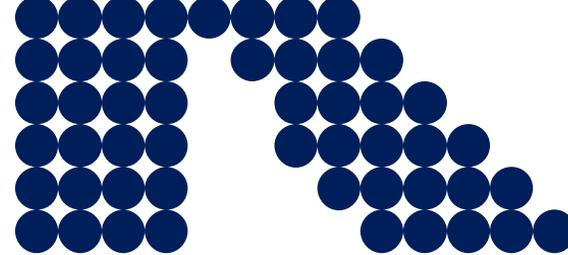


# Kesko Presentation February 2017

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Jukka Erlund



# Kesko 2016

- Net sales €10,180m
- Operating profit\* €273m
- ROCE\* 11.9%
- Personnel 28,000
- Shareholders 39,000
- Market capitalisation €4.6bn (Dec 31, 2016)

\* comparable



# K-Group Today

- K-Group's sales\* €13.2bn
- Personnel around 45,000
- Operations in nine countries
- Third biggest retail operator in Northern Europe
- 1,088 K-retailer entrepreneurs in Finland
- One of Finland's most significant employers and taxpayers

\*Pro forma



# Kesko Operates in Three Divisions

## Grocery trade



Sales €6.7bn\*

1,400 stores in Finland

#2 in the Finnish retail market

#1 in Finnish food service business

## Building and technical trade



Sales €5.6bn\*

700 stores in 9 countries

#1 in Northern Europe

\*Pro forma

## Car trade

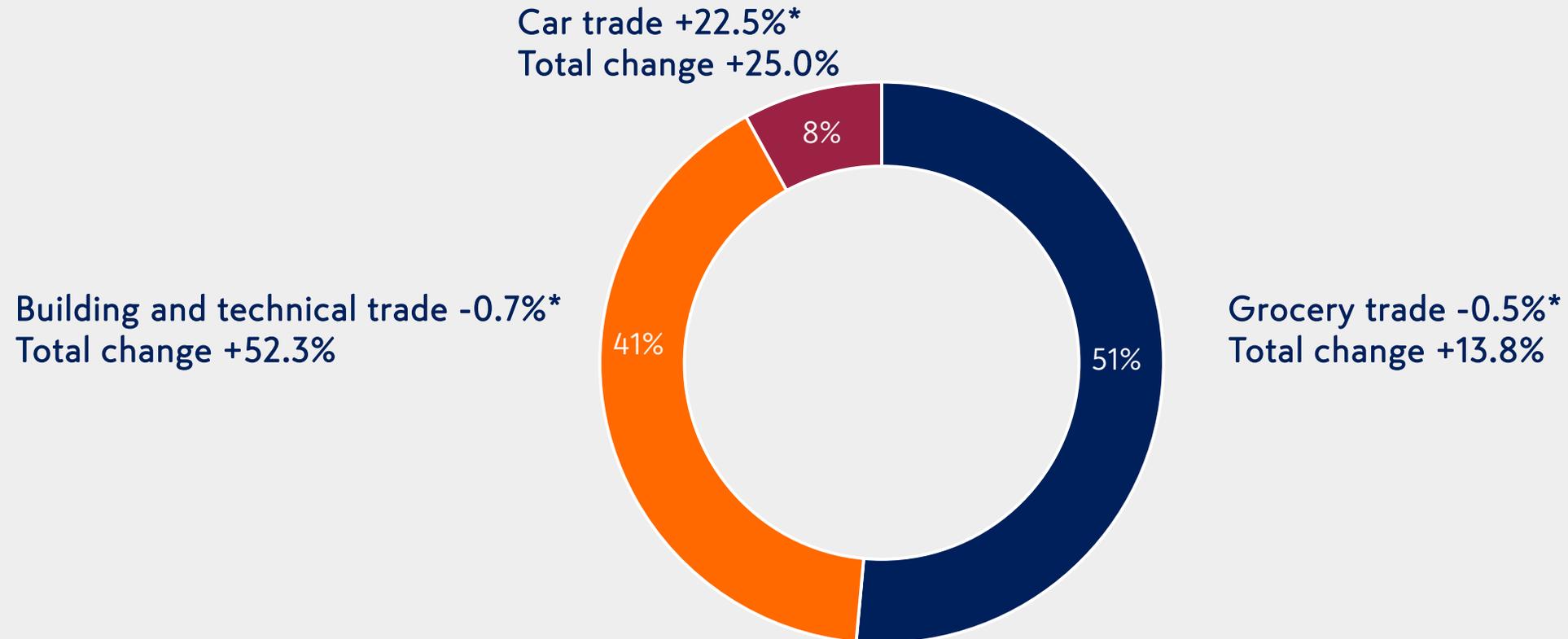


Sales €0.9bn\*

VW, Audi, Seat, Porsche and MAN trucks

#1 in Finland

# Q4/2016 Net Sales by Division



\*In local currencies excl. acquisitions

# Growth Strategy

- Growth of the grocery trade particularly in Finland
- Growth of the building and technical trade in Europe
- Growth of the car trade particularly in Finland

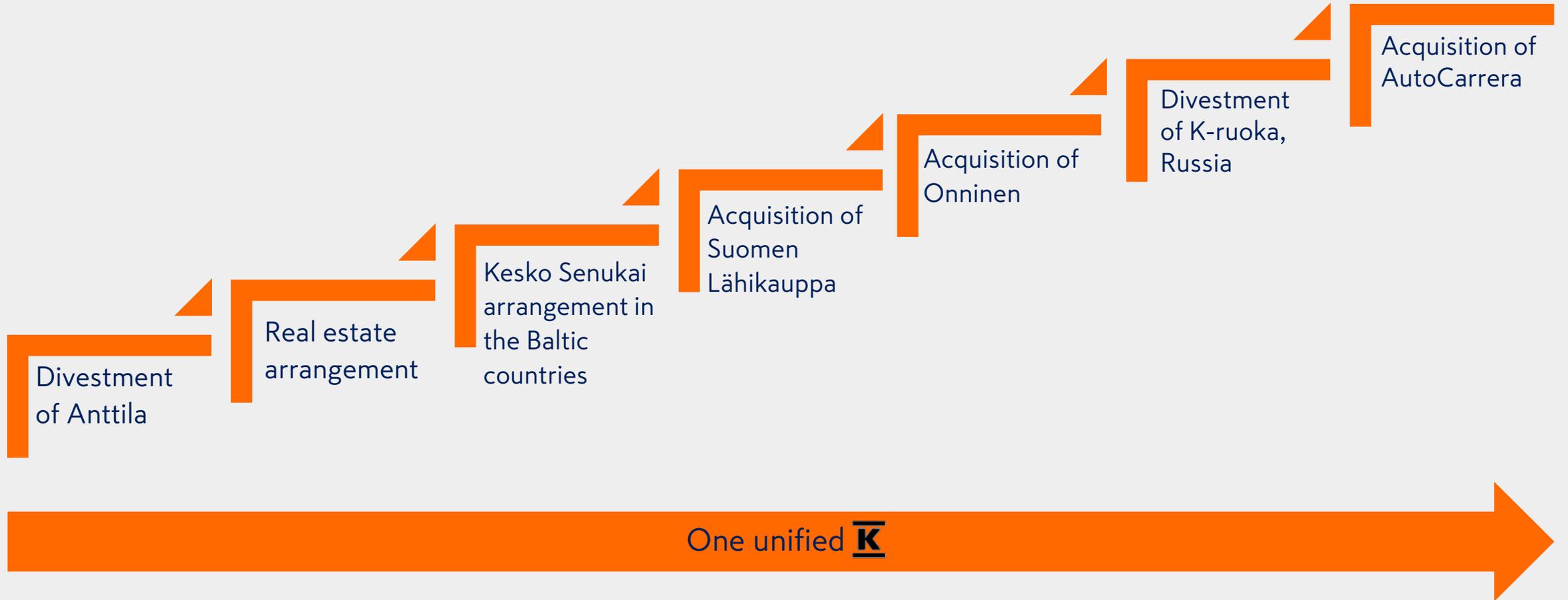


# Maximising Value Creation Also in Other Businesses

- Furniture trade (Finland and Estonia)
- Agricultural trade (Finland)
- Machinery trade (Finland and the Baltic countries)
- Sports trade (Finland)
- Shoe trade (Finland)
  
