

Kesko's Strong Transformation Continues

Investor Presentation May 2018 | CFO Jukka Erlund



K Group Today



Biggest retailer in Finland, **3rd biggest** retailer in **Northern Europe**



Retail sales of nearly **€13 billion**



Personnel **42,000**



Taxes paid and remitted **€1.2 billion**



Purchases from Finnish industry **some €4.5 billion**



World's most sustainable trading sector company

Growth Opportunities Supported by Megatrends



Globalisation – international operators challenge local companies

Digitalisation

Urbanisation, single-person households, ageing population

Increased consumer knowledge and power

Sustainability and strong brands

Climate change

Strategic Transformation Sets Foundation for Growth

Transforming K

Strategic focus areas

Profitable growth

Tighter focus

Quality and customer orientation

Best digital services

One unified K

Cornerstones of our strategy for divisions



Grocery trade
51%*

- Most customer-oriented and inspiring food stores
- Most extensive and comprehensive food store network in Finland
- Best digital solutions and online store in the trading sector
- Developing retailer entrepreneurship
- Growing Kespro's business

Value

The customer and quality
– in everything we do



Building and technical trade
40%*

- Profitable growth in selected countries and customer segments
- New customer-focused organisation
- Best digital services for B2B and B2C customers
- Utilising synergy potential

Vision

We are the customers' preferred choice and the quality leader in the European trading sector



Car trade
9%*

- Growing the business in collaboration with Volkswagen Group
- Expanding the service business independent of principals
- Developing a multichannel customer experience

Mission

We create welfare responsibly for all our stakeholders and for the whole society

Growth Strategy Implementation is Progressing towards More Focused Business Portfolio

The core of Kesko's strategy is profitable growth in three strategic areas: the grocery trade, the building and technical trade, and the car trade. The implementation of the growth strategy has proceeded robustly thanks to significant acquisitions and divestments.



Investments in core business operations €1.3 bn, divestments €1.0 bn

Main Financial Targets

	2015	2016	2017	Roll. 12 mo, Q1/18	Target level
Return on Capital Employed, %	11.7	11.9	12.2	13.5	14.0
Return on Equity, %	8.2	9.8	10.9	10.9	12.0
Interest-bearing net debt / EBITDA, rolling 12 months	-1.4	0.4	0.3	-0.1	<2.5

Kesko's dividend policy:

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

A dividend of €2.20 per share was paid for 2017, representing a 96.6% payout ratio.

Comparable figures

Group Management Board



Mikko Helander
President and
CEO



Jorma Rauhala
Deputy to
President and
CEO,
President of the
building and
technical trade
division



Ari Akseli
President of
the grocery trade
division



Johan Friman
President of the
car trade division



Jukka Erlund
EVP,
Chief Financial
Officer



Matti Mettälä
EVP, HR,
Corporate
Responsibility
and Regional
Relations



Mika Majoinen
Group General
Counsel



Anni Ronkainen
EVP,
Chief Digital
Officer

Highlights Q1/2018

Net sales +3.4%, operating profit +27%
and return on capital employed 13.5%

Excellent quarter for the grocery trade

Building and technical trade performed as
planned, operations in Russia divested

Continued strong performance in the car trade

Comparable figures, continuing operations



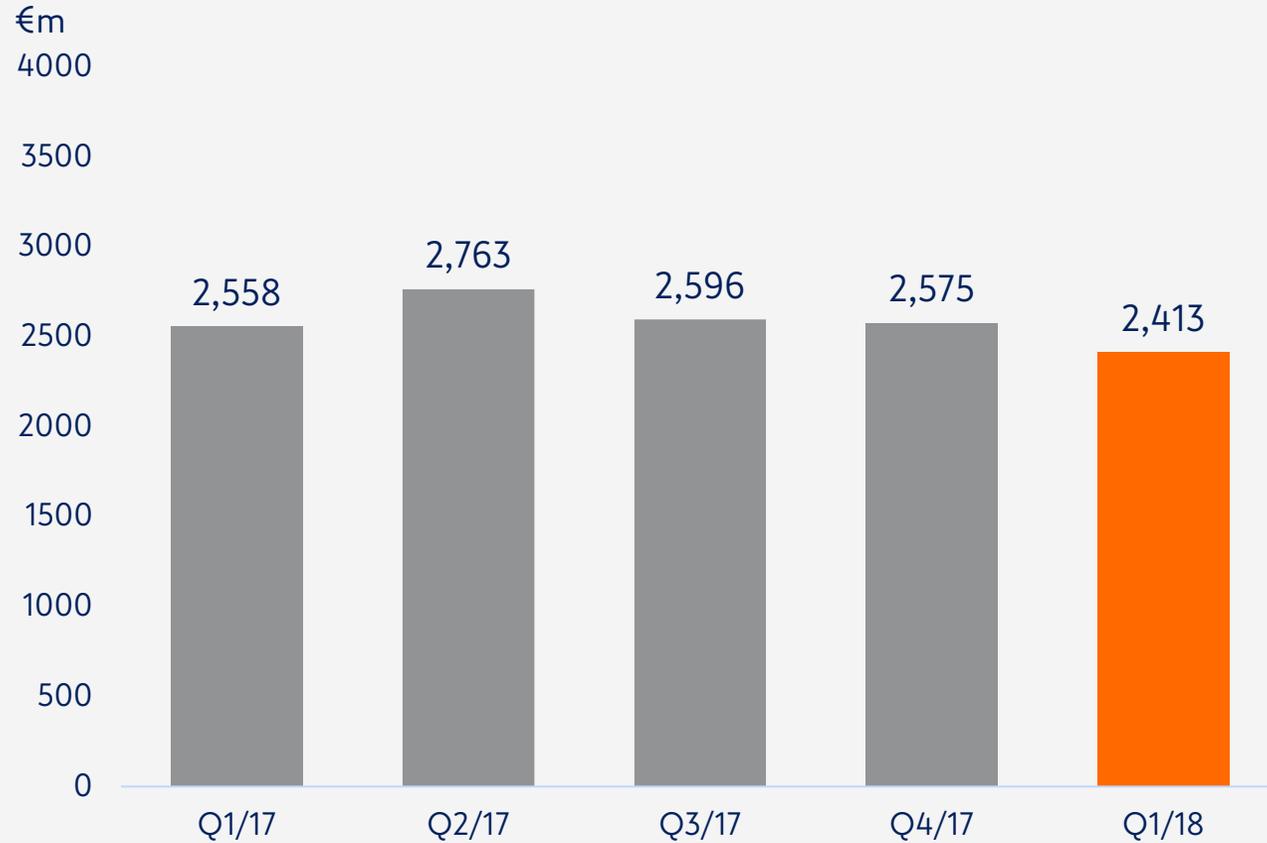
Growth in Net Sales and Operating Profit

	31.3.2018	31.3.2017
Net sales, € million	2,413	2,558
Net sales growth, %	+3.4%	+2.4%
Operating profit, € million	40.0	31.5
Operating profit, %	1.7%	1.2%
Profit before tax, € million	39.9	36.3
Earnings per share	0.35	0.31
Return on capital employed, rolling 12 months, %	13.5%	12.3%
Return on equity, rolling 12 months, Group, %	10.9%	9.6%

