

A close-up photograph of a white ceramic bowl filled with a creamy soup. The soup is topped with shredded chicken, small pieces of orange vegetables, and fresh green herbs. The bowl has a lid with a handle on the left side. The bowl is placed on a light-colored, textured napkin on a rustic wooden table. To the right of the bowl, a silver spoon and a wooden-handled knife are visible. The lighting is soft and natural, highlighting the textures of the food and the wood.

HKSCAN

Interim Report Q3 2019

Tero Hemmilä, CEO
Jyrki Paappa, CFO

6 November 2019

Implementation of the turnaround programme proceeding according to plan



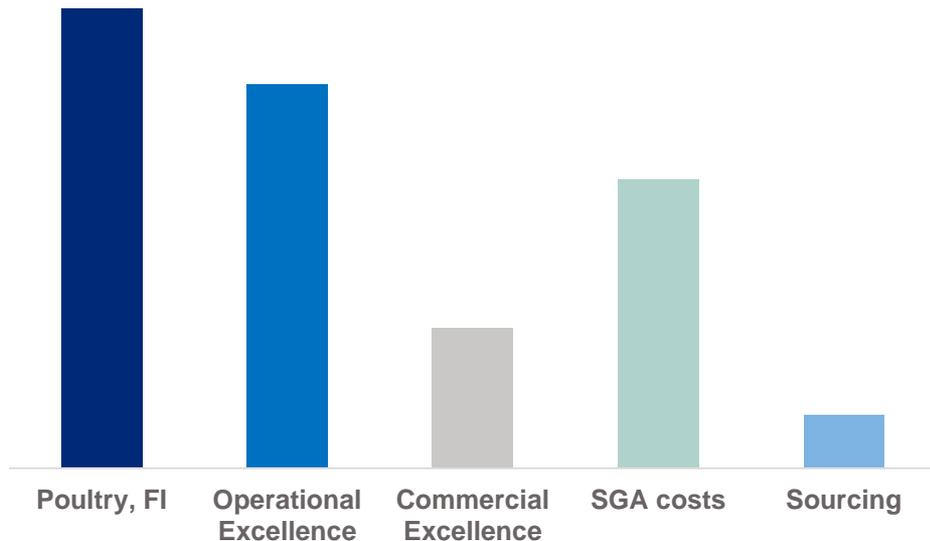
The systematic implementation of the turnaround programme continues



- The goal of the programme is to turn profitability to a healthy level during 2019-2021
- The performance improvement target has been set for three years and all market areas
- The performance improvement target has been put into practice in key areas of business operations and divided into specific actions
 - Commercial and operational activities, sourcing, SGA costs and poultry business in Finland
- Systematic and goal-oriented way of working
 - The implementation of the programme is centrally led and its progress is evaluated regularly

The turnaround programme is implemented widely

The impact of areas of the turnaround programme on profitability in 1-9/2019



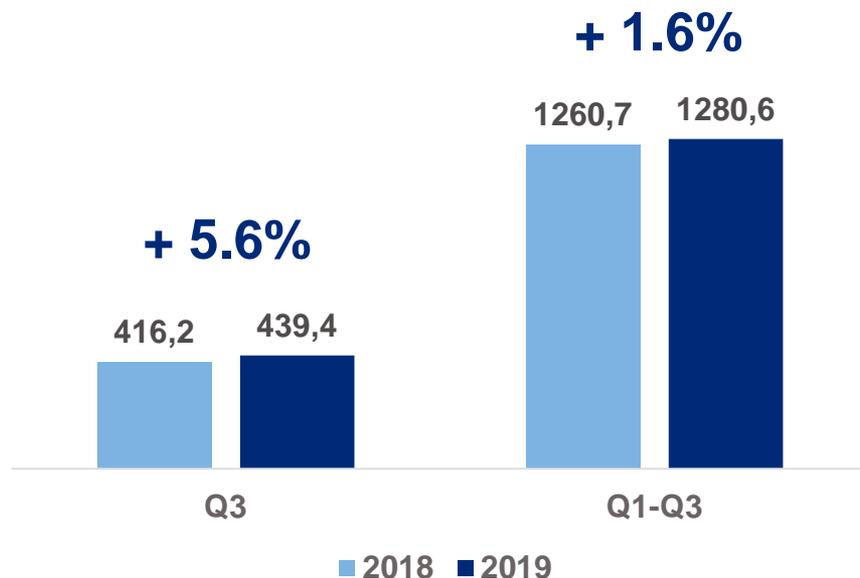
HKScan – Q3 2019 in brief

- The company was on the right track and its financial performance was improving as planned
- The goal-oriented, systematic implementation of the turnaround programme continued
- Net sales were EUR 439.4 (416.2) million, increasing nearly 6%. Growth in all markets.
- EBIT showing a EUR 4.5 (-9.8) million profit and an increase of more than EUR 14 million from the corresponding period
- Cash flow before investments was EUR 12.5 (-9.4) million. Up by nearly EUR 22 million, although net working capital increased



