Kesko's Journey Towards a More Focused Retailing Company

Investor Presentation, Q2/2018

K Group and Kesko in Brief

#1

Biggest in Finland, #3 in Northern Europe with retail sales of nearly **€13bn**

Profitable growth strategy in **3** core divisions

1,800 stores in 8 countries and comprehensive **digital** services

€

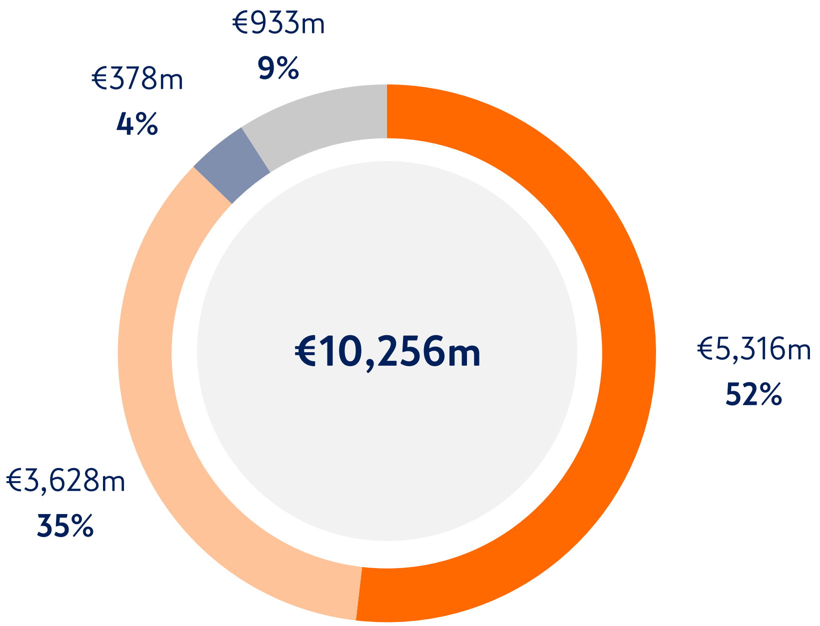
Strong financial position with good dividend capacity

Market cap approx. **€5bn** with **41,000** shareholders

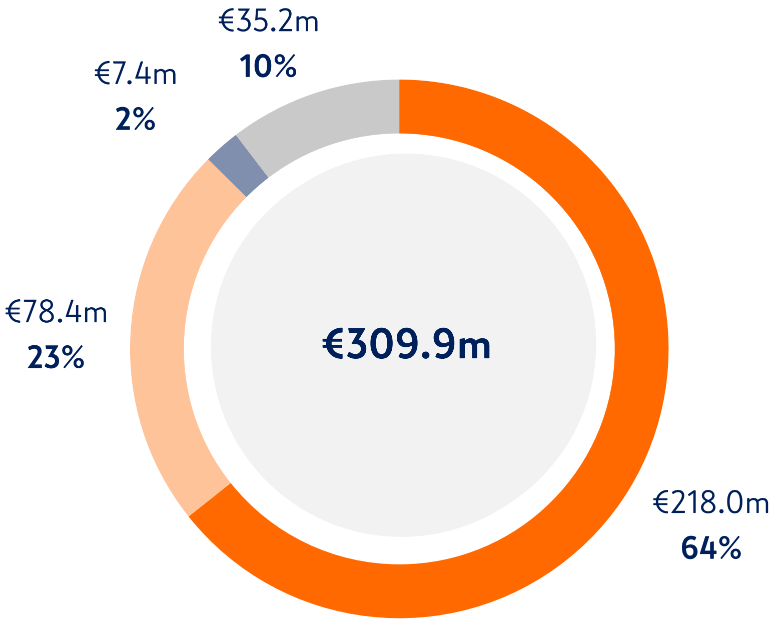
World's most sustainable trading sector company

Net Sales and Operating Profit

Net sales



Comparable operating profit



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

Rolling 12 months Q2/18, continued operations

We Continue With Our Existing Growth Strategy

VISION	We are the customers' preferred choice and the quality leader in the European trading sector				
STRATEGIC FOCUS AREAS	Profitable growth	Business focus	Quality and customer orientation	Best digital services	One unified K
BUSINESS FOCUS	Grocery trade	Building and technical trade	Car trade		
VALUE	The customer and quality – in everything we do				

Progress Towards a Strong, More Focused Company

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

3/2015
Divestment of Anttila

4/2016
Acquisition of Suomen Lähikauppa

6/2016
Acquisition of Onninen

11/2016
Divestment of Russian grocery trade

12/2016
Acquisition of AutoCarrera

6/2017
Divestment of K-maatalous

6/2017
Divestment of Asko and Sotka furniture trade

2/2018
Divestment of Russian building and home improvement trade

Additionally new acquisitions announced for Byggmakker in Norway, Kesko Senukai in the Baltics, and Kespro in Finland

Profitable Growth Achieved in All Three Divisions

Grocery trade

	2015	2017
Net sales	€4,673m	€5,282m
Oper. profit	€177m	€203m

Market share at its highest in 15 years

Building and technical trade

	2015	2017
Net sales	€1,989m	€3,639m
Oper. profit	€62m	€79m

B2B share increased to approx. 70%

Car trade

	2015	2017
Net sales	€748m	€909m
Oper. profit	€26m	€33m

Market leader

Continued operations, comparable figures, building and technical trade excluding speciality goods trade

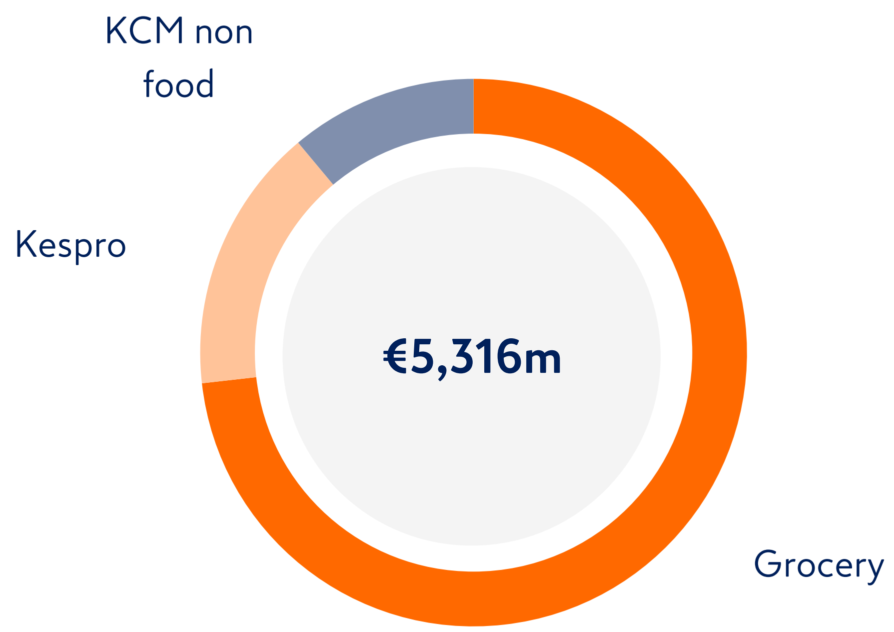
Profitable Growth in All Channels in Grocery Trade

Grocery Trade Business in Brief

- One of the most profitable players in Europe
- The quality leader in the Finnish grocery trade and foodservice market
  - K Group #2 in Finnish grocery retailing
  - Kespro #1 in Finnish foodservice market
  - Rapidly expanding online food store network
- K Group's market share at its highest in over 15 years (~37.0%)
- 1.2 million customer visits per day
- Over 1,200 stores in the retailer business model

Net sales

Rolling 12 months Q2/18



Strategic Direction to Continue Profitable Growth

Most customer-oriented and inspiring food stores

Developing and modernising the store network

Offering a seamless omni-channel customer experience

Developing retailer entrepreneurship as a competitive advantage

Expanding the foodservice business

Success Stories in Strategy Execution

K-retailer entrepreneurship and store-specific business ideas

Neighbourhood market store remodelling

K-Citymarket's market share

Own brand products

Rebranding and store modernisations

Kespro – developing the foodservice business

New mobile services and grocery eCommerce

Rebranding and Store Modernisation Continues

Effective implementation of store-specific business ideas – Every K is different

Focusing on store network development in growth centres

K CITYMARKET	Sales €2.1bn Comprehensive concept renewal **56** out of 81 store redesigns completed Current store network optimal and competitive
K Supermarket	Sales €1.8bn Rebranding, **128** out of 241 stores renewed Store network expansion profitably
K Market	Sales €2.0bn Modernisation, over **700** out of 800 stores made over Store network expansion profitably
NESTE K	Sales €0.1bn Further developing the service station concept **57** out of 70 stations redesigned Future network of 85 service stations

Rapid Growth in Online Grocery

Online grocery grew by 30% in 2017, current growth 60% yoy

Approx. 130 K-food stores currently offering online grocery

Average purchase 5x higher than in a physical store

Reaching 3m Finns

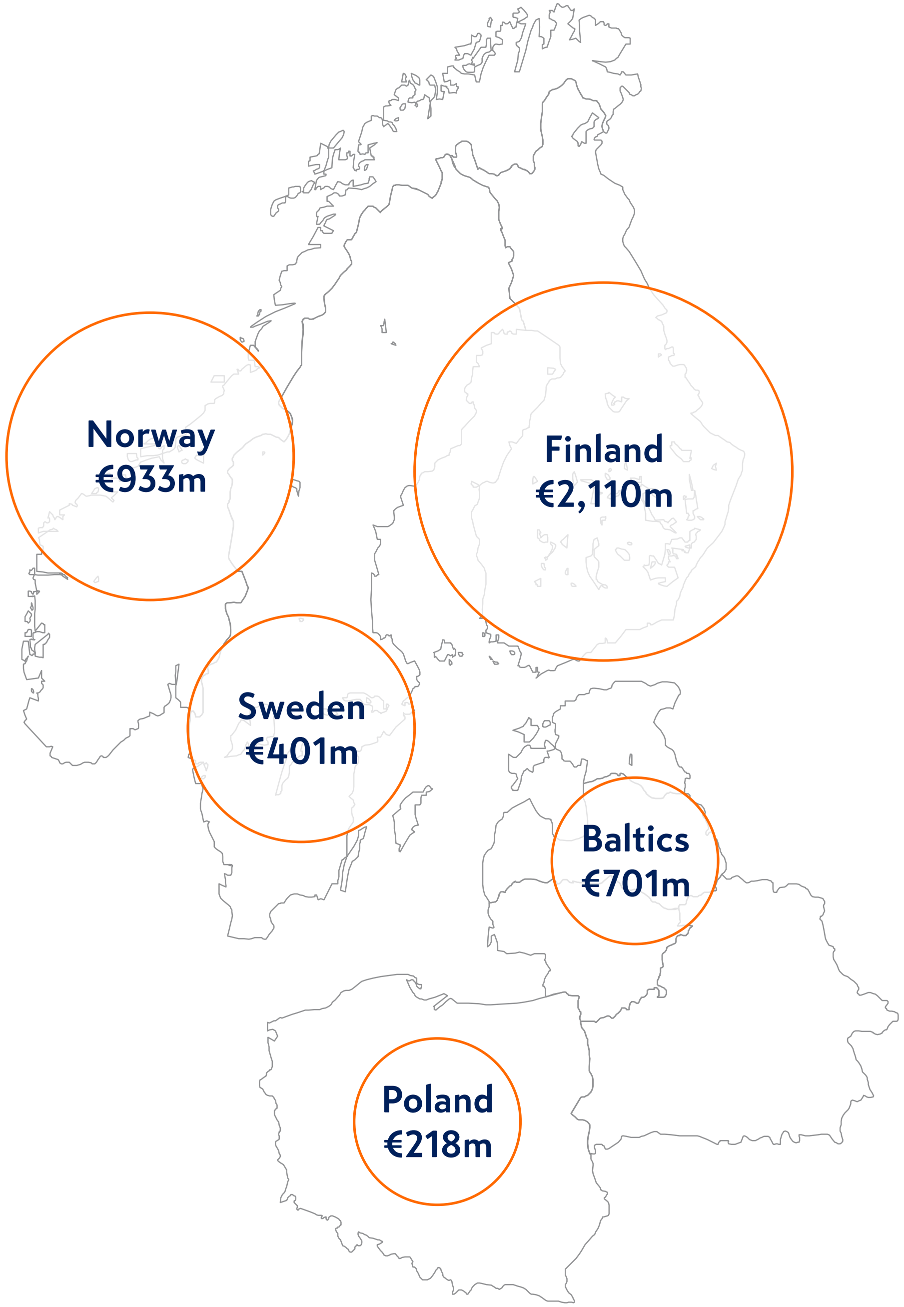
Increasing loyalty and sales to K-food stores