- Total revenue some €1bn
- Strong market shares and ROCE

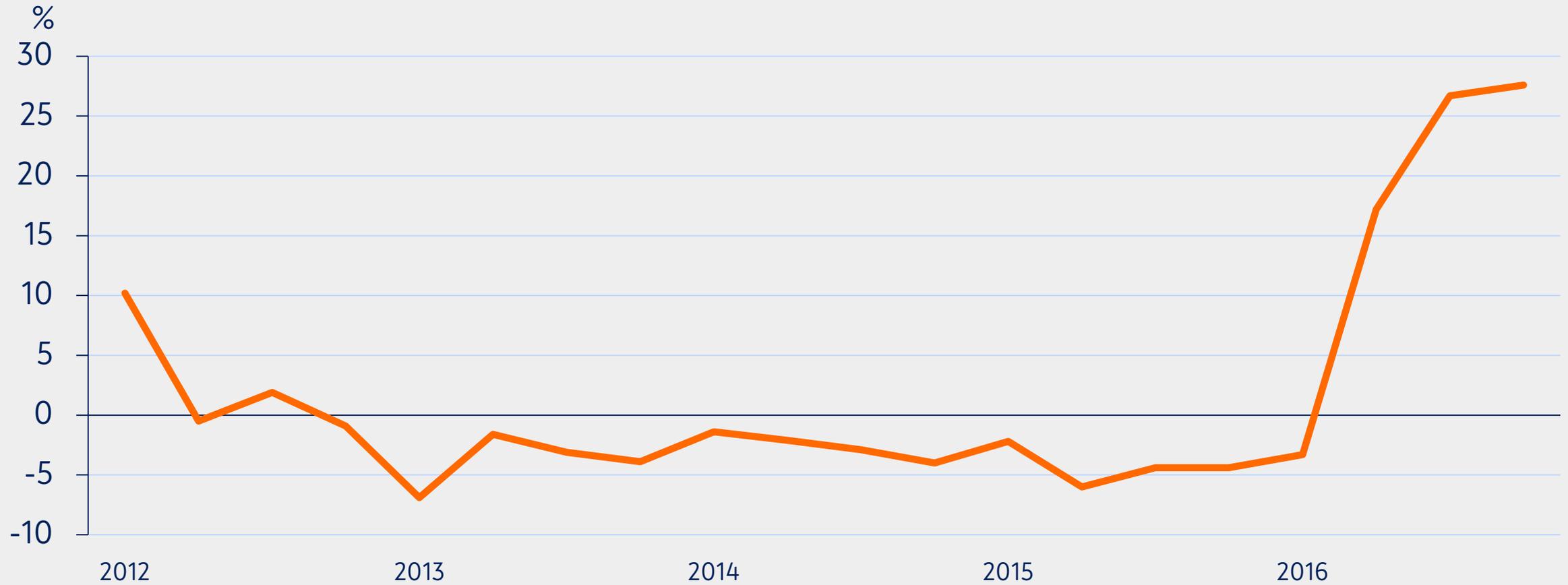


# Strategy Implementation is Progressing



# Net Sales on Strong Growth

Net sales performance, Y/Y





# Grocery Trade

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# Kesko's Grocery Trade

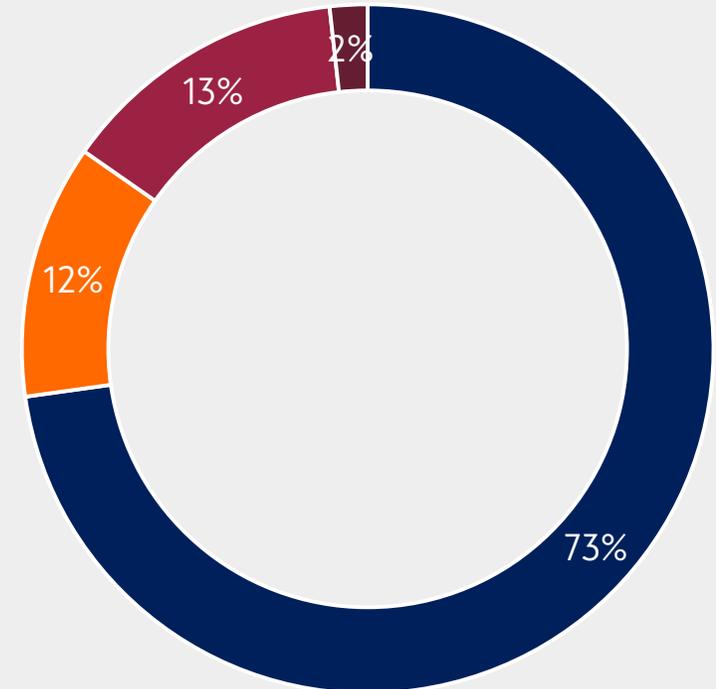
2016

Net sales	€5,236m
Operating profit*	€176m
Operating margin*	3.4%
ROCE*	21.3%

\* comparable

Total market €16.6bn in 2015

Net sales 2016



■ Finland ■ SLK ■ Kespro ■ Russia

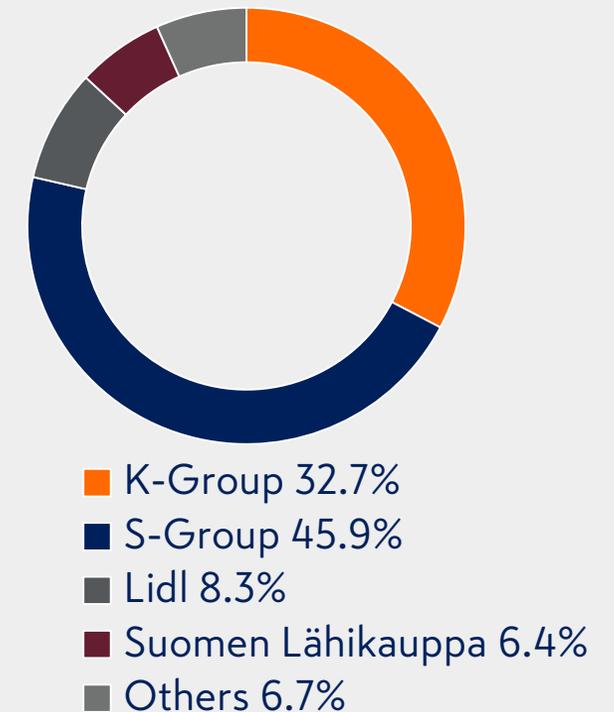
# Retail Stores

	Sales 2015 € million, VAT 0%	Number of stores at 31.12.2015	Concept
<b>K CITYMARKET</b>	1,505+575	81	Hypermarket
<b>K Supermarket</b>	1,716	219	Supermarket
<b>K Market</b>	1,189	476	Neighbourhood store
Siwa and Valintatalo stores	936	600	Neighbourhood store
Others	122	108	Incl. online store

# 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

Total market €16.6 billion in 2015



Source: Nielsen

# 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, brands and marketing
- Best digital services
- Staying as one of the most profitable retailers in Europe



# 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

# Kesko Has Sold Its Grocery Trade in Russia to Lenta

- On 30.11.2016, Kesko Food Russia Holding Oy sold its grocery trade business in Russia to Lenta Ltd
- Lenta is the largest hypermarket chain in Russia in terms of selling space and the country's fifth largest retail chain in terms of 2015 sales
- Aggregate consideration for the disposal was approximately RUB 11.4 billion (approximately €163m)
  - Kesko Corporation recorded a non-recurring expense of €69 million on the disposal
- Growth of grocery trade in Russia would have required significant capital expenditures
- The disposal included 11 food stores operating in the St. Petersburg and Leningradskiy regions, three land plots in the Moscow and Leningradskiy regions, as well as administrative and support functions



# Building and Technical Trade

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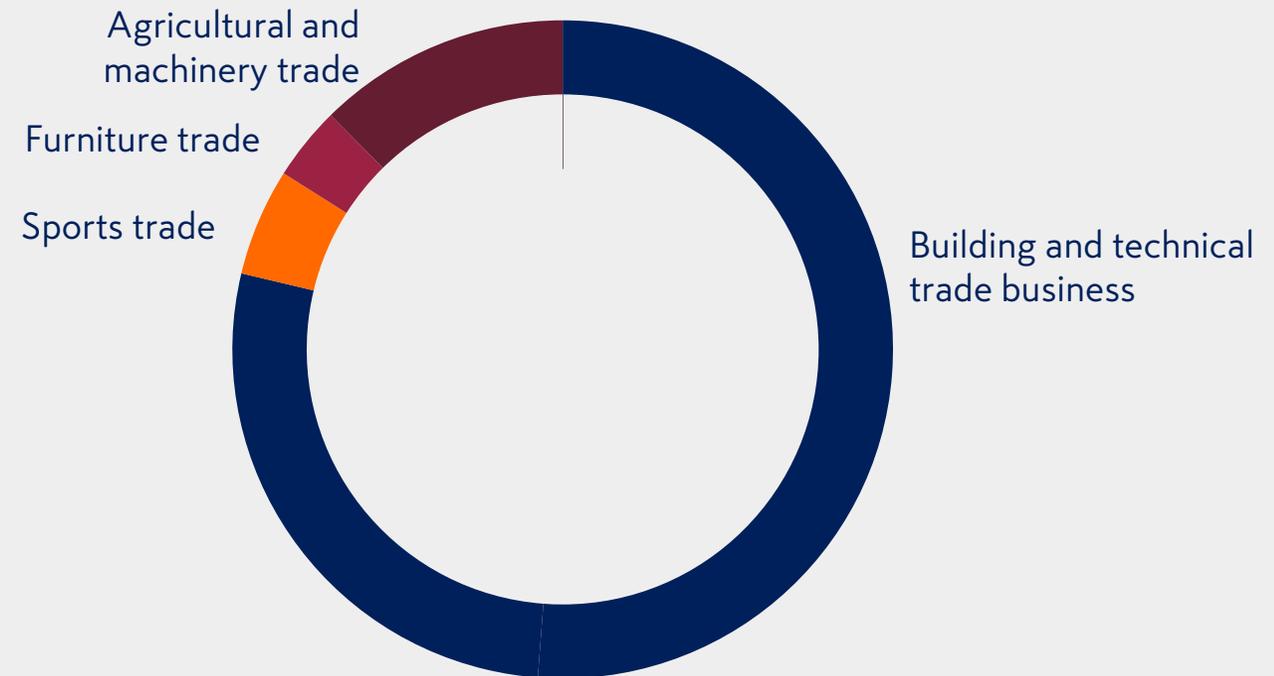
# Building and Technical Trade Division

2016

Net sales	€4,100m
Operating profit*	€98m
Operating margin*	2.4%
ROCE*	9.8%

\* comparable

Retail sales 2016 (pro forma)



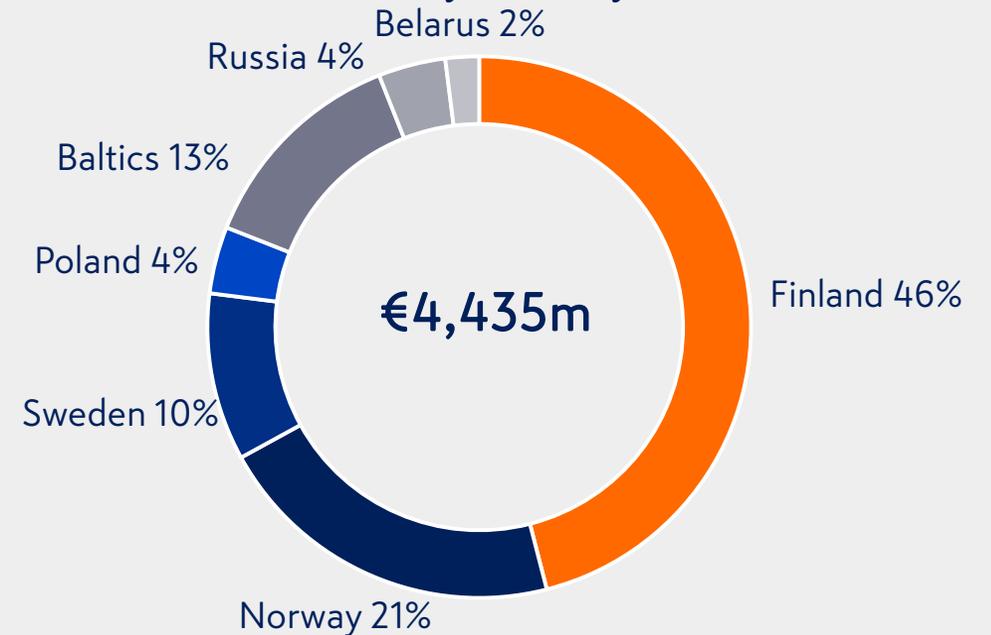
# Building and Technical Trade

Sales by customer segments



retail sales (pro forma),  
excl. speciality goods trade

Sales by country



retail sales (pro forma),  
excl. speciality goods trade

## B2B Customers

- Largest customer groups are contractors and construction companies, 80% of sales
- Building materials, HEPAC\* and electricals account for 75% of sales

