



Transforming Kesko

CFO Jukka Erlund
September 2019



K Group and Kesko Today



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



Profitable growth
strategy in **3** core
divisions



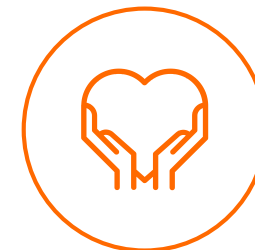
43,000 employees,
approx. **1,800 stores** and
comprehensive **digital**
services in **8** countries



Strong financial
position with good
dividend capacity



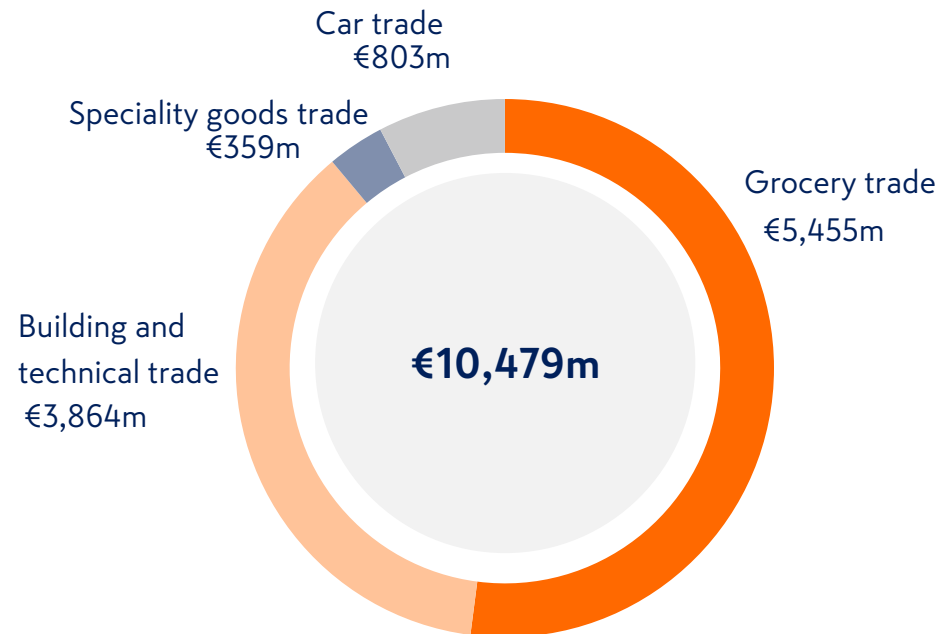
Market cap approx.
€5.5bn with over
42,000 shareholders



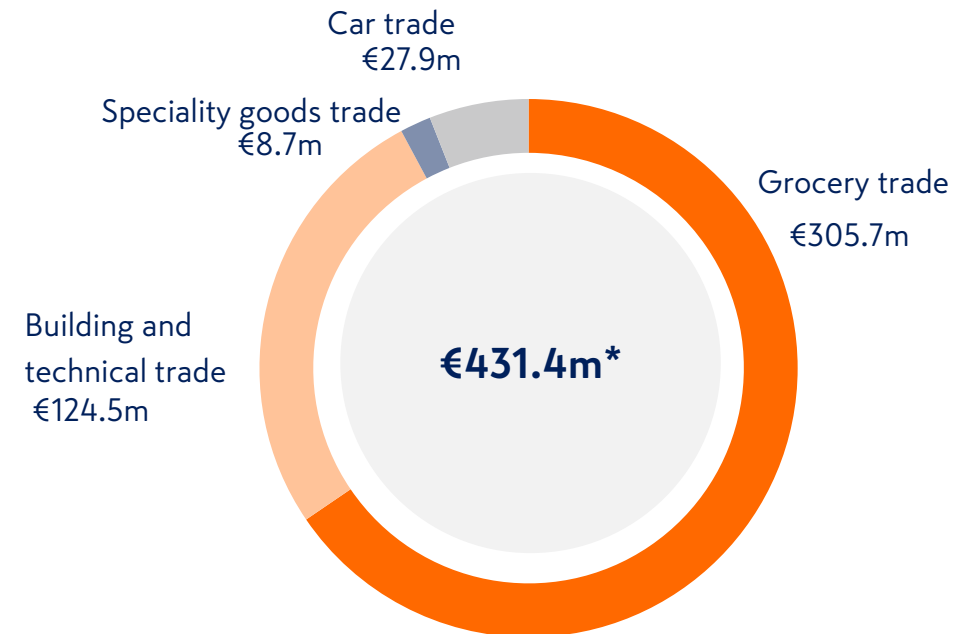
World's most
sustainable trading
sector company

Net Sales and Operating Profit by Division

Net sales



Comparable operating profit

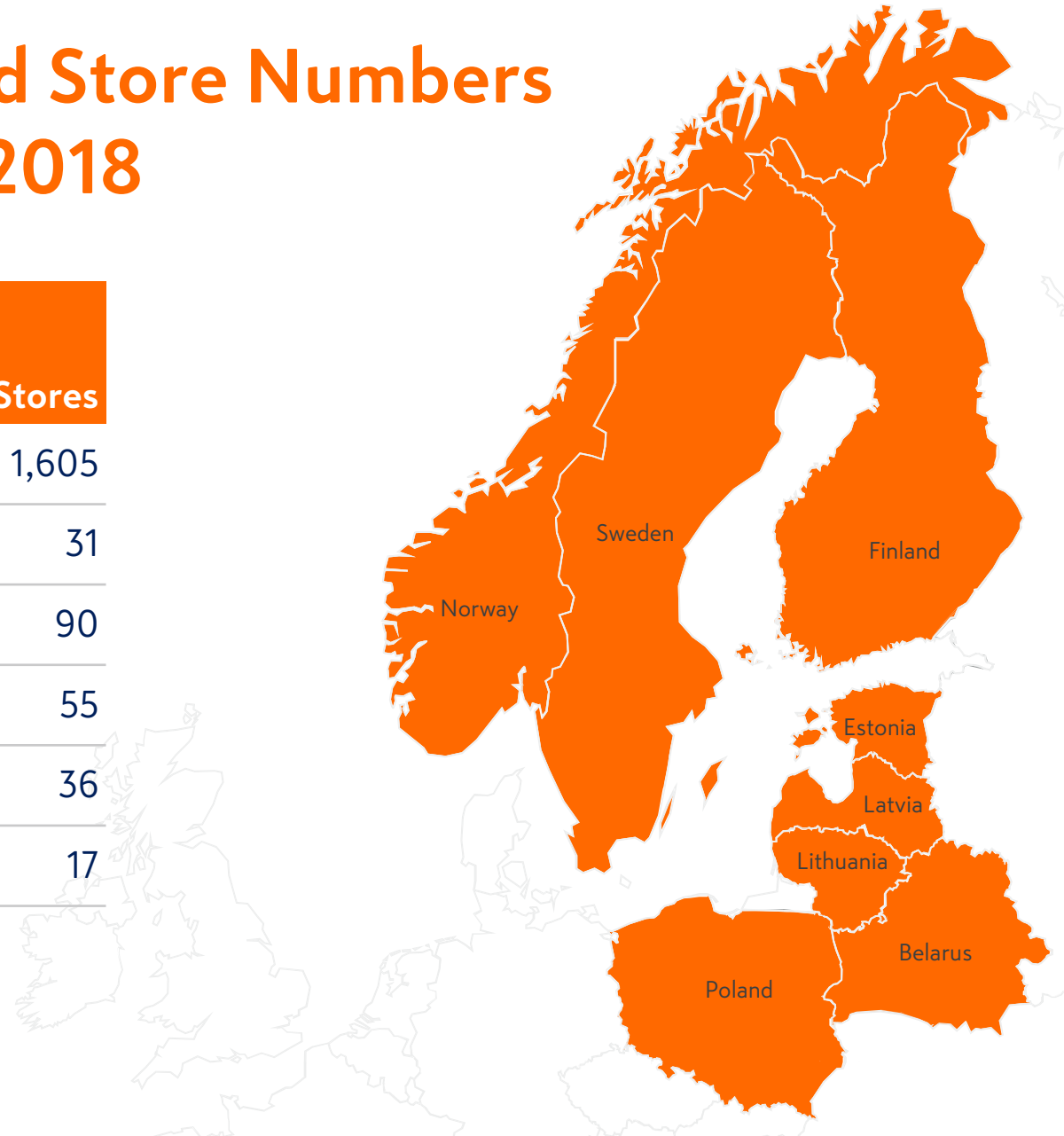


Continuing operations, rolling 12 months Q2/19

* Incl. common functions and eliminations €-35.3m, IFRS 16 impact €93.7m

K Group's Retail Sales and Store Numbers by Operating Country in 2018

	Retail sales, € million	Stores
Finland	10,494	1,605
Sweden	331	31
Norway	792	90
Baltics	866	55
Poland	240	36
Belarus	128	17





1. Creating Value Through Growth

Continuing Our Growth Strategy Implementation

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

Sustainability and combating climate change

One unified K

DIVISION PRIORITIES



Grocery trade

- Most customer-oriented and inspiring food stores with store-specific business ideas
- Profitable development of store network
- Seamless multi-channel customer experience
- Development of the retailer business model as a competitive advantage
- Significant growth in the foodservice business



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



Car trade

- Increasing business in cooperation with the Volkswagen Group
- Increasing own service and mobility business
- Best customer experience – in all channels

