



KESKO INTERIM REPORT Q2/2020

Record Q2 Result – Profitability Improved Thanks to Fast Response to Exceptional Circumstances and Well-Functioning Strategy

MIKKO HELANDER, PRESIDENT AND CEO



Key Events in Q2

- Record result and very strong cash flow
- Grocery trade sales grew and profitability improved further
- Demand continued strong in building and technical trade
- Good development continued in K-Rauta and Onninen in Finland, significant profit improvement in building and home improvement trade in Sweden
- Acquisition of Carlsen Fritzøe Handel, leading building and home improvement trade operator in the Oslo region, in July
- Positive result in car trade under difficult circumstances thanks to adjustment measures
- New ambitious climate targets: carbon neutral by 2025, zero emissions by 2030

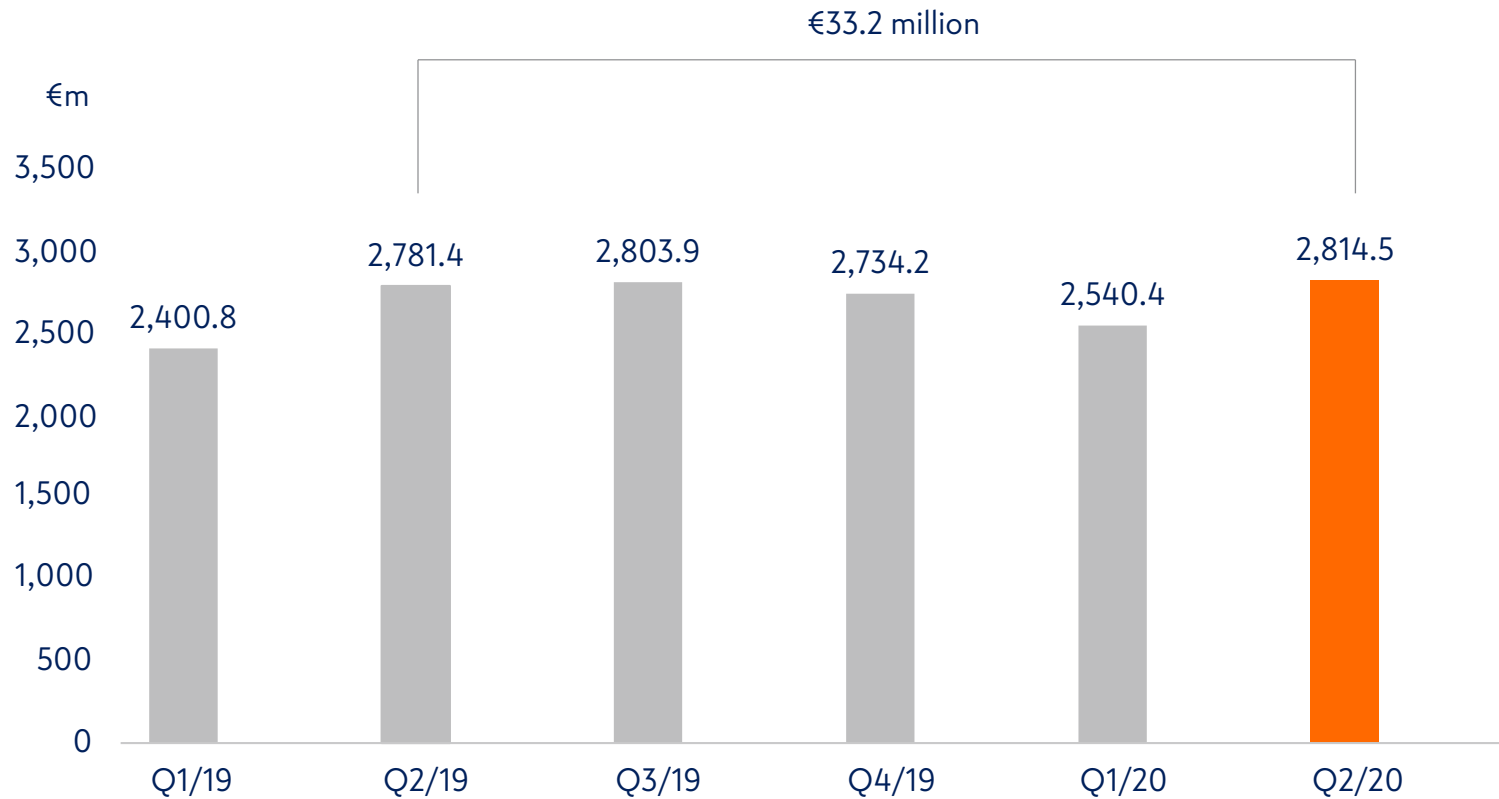
	4-6/2020	4-6/2019
Net sales, € million	2,814.5	2,781.4
Net sales growth, %	1.2	4.1
Operating profit, € million*	155.2	122.5
Operating margin*	5.5	4.4
Profit before tax, € million*	135.2	99.2
Earnings per share, basic, €*	0.24	0.18
Cash flow from operating activities, € million	421.8	271.4