In biggest cities: K-Citymarket's selection of over 20,000 products available online
Efficient deliveries with K Transport

Taking Building and Technical Trade to the Next Level Through Customer Driven Country Focus

Building and Technical Trade in Brief

- Retail sales €4.4bn
- 430 stores
- Solid foothold across 8 countries
- 0.3 million customer contacts a day, increasingly online



Retail sales 017, excl. speciality goods trade and the Russian business operations to be discontinued in 2018

Strategic Direction to Become an Even Stronger Operator in the Northern European Building and Technical Trade

Country focus with specified strategic actions

Three customer segments served according their specific customer needs

Synergies – within individual countries and between the operating countries

Organic growth and profitability improvement

Selected acquisitions to win a chosen country and segment

Progress in Strategy Execution

- Successful acquisition of Onninen strengthened position in the professional customer segment and expanded offering to HEPAC and electrical products
- Divestments in speciality goods and machinery trade
- Operations in Russia divested to focus on Northern Europe
- Measures to improve profitability
- Merging the K-Rauta and Rautia chains

Market Offering Ample Opportunities

Norway

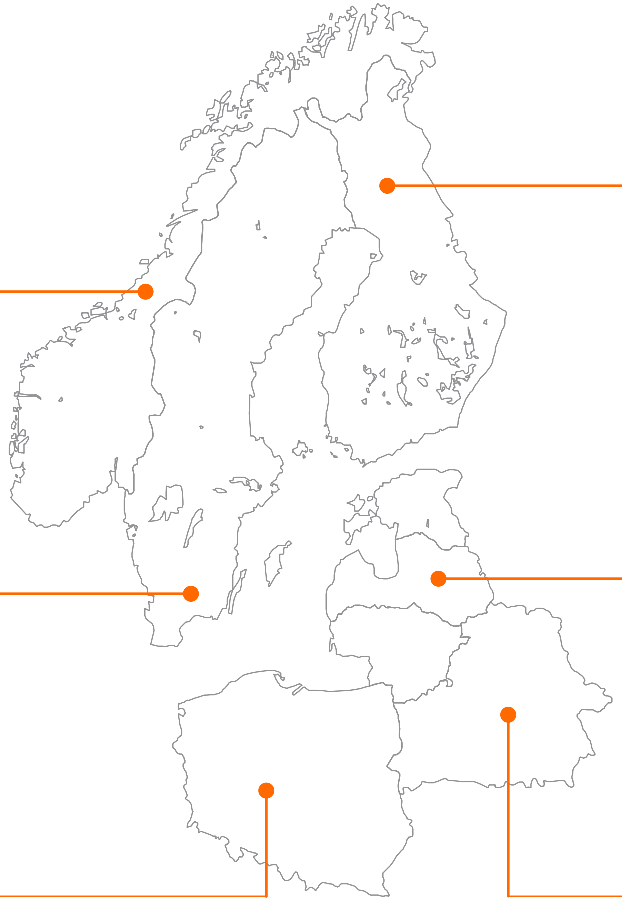
	Building & home improv.	Onninen
Retail market 2017 (€bn)	5.0	2.5
Market position	#3-4	#4

Sweden

	Building & home improv.	Onninen
Retail market 2017 (€bn)	5.5	4.2
Market position	#5-11	#6

Poland

	Onninen
Retail market 2017 (€bn)	4.6
Market position	#2



Finland

	Building & home improv.	Onninen
Retail market 2017 (€bn)	3.1	2.1
Market position	#1	#1

Estonia, Latvia, Lithuania

	Building & home improv.	Onninen
Retail market 2017 (€bn)	2.7	1.2
Market position	EE #2 LAT #3 LIT #1	EE #2 LAT #4 LIT #3

Belarus

	Building & home improv.
Retail market 2017 (€bn)	1.1
Market position	#1

New Management Model – Sharper Country Specific Focus

Customers

Norway	Sweden	Finland	Baltics & Belarus	Poland
BM Byggmakker, Onninen	K-Rauta, Onninen	K-Rauta, Onninen	K-Rauta, K-Senukai, OMA, Onninen	Onninen
Knut Strand Jacobsen	Endre Espeseth	Olli Pere Martti Forss	Arturas Rakauskas Martti Forss	Endre Espeseth

Jorma Rauhala

Building and Technical Trade Brings Value to Three Customer Segments – with Differing Drivers

Technical professionals

- Technical contractors
- Infrastructure
- Industry
- Retailers

Professional builders

- Construction companies
- Renovation contractors
- Decoration contractors

Consumers

- Renovators
- Home and garden builders
- Decorators
- Gardeners

Good Value Creation for Upcoming Years

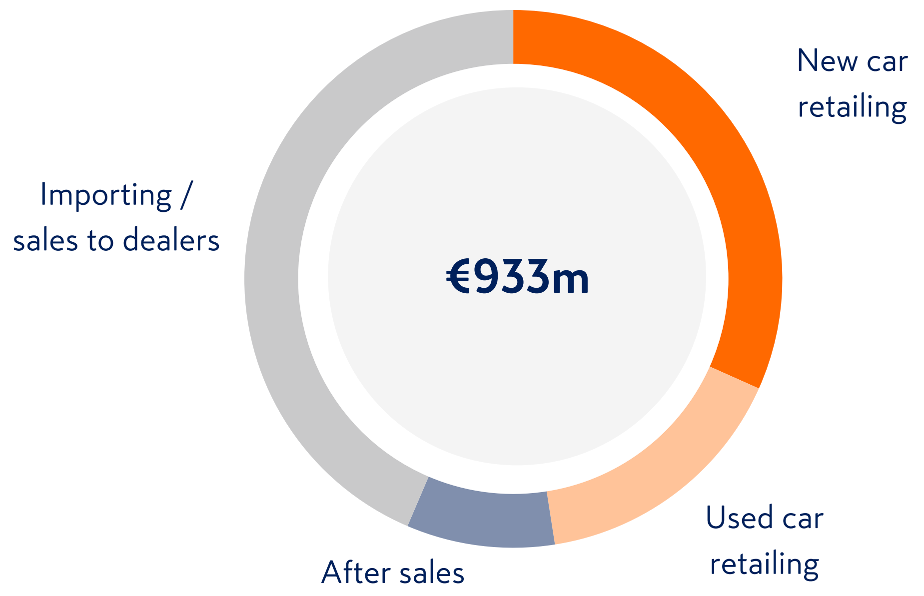
Car Trade Growing Faster Than the Market and Continuously Improving Profitability

Car Trade Business in Brief

- Operating the Volkswagen Group's business in Finland: Audi, Volkswagen, SEAT, Porsche and MAN
- Market leader with sales of over €0.9bn
- Value chain includes importing, retailing and after sales as well as an extensive dealer and servicing network
- Various service concepts developed under the K-Caara platform

Net sales

Rolling 12 months Q2/18



Car Trade Strategy
Targeting to Grow Faster Than the Market

Growing the business in collaboration with the VW Group

Expanding the service business independent of the VW Group

Best customer experience – in all channels

Excellent Performance by AutoCarrera

- Acquisition of AutoCarrera expanded our brand portfolio within the VW Group to include Porsche passenger cars
- Net sales €55.3m, +14%*
- Earnings improving with an operating profit margin of 5.5%*

*2017 figures

Leasing Services Off to a Good Start

- K-CaaraLeasing – own leasing company for B2B customers
- K-CaaraDeal – leasing product for B2C customers
- Both launched in Q1/2018
- Full ownership of the customer relationship
- Earnings and improved margins stay with us throughout the car's lifecycle: new car sales, service & repair, body-repair, used-car sales

Volkswagen Group’s Response Is to Invest Heavily in Future Mobility

Targets 2025

~3 million annual unit sales of e-cars

every fourth new Volkswagen Group vehicle battery powered

over 80 new electrified models to customers

over 34 billion euro investments in e-mobility, digitalisation, autonomous driving and mobility services

Expanding the Service Business by Building a Nationwide Charging Network for Electric Cars in 2018-2019

By the end of 2019
a network of 400 charging points
at over 70 K-store locations

100 fast charging points
where cars can be charged
during a shopping trip

An over 50% increase in public
fast charging points in Finland

As much of the electricity as possible
produced with solar power

K Group is the biggest producer
and user of solar power in Finland

Moving Towards Our Financial Targets

Main Financial Targets

	Roll. 12 months Q2/18	Target level
Return on Capital Employed, %*	13.7	14.0
Return on Equity, %**	11.7	12.0
Interest-bearing net debt / EBITDA	0.4	<2.5

Kesko's dividend policy

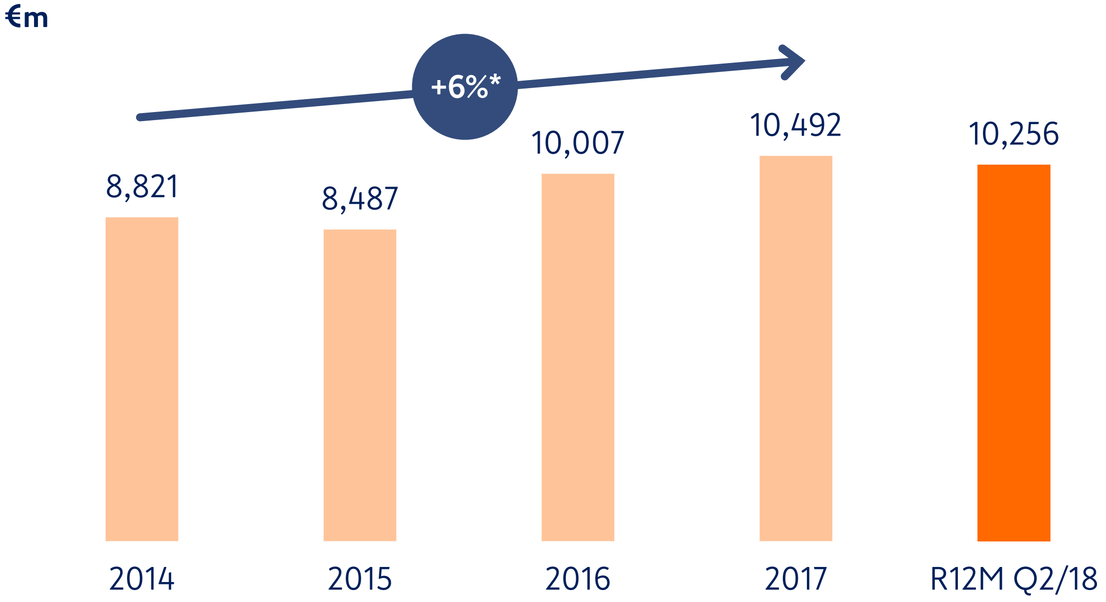
At least 50% of comparable earnings per share distributed as dividends