HKScan Q3 – net sales increased clearly

Net sales, EUR million



Q3 2019

- Growth in all market areas
- Sales of red meat increased by more than 5%
- Sales of poultry in Finland increased by more than 15%
- HKScan's pork exports from Finland to China increased in line with the targets
- Consumer demand for meat remained stable on all HKScan's home markets

HKScan Q3 – growing net sales

Net sales, EUR million

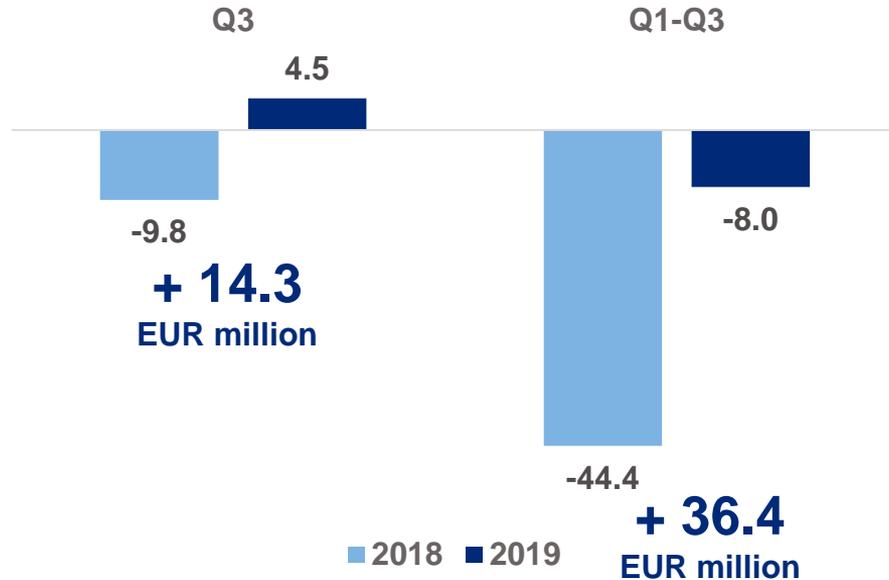


Q3 2019

- Net sales increased in Finland thanks to the improved delivery capability and productivity of the Rauma poultry unit. Sales increased in all other product categories, as well.
- In Sweden, the good development of food service and retail sales increased net sales in local currency
- In Denmark, net sales was increased by strengthened retail sales and an improved product mix. Export volumes increased, as well.
- In the Baltics, net sales increased thanks to the continuing growth of domestic retail sales, improved sales mix and increased pork market prices

HKScan Q3 – comparable EBIT showing profit of EUR 4.5 million

Comparable EBIT, EUR million

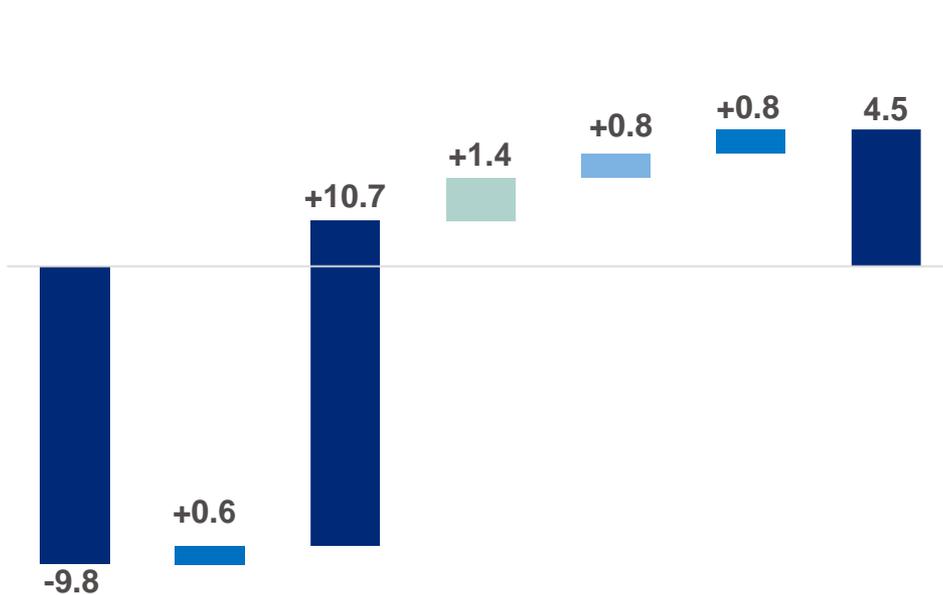


Q3 2019

- Profitability improved widely in all market areas and product categories
- The result improved thanks to
 - positive development of poultry business in Finland
 - commercial successes
 - cost control in line with targets
 - operational efficiency measures

