

A semi-transparent white rectangular box is centered over a photograph of a plate of food. The food includes green leafy vegetables, a piece of fried fish, and a slice of avocado. A silver fork is visible on the left side of the plate. The background is a light, neutral color.

HKSCAN

Interim Report Q1/2018

Mikko Forsell, CFO
3 May 2018

Q1 result still heavily burdened by the Rauma poultry unit ramp-up costs



Highlights

- Poultry delivery capability clearly improved in Finland
- From Farm to Fork strategy with a strong focus on improving cost efficiency and productivity advanced
- Agreement to establish a joint venture in China signed
- Meat market continued to grow, particularly in Finland



Lowlights

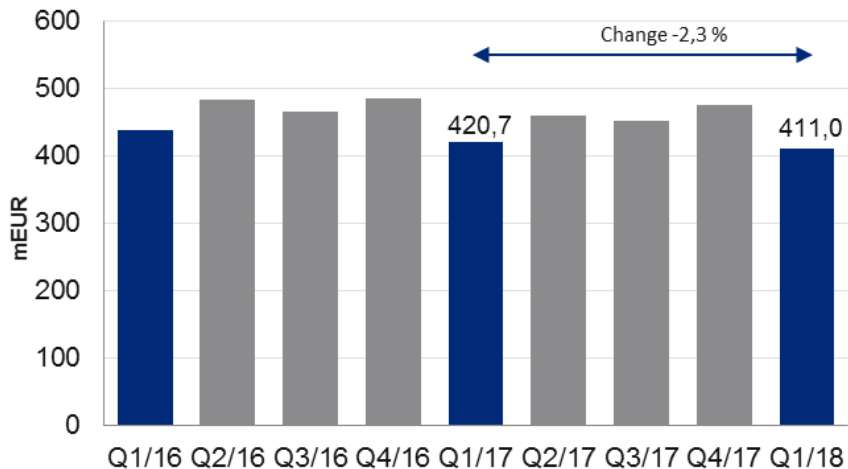
- Rauma poultry unit ramp-up
 - Result still burdened by the challenges, although improved vs. previous quarter
 - Measures taken to secure the customer supplies caused additional costs
 - Performance not yet on an acceptable level
- Rakvere strike caused lost sales and extra costs

HKScan Group Q1/2018

EUR million	Q1/2018	Q1/2017	2017
Net Sales	411,0	420,7	1 808,1
EBIT	-18,6	-6,8	-40,3
- % of net sales	-4,5 %	-1,6 %	-2,2 %
Profit/loss before taxes	-21,2	-8,2	-49,2
- % of net sales	-5,1 %	-2,0 %	-2,7 %
Profit/loss for the period	-17,1	-7,0	-42,4
Comparable EBIT	-18,4	-6,8	-17,6
- % of net sales	-4,5 %	-1,6 %	-1,0 %
Comparable profit/loss before taxes	-20,9	-8,2	-26,5
- % of net sales	-5,1 %	-2,0 %	-1,5 %
EPS,EUR	-0,32	-0,14	-0,84
Return on capital employed (ROCE) before taxes, %	-7,8 %	1,8 %	-6,3 %
Comparable ROCE before taxes, %	-4,2 %	2,2 %	-2,4 %
Net gearing, %	95,1 %	46,5 %	59,3 %
Personnel	6 944	7 000	7 292

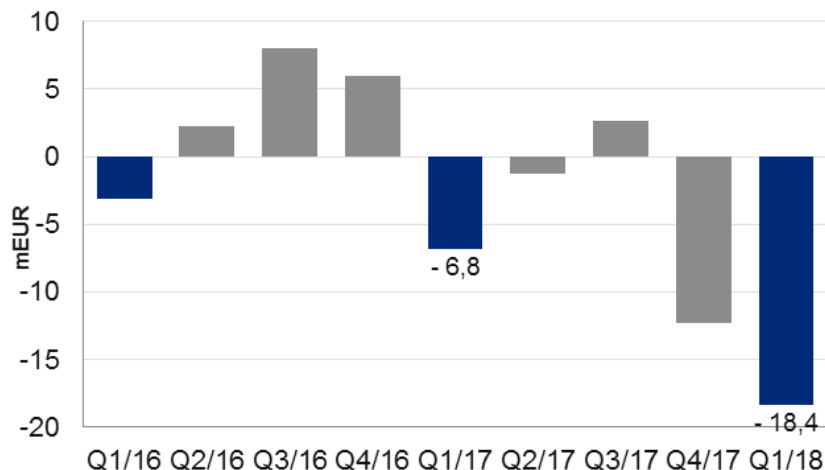
HKScan Group - Net sales and profitability decreased

Net sales



- Rauma poultry unit ramp-up challenges postponed the poultry product sales and campaigns in Finland
- Net sales decreased in Sweden due to currency impact