Payout ratio (5y average) : 103.4%
Dividend yield (5y average B share) : 5.4%

* Comparable figures, continued operations, ** Comparable figures, Group

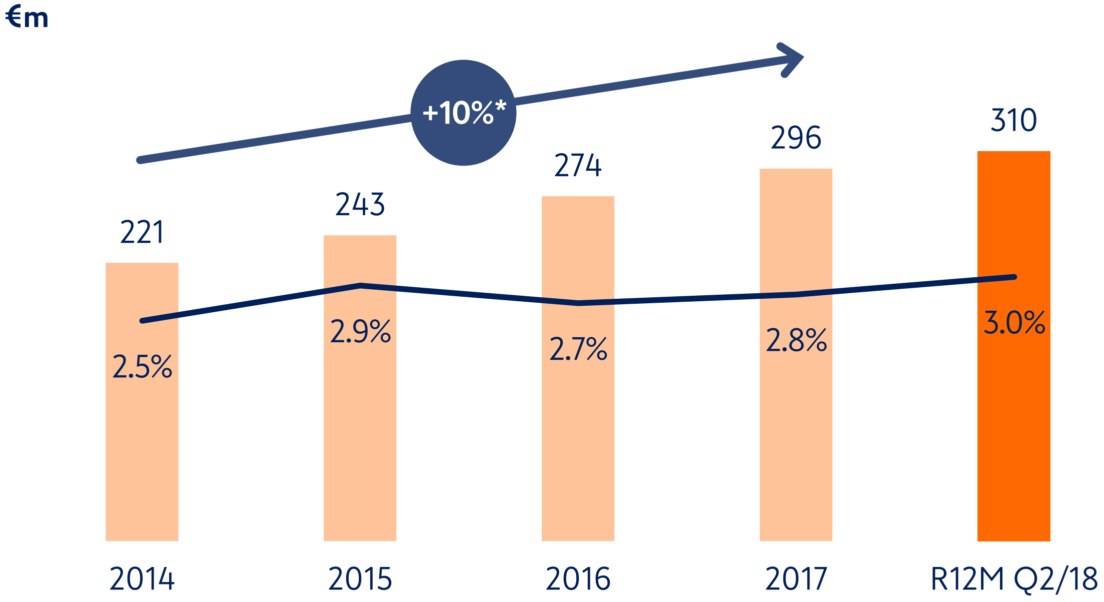
Executing Profitable Growth Strategy

Net sales



Net sales growth €1.7bn in 2014-2017

Comparable operating profit



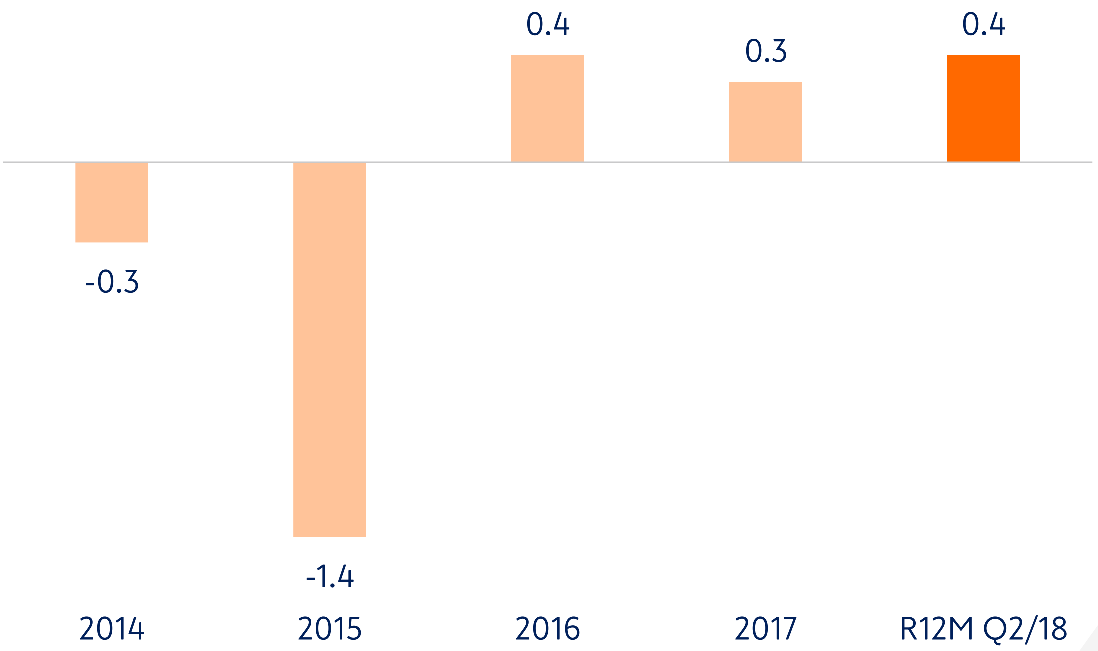
Operating profit growth €76m in 2014-2017

Continued operations *CAGR

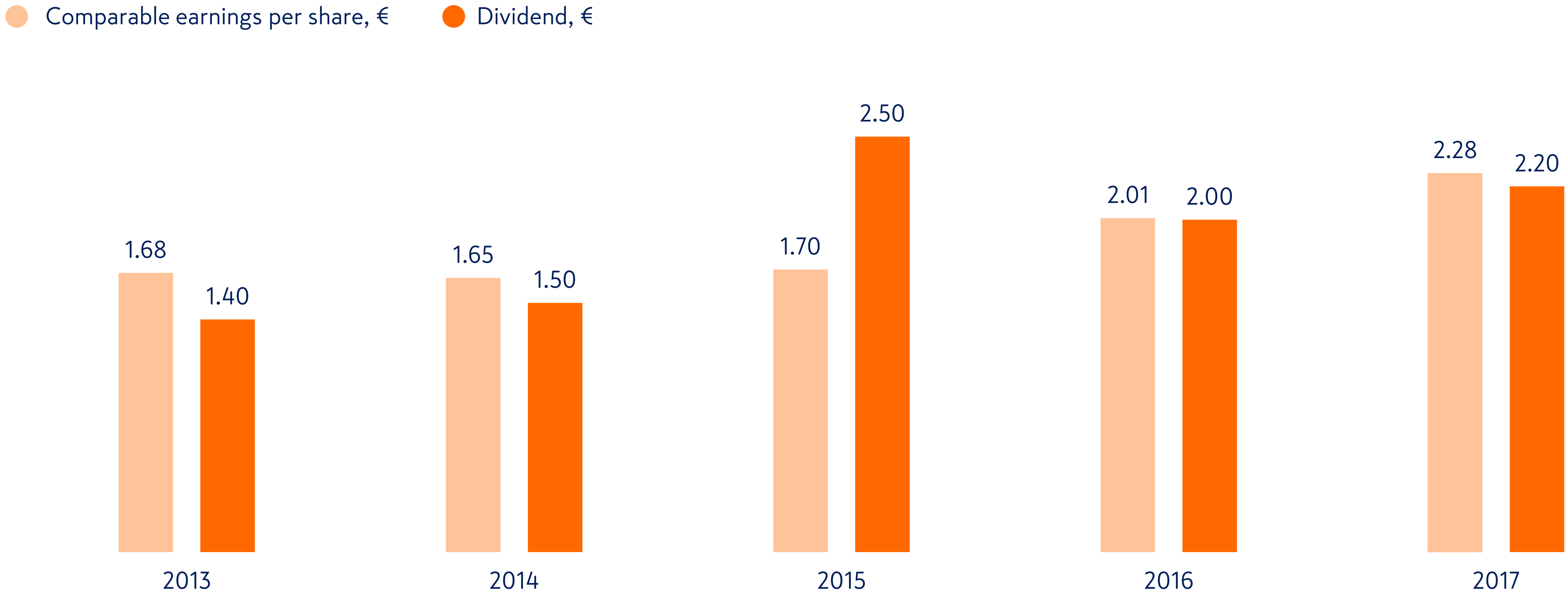
Strong Financial Position

- Financial position strong despite €1.3bn investments in 2015-2017
- M&A firepower up to above €1bn – acquisition criteria include value creation and good strategic fit
- Strong balance sheet enables both strategic growth initiatives as well as good pay-out ratio for dividends

Net debt/EBITDA target 2.5x



Steady Growth Targeted in Dividends

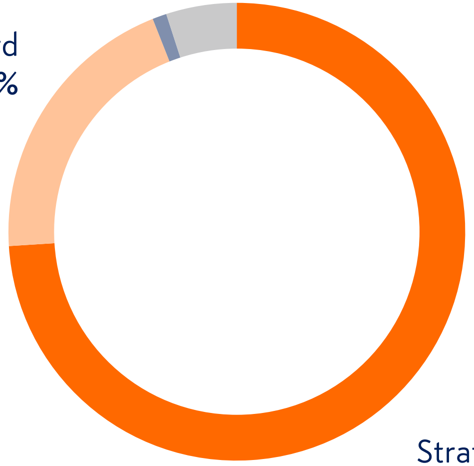


Real Estate Portfolio in Good Shape

Book value of owned stores by region, €m	2017
Finland	817
Other Nordic countries	40
Baltic countries and Belarus	38
Total	895

Lease liabilities by region, €m	2017
Finland	2,455
Other Nordic countries	73
Baltic countries and Belarus	350
Poland	15
Total	2,893

Breakdown of owned properties



Strategic: Properties Kesko wants to own. Significant properties for business operations.

Standard: Properties Kesko owns but could sell and then lease back.

Realisation: Properties Kesko no longer has use for.

Development: Plots and properties that require development to fit their planned purpose.