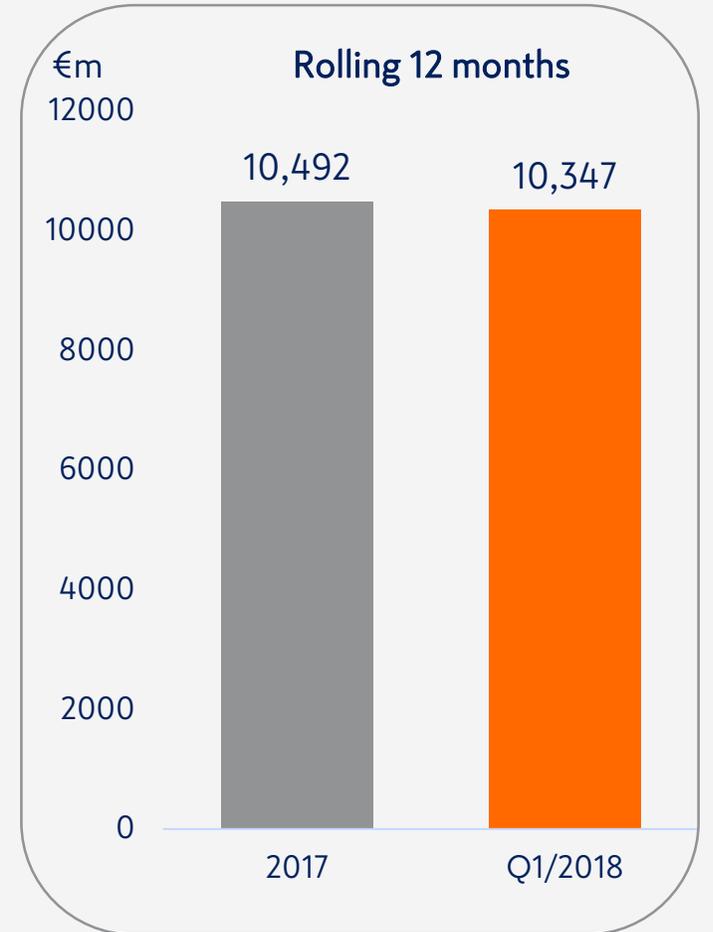
Comparable figures, continuing operations

Net Sales

Q1 comparable growth 3.4%

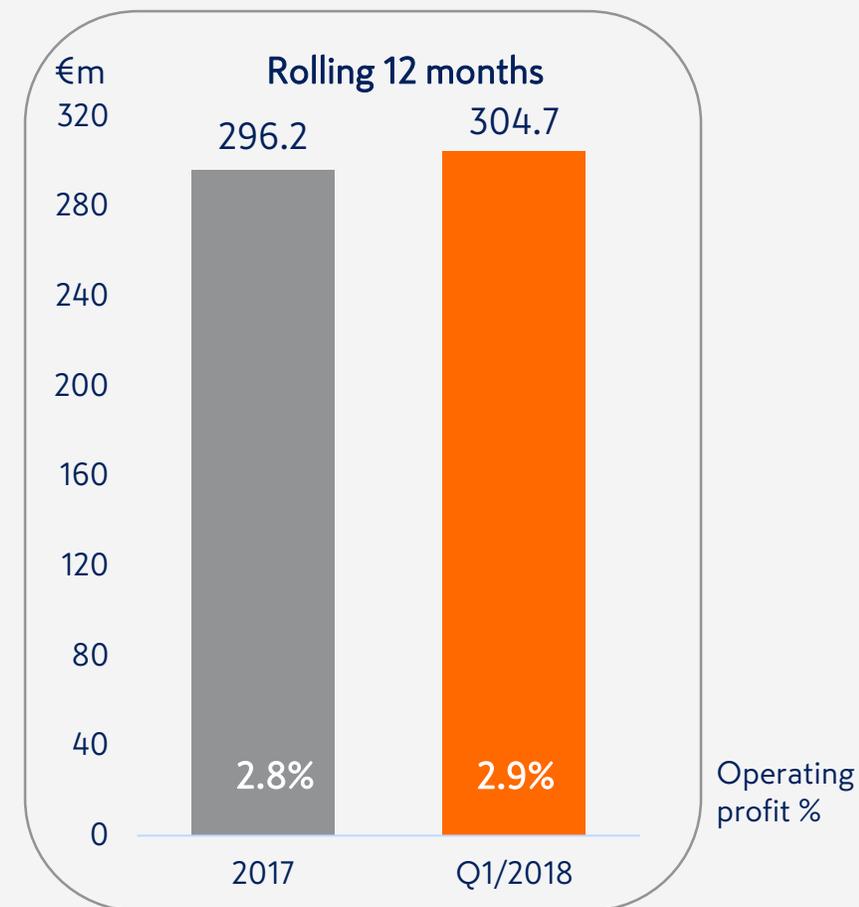
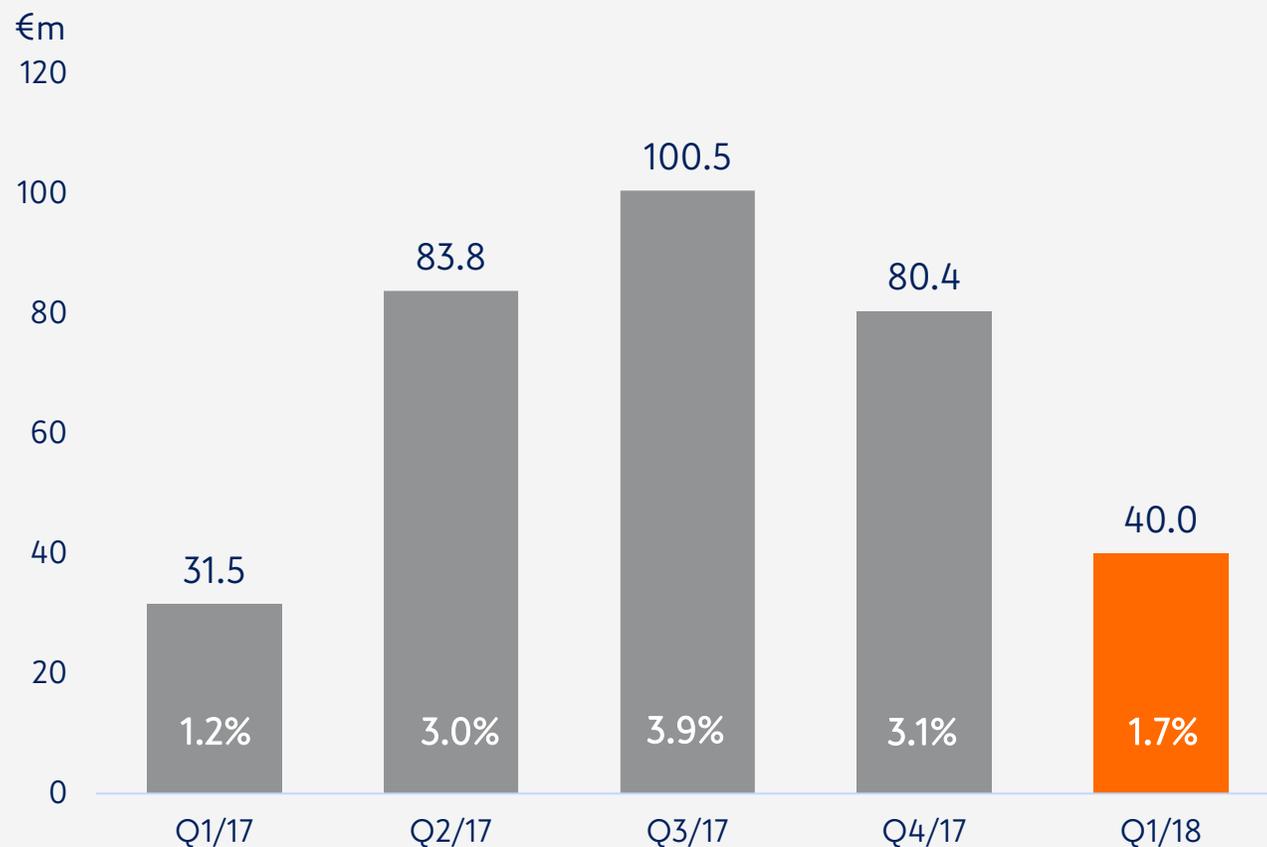