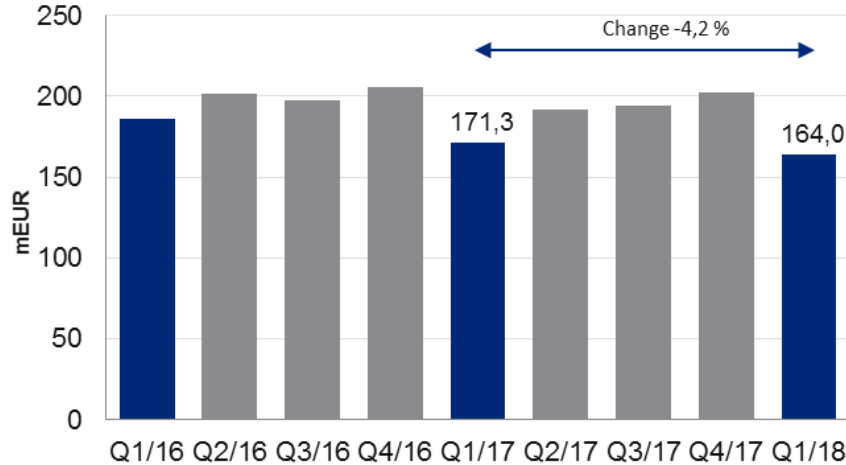
Comparable EBIT



- Seasonality, increased production costs, material losses and lost sales due to the Rauma burdened Group's EBIT
- Rauma EBIT impact per quarter:
Q2/17: -1 mEUR, Q3/17: -6 mEUR, Q4/17: -18 mEUR, Q1/18: -10 mEUR

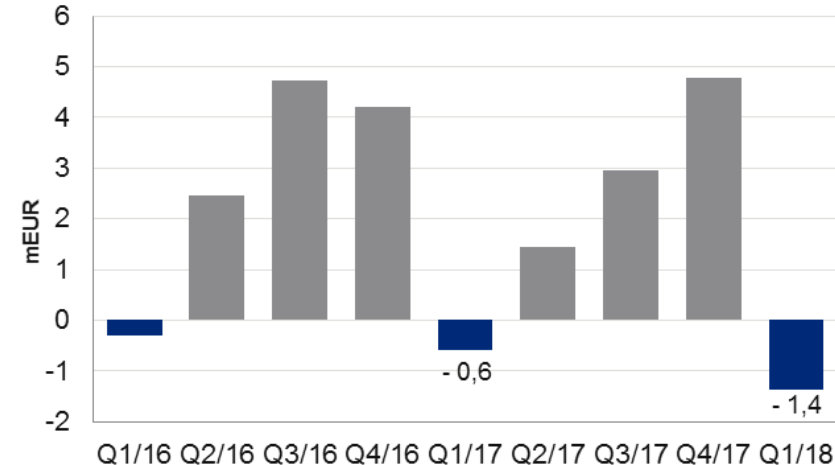
Sweden – Net sales increased in local currency, EBIT affected by temporary increase in operational costs

Net sales



- Total product sales increased slightly in local currency
- Growth driven by improved demand and increased market share particularly in processed categories

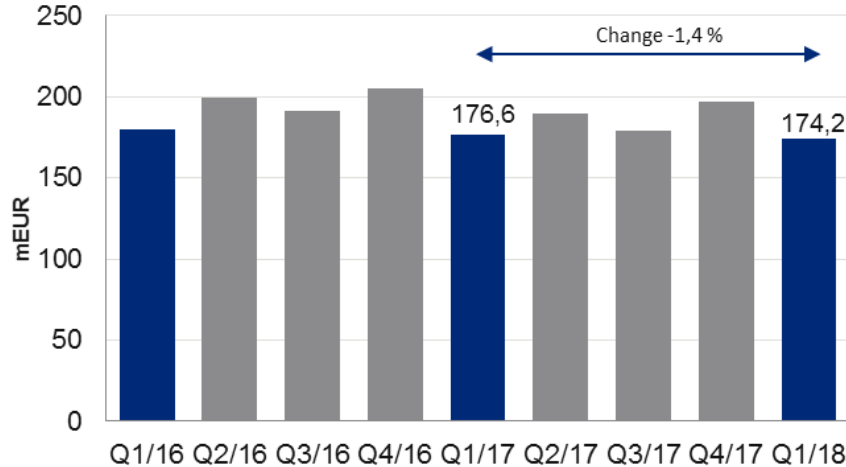
Comparable EBIT



- EBIT decreased due to temporarily higher operational costs, mainly driven by increased electricity costs

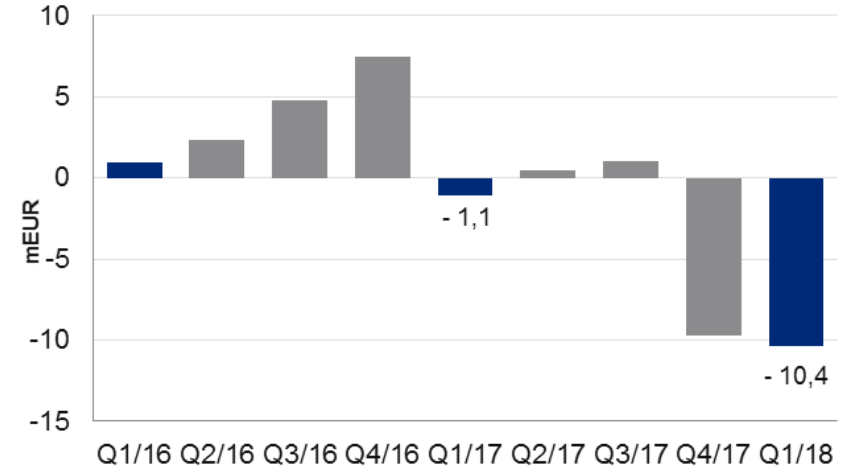
Finland - Net sales and EBIT impacted by the ramp-up of Rauma poultry unit