Continued operations

Illustration of Impact to Key Ratios by IFRS 16

New IFRS 16 will be applied retrospectively as of 1 January 2019, comparative numbers for 2018 to be restated

Lease accounting summarised

- Lease agreements recognised in the balance sheet as assets and interest-bearing liabilities
- Rent expenses replaced by depreciation and interest expense in the income statement

Impacts of the new standard

- Operating profit and EBITDA will increase
- ROCE% will decrease
- Interest-bearing net debt and net debt/EBITDA to increase
- No changes to total cash flow

Illustrative Impact of IFRS16	2017 Actual	IFRS16 Impact	2017 Adjusted**
Continued operations			
EBITDA, €m*	422	+396	818
Operating profit, €m*	296	+96	392
Finance net, €m*	4	-101	-97
Profit before tax, €m*	300	-5	296
EPS, €*	2.29	-0.03	2.26
Capital employed, €m***	2,224	+1,984	4,208
ROCE, %*	13.3	-4.0	9.3
Group			
Interest-bearing net debt	136	+2,190	2,326
Interest-bearing net debt/EBITDA	0.3	+2.4	2.7

*Comparable ** Based on amount as if IFRS 16 would have been applied as of 1.1.2017 *** Average for 12 months

Creating Value Through Good Strategic Choices And Successful Execution

Highlights Q2/2018

Net sales +4.0%, operating profit €89m, growth operatively excl. divestments +€11m

Net sales grew and profitability improved in all core businesses

Acquisitions for Byggmakker in Norway, Kesko Senukai in the Baltics, and Kespro in Finland

Growth strategy adopted in 2015 further defined

Comparable figures, continuing operations

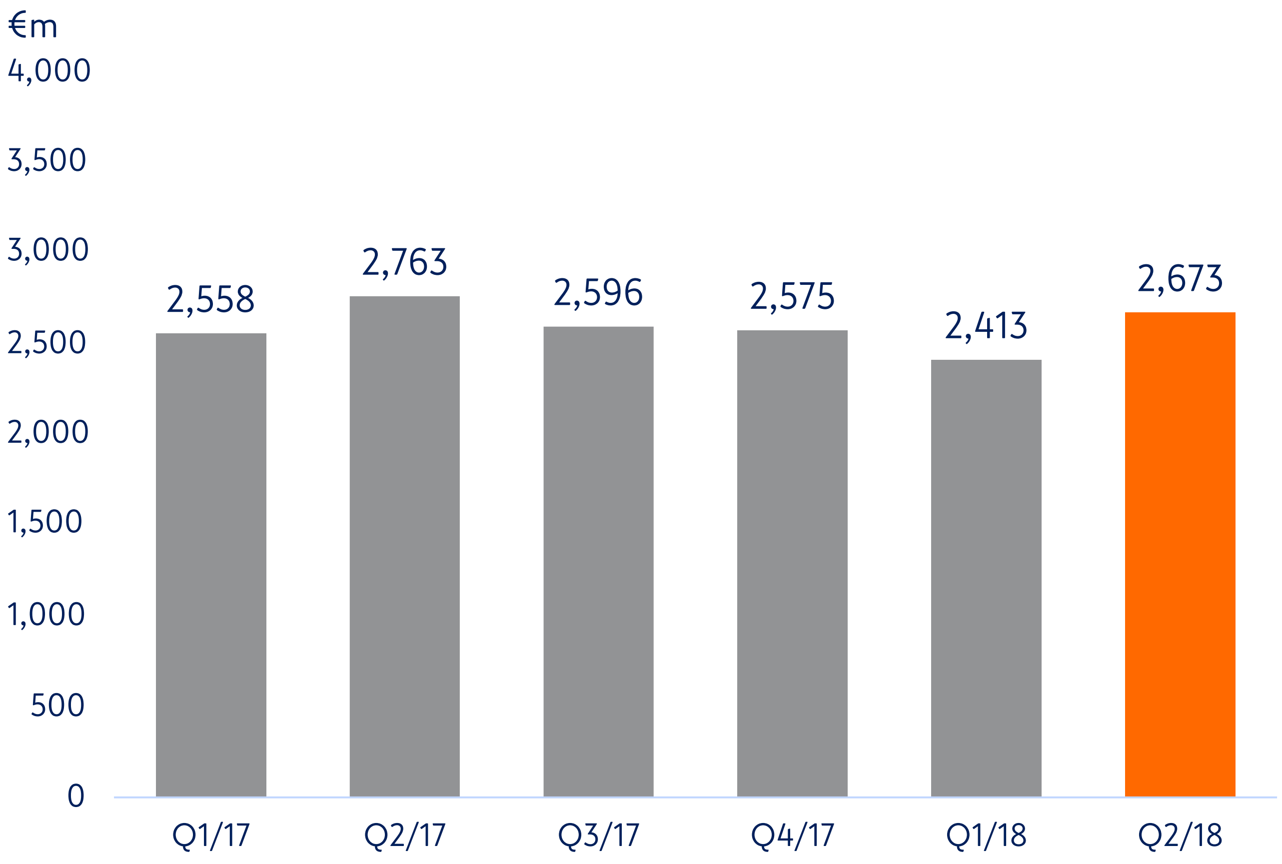
Net Sales and Operating Profit Grew

	Q2/2018	Q2/2017	H1/2018	H1/2017
Net sales, €m	2,673	2,763	5,086	5,321
Net sales growth, %	+4.0	+0.6	+3.7	+1.5
Operating profit, €m	89.0	83.8	129.1	115.3
Operating margin, %	3.3	3.0	2.5	2.2
Profit before tax, €m	86.0	82.1	125.9	118.4
Earnings per share	0.61	0.61	0.96	0.93
Return on capital employed, rolling 12 mo, %	13.7	12.1		
Return on equity, rolling 12 mo, Group, %	11.7	10.3		

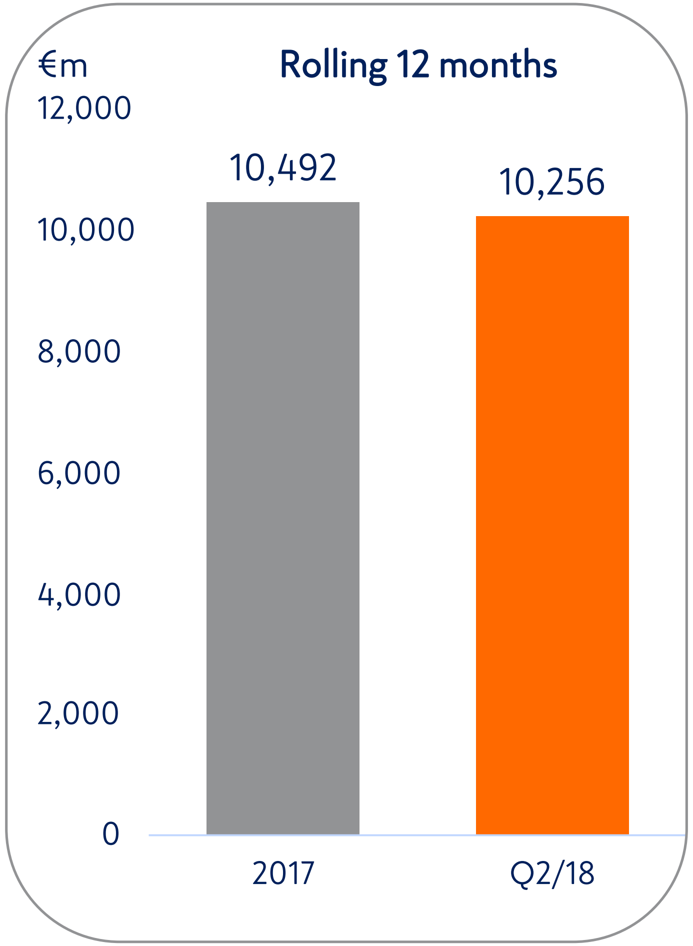
Comparable figures, continuing operations

