



# KESKO ANNUAL REPORT **KESKO'S DIRECTION**



2020

# KESKO'S DIRECTION

Kesko's Annual Report 2020 has four sections. This section describes Kesko and its divisions and the progress made in their strategy execution, as well as Kesko's financial targets, operating environment and value creation.

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The following symbols indicate that additional information can be found either in this report or on our website:

 Read more in the Annual Report

 Read more on our website



## KESKO IN BRIEF

Kesko is a Finnish trading sector forerunner. We operate in the grocery trade, the building and technical trade, and the car trade. Our divisions and chains act in close cooperation with retailer entrepreneurs and other partners.

Kesko's chain operations comprise more than 1,800 stores in Finland, Sweden, Norway, Estonia, Latvia, Lithuania and Poland. By combining online sales and digital services with our extensive store site network, we enable a seamless customer experience in all channels.

Kesko's strategic business areas are the grocery trade, building and technical trade, and car trade. These are all areas where we have strong expertise and market positions; they also offer good potential for profitable growth in the long term.

Kesko and K-retailers together form K Group, which is the biggest trading sector operator in Finland and one of the

biggest in Northern Europe. In 2020, K Group's retail sales totalled €14 billion. Kesko and K-retailers together employ some 39,000 people.

Corporate responsibility is a strategic choice for K Group and it is integrated into our day-to-day activities. Key focus areas in our corporate responsibility and sustainability work are transparency in sourcing, mitigating climate change and environmental care, personnel responsibility, and extensive value creation throughout the society.

Kesko's shares are listed on Nasdaq Helsinki. The company's domicile and main premises are in Helsinki.



### KESKO'S BUSINESS MODEL

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Retailer operations accounted for approximately 49% of Kesko's net sales in 2020. Kesko's own retailing accounted for some 18% of net sales.

B2B trade is a significant and growing part of Kesko's business operations. In 2020, net sales from B2B trade totalled some €3.6 billion, accounting for some 33% of Kesko's net sales.

Outside Finland, Kesko mainly engages in own retailing and B2B trade. Net sales from international operations totalled some €1.5 billion, representing 15% of Kesko's net sales.

\* Illustrative net sales

Biggest trading sector operator in Finland, one of the biggest in Northern Europe

Profitable growth strategy, 3 divisions  
Some 1,800 stores in 7 countries and extensive digital services

Strong financial position with good dividend capacity

Market capitalisation €8.2 billion (31 Dec. 2020), 57,000 shareholders

World's most sustainable grocery trade company (Global 100)

## KEY FIGURES

- 2020 was a very strong year for Kesko: sales grew and profitability improved significantly
- The Covid-19 pandemic impacted our operations widely
- Excellent performance by K-food stores
- Good performance in all countries in building and technical trade
- Foodservice business and car trade hit by the pandemic
- Our financial position grew even stronger and cash flow improved markedly
- We announced new financial targets and sustainability objectives
- Kesko ranked the most sustainable grocery trade company in the world for the seventh time
- Overall, the outlook for Kesko's business in 2021 is positive. Kesko estimates that its comparable operating profit in 2021 will be in the range of €520–620 million (illustrative comparable operating profit in 2020: €553.6 million).



Read more in the Report by the Board of Directors



- Grocery trade €5,732 million
- Building and technical trade €4,066 million
- Car trade €893 million



- Grocery trade €375.2 million
- Building and technical trade €201.9 million
- Car trade €23.4 million

	1-12/2020	1-12/2019
Net sales, € million	10,669.2	10,720.3
Operating profit, € million*	567.8	461.6
Operating margin, %*	5.3	4.3
Earnings per share, basic, €*	0.97	0.74
Capital expenditure, €m	398.4	686.1
Comparable return on capital employed, %	12.0	9.6
Illustrative net sales, € million	10,242.6	9,862.0
Illustrative operating profit, € million*	553.6	434.7
Illustrative operating margin, %*	5.4	4.4

\*Comparable figures.

Kesko Senukai treated as a joint venture in the illustrative figures.

# DIVISIONS IN BRIEF

## Grocery trade



K Group is the 2nd biggest grocery trade operator in Finland. Nearly 1,000 independent K-food retailers are in charge of daily customer experiences. There are some 1,200 K-food stores in Finland, with 1.2 million daily customer visits. Some 470 stores also offer online services. The K-food store chains are K-Citymarket, K-Supermarket, K-Market and Neste K service stations. Sales of our K-Ruoka online grocery service grew in 2020, making us the market leader in Finland. Kespro is the leading foodservice provider in Finland.

	2020	2019
Net sales, € million	5,732.0	5,531.2
Operating profit, comparable, € million	375.2	327.9
Operating margin, comparable, %	6.5	5.9
Return on capital employed, comparable, %	16.9	14.5
Capital expenditure, € million	125.4	180.8
Personnel, average	6,197	6,063

[+ Read more about the division and key events in 2020](#)

## Building and technical trade



The building and technical trade division operates in seven countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania and Poland, with a total of some 500 stores. The division's chains are Onninen, which serves technical professionals, and K-Rauta, Byggnakker, Carlsen Fritzøe and K-Bygg, which serve both professional builders and consumers. The division also comprises leisure trade and the chains Intersport and Budget Sport.

	2020	2019
Net sales*, € million	6,639.5	3,472.8
Operating profit*, comparable, € million	187.7	115.9
Operating margin*, comparable, %	5.2	3.3
Return on capital employed, comparable, %	11.2	7.4
Capital expenditure, € million	186.3	332.7
Personnel, average	9,308	12,630

\* Kesko Senukai treated as a joint venture in the illustrative figures

[+ Read more about the division and key events in 2020](#)

## Car trade



Kesko imports and sells Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and Volkswagen Commercial Vehicles and MAN trucks in Finland, and SEAT in the Baltics. The market share of brands represented by K-Auto in Finland was 16.9% in 2020 (incl. passenger cars and vans). Kesko's retail company K-Caara and independent dealers sell new and used vehicles and offer servicing and after-sales services at 71 outlets across Finland.

	2020	2019
Net sales, € million	892.6	863.9
Operating profit, comparable, € million	23.4	26.8
Operating margin, comparable, %	2.6	3.1
Return on capital employed, comparable, %	6.3	9.5
Capital expenditure, € million	64.7	131.3
Personnel, average	1,283	1,179

[+ Read more about the division and key events in 2020](#)



REVIEW BY THE PRESIDENT AND CEO

## RECORD RESULT IN 2020

Kesko had a very strong year in 2020. We were able to increase our profit significantly – by nearly €120 million in comparable terms. Our sales and profitability have been growing for years now, which acts as strong indication that our growth strategy is working and being successfully executed.

Our strategic objective is to strengthen customer experience for both consumers and companies in our stores and digital channels. At the core of our strategy is focusing operations as 'One unified K' on grocery trade in Finland, building and technical trade in Northern Europe, and car trade in Finland.

In 2020, sales and profitability grew in our grocery trade and building and technical trade divisions. Our comparable operating profit rose by nearly €120 million. During the year, we were able to meet our medium-term financial targets sooner than anticipated, and consequently Kesko's Board set new, even more ambitious targets for us in December.

A man with glasses, wearing a dark blue suit, white shirt, and blue tie, stands with his arms crossed in front of a large orange backdrop. The backdrop is held by a black stand. The background behind the orange screen shows green foliage.

Kesko celebrated its 80th anniversary in 2020. Trust towards K Group has improved significantly in Finland in recent years, and we have become one of the top companies in terms of reputation. K Group was also once again ranked as the most sustainable grocery trade company in the world.

Our record-result and fast response to changes in our operating environment prove we can successfully work together to achieve our common goals.

### Growing customer trust towards K Group

Our success is based on the strategy established in 2015 and its successful execution. Customer-orientation drives everything we do. The cornerstones of our strategy are profitable growth, focus on core businesses, sustainability and combatting climate change, and “One unified K”. We are particularly pleased that trust towards K Group has grown significantly and we are now amongst the companies with the best reputation in Finland.

We were particularly happy to see significant increased interest towards Kesko's shares among Finnish private investors. We currently have nearly 60,000 shareholders – the number rose by some 40% in 2020.

### A record-year for grocery trade

In the grocery trade division, our strategy yielded results also during a very exceptional year. We managed to improve customer satisfaction and profitability and our grocery stores gained market share for the fifth consecutive year. The division's net sales grew by 3.6% and its comparable operating profit rose to €375 million with a profitability of 6.5%, which is excellent on an international scale. Profitability improved partly thanks to more extensive utilisation of technology and improved efficiency in logistics. Our retailer business model enabled an agile response to the changes in market situation, and sales grew in all grocery store chains. In the foodservice business, we

managed to keep operations in profit with a quick response and adjustment measures.

Sales and market share continued to develop positively in 2020 thanks to good customer experiences. At the core of our strategy are store-specific business ideas that are based on customer data and built on top of our chain concepts. Every K store is different, and we use data to constantly improve customer experience in each store. It has been great to see how customer satisfaction and sales have grown in the K-stores where store-specific business ideas have led to even better selections and services for our customers. We see significant potential to increase sales and profit further by supporting and encouraging K-retailers to implement store-specific business ideas throughout our network of 1,200 K-food stores.

During the exceptional year, demand for online grocery sales grew in particular. We were able to respond to the increase in demand by adding 241 K-food stores to our K-Ruoka online service. In total, some 470 stores across the country now offer online grocery services. The customer satisfaction NPS was at a record 83 for online grocery at the end of December.

Kespro managed to clearly gain market share in a challenging operating environment. Restrictions aimed at curbing the spread of Covid-19 caused Kespro's sales to decrease by 16.8% on the year before. I firmly believe that the trend of eating out will continue after the pandemic.

### Consumer construction boom boosted building and technical trade

Effective strategy and its execution were on display also in the building and technical trade division, where sales grew and profit improved. Consumer sales grew particularly strongly in 2020, but development was also good on the B2B side in both building and home improvement trade and Onninen's technical wholesale. Growth in B2C sales was underpinned by stronger market demand. Net sales for the division grew by 5.7% and totalled €3,640 million, while its profit rose to a new level. International operations accounted for 42.2% of the division's net sales, up in comparable terms. The comparable operating profit for the division rose to €188 million, supported by successful acquisitions.

**Our sales and profitability have been growing for years, which acts as strong indication that our growth strategy is working and being successfully executed.**

We were surprised by how much the pandemic inspired consumers to build and renovate their homes. Consumer sales grew clearly more than anticipated in 2020. Performance was also good in B2B trade, in both building and home improvement trade and Onninen, which increased our market share. Growth was strong in building and home improvement trade, with clear improvement in profitability,

while Onninen's net sales grew by over 5% in comparable terms and its comparable operating profit strengthened clearly. Kesko Senukai's sales and profitability developed well even though pandemic-related restrictions in its operating countries were stricter than in the Nordic countries. We initiated a strategic review of operations in the Baltics in 2020.