\* HEPAC=heating, plumbing and air conditioning

## B2C Customers

- Renovators or builders with a DIY project
- Consumers with a need for a special DIY product
- Main product lines are building materials, home furnishing, decoration and tools

# Megatrends Drive B2B Growth

Building and renovation increasingly technical, regulation increases

Consumers increasingly often outsource building to professionals

Growing need for renovation building

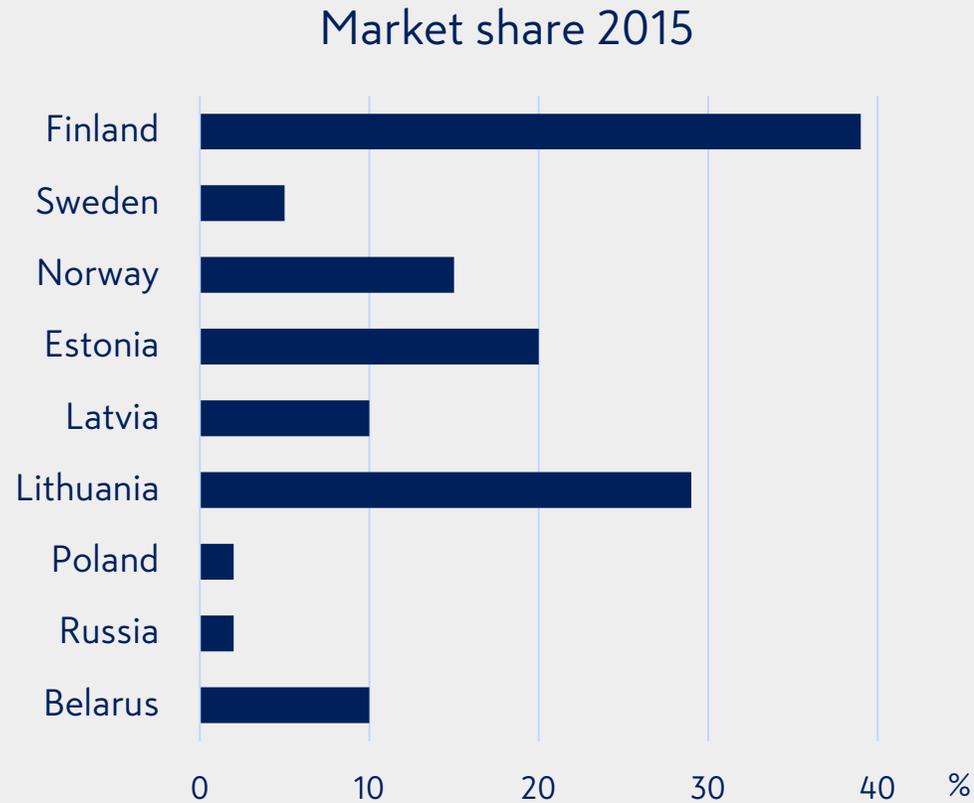
Rising standard of living and ageing of population increase the use of services

# Direction in Building and Technical Trade

- A unified building and technical trade – harvesting synergies
  - Better services and synergies from sourcing, logistics, store site network and ICT
  - Full annual impact of synergies from Onninen acquisition €30m from 2020
- Best digital services for all customer segments
- Profitability towards the level of the best European performers
- Prioritising profitability and organic growth
- The most natural growth areas are Nordic and Baltic countries



# Operations in 9 Countries



- K-rauta and Onninen clear #1 in Finland
- Sweden as the biggest market in Nordics offers promising growth opportunities
- Byggmakker #2 in Norway and Onninen strong in electricals
- Kesko Senukai #1 in Baltics and Belarus
- K-rauta has strong presence in St. Petersburg and Moscow
- Onninen well positioned in Poland



# Car Trade

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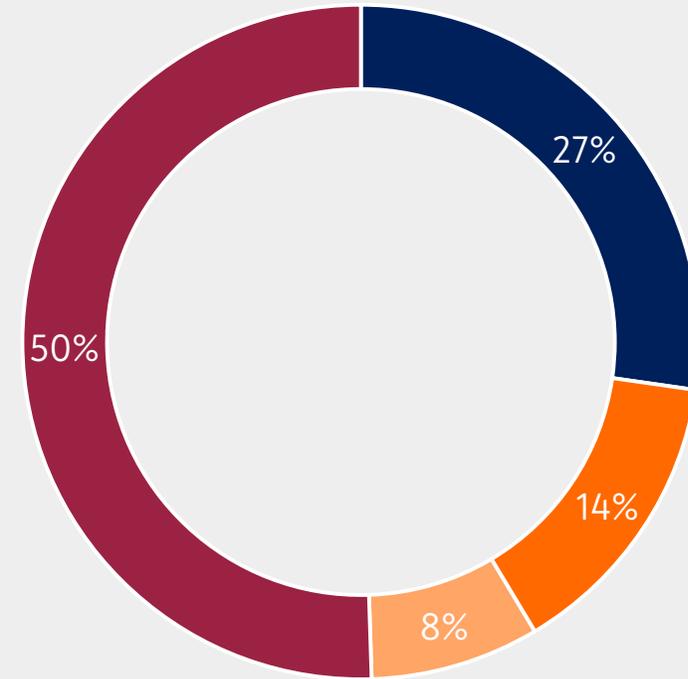


# Car Trade

2016

Net sales	€849m
Operating profit*	€29m
Operating margin*	3.5%
Return on capital employed*	23.8%

\* comparable



■ New car retailing

■ Used car retailing

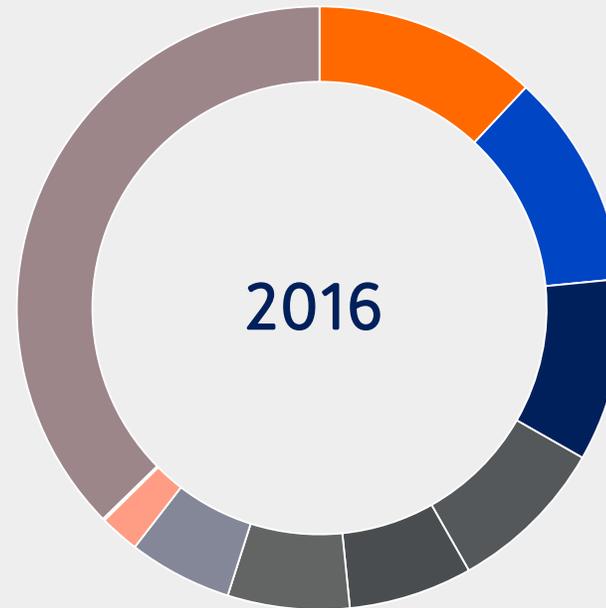
■ After sales retailing

■ Importing / sales to dealers

# Car Trade and Finnish Car Market

- New business opportunities in car industry
- Deepening cooperation with VW AG
- Kesko car trade market share app. 20%
  - High market share ensures well-performing after sales
- Profitable growth from used car sales, including e-commerce

First registrations, passenger cars  
1-12/16, market growth 9.3%



Volkswagen 11.2%

Toyota 10.8%

Skoda 9.2%

Ford 8.0%

Nissan 6.2%

Kia 6.1%

Audi 5.2%

Seat 2.0%

Porsche 0.1%

Others 35.0%

# Kesko has Completed the Acquisition AutoCarrera - Porsche Representation to VV-Auto

- On 14.11.2016 VV-Auto Group Oy signed an agreement to acquire Oy Autocarrera Ab, the company being responsible for importing and retailing Porsche in Finland
- 2015 net sales of the business being acquired were €49 million and the operating profit was €3.3 million
- The acquisition expands VV-Auto's cooperation with Volkswagen AG
- The addition of Porsche to the selection will increase sales and improve car trade profitability
- Acquisition price, structured as a share purchase, was €27 million
- The acquisition was completed on December 1, 2016



# Financials

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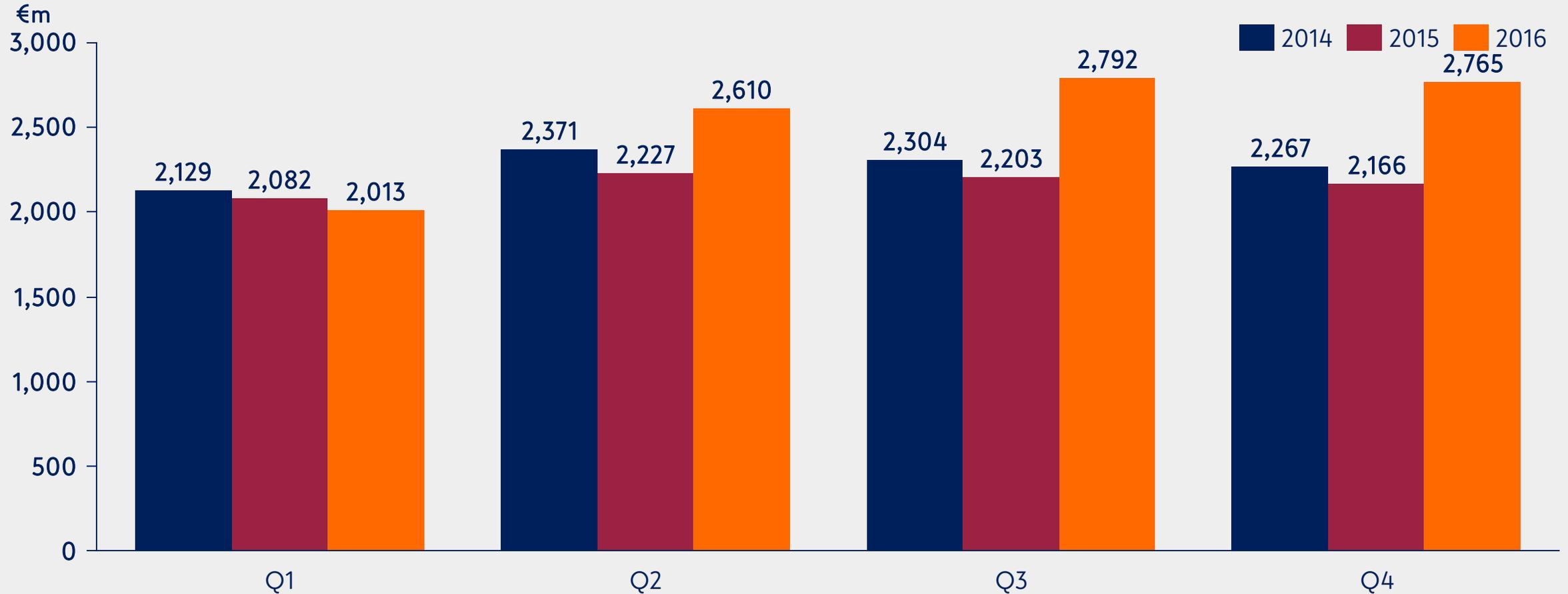
# Kesko Key Figures 2016

