

The background of the slide is a top-down photograph of a dining table. In the center, there is a white plate with a blue floral border containing pieces of grilled chicken and a colorful salad of sliced peaches, avocado, purple radicchio, and cashews. To the left, a silver fork is placed on a dark blue napkin. Below the central plate, another similar plate is visible. To the right, a small pink bowl contains white salt. In the bottom right corner, a white bowl is filled with a large portion of the same salad. A glass of water with ice is visible on the left side of the table. The table surface is a light grey color.

# HKSCAN

## A review of HKScan's year 2018 and balancing of financial situation

Tero Hemmilä, CEO  
HKScan Annual General Meeting, Turku



# Year 2018 Financials

# HKScan's year 2018

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## Highlights

- EBIT improved in Sweden despite of weaker Swedish Krona
- Negative impact related to the Rauma poultry unit challenges decreased towards the year end
- Sales of meals and meal components growing
- HKScan's export of pork from Finland to China started



## Lowlights

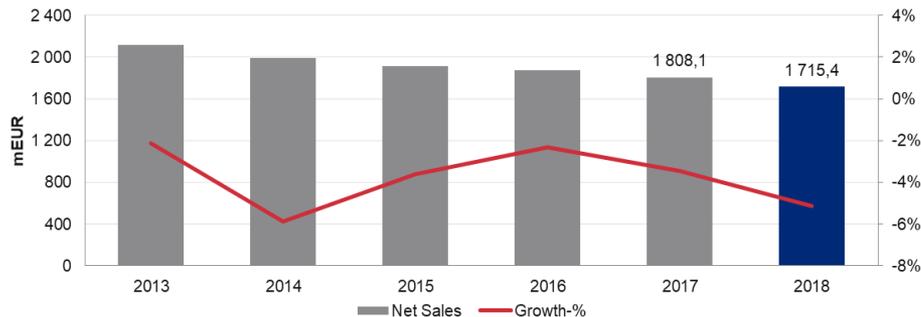
- Challenges related to the Rauma unit had a negative impact on result
- Sales of red meat decreased in Sweden and in Finland. In Sweden BBQ ban (caused by the draught), weakened demand
- Higher raw material costs eroded performance in Denmark
- Cost increases and low European pork prices burdened the performance in Baltics

# HKScan Group 2018

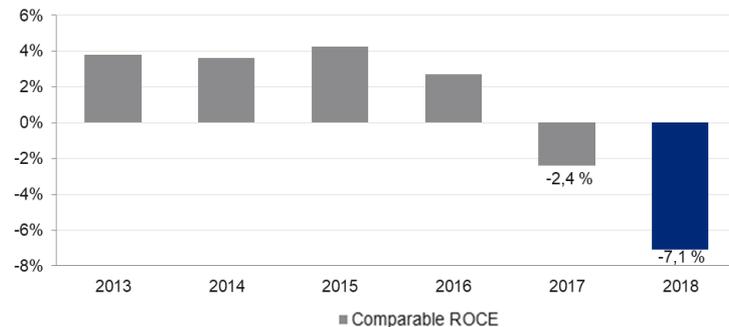
EUR million	2018	2017
Net Sales	1 715,4	1 808,1
EBIT	-49,5	-40,3
- % of net sales	-2,9 %	-2,2 %
Profit/loss for the period	-51,2	-39,5
Comparable EBIT	-47,5	-17,6
- % of net sales	-2,8 %	-1,0 %
EPS, EUR	-1,00	-0,79
Return on capital employed (ROCE) before taxes, %	-7,4 %	-6,3 %
Comparable ROCE before taxes, %	-7,1 %	-2,4 %
Net gearing, %	88,6 %	59,3 %
Personnel, end of month average	7 179	7 292