HKScan Q3 – EBIT improved in all market areas

EBIT Q3 2018 – Q3 2019, EUR million



Q3 2018 Sweden Finland Denmark Baltics Group Q3 2019

Q3 2019

- In Finland, the result was improved by the strengthened performance of the poultry business
- In Sweden, comparable EBIT continued to improve despite the unfavourable currency effect
- Denmark improved clearly its profitability and turned EBIT positive in August-September
- EBIT improved clearly in the Baltics, as well

Outlook 2019 (Unchanged)

HKScan expects its improvement programmes and other corrective actions to record results in 2019, and the company's EBIT is expected to improve clearly from the previous year.

Global meat consumption is projected to increase during the coming years. Within HKScan's home markets and in categories in which HKScan is present, consumption growth is seen in poultry and meal categories. Demand of processed meat is expected to remain stable, while the consumption of red meat is estimated to face a slight decrease.



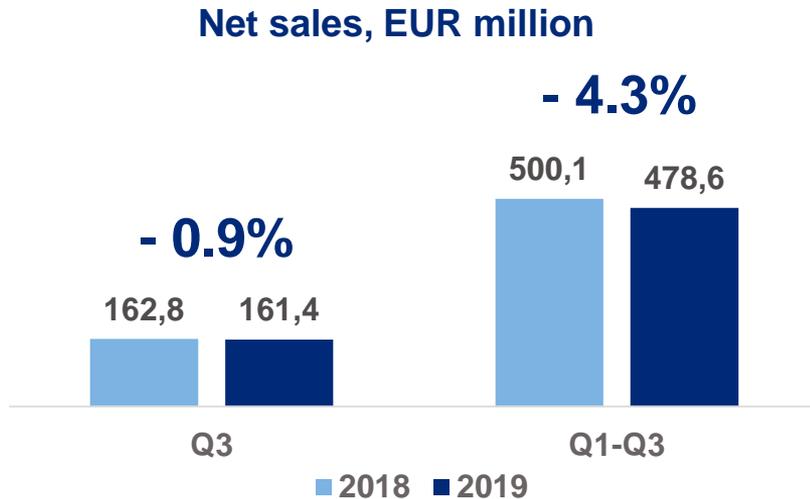
HKScan – key figures

(EUR million)	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	2018
Net sales	439.4	416.2	1 280.6	1 260.7	1 715.4
EBIT	4.5	-9.8	-16.7	-44.8	-48.3
- EBIT margin, %	1.0	-2.4	-1.3	-3.6	-2.8
Comparable EBIT	4.5	-9.8	-8.0	-44.4	-46.3
- EBIT margin, %	1.0	-2.4	-0.6	-3.5	-2.7
Profit for the period	0.4	-8.9	-26.9	-42.0	-51.3
EPS, EUR	-0.01	-0.18	-0.41	-0.80	-1.00
Comparable EPS, EUR	-0.01	-0.18	-0.29	-0.79	-0.96

HKScan – key figures

(EUR million)	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	2018
Cash flow before investments	12.5	-9.4	18.1	-38.2	-3.4
Cash flow before debt service	6.6	-19.8	-7.0	-117.3	-95.4
Return on capital employed (ROCE) before taxes, %			-2.6	-9.6	-6.7
Net debt			308.8	352.0	335.6
Net gearing, %			90.1	103.8	103.3

Sweden Q3 – net sales increased in local currency

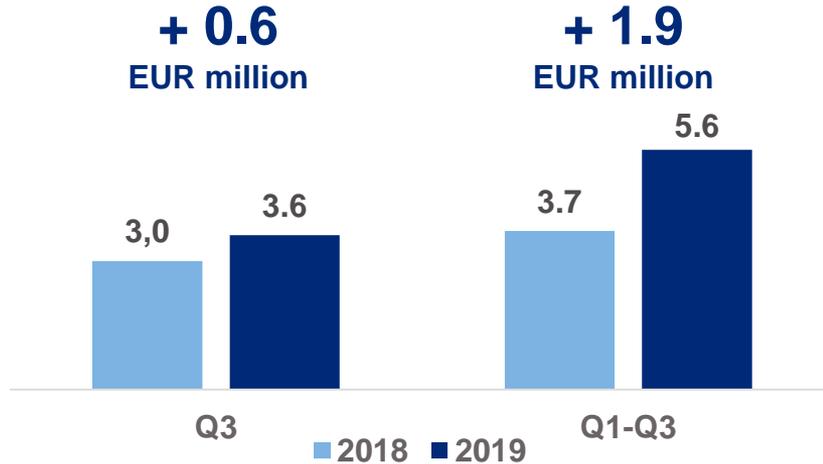


- Net sales increased in local currency, thanks to improved food service sales and successful branded sales in retail
- The sales responsibility for Danish poultry sold in Sweden was transferred from Sweden to Denmark, with a value of EUR 3.6 million