In addition to organic growth, we continued to execute our growth strategy with the acquisitions of the Carlsen Fritzøe building and home improvement trade chain in Norway and the MIAB and Bygg & Interiör businesses in Sweden. Digital solutions and a multichannel customer experience are very significant for the division.

### Changing market in the car trade

In the car trade division, the market weakened considerably in the first year-half due to a decline in consumer demand and delays in car deliveries caused by the pandemic. However, the situation improved in the latter half of the year, and the division's net sale rose to nearly €900 million, with an operating profit of €23 million. The demand for electric cars grew in particular in 2020.

### Sustainability forms the foundation for our operations

We took the first steps in our corporate responsibility work in the 1980s. Back then, the focus was on energy efficiency and the environment. As proof of our long-term commitment to corporate responsibility and sustainability, in January 2021, Kesko ranked as the most sustainable grocery trade company in the world for the 7th time on the Global 100 Most Sustainable Corporations in the World list. Over the years, the role of corporations in tackling global sustainability issues has grown. In addition to financials, investors are increasingly interested in aspects related to the environment, social responsibility, and corporate governance (ESG).

Our key concerns are transparency in sourcing, mitigating climate change and environmental care, personnel responsibility, and extensive generation of welfare throughout the society. In spring 2019, we made sustainability and combatting climate change more central strategic focus areas, and in spring 2020, we set even tighter climate objectives.

We strive for carbon neutrality in K Group by 2025. We will systematically reduce emissions to reach zero emissions from our own operations and transports by 2030. Primary means to achieve this include increased use of electricity and heat produced with renewable energy and switching to biofuels in transports in Finland.

We also encourage suppliers, the whole supply chain, and customers to take action to reduce emissions. Our objective is to have reduction targets set for two-thirds of our direct supplier emissions by 2025. To support this objective, we joined the CDP Supply Chain programme to challenge suppliers to reduce and report their emissions.

As a trading sector company, Kesko has a unique opportunity and the responsibility to enable sustainable lifestyles for its customers.

### Kesko celebrates its 80th anniversary

Our good performance and strong financial position enable investments and good dividend capacity. Kesko's Board proposes a dividend of €0.75 per share to the Annual General Meeting.

In 2021, we will continue the determined execution of our strategy, building 'One unified K' and further developing our customer-oriented operating model. I see plenty of untapped potential to increase our sales by further improving customer experiences and working more efficiently.

In October 2020, Kesko celebrated its 80th anniversary with focus on work, as is fitting for a Group that employs tens of thousands of people both directly and indirectly. The key to the success of Kesko and K Group has been our ability to move with the times. We have been able to see the changes that need to be made, and transform our operations accordingly. Kesko's story is significant on a European scale, and we are ready for the next 80 years.

I wish to extend my warmest thanks to all Kesko employees, K-retailers and their staff, our shareholders and our partners for the valuable work you have done towards our success.



Mikko Helander  
President and CEO



# KESKO CELEBRATED ITS 80TH ANNIVERSARY UNDER EXCEPTIONAL CIRCUMSTANCES

Kesko was born in October 1940 when four regional wholesaling companies in Finland joined forces.

The history of K Group is the history of Finnish work. K Group's purchases from Finnish industry total nearly 7 billion euros annually. Kesko and K Group directly employ 39,000 people. The key to the success of Kesko and K Group has been our ability to move with the times. We have been able to identify changes in our operating environment and transform our operations accordingly.

In 2020, Kesko celebrated its 80th anniversary amidst a global pandemic. The exceptional circumstances emphasised K Group's responsibility for the whole Finnish society and its agile ability to change and transform.

## 1940s

Kesko began operations at the beginning of 1941, less than six months before the war broke out in Finland again. Consequently, conditions were scarce and the economy tightly controlled.



## 1960s

Originally founded and owned by retailers, in 1960 Kesko was listed on the stock exchange in order to obtain new capital for store sites and for building efficient logistics and otherwise developing Kesko and K Group.

Modern convenience stores began to appear in towns and cities. New refrigerating equipment made frozen foods popular. Fresh fruit became available throughout the year thanks to, among other things, a banana ripening facility.

## 1950s

In the 1950s, Kesko forcefully developed its own industrial operations, including milling, a coffee roastery and Kesko factories producing bread, meat, margarine, clothing, matchsticks and bicycles.

Kesko's test kitchen published its first recipes.

Kesko had a significant role in developing different types of stores in Finland. First, it invested in establishing a network of K-Rauta hardware stores and in creating a warehousing system for hardware items.



**1970s**

The first Citymarket hypermarket opened in Lahti in 1971. The decade was characterised by close dialogue with customers, with Kesko mapping out customer needs and wishes, and developing its stores as places for customers to enjoy and find inspiration.

Our strategic partnership with the world's biggest car manufacturer the Volkswagen Group began in 1977.

**PÍRKKA****1980s**

Kesko launched its own Pirkka brand product range in the 80s, the first extensive grocery store private label range in Finland. Pirkka offered high quality products for price conscious consumers, and the range was developed to meet the needs of regular homes.

Kesko took its first steps in corporate responsibility by publishing its energy guide in 1982.

Kesko began to divest its own production facilities.

1980

**1990s**

Kesko launched an entirely new kind of customer loyalty programme in Finland, based on international examples. The Plussa programme continues to offer benefits and discounts to loyal customers today. Thanks to the programme, Kesko has obtained information on customer behaviour, meaning it has been able to offer products and services that better meet customer wishes.

After the recession of the early 90s, it was crucial for Finland to focus on new possibilities brought on by electronics. In 1994, Kesko obtained modern data systems for K-stores.

1990



2000

**2000s**

K Group became more international as building and home improvement trade was expanded to Sweden, Norway, the Baltics and Russia.

Finns began to seek more international flavours, with Asian ingredients and dishes in particular gaining in popularity.

2010

**2010s**

K Group began a strong period of growth and transformation in the latter half of the decade, focusing on the grocery trade, building and technical trade, and car trade. Kesko made more than 30 acquisitions and divestments, divesting non-core operations.

Digitalisation and sustainability became important themes across the Group.



# COVID-19 PANDEMIC AND OUR RESPONSES IN MANAGING THE EXCEPTIONAL SITUATION

The Covid-19 pandemic began to impact our operations from mid-March 2020 onwards. Impacts varied between divisions: in the grocery trade, retail sales grew, and in the building and technical trade, the market remained good in both B2C and B2B. Meanwhile, the foodservice and car trade businesses were hit the most.

## Covid-19 impacts on our operations in 2020:

- Due to global economic uncertainty, we issued a profit warning on 18 March 2020.
- Positive profit warnings were issued on 10 July and 17 September. The guidance upgrades were based on better than anticipated sales development in all divisions, improved cost efficiency, and a more positive outlook for the remainder of the year.
- Thanks to successful growth strategy execution, we were able to achieve our financial targets sooner than anticipated at the end of September.
- We posted record results for each quarter of 2020. The Covid-19 pandemic and related changes in consumer behaviour had a positive impact on our profit: we estimate that less than half of our profit improvement in 2020 was attributable to the pandemic.

## Our key responses to the pandemic:

- Ensuring the safety of customers and personnel.
- Ensuring functioning purchasing and supply chains under all circumstances.
- Quickly increasing our online sales services.
- Postponing development projects while focusing on handling with the situation.
- Securing cash flow:
  - Cutting personnel cost and other fixed costs
  - Cutting cash flow from investing activities (excluding corporate arrangements) below €200 million in 2020
  - Efficient management of credit risk and amounts due from customers
- Ensuring the availability and sufficiency of financing
- Continuing the execution of our growth strategy.

## OUR AGILITY, FAST RESPONSE, AND RETAILER BUSINESS MODEL ENABLED US TO QUICKLY ESTABLISH NEW SERVICES TO ENSURE SAFER SHOPPING:

- Installing protective shields at checkouts. Ensuring ample supply of hand sanitiser and instructions on safe shopping.
- Dedicated shopping hours at the stores for at-risk groups.
- A new telephone service for the elderly, helping them to e.g. order groceries online.
- Significantly increasing our online grocery sales capacity.
- Local services, such as postal services at the stores, increasingly important.



# THE IMPACTS OF THE COVID-19 PANDEMIC VARIED BETWEEN MONTHS AND DIVISIONS

## Grocery trade

### Business impact

- Demand grew forcefully in the food trade as people spent more time at home.
- Demand for the K-Ruoka online store grew rapidly.
- Demand decreased in the foodservice business due to restrictions imposed on restaurants and events and people working from home.

### Response

- Fast response from K-retailers, ensuring safe shopping and working conditions.
- New customer-oriented services such as a helpline for the elderly and selling restaurant food from grocery stores.
- Quickly expanding online grocery services: 470 K-food stores now offer online services, online sales growth nearly 400%.
- Ensuring product availability and deliveries to stores under all circumstances.
- Keeping Kespro in profit with fast actions and adjustment measures.

Grocery sales



Foodservice business



## Building and technical trade

### Business impact

- In Finland, sales to consumers in particular grew better than anticipated, thanks to a DIY building and renovation boom.
- B2B sales continued strong in both building and home improvement stores and Onninen.
- Activity on construction sites continued without major disruptions.
- Sales and profitability improved in Sweden and Norway.
- Sales and profitability in the Baltics recovered fast from the issues caused by the situation. With the exception of Lithuania, stores remained open without interruptions.

### Response

- Ensuring safe shopping and working conditions.
- Determined strategy execution, acquisitions carried out.
- Strengthening Onninen's store network and expanding selections.
- Extended opening hours.
- Strong growth in the updated K-Rauta.fi online store supported sales in physical stores.

B2C



B2B



## Car trade

### Business impact

- Availability issues with cars in H1 because of temporary factory closures due to the pandemic.
- New car sales and orders below normal levels, sales improved in H2.
- Demand for car leasing grew.
- Sales of servicing and spare parts remained at a good level.
- Used car sales grew markedly.
- Interest towards all-electric cars growing

### Response

- Business operations adjusted.
- Car availability improved towards the end of the year.
- A range that meets changes in demand: new all-electric cars, rechargeable hybrids, gas cars and internal combustion engine models.
- Our own leasing fleet grew to over 3,000 cars.
- We expanded pickup and return services in car servicing.

Aftersales and used cars



New car imports and sales



# MEGATRENDS AFFECTING OUR OPERATIONS

The trading sector is affected by various global megatrends. By identifying the trends that affect K Group's operations, we strive to anticipate future challenges and opportunities.