# Financial summary

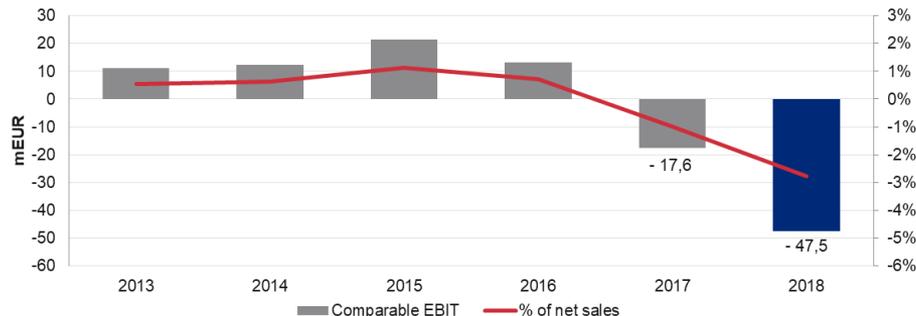
## Net Sales



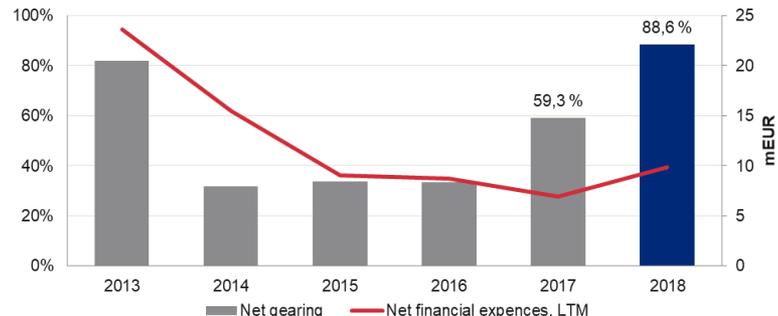
## Comparable ROCE



## Comparable EBIT

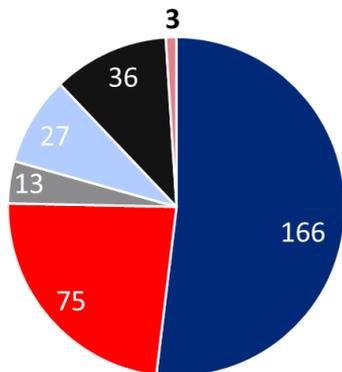


## Net gearing



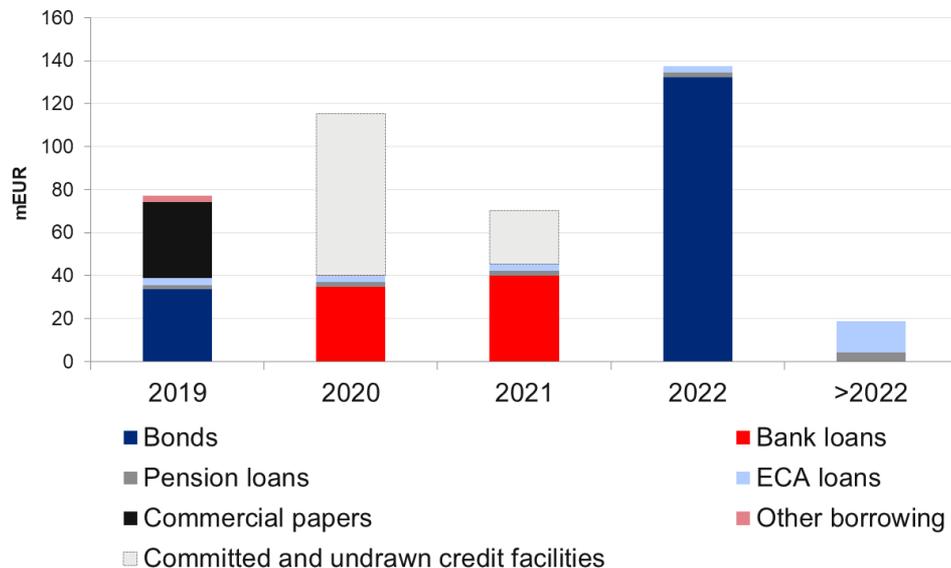
# Funding base and maturity structure

Interest-bearing debt  
by credit type



Total interest-bearing debt:  
319,0 mEUR

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



\*EUR 40 million hybrid bond is treated as equity  
(early redemption option in Sept. 2023)

