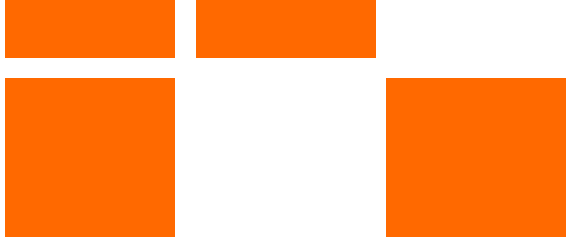
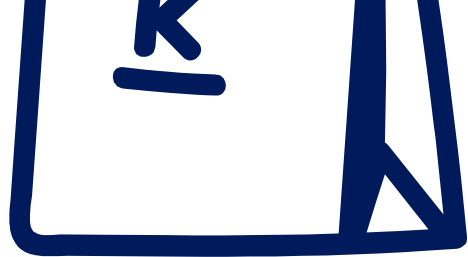


# Kesko's Strong Transformation Continues

Investor Presentation May 2018



# 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

2017 figures, K Group = Kesko and its retailer entrepreneurs

# Targeting Profitable Growth in Three Divisions

## Grocery trade



- Retail sales €6.7bn\*
- Close to 1,300 stores in Finland
- #2 in Finland with some 1.2m daily customer visits
- #1 in Foodservice wholesale

## Building and technical trade



- Retail sales €5.1bn\*
- Over 500 stores in Finland, Sweden, Norway, Lithuania, Estonia, Latvia, Belarus, Poland
- #1 in Northern Europe
- B2B trade approx. 70% of sales

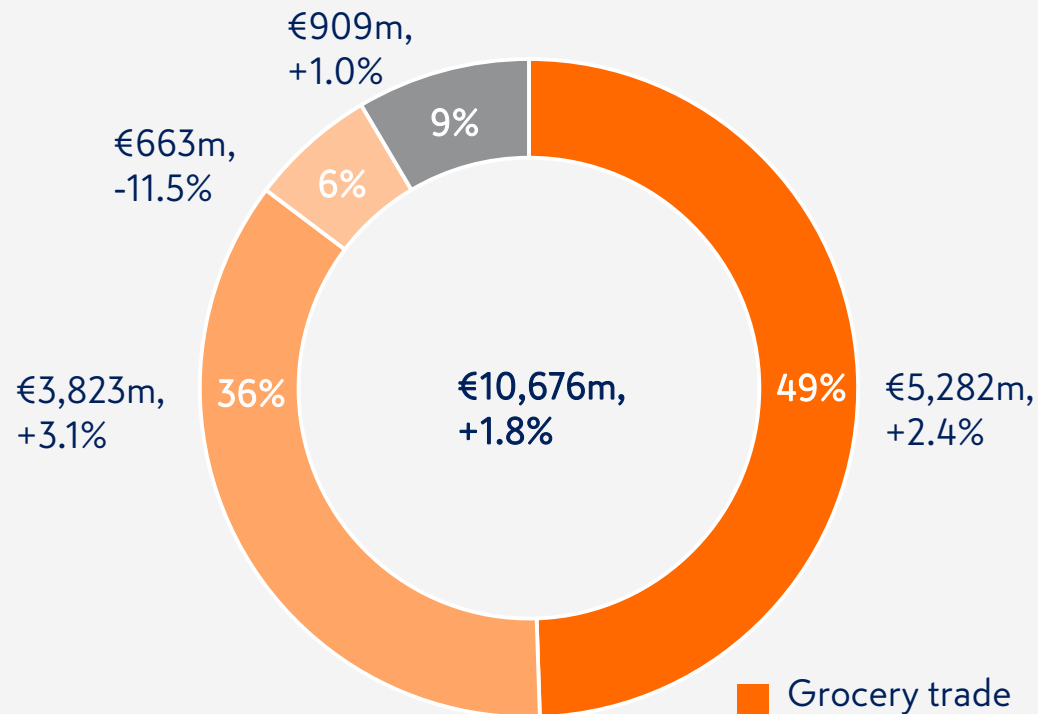
## Car trade



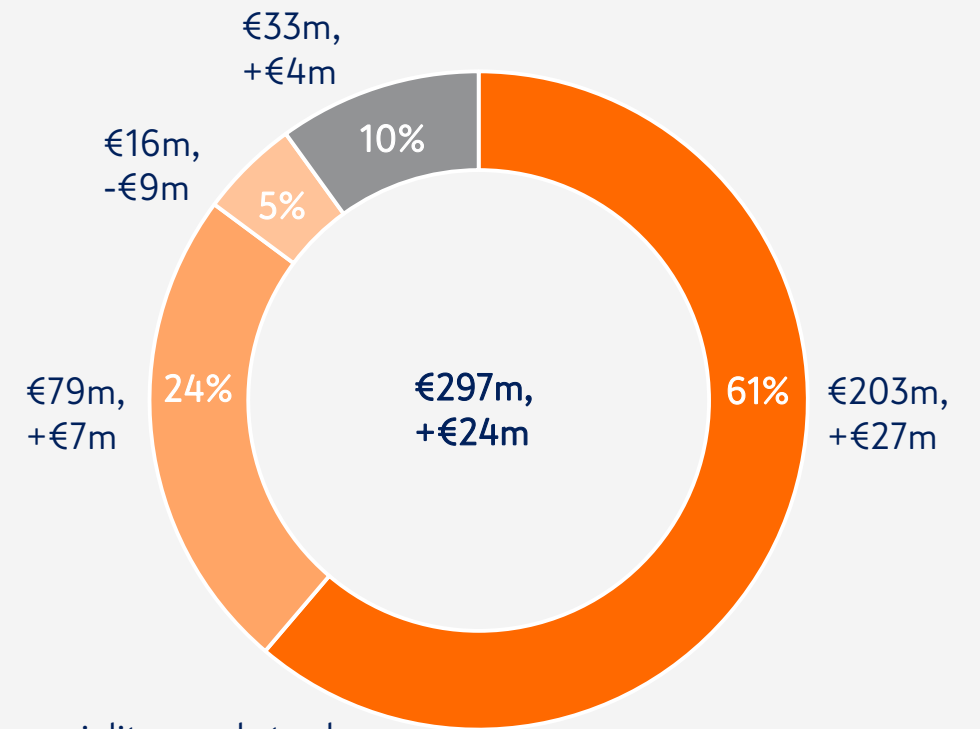
- Retail sales €0.9bn\*
- Imports and markets VW, Audi, Seat, Porsche and MAN in Finland and SEAT in Estonia and Latvia
- #1 in Finland

# Net Sales and Operating Profit

## Net sales 2017\*



## Comparable operating profit 2017



- Grocery trade
- Building and technical trade excl. speciality goods trade
- Speciality goods trade
- Car trade

# 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

# Share of Neighbourhood Market Close to 60% Following Acquisition of Suomen Lähikauppa

- Total investment approximately €120 million
  - Additional sales of almost €700 million
  - With 400 new K-Markets doubling the neighbourhood store network to 800 stores
  - 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





# Acquisition of Onninen Strengthened Significantly Building and Technical Trade's Position in B2B

- Acquisition supports market shift to B2B sales as consumers are increasingly outsourcing construction to professionals
- Onninen's HEPAC and electrical product groups expanded the offering making it the most comprehensive in the market
- Good progress in improving Onninen's profitability
- Significant potential for further improvement in profitability

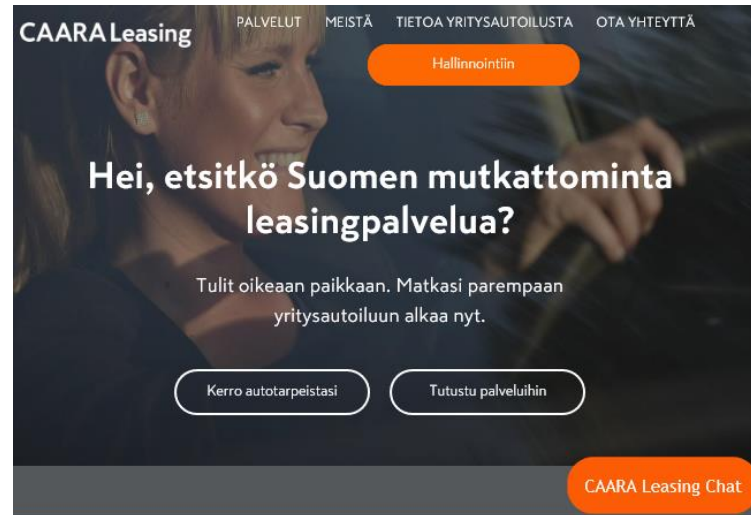


# New Growth Opportunities in Car Trade

Acquisition of AutoCarrera



New services e.g. CAARA Leasing



Electric mobility



# Bringing the Best Digital Services in the Trading Sector

## Grocery trade

The Ruoka app interface displays a grocery list with items like 'Hedelmät ja vihannekset' (Fruits and vegetables) and 'Pikku suola' (Small salt). It also features a 'SUOSITTELE K-ROUKAA YSTÄVILLES!' (Recommend K-Ruoka to your friends!) section. A smartphone in the foreground shows the app's main screen with a 'TILAA OSTOKSET!' (Order purchases!) button. Below the app, there's a promotional banner for 'Henkilökohtaiset edut ja sinulle suositellut reseptit' (Personalized benefits and recommended recipes) and a photo of a person at a grocery store checkout counter.