## GLOBALISATION

- Urbanisation
- Global supply
- Intensifying price competition

## DIGITALISATION

- Automating operations utilising artificial intelligence
- Growth in international and Finnish online trade
- Seamless multichannel customer experience
- Customer services that utilise customer data and artificial intelligence
- Targeted marketing

## INDIVIDUAL CUSTOMER BEHAVIOUR

- Customers value convenience, quality and safety
- Changes in purchase habits, individualisation
- Customers want to optimise their consumption choices

## INCREASED CUSTOMER KNOWLEDGE AND POWER

- Customers seek information as the basis for their choices
- Customers want to impact selections
- Peer experiences have a big impact on choices

## CLIMATE CHANGE AND BIODIVERSITY

- Sustainable lifestyles: the carbon footprint of food, living and mobility, and impact on biodiversity
- Carbon neutrality, reducing emissions, and renewable energy
- Sustainability policies guiding our sourcing
- Minimising food waste

## SUSTAINABILITY AND CONSCIENTIOUS CONSUMPTION

- Responsible operating principles
- Open dialogue with stakeholders
- Transparency of purchasing chains
- Strong brands
- Responsible investment

# STRATEGY AND OBJECTIVES

In line with its strategy, Kesko is a focused company that concentrates on growth and profitability improvement in three strategic areas: the grocery trade, building and technical trade, and car trade. This concentration allows for the efficient allocation of capital to increase shareholder value. Our growth strategy focuses on customer-orientation and quality. Sustainability and combatting climate change are also firmly at the core of our strategy.

The current strategy, first established in 2015, aims for profitable growth through stronger focus and transformation. The fast-paced changes in the trading sector present us with great opportunities.

Our core businesses – grocery trade, building and technical trade, and car trade – are areas in which we have strong market positions and the best capabilities and long-term development potential. We focus on quality and customer orientation to differentiate ourselves from the competition, from store services to digital services.

Operating as 'One unified K' is an important part of our strategy. We want to establish a strong reliable K Brand and provide even better service to our customers. In addition to a common strategy, 'One unified K' means seamless cooperation with retailers and across business divisions.

## We continue our strategy execution





2020 proved that our strategy works also under exceptional circumstances.

### Successful growth strategy execution continues

In the **grocery trade**, we aim for continued profitable growth in Finland. We want to offer the most inspiring and customer-oriented grocery stores and the best digital solutions on the market. Our strategic investments in remodelling stores in all chains and establishing store-specific business ideas tailored to each local customer base strengthen K Group's sales and customer satisfaction. K-retailer entrepreneurs ensure customer focus and quality in our grocery store network, which is the most extensive in Finland.

Growing Kespro's foodservice business is another strategic focus area, supported by the trend of eating out, which we expect to continue to grow post-pandemic.

Strong growth continues in the online sales of groceries. In 2020, online grocery sales grew by some 400% and accounted for 2.9% of the division's grocery sales. Growth in online supports sales in our physical stores, as our most active online customers are also loyal customers of the brick and mortar stores.

Megatrends such as urbanisation, population ageing and increasingly individual customer behaviour support strengthening neighbourhood services. K Group holds a nearly 60% share of the neighbourhood store market, with a network of 769 K-Market stores.

In the **building and technical trade**, we seek an even stronger position in Northern Europe, and strive to better address the expectations and particular local needs of each customer segment. Each operating country has its own customer-oriented strategy. The division's customer segments are technical professionals, professional builders, and consumers. We seek synergies both within and between the operating countries. In line with our strategy, we seek growth organically and through targeted acquisitions.

In 2020, we acquired Carlsen Fritzøe Handel, a leading building and home improvement trade chain in the Oslo region in Norway, whose 25 stores highly complement our Byggmakker store network. In Sweden, we acquired Mark & Infra i Sverige AB (MIAB) as part of Onninen, and Bygg & Interiör as part of the K-Bygg chain. These acquisitions have strengthened our market share and operating profit in Sweden and Norway.

B2B trade now accounts for nearly 70% of the division's sales. Building and renovation are becoming more technical and increasingly outsourced to professionals. The need for renovation building is also growing in Northern Europe. Recent acquisitions have strengthened our position in the growing B2B segment.

New digital services and online sales are a significant part of the customer journey and more efficient operations. For B2B customers, good digital services primarily mean an efficient order channel, while consumers compare and seek

information on products online, yet usually get professional advice on choosing and using the products at the store.

In the **car trade**, our objective is to grow our market leading position in Finland by offering a better customer experience utilising K Group's internal synergies more. Partnership with the world's biggest car manufacturer the Volkswagen Group is one of the cornerstones of our strategy. We also want to strengthen our own service business. Our goal is to outgrow the market and improve profitability.

The whole car sector and the concept of mobility are rapidly changing, and we need to be constantly developing our operating models, services and technologies. In addition to traditional car sales and servicing operations, we continue to strengthen our service business.

We expect the sales of electric cars and rechargeable hybrids to grow further in upcoming years, and support the trend by expanding our K Charge network.

### Sustainable choices for our customers

Kesko has been ranked as the most sustainable grocery trade company in the world multiple times. Our key concerns are transparency in sourcing, mitigating climate change and environmental care, personnel responsibility and extensive value creation throughout the society.

Kesko is committed to the Paris Climate Agreement goal of mitigating global warming. Kesko and K Group have made sustainability and combatting climate change more central

strategic focus areas. We aim to reach carbon neutrality in K Group by 2025 and to cut emissions from our own operations and transports down to zero by 2030.

We are reducing emissions through the use of renewable energy, energy-efficiency at our stores, and efficient logistics. All electricity purchased by Kesko in Finland is generated with renewable energy, and we are one of the biggest producers of solar power in the country with more than 40 solar power plants.

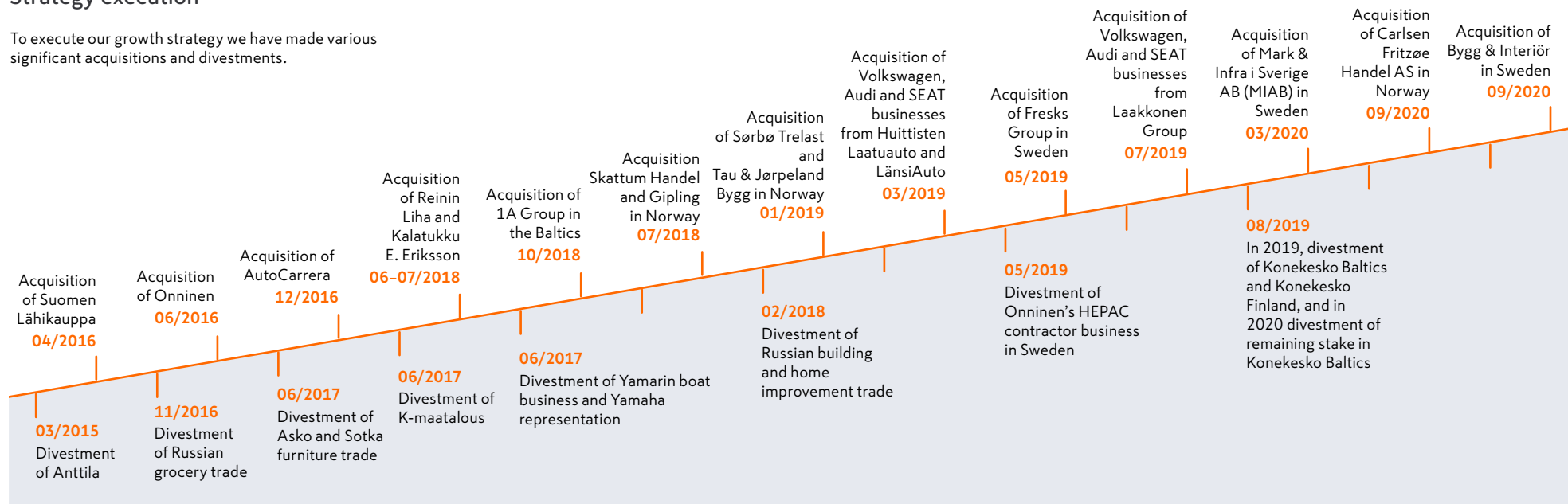
We want to enable sustainable lifestyles for our customers, and offer a multitude of sustainable alternatives in different areas. Customers must always be able to trust that K-stores enable them to make responsible choices.

As a sign of our long-term commitment to corporate responsibility, Kesko has been included in the prestigious Dow Jones Sustainability Index of the world's most responsible companies, the DJSI World. Kesko has also received the best 'A' score from CDP, a global climate

research provider that reviews how companies disclose and manage their environmental impacts. Kesko ranked 87th on the Global 100 Most Sustainable Corporations in the World list published in January 2021, and is the most sustainable grocery trade company in the world.

## Strategy execution

To execute our growth strategy we have made various significant acquisitions and divestments.



# OPPORTUNITIES AND RISKS IN OUR OPERATING ENVIRONMENT

	OPPORTUNITIES	RISKS
<p><b>Economic operating environment</b> Short-term economic outlook is fairly stable, but concerns over the impacts of the Covid-19 pandemic and a general weakening in the economy remain significant.</p> <p>Our three strategic growth areas are the grocery trade, building and technical trade, and car trade.</p> <p>To achieve growth, we want to increase our market share in the Finnish grocery trade, grow our building and technical trade in Northern Europe, strengthen our market leadership in the Finnish car trade, and develop our digital services.</p>	<ul style="list-style-type: none"> <li>• Customer orientation, quality and competitive prices lend us a competitive advantage.</li> <li>• In Finland, retailer entrepreneurs enable agile business operations.</li> <li>• Our strong financial position provides excellent opportunities for growth and for developing our operations.</li> <li>• Improving the efficiency of our operations with digitalisation.</li> <li>• Responding to the needs of different customer groups utilising customer data and analytics.</li> <li>• Strengthening multichannel services by combining services online and in physical stores.</li> </ul>	<ul style="list-style-type: none"> <li>• Rapid changes in the market and customer behaviour could affect our growth potential and profitability.</li> <li>• Cyclical fluctuations and tightened competition could weaken business profitability.</li> <li>• Pandemic-related sudden and unforeseen changes and restrictions in the business environment.</li> <li>• Failure to deliver on quality, service and price image would result in poorer customer experience.</li> <li>• Misjudged acquisitions and failure to integrate could result in financial losses.</li> </ul>
<p><b>Climate change</b> The impacts of climate change are twofold.</p> <ul style="list-style-type: none"> <li>• The impacts of climate change on Kesko relate to increased regulation and extreme weather phenomena.</li> <li>• The impacts of Kesko's operations on the climate relate to the lifecycle impact of products and services sold and energy solutions and emissions.</li> </ul>	<p>All Kesko divisions can offer customers solutions that help them reduce their climate impact, as living, food and transportation are the biggest sources of greenhouse gases in private consumption.</p> <ul style="list-style-type: none"> <li>• Products with low carbon footprint</li> <li>• We help mitigate climate change by increasing the purchases and production of renewable energy and by improving energy efficiency</li> <li>• Promoting circular economy and developing new circular economy solutions with partners</li> </ul>	<p>Transition risks</p> <ul style="list-style-type: none"> <li>• Increasing regulation necessitates changes in business operations and leads to additional costs.</li> <li>• In the long term, changes in consumer behaviour require changes to business models.</li> </ul> <p>Physical risks</p> <ul style="list-style-type: none"> <li>• Increase in extreme weather phenomena can impact product availability and cause disturbances in logistics and the store site network.</li> </ul> <p>Climate impacts</p> <ul style="list-style-type: none"> <li>• The life cycle impact of products and services sold on climate change.</li> <li>• Emissions resulting from energy solutions and energy consumption.</li> </ul>