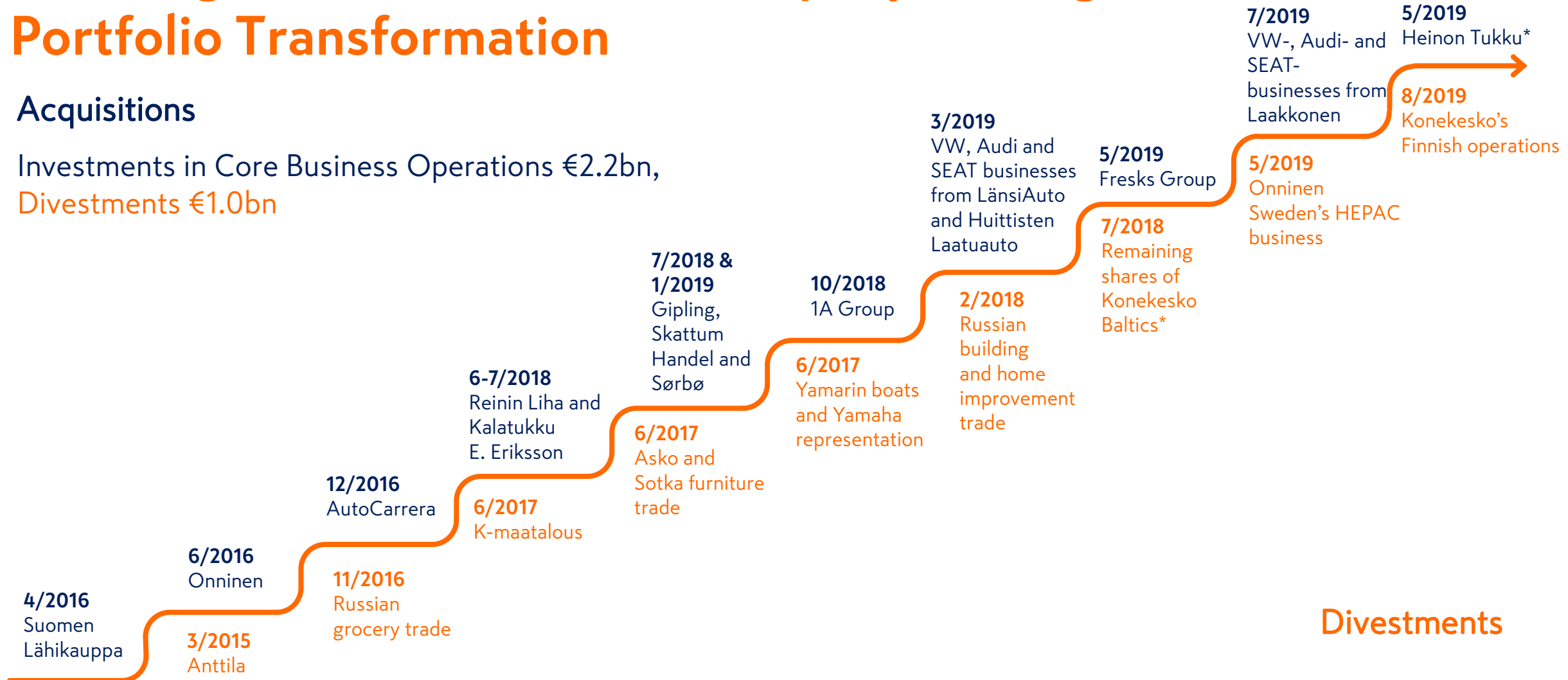
VALUE

The customer and quality – in everything we do

A Strong and More Focused Company Through Successful Portfolio Transformation

Acquisitions

Investments in Core Business Operations €2.2bn,
Divestments €1.0bn



Divestments

* Waiting for completion

Kesko's New Financial Targets

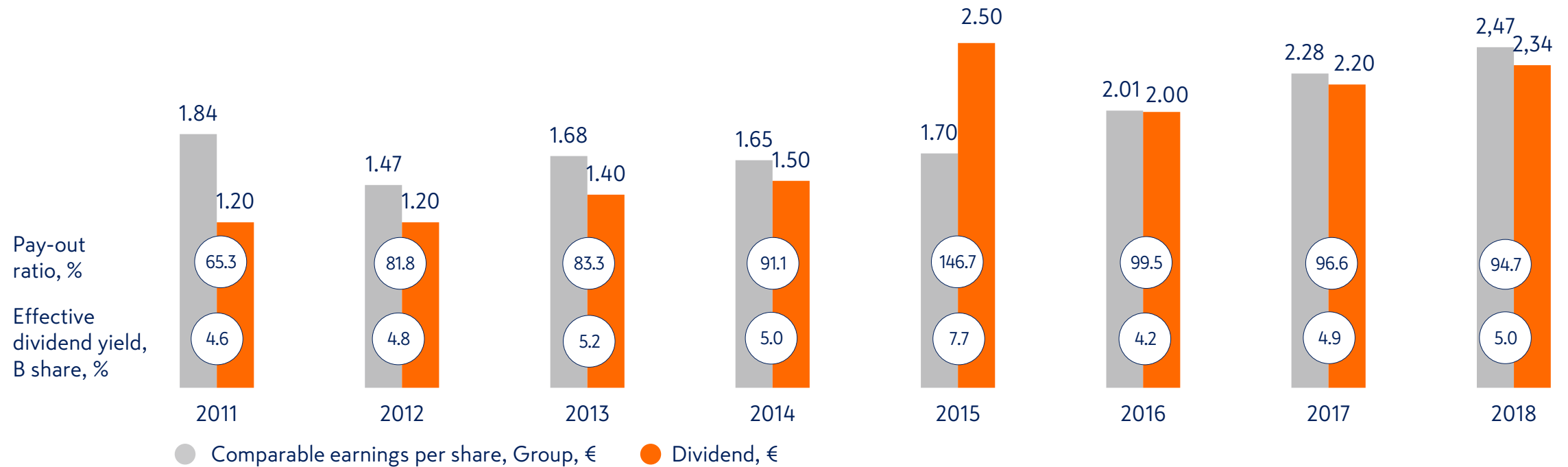
Indicator	Target level	Level achieved in Q2/2019*
Comparable operating margin, %	5.0%	4.1%*
Comparable return on capital employed, %	11.0%	9.5%*
Interest-bearing net debt/EBITDA, excluding the impact of IFRS 16	at maximum 2.5	1.0

* Continuing operations, rolling 12 months

Kesko's 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.

Steady Growth Targeted in Dividends

Dividend policy updated in Q1: 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. Dividends will be paid in two instalments, starting with the dividends paid for 2018.





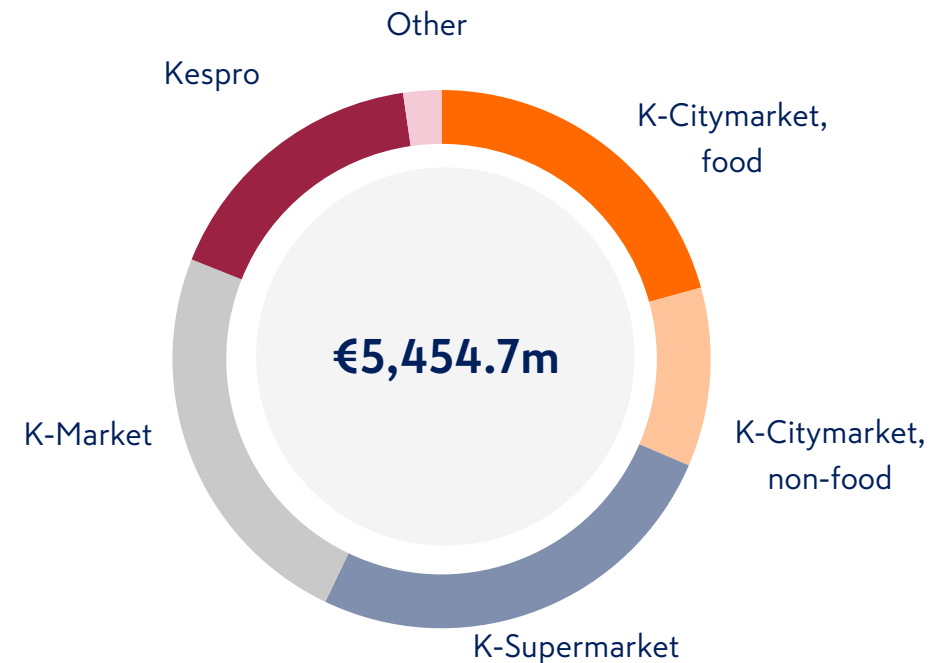
2. Grocery Trade Continuing Profitable Growth in All Channels

Grocery Trade in Brief

- Over 1,200 stores in the retailer business model
- Market share 36.1%
- Some 1.2m customers visit K-food stores daily
- K-food store chains are K-Citymarket, K-Supermarket, K-Market and Neste K service stations
- Kespro is the leading foodservice provider in Finland

Net sales

Rolling 12 months Q2/19



Grocery Trade Retail and B2B Sales by Chain

	Number of stores or cash & carry outlets 30 June 2019	Sales (pro forma), VAT 0%, € million Q2/2019 roll. 12 mo
K-Citymarket, food	81	1,666
K-Citymarket, home and speciality goods	81	589
K-Supermarket	244	2,019
K-Market	780	1,844
Neste K	72	132
Others	78	41
Kespro	14	907
Grocery trade, total	1,270	7,198

Success Stories in Grocery Trade Strategy Execution



K-retailer entrepreneurship and store-specific business ideas, multi-store model



Rebranding and store modernisations



Acquisition of Suomen Lähikauppa



New digital services and food online

PÍRKKA

Differentiation through own brand products



Market share growth



Developing foodservice business

Seamless Omnichannel Customer Experience Driving Sales and Loyalty

- 0.4%*** Share of online sales of the total grocery market is still small, but growing fast
- 18** People/sq. km, low population density in Finland affecting choice of viable solutions
- >200** K-food stores offering online services
- +119%** Our online sales growth in Q2/2019
- 76** NPS, high customer satisfaction
- 5x** Higher average purchase than in physical stores
- €50m** Our online net sales target for 2019

*€18.2bn (incl. VAT) in 2018



Kespro's Growth Opportunities in the Foodservice Market



Market

- Addressable market in Finland ~€4bn
- Eating out & take-away are growing rapidly
- Fragmented market offers consolidation potential



Key players

- Generic wholesalers
- Specialized wholesalers
- Industry with direct deliveries



Customers

- Private HoReCa
- Chain customers
- Public sector
- Resale customers
- K-food stores



Kespro's future value creating actions

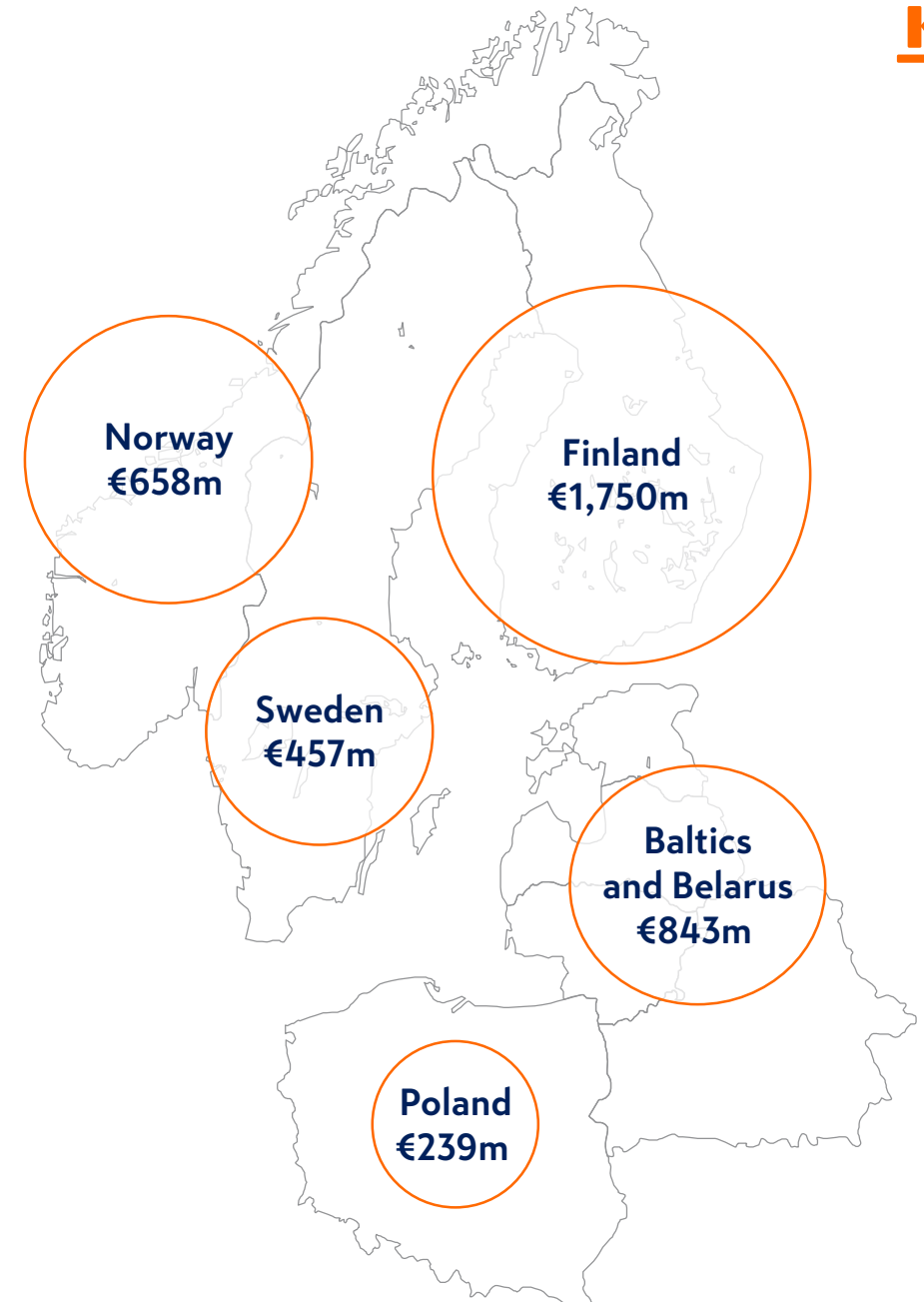
- Growth with existing and new customers
- Develop fresh product categories and own brands
- Expand to new ventures e.g. logistics services
- Complementary acquisitions