Comparable figures, continuing operations



Operating Profit

Q1 profit improvement 49% taking divestments into account



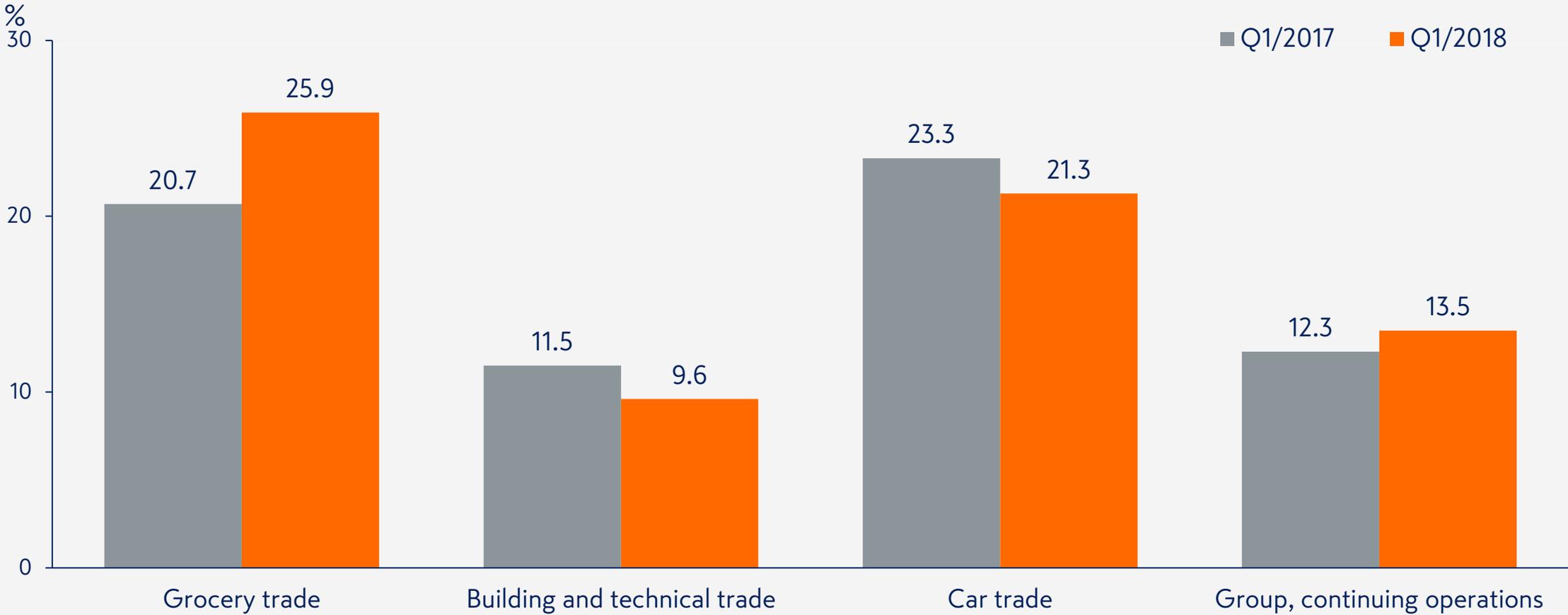
¹¹ Comparable operating profit, continuing operations

Impact on Q1/17 operating profit from the divested Asko and Sotka, K-maatalous and Yamarin operations, Yamaha representation and Baltic real estates: €4.6m



Return on Capital Employed 13.5%

Comparable, rolling 12 months



Financial Position Strengthened Further

	31.3.2018	31.3.2017
Group:		
Equity ratio, %	49.3	47.4
Liquid assets, € million	599	365
Interest-bearing net debt, € million	-59	226
Interest-bearing net debt / EBITDA, rolling 12 months	-0.1	0.8
Continuing operations:		
Cash flow from operating activities, Q1, € million	39	-48
Capital expenditure, gross, Q1, € million	55	76

Comparable figures



Grocery Trade



Grocery Trade

The market

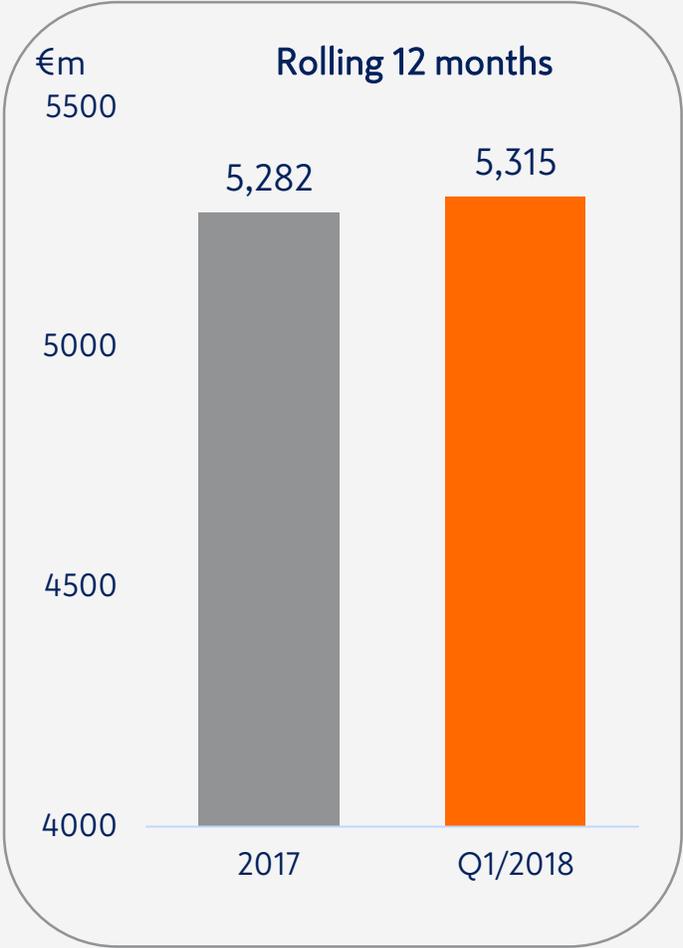
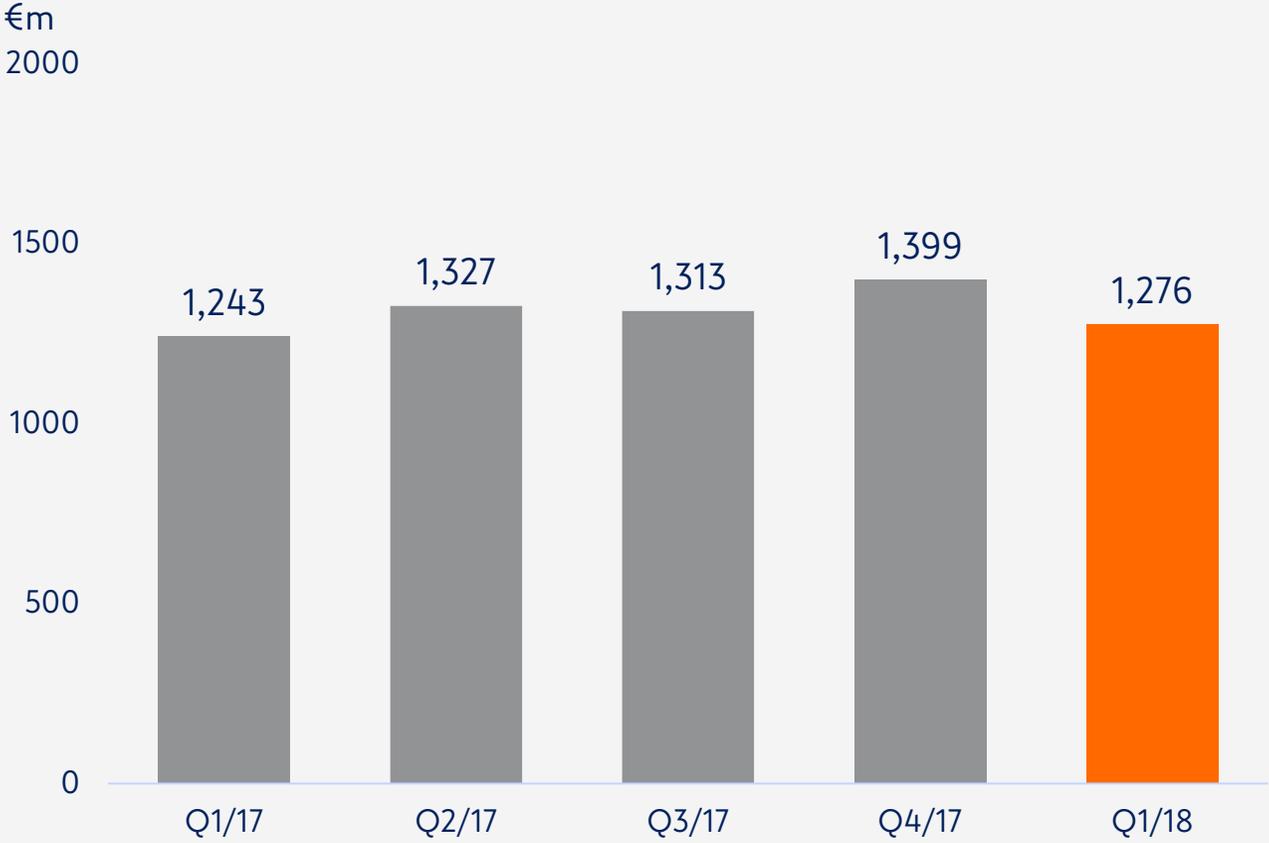
- Overall market growth approx. 5.5%, continued tight price competition
- Market affected by the timing of Easter and increase in alcohol and tobacco taxes
- Importance of quality and premium products rising