## Building and technical trade

The Rauta app interface shows a list of heating equipment, including 'LÄMMITÄ KUNNOLLA' (Heat properly) and 'LÄMPÖPUMPPU' (Heat pump). A smartphone in the foreground displays the app's main screen with a 'TILAA' (Order) button. Below the app, there's a photo of a construction worker in a blue hard hat talking on a mobile phone, and a photo of a person using a VR headset. The Rauta website interface is also visible, showing a search bar and a list of products.

## Car trade

The CAARA website interface displays a search bar and a list of car listings, including 'Volkswagen Golf' and 'AUDI Q5'. A smartphone in the foreground shows the app's main screen with a 'TILAA' (Order) button. Below the app, there's a photo of a person using a VR headset. The CAARA website interface is also visible, showing a search bar and a list of products.

# Next Generation 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 centralized 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

# 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:

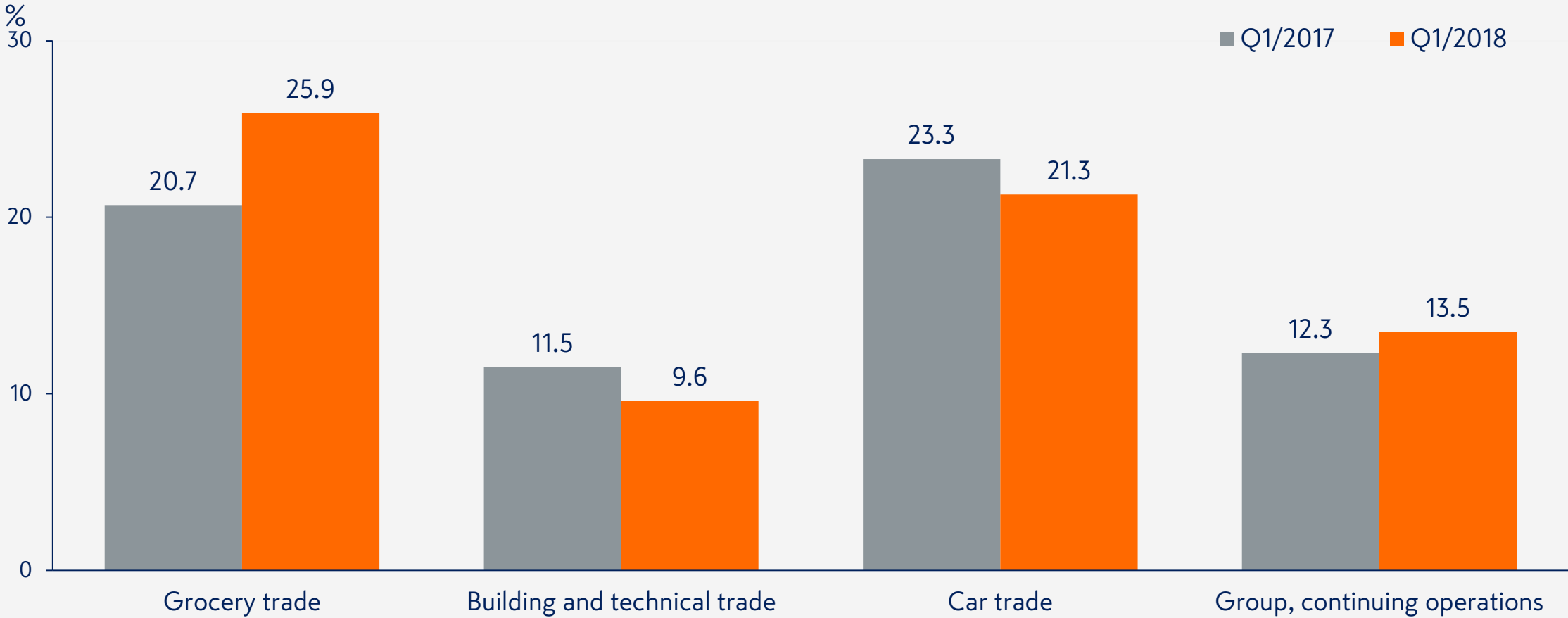
Kesko Corporation distributes at least 50% of its comparable earnings per share as dividends, taking into account, however, the Company's financial position and operating strategy.

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

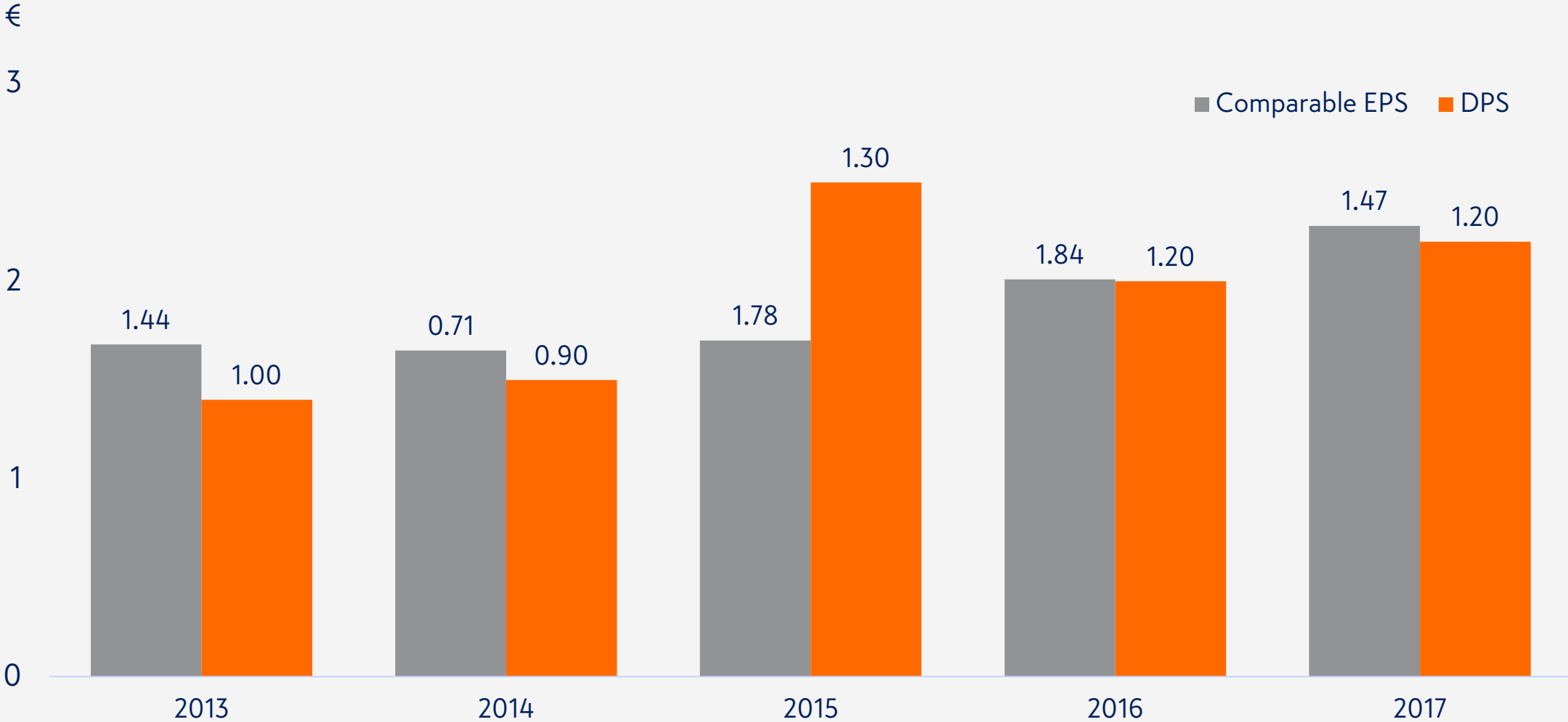
Comparable figures

# Return on Capital Employed 13.5%

Comparable, rolling 12 months



# Good Dividend Payment Capacity



# 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



# We Continue Our Strong Transformation

## Traditional companies

Slow  
High hierarchy  
Focus on the present  
Playing it safe



## Future companies

Fast  
Low hierarchy  
Focus on the future  
Growth  
Constant change  
Responsibility and sustainability