Net sales growth	+17.3%	
Operating profit*	€273m	
Operating margin %*	2.7%	
<hr/>		
Net debt / EBITDA*	0.4	target <2.5
Return on capital employed*	11.9%	14%
Return on equity*	9.8%	12%

\* comparable

# Net Sales by Quarter

Q4 growth 27.6%, in local currencies excl. acquisitions 1.2%



# Operating Margin – Targeting Further Growth

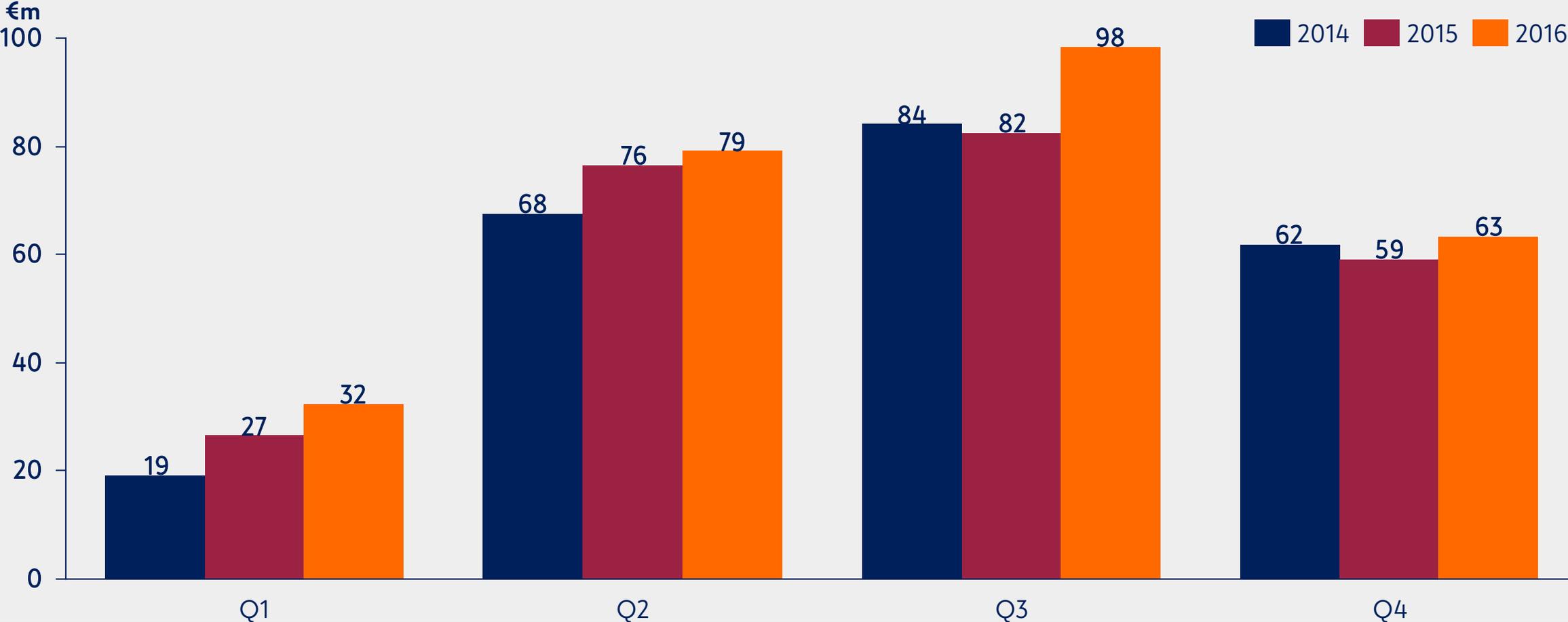


\* 2016 rolling 12 mo

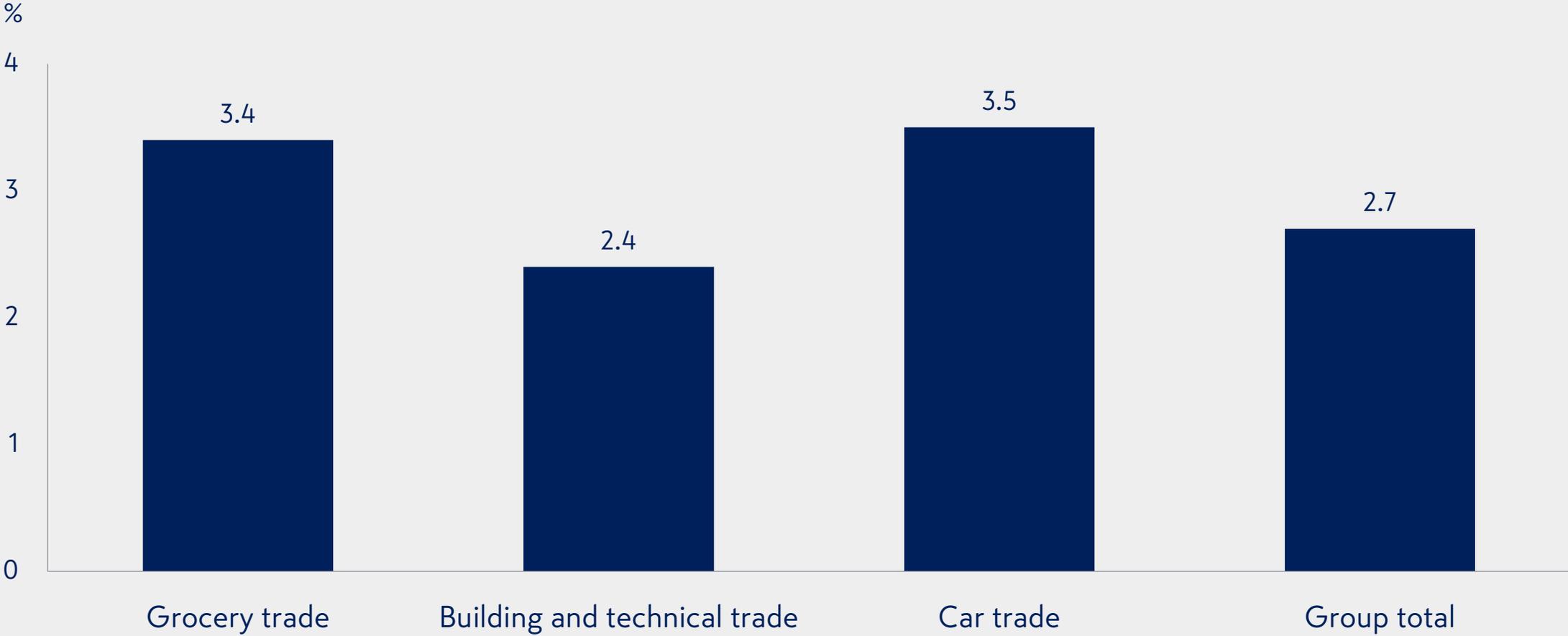


# Operating Profit

## Comparable, by quarter



# Operating Margin in Divisions – Potential for Further Growth

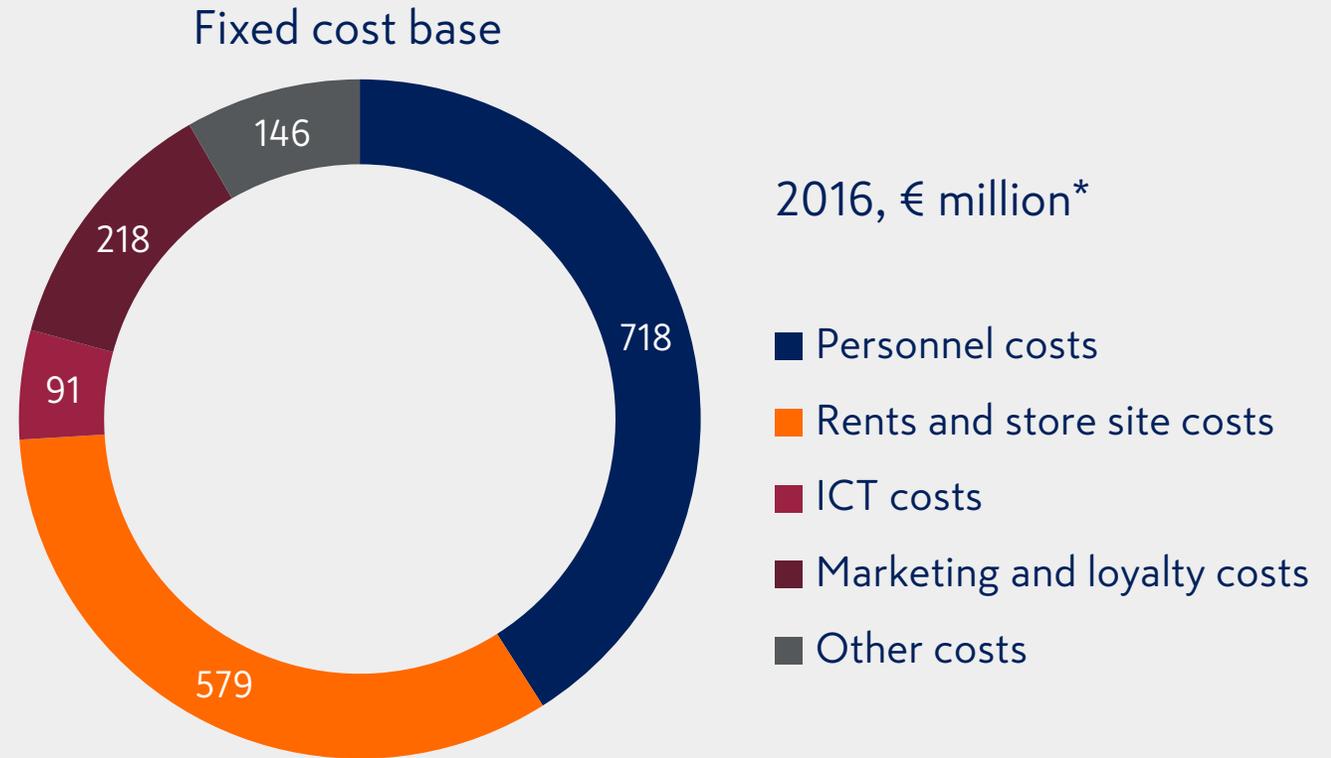


# Successfully Executed €50m Efficiency Program

## Main sources of the savings

- Personnel efficiency
- ICT costs
- Marketing costs
- Rents and store site costs