Sweden Q3 – profitability improved due to cost savings

Comparable EBIT, EUR million

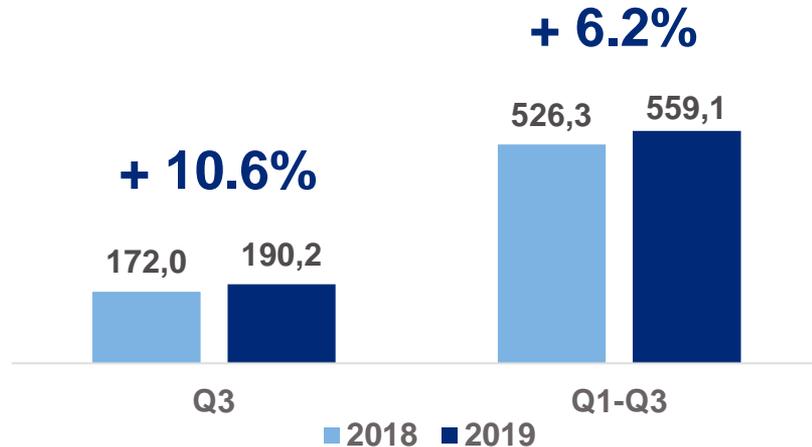


- Despite the unfavourable currency impact, comparable EBIT increased as a result of better sales margins, improved operational efficiency and lower administration costs



Finland Q3 – sales increased in all categories

Net sales, EUR million

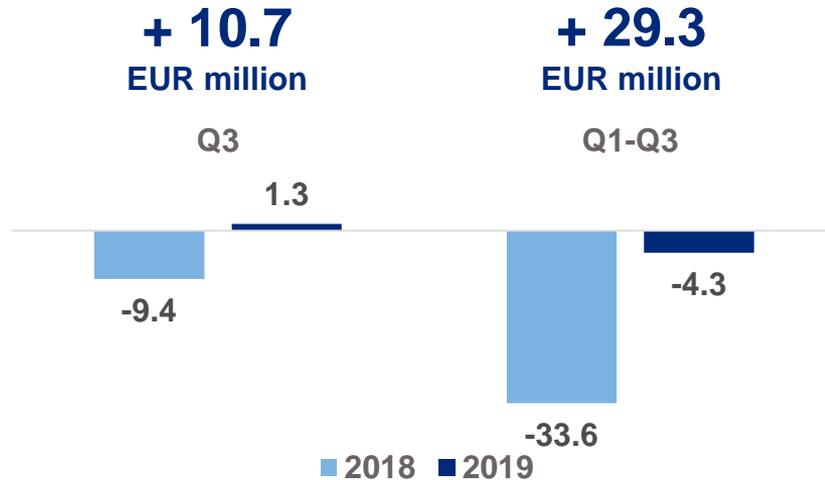


- Net sales increased clearly particularly thanks to growth in the poultry business
- Sales increased also in all other meat categories and meals



Finland Q3 – EBIT was positive

Comparable EBIT, EUR million



- Profitability improved especially thanks to the improved delivery capability and productivity of the Rauma poultry unit
- The profitability of other categories, such as red meat and meals, also improved thanks to increased sales prices, improved operational efficiency and tight cost control



The position of the Kariniemen® brand in Finland is unmatched

- In Finland, HKScan's sales of poultry **in July–August** increased by more than **20%**
- **In January–September**, sales increased by more than **15%**
- The Kariniemen brand has the strongest image in Finland by far
- Kariniemen is the best known, most appreciated and most bought chicken brand in Finland



Source: Dagmar, the study included 1060 daily purchase decision-makers aged 20 to 64, who purchase chicken at least every other month.