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





# Appendix: Q1/2018

# Group 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

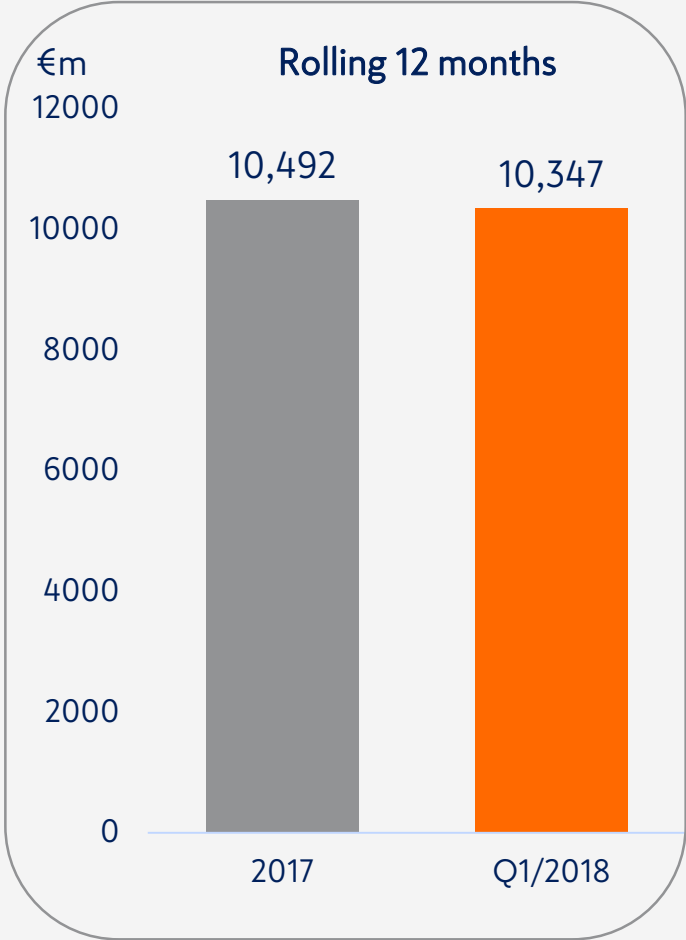
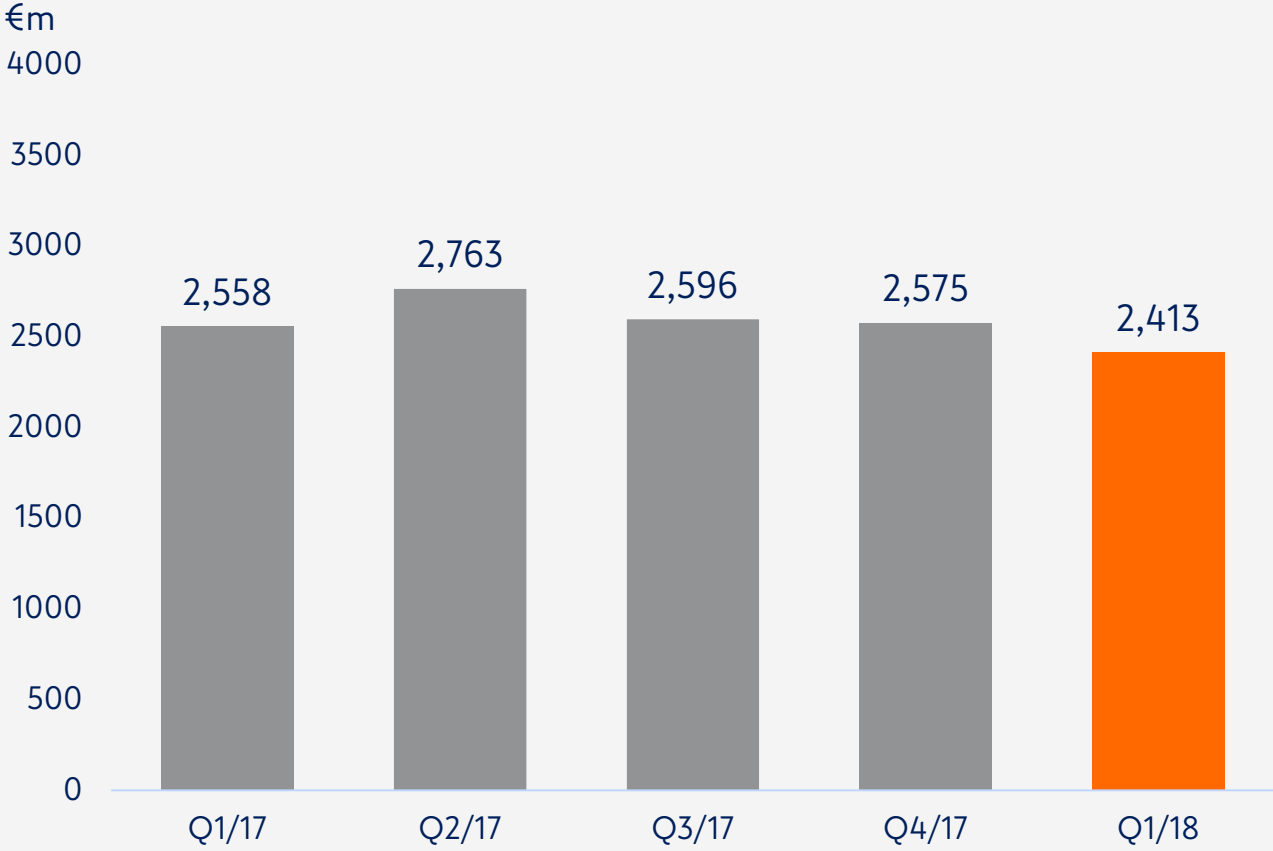
Continued strong performance in the car trade

Comparable figures, continuing operations



# Group Net Sales

Q1 comparable growth 3.4%

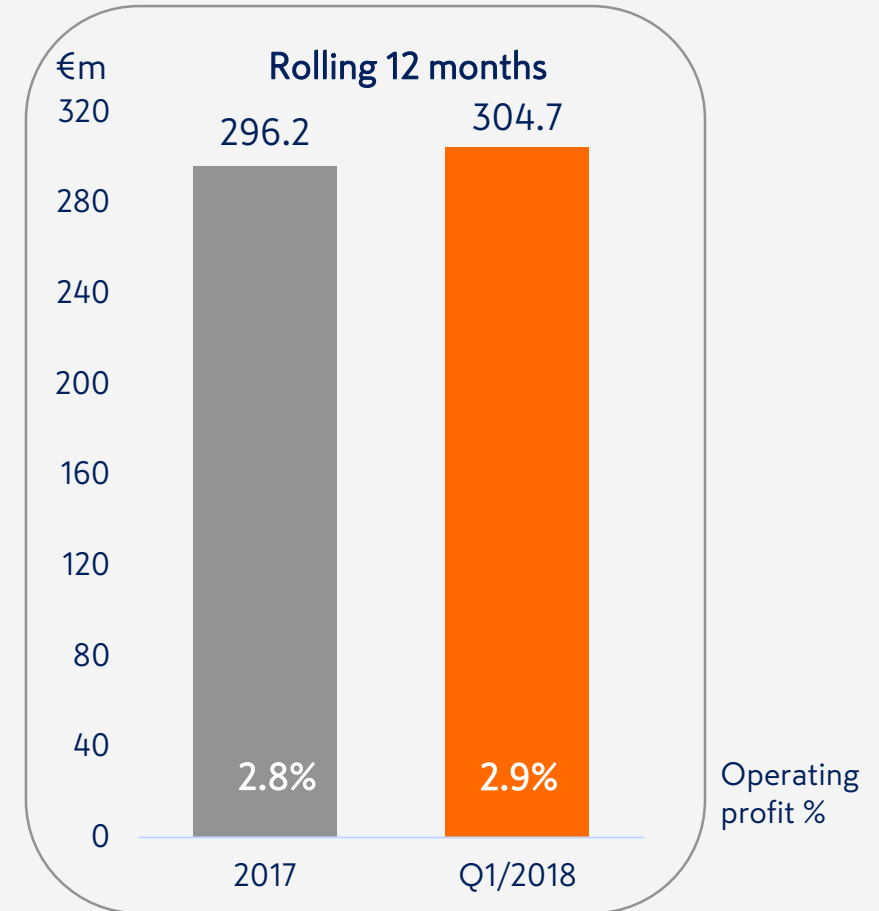
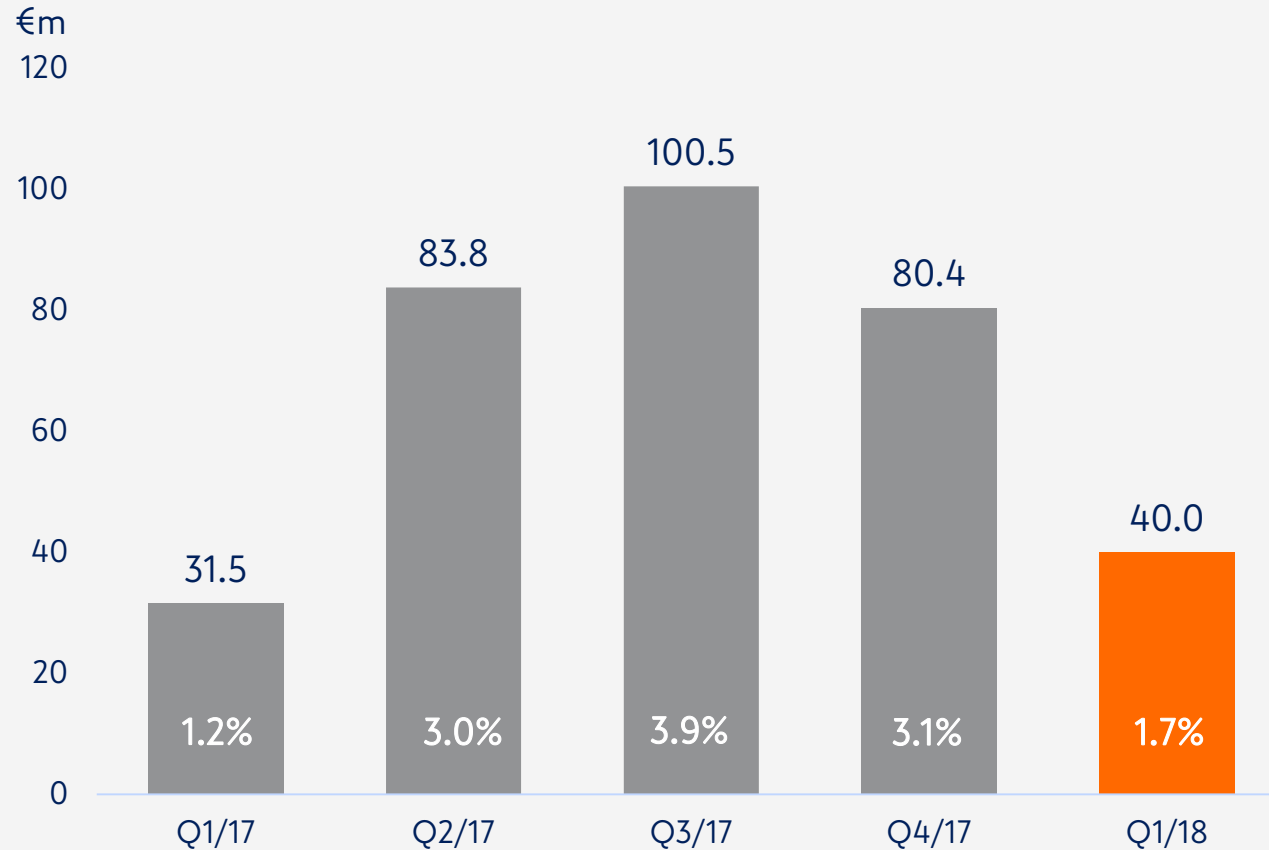