## Full impact 2017



Total €1,753 million

\* comparable

# Enhancing Cash Flow Generation

- Further growth in net sales and operating margin in strategic growth areas
- Synergy benefits
  - Suomen Lähikauppa progressed better than expected, full annual impact above €30m from 2018
  - Onninen progressed as expected, full annual impact of €30m from 2020
- Executing the €50m cost savings program
- Annual capex level below €200m after 2017 (excl. acquisitions)
  - In grocery trade less store site capex needs after 2017
  - Reduced capex per store need in building and technical trade
- Target to improve NWC efficiency by €50m
- Potential further business and real estate divestments

# Annual Capex Level Below €200m After 2017

(Excl. Acquisitions)



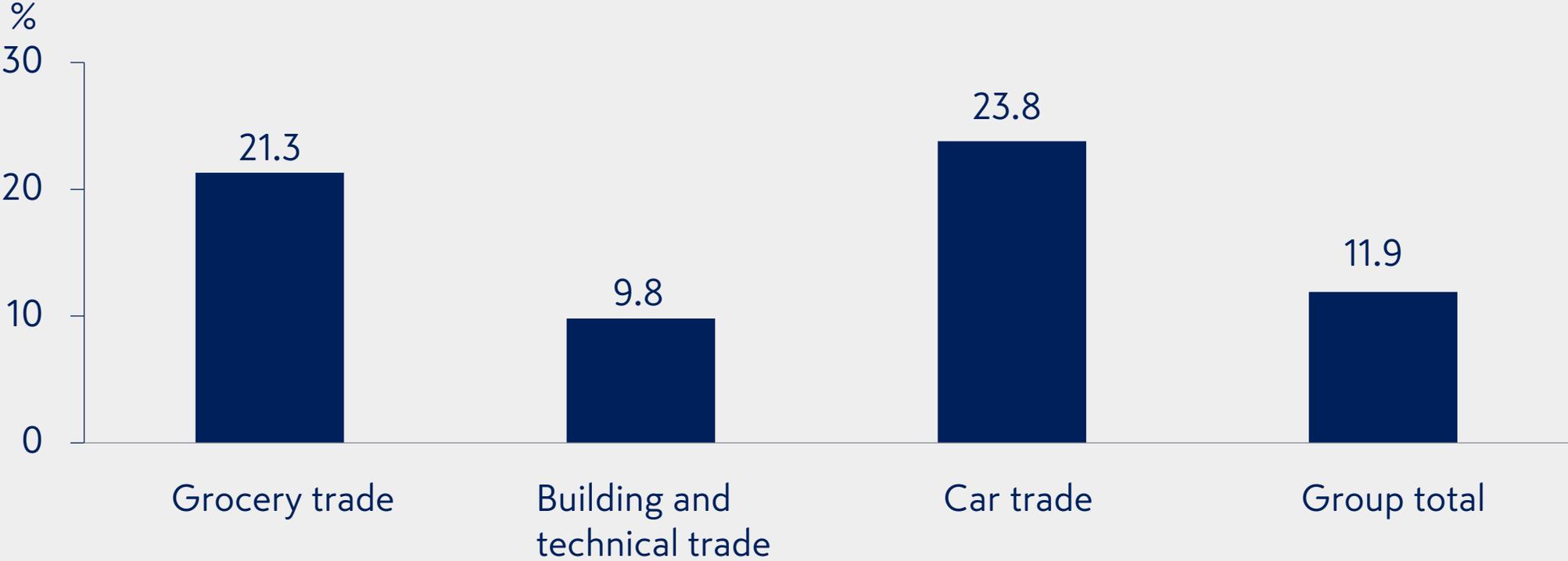
# Steady Growth in ROCE

comparable



# ROCE by Division

comparable



# Strong Financial Position

	31.12.2016	31.12.2015
Equity ratio, %	48.6	54.7
Liquid assets, €m	391	887
Interest-bearing net debt, €m	123	-448
Cash flow from operating activities, Q4, €m	108	123
Cash flow from investing activities, Q4, €m	76	-71

# Board's Dividend Proposal to 2017 AGM €2.00

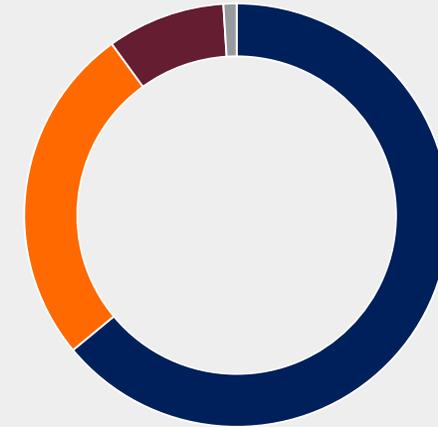


Kesko Corporation distributes at least 50% of its comparable earnings per share as dividends, taking however the company's financial position and operating strategy into account.

# Real Estate in 2015

Owned properties by country	Area, 1,000 m <sup>2</sup>
Finland	540
Other Nordic countries	66
Baltic countries and Belarus	109
Russia	191
<b>Total</b>	<b>906</b>
<b>Carrying amount</b>	<b>€1,107m</b>
<b>Leased properties total</b> 1,000 m <sup>2</sup>	<b>2,951</b>

## Classification



- Strategic properties 64%
- Standard properties 26%
- Development properties 9%
- Realisation properties 1%

# Shareholders 12/2016

	The largest registered shareholders by number of shares	Number of shares	%
1	K-retailers' Association	4,017,154	4.02
2	Vähittäiskaupan Takaus Oy	3,491,771	3.49
3	Kruunuvuoren Satama Oy	3,438,885	3.44
4	Ilmarinen Mutual Pension Insurance Company	1,990,632	1.99
5	Valluga-sijoitus Oy	1,340,439	1.34
6	Foundation for Vocational Training in the Retail Trade	1,147,164	1.15
7	Varma Mutual Pension Insurance Company	1,130,986	1.13
8	Oy The English Tearoom Ab	1,000,000	1.00
9	The State Pension Fund	950,000	0.95
10	Elo Pension Company	896,968	0.90