Net sales



- Rauma ramp-up challenges postponed poultry sales
- The overall product sales in retail developed positively, particularly in the meals category
- The general market growth in all categories sped up towards the end of the quarter

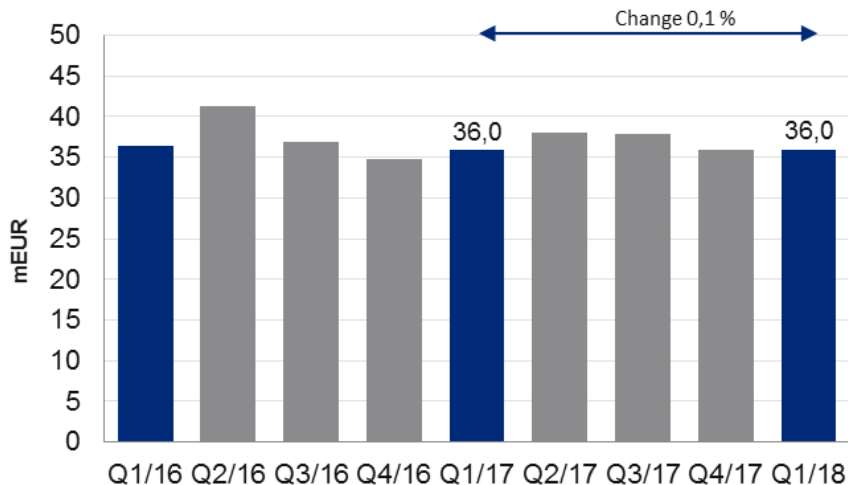
Comparable EBIT



- Rauma EBIT impact per quarter:
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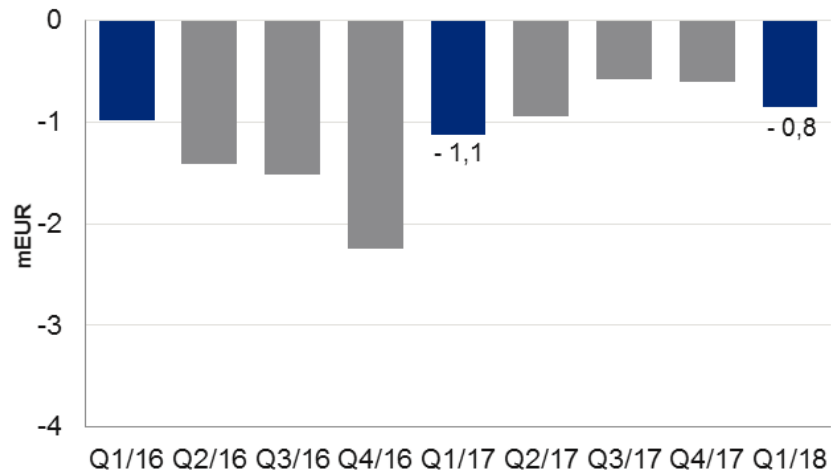
Denmark – Net sales stable, EBIT improved

Net sales



- Net sales boosted by the positive development of export sales
- Branded sales in retail were kept under pressure by a fierce price competition