Comparable figures, continuing operations



# Group Operating Profit

## Q1 profit improvement 49% taking divestments into account



22 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



# Growth in Group 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

# Financial Position Strengthened Further

	31.3.2018	31.3.2017
<b>Group:</b>		
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
<b>Continuing operations:</b>		
Cash flow from operating activities, Q1, € million	39	-48
Capital expenditure, gross, Q1, € million	55	76

Comparable figures





# Grocery Trade



# Grocery Trade

## The market

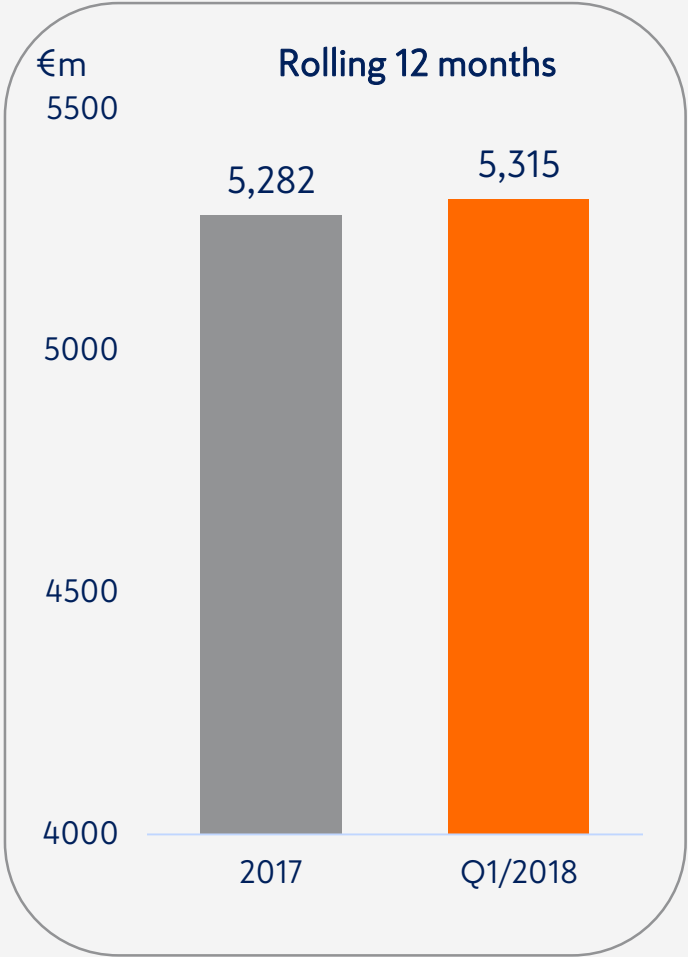
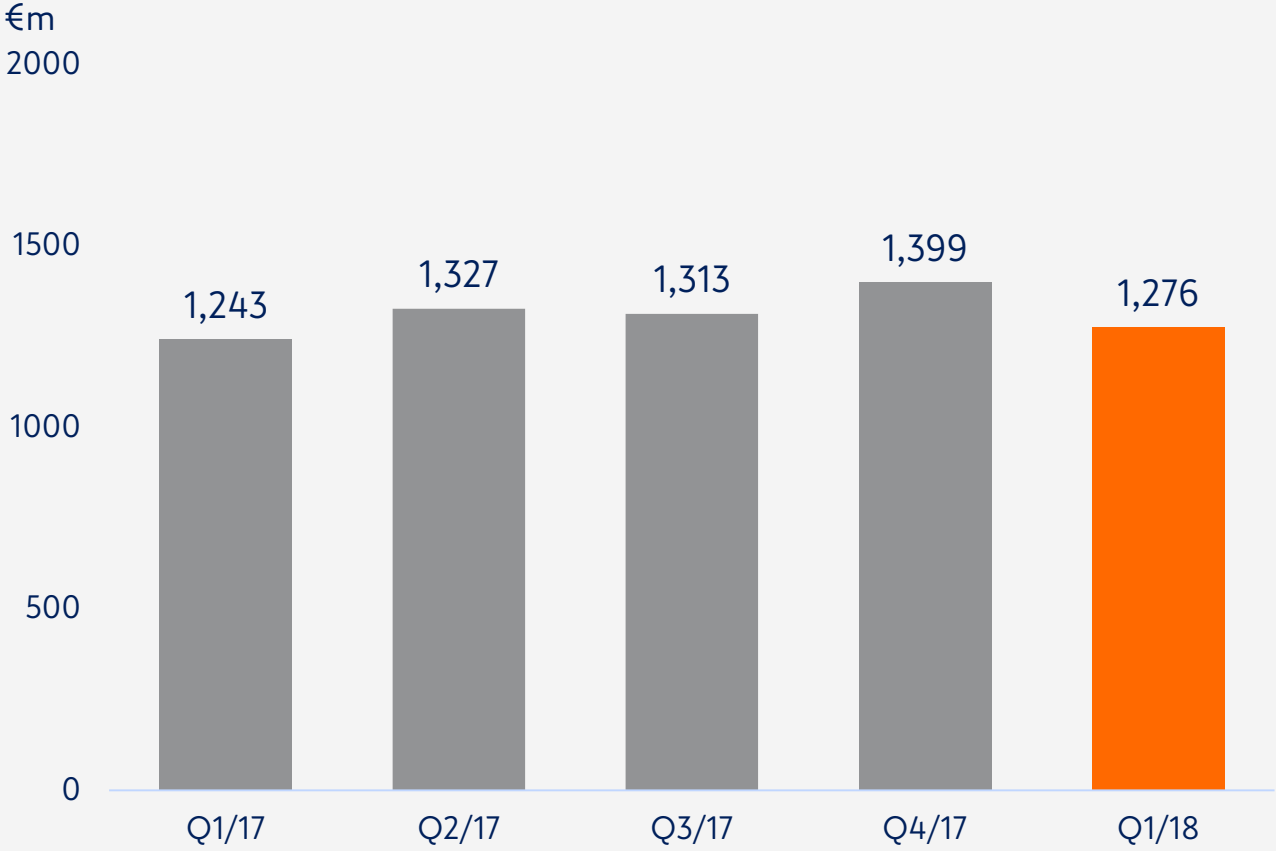
- Overall market growth approx. 5.5%, continued tight price competition
- Market affected by the timing of Easter and increase in alcohol and tobacco taxes
- Importance of quality and premium products rising