	OPPORTUNITIES	RISKS
<p><b>Biodiversity</b> Our objective is to prevent biodiversity loss in our own operations and value chain.</p> <p>Kesko uses the ecosystem services of a biodiverse nature:</p> <ul style="list-style-type: none"> <li>• Commodities produced and provided by ecosystems, such as raw materials, water and energy.</li> <li>• Benefits from natural processes such as nutrient and water cycle, photosynthesis and pollination.</li> <li>• Intangible nature values</li> </ul>	<p>Enabling sustainable and healthy lifestyles for our customers.</p> <p>Promoting the sustainable use of natural resources in our own operations.</p> <ul style="list-style-type: none"> <li>• Mitigating climate change: Carbon neutral K Group</li> <li>• Promoting circular economy and minimising food waste</li> <li>• Ecological restoration: K Fishpaths</li> </ul> <p>Building our selections to promote the preservation of biodiversity throughout the lifecycle of the products we sell.</p> <ul style="list-style-type: none"> <li>• Sustainable products</li> <li>• Sustainability policies</li> </ul>	<p>Risks to biodiversity affecting K Group's operations and value chain:</p> <ul style="list-style-type: none"> <li>• Loss of species</li> <li>• Pollinator decline: 70% of cultivated plants are dependent on pollinators</li> <li>• Deforestation</li> <li>• Water shortage: drying soil and erosion</li> <li>• Pollution and eutrophication</li> <li>• Increase in pests and diseases, such as zoonosis</li> </ul>
<p><b>Social responsibility and human rights in the purchasing chain</b></p> <ul style="list-style-type: none"> <li>• In accordance with our <b>human rights commitment</b>, we respect all internationally recognised human rights.</li> <li>• Supply chain transparency</li> <li>• We provide our customers with more information on the origin, production conditions and environmental impacts of products.</li> </ul>	<ul style="list-style-type: none"> <li>• Improving transparency and promoting responsibility in the whole supply chain by cooperating with goods and service suppliers who share our operating principles</li> <li>• Our efforts to improve responsibility in the supply chain and product safety increase stakeholder trust in us.</li> <li>• Demand for sustainable products and corporate responsibility reputation.</li> </ul>	<ul style="list-style-type: none"> <li>• Irregularities in the management of social or environmental responsibility in the purchasing chain could result in human rights violations, environmental damage, financial losses, and loss of stakeholder trust and negatively affect our corporate responsibility work and its credibility.</li> <li>• A failure in product safety control or in the quality assurance of the supply chain could result in financial losses, the loss of customer trust, or, in the worst case, a health hazard to customers.</li> </ul>
<p><b>Digital services and management by information</b></p> <p>As our strategy states, we aim to offer our customers the best digital services in the trading sector.</p>	<ul style="list-style-type: none"> <li>• Using customer data and research to develop more personalised customer experiences and store-specific business ideas.</li> <li>• Offering a seamless customer experience in all channels by utilising artificial intelligence, data analytics and service design.</li> <li>• Enabling excellent customer service in K Group by combining online sales and digital services with our extensive store site network.</li> </ul>	<ul style="list-style-type: none"> <li>• Challenges related to the profitability of online commerce include the efficiency of logistics operating models and the adaptability of existing store sites to the logistics of online commerce.</li> <li>• Cyber threats directed at digital services and information systems increase risks related to business continuity and customer data management.</li> <li>• Constant evolution of online trade and digital services presents special challenges to the rapid development of new services and their integration into existing operating models and systems.</li> </ul>

# FINANCIAL TARGETS

We are moving strongly towards our financial targets and a better return on capital through growth, increased profitability, synergies, and better working capital efficiency. In addition to growth, we continue to focus on improving the cost-efficiency of all our operations to ensure competitiveness.

Our strong balance sheet enables both investments in strategic growth endeavours as well as good dividend capacity. Between 2015 and 2020, we invested over €2.6 billion in business operations and acquisitions, and divested some €1.0 billion worth of non-strategic business operations and real estate.

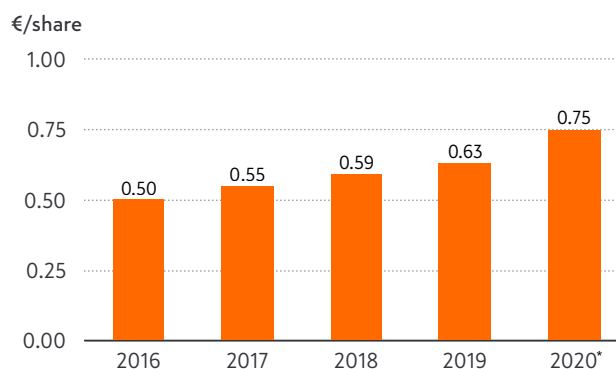
The need for investments in store sites will decrease, while investments in digitalisation will increase. In future acquisitions, we will seek economies of scale and improved competitiveness especially in the building and technical trade.

Kesko's Board of Directors approved new medium-term financial targets for the Group on 1 December 2020. The financial targets for profitability are a comparable operating margin of 5.5% and a comparable return on capital employed of 12.5%. In terms of financial position, the Group targets a maximum interest-bearing net debt/EBITDA ratio of 2.5, excluding the impact of IFRS 16.

## Financial targets

Indicator	Target (as of 1 Dec. 2020)	Level achieved in 2020
Comparable operating margin	5.5%	5.3
Comparable return on capital employed	12.5%	12.0
Interest-bearing net liabilities / EBITDA, excluding the impact of IFRS 16	<2.5	0.4

## Dividend history 2016–2020



\*Proposal to the Annual General Meeting

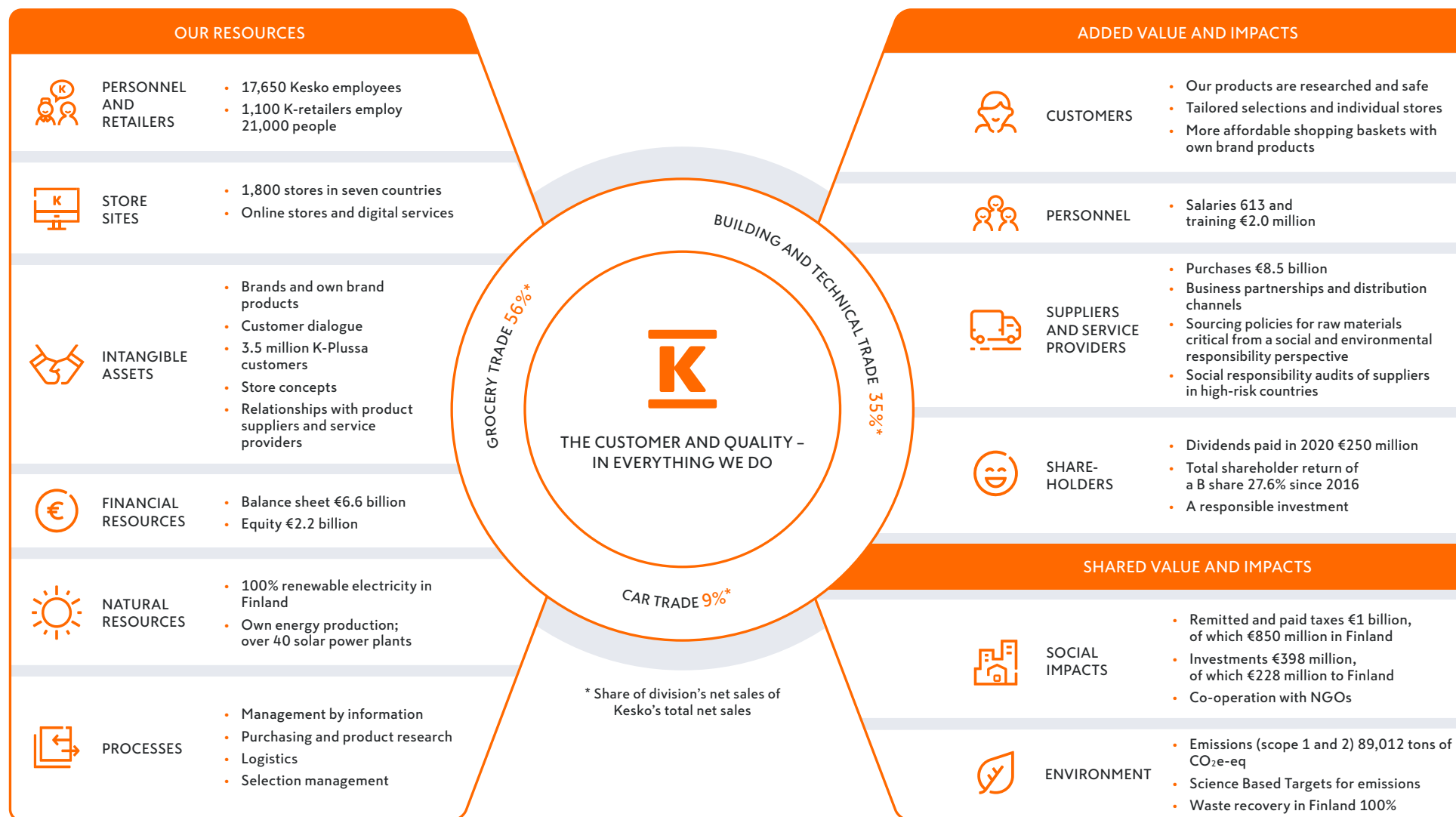
Kesko Corporations' s Annual General Meeting on 28 April 2020 decided on a share issue without payment (share split) in which three (3) new A shares were issued for each existing A share, and three (3) new B shares for each existing B share. The dividends for the comparison periods have been adjusted to correspond to the post-share split number of shares.