Denmark Q3 – good retail sales development increased net sales

Net sales, EUR million

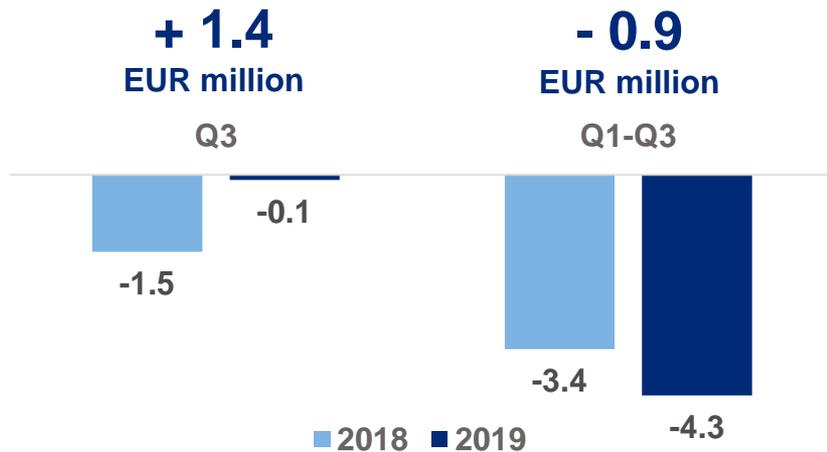


- The increase in net sales was impacted by strengthened retail sales, good product mix and increased export volumes



Denmark Q3 – profitability improved after a challenging start for the year

Comparable EBIT, EUR million

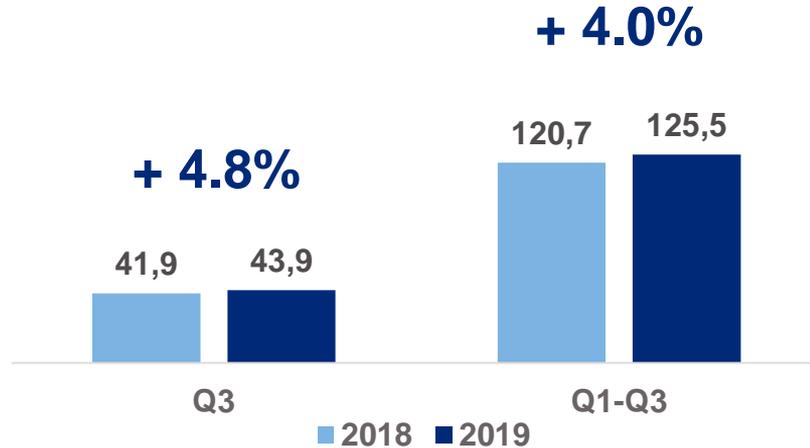


- Comparable EBIT improved clearly thanks to improved sales mix, operational efficiency measures and tight cost control, yielding a positive EBIT for the market area in August–September



Baltics Q3 – sales continued to increase

Net sales, EUR million

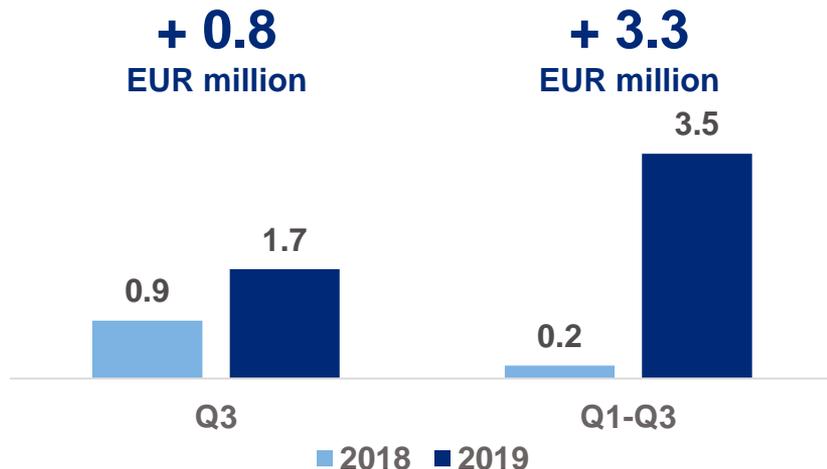


- Net sales increased thanks to improved retail sales, better product sales mix and increased market prices of pork



Baltics Q3 – EBIT improved clearly

Comparable EBIT, EUR million



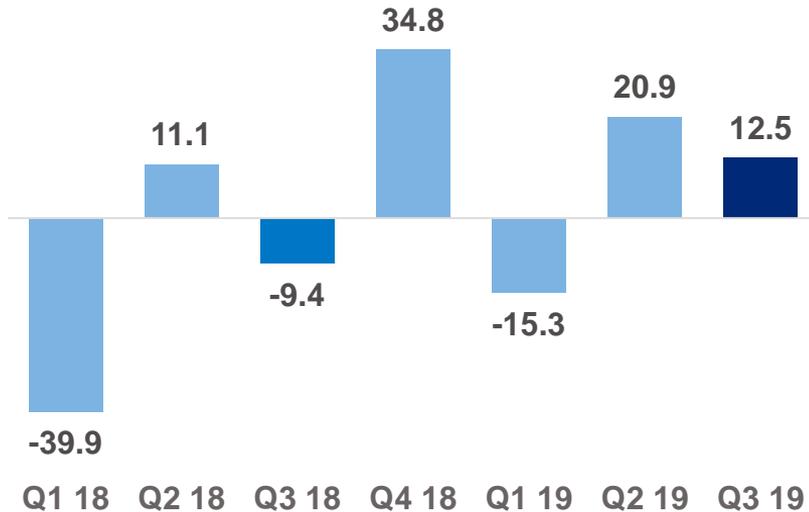
- Profitability improved due to improved sales margins and operational efficiency measures
- The change of biological asset revaluation amounted to EUR 0.0 (-0.2) million.