Foreign ownership of B shares 45%

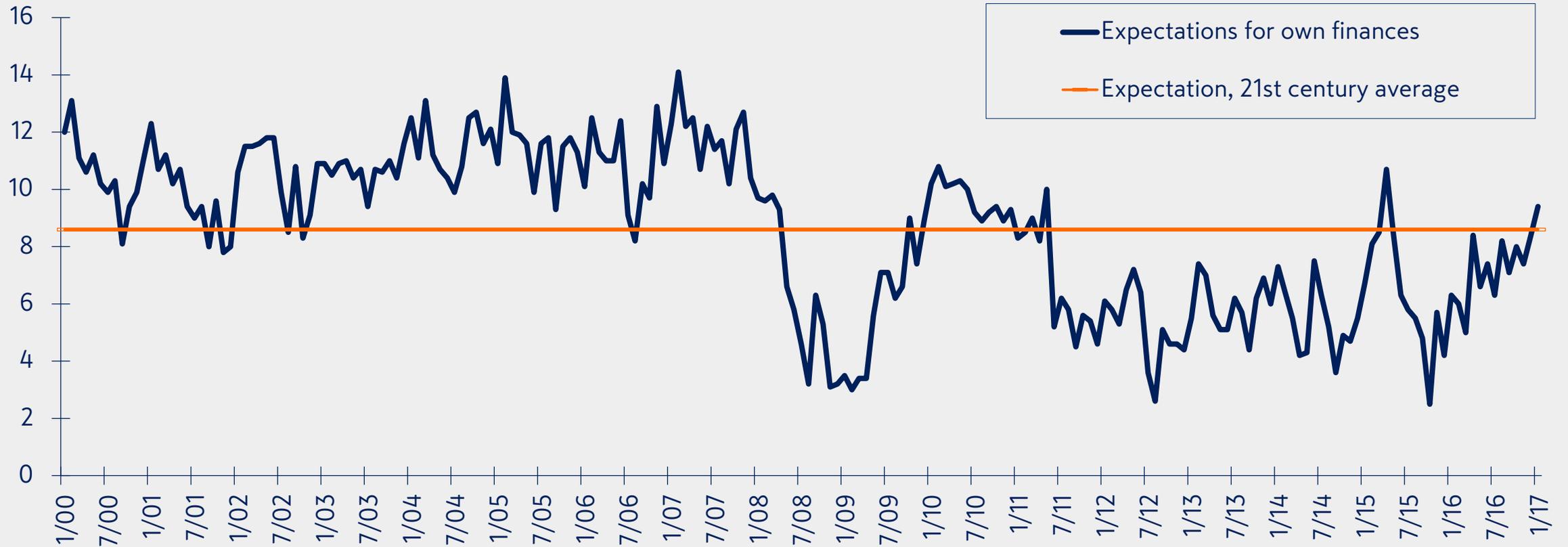


# Market Situation and Outlook

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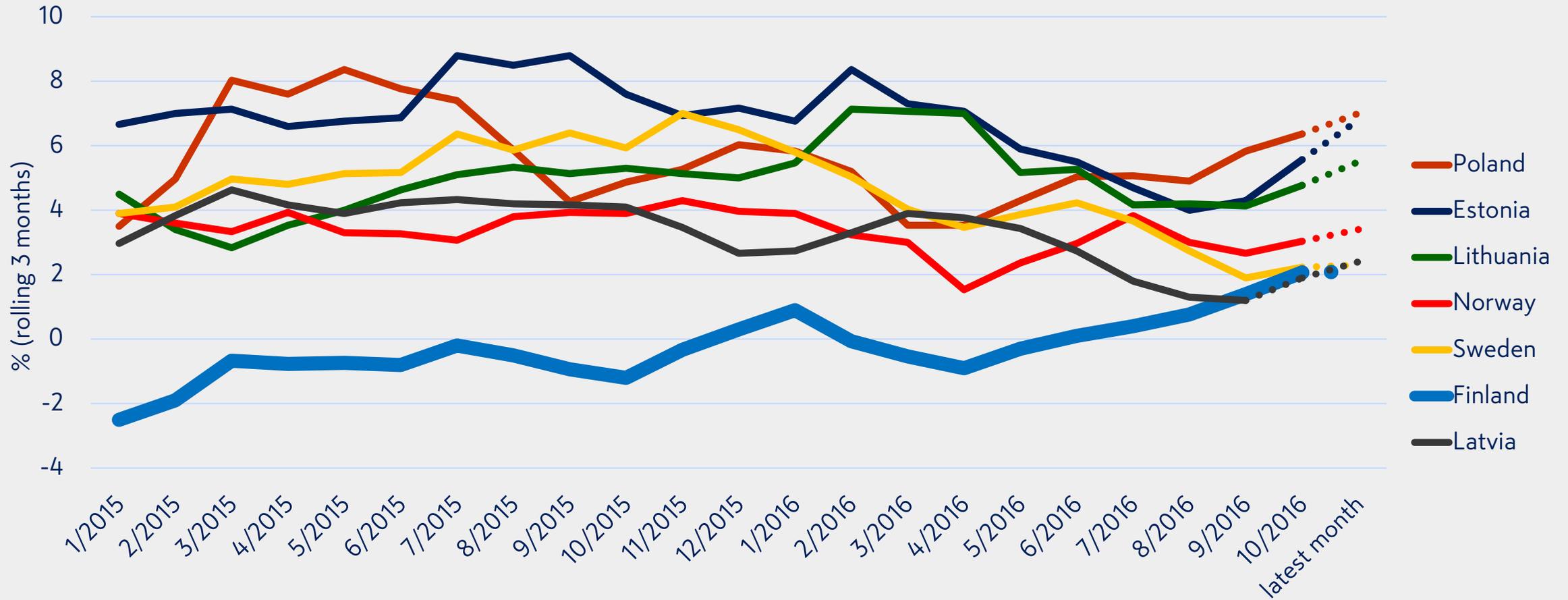
# Consumer Confidence in Finland



Source: Statistics Finland

# Retail Trade Trends in Operating Countries

rolling 3 mo



Source: Eurostat, excl. motor vehicles and fuels

# Seasonal Nature of Operations

- Owing to seasonal fluctuations, the net sales and the operating profits of the grocery trade and the building and technical trade vary significantly by quarter
- In terms of the operating profit level, the second and third quarter are strongest, whereas the impact of the first quarter on the full year profit is smallest
- The acquisitions of Suomen Lähikauppa and Onninen increase the seasonal fluctuations between the quarters
  - The operating profit levels of Onninen and Suomen Lähikauppa are lowest for the first quarter

# Outlook

Estimates for the outlook of Kesko Group's net sales and comparable operating profit are given for the 12-month period following the reporting period (1/2017-12/2017) in comparison with the 12 months preceding the end of the reporting period (1/2016-12/2016).

The general economic situation and the expected trend in consumer demand vary in Kesko's different operating countries. In Finland, the trading sector is expected to grow slightly. In the Finnish grocery trade, intense competition is expected to continue. The market for the Finnish building and technical trade is expected to improve slightly. In Sweden and Norway, the market is expected to grow but at a somewhat slower rate. The trend in the Russian market is expected to remain modest. In the Baltic countries, the market is expected to grow.

Kesko Group's net sales for 2017 are expected to exceed the level of the previous year. The comparable operating profit for 2017 is expected to exceed the level of 2016.



# The World's Most Sustainable Retail Operator

Davos, January 2015, 2016 and 2017:  
'The Global 100 Most Sustainable Corporations in the World' list.

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# Kesko Is the Most Responsible Food and Staples Retailer in the World

- In 2015, Kesko was in CDP's Climate A List for the first time
- At the top of the Nordic Climate Disclosure Leadership climate index since 2011. In 2015, Kesko was awarded the full 100 points
- In 'The Global 100 Most Sustainable Corporations in the World' list since 2005
- Included in the FTSE4Good index since 2009
- Included in the STOXX Global ESG Leaders index family since 2011
- Included in the Dow Jones sustainability indexes DJSI World and DJSI Europe 2003-2014

Financial Statements  
Release 2016  
2 February 2017

K

# Kesko's Year of Renewal 2016

- Net sales turned to significant growth and profitability improved
- Grocery trade strategy progressed strongly
  - Reform of K-Market and K-Citymarket chains
  - Over 400 stores to the K-Group from the acquisition of Suomen Lähikauppa
- New building and technical trade division
  - Acquisition of Onninen significantly strengthened competitiveness in B2B trade
  - Strong growth strategy of new Kesko Senukai in the Baltics
- Significant progress in digital services: food ecommerce, K-ruoka app, K-rauta.fi, Caara.fi, digitalised Plussa, etc.

# Key Performance Indicators 2016

	2016	2015
Net sales, €m	10,180	8,679
Net sales growth, %	+17.3	-4.3
Operating profit*, €m	272.9	244.5
Operating margin*, %	2.7	2.8
Profit before tax*, €m	271.4	237.9
Earnings / share*, €	2.01	1.70
Return on capital employed*, %	11.9	11.7
Return on equity*, %	9.8	8.2

\*Comparable



Q4/2016

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# Key Q4 Highlights

- Growth of net sales and comparable operating profit continued
- Reform of K-Market and K-Citymarket chains strengthened sales growth
- Sale of Russian grocery trade was completed in November
- Market share of the building and technical trade continued to grow
- In the car trade, sales increased and profitability improved markedly
- Acquisition of AutoCarrera was completed – Finnish Porsche business to Kesko



# Grocery Trade

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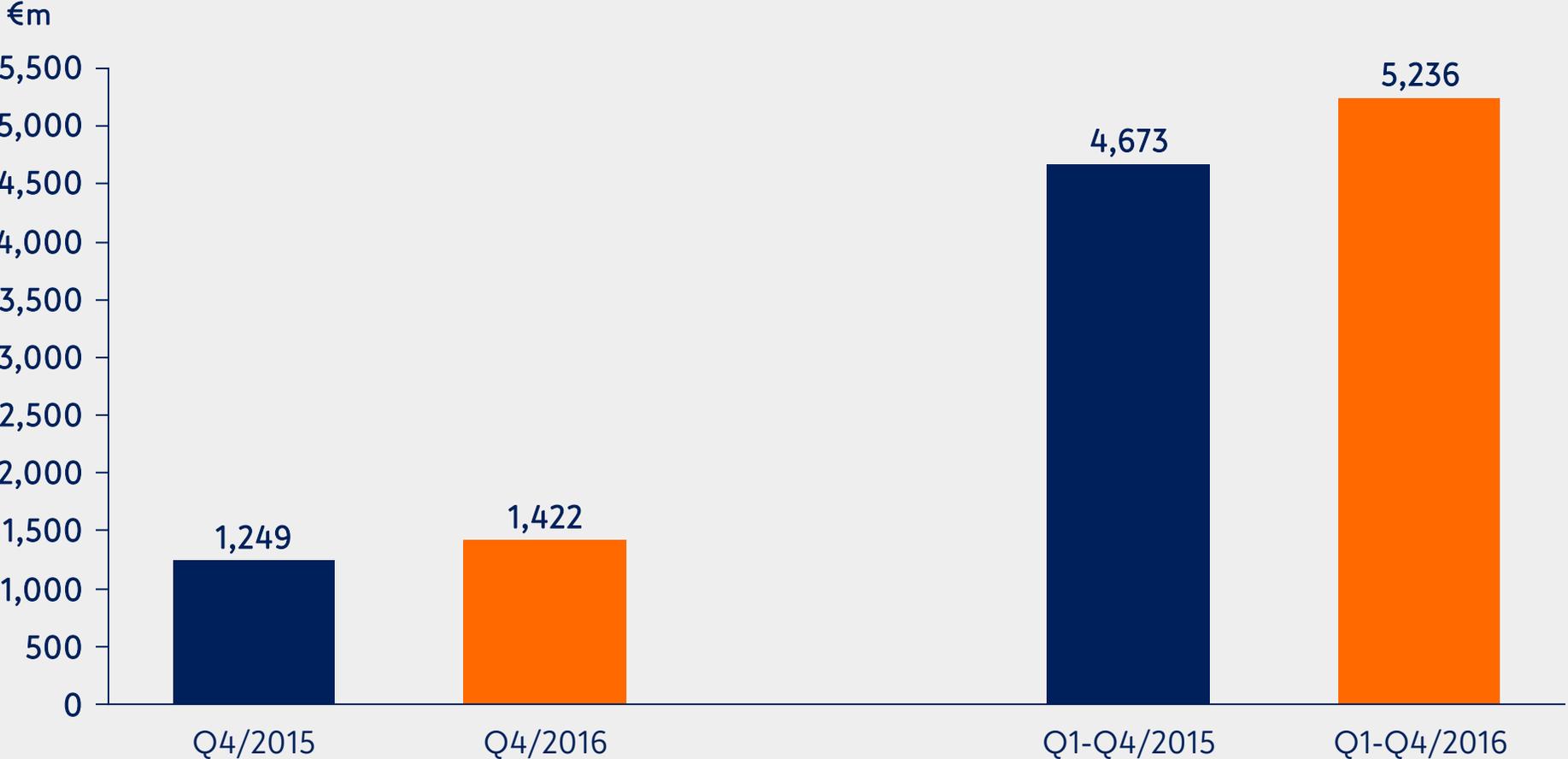
# Grocery Trade in Q4

- K-Group's grocery sales +16.0%, in comparable terms excluding Suomen Lähikauppa +1.3%
- Profitability at a good level due to retail sales growth, enhancement actions and synergies
- Grocery market price change -0.2%
- By now, 283 Siwas and Valintatalos converted into K-Markets
  - Sales +13% compared to pre-conversion performance
- Food trade business operations in Russia were sold