3. Building and Technical Trade to the Next Level with Sharper Country Focus

Building and Technical Trade in Brief

- #1 operator in building and technical trade in Northern Europe
- Net sales pro forma €3.9bn*
- Approx. 70% of sales from B2B trade and 30% from B2C
- 440 stores in 8 countries
- Comprehensive digital services
- Additionally, speciality goods trade business



*2018 pro forma net sales, current portfolio and excl. speciality goods trade

Three Customer Segments Served According Their Specific Customer Needs



Technical professionals



- Technical contractors
- Infrastructure
- Industry
- Retailers



Professional builders



- Construction companies
- Renovation contractors
- Decoration contractors

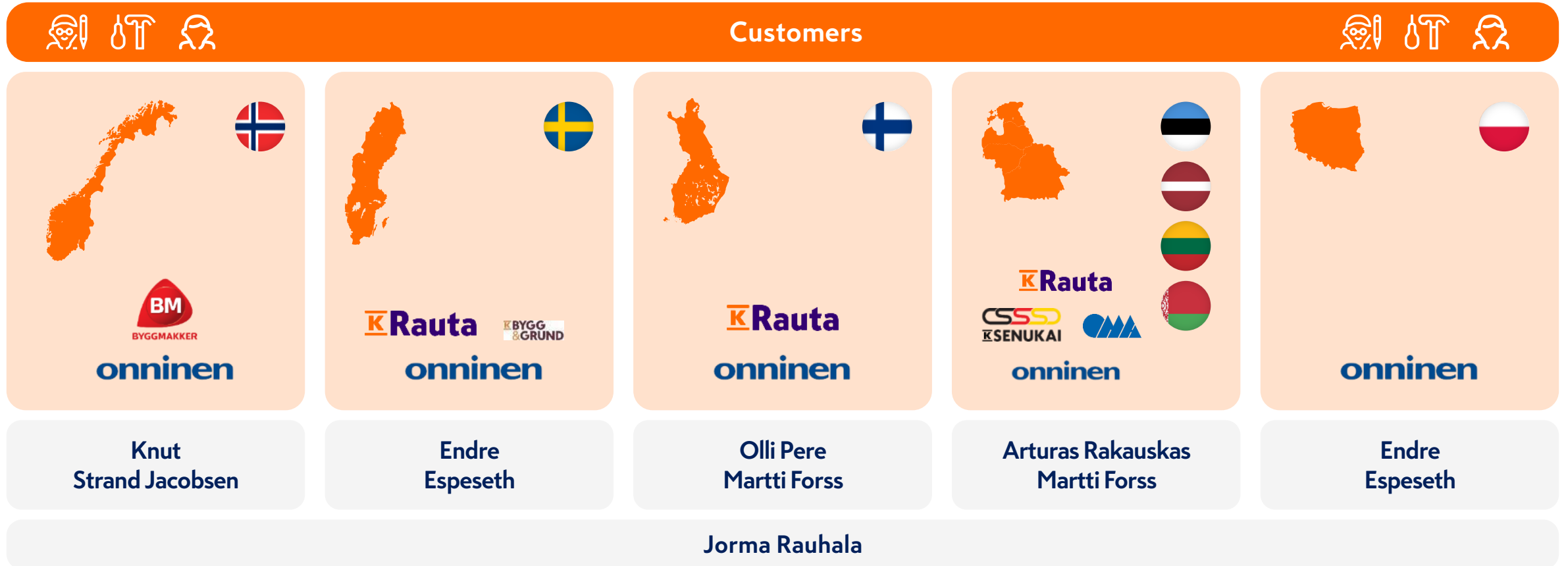


Consumers



- Renovators
- Home and garden builders
- Decorators
- Gardeners

Sharper Country Specific Focus to Drive Profitable Growth



Strong Strategy Execution in Building Technical Trade

Key actions taken



*Continued operations excl. speciality goods trade, excl. IFRS16

Fresks Has Significantly Strengthened Our Position in Sweden

- The acquisition of the Fresks building and home improvement store chain was completed in May
 - 2018 net sales €205 million and EBITDA €18 million
- The acquisition made us one of the leading building and home improvement store operators in Sweden
- Will clearly improve our profitability in Sweden – significant advantages of scale and synergies
- New K-Bygg brand aimed especially at professional builders



K BYGG

Building and Technical Trade Store Network and E-commerce Services

11 consumer online stores

1 online store for professional builders

5 online stores for technical trade

Number of stores per chain

-  Technical professionals
-  Professional builders
-  Consumers

Stores

-  65 Byggnakker.no
Proff BM Portalen
-  25 Onnshop.no

-  17 K-Rauta.se
-  14 Onnshop.se

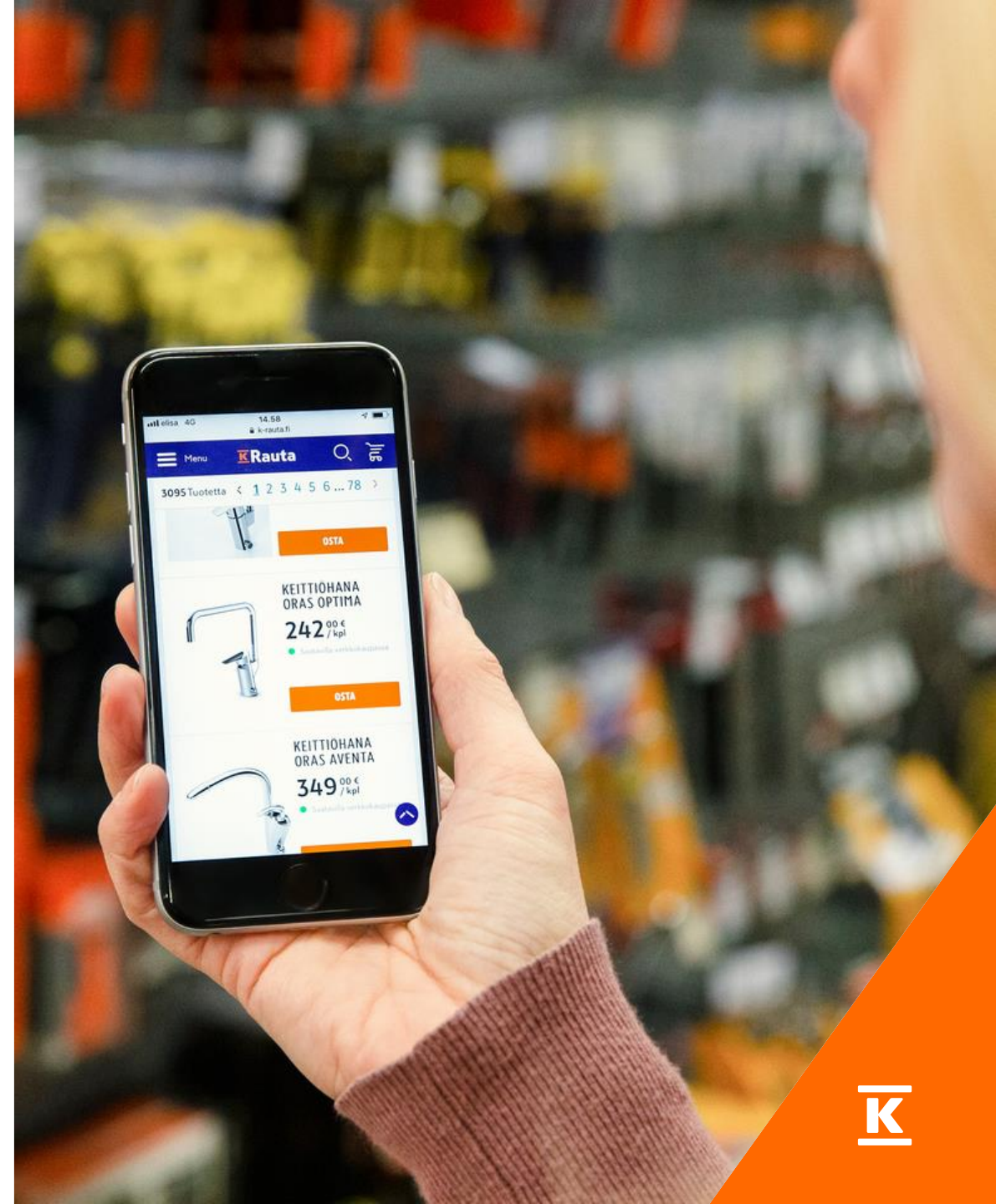
-  35 Onnshop.pl



Note: Sweden prior to announced divestment of Onninen's HEPAC business and acquisition of Fresks.

Growth in Online Sales at K-Rauta.fi 109%

- More delivery options for the customers
- Significant expansion of selection with home delivery
- Smartly-priced cargo transports for big and heavy deliveries
- Better utilisation of our extensive store network
 - 133 K-Rauta stores across the country, short transports
 - Click & collect service





4. Fast Developing Car Trade

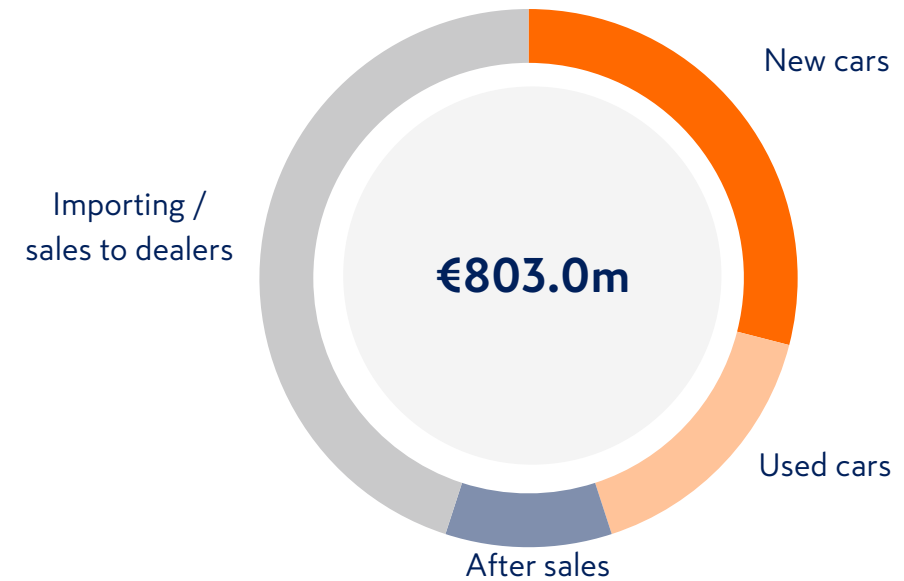


Car Trade in Brief

- Operating the Volkswagen Group's business in Finland: Audi, Volkswagen, SEAT, Porsche and MAN as well as Bentley from autumn 2019
- K-Auto is the market leader in Finland
- 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 Q2/19



Strategic Strengthening of Sales Network Proceeding Well

- Acquisitions completed in 2019
 - Laakkonen Group's Volkswagen, Audi and SEAT businesses
 - Huittisten Laatuauto
 - LänsiAuto's Volkswagen, Audi and SEAT businesses
- 2018 pro forma net sales of the acquired businesses €355 million, operating profit €6.5 million
- Integration of the acquired businesses is proceeding according to plans
- The acquisitions enable more efficient sales and service network operations



Significant New Additions to the Range

- Porsche Taycan
- Audi Q5 TFSI e plug-in hybrid
- Bentley Bentayga Hybrid
- Volkswagen ID.3
- SEAT Mii electric
- etc...