* Comparable

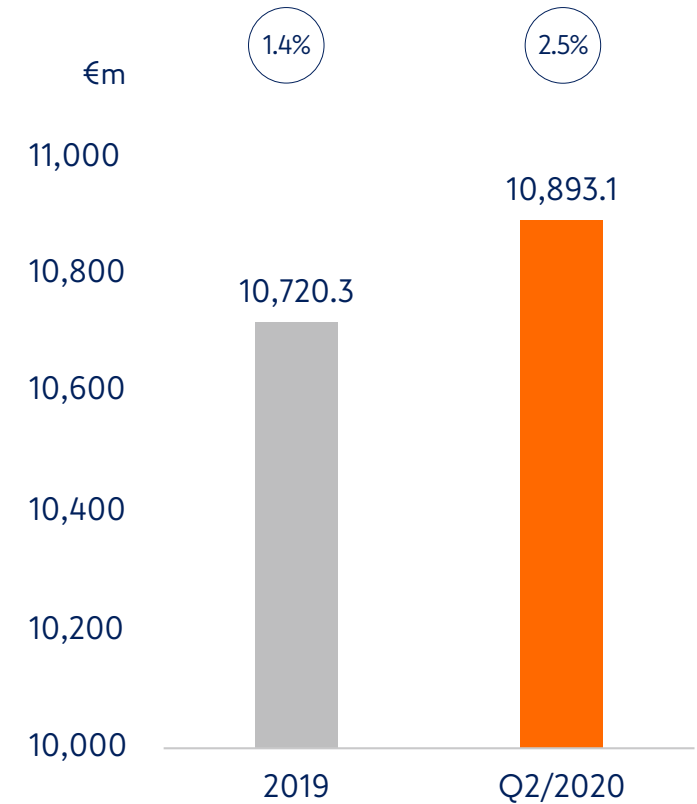


Net Sales

Q2 net sales up by 1.2%, or 2.2% in comparable terms

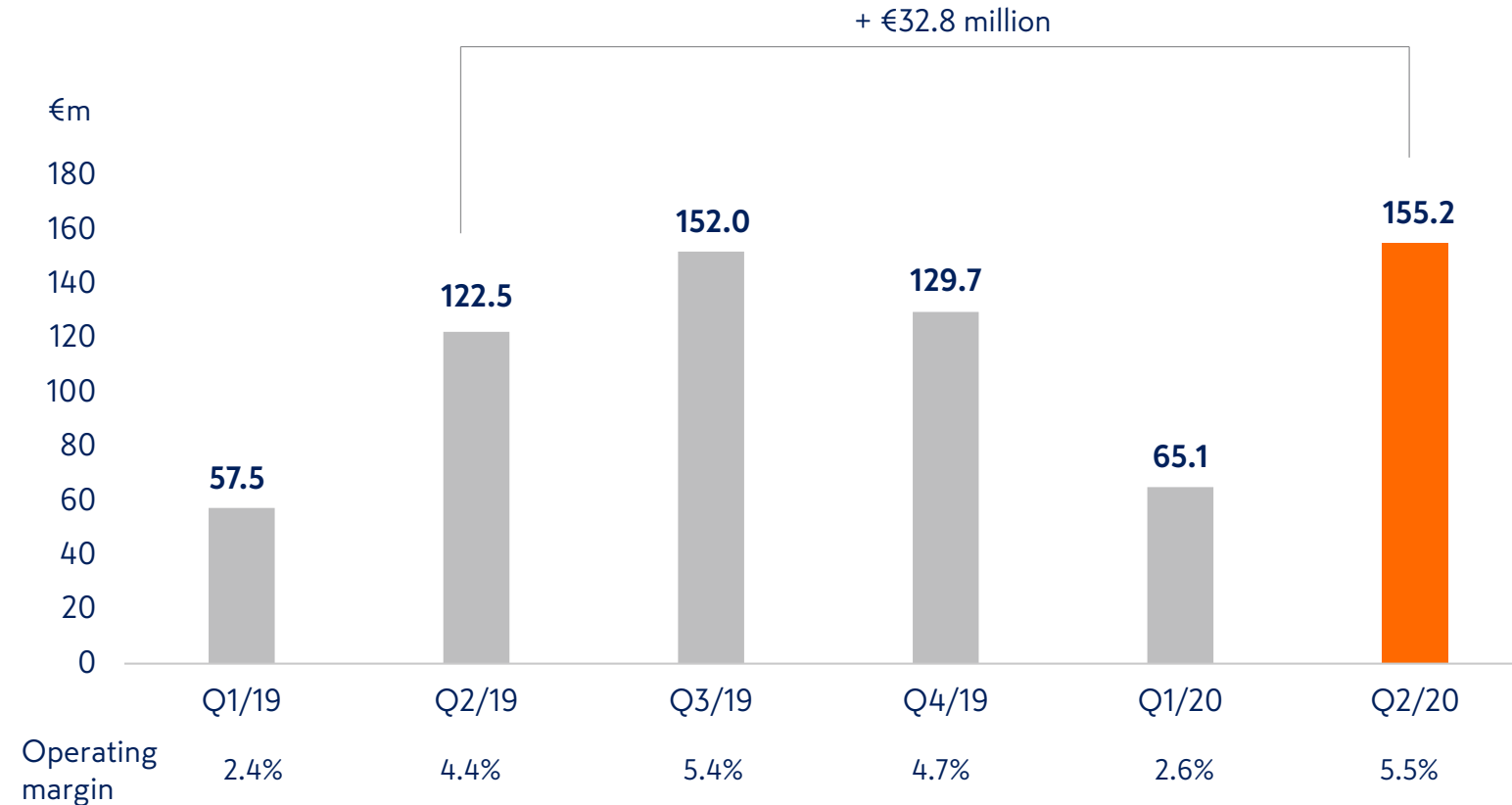


Rolling 12 months

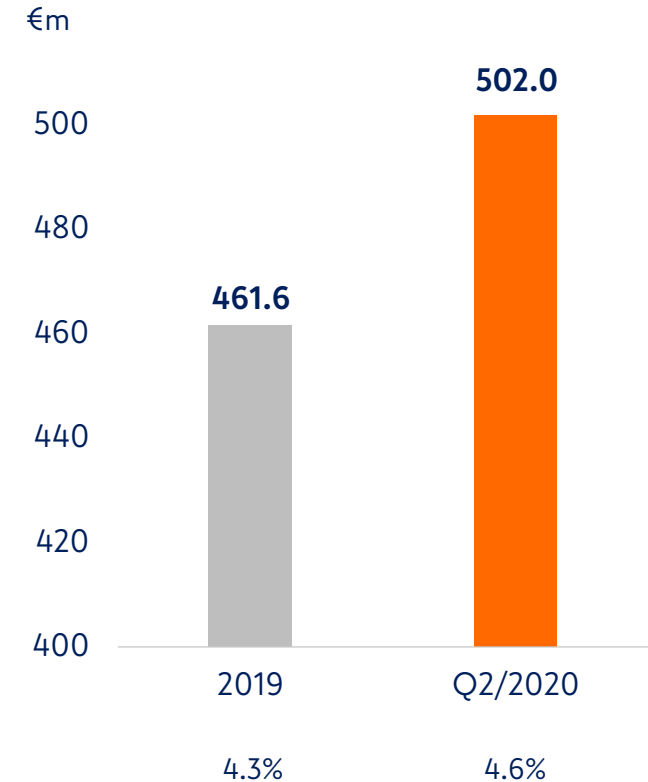


Operating Profit

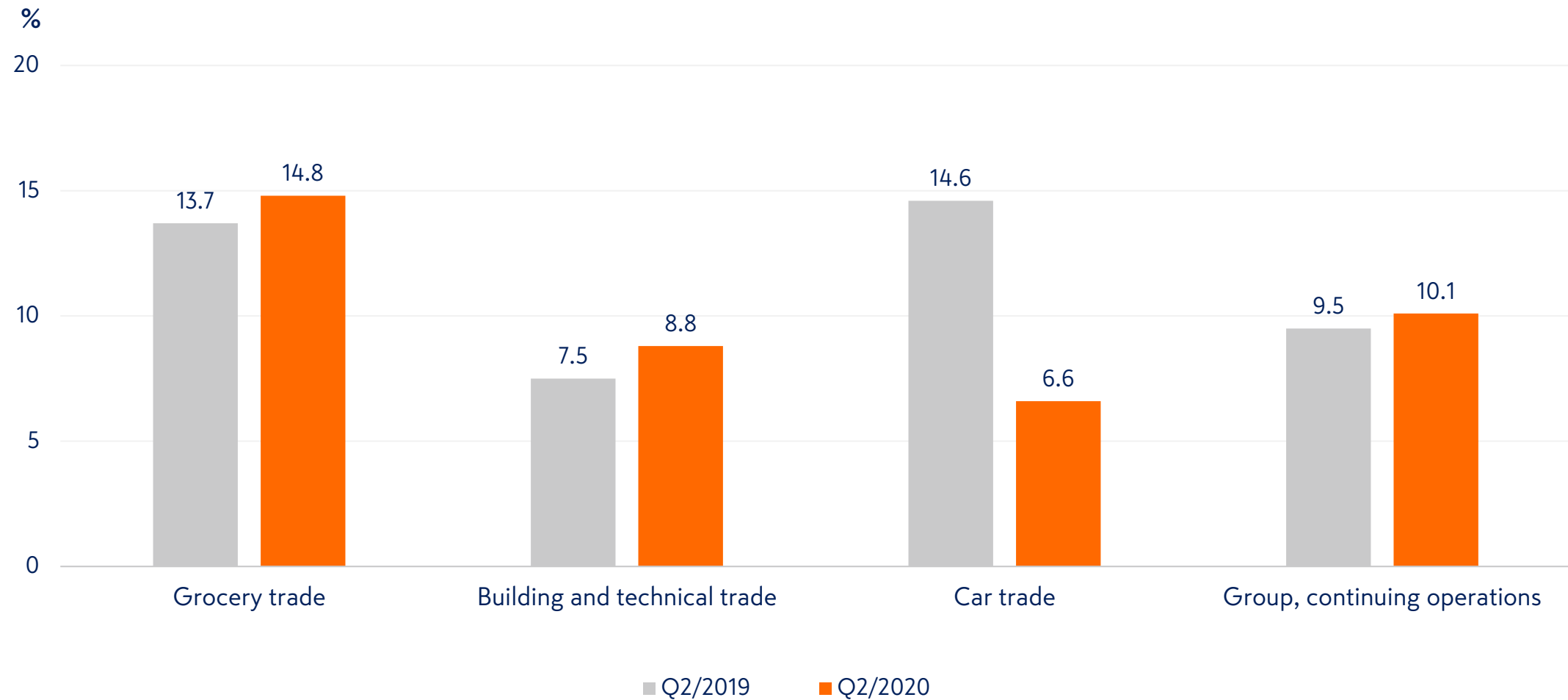
Operating profit grew by €32.8 million



Rolling 12 months



Return on Capital Employed Improved to 10.1%



Strong Financial Position

Cash flow from operating activities strengthened operatively by €195 million, cash flow for the comparison period contained exceptional positive items totalling €44 million

	Q2/2020	Q2/2019
Cash flow from operating activities, € million	421.8	271.4
Cash flow from investing activities, € million	-70.6	-347.2
Capital expenditure, € million	69.1	373.4
Liquid assets, € million	461.8	200.6
Interest-bearing net debt excl. lease liabilities, € million	330.0	439.6
Interest-bearing net debt/EBITDA (rolling, excl. IFRS 16 impact)	0.6	1.0
Lease liabilities, € million	2,312.1	2,351.6