Net Sales

Comparable Q2 growth +4.0%, H1 growth +3.7%

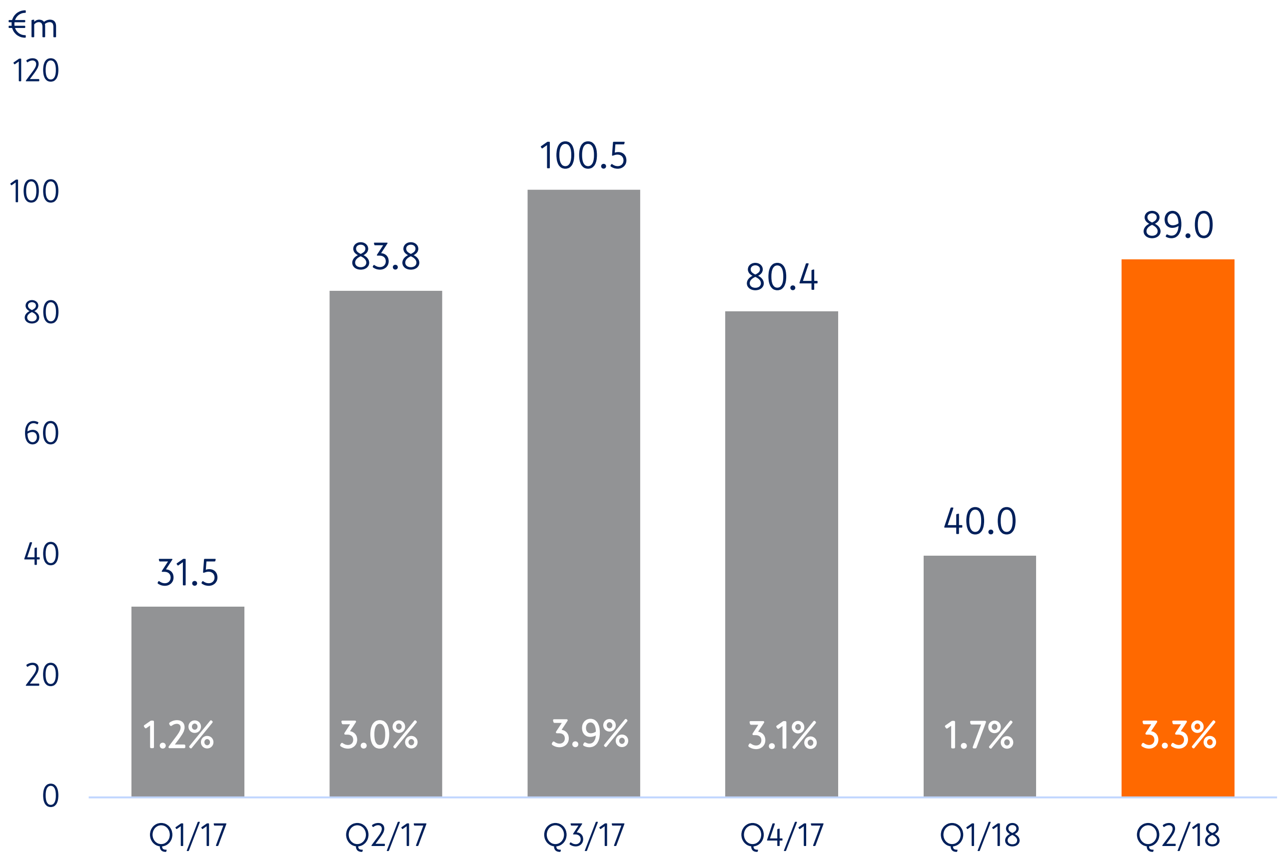


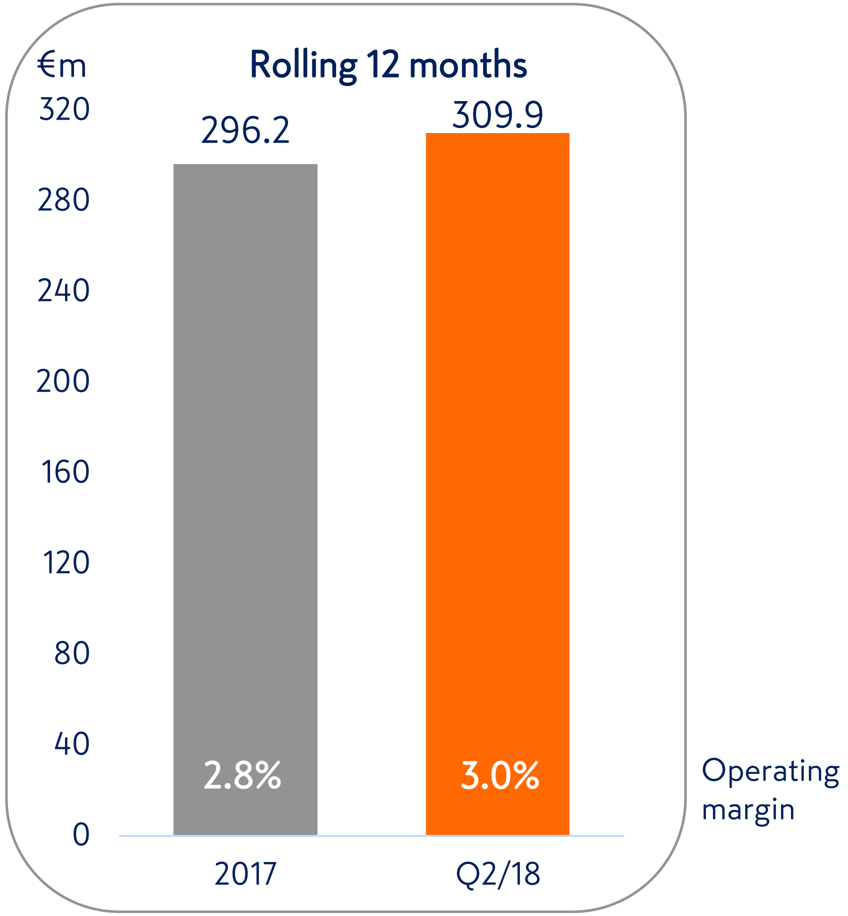
Comparable figures, continuing operations



Operating Profit

Q2 profit improvement +€5m, taking divestments into account +€11m



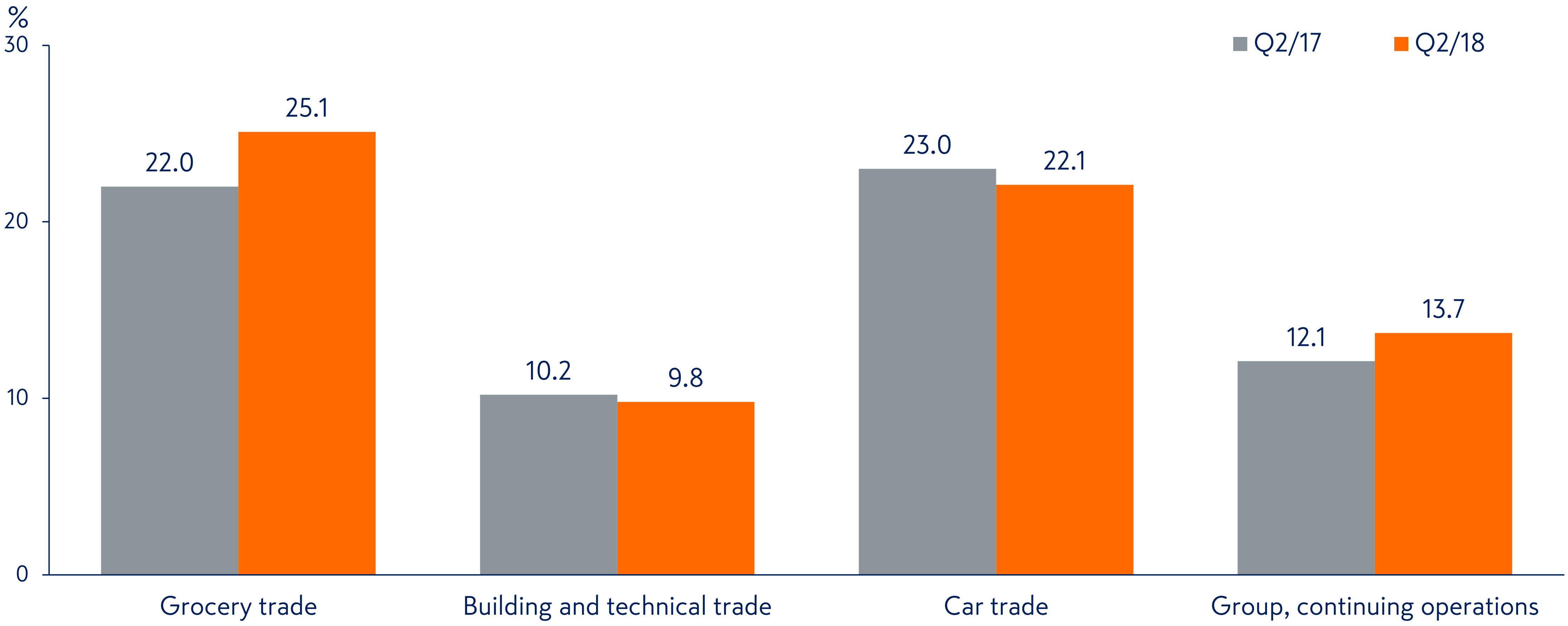


Comparable operating profit, continuing operations

Profit impact of the divested Asko and Sotka, K-maatalous and Yamarin businesses, Yamaha representation and Baltic real estate: €5.8m in Q2/17, €4.6m in Q1/17

Return on Capital Employed 13.7%

Comparable, rolling 12 months



Strong Financial Position

	30.6.2018	30.6.2017
Group:		
Equity ratio, %	46.2	47.0
Liquid assets, €m	446	367
Interest-bearing net debt, €m	146	194
Interest-bearing net debt/ EBITDA, rolling 12 mo	0.4	0.5
Continuing operations:		
Cash flow from operating activities, Q2, €m	140	131
Cash flow from investing activities, Q2, €m	-54	112

Comparable figures

Grocery Trade

Grocery Trade

The market

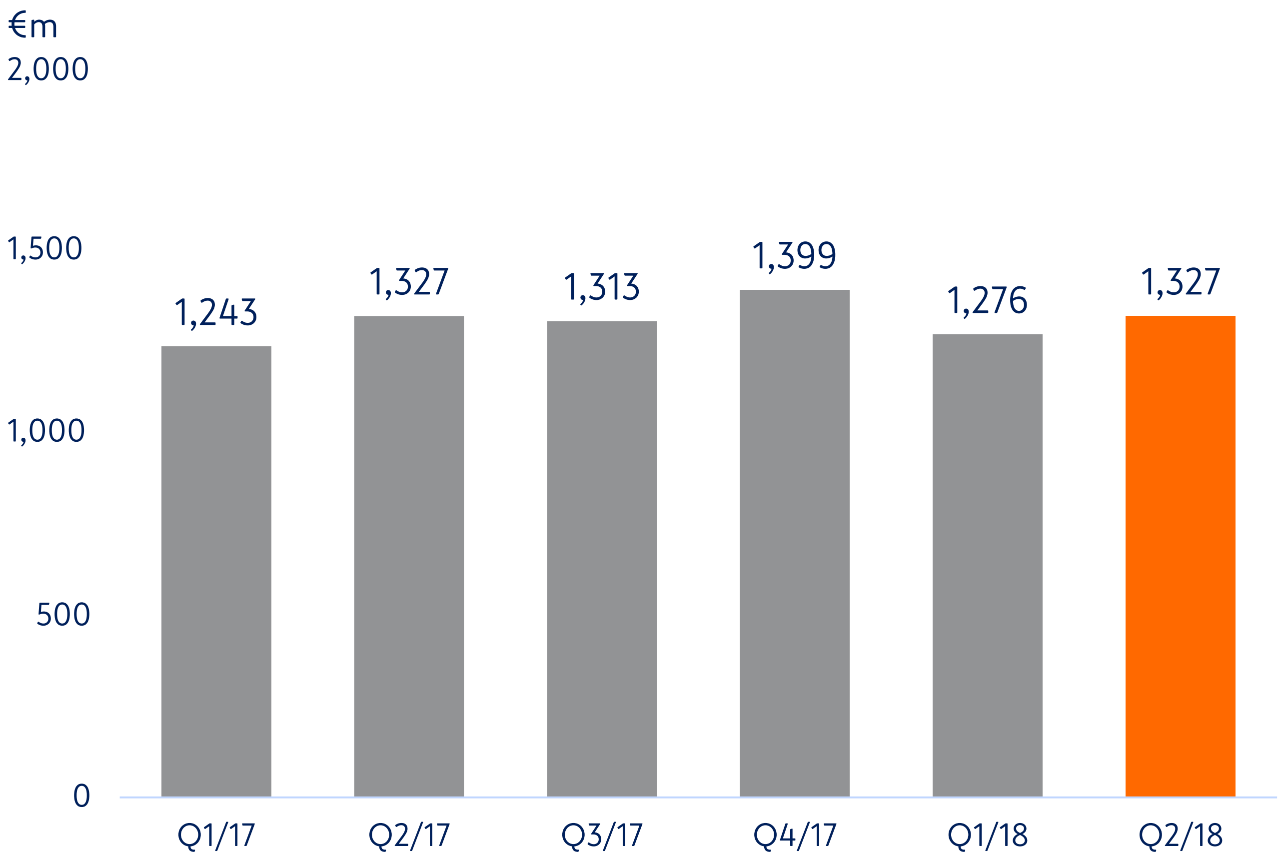
- Growth 3.1% in Q2 and 4.2% in H1, impacted by timing of Easter and warm weather early summer
- Price inflation approx. 2.3%, partially impacted by increases in alcohol and tobacco taxes

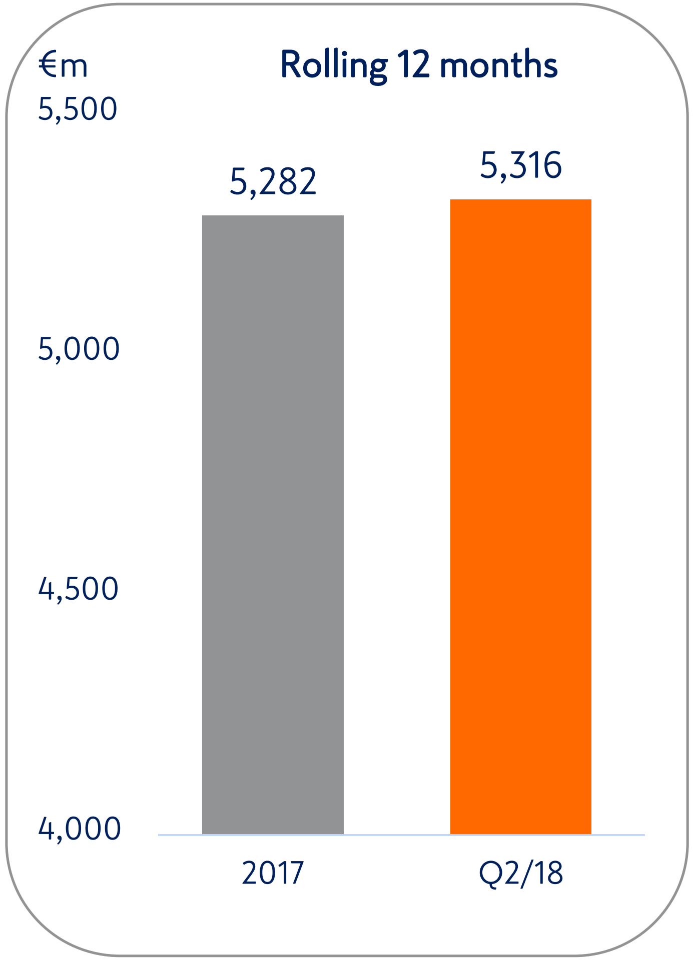
Q2

- Customer numbers up in all chains thanks to successful chain redesigns
- Growth strongest in neighbourhood market due to timing of Easter and warm weather early summer
- Profitability improved thanks to net sales growth and synergies
- Integration of Suomen Lähikauppa and transfer of stores to retailers successfully completed
- Kespro’s foodservice operations strengthened by acquiring Kalatukku E. Eriksson and Reinin Liha