Q1

- Good progress in chain redesigns, sales and customer flows grown in all K-food store chains
- Significant improvement in profitability thanks to new neighbourhood market approach and acquisition of Suomen Lähikauppa
- Kespro's growth and profitability strengthened further

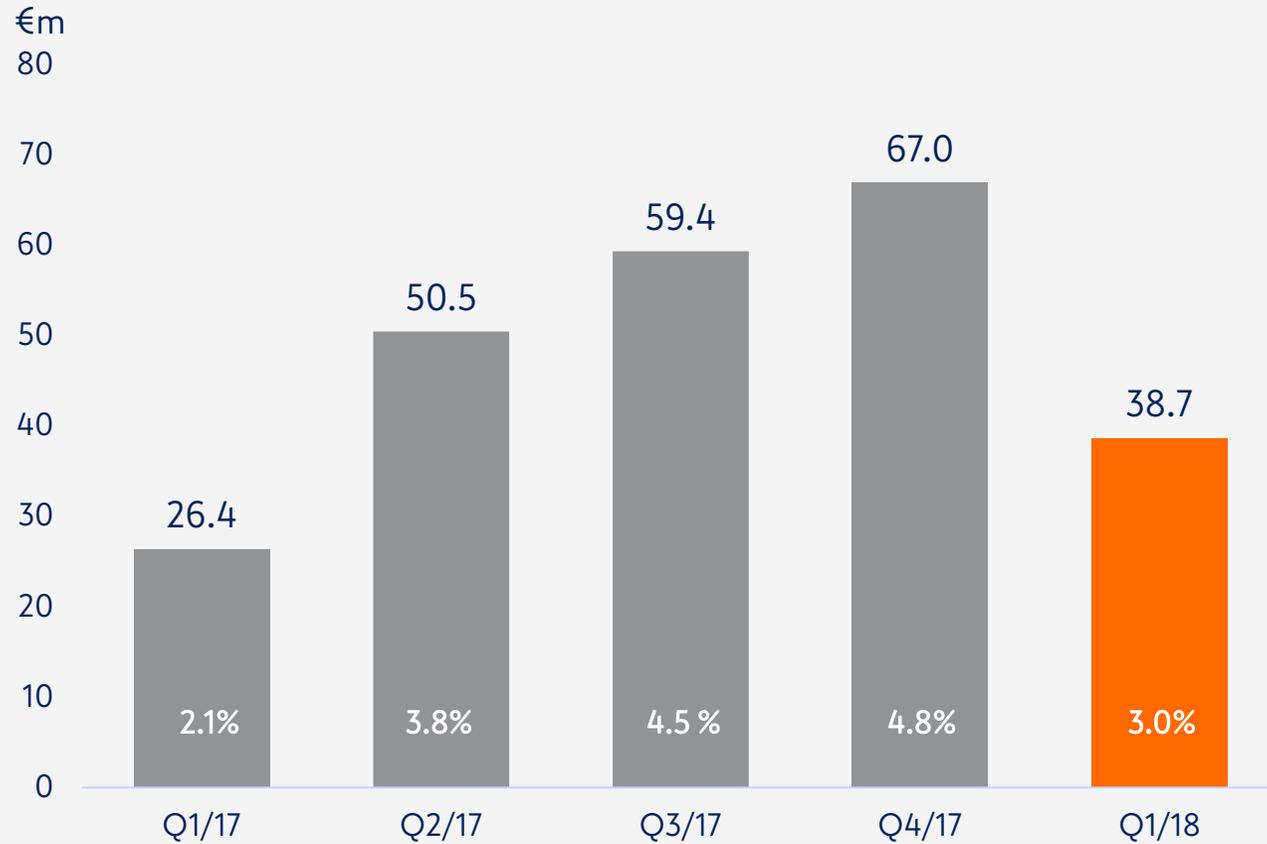
Grocery Trade Net Sales

Q1 comparable growth 7.4%



Grocery Trade Operating Profit

Profitability notably improved by the acquisition and successful integration of Suomen Lähikauppa



Comparable operating profit



Share of Neighbourhood Market Close to 60%

- Acquisition and successful integration of Suomen Lähikauppa
 - Total investment approximately €120 million
 - Additional sales of almost €700 million, 400 new K-Markets
 - Sales growth approximately 15%, significant synergies
 - All stores transferred to retailers by summer 2018
- Redesign of the K-Market brand and remodelling of over 700 stores
- High-quality neighbourhood market services have also strengthened the sales and market position of K-Citymarket