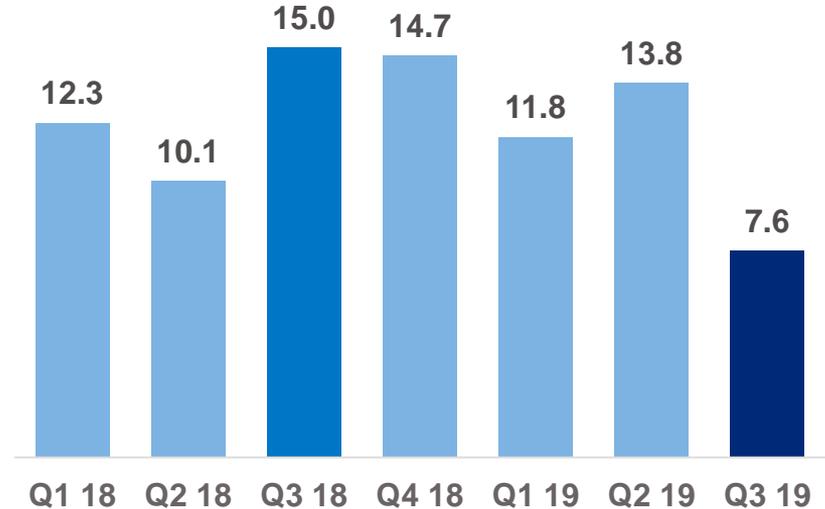
RAKVERE

Cash flow strengthened clearly as profitability improved

Cash flow before investments, EUR million

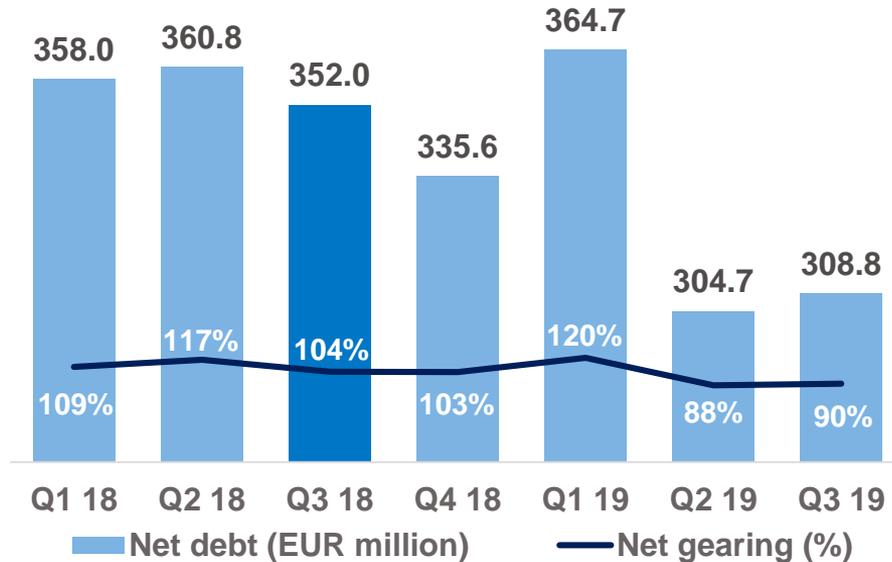


Group investments, EUR million



Net gearing was clearly below the corresponding period

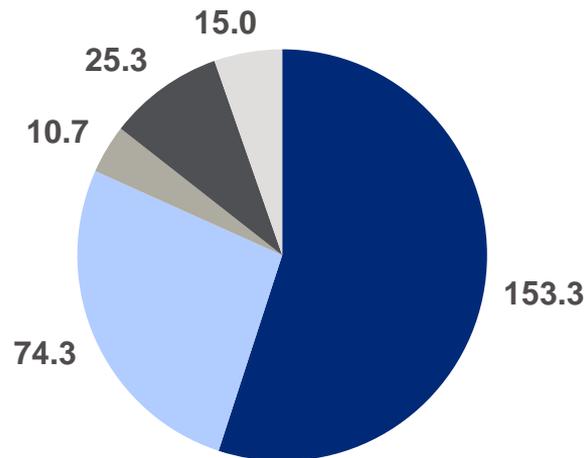
Net debt and net gearing



- Net debt and net gearing decreased from the corresponding period due to the successful share issue in June and the clearly improved cash flow
- Net gearing remained stable compared to Q2 2019
- The increasing impact on net gearing of the IFRS16 lease liability included in interest-bearing debt is approximately 14 percentage points