## DIVIDEND POLICY

In the long term, Kesko aims to distribute a steadily growing dividend of some 60–100% of its comparable earnings per share, taking into account the company's financial position and strategy. Kesko pays its dividends in two instalments, starting with the dividend paid for the year 2018.

# RESPONSIBLE VALUE CREATION FOR THE WHOLE SOCIETY





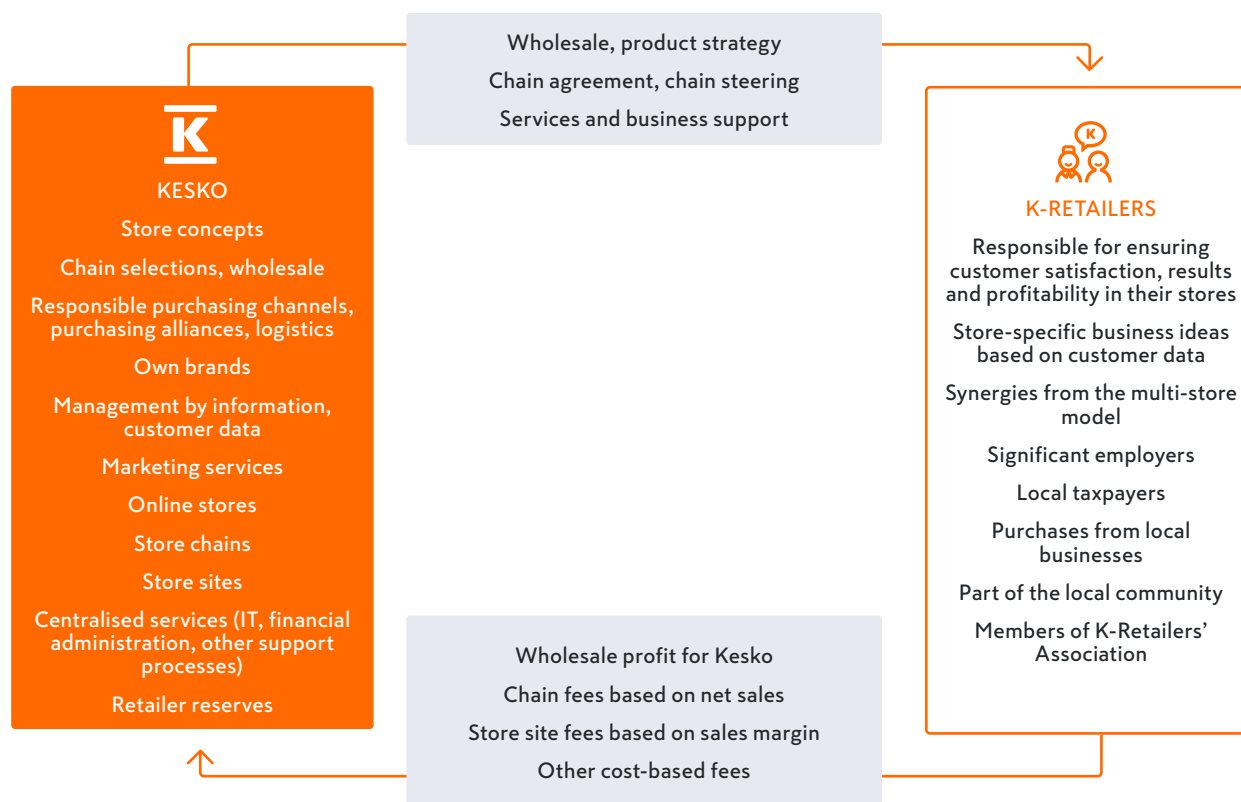
# CHAIN OPERATIONS AND K-RETAILERS LEND US A COMPETITIVE ADVANTAGE

K Group's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. All K Group grocery stores and K-Rauta stores in Finland are run by K-retailers. There are some 1,100 K-retailers. In other operating countries, Kesko mainly engages in own retailing and B2B trade. In Bygghuset in Norway, Kesko has a local retailer business model, with 14 retailers.

**Kesko** is responsible for the continuous development of the operating model and store concepts, for steering chain operations, for procuring products included in chain selections, and for the store site network.

**K-retailer** entrepreneurs are responsible for their stores' customer satisfaction, personnel and business success and profitability. Each retailer establishes a business idea that differentiates their store from competition and consequently creates added value. Our multi-store model offers synergies in management, personnel resources and stocking.

## Kesko and K-retailers: roles



More on  
real estate



More on  
K-Retailers' Association

## A YEAR OF STRONG GROWTH FOR THE GROCERY TRADE

Our effective strategy yielded results also during an exceptional year. Our retailer business model enabled an agile response to the changing market situation, while also ensuring safe work and shopping at the stores. Demand rose forcefully in the food trade, while demand in the foodservice business decreased. During the year, we managed to improve customer satisfaction, our market share and our profitability.



**Ari Akseli**  
President,  
grocery trade division

“ Demand in the food trade was strong throughout 2020. The impacts of the Covid-19 pandemic on Kesko's grocery trade division varied between businesses and months. In early March, there were a few weeks of hoarding groceries, while at same time demand for foodservice plummeted as restaurants and schools were closed. Restrictions also hit service stations. As we entered summer, the situation improved. Our market share grew in both food trade and Kespro's foodservice in 2020.

## Our strategy works – further gains in market shares

Our strategy in the grocery trade division is to increase sales and profitability in a changing market with a customer-oriented approach. Year 2020 proved that this strategy works also under very exceptional circumstances, as we continued to gain market share in both grocery trade and foodservice. We successfully ensured safe shopping conditions, positive customer experiences, and selections that met expectations.

K Group is the second biggest grocery trade operator in Finland, with a market share of 36.8%\* (2019: 36.7%). In 2020, we gained market share in all grocery store chains. We opened two K-Supermarket stores, and eight K-Market stores, four of which were replacement new buildings. We invested €110 million in our store network, focusing on the redesign and renovation of existing stores.

## Customer experience at the core of our strategy

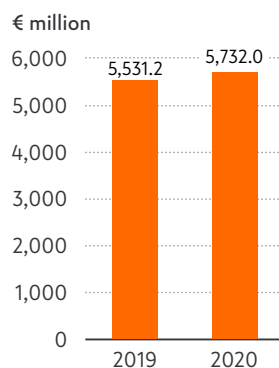
We utilise customer data to introduce new products and services that best suit the needs of the customers of each K Group grocery store. We focus on responsible, high-quality selections that enable differentiation, on convenience and individuality, not forgetting prices. Products sold exclusively at K Group stores enable differentiation, support store-specific business ideas, and result in higher average purchases. New products and

\* Kesko's own estimate, based on Nielsen peer group.

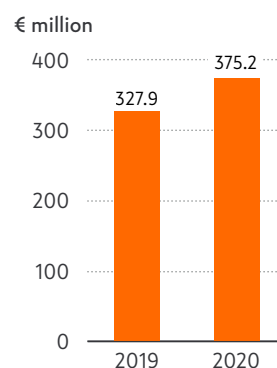
product ranges linked to well-known restaurant brands have been very popular among our customers. Inspiring digital services that make life easier have also helped to improve customer experience. The strategic choices we have made have proven correct, as indicated by the good development of sales and customer satisfaction in all our grocery store chains and online. The NPS for all K Group grocery stores places customer satisfaction at 65.1; the NPS for online grocery sales is a staggering 83.0. In total, sales for the grocery trade division grew by 9.4% in 2020, thus exceeding the market growth.

K-Ruoka is the biggest food media in Finland: the K-Ruoka.fi website and the K-Ruoka mobile app had 2.8 million visits in 2020. The app has over 215,000 active users weekly.

### Net sales



### Operating profit



Comparable figures

## PIRKKA IS FINLAND'S BEST KNOWN STORE BRAND

The retail sales of own brand products accounted for some 19% of the division's total retail sales. Own brand products play a significant role in ensuring versatility in selections. They also offer small producers a pathway to K-food store selections nationwide. The popularity of the premium Pirkka Parhaat range grew in particular in 2020.

- Some 2,600 Pirkka products in total; nearly 300 new products launched
- Some 320 Pirkka Parhaat premium products
- Nearly 200 Pirkka Luomu organic products
- Some 230 K-Menu products

## SUSTAINABILITY

Our ingenious heat recycling system was installed in some 20 K-food stores.

By the end of 2020, the fish counters of 39 K-food stores had been awarded the MSC and ASC traceability certificates which promote sustainable fishing and aquaculture.

Our data-based K-Ostokset service now enables customers to track their consumption of salt, sugar, red meat, fish and vegetables, in addition to tracking their purchases of Finnish products and the carbon footprint of their grocery purchases.

## Big growth in online grocery demand

The Covid-19 pandemic saw the demand for online grocery sales grow forcefully. During the early weeks of the pandemic, growth online peaked above 800%. Thanks to our retailer business model, we were able to meet the growth in demand and increase our online sales capacity by bringing online services to additional K-stores

and improving digital capabilities. In addition to home deliveries, click & collect online grocery shopping grew in popularity, reaching growth rates as high as 2,000%. At the end of the year, 470 K-stores offered online grocery sales services (2019: some 230 stores). Online grocery sales grew by some 400% and accounted for 2.9% of the division's grocery sales in 2020.

Inspired by the pandemic, K Group also introduced advice and phone services to help the elderly shop for groceries. Many K-stores also established other services and dedicated shopping hours for the elderly and other at-risk groups.

The strategy for the grocery trade division is to increase sales and profitability in a changing market with a customer-oriented approach

<b>BUSINESS ENVIRONMENT</b> <ul style="list-style-type: none"> <li>• Digital is a basic requirement</li> <li>• Hybrid and polarised consumption set to grow stronger</li> <li>• Significant demographic changes</li> <li>• Emphasised importance of climate change and environmental awareness</li> <li>• Operations and concepts must be responsible and sustainable</li> </ul>	STRATEGIC OBJECTIVE >	WHAT WE ARE DOING
	The most customer-oriented and inspiring grocery stores with store-specific business ideas	<ul style="list-style-type: none"> <li>• Further sharpening store-specific business ideas</li> <li>• Differentiation through selections and even better food solutions</li> <li>• Developing digital solutions and services</li> </ul>
	Profitable development and redesign of the store network	<ul style="list-style-type: none"> <li>• Remodelling the stores, new concepts</li> </ul>
	A seamless omnichannel customer experience	<ul style="list-style-type: none"> <li>• Expanding the online grocery sales network and increasing sales</li> <li>• Updating the K-Ruoka mobile application</li> <li>• Implementing personalised customer communications</li> </ul>
	Good price competitiveness	<ul style="list-style-type: none"> <li>• Developing selections</li> <li>• Utilising synergies</li> <li>• Own brands</li> </ul>
	Developing retailer entrepreneurship as a competitive advantage	<ul style="list-style-type: none"> <li>• Enforcing the good reputation of K-retailer entrepreneurship as a career</li> <li>• More extensive implementation of store-specific business ideas</li> <li>• Developing tools for management by information</li> </ul>
	Significant growth in the foodservice business	<ul style="list-style-type: none"> <li>• Increasing sales and profitability</li> <li>• Developing services and concepts</li> </ul>



## Retailer entrepreneurs lend us a competitive advantage

Our grocery store business is heavily based on retailer entrepreneurship. K-retailers are the innovative pioneers of Finnish grocery trade. Based on their own store-specific business ideas, they handle their stores' selections, customer service, staff skills, product quality, and profitability. We have made management by information an integral part of the stores' operations, and support K-retailers in creating their own store-specific business ideas based on customer data. In stores that have adopted this model, customer satisfaction and sales have improved significantly. We see plenty of potential to improve sales and profit further by implementing store-specific business ideas in all 1,200 K Group grocery stores. Currently, approximately half of the stores have fully implemented their store-specific business idea. There are some 1,000 K-food retailers. In 2020, 46 people began their careers as new K-food retailers.