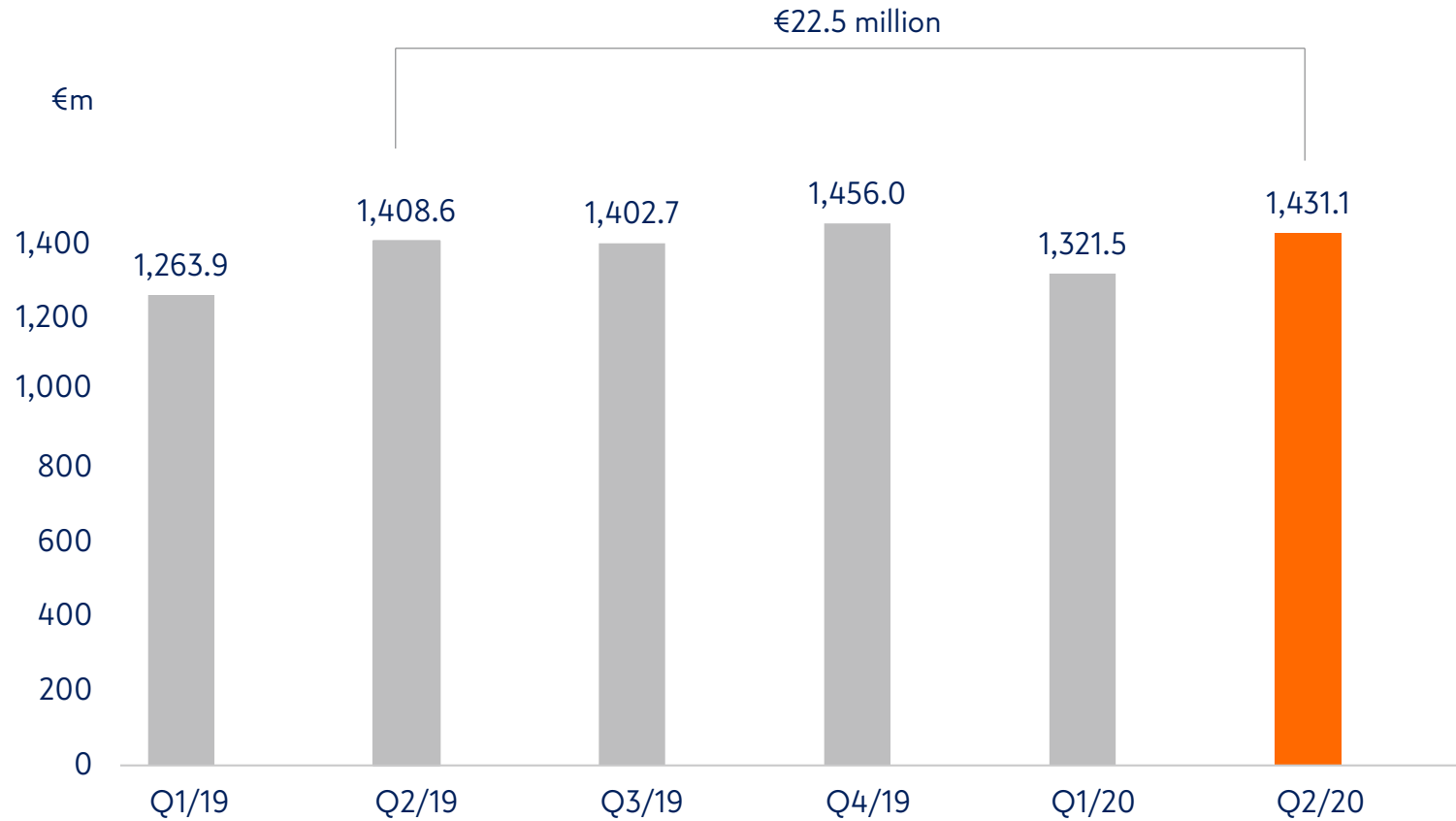
GROCERY TRADE

Strategy Successful Also Under Exceptional Circumstances

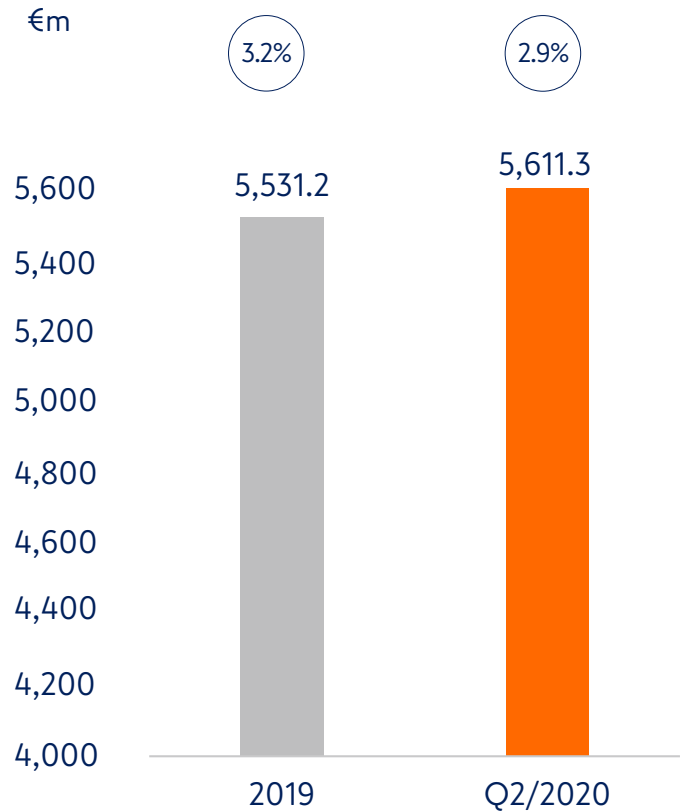


Net Sales

Net sales growth 1.6%

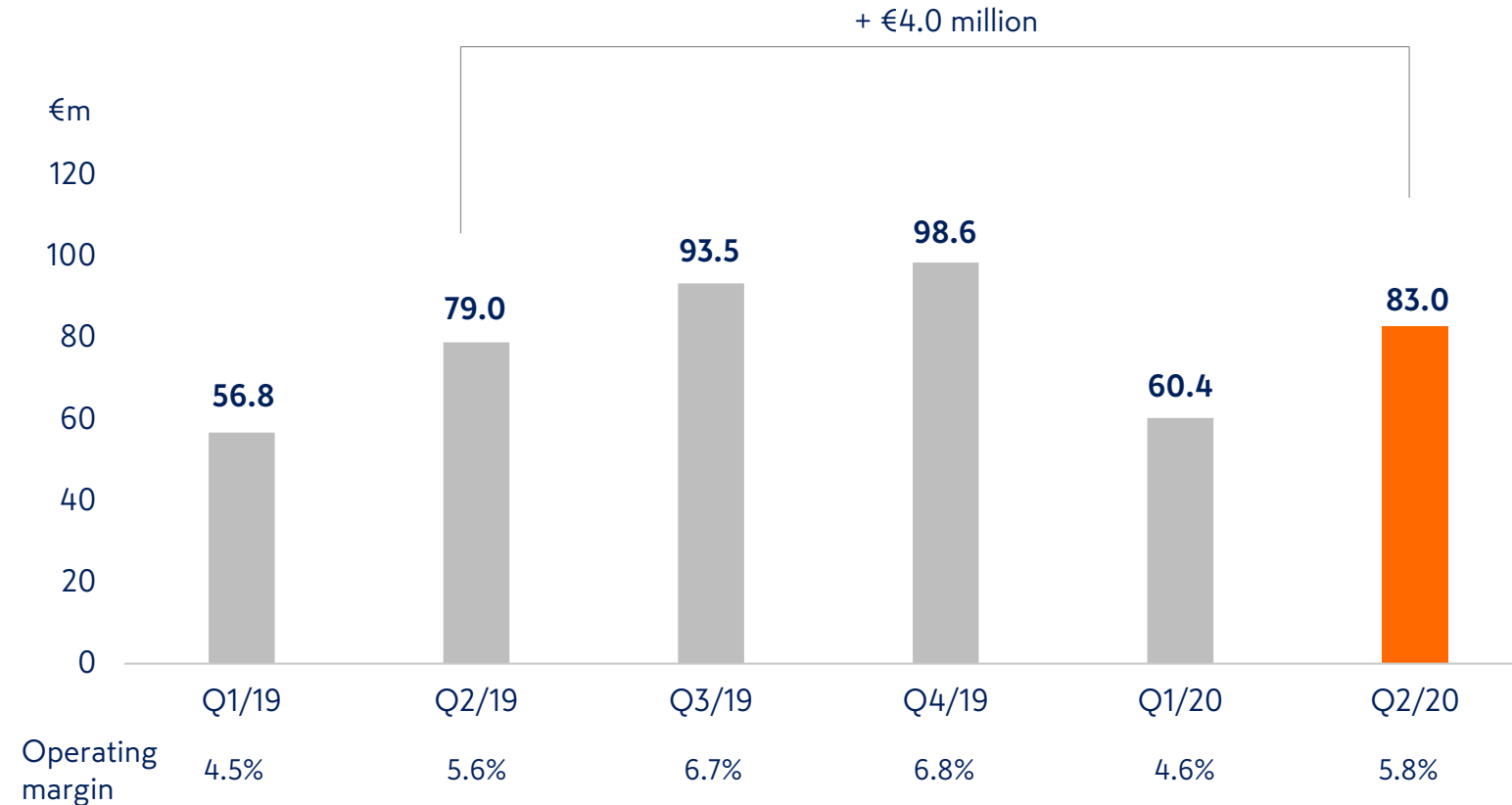


Rolling 12 months

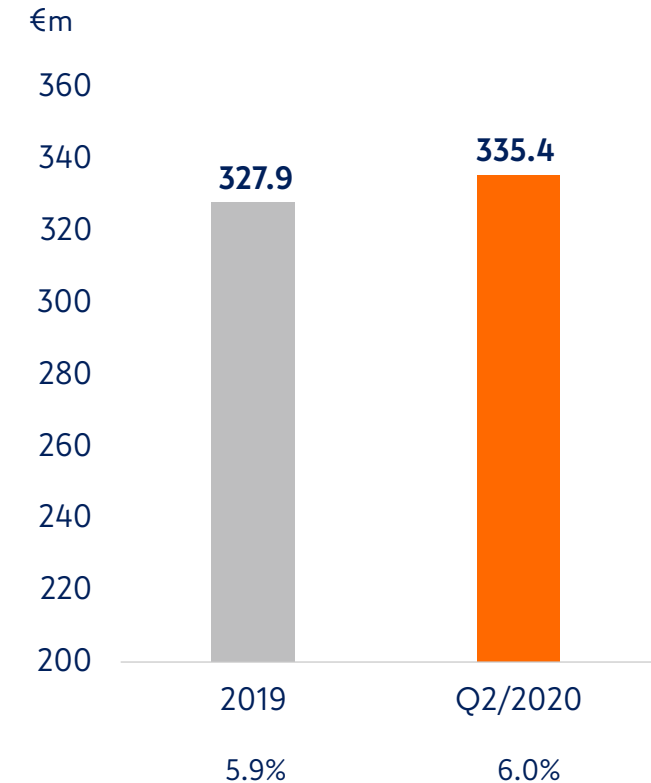


Operating Profit

Record Q2 operating profit



Rolling 12 months



Grocery Trade Q2

Market Q2

- Significant growth in retail sales of food due to the exceptional circumstances
- Total market growth in retail 9.5%*, prices up by approx. 1.3%
- Safety of customers and personnel emphasised during the epidemic
- Customer visits down, average purchase up due to the epidemic
- Strong growth in demand for online sales of groceries
- Demand plummeted in foodservice, a turn for the better seen in June