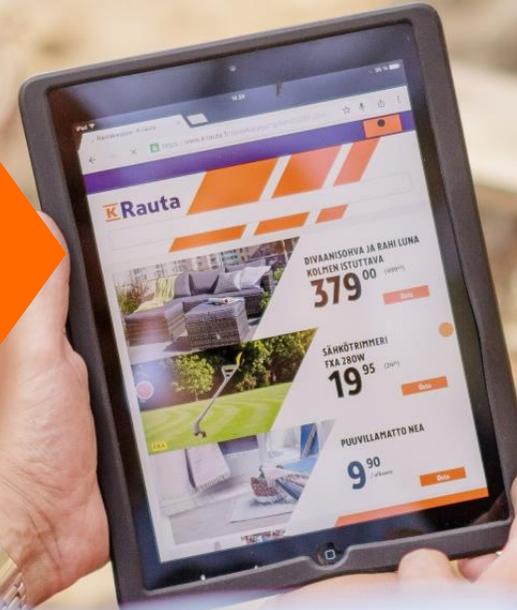


Strong Investment in New Online Food Store

- Online food sales growing forcefully
- New online food store service successfully piloted in two K-Citymarkets in the greater Helsinki region
 - Offering K-Citymarkets' extensive selections
 - Efficient deliveries using concentrated K Transport
 - Service expanded to Tampere, Turku, Oulu and Kerava during the spring
- K Group's online food sales services already reach over 3 million Finns



Building and Technical Trade



Product Name	Price
DIVAANISOHVA JA RAHI LUNA KOLMEN ISTUTTAVA	379
SÄHKÖTRIMMERI FXA-220W	1995
PUUVILLAMATTO NEA	990

Building and Technical Trade

The market

- Economic growth underpinning market development, outlook continues to be favourable
- Cold winter weather in Europe impacted the market negatively

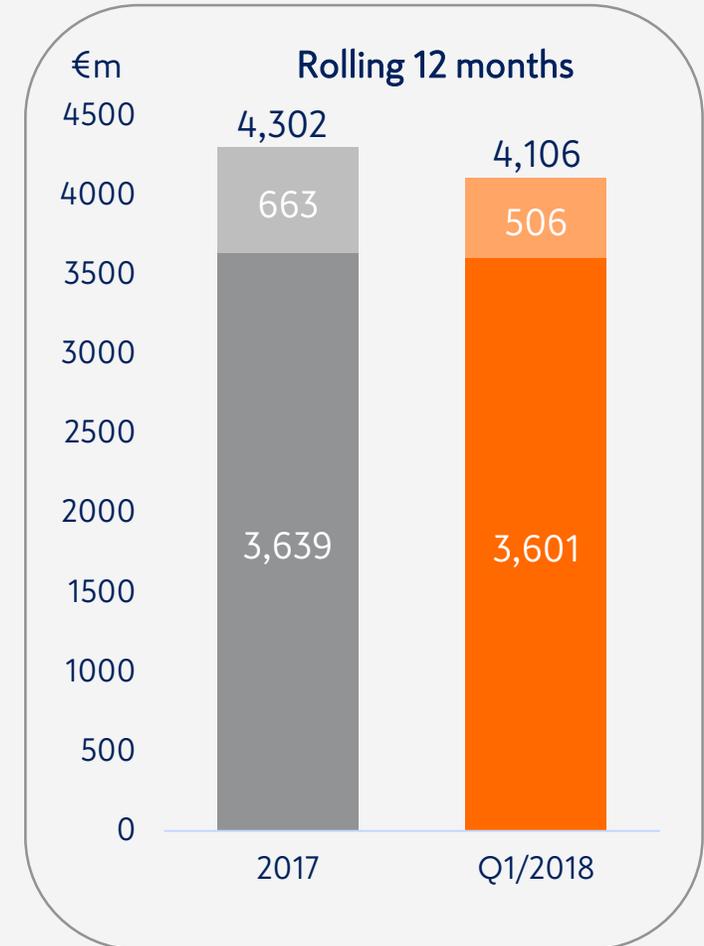
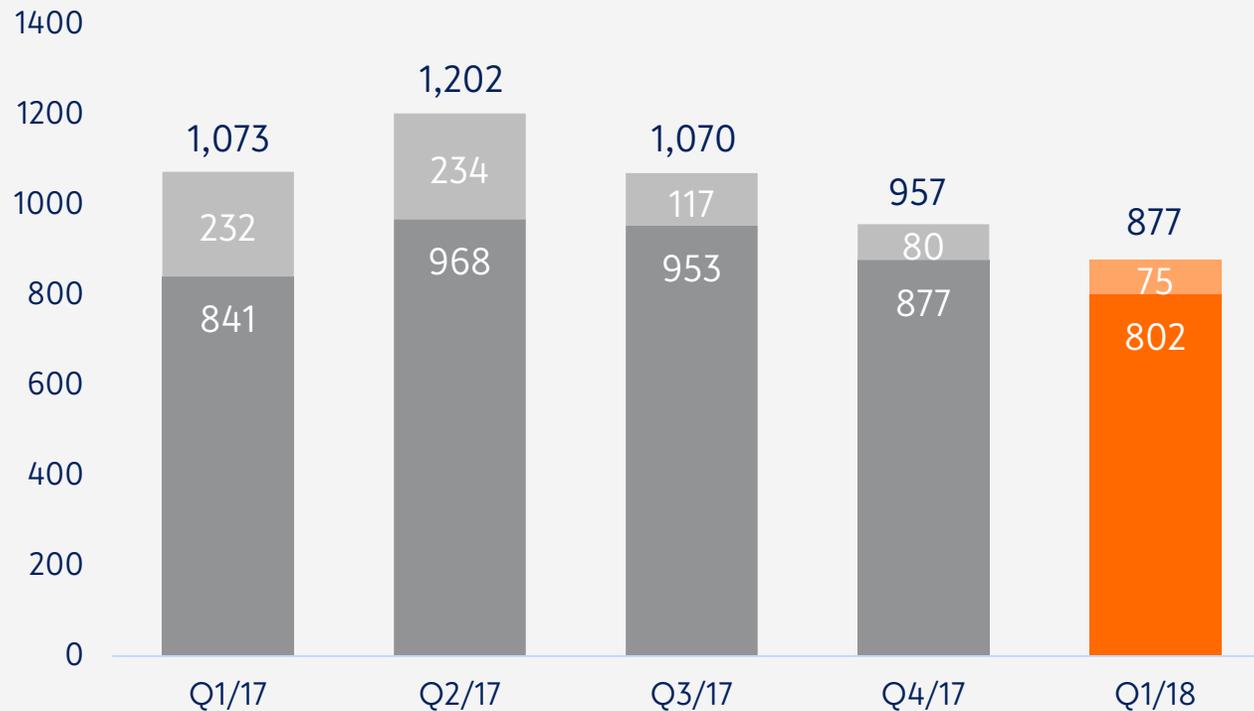
Q1

- Q1 performance according to plans, traditionally the softest quarter due to seasonality
- Divestments in speciality goods trade decreased sales and profitability as expected
- Good sales growth in K-Rauta and Onninen in Finland and Kesko Senukai in the Baltics
- Sales burdened by restructuring in Sweden and changes to store network in Norway