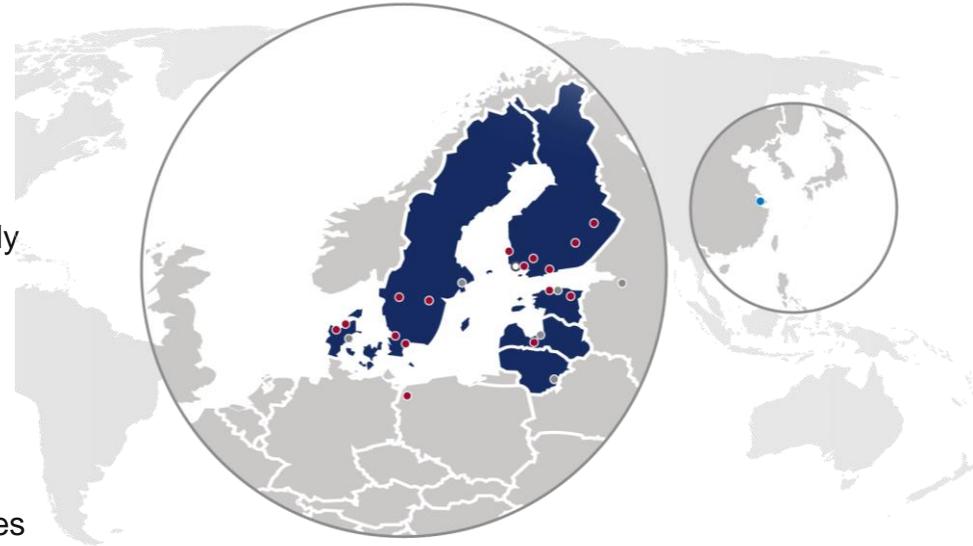
The background of the slide features a close-up, shallow depth-of-field photograph of golden wheat stalks on the left and a blue, draped fabric on the right. A semi-transparent white rectangular box is centered over the image, containing the main title text.

# **From balancing finances towards profitable growth**

# HKScan is a significant Nordic food company

## Over one hundred years of experience in responsible meat production and consumer behaviour

- A team of more than 7000 professionals serving the world's most demanding consumers
- The company markets and sells high-quality, responsibly produced poultry, pork, beef and lamb, as well as meat products and meals under its strong brands
- HKScan's customers include the retail, food service, industry, and export sectors
- Home markets are Finland, Sweden, Denmark, and the Baltics, and products are exported to almost 50 countries