K Group

- Well-functioning strategy helped also under exceptional circumstances, retail sales up by 12.3%
- Market share growth continued stronger than before
- Sales grew in all K-food store chains
- We have been able to respond to the rapid rise in demand for online grocery sales better than our competitors
- Profitability improved despite the decrease in Kespro's sales

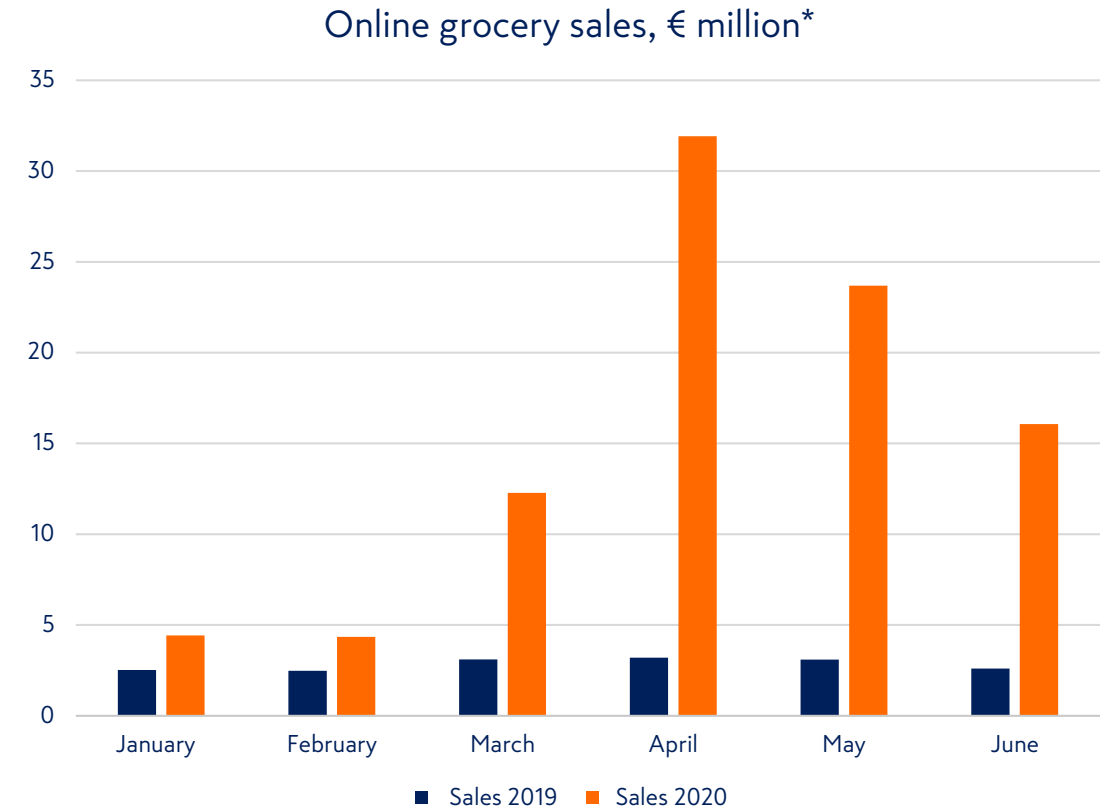
Excellent Performance by K Group people and Successful Strategy Execution Enabled a Good Result Under Exceptional Circumstances

- K-retailers have shown their strength also during these exceptional times: agility and fast response in the stores
- Store staff and Kesko employees have performed excellently under the exceptional circumstances
- Success in ensuring safety
- We have managed to ensure product availability and deliveries to stores under all circumstances
- Fast response and establishing new services such as offering shopping assistance to people over 70 and selling restaurant meals in grocery stores
- Successful adjustment of foodservice operations to the sudden decline in sales



Successful Response to Rapid Growth in Demand for Online Grocery Sales

- Online grocery sales at K-Ruoka.fi approx. €93 million* in H1, up by 446%
- 176 stores joined the K-Ruoka.fi service, which now covers 447 K-food stores around Finland
- Online accounted for 4.2% of sales in Q2, vs. 0.6% in 2019
- Despite the rapid growth, customer satisfaction has remained high, NPS 80
- Online sales of groceries clearly above earlier levels
- Growth continues strong also after the epidemic