Grocery Trade Net Sales

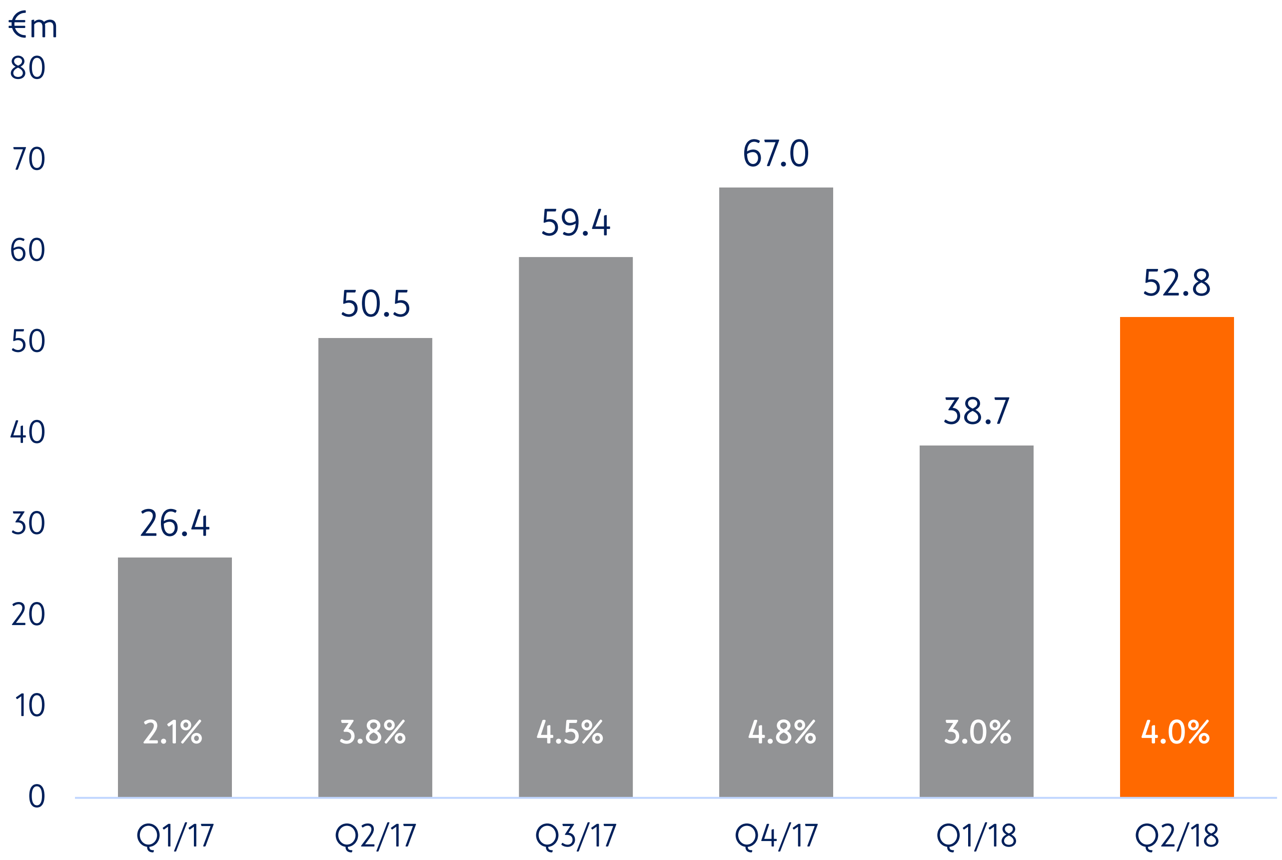
Comparable Q2 growth +2.9%, growth strongest in the neighbourhood market

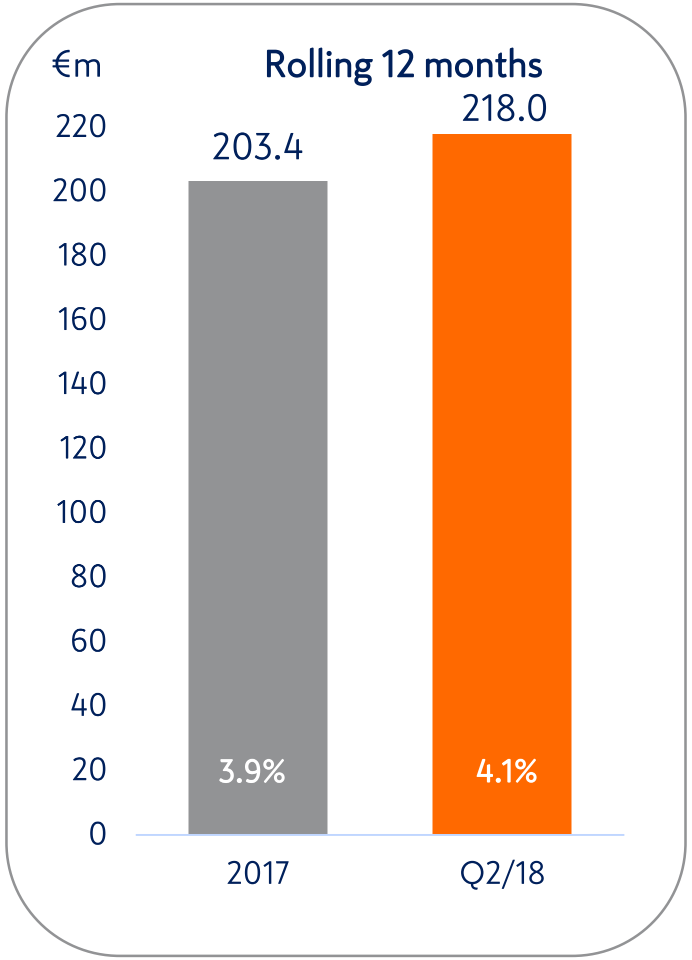




Grocery Trade Operating Profit

Profitability improved by sales growth and synergies





Operating margin

Comparable operating profit

Suomen Lähikauppa's Integration and Transfer of Stores to Retailers Successfully Completed

- Additional sales of nearly €700m from the acquisition of Suomen Lähikauppa
- Targeted synergies of €30m achieved ahead of schedule
- Total investment €120m
- Clear leading position in the neighbourhood market
- A total of 380 stores converted to K-Markets transferred to retailers by the end of June 2018

Kespro's Offering Strengthened by Acquisitions of Kalatukku E. Eriksson and Reinin Liha

- The acquisitions will strengthen Kespro's competitiveness in the fast-growing foodservice wholesale market
- Kespro will be able to offer restaurant customers a more extensive selection of fish and meat fresh food products
- Combined net sales of the acquired companies approx. €30m, good profitability
- The products will be gradually made available to a wider customer-base from autumn onwards with Kespro's efficient logistics


Building and Technical Trade
FXA

Building and Technical Trade

The market

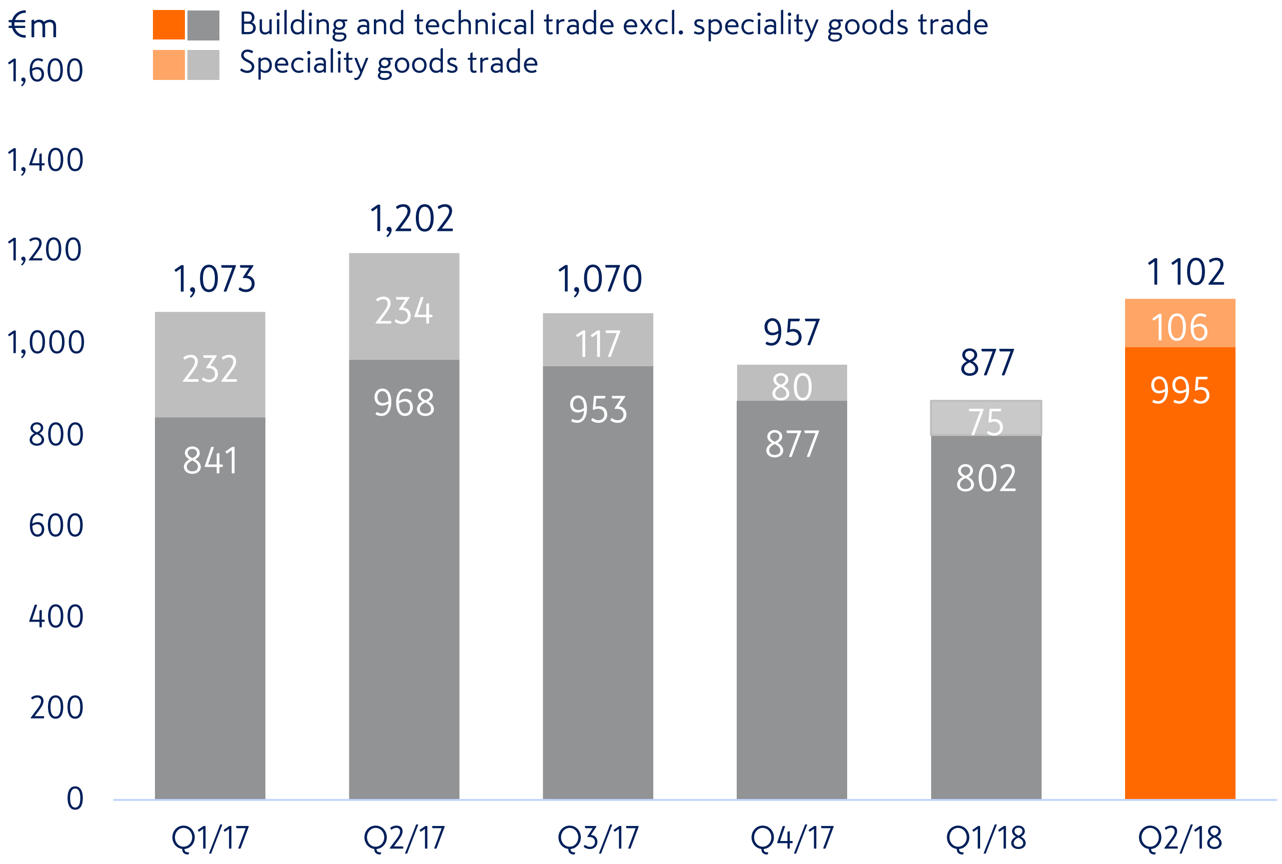
- Outlook for the market still favourable, although growth pace is expected to slow down
- Strong economies, warm weather early summer and the timing of Easter supported the market