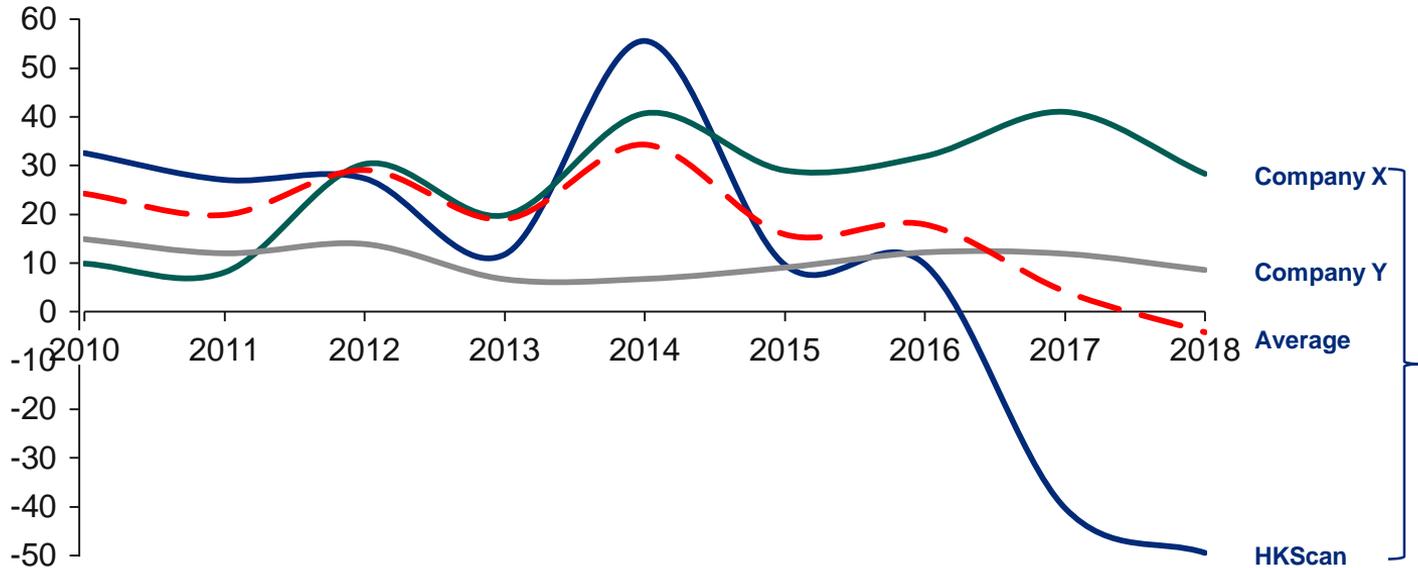
# HKScan market areas

Market area	Net sales 2018 (MEUR)	Meat	Main brands	Market position <sup>1)</sup>
Finland 	 722			# 1–2
Sweden 	 682			# 1–2
Baltics 	 162			# 1
Denmark 	 149			# 2
Exports e.g. 			HKScan exports products to close to 50 countries around the world and is constantly seeking new markets for domestic production	

<sup>1)</sup> In the categories in which HKScan competes

# Operating profit development in the sector

Operating profit, MEUR



HKScan has lost its market leader position, which has led to weak financial development – the root causes are mainly internal

HKScan's goal is to return to the level of leading players on the market

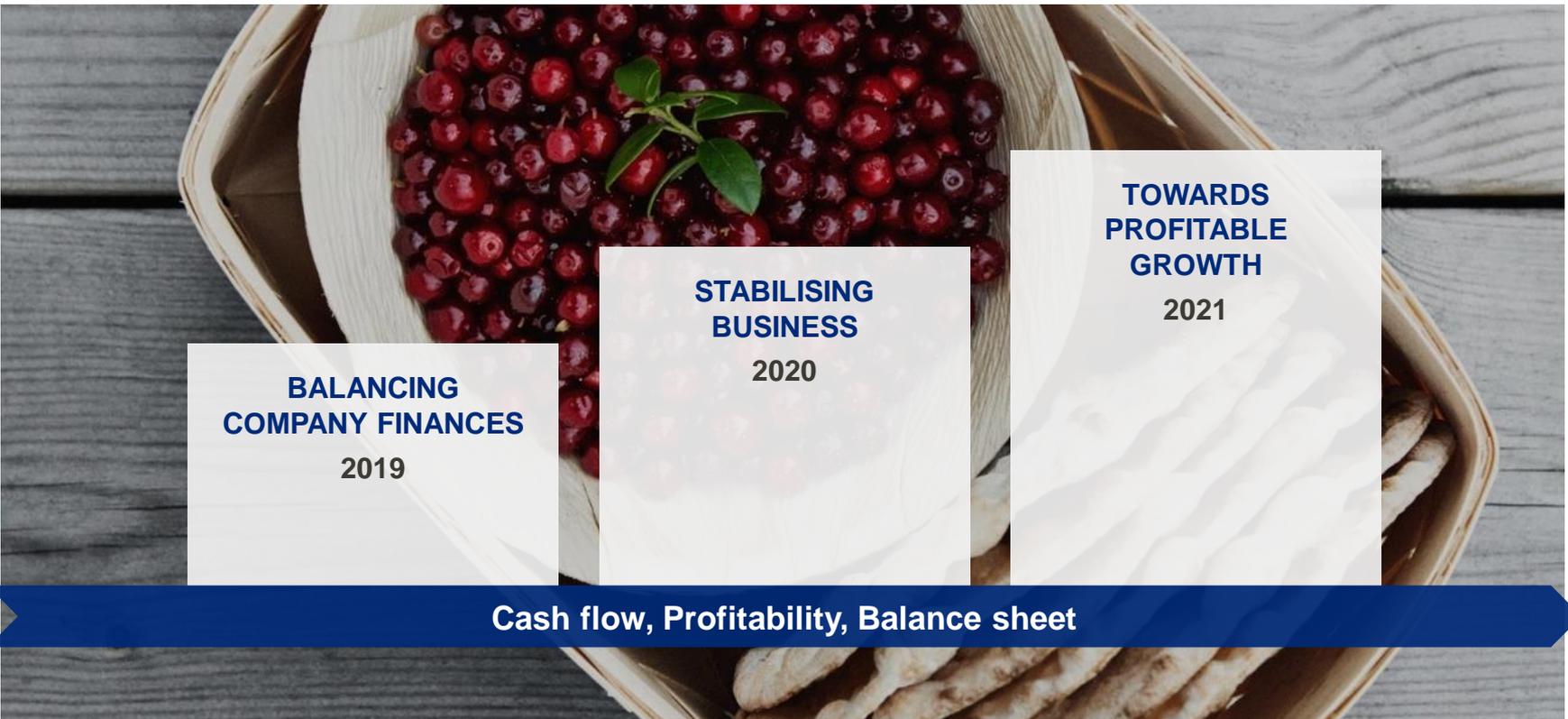
Note: HKScan's operating profit figures are reported; they don't include a separate adjustment for the 2014 Sokolów S.A. divestment