New business services off to a good start: K-Caara leasing, car sharing, nationwide K-Charge network for electric cars



K Lataus

Paikka varattu vain sähköautoille



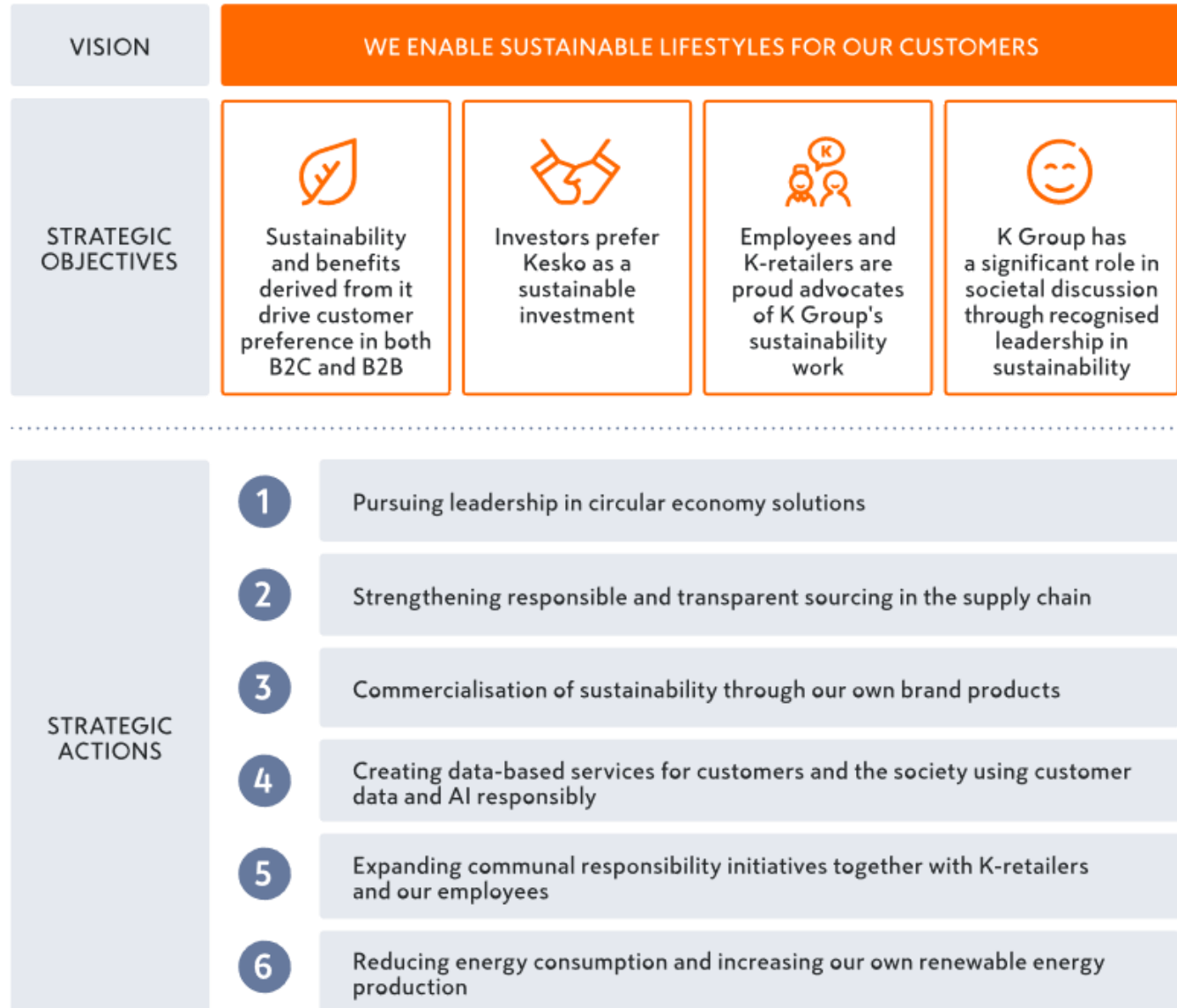


5. Responsibility at Kesko

Kesko's Responsibility Path



Sustainability Strategy



Our sustainability strategy focuses our sustainability efforts increasingly on our customers. We want to enable a sustainable lifestyle for our customers in terms of food, mobility and living. We will increasingly engage our customers in our sustainability work.

The Environment Is at the Core of Our Corporate Responsibility Work



All electricity we purchase in Finland is produced with renewable energy



With 32 solar power plants, we are the biggest producer and user of solar power in Finland



We are constantly working to improve energy efficiency at our stores



Our logistics emissions are down by 16.8% on year 2011



Our food waste is down by 7.3% from the 2013 base level



We promote circular economy through more efficient recycling at our stores and for our own brand product packaging

Six Reasons to Invest in Kesko

-  **1 Growth strategy**
-  **2 Strong market positions**
-  **3 Long-term profitability improvement**
-  **4 Attractive dividend yield**
-  **5 Ability to increase shareholder value**
-  **6 Responsibility**



6. Appendix: Q2/2019

Group Highlights Q2/2019

- Strong strategy execution increased net sales and improved profit further
- Growth in the grocery trade division still clearly outpacing the market
- Sales grew and profit increased in the building and technical trade division
- Acquisition of the Fresks building and home improvement store chain completed in Sweden
- Acquisition of Laakkonen's Volkswagen, Audi and SEAT businesses completed on 1 July 2019
- New main office building K-Kampus opened



Group Key Performance Indicators

Strong strategy execution increased net sales and improved profit further

	Q2/2019	Q2/2018	1-6/2019	1-6/2018
Net sales, €m	2,781.4	2,672.7	5,182.2	5,085.9
Change in net sales, comparable, %	+2.1	+4.0	+0.8	+3.7
Operating profit, €m	122.5	113.2	179.9	177.0
Operating margin	4.4	4.2	3.5	3.5
Finance net, €m*	-23.1	-26.1	-46.8	-51.4
Profit before tax, €m	99.2	85.0	133.8	123.3
Earnings per share, basic, €	0.73	0.60	1.06	0.94

Comparable figures, continuing operations

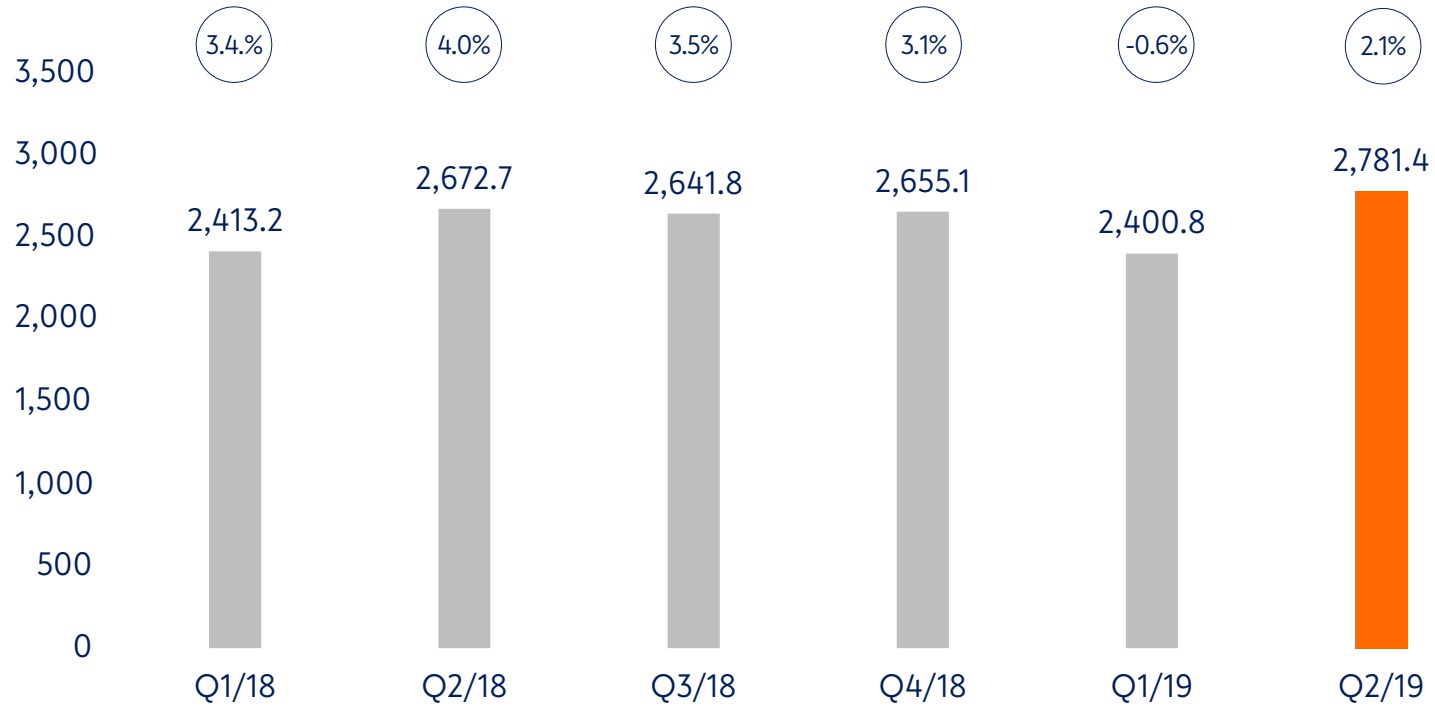
* Includes interest expenses for lease liabilities: 4-6/2019 €24.2m (€25.2m); 1-6/2019 €48.8m (€50.6m)