## 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

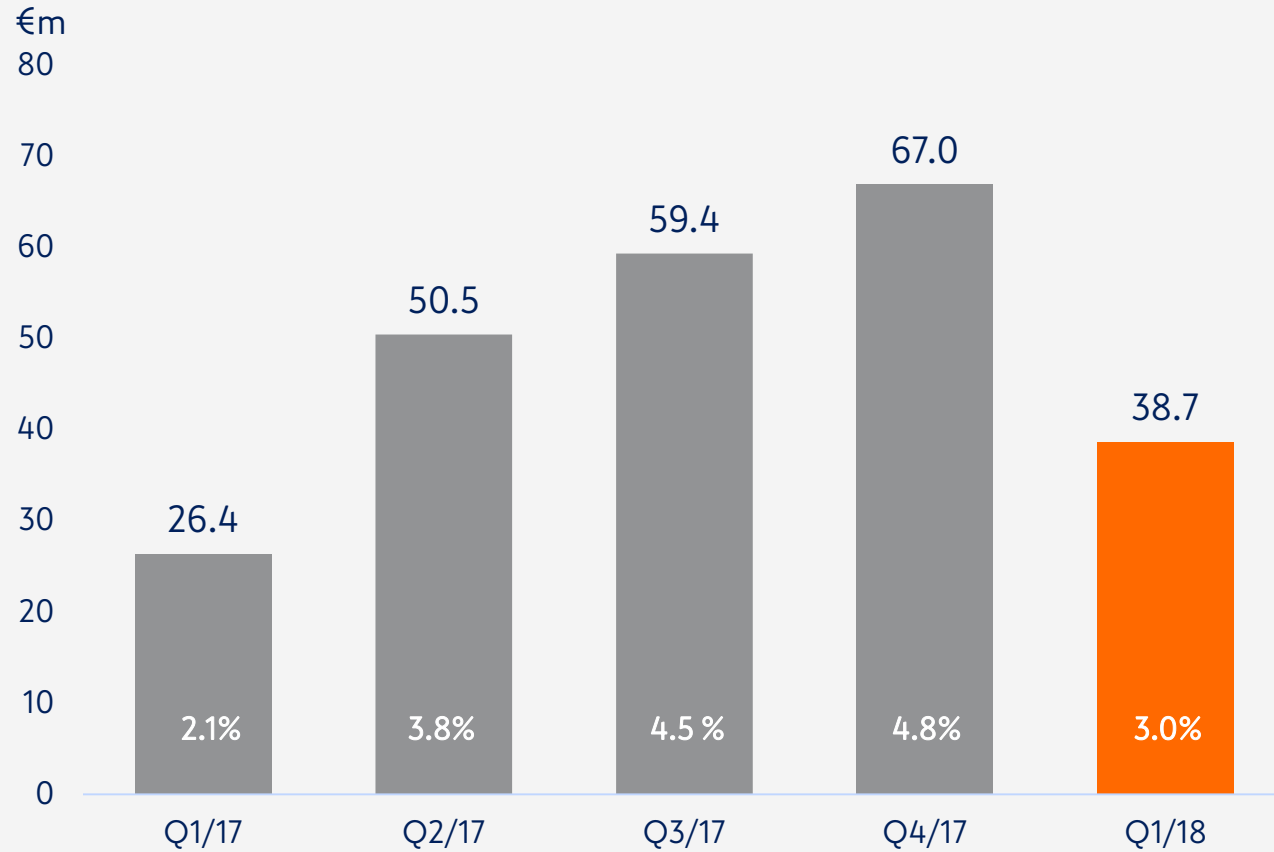
# Grocery Trade Net Sales

Q1 comparable growth 7.4%

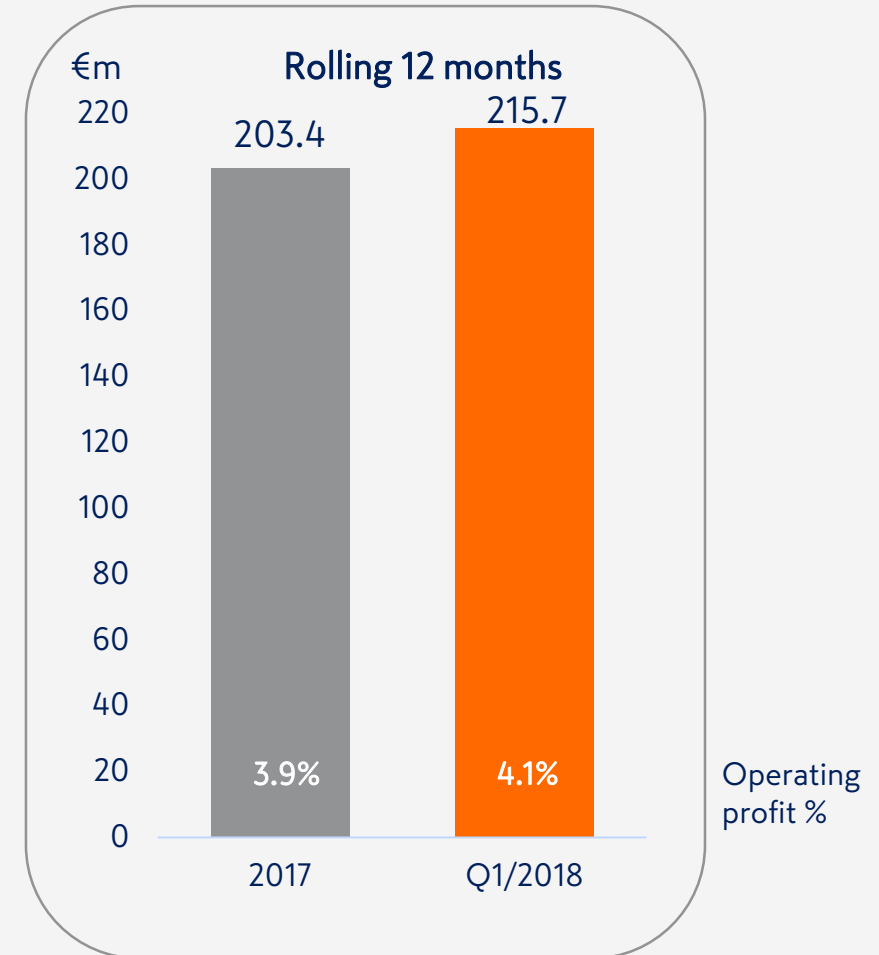


# Grocery Trade Operating Profit

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

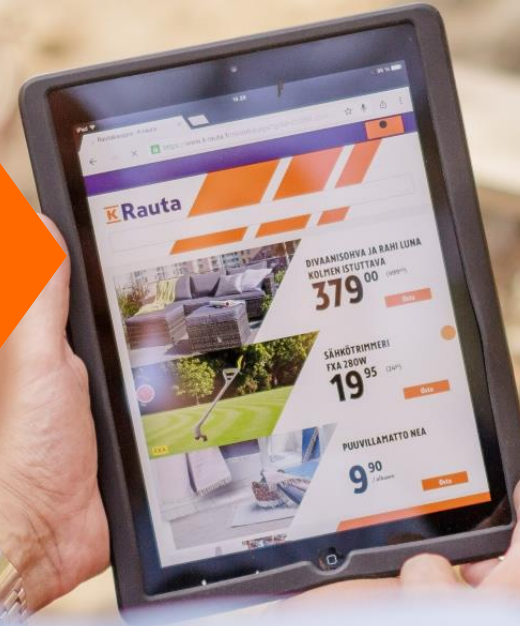


Comparable operating profit





# Building and Technical Trade



**Rauta**

DIVAANIKOHVA JA RAHI LUNA  
KOLMEN ISTUTAVA **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

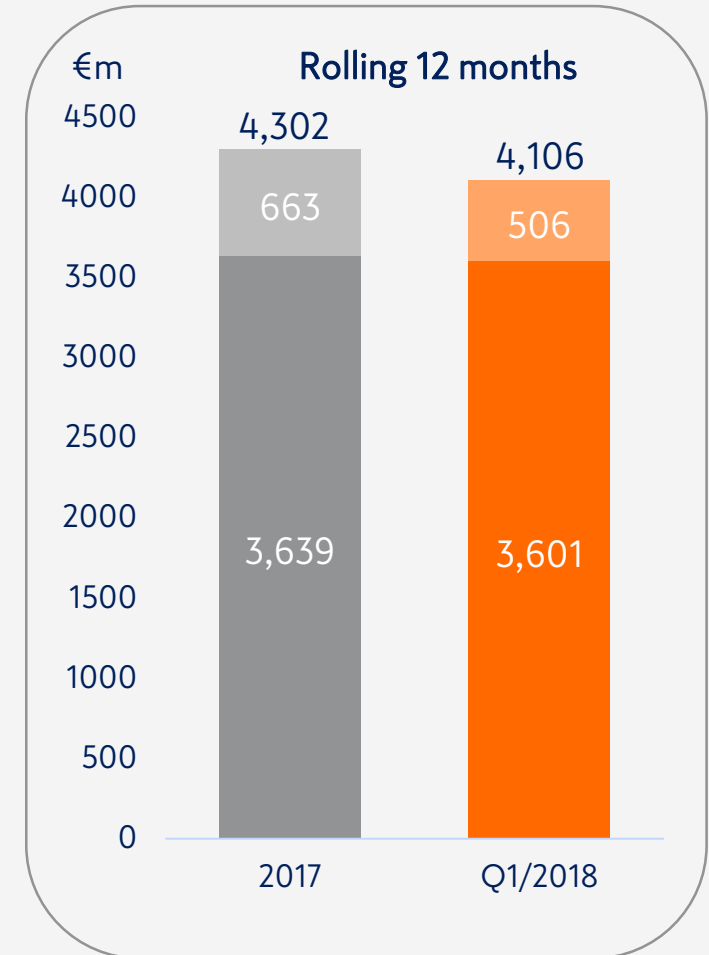
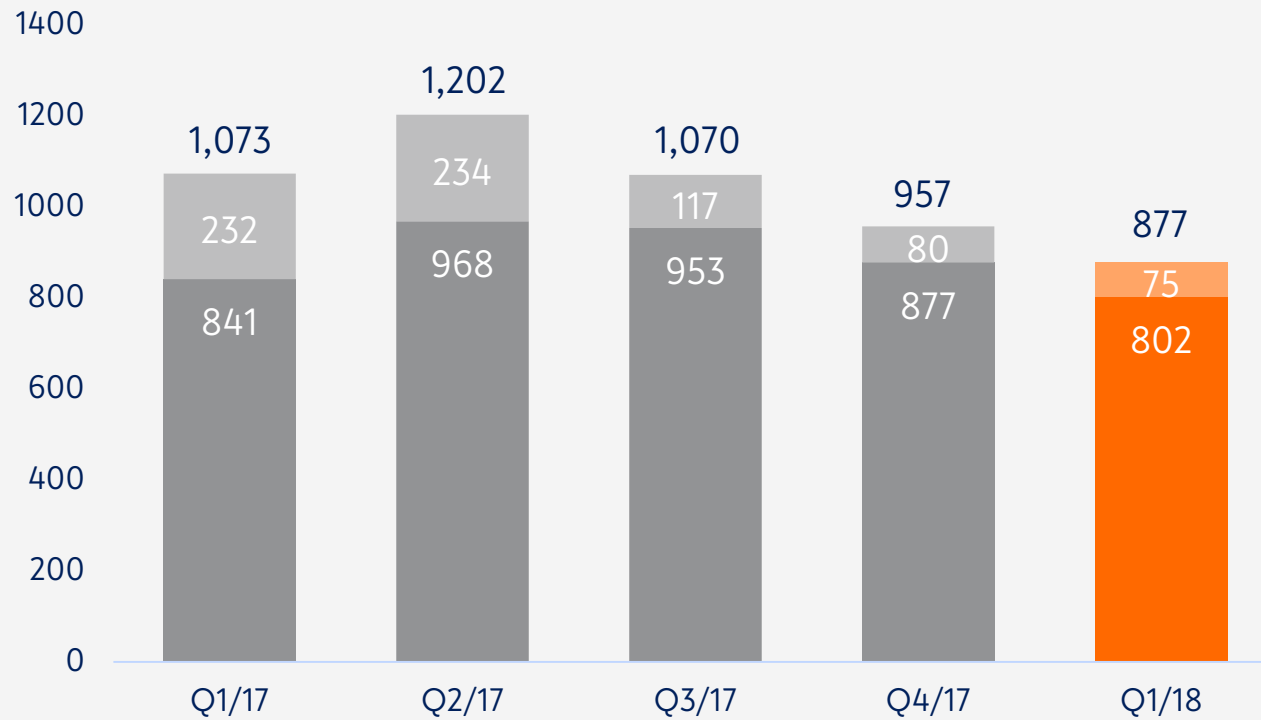