Building and Technical Trade Net Sales

Comparable Q1 change -2.4%

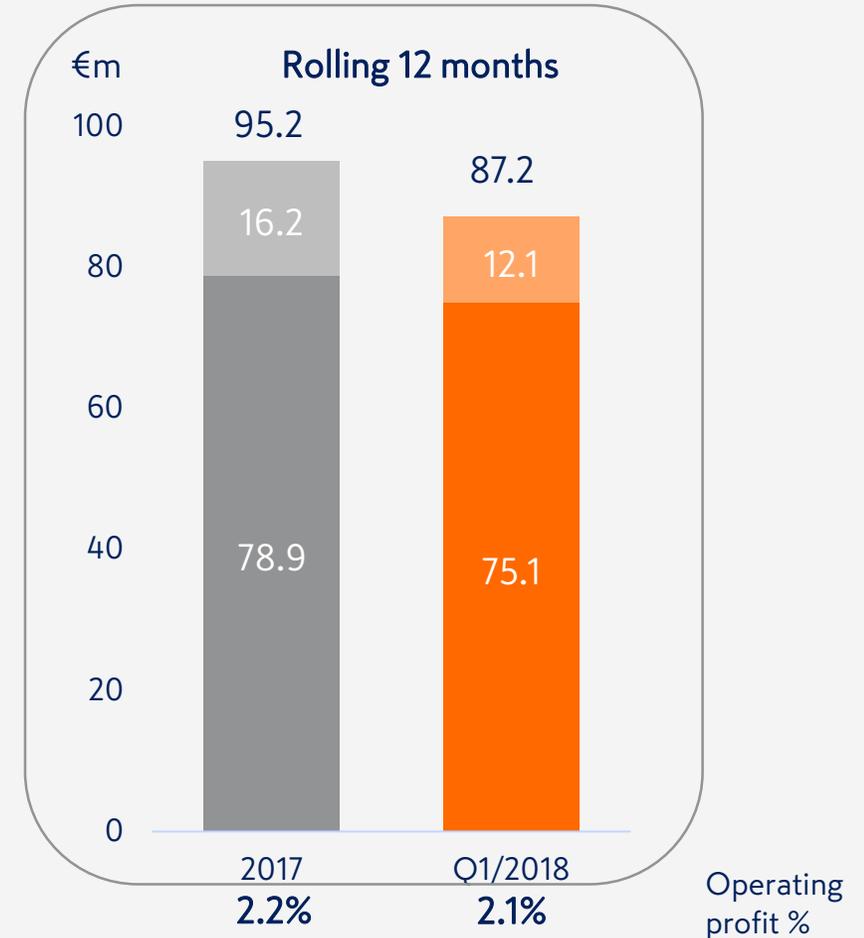
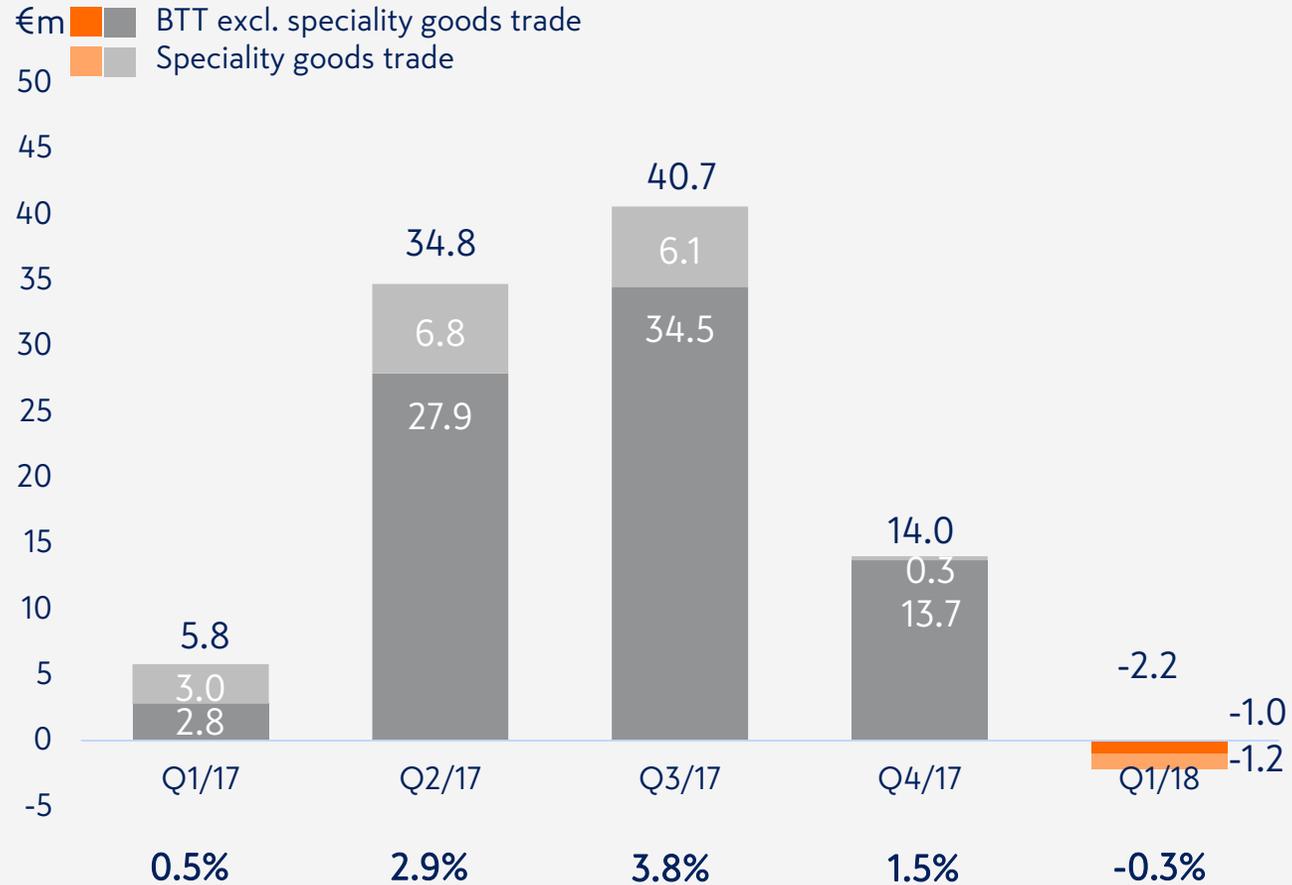
€m ■ BTT excl. speciality goods trade ■ Speciality goods trade



Comparable figures, continuing operations

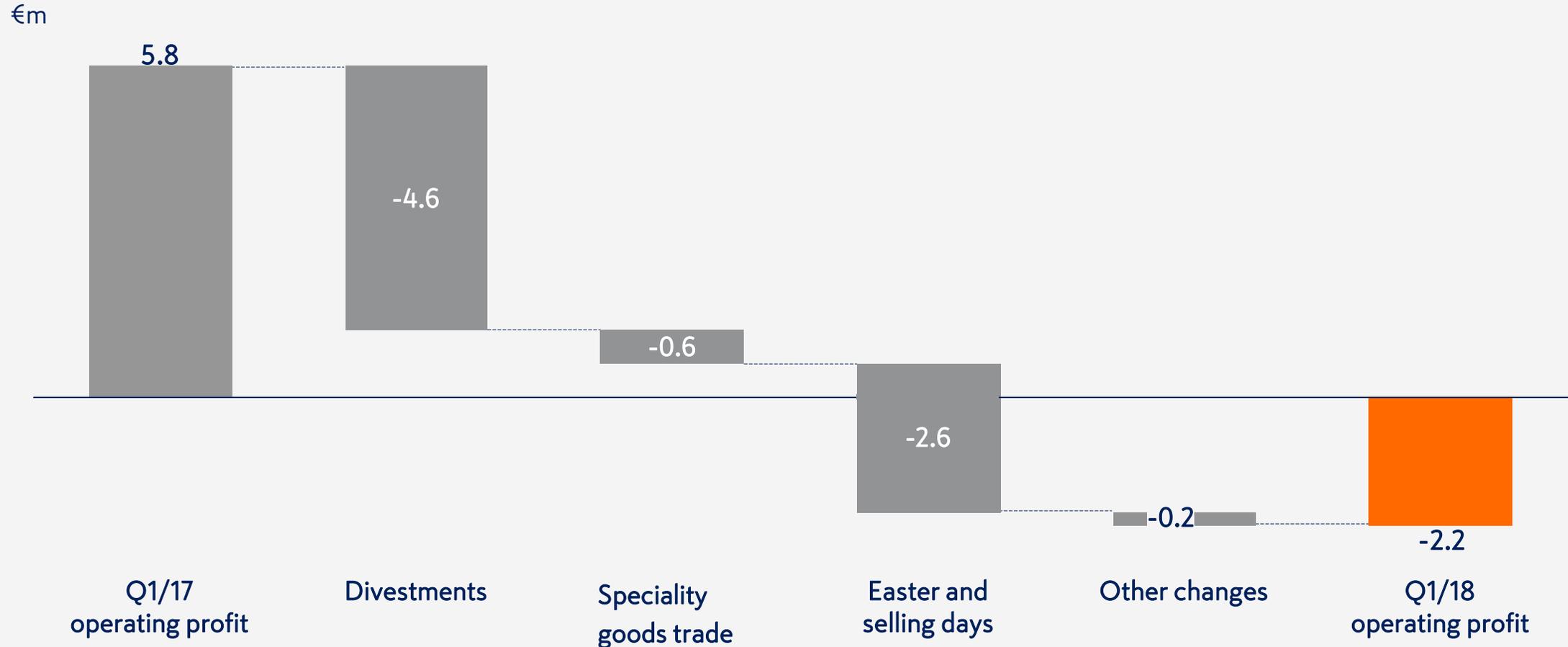
Building and Technical Trade Operating Profit