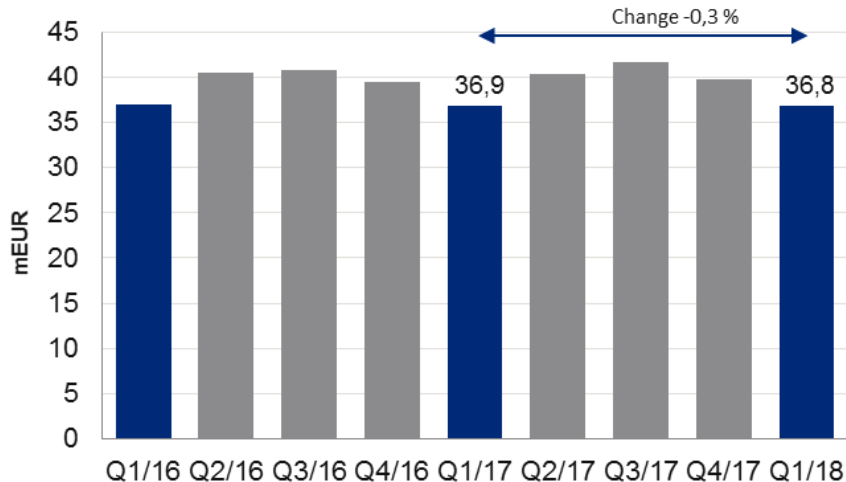
Comparable EBIT



- Improvement due to the continuing improvement of operational efficiency

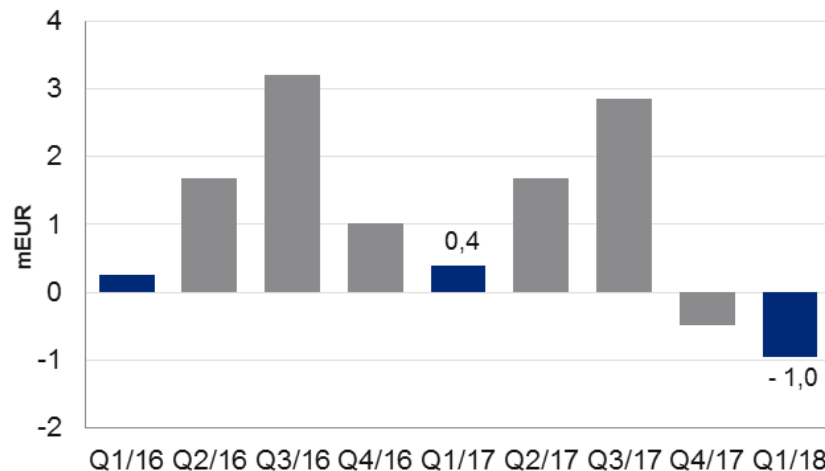
Baltics – Temporary increase in costs due to strike

Net sales



- Slaughterhouse strike activities at the Rakvere unit lowered the volumes temporarily
- Good growth in domestic retail sales continued and the share of novelties increased

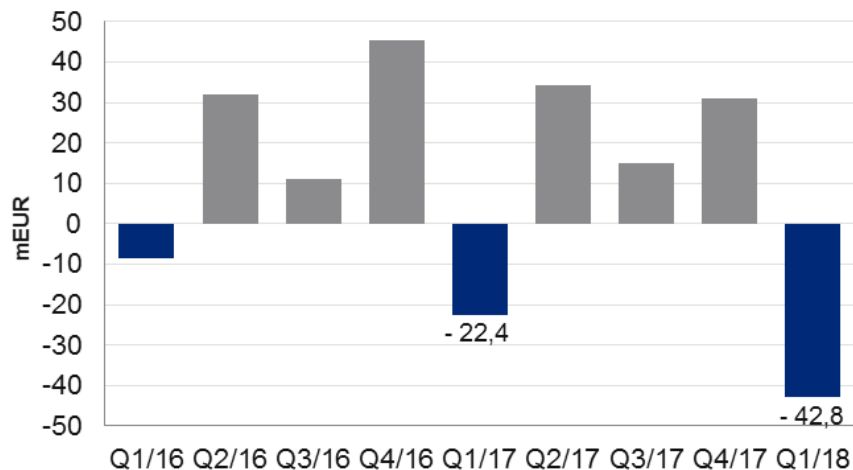
Comparable EBIT



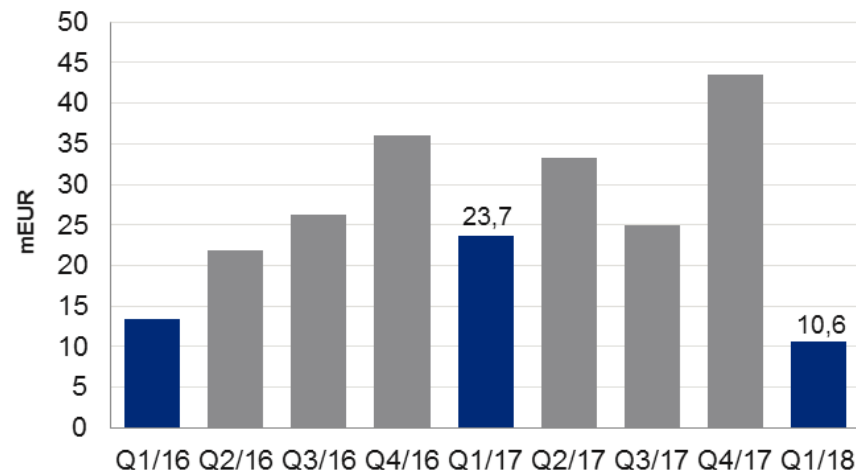
- Strike activities temporarily lowered productivity and increased costs
- The change in the fair value of the biological assets amounted to EUR -0.1 (0.2) million