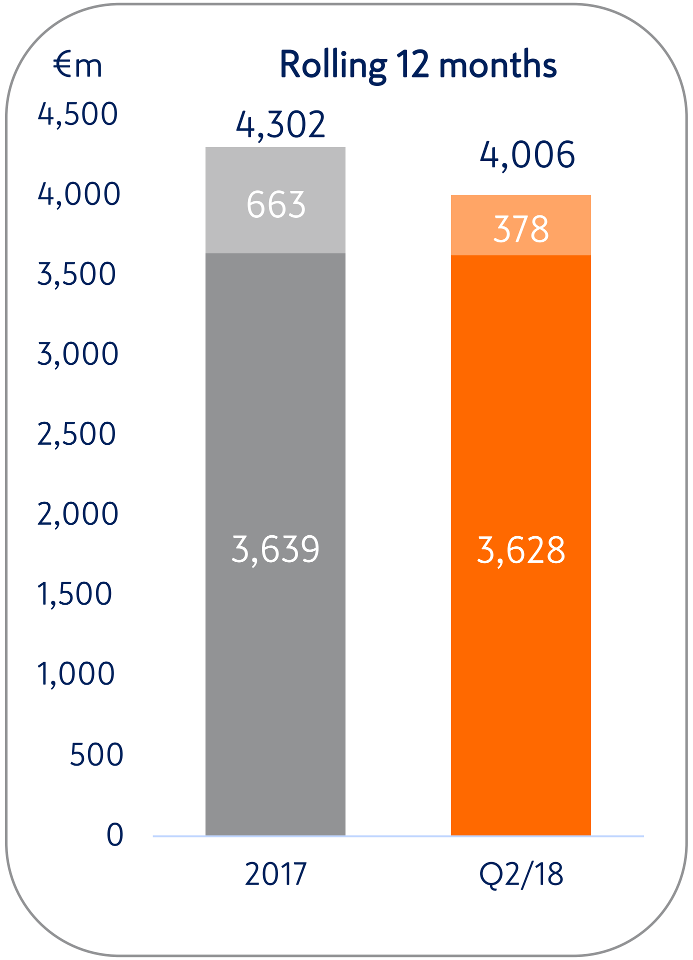
Q2

- Net sales and operating profit grew excluding the speciality goods trade
- Good sales and profit development especially in Finland and in Kesko Senukai in the Baltics
- Restructuring in Sweden and changes in network structure in Norway decreased sales
- Acquisitions of Skattum and Gipling for Byggmakker in Norway and of the online operator 1A Group in the Baltics
- Divestments in line with strategy decreased sales and profit in the speciality goods trade as expected

Building and Technical Trade Net Sales

Comparable Q2 growth +5.4%, H1 growth +1.8%

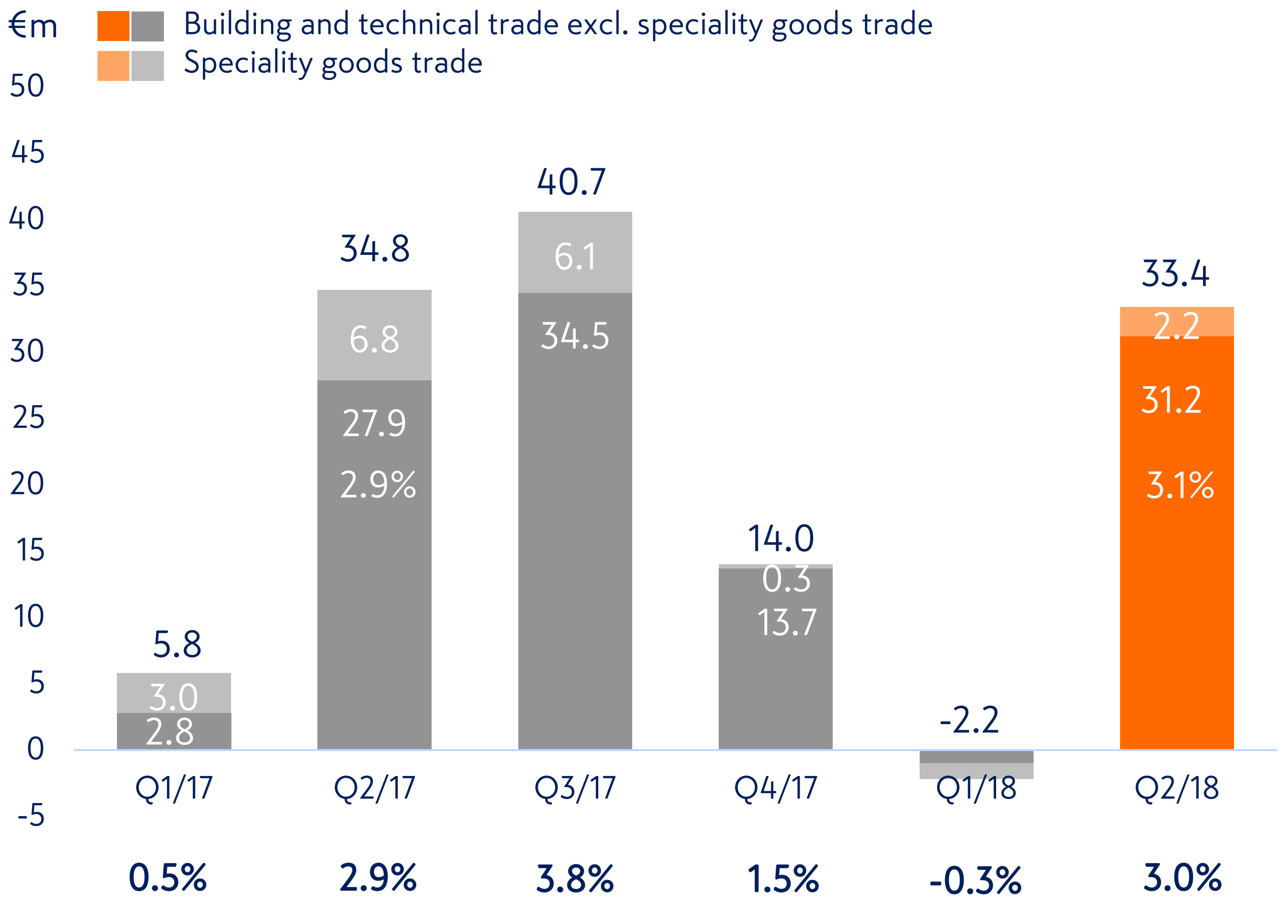




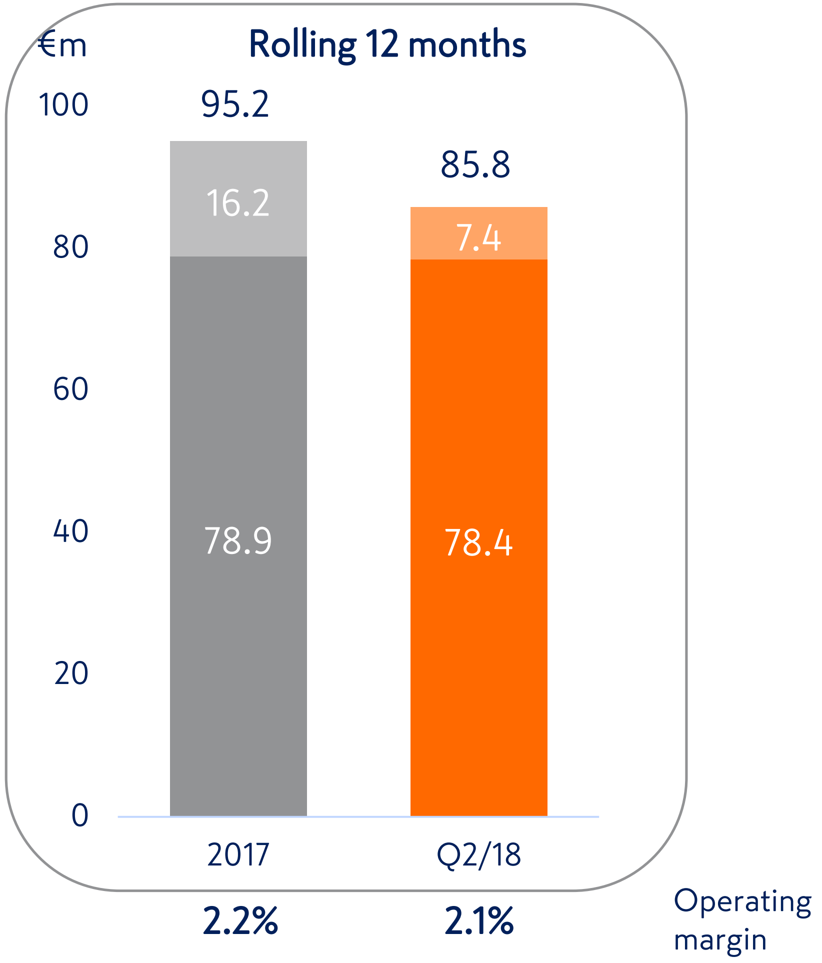
Comparable figures, continuing operations

Building and Technical Trade Operating Profit

Operating profit excluding the speciality goods trade grew



Comparable operating profit, continuing operations



Building and Technical Trade Operating Profit

Operating profit excl. speciality goods trade improved operatively by +€3.9m

Comparable operating profit, continuing operations
Profit impact of the divested Asko and Sotka, K-maatalous and Yamarin businesses, Yamaha representation and Baltic real estate: €5.8m in Q2/17, €4.6m in Q1/17

Successful Acquisitions and Divestments in Line with Strategy Continued

Acquisitions of Gipling and Skattum to strengthen Byggmakker chain in Norway

- Profitability to improve and share of own retailing in Norway to rise to 40%
- Strong market position in the Oslo and Trondheim regions, 29 stores in total
- Combined 2017 net sales €245m, operating profit €9.8m

Acquisition of 1A Group in the Baltics

- Comprehensive e-commerce platform to serve the Baltic markets
- 2017 net sales approx. €41m

Divestment and discontinuation of Russian operations proceeded according to plans

Divestment of machinery trade in the Baltics and agricultural machinery trade in Finland agreed

