Strong and Renewing Grocery Trade

Jorma Rauhala
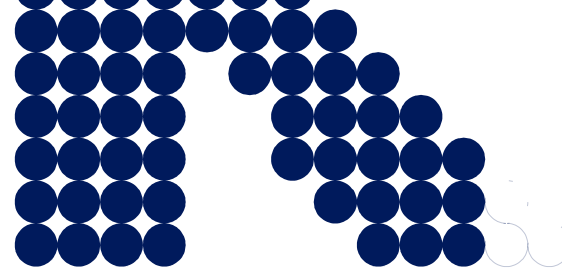
Kesko's Grocery Trade
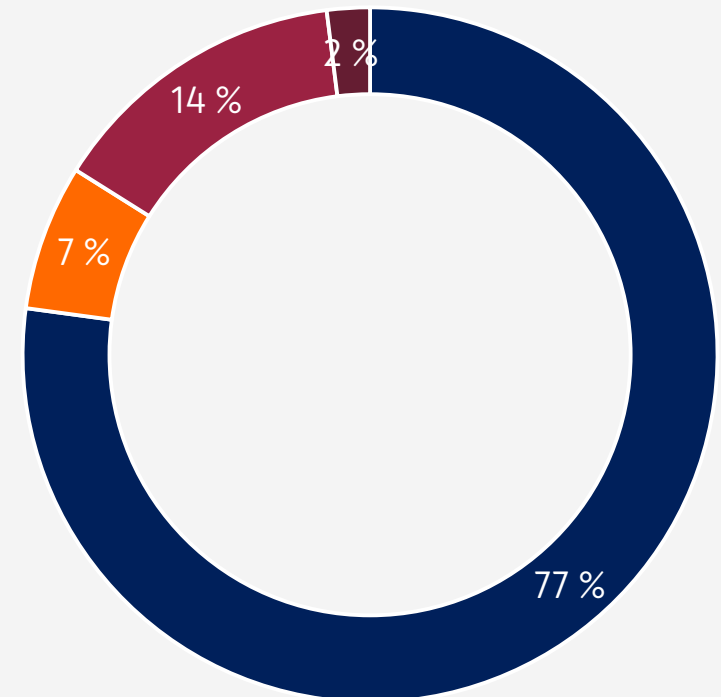
Q4/2015-Q3/2016

Net sales	€5,063m
Operating profit*	€178m
Operating margin*	3.5%
ROCE*	21.9%

* Comparable

Total market €16.6bn in 2015

Net sales Q4/15-Q3/16

- Finland 77 %
- SLK 7 %
- Kespro 14 %
- Russia 2 %

Kesko Grocery Trade

K-Group #2 in Finnish grocery retailing

- 80 K-citymarket hypermarkets – sales €2.1bn

- Some 230 K-supermarkets – sales €1.7bn

- Some 1,000 neighbourhood stores – sales app. €2bn

- Kespro #1 in Finnish food service market – sales €800m

- 11 K-ruoka stores in St. Petersburg, Russia - divestment signed with Lenta in 10/2016

Grocery Trade Market Overview

- Total market has turned to slight growth

    - Liberalisation of opening hours

- Price competition has continued

- Consumers' purchasing power at a good level, development modest

- Vast majority of consumers increasingly appreciate good quality, at the same time many consumers driven by price

Strong Position in the Finnish Grocery Trade Market

- The leading quality actor in the Finnish grocery trade and food service wholesale market

- Acquisition of Suomen Lähikauppa has significantly increased net sales and strengthened market share, which is expected to settle down to a range of 37-38%

- Good profitability due to strong market position, enhancement actions taken and synergies resulting from the acquisition of Suomen Lähikauppa

- Divestment of Russian operations will further improve profitability and cash flow

Our Strategic Choices

Megatrends Affecting Grocery Trade

Ageing population

Urbanisation and increase of single households

Individuality

High quality expectations and price awareness

Responsibility, ethicality and environmental aspects

Digitalisation

Direction in Grocery Trade

- Most customer driven and inspirational food retailer

- Renewing concepts, brand and marketing

- Best digital services

- Staying as one of the most profitable retailers in Europe

- Maintaining profitable growth

The Customer and Quality– in Everything We Do

- Every K is different - store specific business idea and selection according to local customer needs

- Guaranteed quality by retailers - development of retailer business model

- New customer feedback system - one million customer feedback messages per year

- The most personally rewarding – K-Plussa customer loyalty scheme

Neighbourhood Market Renewal

Neighbourhood Market Renewal

- All existing K-Markets will be renewed

  - At the end of 2016, 120 and by the end of 2017, all of the nearly 400 K-Markets will be renewed

- Siwa and Valintalo stores will be converted into K-Markets

- Completely new Neste K service station concept

 - At the end of 2016, 25 and by the end of 2017, 60 renewed service stations

Good Progress in Integration of Suomen Lähikauppa

- Conversion of Siwa and Valintatalo stores into K-Markets is progressing rapidly

- Customer visits and sales have increased markedly

- The stores' price level is much more competitive and selections more attractive

- Purchasing and logistical operations fully integrated by spring 2017

- Transferring the stores to retailers is progressing

- Due to good progress, we are targeting annual synergies above €30m at 2018

How to Change Siwa into K-Market in 2 Days?

K-Market Amerinkulma in Helsinki was a pilot store and opened on 6 May 2016, only 3 weeks after Suomen Lähikauppa deal closing
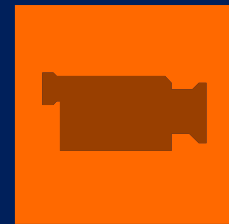
#Conversion

Renewed K-citymarket

High Performing K-citymarket Chain Will Be Further Improved

- Each K-citymarket is tailored according to local customer base

- So far, 23 renewals completed, renewal of all stores completed in 2018

- Development of chosen superiority departments: meat, fish, fruit&veg, beauty and footwear

- Category optimisation and new partnerships, e.g. Posti and Starbucks

- Existing store network of more than 80 K-citymarkets is optimal and competitive

The Best Digital Services in Grocery Trade

Fast Developing Digital Services

Grocery online store

- Currently click & collect service operated in connection with 80 K-food stores
- Improved online grocery offering by early 2017

K-ruoka.fi

- 1 million visitors per week
- Versatile food content and inspiration for online grocery shopping

K-ruoka mobile service

- The best grocery mobile app in the market
- Targeting 450,000 downloads by the end of 2017

Thank you!

For shopping to be fun