Q1 traditionally the softest quarter



Building and Technical Trade Operating Profit

Solid operative result, decrease due to divestments and calendar impacts



24 Comparable operating profit, continuing operations

Impact on Q1/17 operating profit from the divested Asko and Sotka, K-maatalous and Yamarin operations, Yamaha representation and Baltic real estates: €-4.6m



Reshaping Building and Technical Trade – Towards More Profitable Business

- New customer-oriented organisation and strong geographical focus
- Good progress in improving Onninen's profitability
- Ongoing measures in Sweden to restructure and make operations more efficient
- Divestment of Russian operations will improve return on capital employed
- Ongoing measures to improve cost-efficiency of operations and achieve synergies





Car Trade



Car Trade

The market

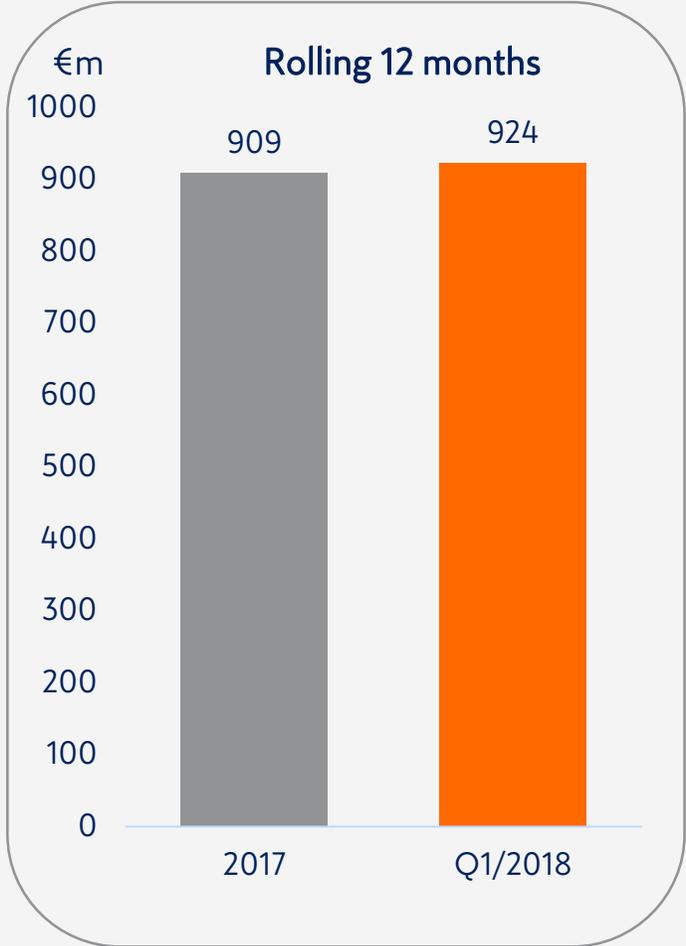
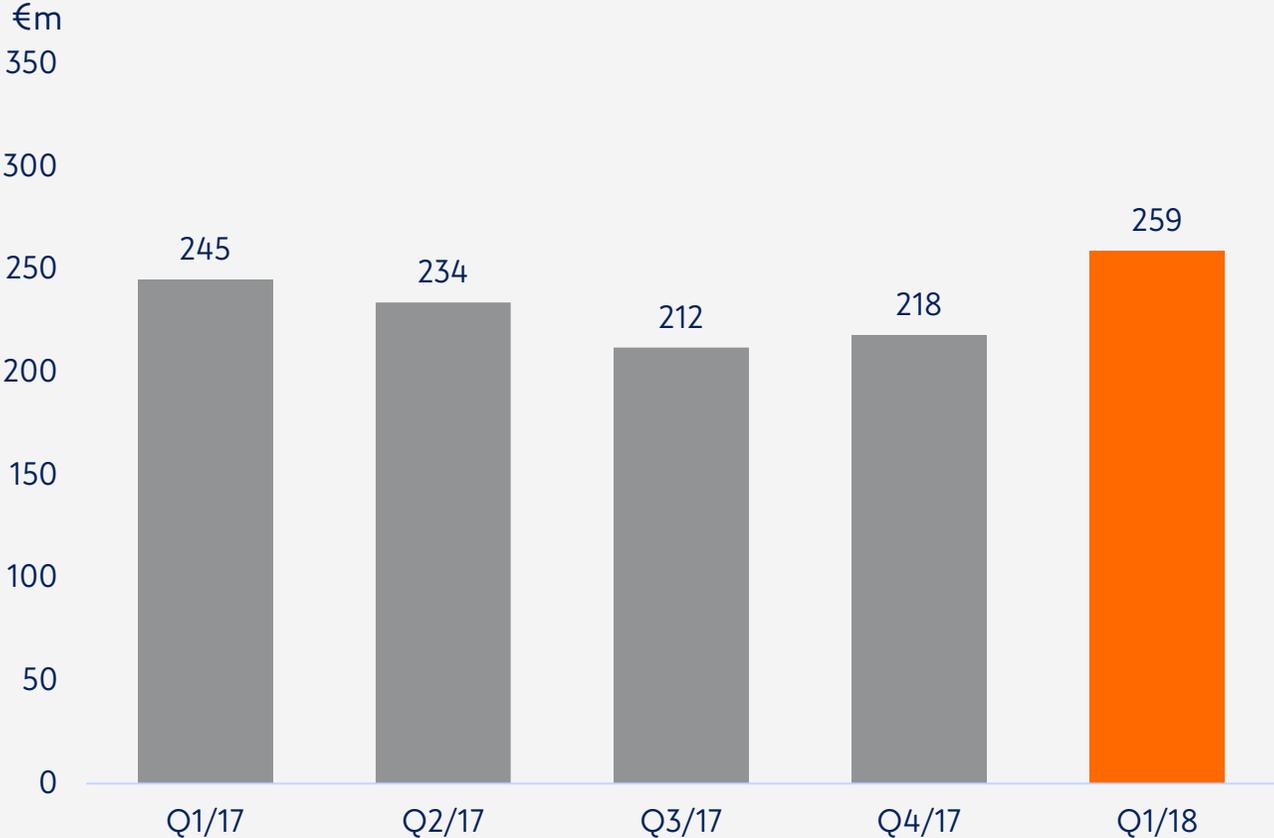
- First registrations of passenger cars and vans up by 3.3%
- New WLTP emissions testing for the whole industry to be implemented next autumn