Car Trade

Car Trade

The market

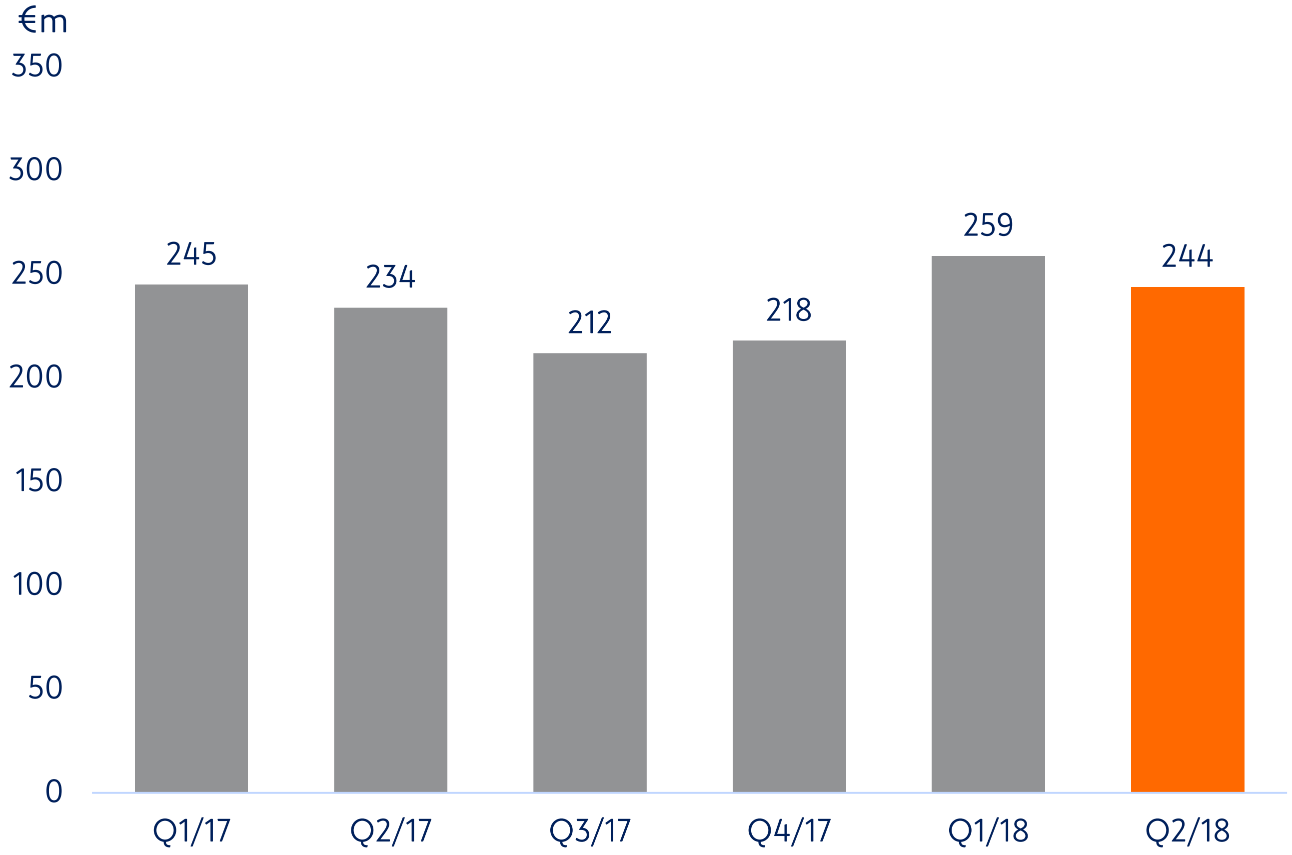
- First time registrations of passenger cars and vans up by 11.5% in Q2, 7.3% in H1
- New WLTP emissions testing, implemented from September onwards, may slow down car trade in Europe in the latter half of the year

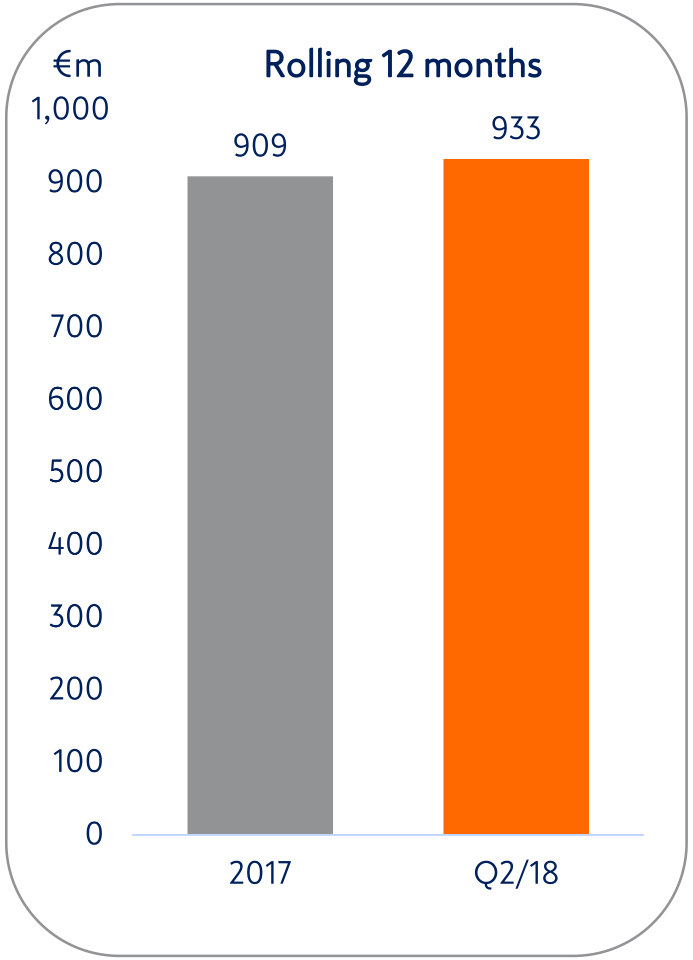
Q2

- Net sales and operating profit continued to grow
- Market share of Volkswagen, Audi, SEAT and Porsche passenger cars and vans 19.5%
- Order book for new cars +5%
- Investments in leasing services and a charging network for electric cars at K-food store locations

Car Trade Net Sales

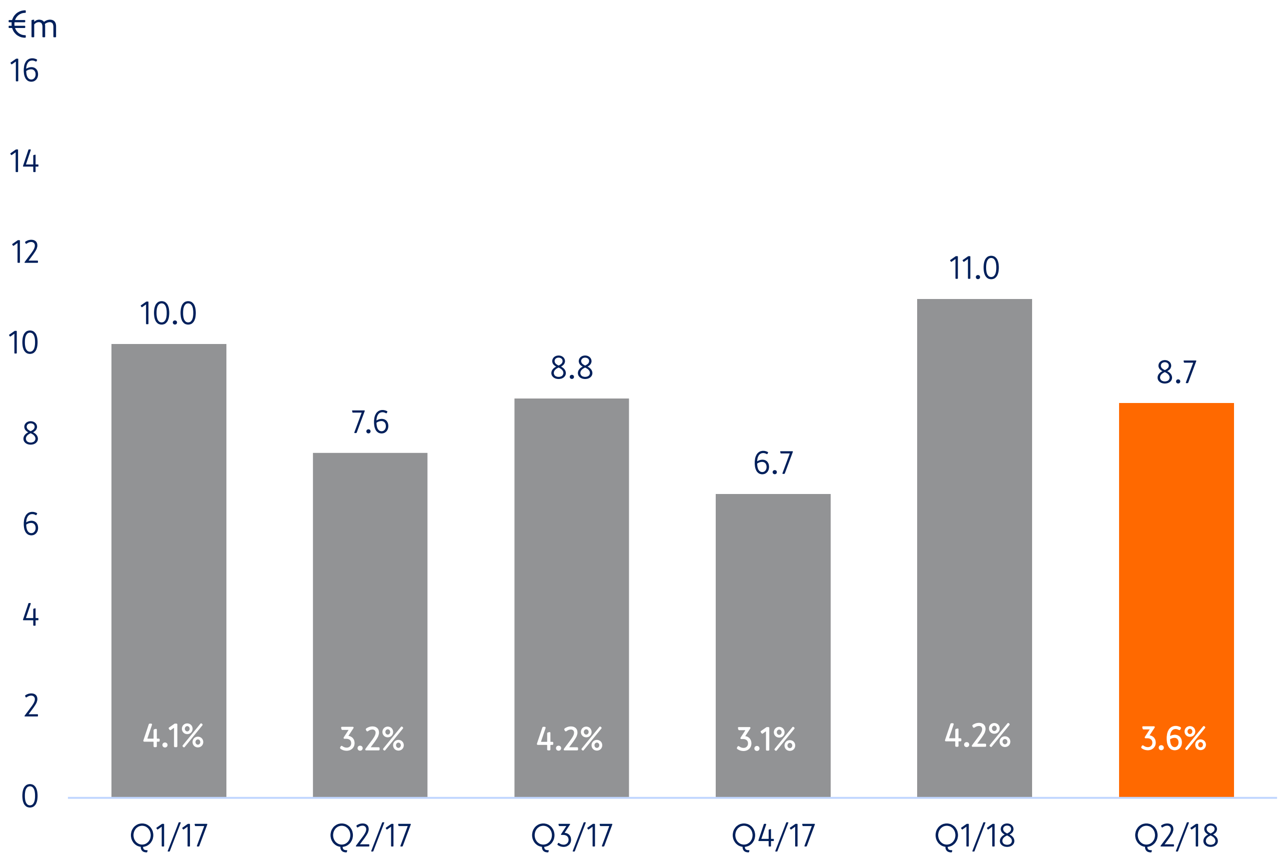
Q2 net sales growth +4.0%

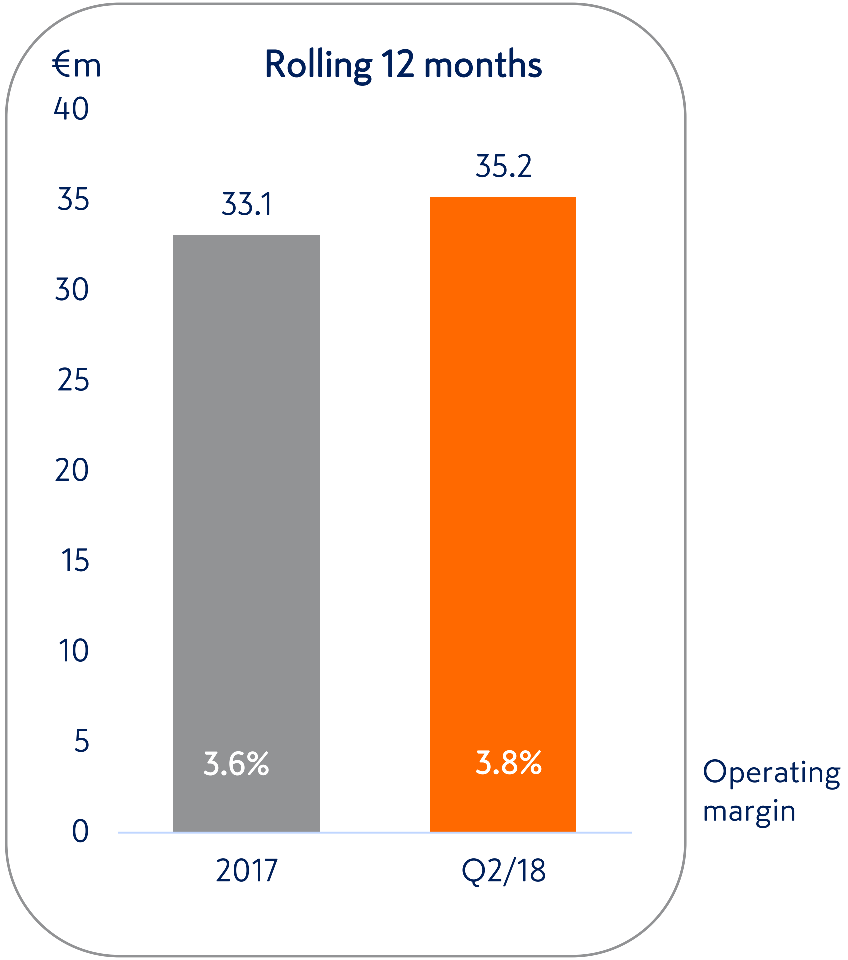




Car Trade Operating Profit

Q2 profitability strengthened further





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 (7/2018-6/2019) in comparison with the 12 months preceding the end of the reporting period (7/2017-6/2018).

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.

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 the expansion of logistics operations and in information systems and digital services will burden profitability during the period.

For shopping
to be fun