# Root causes of negative result



- The company's "From Farm to Fork" strategy continues to provide a relevant framework for operating in an environment where the significance of responsible operations and transparency is emphasised
- The focuses in implementing the company's strategy haven't been accurate and that has led to the weakening of the business foundation and a spiralling loss
  - Food, and especially fresh food, are local
    - market-specific special attributes must be identified and acknowledged
  - Product portfolio development as a whole hasn't been balanced—premium has been overemphasised at the expense of volumes and meat balance management
  - The core of the entire meat business, efficient management of the value chain, has not received enough focus
  - The matrix organisation used in business management has been heavy and expensive. Also roles and profit responsibility have been unclear
  - Mistakes have been made in the Rauma poultry unit investment, which has led to a delay and failure in the commissioning

# Profitable growth through balancing finances



**BALANCING  
COMPANY FINANCES**  
2019

**STABILISING  
BUSINESS**  
2020

**TOWARDS  
PROFITABLE  
GROWTH**  
2021

Cash flow, Profitability, Balance sheet

# HKScan's new Management Team



## **Tero Hemmilä**

CEO  
(as of 4 February 2019)  
M.Sc. (Agr. & Econ.), born 1967

### **Key employment history:**

- Yara International, Commercial Director of the Nordic area 2015–2018
- Yara Suomi Oy, Country Manager 2010–2015
- HKScan Corporation, SVP, strategy and development 2009–2010
- HK Ruokatalo Oy, SVP in charge of the meat business 2008–2009
- LSO Foods Oy, executive positions 1997–2008
- Member of the HKScan Corporation Board 2011–2016



## **Jari Leija**

EVP Market Area  
Finland



## **Anne Mere**

EVP Market Area  
Baltics



## **Esa Mäki**

EVP Meat Balance &  
Supply Chain



## **Jyrki Paappa**

Chief Financial  
Officer (CFO)



## **Sofia Hyléen Toresson**

EVP Market Area  
Sweden



## **Jukka Nikkinen**

EVP Market Area  
Denmark & International



## **Mika Koskinen**

Chief Operating Officer  
(COO) leading  
Operations and  
Technology functions



## **Markku Suvanto**

EVP Administration  
(HR and Legal)

# Turning loss into profit

(1/2)

## Changes related to management and ways of working



- Changes in the Board of Directors and in company management
- Towards new ways of working in 2019:
  - From a matrix organisation towards clear roles emphasising country-level profit responsibilities, efficient leveraging of Group synergies
  - Streamlining Group management
  - Significant reduction in number of white-collar employees
  - Goal is for a flatter organisation and competent, proactive, well-performing teams per market area and per function
- Strengthening "meat expertise" in management and in key positions
- New Management Team to support balancing of finances
- Supplementing the Management Team's expertise as needed for the Group's development phases

# Turning loss into profit

(2/2)

## Changes related to business operations



- Controlled price increases
- Efficient local management of the meat value chain, meat balance, and yields
- Balanced management of product portfolio and product development, while taking into consideration the entire meat balance
- Restoring brand leadership in selected categories, market leader focus on category development and growth
- Putting customer collaboration at the core of activities in all markets