Cash flow impacted by Rauma unit

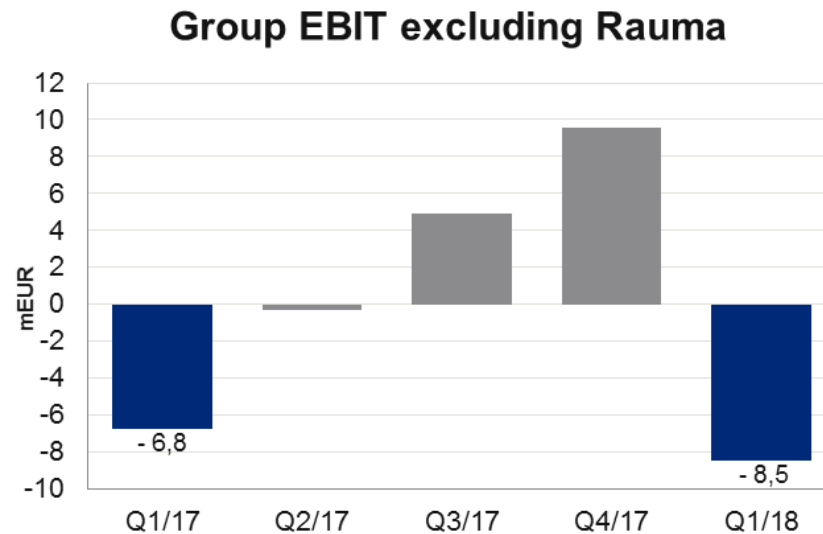
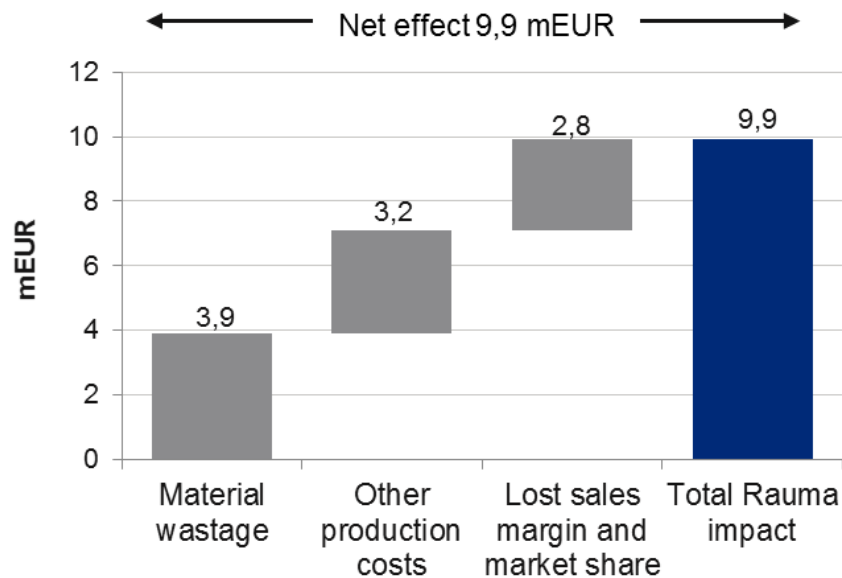
Cash flow before investments



Capital expenditure

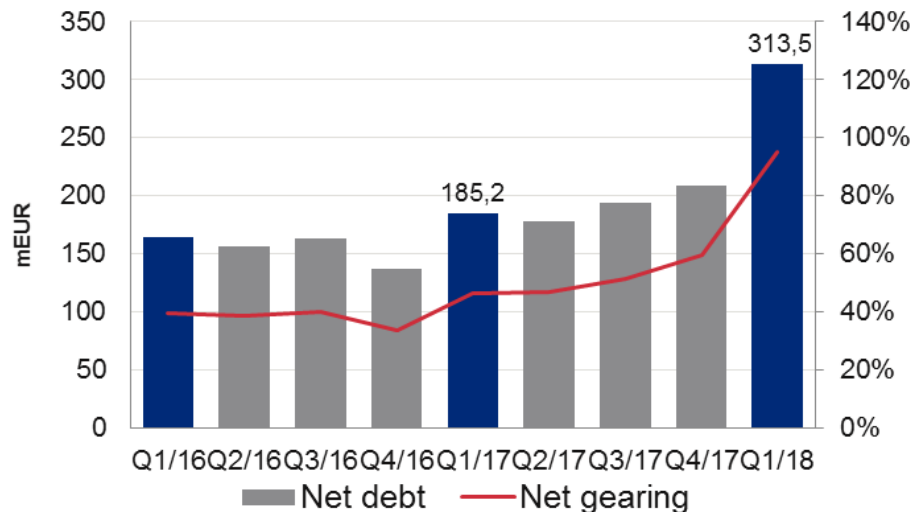


Estimated Rauma impact EUR -9,9 million in Q1/18

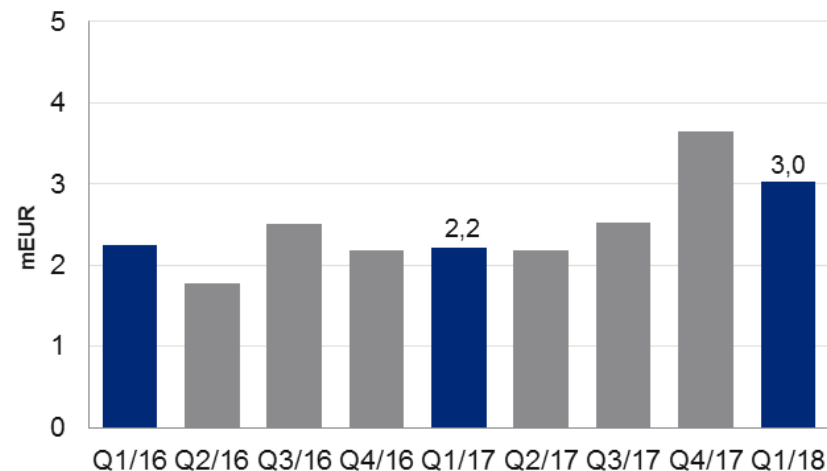


Net debt and gearing increased due to Rauma

Net debt and net gearing



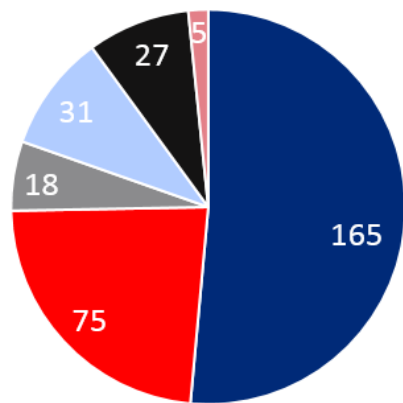
Net financial expenses



The Group's net debt at the end of March increased due to the Rauma poultry plant investment payments and its ramp-up costs.