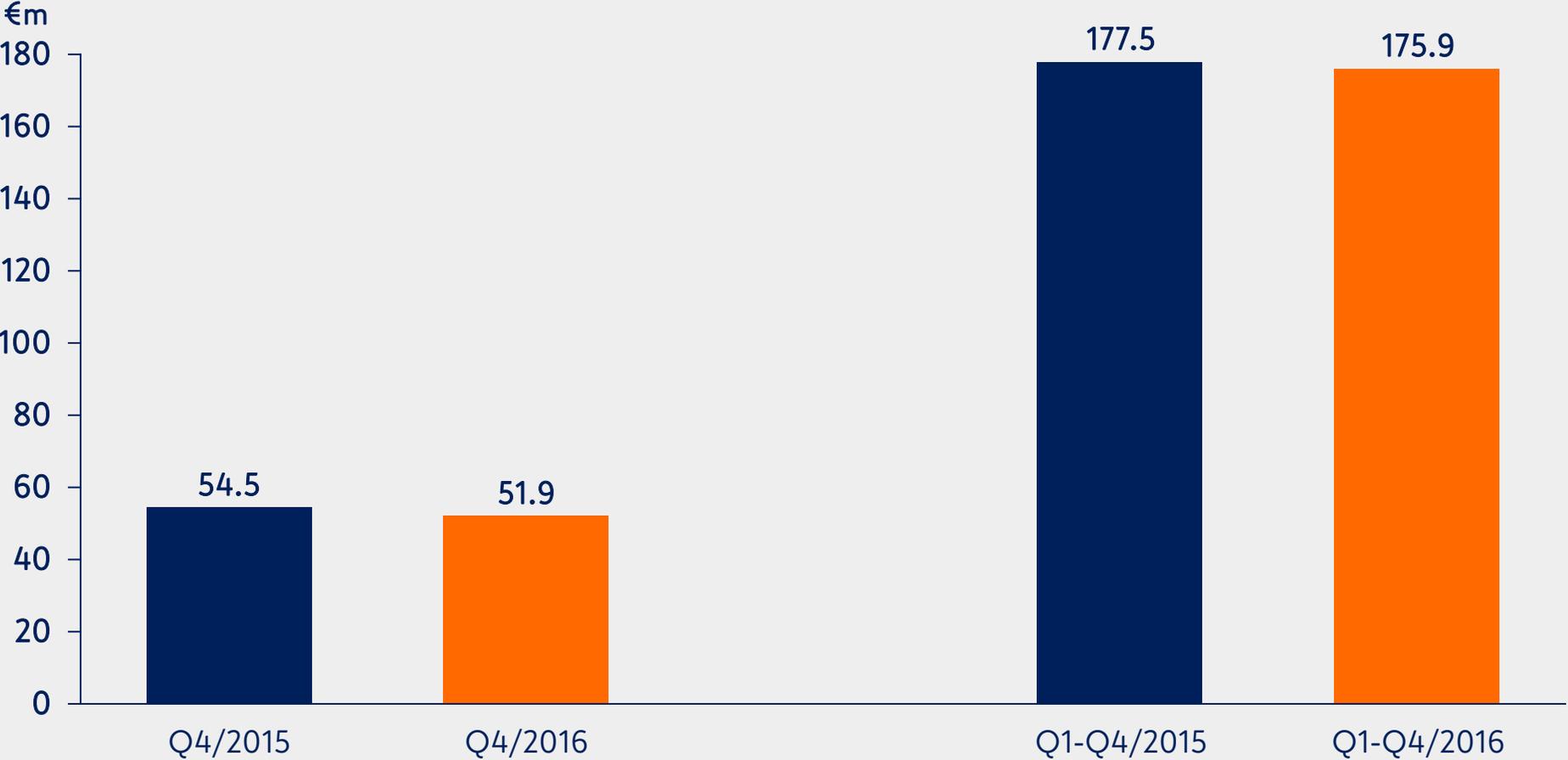


# Net Sales

## Q4 Growth 13.8%



# Operating Profit Comparable



# K-Food Stores' Market Position Strengthened

- Over 400 Siwas and Valintatalos of Suomen Lähikauppa will be converted into K-Markets by spring 2017
- Significant changes in the Siwa and Valintatalo store network in 2016 vs. 2015
  - Around 100 fewer Siwas and Valintatalos
  - Impact of liberalised opening hours and clearance sales in conversions
- Market share of the K-Group's grocery trade is estimated at 37-38%





# Building and Technical Trade

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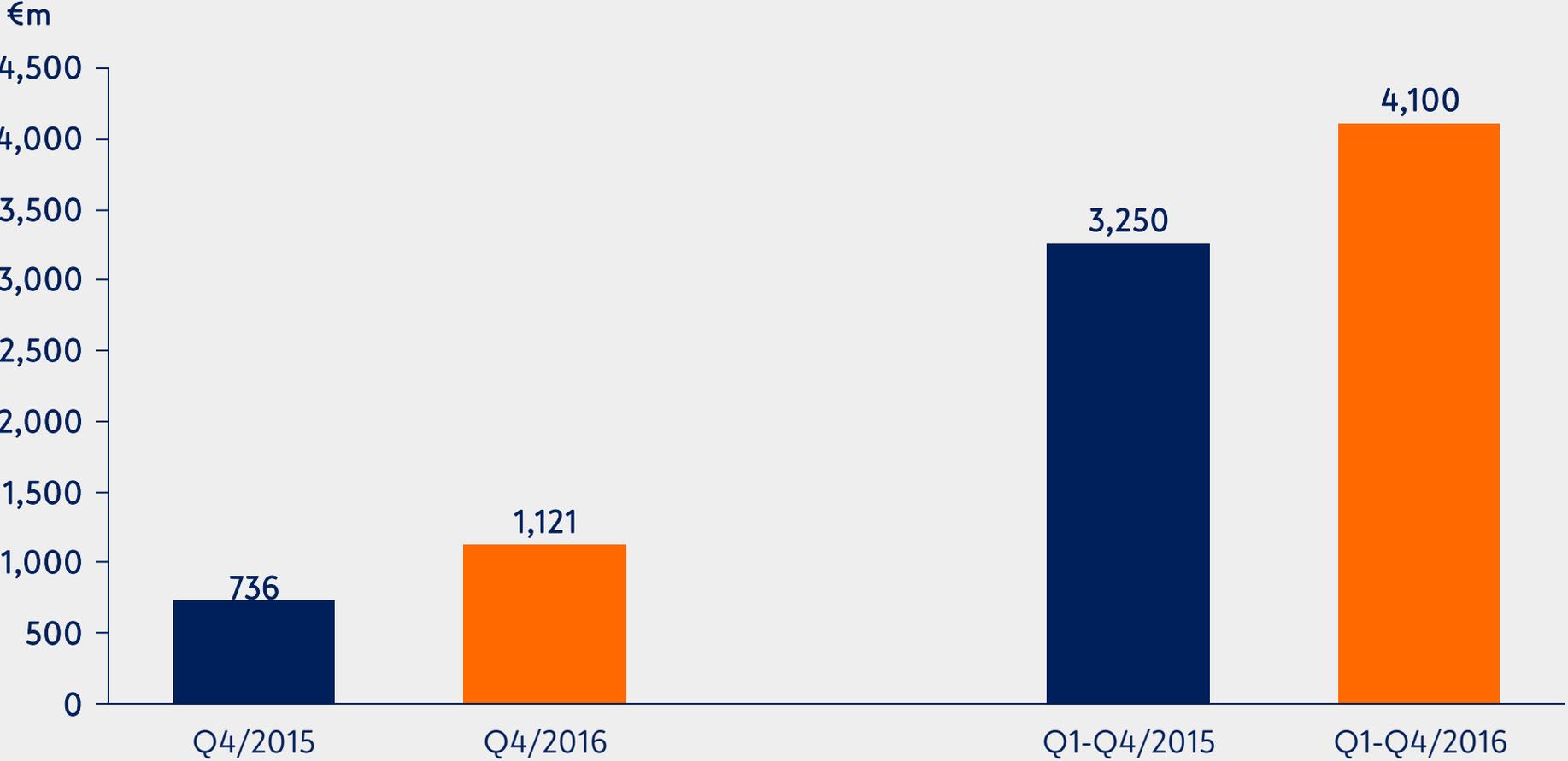
# Building and Technical Trade in Q4

- Net sales growth 52.3%, in local currencies, excluding Onninen -0.7%
- Market share of Kesko's building and technical trade continued to strengthen especially in Finland
- Strong sales growth continued in B2B trade
- Full-year operating result of Swedish building and home improvement stores slightly positive
- Good profit performance in speciality goods trade
- In Finland, combination of K-rauta and Rautia into new K-Rauta