# Redefining HKScan's strategy and strategic focus areas

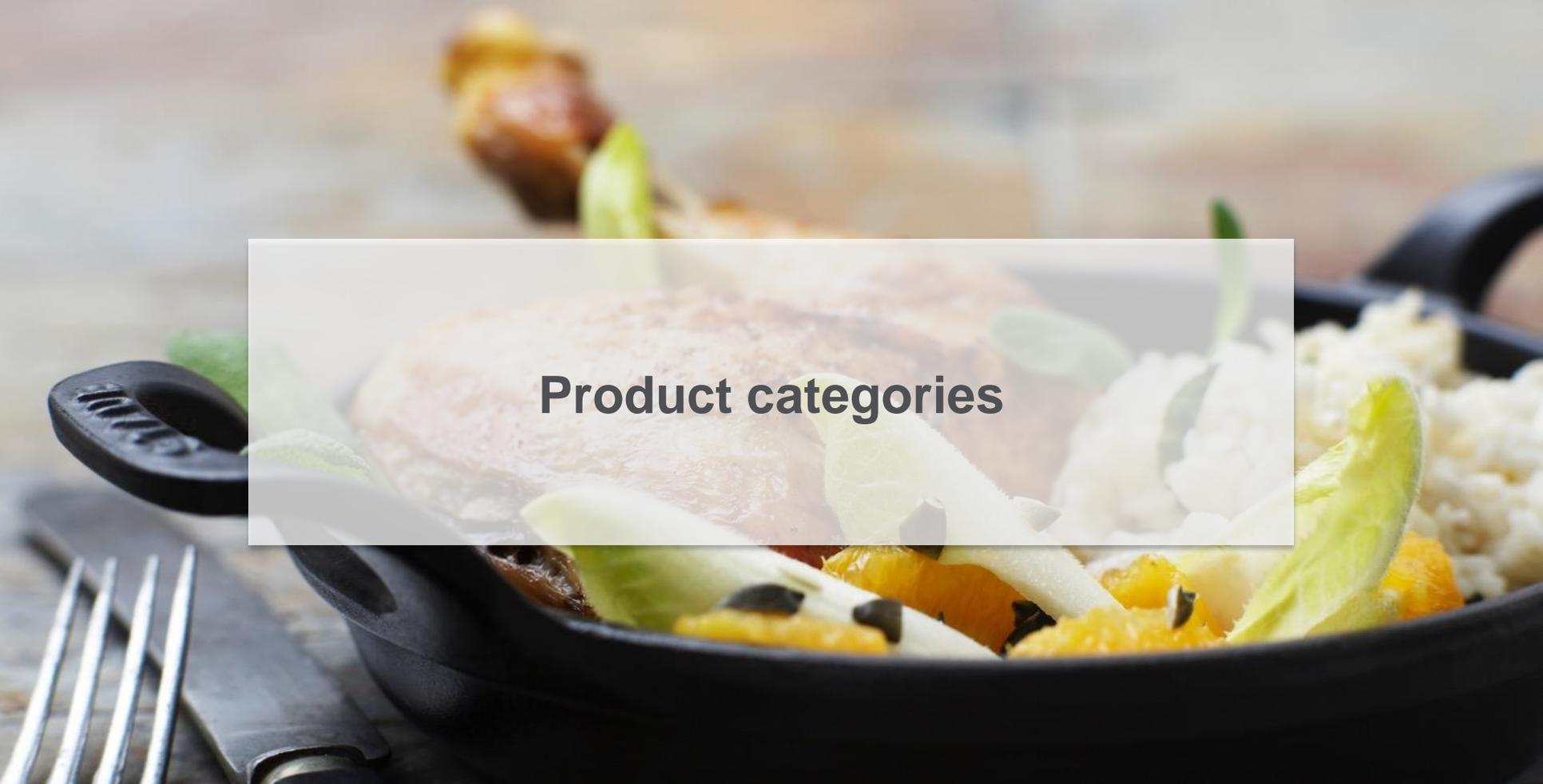


## Business focus

- Special focus on poultry as a growth driver
- Strengthening sustainability aspects in red meat
- Growth targets in meals
- Export opportunities for sustainably produced and pure meat
- HKScan's position as part of the consumer's diet, and assessing new product categories