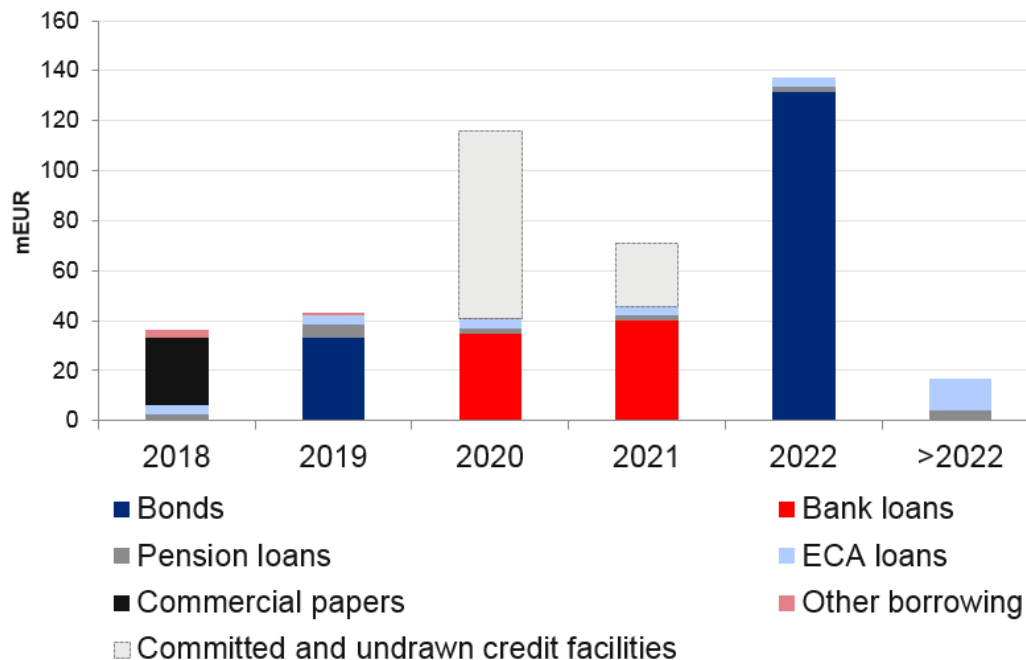
Debt profile and maturity structure well in balance

Interest-bearing debt by credit type



Total interest-bearing debt:
320,8 mEUR

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



Outlook for 2018 (unchanged)

Global meat consumption is projected to increase 1.6 per cent per annum during the coming years. Consumption growth is estimated to be led by poultry. There are also several value related consumption trends, which support HKScan's strategy implementation.

In 2018, HKScan expects its strategy implementation to start recording results in terms of value growth in sales and operational efficiency in production.

The Company will emphasize implementation of the 'From Farm to Fork' strategy through the five focus areas which are Focus on meat, Leadership in poultry, Continue growing meals business, Cooperate with our farming community and Drive efficiency and cost-competitiveness.



Thank you



HKSCAN

Strategy implementation proceeds

Jari Latvanen, President and CEO
3 May 2018

HKScan has launched pork exports from Finland to China



- Targeted sales volume in China is roughly three million kg of pork within the first year, with plans to triple that volume by 2020.
- HKScan has founded a joint venture in China with Zhejiang Qinglian Food Co. Ltd to commercialise premium-category, value-added products in China.
- The world-class expertise of Finnish pork producers will now be taken to a whole new level of added value.



The first container has been shipped off



- The first container was shipped off on 23 April 2018 from Forssa. The 25 000 kg shipment will travel by sea to Tianjin Port in China.
- The Chinese pork market is the world's largest.
- HKScan's key strengths in China are great flavour and the world-class expertise of Finnish family farms.
- Pork quality requirements in China are among the world's strictest.
- The Chinese consumers utilize all parts of the carcass in their cuisine. Our customers are interested in carcass parts that might be exotic from a European perspective, such as meaty bones and feet, which are highly valued and important ingredients in Chinese cuisine.

Meat availability - Local production and self-sufficiency

Self-sufficiency % = Own production / Consumption

	Pork	Beef	Poultry
Finland	100%	82%	97%
Sweden	70%	52%	67%
Estonia	73%	127%	57%

**Share of local production out of consumed meat
= (Own production - Export) / Consumption**

	Pork	Beef	Poultry
Finland	82%	78%	81%
Sweden	62%	44%	59%

HKScan to replace soymeal with domestic pulses in Kariniemen® chain



- HKScan Kariniemen® chicken farms will be the first in Finland to replace soy-based protein with domestic pulses such as broad beans in animal feed.
- Until now, animal feed has had to be supplemented with soymeal due to its high protein content.
- Renewing the diet of chicken will further increase domestic self-sufficiency of the chain.
- Result of long collaboration between HKScan's animal feed experts, contract farmers and feed producer partners.