## A challenging yet still profitable year for Kespro

Kespro is the leading foodservice wholesale company in Finland. It acts as a partner for its customer businesses, municipalities and other public operators. Kespro offers tailored, versatile procurement solutions and delivery and pick-up services based on extensive customer data. The specialty fish and meat wholesalers Kalatukku E. Eriksson and Reinin Liha are also part of Kespro. Kespro has 14 cash & carry outlets and an online outlet. Finland's most modern product development kitchen Foodsteri is located at Kesko's K-Kampus headquarters.

The Covid-19 pandemic and restrictions imposed to stop the virus from spreading made 2020 a challenging year for Kespro. Although Kespro's sales declined, we managed to keep operations in profit by responding quickly and carrying out adjustment measures. Kespro's market share grew. We firmly believe that the trend of eating out will continue to grow post-pandemic.



## Grocery trade in figures

Key figures	2020	2019
Net sales, € million	5,732.0	5,531.2
Operating profit, comparable, € million	375.2	327.9
Operating margin, comparable	6.5	5.9
Return on capital employed, comparable, %, rolling 12 months	16.9	14.5
Capital expenditure, € million	125.4	180.8
Personnel, average	6,197	6,063

Properties	2020	2019
Owned properties, capital, € million	792	763
Owned properties, area, 1,000 m <sup>2</sup>	527	516
Leased properties, area, 1,000 m <sup>2</sup>	1,478	1,520

K Group's grocery trade	Number of stores		Retail and B2B sales, VAT 0%, € million	
	2020	2019	2020	Change, %
K-Citymarket, food	81	81	1,934.5	13.0
K-Citymarket, non-food	81	81	587.7	0.2
K-Supermarket	241	243	2,235.2	9.0
K-Market	769	777	2,001.0	7.4
Neste K	72	73	114.6	-12.4
Others	73	78	46.3	6.2
<b>Total</b>	<b>1,236</b>	<b>1,252</b>	<b>6,919.2</b>	<b>8.3</b>
Kespro	-	-	783.9	-17.0
<b>Grocery trade, total</b>	<b>1,236</b>	<b>1,252</b>	<b>7,703.1</b>	<b>5.1</b>

In addition, 470 K-food stores offer online grocery sales services.  
Kespro has 14 cash & carry outlets and an online outlet.

## Markets

In 2020, the Finnish grocery retail market totalled some €20.2 billion (incl. VAT), representing an increase of some 8.6% (Kesko's own estimate). People working from home and restrictions imposed on restaurants, events and travel due to the Covid-19 pandemic impacted total market growth from mid-March onwards. Retail market growth was also affected by continued good consumer purchasing power and a rise in prices, nearly one-third of which was attributable to alcohol and tobacco tax increases. Price competition in the Finnish grocery market continued to be tight, but consumers also increasingly value local food, sustainability, healthiness and quality. The Covid-19 pandemic significantly accelerated online sales growth.

### MARKET SHARES

#### Food trade

The market share in Finland was 36.8% ((Kesko's estimate based on Nielsen's comparison group, which includes discount stores and service stations as well as grocery stores).

Competitors: Prisma, S-market, Alepa/Sale and Food Market Herkku (S Group), ABC, Lidl, Tokmanni, Minimani, Halpa-Halli, R-kioski and M chain stores.

#### K-Citymarket's home and speciality goods

Market share cannot be reliably calculated.

Competitors: hypermarkets, department stores, discounters, specialist chains and online stores.

#### Foodservice Kespro

Working from home and pandemic-related restrictions on restaurants and events negatively impacted the foodservice business. Kespro's market share is estimated to have grown to 42.5% (in the Finnish Grocery Trade Association's foodservice wholesale peer group).

Competitors: Meira Nova, Metro-tukku, Heinon Tukku, Suomen Palvelutukkurit.

## RESULT IN BUILDING AND TECHNICAL TRADE RISES TO A NEW LEVEL

The building and technical trade division achieved a record result in 2020 thanks to systematic execution of country-specific strategies and a favourable market. Net sales grew forcefully and profit rose to a new level. During the year, we continued the determined execution of our growth strategy both organically and via acquisitions. Our strategic objective is to become an even stronger operator in Northern Europe.



**Jorma Rauhala**

President, building and  
technical trade division,  
Deputy CEO

“ The Covid-19 pandemic and resulting changes in consumer behaviour impacted our business from mid-March onwards. Consumer sales in particular exceeded expectations, but B2B sales in both building and home improvement trade and Onninen also continued strong. Despite increased interest towards building and renovation among consumers, we still expect construction to be increasingly outsourced to professionals in the long term.

K Group's building and technical trade division is the leading operator in Northern Europe. Despite the exceptional circumstances, we continued the execution of our country-specific strategies in 2020, and the division's profitability rose to a new level.

The Covid-19 pandemic and related restrictions impacted our operations across Northern Europe. With people working from and spending more time at home and spending money domestically, consumer demand grew, especially in Finland, Sweden and Norway. Sales stayed at a good level also in B2B trade, as most construction sites remained open as usual.

The key to our strategy execution is to acknowledge the differing needs of our three customer segments – technical professionals, professional builders, and consumers – in all channels. B2B operations account for nearly 70% of our net sales. Less than half of our profit improvement was attributable to the construction and renovation boom caused by the pandemic. We have also sought synergies within and between the operating countries in areas such as concept, digital service and own brand development. In 2020, we continued targeted acquisitions in line with our strategy in Norway and Sweden, as well as the integration of previously acquired businesses.

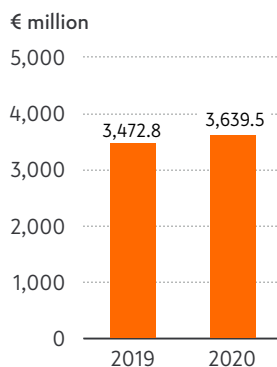
## Both K-Rauta and Onninen continued to strengthen their market leadership in Finland

K-Rauta's sales in Finland outgrew the market and its market share totalled 44%, with marked improvement in profitability as well. We have been redesigning K-Rauta stores by applying store-specific business ideas, and have improved customer experience with updated selections, online sales, and extended opening hours. Management by information enables selections and services that meet the specific needs of each store's customer base. K-Rauta's sales in Finland are split fairly evenly between consumers and B2B customers.

Consumer sales were particularly good in K-Rauta in 2020. Online sales for K-Rauta in Finland accounted for less than 2% of total consumer sales, up by 72%.

### Net sales

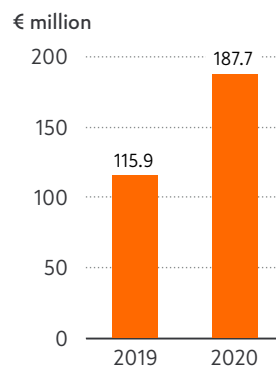
Illustrative figures



Illustrative comparison figures excluding Kesko Senukai.

### Operating profit

Illustrative figures



Comparable figures. Kesko Senukai treated as a joint venture in the illustrative figures.

## ACQUISITIONS SUPPORT OUR GROWTH STRATEGY

In 2020, we continued targeted acquisitions in line with our strategy in Norway and Sweden, as well as the integration of previously acquired businesses. In Norway, we acquired Carlsen Fritzøe Handel AS, a leading building and home improvement trade chain in the Oslo region, whose stores highly complement our Bygghuset store network. In Sweden, we acquired Mark & Infra i Sverige AB (MIAB) as part of Onninen, and Bygg & Interiör as part of the K-Bygg chain. These acquisitions have strengthened our market share and operating profit in Sweden and Norway.

## SUSTAINABILITY

In an effort to improve the transparency of our supply chains, in autumn 2020 we launched a new 'Tracing our products' website that enables tracing the origin of products sold at K-stores, including the Finnish PROF timber sold in our K-Rauta building and home improvement stores.

The PEFC label on timber sold in K-Rauta stores indicates sustainable origin and that the wood material comes from certified, sustainably managed forests.



Onninen has developed well as part of Kesko. Onninen's net sales improved and operating profit grew markedly. Technical wholesale is volume trade, in which efficient logistics, a wide store network, functional electronic order channels and professional sales staff play a key role. During 2020, we continued the development of the Onninen Express store network, and improved customer experience by launching new digital services. Onninen is the market leader in Finland with a market share of 40%.

In the leisure trade, sales developed well in the sports trade chains Intersport and Budget Sport. The Covid-19 pandemic

had a negative impact on the leisure trade in the first year-half, until the outdoor trend boosted demand for the sports trade. Sales for the Kookenkä shoe store chain decreased.

### A turnaround year in Sweden and Norway

Sweden has the biggest building and technical trade market of our operating countries. In Sweden, K-Rauta serves consumers, K-Bbygg B2B customers, and Onninen technical wholesale Infra customers. The pandemic boosted consumer demand also in K-Rauta Sweden, while B2B demand remained good. K-Rauta's net sales in Sweden grew by 12.6% in comparable terms, and K-Bbygg's net sales also

strengthened. Kesko has conducted various measures to improve profitability in Sweden, and in 2020, profitability improved significantly.

We continued strategic acquisitions in the spring by acquiring Mark & Infra i Sverige AB (MIAB), a company specialising in the sales of water and sewage products, as part of Onninen. In the summer, we announced the acquisition of Bygg & Interiör in the Mälaren Valley region, thus complementing Kesko's growing K-Bbygg chain for professional builders.