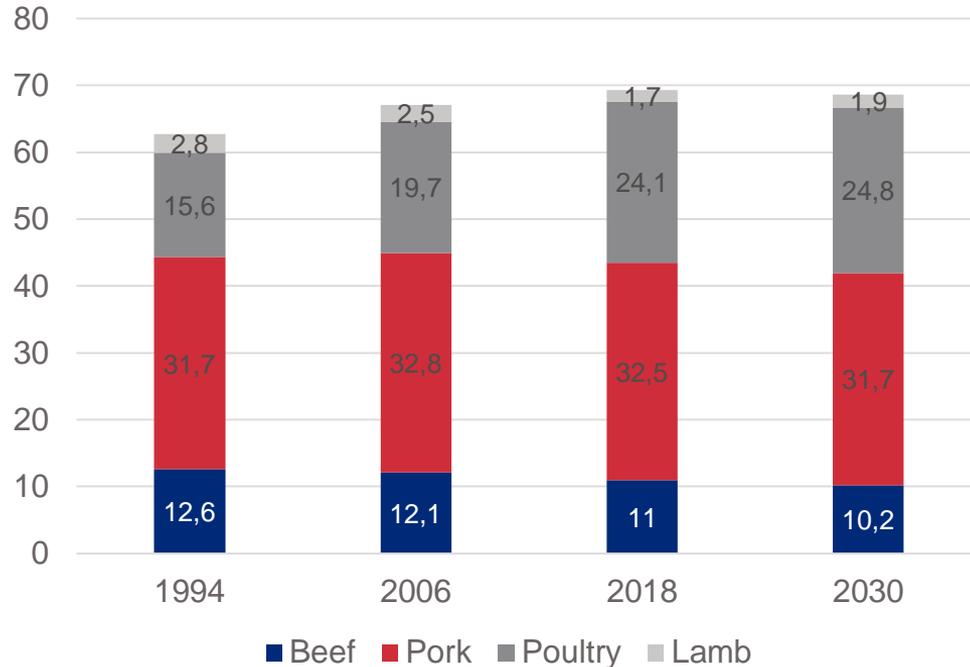
## Redefining strategic focus areas

- Focus on short-term corrective measures while identifying long-term targets
- Key strategic assessments are related to direction of the company's growth and structure in the long-term
- Positioning of different markets as part of the Group's business
- Strategy work advancing during spring and summer



## Product categories

# Meat consumption by meat type in EU countries (kg/person/year)



Global meat consumption is estimated to grow by about 1.3% annually for the next decade <sup>2)</sup>

Poultry and pork are estimated to make up about 70% of the meat consumption growth in the near future <sup>2)</sup>

HKScan has started exports to, among others, the steadily growing Chinese market, which is one of the world's biggest markets for pork meat

Source: EU Agricultural outlook, for markets and income, 2018-2030

<sup>1)</sup> Kantar TNS Agri, Natural Resources Centre

<sup>2)</sup> OECD-FAO Agricultural Outlook 2018–2027

# Poultry as a driver for growth



## Poultry is a significantly growing category

- Poultry consumption in Finland increased by more than 36% in 2010-2017<sup>1)</sup>
- Healthiness, ease-of-use, sustainability and export opportunities are driving growth
- The position and appreciation of HKScan's strong brands among consumers offer a foundation for building market leadership

## Potential of Rauma poultry unit is significant

- Production efficiency and delivery reliability are developing in the right direction – improving efficiency still requires work, investments in new special expertise have been made
- Improving yields and productivity, price increases, insourcing of previously outsourced functions, and exports create potential