- Q1 performance according to plans, traditionally the softest quarter due to seasonality
- Divestments in speciality goods trade decreased sales and profitability as expected
- Good sales growth in K-Rauta and Onninen in Finland and Kesko Senukai in the Baltics
- Sales burdened by restructuring in Sweden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

# Building and Technical Trade Net Sales

## Comparable Q1 change -2.4%

€m

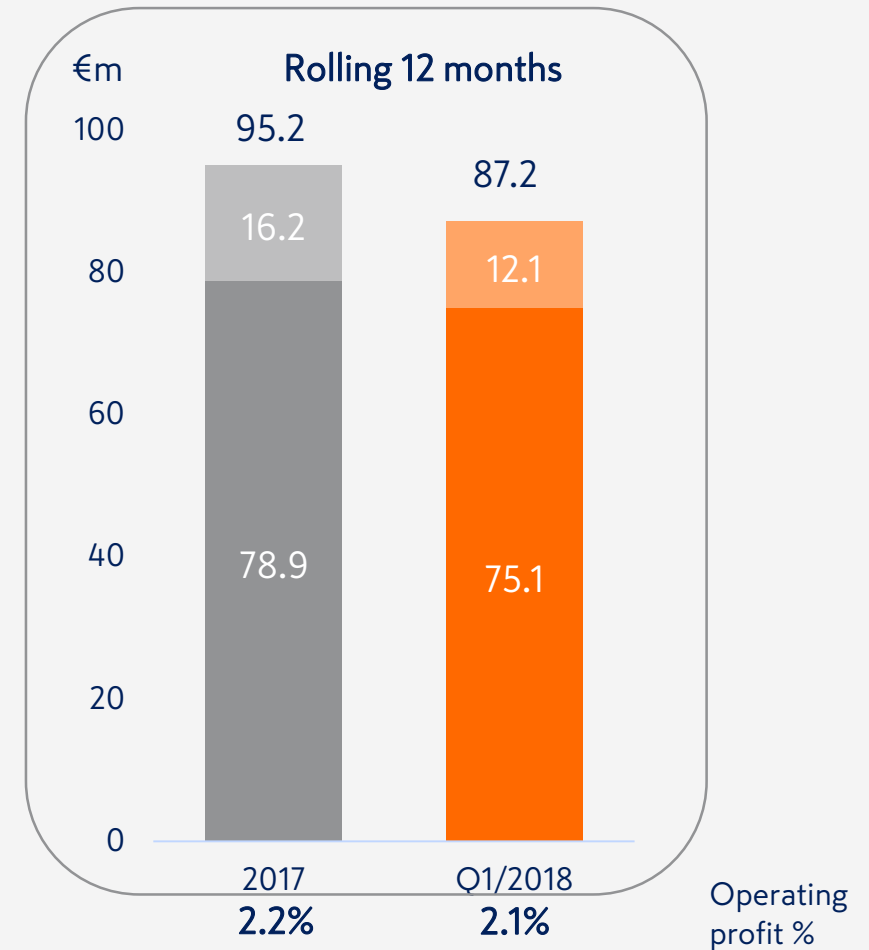
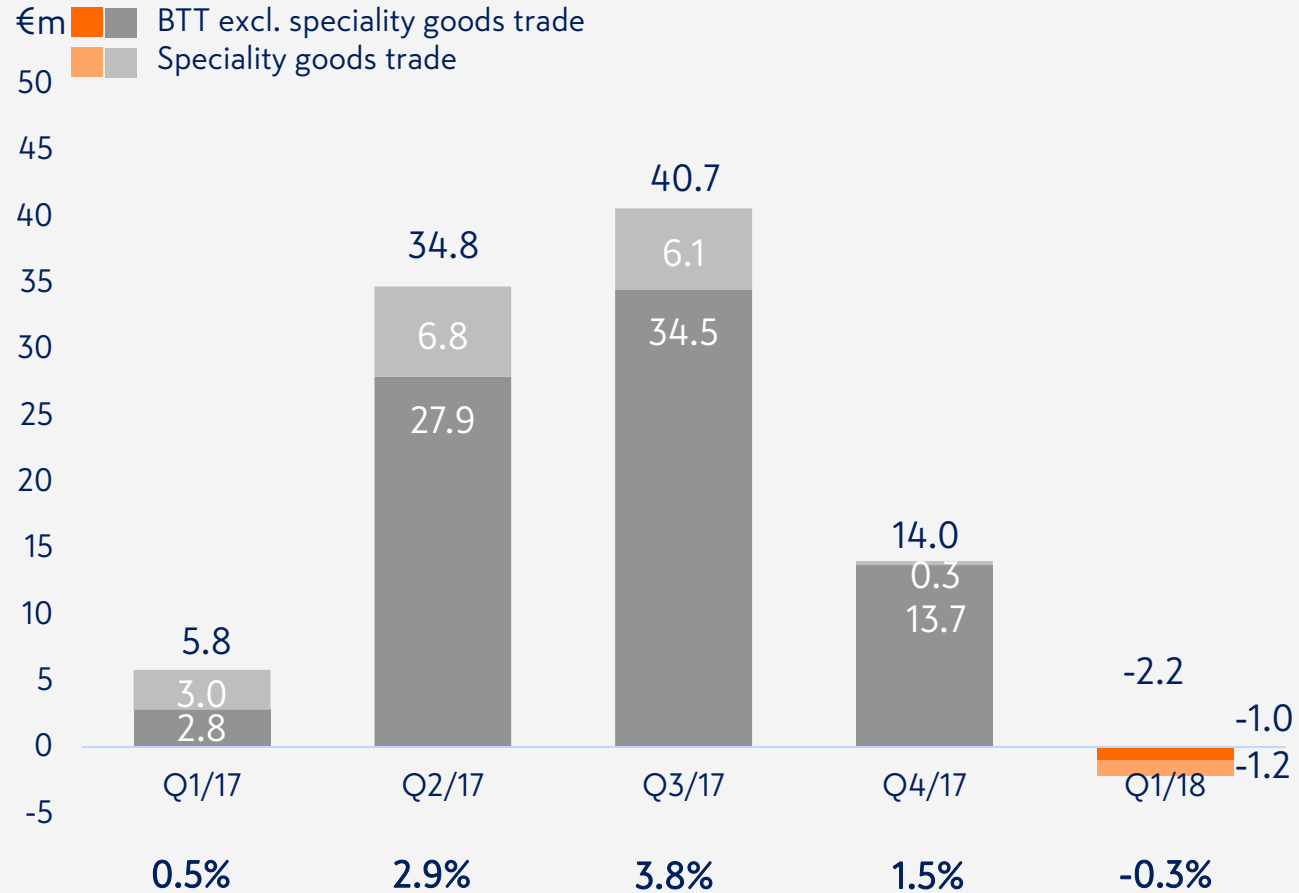
■ BTT excl. speciality goods trade  
■ Speciality goods trade



