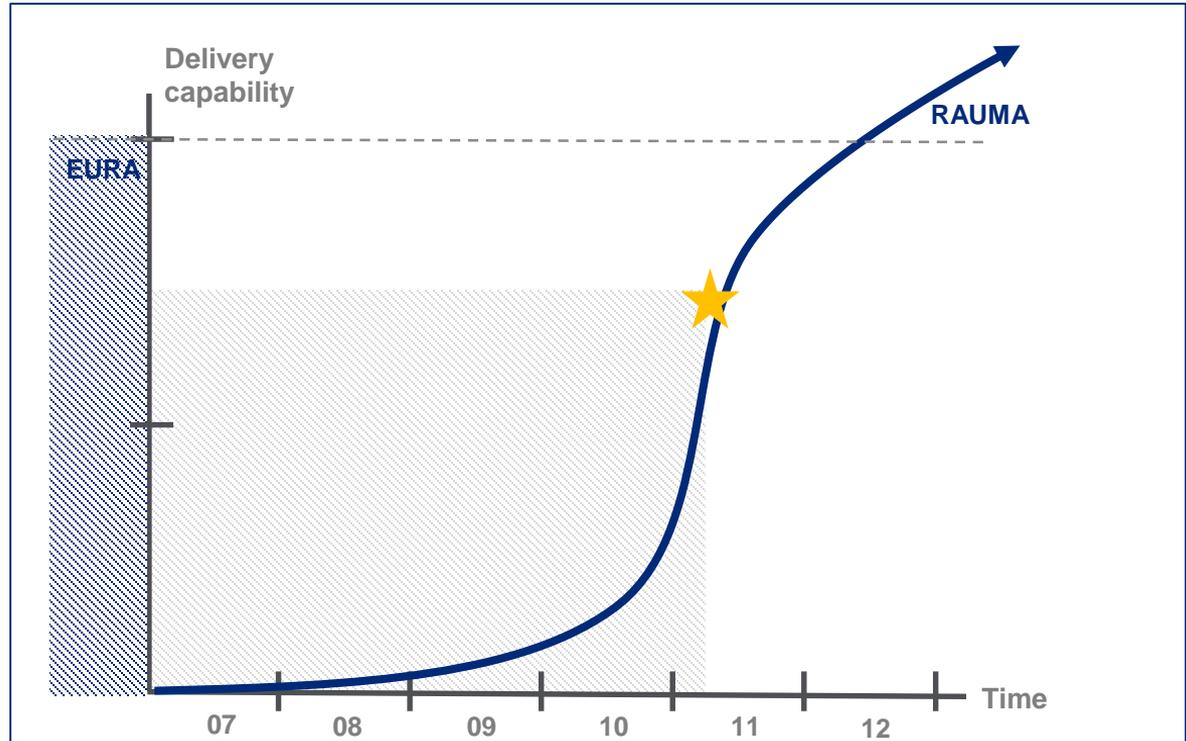
3

EXCEL IN MEAT BALANCING – FROM FARM TO FORK

- *Implement new demand-supply management model*
- *Strengthen long term planning*

Rauma enables us to reach leadership in poultry

The state-of-the-art unit improves our efficiency, competitiveness and enables us to introduce new concepts in 2018.



Rauma supports sustainability in several ways

Leadership in
Poultry

Focus on Meat

The Investment supports **employment**. Rauma employs approx. 450 people. It has also a big indirect impact to employment, up to 1,500 man-years.



Environmental responsibility taken into account in planning and acquisitions. New technology and production lines minimize total emissions.



Employee welfare and occupational health. Cooperation with the Finnish Institute of Occupational Health.



Attention to **animal welfare**. Conditions where birds stay calm throughout the process. Less handling phases.



Circular economy targets play an important role. Improved collection and utilisation of side streams.



Group Leadership Team leads the transformation and strategy execution



Jari Latvanen
President and CEO



Jyrki Karlsson
EVP Market Finland



**Sofia Hyléen
Toresson**
EVP Market Sweden



Anne Mere
EVP Market Baltics



Jukka Nikkinen
EVP Market Denmark,
International & Biotech



Heli Arantola
EVP Categories &
Concepts



Pia Nybäck
EVP Animal Sourcing
& Primary Production



Sami Sivuranta
EVP Operations



Tuomo Valkonen
CFO



Anu Mankki
EVP HR



Mikko Saariaho
EVP Corporate
Communications and
Corporate Responsibility

What do we need to do to achieve our strategic targets?

- **Implement** our must-win battles
- **Set** challenging, but attainable targets
- **Lead and follow up** our performance via a common set of KPIs among others



We create value from farm to fork - with expertise and collaboration



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