# Strengthening the sustainability aspects in red meat



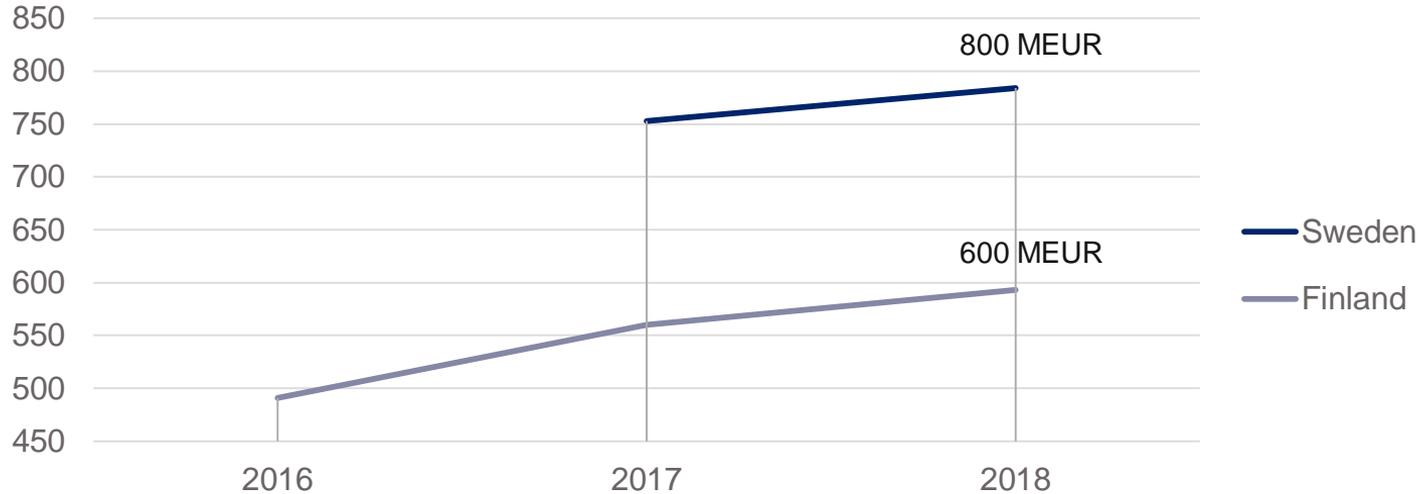
Pressures are targeting the consumption of red meat and meat products. HKScan is proactively responding to them.

**Sustainability, quality, and a transparent way of operating form the foundation for the competitiveness of our products**

- Proactively respond to sustainability issues related to red meat and to animal welfare issues
- Rypsiporsas® (Omega-3 pork) is a unique differentiating factor for HKScan
- Export opportunities for sustainably produced meat
- Our brand portfolio reaches numerous different consumer segments
- HK®, Scan®, Rakvere®, and Kivikylän® and Tamminen® brands provide an opportunity to maintain a strong market position



# Meal market growth in Finland and Sweden



## Examples of growth of subcategories, Finland

- Convenience meals (fresh): growth 42 MEUR, +31%
- Convenience meals (frozen): growth 16 MEUR, +22.5%

## Examples of growth of subcategories, Sweden

- Convenience meals (fresh): growth 9 MEUR, +9.6%
- Convenience meals (frozen): growth 16 MEUR, +4.8%

Source: Nielsen, MAT ending Oct

Source: Nielsen ScanTrack, MAT ending May

# HKScan strengthening its position in the growing meal category

- We are continuing to expand our meal selection in all our markets, and we are currently investing in expanding the meal production capacity in our Rakvere unit in Estonia
- The investment will improve the Rakvere unit's productivity and increase capacity. Modern technology will enable the launch of new innovative products and ecological packaging solutions
- The project strongly supports HKScan's sustainability targets
- The success of the Via product family in Finland is a good example of the potential that the category offers



# HKScan's exports to China advancing: Rypsiporsas® (Omega-3 pork) products to Alibaba's esteemed Hema chain



- Exports to China of pork raised on Finnish family farms started from our Forssa unit in April
- The target for the first year is to sell about three million kilos and to triple the volume by 2020
- We established a joint venture in China. The goal is to commercialise, sell and market Finnish premium category pork products in China
- HKScan is the first Finnish meat industry company to get its products in Alibaba's esteemed Hema chain
- The pure taste of Rypsiporsas® (Omega-3 pork), the healthier fat content, and the Arctic origin impressed the chain



**Demand for responsibly produced products is growing globally**

# Responsibility is built-in in everything we do

**Economic  
responsibility**



**Social  
responsibility**



**Animal health  
& welfare**



**Environmental  
responsibility**



**Sustainable & transparent supply chain**

**Stakeholder cooperation & communications**

# Advantages of domestic food production

**Clean nature**  
- air, water and soil



**Less environmental impacts**



**Healthy animals**



**Antibiotics are used only when needed, not to promote growth.  
No hormones.**



**Job creation**



**Verified and transparent production chain**



**Safe products**



**Security of supply**



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 meatball in a paper cone. The background is a bright, overcast sky and a calm lake. A semi-transparent white box is overlaid on the image, containing the text.

**From a meat company  
towards a strong food company**



**HKSCAN**

Thank you