Our strategic objective is to gain an even stronger position in building and technical trade in Northern Europe

BUSINESS ENVIRONMENT	STRATEGIC OBJECTIVE >	WHAT WE ARE DOING
<ul style="list-style-type: none"> <li>• <b>Market consolidation</b></li> <li>• <b>Outsourcing construction to professionals</b></li> <li>• <b>Growth in renovation building</b></li> <li>• <b>Digital becoming increasingly important for the customer journey</b></li> </ul>	Country focus, with country-specific strategic actions	<p><b>Technical trade customers</b></p> <p>&gt; <b>Building, infrastructure, resellers, industry</b></p> <ul style="list-style-type: none"> <li>• 1,500 technical sales professionals</li> <li>• Distribution centres deliver almost 40,000 order lines a day, some 50% via an automated process</li> <li>• Customer-tailored logistic services</li> <li>• Comprehensive store network of 131 Onninen Express stores</li> <li>• Multiple digital channels with combined sales of €400 million</li> </ul> <p><b>DIY and professional builders</b></p> <p>&gt; <b>B2C and B2B</b></p> <ul style="list-style-type: none"> <li>• A comprehensive network of 331 stores in prime locations with near-by deliveries</li> <li>• Over 160 million customer visits annually on our online sites</li> <li>• Strong multichannel customer experience with growing online sales</li> <li>• Strong B2B sales – 185,000 professional builder customers</li> <li>• Differentiating own brands, with sales of around €200 million</li> </ul>
	Serving three different customer segments according to their specific customer needs	
	Seeking synergies	
	Organic growth and profitability improvement	
	Targeted acquisitions	

We strived to accelerate growth with acquisitions also in Norway, acquiring Carlsen Fritzøe Handel AS, a leading building and home improvement trade chain in the Oslo region, whose 25 stores highly complement our Bygghjælp store network. Following the acquisition, approximately 70% of our building and home improvement business in Norway is our own business.

This enables more efficient operational development and better profitability. We have also managed to turn around Onninen's sales in Norway.

We see significant growth potential in both Sweden and Norway in the long term.

## Poland and the Baltics

Poland and the Baltics have been the countries where Onninen has been hit the most by the pandemic, but we have managed to maintain our profit levels good also in these countries. Kesko Senukai's sales and profitability recovered quickly from the problems caused by the pandemic early on. During the year, we announced we would initiate a strategic review of our operations in the Baltics, which continues in 2021. We are reporting Kesko Senukai as a joint venture as of 1 July 2020, before it was reported as a subsidiary.

## Building and technical trade in figures

Key figures	2020	2019
<b>Net sales, € million</b>	<b>3,639.5</b>	<b>3,472.8</b>
Building and technical trade excl. speciality goods trade and Kesko Senukai	3,424.3	3,126.1
Speciality goods trade	215.2	346.7
<b>Operating profit, comparable, € million</b>	<b>187.7</b>	<b>115.9</b>
Building and technical trade excl. speciality goods trade and Kesko Senukai	169.4	98.5
Speciality goods trade	7.4	9.5
Kesko Senukai	11.0	7.8
<b>Operating margin, comparable, %</b>	<b>5.2</b>	<b>3.3</b>
Building and technical trade excl. speciality goods trade and Kesko Senukai	4.9	3.2
Speciality goods trade	3.4	2.7
Return on capital employed, comparable, %, rolling 12 months	11.2	7.4
Capital expenditure, € million	186.3	332.7
Personnel, average	9,308	12,630
The change in Kesko Senukai's consolidation method from a subsidiary to a joint venture as of 1 July 2020 has impacted the performance indicators for the building and technical trade in the segment information. In the segment information for the building and technical trade, performance indicators are illustrative except for the balance sheet indicators and personnel numbers.		
<b>Properties</b>	<b>2020</b>	<b>2019</b>
Owned properties, capital, € million	159	222
Owned properties, area, 1,000 m <sup>2</sup>	230	298
Leased properties, lease liabilities, € million	865	1,253

K Group's building and technical trade	Number of stores		Retail and B2B sales, VAT 0%, € million	
	2020	2019	2020	Change, %
K-Rauta, Finland	130	131	1,172.3	9.0
Rautakesko B2B Service	-	-	249.1	-2.5
Onninen, Finland	57	57	961.4	8.2
Leisure trade, Finland	103	107	264.2	-5.9
<b>Finland, total</b>	<b>290</b>	<b>295</b>	<b>2,647.1</b>	<b>5.9</b>
K-Rauta, Sweden	17	18	186.3	14.1
K-Bygg, Sweden	36	34	240.9	10.8
Onninen and MIAB, Sweden	3	-	108.3	-0.8
Bygghjælp and Carlsen Fritzøe, Norway	86	63	717.2	1.0
Onninen, Norway	18	18	243.6	-3.9
Onninen, Baltics	17	17	79.9	-5.7
Onninen, Poland	36	36	235.1	-1.3
<b>Other countries, total</b>	<b>213</b>	<b>186</b>	<b>1,811.4</b>	<b>2.0</b>
<b>Building and technical trade excl. Kesko Senukai, total</b>	<b>503</b>	<b>481</b>	<b>4,458.4</b>	<b>4.3</b>
Kesko Senukai	59	59	922.4	6.9
<b>Building and technical trade incl. Kesko Senukai, total</b>	<b>562</b>	<b>540</b>	<b>5,380.8</b>	<b>4.7</b>

In addition, building and technical trade stores offer e-commerce services to their customers. Two Onninen stores in Finland operate on the same store premises with K-Rauta.

## Markets and market shares 2020

Market by country, along with the improvement from the previous year (retail trade, VAT 0%), market shares and main competitors.

	Market area		Market size and change	Market share	Main competitors
<b>Building and home improvement trade</b>	Finland		€3.3 bn (+4.8%), (RaSi ry, Finnish Hardware Association, DIY)	44% (RaSi ry Finnish Hardware Association, DIY)	STARK, S-Group, Bauhaus
	Sweden		€5.4 bn (+11.6%), (Bygghandlarna and Kesko's own estimate)	8%*	Beijer, XL Bygg, Optimera, Woody, Bauhaus, Bygghandlarna
	Norway		€5.2 bn (+11.2%), (Virke and Kesko's own estimate)	14%*	Optimera, Mestergruppen, Coop, Maxbo
<b>Onninen</b>	Finland		€2.2 bn (+1.6%), (STK, Talteka)	40% (STK, Talteka)	Dahl, Ahlsell, SLO, Rexel
	Sweden (Onninen and MIAB)		€3.8 bn (+1.7%), (SEG, RGF)	3% (SEG, RGF)	Dahl, Ahlsell, Elektroskandia, Rexel
	Norway		€2.4 bn (+5.1%), (EFO, NRF)	10% (EFO, NRF)	Elektroskandia, Solar, Ahlsell, Berggård Amundsen, Otra
	Poland		€5.1 bn (+3.0%)*	5%*	GC Group (BIMs, HTI, Hydrosolar), Grudnik, TIM, Kaczmarek, Alfa Elektro, Grodno
	Estonia		€0.4 bn (-5.6%)*	11%*	FEB (Ahlsell), SLO, W.E.G (Würth)
	Latvia		€0.4 bn (-10.7%)*	5%*	Sanistal, EVA-SAT, SLO
	Lithuania		€0.6 bn (+0.2%)*	3%*	Sanistal, Dahlgera, Elektrobalt, SLO
<b>Sports trade</b>	Finland		Approximately €1.0 bn (+0.9%)*, (Fashion and Sports Commerce association)	Intersport, Budget Sport and Kesport together 24%*	XXL, Stadium, hypermarkets and online stores

\* Kesko's own estimate \*\* Branch association has specified the total market

## POSITIVE RESULT IN CAR TRADE UNDER CHALLENGING CIRCUMSTANCES

The year got off to a good start, but from mid-March onwards the Covid-19 pandemic weakened customer demand for both new and used cars. There was less of a decline in demand for after-sales and leasing. Demand recovered towards the end of the year, in part thanks to our expanded range and the improved availability of cars. We also used adjustment measures and cut costs to successfully manage the exceptional challenging situation.



**Johan Friman**  
President,  
car trade division

“ Exceptional circumstances saw car trade demand decline in 2020. The Covid-19 pandemic also caused temporary shutdowns of car factories, thus weakening the availability of new cars. However, car trade picked up again over the summer, and demand grew especially for electric cars.



We announced an updated strategy in the end of the year 2020. Our objective is to outgrow the market, improve profitability, and strengthen our market position in the car business value chain by utilising synergies within 'One unified K'. We want to offer the best customer experience in the car business in all channels, and will strengthen our service offering further. Thanks to our strategic partnership with one of the world's biggest car manufacturer the Volkswagen Group, and our extensive and constantly updated range of brands and models, we have long been the market leader in the Finnish car trade.

### Demand for rechargeable hybrids and all-electric cars increased

K Group's market share in Finland totalled 16.9% in 2020 (passenger cars and vans). Our market share grew towards the end of the year, in part thanks to an updated range that met demand. Demand grew especially for new all-electric cars and rechargeable hybrids, with record demand seen e.g. for the fully-electric Volkswagen ID 3 and Porsche Taycan. The all-electric cars we represent accounted for 34.1% of all registered all-electric cars (passenger cars and vans). Volkswagen was the most registered all-electric brand and the second most registered brand of passenger cars and vans in Finland in 2020. The market share in trucks (over 6 tonnes) was 2.9%.

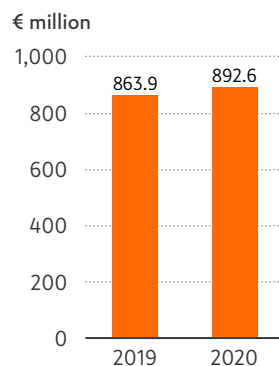
Demand for used cars grew markedly in 2020. There was a shortage of supply of good slightly used cars, which pushed prices up. Imports of used cars continued, even though the shortage was felt all over Europe. Sales of servicing and

spare parts were at a good level. After-sales accounted for some 20% of our net sales.

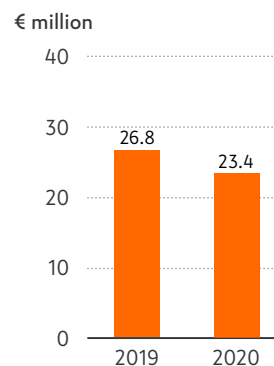
### Wide range of services

The car trade market, driving and mobility are constantly changing: this requires constant development of operating models, services and technologies. We are actively seeking synergies with other K Group divisions, for example, utilising common customer data to develop and improve digital services and customer experience. Our own leasing fleet grew and now comprises over 3,000 cars, making us one of the biggest leasing service providers in Finland. The popularity of private car leasing, a fairly new service in Finland, grew in particular.