A couple is sitting on a boat, looking out over a coastal town at sunset. The man is wearing a red and white striped shirt, and the woman is wearing a dark blue sweater with white and red patterns. The town has white buildings with red roofs, and the water is calm. The sky is filled with soft, colorful clouds from the setting sun.

Tastes of the summer 2018

Q1, 2018
3 MAY 2018

HKSCAN

Sweden



Q1, 2018
3 MAY 2018

HKSCAN

Finland



Denmark



Baltics




Kati Rajala, EVP Market Area Finland



- **2011–2018** Managing Director of Snellmanin Kokkikartano Oy and Head of ready-made food division at Snellman Group
- **2010–2011** Director, Operations Development and Support at Fazer Food Services Oy
- **2008–2010** Development Manager, Production Solutions at Fazer Food Services
- **2005–2008** Sourcing Manager, Indirect Services at Fazer Group
- **1998–2005** Senior Consultant at Synocus Oy

FRESH · AUTHENTIC · TASTY



vía



NEW
FOR
SUMMER
2018



THE HEROES



NEW
FOR
SUMMER
2018

Fresh, authentic and tasty packages
Product range feb. 2018 and two salads for the summer.



via
MAKROBIOTIKKOJA
BISCUITI
LIMONELLO
320g

via
OPTILAINEN KASVILAINEN
CHICKEN
TIKKA MASALA
320g

via
KASVILAINEN KASVILAINEN
CAPONATA
SICILIANA
320g

**MUISTA
MAISTAA
MYÖS NÄITÄ!**

JCDecaux

JCDecaux



iLO
UUTINEN!
PARI UUTTA
RUOKAISAA
SALAATTIA!

019 Helsinki 19:45

3 Lähellä 3

4

A gravel path leads from the foreground into a lush green field, eventually disappearing into a dense forest of tall trees in the background. The scene is captured in a soft, natural light, suggesting a rural or agricultural setting.

HKSCAN

**Improving our productivity and
cost competitiveness**

Sami Sivuranta, EVP Operations

Must win battle number 2

1 Cooperate with our farming community

2 Drive efficiency and cost competitiveness

1. One HKScan in Operations
2. Operational Excellence
3. Sales & Operations Planning process development → capacity management
4. Quality and Safety
5. Footprint and strategical investments
6. Rauma ramp-up

3 Focus on meat

4 Leadership in poultry

5 Continue growing meals business

ONE Plan

- Structured approach
- Clear targets
- Executable activities with clear responsibilities, milestones and schedules
- Tight and constant follow-up
- LEAN principles adopted

Operational (line) organisation

Program ownership and responsibility of activities, execution and deliverables.

Development (matrix) organisation

Process ownership and responsibility of facilitation and follow-up.