Group Net Sales

Q2 net sales up by 4.1%, comparable growth 2.1%

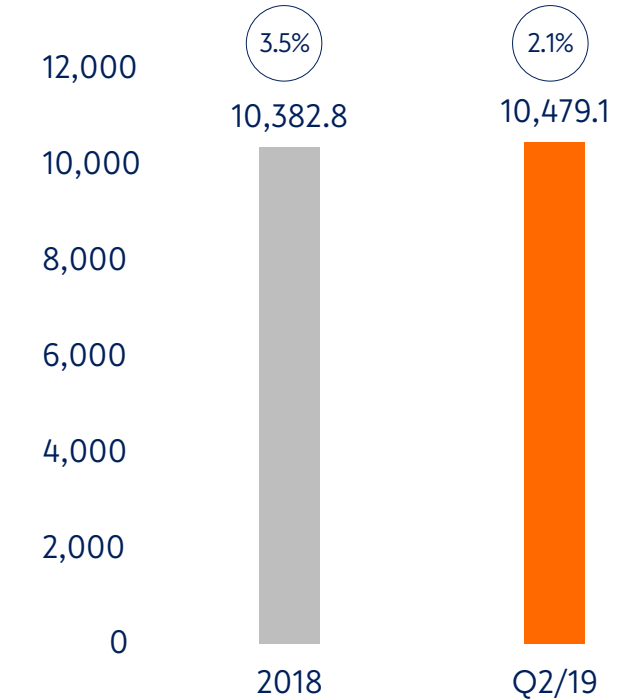
(%) Comparable growth

€m



Rolling 12 months

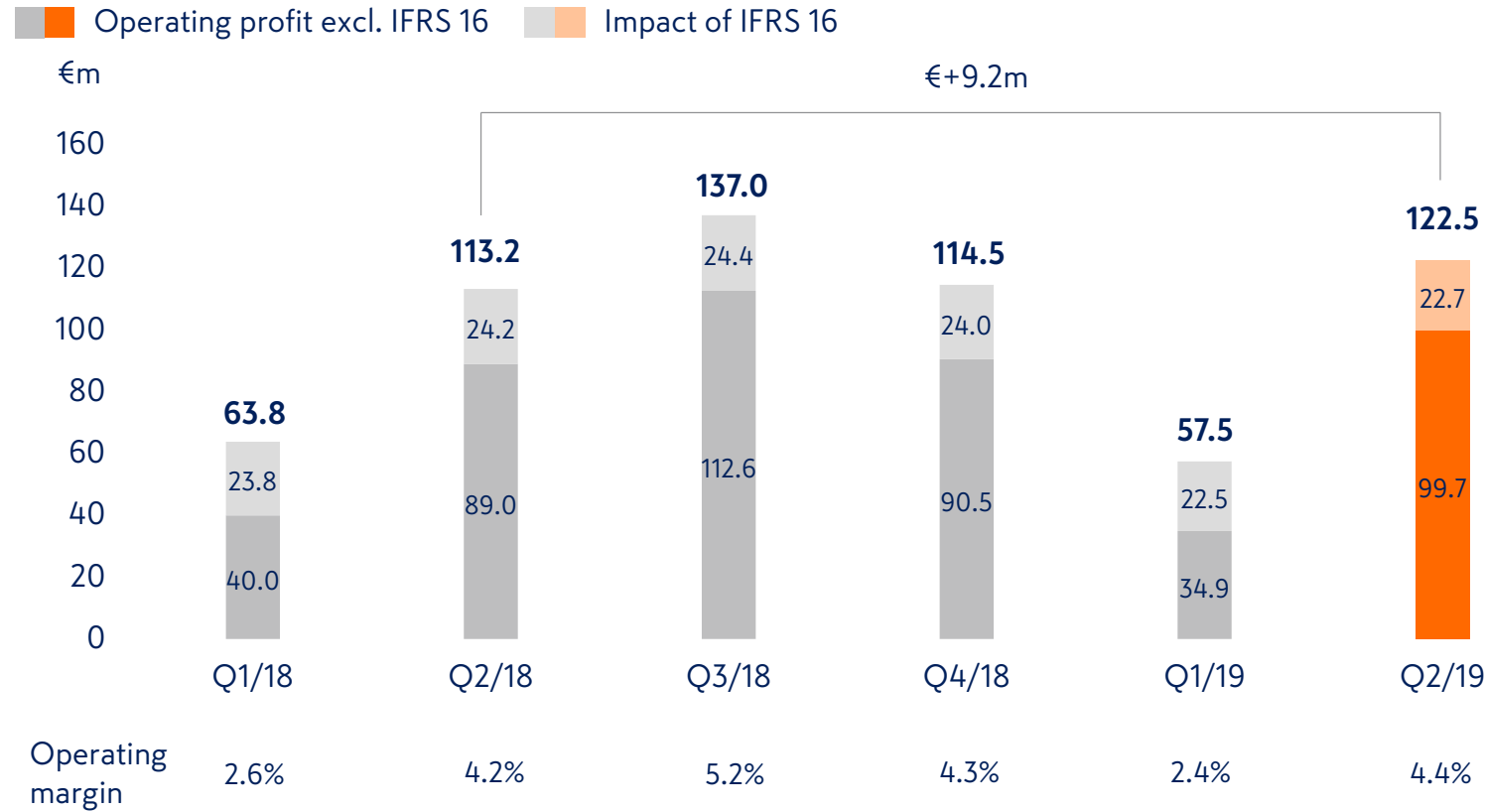
€m



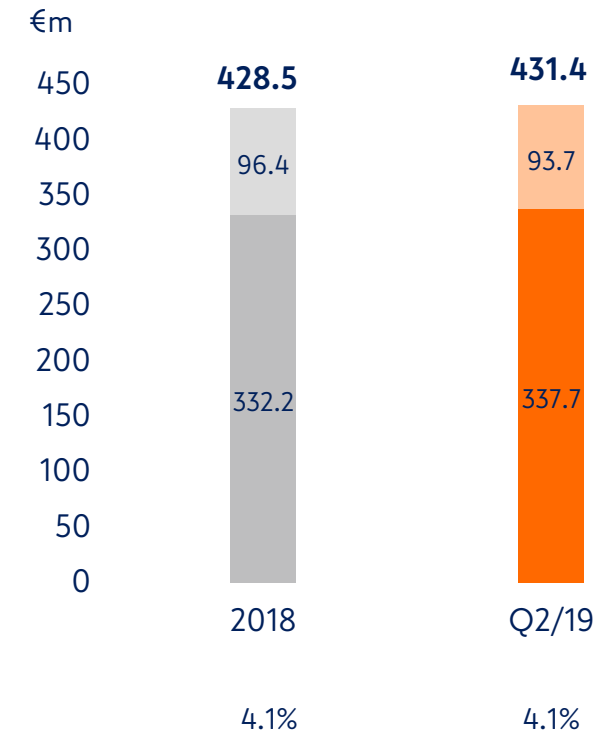
Continuing operations

Group Operating Profit

Q2 operating profit grew by €9.2 million



Rolling 12 months



Comparable operating profit, continuing operations

Strong Financial Position

Acquisitions and investments totalling €471 million carried out in January-June

	30.6.2019	30.6.2018
Liquid assets, €m	200.6	446.1
Interest-bearing net debt excl. lease liabilities, €m	439.6	145.7
Interest-bearing net debt/EBITDA (excl. IFRS 16 impact)	1.0	0.4
Lease liabilities, €m	2,351.6	2,199.1
Continuing operations Q2:		
Cash flow from operating activities, €m	271.4	215.7
Cash flow from operating activities (excl. IFRS 16 impact), €m	190.7	139.8
Capital expenditure, €m	*373.4	74.2

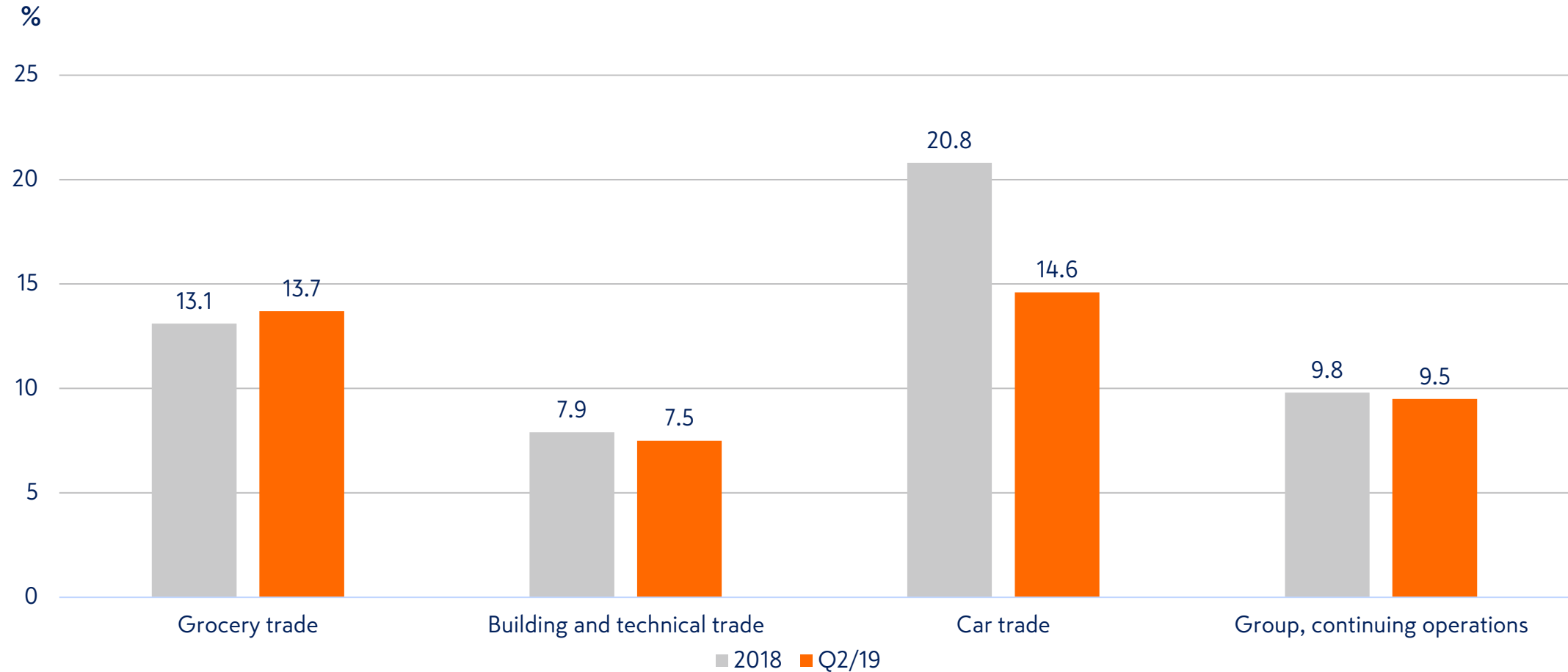
* Acquisitions €207.5 million

Investments in Line with Growth Strategy 1-6/2019

	1-6/2019, €m
Fresks building and home improvement store chain in Sweden and Sørbo's building and home improvement stores in Norway	234
Volkswagen, Audi and SEAT businesses of Huittisten Laatuauto and LänsiAuto	11
Kruunuvuoren Satama, store sites	86
Other store site investments	69
IT and other investments	71
Total	471

Return on Capital Employed 9.5%

Comparable, rolling 12 months



Grocery Trade

The market

- Total market growth* 4.2% in Q2, 2.4% in H1
- Q2 sales boosted by the timing of Easter, which fell on April this year
- Grocery prices up by approx. 1.5%
- Consumers value quality and convenience, prices still important
- Growth the strongest online, eating out and foodservice also growing