Debt profile and maturity structure

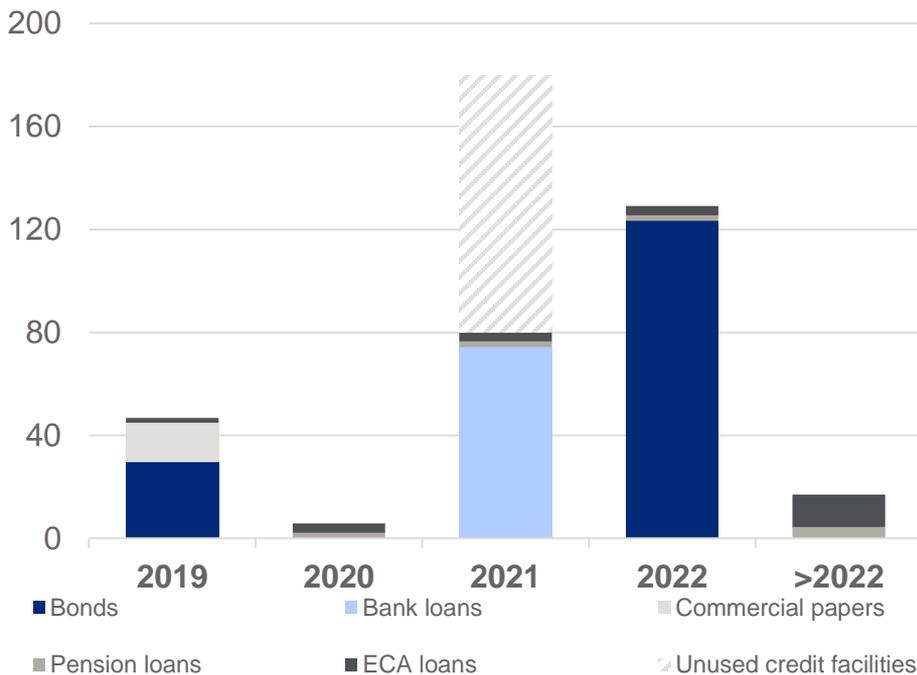
Interest-bearing debt by credit type,
EUR million*



Total interest-bearing debt: EUR 278.6 million

*EUR 26 million hybrid bond is treated as equity (early redemption option in Sept. 2023)

Maturity of Group's interest-bearing debt*,
EUR million





HKSCAN

**We make life tastier
- today and tomorrow
HKScan Corporate Strategy
starting 2020**

HKScan's market areas and categories

Market area	Net sales 2018 (million euros)	Category	Key Brands	Key Channels
Finland 	 722			
Sweden 	 682			
Baltics 	 162			
Denmark 	 149			
Export i.e. 			HKScan exports to ~ 50 countries worldwide and is constantly exploring new markets for domestic production	

Our aspiration



HKScan is a versatile food company based on naturalness, responsibility, healthiness and good taste.

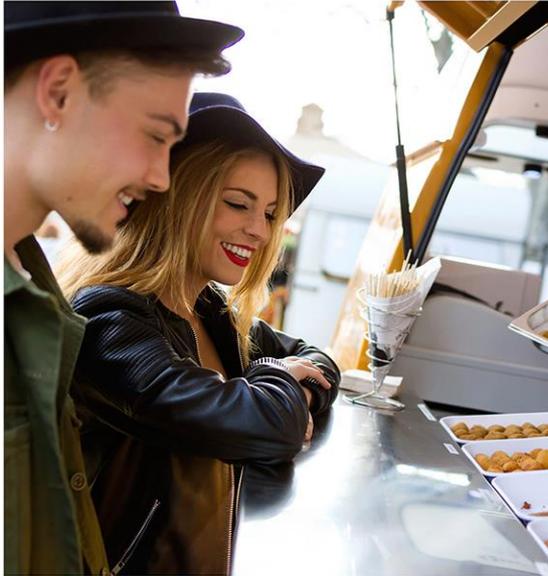
In addition to our responsibly produced red meat, we will strengthen our position in consumers' food moments by growing in poultry and meals. We are also looking into expanding our business into new product categories and raw materials.

Our position in evolving retail and growing food service channel will be strong. Together with our customers, we will build the best consumer experience in the industry.

We will create new value to our farmers, partners, customers and consumers with new commercial concepts and digital solutions.