Resource allocation through prioritisation



Group-wide roll-out with three focus areas

ONE HKSCAN

1

DRIVE FACTORY EFFICIENCY

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

2

OPTIMISE CAPACITY FOOTPRINT

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

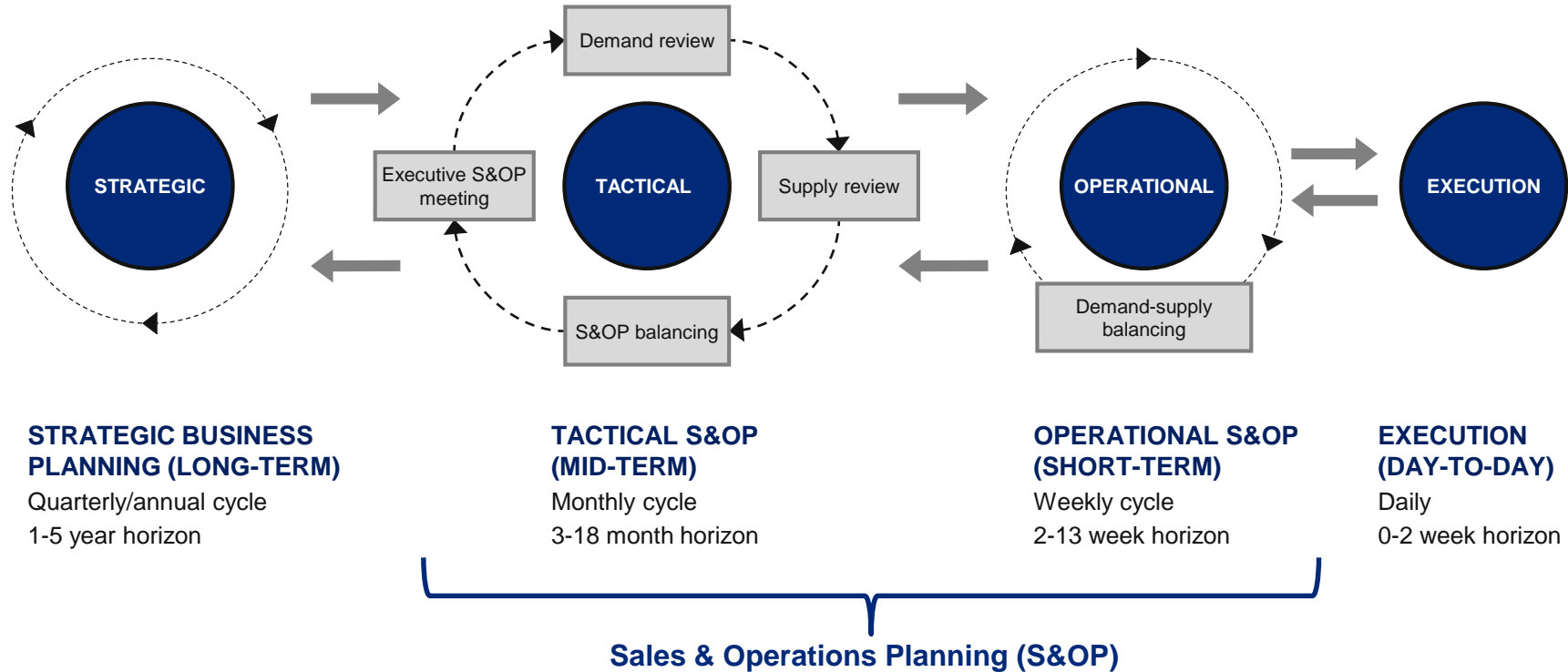
3

EXCEL IN MEAT BALANCING – FROM FARM TO FORK

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

Sales and operations planning is the core of our planning process

– Links strategic business planning and daily execution



The Rauma state-of-the-art poultry unit supports HKScan's strategy implementation in several ways

HKScan has acquired the **most modern technology** on the market, which enables development of **innovative Kariniemen® novelties**.



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



The investment supports **employment**

Employees occupational **health and wellbeing** are being prioritised.



Attention to **animal welfare**. Less handling phases.

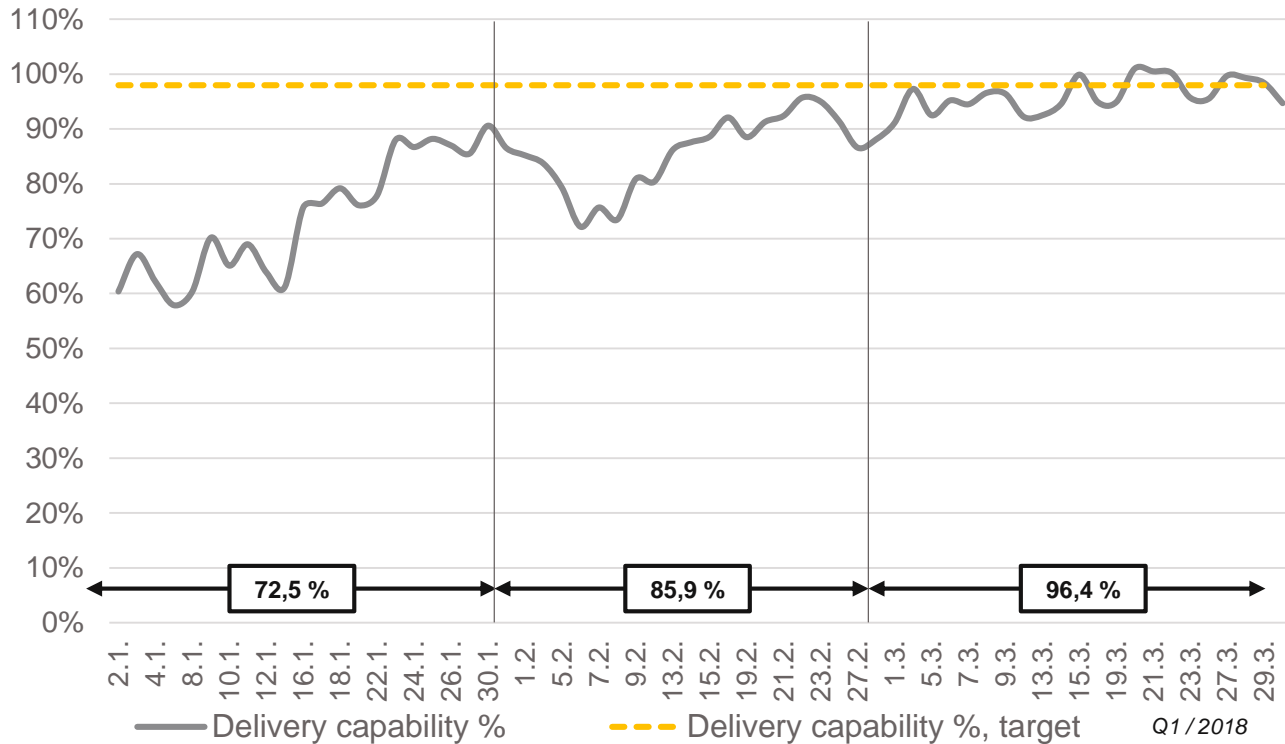
Birds are being transported **max 70 km** in average.



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



Rauma – delivery capability development Q1/2018



Rauma – Priorities 2018

Q1 – Stabilisation of delivery certainty and capability

Q2 – Consolidation of volumes to Rauma

Q3 and Q4 – Focus on efficiency and performance





Thank you