Q2

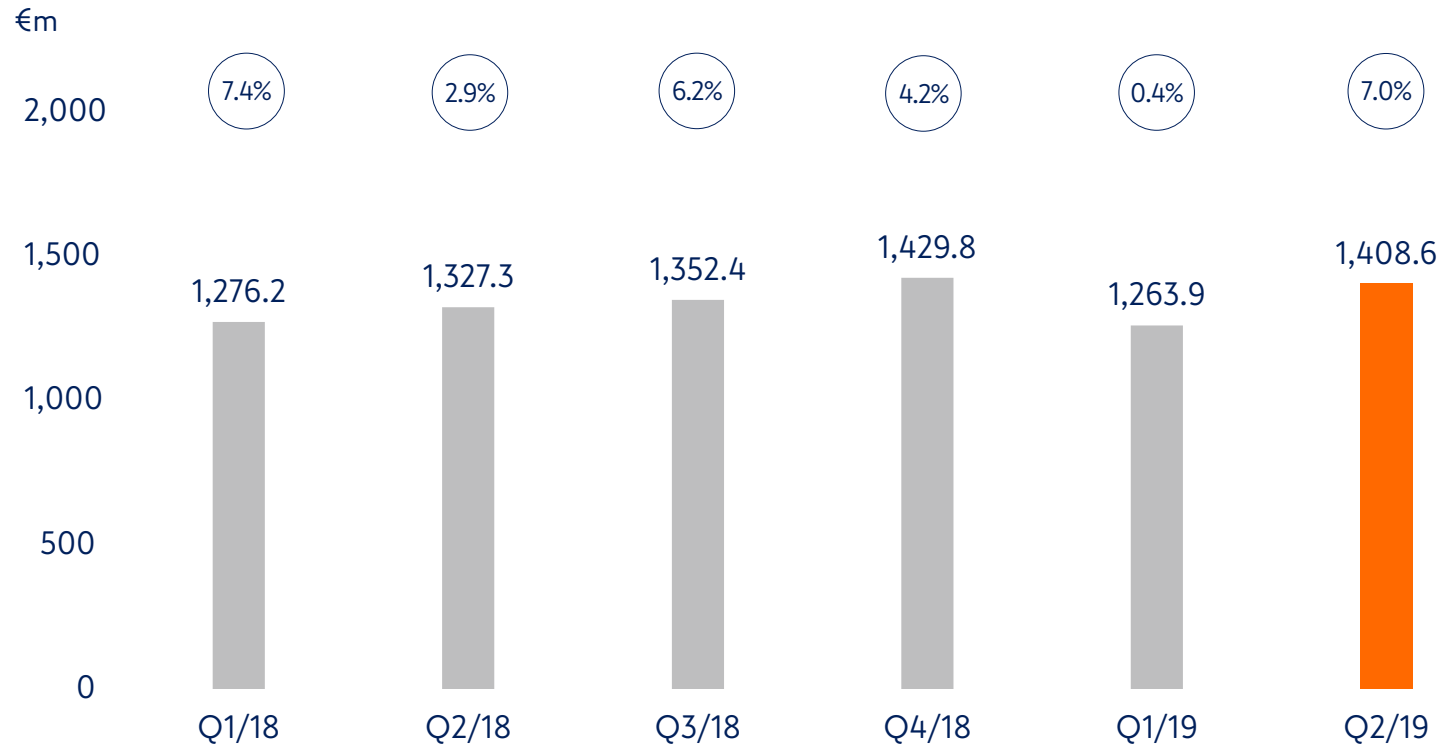
- K Group's grocery sales +6.6%, growth clearly outpacing the market
- Customer numbers grew in all chains
- Strong growth continued in online sales of groceries, +119%
- Profitability boosted by growth in sales and good cost-efficiency

* The Finnish Grocery Trade Association PTY

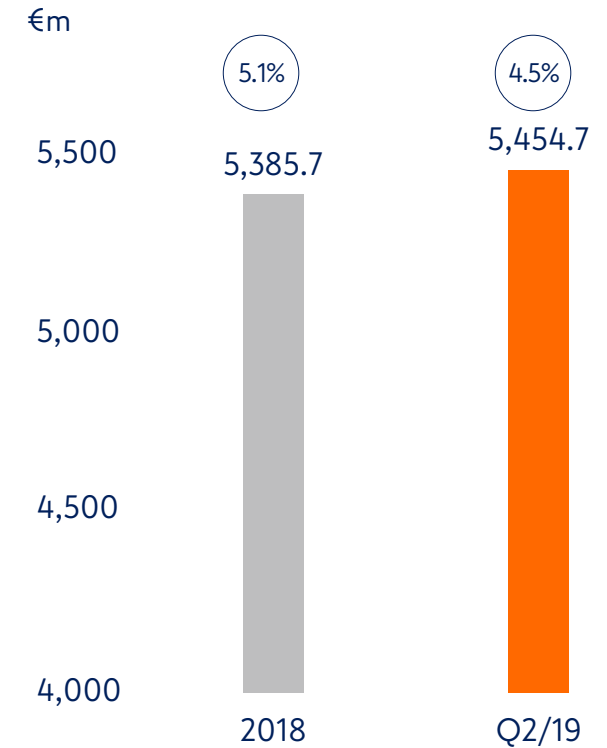
Grocery Trade Net Sales

Net sales growth in Q2 continued strong, comparable growth 7.0%

⊖ Comparable growth

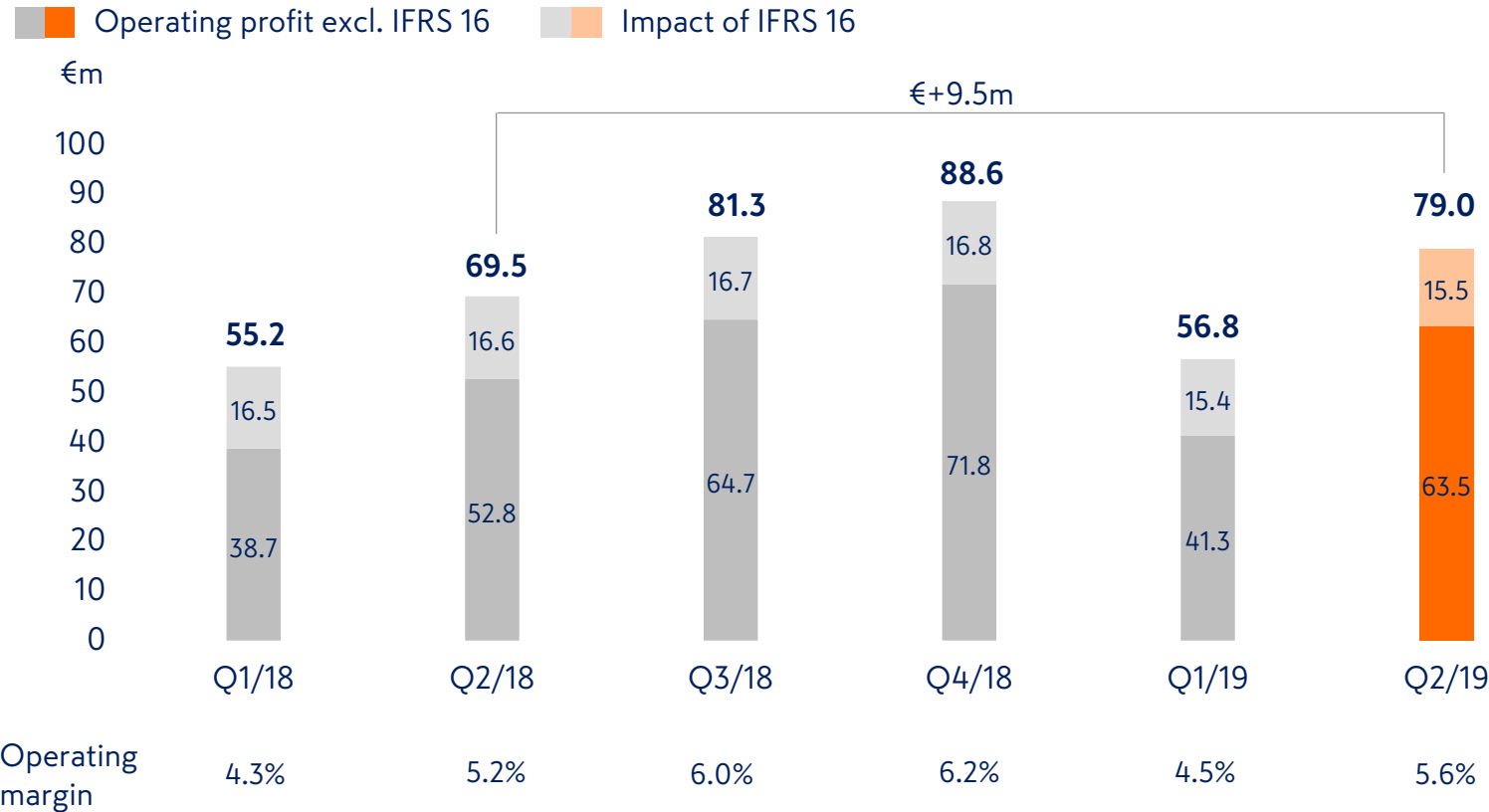


Rolling 12 months

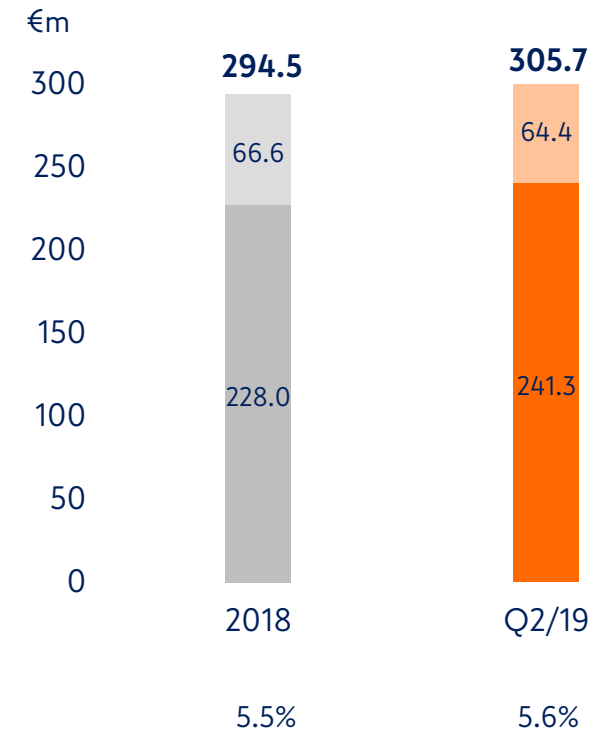


Grocery Trade Operating Profit

Operating profit improved further in Q2, growth €9.5 million



Rolling 12 months



Comparable operating profit

Building and Technical Trade

Excluding speciality goods trade

The market

- Focus shifting to renovation building
- Negative calendar impact in B2B trade due to the timing of Easter and number of selling days
- Market consolidation continues
- Stronger emphasis on digital services and online sales