Partnerships and our cooperation network are the key to building our position in the food market.

Trends driving our strategic choices



Changes in consumers' ideology and consumption habits



Distribution channels under disruption

New product categories challenging meat

Cross-border competition on the plate

Healthiness and sustainability of food

Changes in primary production

Our strengths

Market
leadership



Leading
brands



Value
chain from
farms to
consumers



Committed
owners



Skilled
people



Delivery
capacity



Local raw
materials





Our new strategy

**We make
life tastier**

– today and tomorrow

We make life tastier – today and tomorrow



In our strategy, we will

- lead successful turnaround programme
- grow in food moments
 - consumer encounter in categories and channels
- drive performance excellence
- incorporate responsibility into our business
- improve the competitiveness of our farming community
- renew our operating model and build partnerships
- assess the position of market areas as part of our strategy

Strategic priorities

1.

Leading the
turnaround
programme



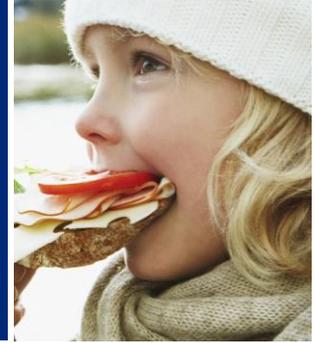
2.

Implementation of
the new operating
model and
partnership
strategy



3.

Growth in
consumers'
food moments



4.

Performance
excellence



5.

Advanced
responsibility
work



6.

Competitive
farming
community





We successfully lead our Turnaround programme

- In recent years, HKScan's financial performance has been very weak leading to a situation where its future has been at stake.
- The company strengthened its balance sheet with a successful share issue, reduced financial risk and took extra time to turn its profitability to a healthy level.
- Turnaround programme for 2019-2021 is a systematic and goal-oriented. For each year, we have defined clear, market-specific goals and measures as well as their systematic implementation and follow-up.
- Turnaround programme provides a solid foundation, and is a prerequisite, for our development into a versatile food company.

1.



2.

We are planning a new operating model and implementing a partnership strategy

- We plan to move from a matrix organisation to country-specific organisations with clear profit responsibilities of market areas.
- Our key group-level functions will continue to capture the important synergies in business processes and to secure good governance.
- The planned new operating model aims to enhance customer and consumer satisfaction, clarify profit responsibilities and ensure that profitability turns to a healthy level.
- Also strong partnerships contribute to our future. We actively use our partnership network to ensure rapid renewal and flexibility in evolving customer and consumer channels.



3.

We grow in consumers' food moments

- In the short term, we will strengthen our market position by focusing on growth opportunities in our existing categories and channels
- We are seeking strong growth in the poultry and meal categories. We will commercialise sustainably produced red meat.
- We are expanding more strongly into plant-based foods and product categories.
- We want to strengthen our position in the evolving retail and growing food service channels. Together with our customers, we aim to create the best consumer experience in the industry. New commercial concepts and digital solutions play a key role.
- We are strengthening our presence in export markets, particularly in Asia.
- We build partnerships to enable growth in evolving sales channels and new categories



4.

We drive performance excellence in all our business

- We advance performance excellence by improving all our key business processes.
- We develop our commercial processes and ability to create value for our customers and consumers and, consequently, for our own business.
- We develop and strengthen our production capacity to improve productivity and cost-efficiency and to create the conditions for growth.
- We work closely with our partners to develop commercial activities and to improve operational cost-efficiency.
- The key to us is developing the motivation and competence of our staff to meet the capabilities necessary in the strategy implementation.



5.

We lead advanced Corporate Responsibility

- Corporate Responsibility throughout the value chain is at the core of our strategy and daily operations.
- By actively implementing our CR programme, we make our sustainable way of operating as our competitive advantage.
- Our Group- and brand-level responsibility communications strengthen HKScan's position as one of the food industry leaders.
- We incorporate responsibility into our business model and build it as the Agrofood ecosystem covering the entire value chain. This will improve productivity, transparency, sustainability and enhance our competitiveness.



6.

We develop competitive farming community

- Changing consumer habits lead to changes in the farming community. HKScan is committed to develop the community together with farmers. This way, we can secure the availability of high-quality, local raw material.
- We deepen the cooperation and integration between HKScan and our farming community. We enhance the development of sustainable value chain and will take primary production to the next level. By doing this we generate competitive advantage and respond to consumer needs
- We develop our services for the farming community so that farmers can develop their activities and acquire competitive farming inputs. In so doing, we can build the basis of the competitiveness in our entire value chain.

Long term financial targets

EBIT
above
4%
of net sales

Return on capital
employed (ROCE)
above
12%

Net gearing
less than
100%

Dividend
more than
30%
of net profit



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– today and tomorrow.