#### Net sales



#### Operating profit



Comparable figures

### UPDATED RANGE

The constantly expanding and updated range of models of brands represented by K-Auto strengthens our competitiveness. New models introduced to the market in 2020 included:

- Volkswagen: all-electric ID.3, T-Roc Cabriolet, Arteon Shooting Brake and Touareg R rechargeable hybrid and the Volkswagen Golf range
- Audi: Audi e-tron Sportback, Audi A3 Sportback and Sedan models
- SEAT and CUPRA: SEAT Leon and Leon Sports-tourer, CUPRA Leon and Leon Sportstourer, CUPRA Formentor
- Porsche: Taycan, 911 Turbo, 911 Targa, Panamera 4
- Volkswagen Commercial Vehicles: Grand California 600 and 680 motorhomes and the new up!Cargo van

### K CHARGE NETWORK

K Group continued to build the K Charge electric car charging network first launched in 2018. By the end of 2020, the network comprised nearly 280 basic charging points and over 100 fast charging points at nearly 80 K Group grocery and building and home improvement store locations. K Charge accounts for some 30% of all public fast charging points in Finland. All K Charge electricity is renewable Finnish wind power, and has powered journeys of approximately 6 million kilometres in total.

## K Charge network is a good example of 'One unified K' in action

K Group wants to be a pioneer in mobility, and make sustainable choices easier for customers also when it comes to electric vehicles. K Group continued to build the K Charge electric car charging network first launched in 2018. By the end of 2020, the network comprised nearly 280 charging points and over 100 fast charging points at nearly 80 K Group grocery and building and home improvement store locations. K Charge accounts for some

30% of all public fast charging points in Finland. All K Charge electricity is renewable Finnish wind power, and has powered journeys of approximately 6 million kilometres in total.

Despite an exceptional and challenging year, outlook for the car trade is positive. The industry estimate is that new car sales will increase by approximately 12% in 2021. Political leaders also want to update the Finnish vehicle fleet and meet emission targets, and are currently examining taxation

related to the electrification of traffic. The demand for electric cars is expected to grow in upcoming years. Our strategic partner, the Volkswagen Group, has announced it will be investing tens of billions of euros in the development of electric car technology in upcoming years. We can offer the most extensive and versatile range of new all-electric cars, rechargeable hybrids, gas cars and internal combustion engine models. We expect to achieve our objectives of improved profitability and market exceeding growth.

The strategic goal for the car trade is to outgrow the market and improve profitability

BUSINESS ENVIRONMENT	STRATEGIC OBJECTIVE >	WHAT WE ARE DOING
<ul style="list-style-type: none"> <li>Importance of good customer experience is critical</li> <li>Car buyer preferences are changing – from owning a car to paying for use</li> <li>Online sales are expanding</li> <li>Autonomous cars, connected cars, electric cars and shared mobility trends continue, only temporarily slowed down by pandemic</li> </ul>	Focusing on Finland	<ul style="list-style-type: none"> <li>We will focus on Finland also in the future. In the Baltics, we import SEAT through independent dealers</li> </ul>
	Growing our business in cooperation with the Volkswagen Group	<ul style="list-style-type: none"> <li>The technology leader and the world's biggest car manufacturer – offers good potential for market share growth in the future</li> <li>Growth in current business areas and expanding into new ones</li> </ul>
	Make a step change in customer experience	<ul style="list-style-type: none"> <li>Making customer experience our top priority.</li> <li>Thorough and frequent customer experience measurement, emphasis on the whole customer journey in all channels.</li> </ul>
	Strengthening the foundation for growth	<ul style="list-style-type: none"> <li>Improving cost efficiency by implementing efficient processes and automation.</li> </ul>
	Extracting full value from synergies within K Group	<ul style="list-style-type: none"> <li>Utilising K Group's customer data and implementing best practices.</li> <li>Utilising the K Group store network infrastructure.</li> </ul>

## Car trade

In 2020, there were 94,489 first registrations of passenger cars, 12,846 first registrations of vans, and 2,550 first registrations of trucks (over 6 tn) in Finland. The passenger car market decreased by 16.0% compared to the year before. The van market contracted by 12.6% and the truck market (over 6tn) by 19.8%. The total number of registrations of passenger cars and vans imported by K-Auto was 18,140 (excluding motorhomes). The number of MAN trucks registered was 74.

## Car trade in figures

Key figures	2020	2019
Net sales, € million	892.6	863.9
Operating profit, comparable, € million	23.4	26.8
Operating margin, comparable	2.6	3.1
Return on capital employed, comparable, %, rolling 12 months	6.3	9.5
Capital expenditure, € million	64.7	131.3
Personnel, average	1,283	1,179

Properties	2020	2019
Owned properties, capital, € million	50	53
Owned properties, area, 1,000 m <sup>2</sup>	50	47
Leased properties, area, 1,000 m <sup>2</sup>	98	98

	Number of stores		Retail and B2B sales, VAT 0%, € million	
	2020	2019	2020	Change, %
<b>K Group's car trade</b>				
K-Caara	42	42	624.1	1.3
K-Auto, import	-	-	217.7	-18.8
AutoCarrera	4	3	62.8	30.7
<b>Car trade, total</b>	<b>46</b>	<b>45</b>	<b>904.6</b>	<b>-2.9</b>

## Market shares 2020

### CAR TRADE, FINLAND

- K-Auto's market share 16.9% (Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and Volkswagen Commercial Vehicles, excluding motorhomes)
- Volkswagen passenger cars 10.5%
- Audi 3.7%
- SEAT 1.7%
- Porsche 0.3%
- Volkswagen Commercial Vehicles 21.1%
- MAN trucks 2.9% (over 6 tn)

Registration data source: Bisnode

## REASONS TO INVEST IN KESKO

Interest towards Kesko's shares increased significantly in 2020. The number of registered shareholders grew by some 40% and is now close to 60,000.



**Jukka Erlund**  
Chief Financial  
Officer

“

Kesko is a growing and profitable Northern European retail company that aims to strengthen its cash flow and dividend capacity with a long-term focus. Our record-result in 2020 proves that our customer-oriented growth strategy is effective also under exceptional circumstances.

### Profitable growth strategy and strong track record in strategy execution

Customer-orientation and quality are at the heart of Kesko's growth strategy. We seek profitable growth both organically as well as via acquisitions in three strategic areas: grocery trade in Finland, building and technical trade in Northern Europe, and car trade in Finland. Improvement in profitability is the result of customer-oriented growth strategies in our divisions, constant improvement in cost efficiency, and efficient capital allocation. We operate as "One unified K" and maximise synergies between our businesses.

We began the execution of our current strategy in 2015. Since then, we have managed to increase the net sales of our core businesses by more than €3 billion, while our comparable operating profit has grown by nearly €250 million. Since 2015, we have invested €2.6 billion in growth, and divested non-core business operations worth €1.0 billion. We continued our profitable growth strategy and strategic investments also during the exceptional year 2020.

### Strong market position

Kesko is one of the leading retail companies in Northern Europe. In Finland, which accounts for some 80% of our net sales, Kesko is the biggest trading sector operator, as well as the biggest operator in the Finnish building and technical trade and car trade. We are also one of the biggest operators in the Nordic and Baltic countries, depending on the customer segment. Our objective is to increase our market shares in different operations and to be among the top two operators to ensure economies of scale.

### Ability to increase shareholder value

Kesko's good dividend capacity is based on the strong and steady ability of its businesses to generate cash flow. We aim for a steadily growing, attractive dividend yield. Kesko has paid dividends uninterrupted every year since 1968, and over the past five years, Kesko's dividend yield has averaged 4.5% a year. Growth in shareholder value is based on making and implementing successful strategic choices and on efficient allocation of capital – these saw Kesko's comparable return on capital employed amount to 12.0% in 2020.

### Corporate responsibility and sustainability

We have made sustainability and combatting climate change a more central strategic focus area. We are committed to the Paris Climate Agreement goal of mitigating global warming. We aim for carbon neutrality by 2025 and zero emissions by 2030.

Kesko is included in prestigious global sustainability indices, such as the DJSI World, and the A list of the CDP climate change questionnaire, as well as the Global 100 Most Sustainable Corporations in the World list. We also actively offer our customers information and convenient ways to reduce their carbon footprint.



# INVESTOR INFORMATION

Kesko's shares are listed on Nasdaq Helsinki. Kesko has two share series, A and B, with the respective trading symbols KESKOA and KESKOB. At the end of December 2020, the total number of shares in Kesko Corporation was 400,079,008, of which 126,948,028, or 31.7%, were A shares and 273,130,980, or 68.3%, were B shares. The number of shares increased in the second quarter following the resolution of the 28 April 2020 Annual General Meeting to conduct a share issue without payment (share split). The combined market capitalisation of the shares was €8,215 million at the end of 2020, up by €2,101 million from the end of 2019. At the end of 2020, Kesko had 57,132 shareholders, an increase of 39%.

## Annual General Meeting

Kesko Corporation's Annual General Meeting will be held on Monday, 12 April 2021. Due to the Covid-19 pandemic, exceptional meeting procedures based on the temporary legislative act 677/2020 will be in place so that the General Meeting can be held in a predictable manner, ensuring the health and safety of the shareholders, personnel and other stakeholders. Additional information on our website: [General Meeting 2021 \(kesko.fi\)](https://www.kesko.fi).

## Dividend

The Board of Directors proposes to the Annual General Meeting on 12 April 2021 that based on the adopted balance sheet, a dividend of €0.75 per share be paid for the year

### INTERIM REPORT PUBLICATION DATES IN 2021:

- Interim report for 1-3/2021: 28 April 2021
- Half year financial report for 1-6/2021: 23 July 2021
- Interim report for 1-9/2021: 27 October 2021



2020. The Board proposes that the dividend be paid in two instalments, and that the pay date for the first instalment of €0.38 be 21 April 2021 and the pay date for the second instalment (€0.37) 8 October 2021.

## Disclosure Policy

Kesko published an updated Disclosure Policy on 18 December 2020. Main changes to the policy concerned the silent periods and a new "investor news" category for releases.

The silent periods begin on 1 January, 1 April, 1 July and 1 October, and always last at least 21 days until results for the relevant reporting period are published. The updated Disclosure Policy is available on our website.

We began to publish investor news alongside stock exchange releases and press releases on 1 January 2021. Investor news do not meet the criteria set for stock exchange releases, but are deemed to be of general interest to investors.

## Kesko's investor relations

The objective of Kesko's investor relations is to support the appropriate valuation of Kesko's shares by continuously and consistently communicating all essential information on the company equally to all market parties. We want to serve both private and institutional investors and analysts covering the company in Finland and elsewhere. Additional information and IR contact details can be found on our website.



Additional investor information  
can be found on our website