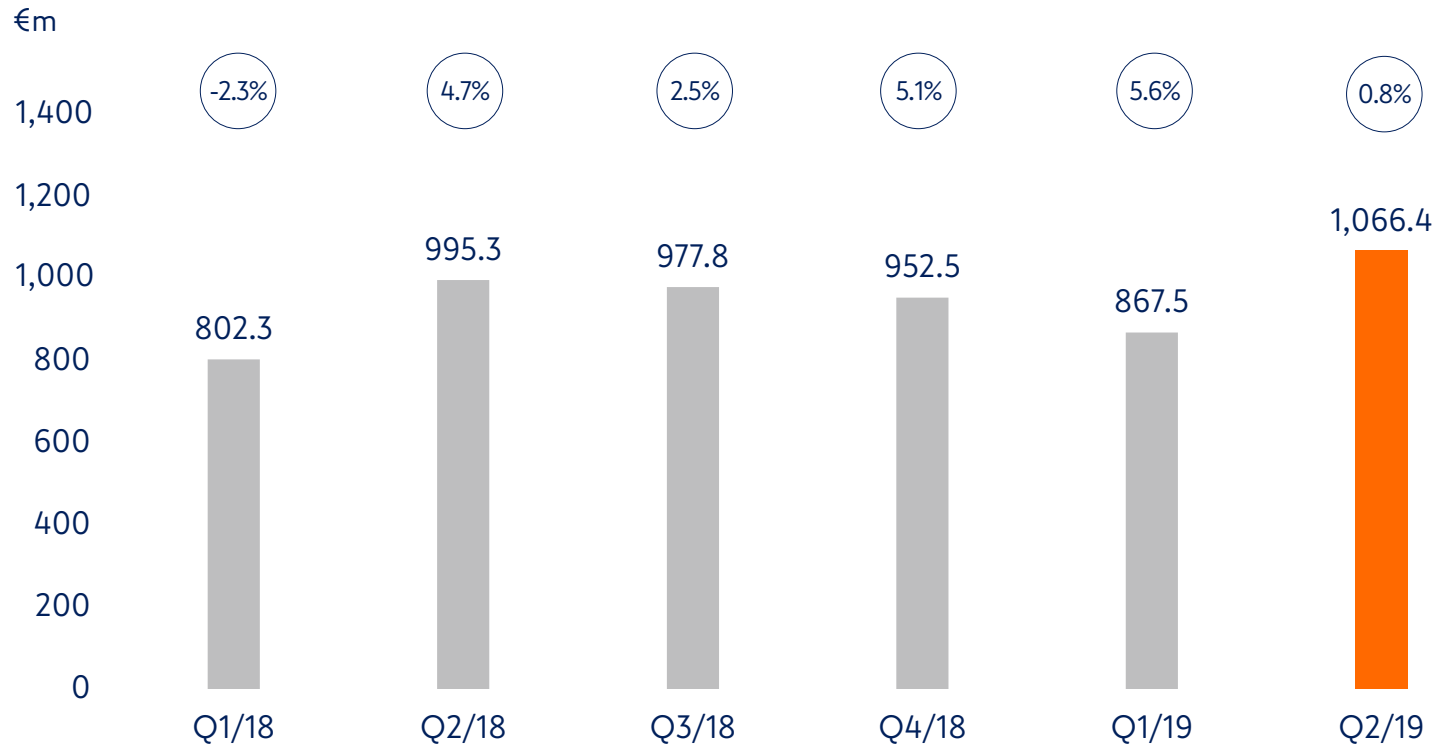
Q2

- Net sales growth 7.1%, comparable growth 0.8%
- Growth the strongest in the Baltic countries, Sweden and Norway
- Comparable operating profit €45.5 million, up by €8.0 million. Impact of acquisitions €+5.6 million
- Extensive transformation programme in Sweden and the integration of the Fresks chain both proceeding according to plans

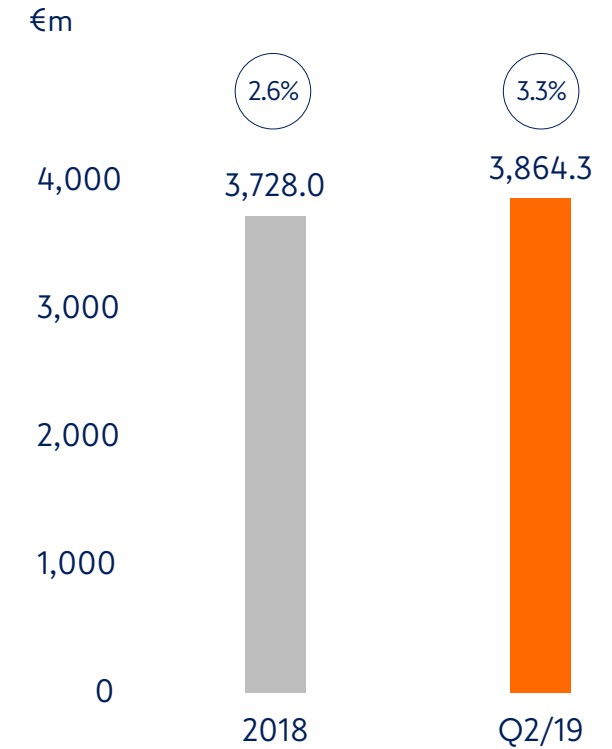
Building and Technical Trade Net Sales

Significant 7.1% growth in Q2 net sales, comparable growth 0.8%

⊘ Comparable growth



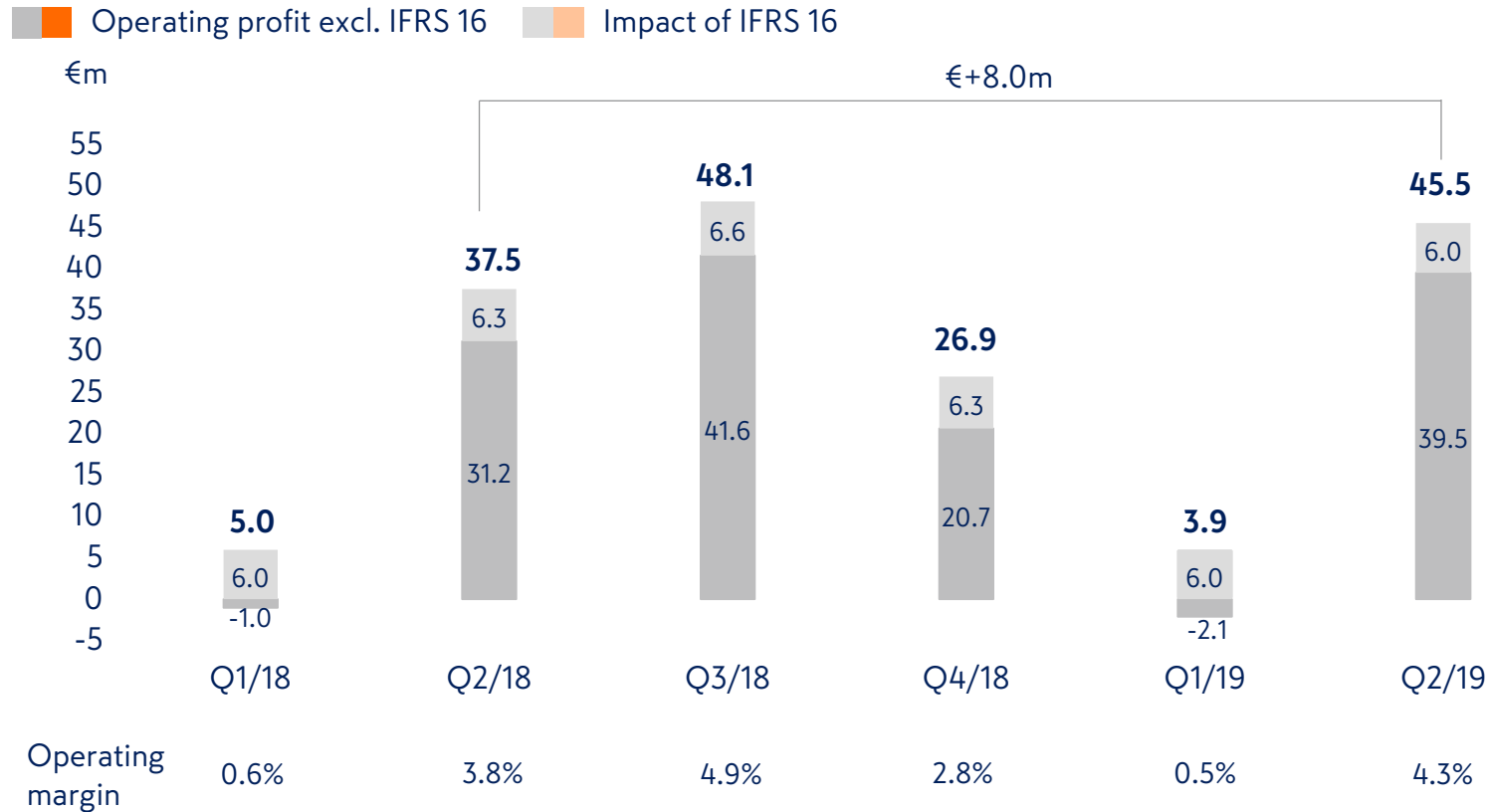
Rolling 12 months



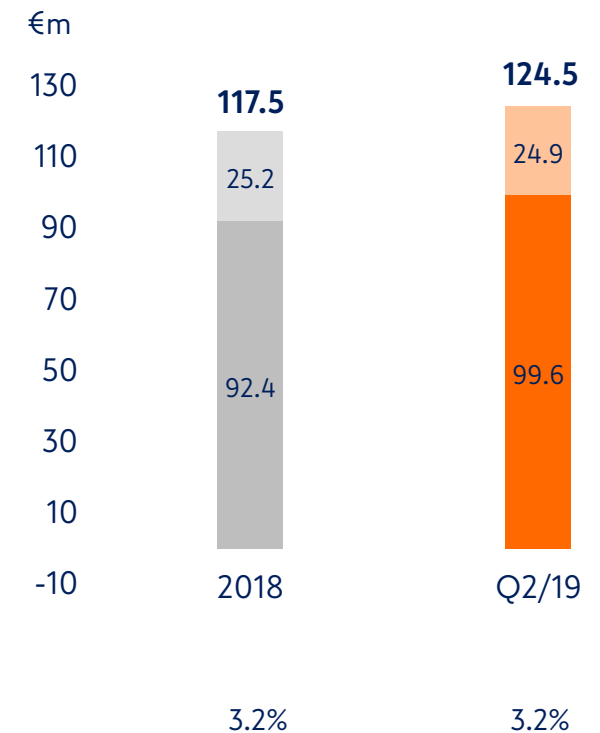
Figures excluding speciality goods trade

Building and Technical Trade Operating Profit

Significantly improved Q2 operating profit: growth €8.0 million, impact of acquisitions €5.6 million