Comparable figures, continuing operations

# Building and Technical Trade Operating Profit

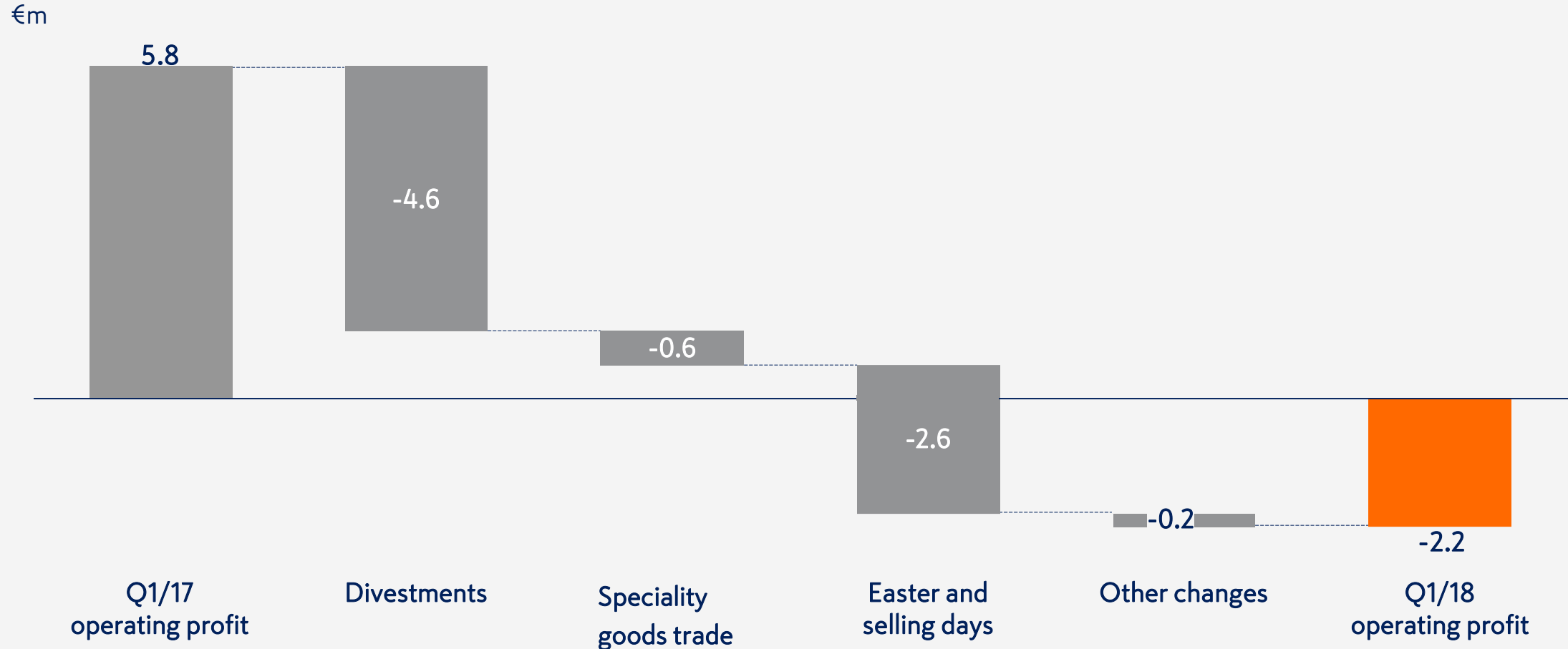
## Q1 traditionally the softest quarter





# Building and Technical Trade Operating Profit

Solid operative result, decrease due to divestments and calendar impacts



<sup>33</sup> 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





Car Trade



# Car Trade

## The market

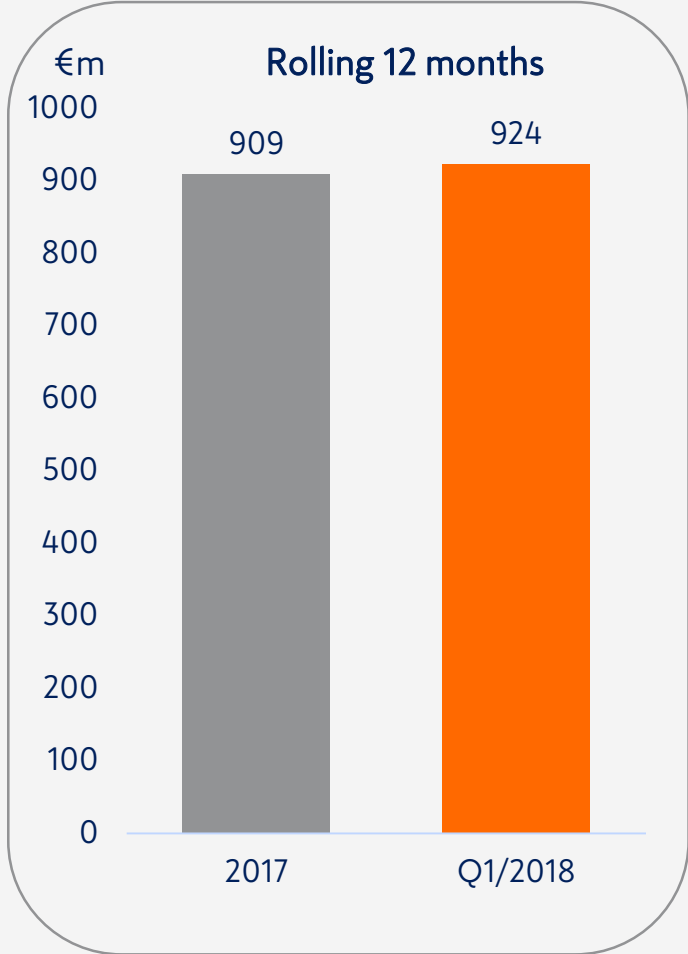
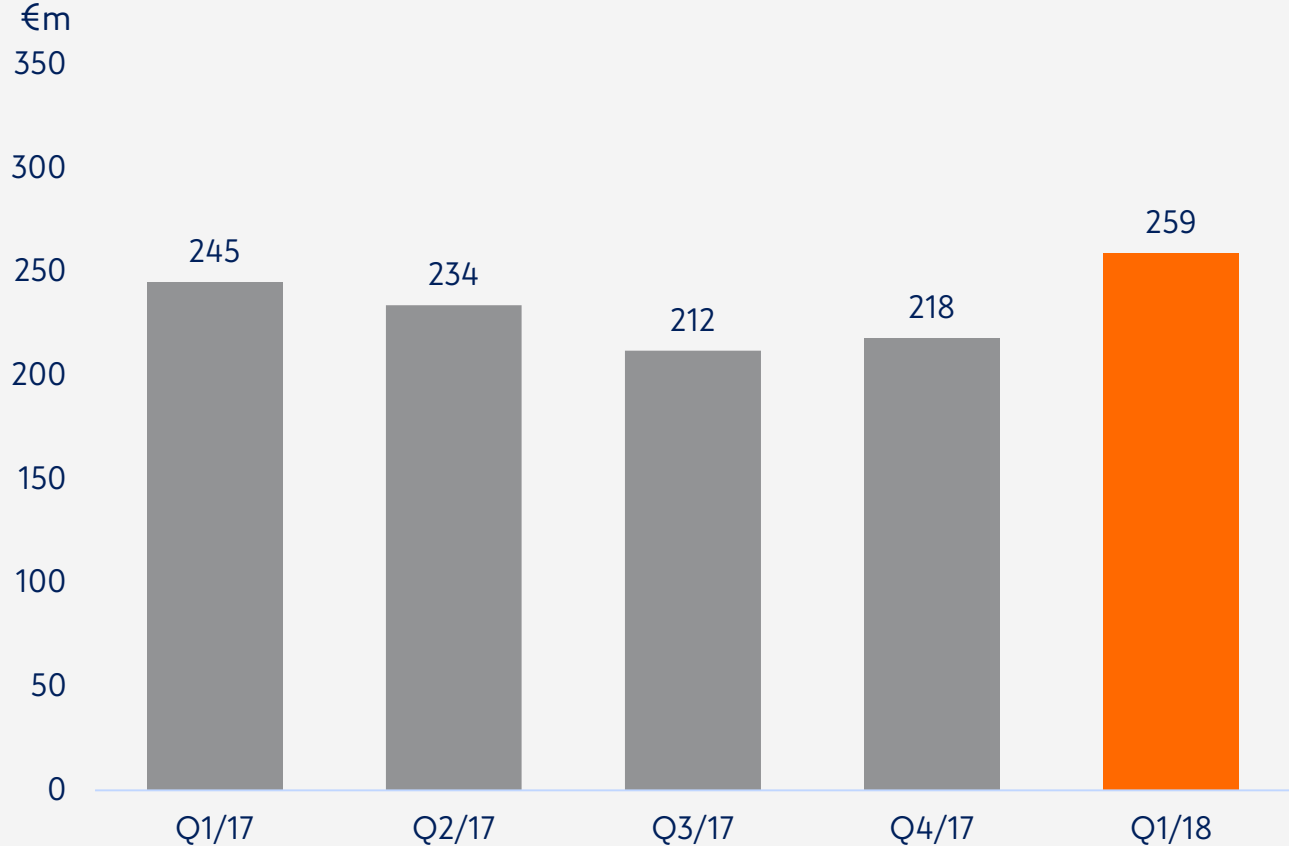
- First registrations of passenger cars and vans up by 3.3%
- New WLTP emissions testing for the whole industry to be implemented next autumn