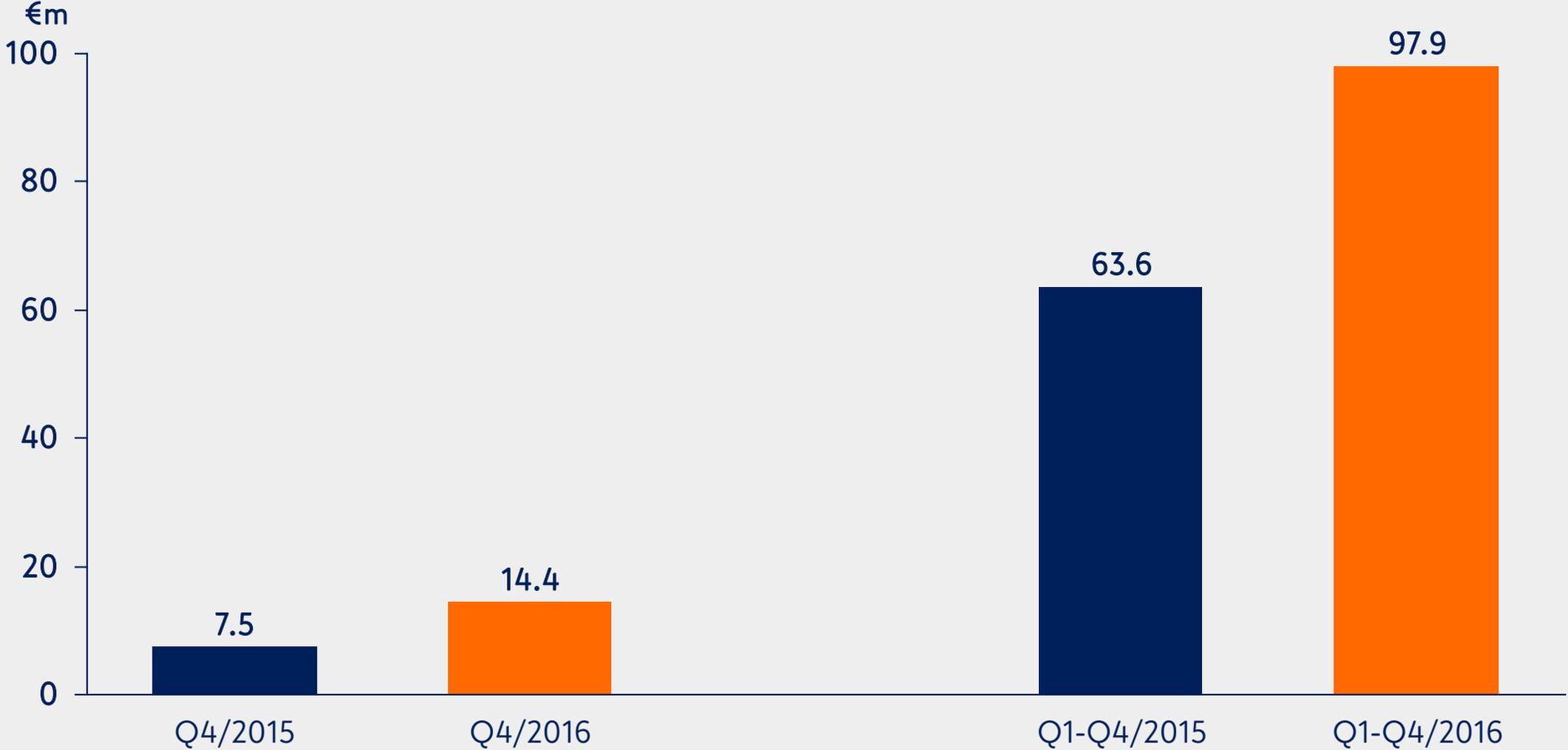


# Net Sales

## Q4 Growth 52.3%



# Operating Profit Comparable





# Car Trade

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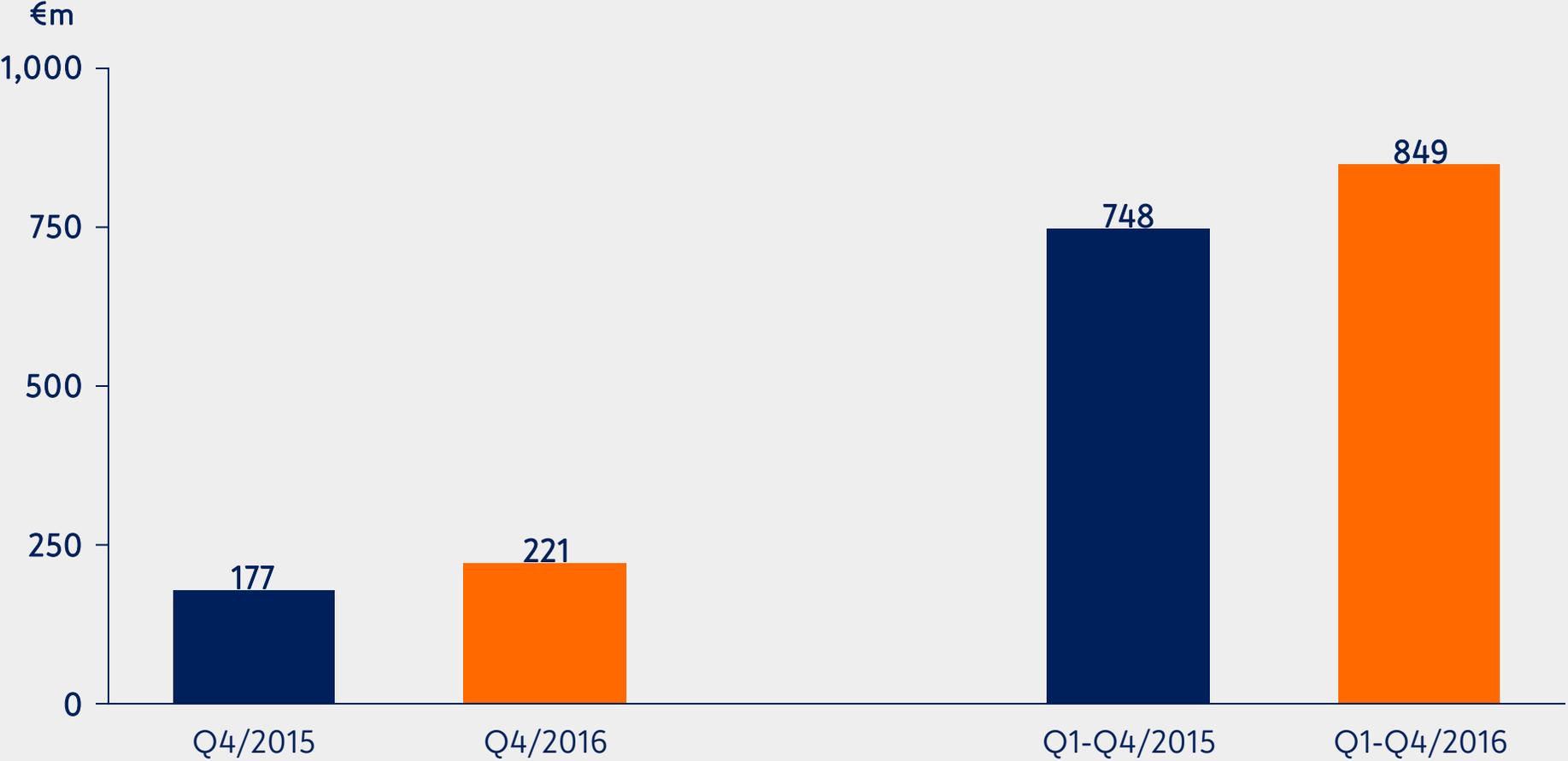
# Car Trade in Q4

- Net sales growth of the car trade 25.0%. Total car trade market increased markedly
- Profitability is growing strongly, operating profit €7.5m
- In 2016, first registrations of Volkswagen passenger cars were up by 2.6%, Audi by 12.7% and Seat by 36.4%
- Used car trade increased by 33.5%. New Caara.fi online store has got off to a strong start
- Order books were up 4%
- Porsche import and retailing transferred to Kesko

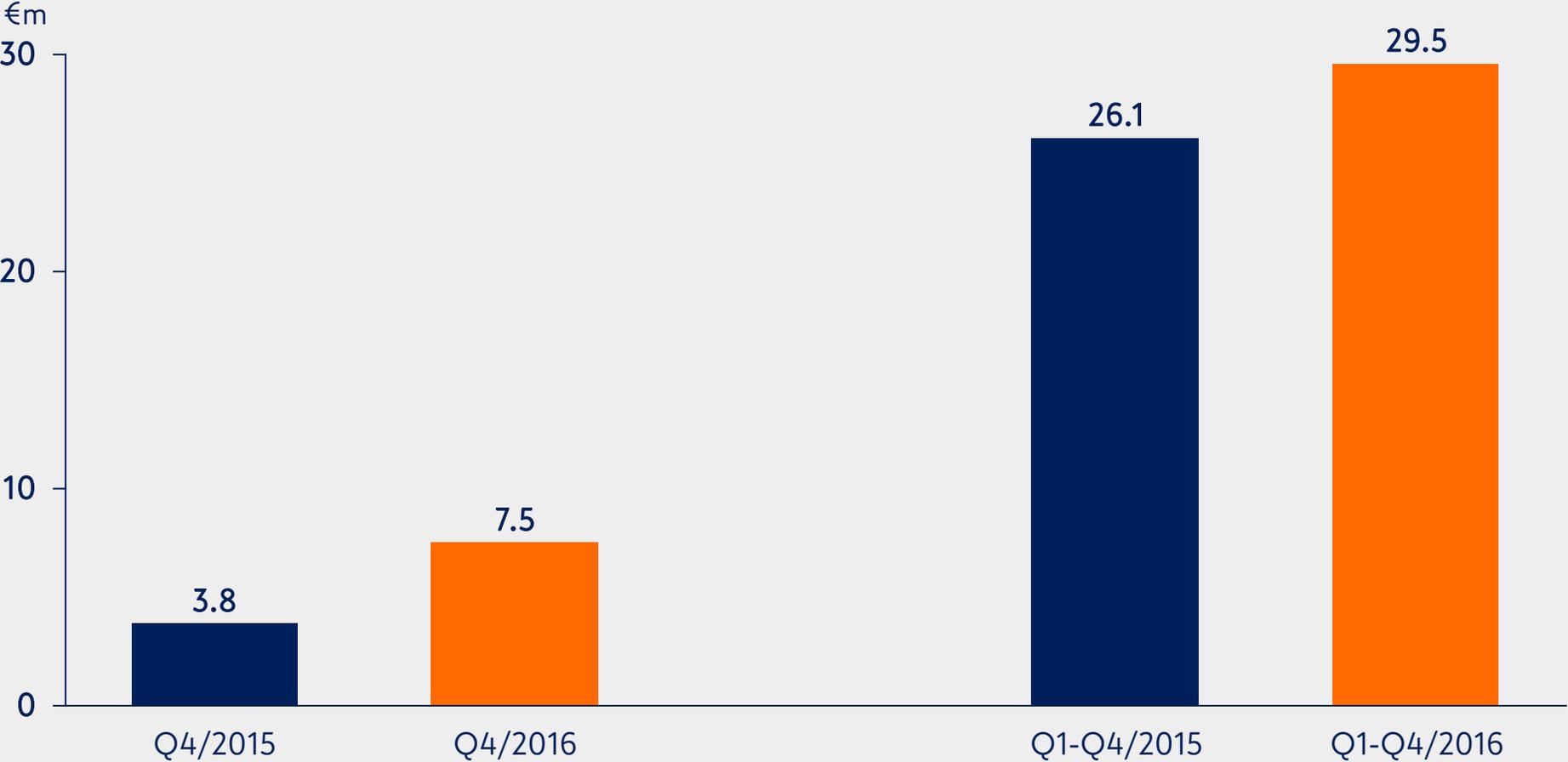


# Net Sales

Q4 Growth +25.0%



# Operating Profit Comparable



# K-Group's Renewal Continues

- K-Group continues to become more focused: the grocery trade, the building and technical trade and the car trade
- Improvement of customer experience in stores and digital channels
- Quality leader in the Finnish grocery trade
- K-Group as one of the leading operators in the European building and technical trade
- Leading brands and services in the car trade



# Contact information

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[Twitter.com/Kesko\\_IR](https://twitter.com/Kesko_IR)



For shopping  
to be fun