Q1

- Strong sales growth and good profit performance
- Growth in Volkswagen, Audi, SEAT and Porsche registrations outpaced market growth
- Market share in passenger cars and vans 19.0% (17.8%)
- New cars order book +21%

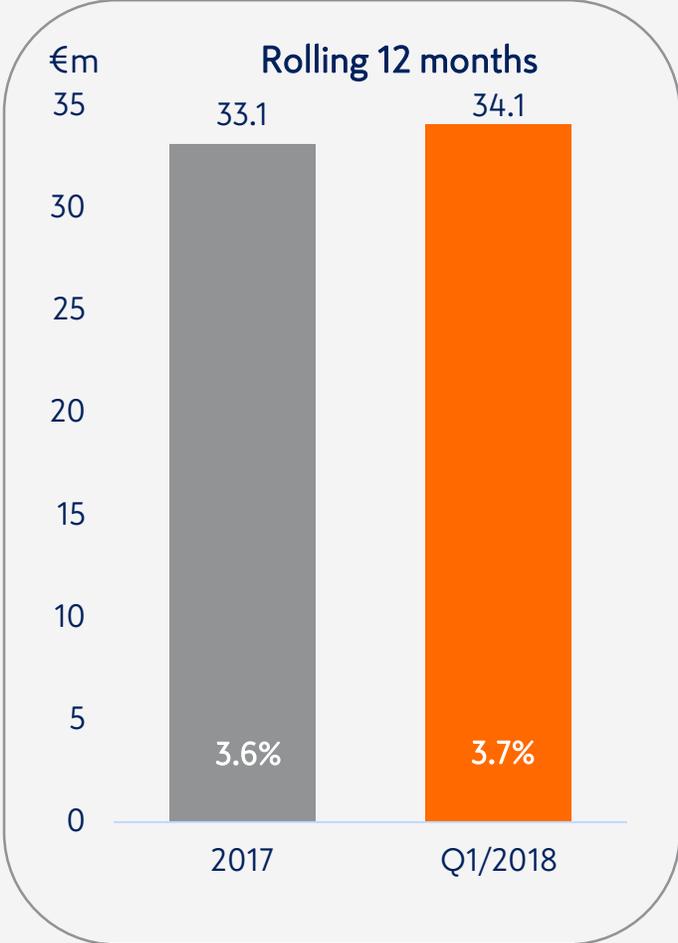
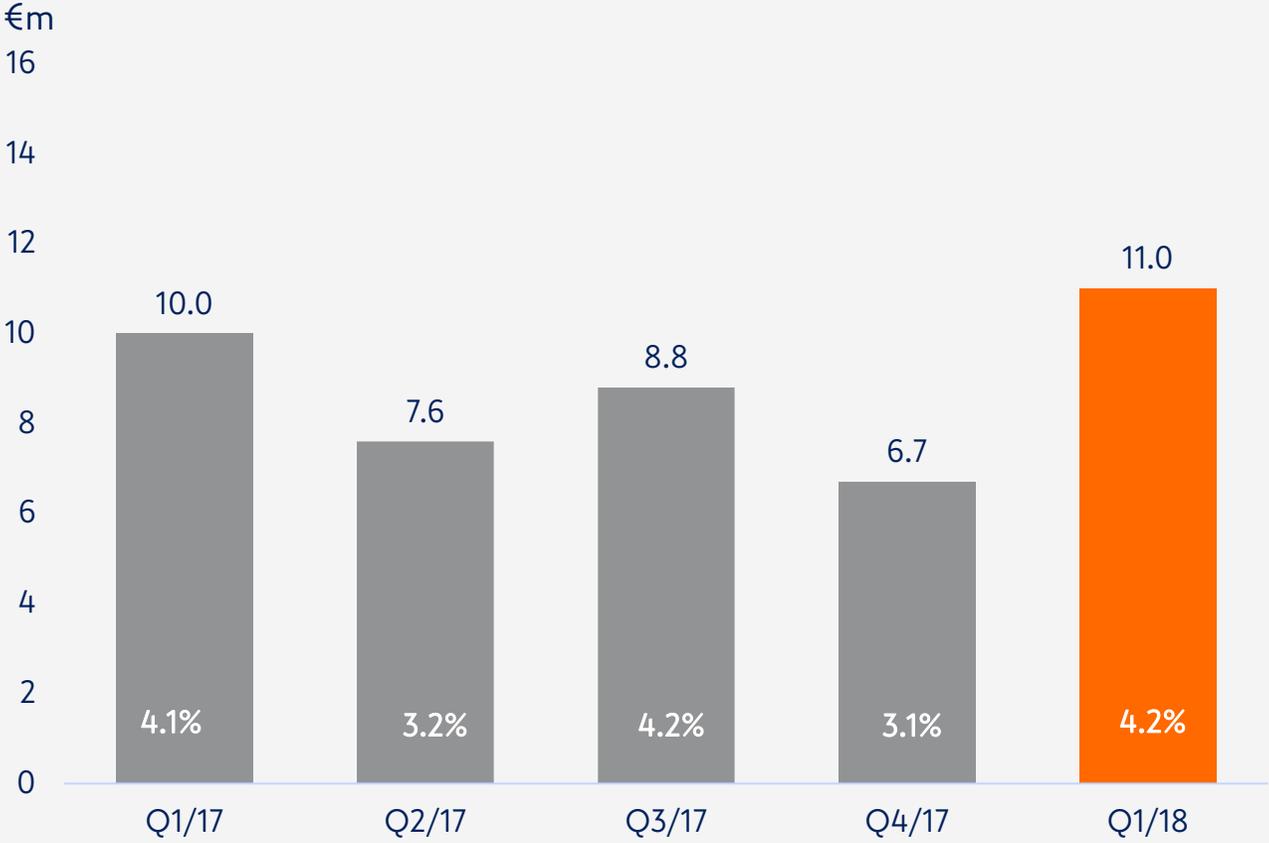
Car Trade Net Sales

Q1 growth 5.8%



Car Trade Operating Profit

Q1 growth 9%



Car Trade More Tightly Under the K Brand

- We continue to build one unified "K" brand while tightening co-operation across business divisions
- Rebranding will increase awareness of Kesko's car trade division
- Strong presence of the K brand in new mobility services
- The import company VV-Auto Group Oy will become K Auto Oy
K Auto
- The retail company VV-Autotalot Oy will become K Caara Oy
K CAARA





Outlook



Outlook

Estimates for the outlook for the net sales and comparable operating profit for Kesko Group's continuing operations are given for the 12-month period following the reporting period (4/2018-3/2019) in comparison with the 12 months preceding the end of the reporting period (4/2017-3/2018).

In comparable terms, the net sales for continuing operations for the next 12 months are expected to exceed the level of the previous 12 months. Due to divestments and restructuring, net sales for Kesko Group's continuing operations for the next 12 months are expected to fall below the level of the previous 12 months. That development results from the divestments of the K-maatalous agricultural business, the Asko and Sotka furniture trade, the Yamarin boat business and Kesko's Yamaha representation as well as store closures and the transfer of Suomen Lähikauppa stores to retailers.

The comparable operating profit for continuing operations for the next 12-month period is expected to exceed the level of the preceding 12 months. However, investments in store openings and redesigns, in the expansion of logistics operations, and in digital services will burden profitability during the period. It should also be noted that the operating profit for the comparison period includes €5.8 million in operating profit from divestments and most of the synergies obtained from the acquisition of Suomen Lähikauppa.



**Upcoming Event:
Capital Markets Day
19 June 2018**





For shopping
to be fun