## 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%

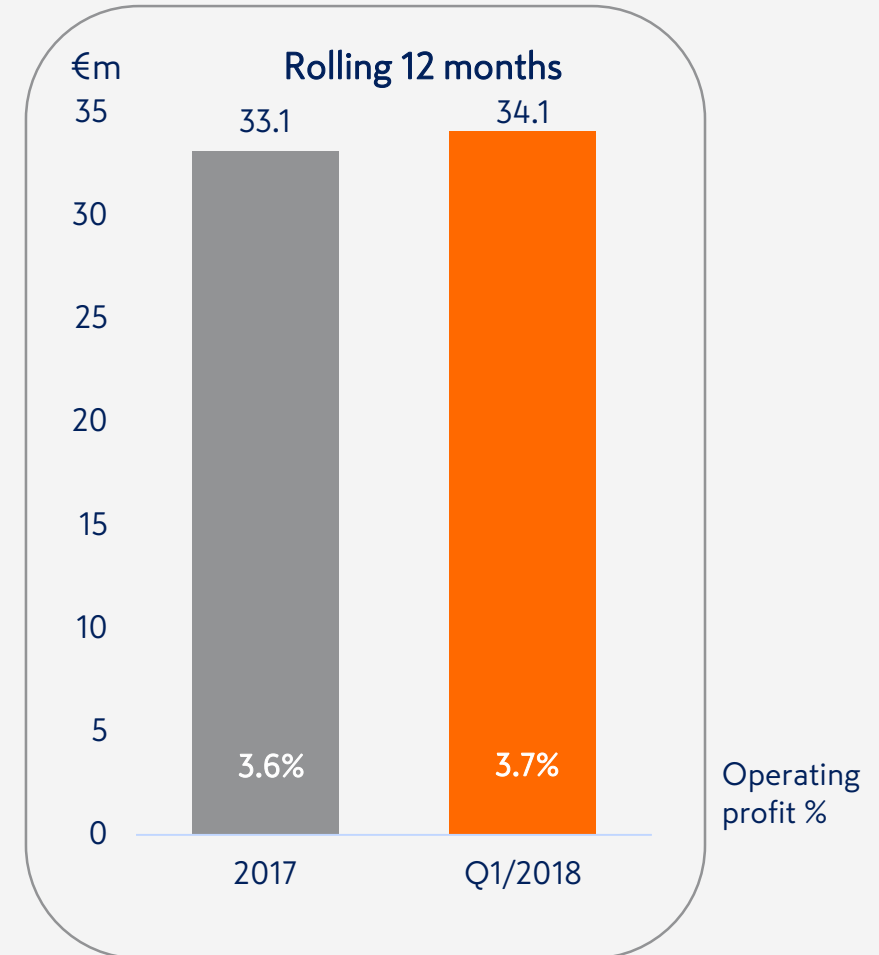
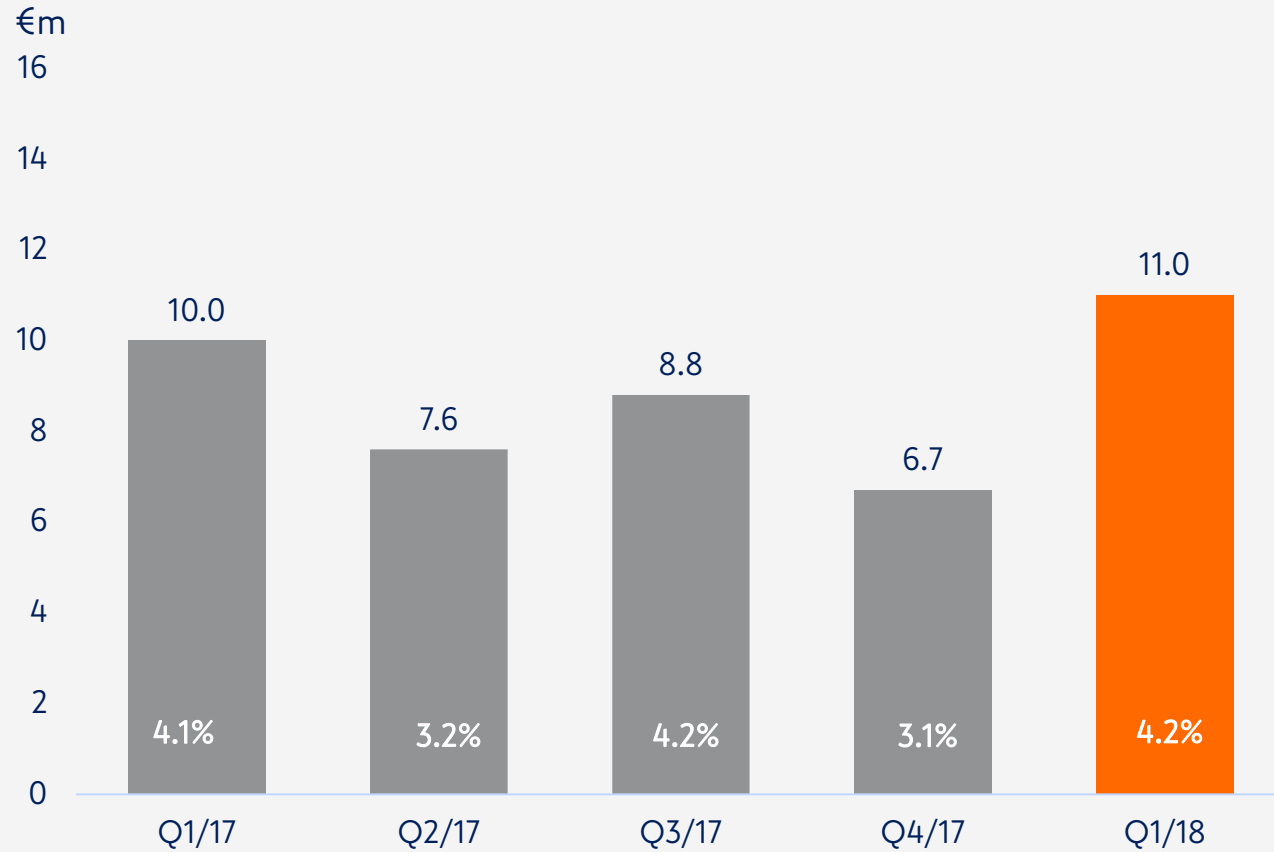
# Car Trade Net Sales

Q1 growth 5.8%



# Car Trade Operating Profit

## Q1 growth 9%



# 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.



# Kesko is the Most Sustainable Trading Sector Company in the World\*

\*The Global 100 list is prepared by the Canada-based Corporate Knights Inc. and it is based on a global assessment of 5,994 listed companies





For shopping  
to be fun