Rolling 12 months



Comparable operating profit, figures excluding speciality goods trade

Car Trade

The market

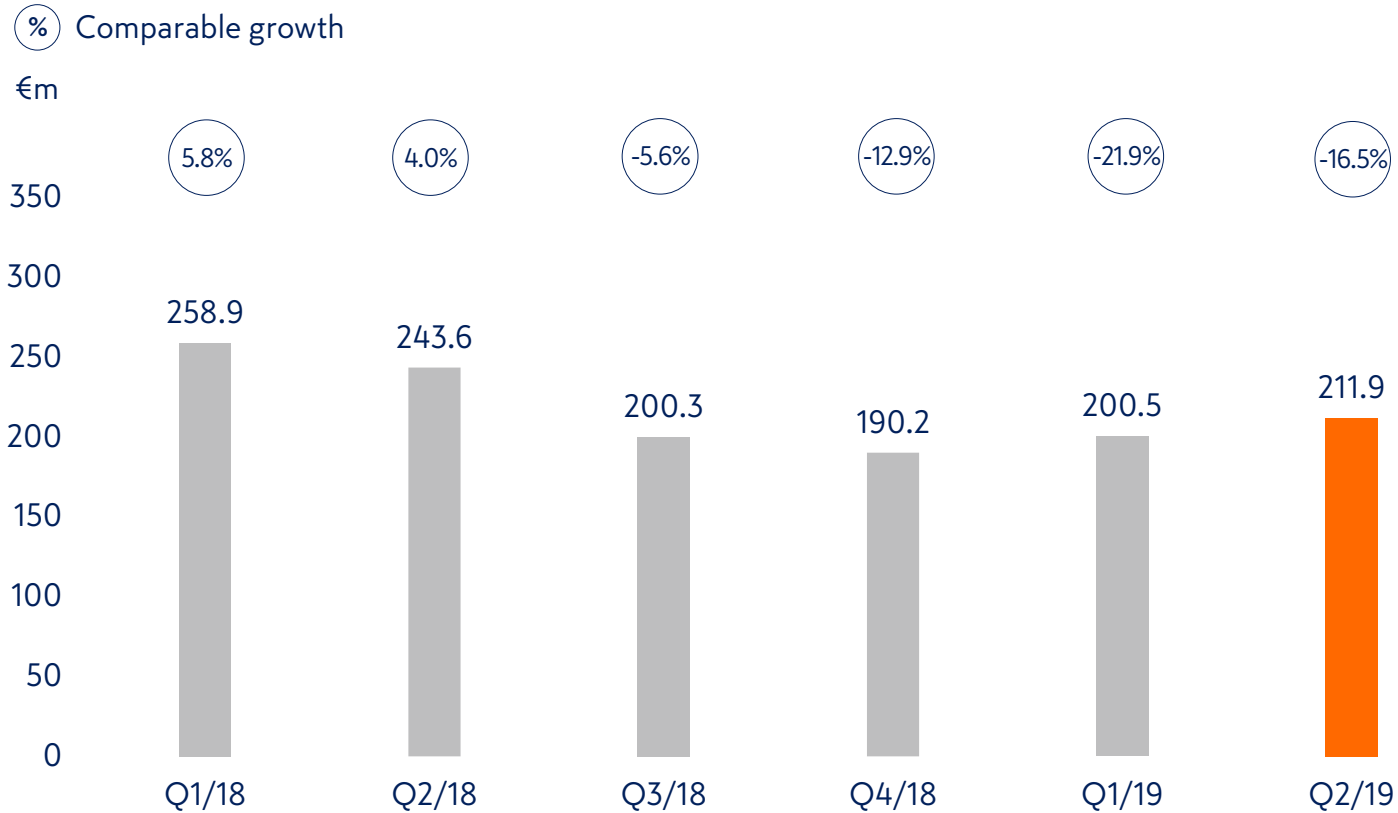
- The implementation of WLTP emissions testing has caused significant disturbances in new car sales in Europe
- Consumer demand has also been weakened by uncertainties regarding car taxation and motive power
- First registrations of passenger cars and vans in Finland -11.4% in Q2, -13.0% in H1
- The market is expected to improve in H2

Q2

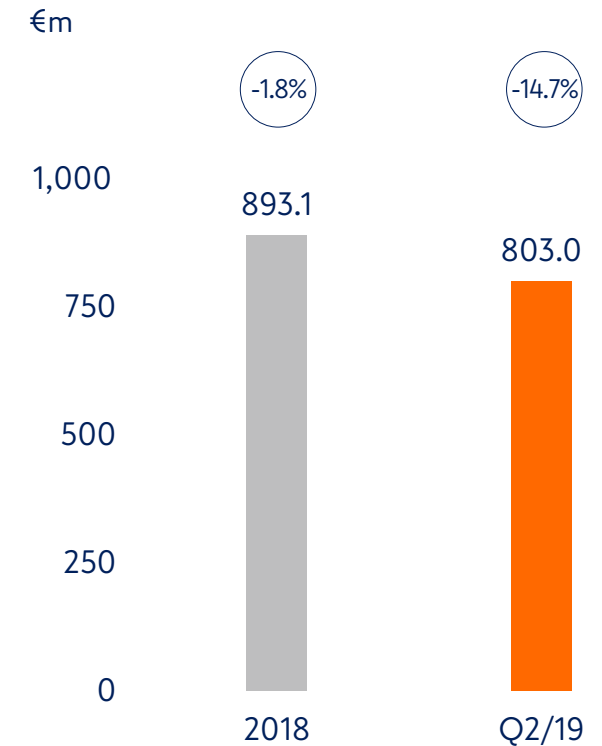
- Net sales and profitability decreased as a result of the decline in new car sales
- WLTP implementation has resulted in significant availability issues for the range, situation now improving
- We continue to expand our electric car charging network, 62 charging stations opened
- Leasing fleet has grown to 1,055 cars
- Acquisition of Laakkonen's Volkswagen, Audi and SEAT businesses completed on 1 July 2019

Car Trade Net Sales

Q2 net sales down by 13%, market remained challenging

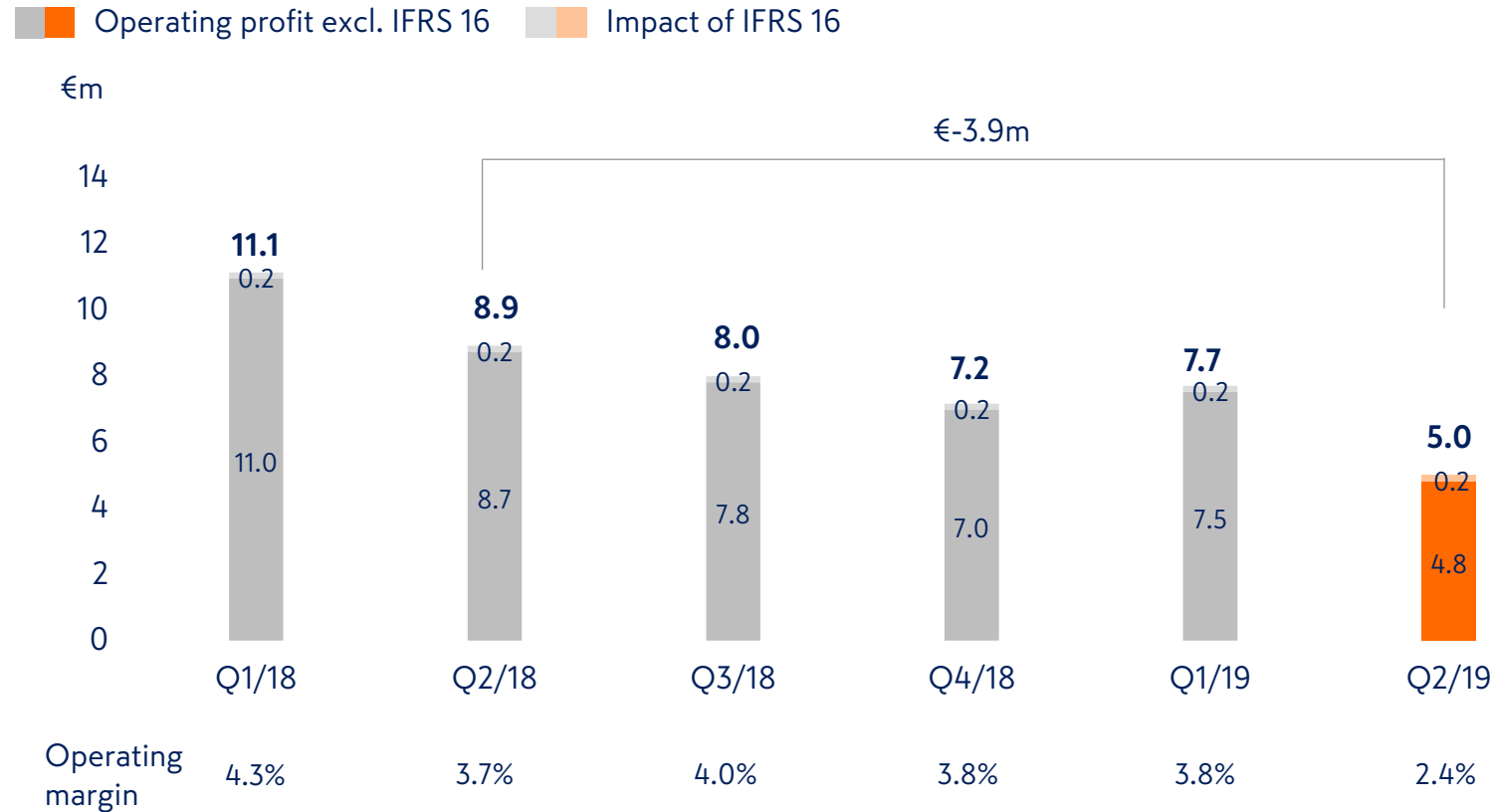


Rolling 12 months

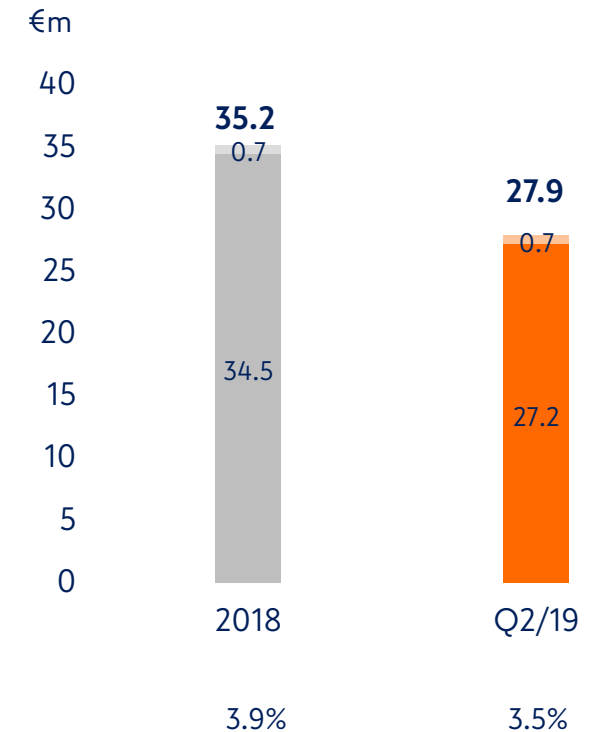


Car Trade Operating Profit

Q2 operating profit €5 million despite market disturbances



Rolling 12 months



Comparable operating profit, continuing operations

Group 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 (7/2019-6/2020) in comparison with the 12 months preceding the end of the reporting period (7/2018-6/2019). The outlook is based on the IFRS standards that took effect on 1 January 2019, and includes the impact of IFRS 16 Leases on the Group's comparable operating profit for both the 12-month period following the reporting period as well as the 12-month period preceding the reporting period.

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. In the Finnish grocery trade, intense competition is expected to continue, although, as purchasing power increases, the importance of quality will be emphasised more than previously. In the building and technical trade, the growth in B2B sales is expected to continue stronger than the growth in the retail market. The market is expected to grow in the Nordic and Baltic countries, but at a somewhat slower rate.

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.

New Main Office Building K-Kampus Opened

“More than 1,800 Kesko employees have moved to K-Kampus, our new main office building. Working in the new building enables increased collaboration across organisational boundaries, in the spirit of “one unified K”.”



Contact

Hanna Jaakkola

Vice President, Investor Relations

Mobile +358 40 5666 070

hanna.jaakkola@kesko.fi



K