* Figures 0% VAT, incl. collection and delivery fees



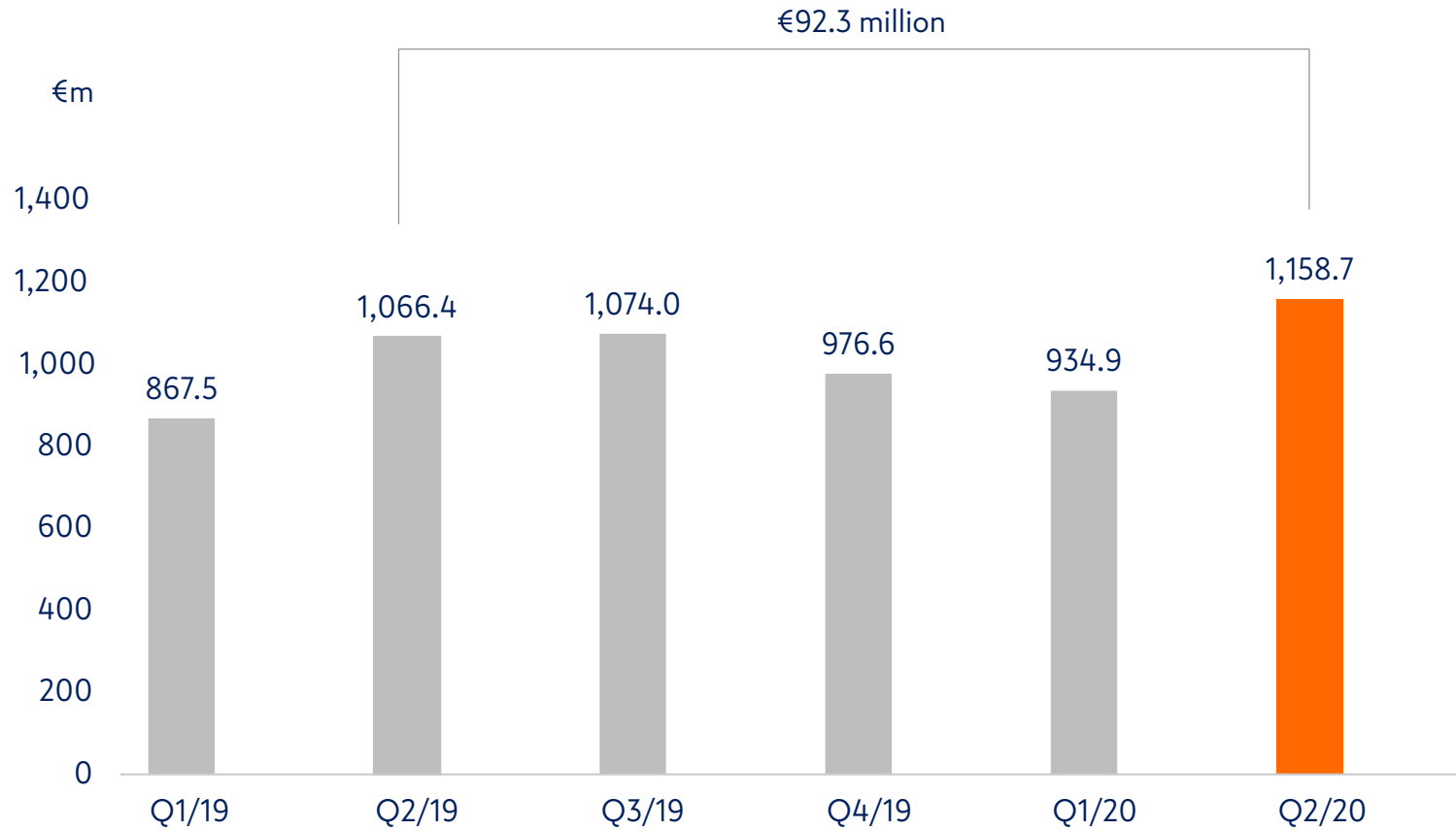
BUILDING AND TECHNICAL TRADE

Record Result Thanks to Systematic Strategy
Execution and Good Market

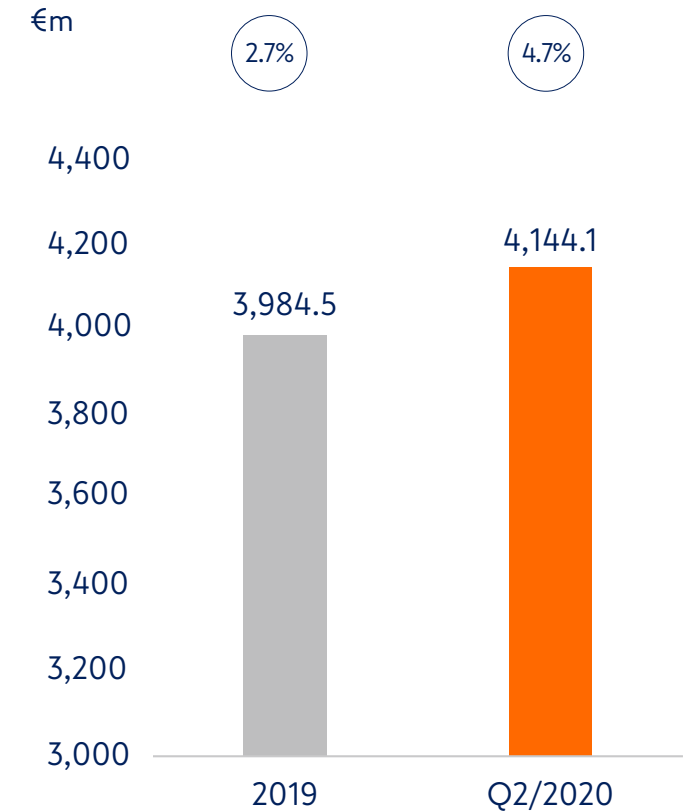


Net Sales

Q2 net sales up by 8.7%, growth 8.7% also in comparable terms

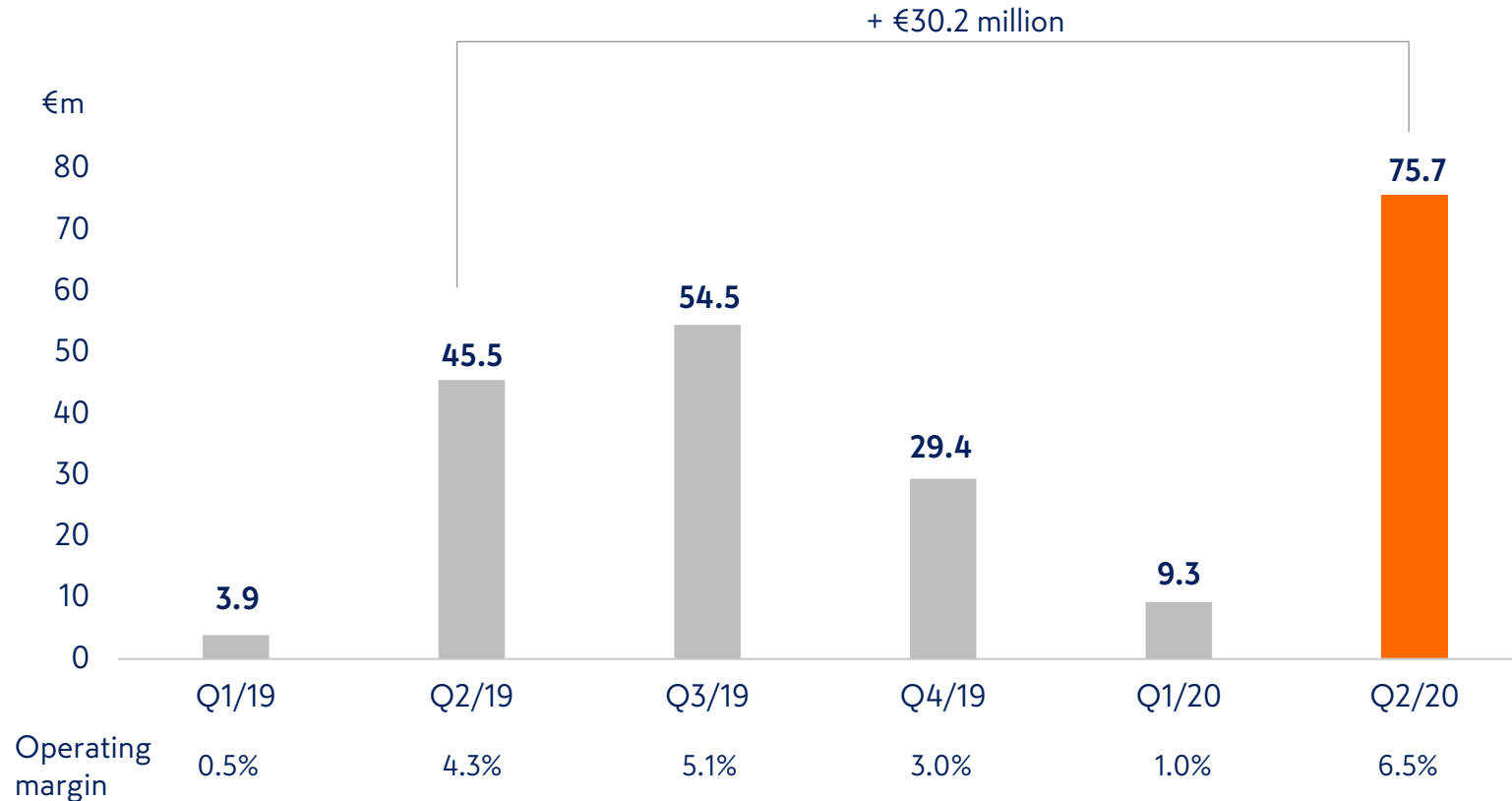


Rolling 12 months

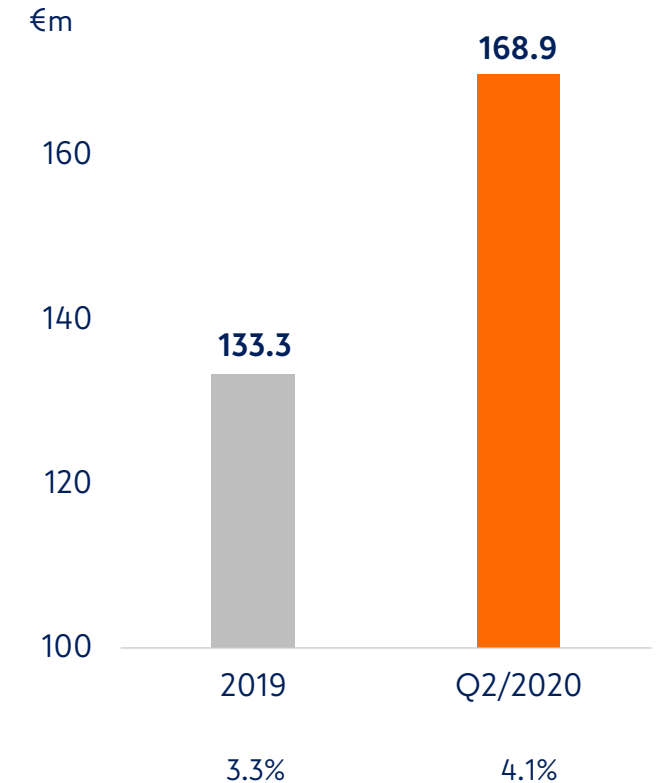


Operating Profit

Record Q2 operating profit



Rolling 12 months



Building and Technical Trade Q2



Market Q2

- B2B trade has continued strong in both building and home improvement trade and technical wholesale
- Activity on construction sites has continued without major disruptions
- Surprisingly high activity in B2C sales across Northern Europe
- It is still difficult to estimate how demand will develop in H2
- Demand in the leisure trade weakened heavily at the beginning of the epidemic, fast recovery since May

K Group

- Net sales grew forcefully and profit rose to a new level
- B2B trade continued strong in both building and home improvement stores and Onninen
- B2C sales grew clearly more than anticipated
- We strive to accelerate growth also via new acquisitions
- Kesko Senukai's sales and profitability recovered quickly from the problems caused by the coronavirus epidemic

Continued Strong Development for K-Rauta and Onninen in Finland

Good sales development has accelerated market share growth

- B2B trade has continued stronger than anticipated
- Onninen's profitability improved further thanks to e.g. good product availability
- K-Rauta's B2C trade has developed better than anticipated during the exceptional circumstances
- Extended opening hours for K-Rauta have improved service and increased sales
- Sales of revamped K-Rauta.fi online service up by some 100%, lending good support to sales in physical stores



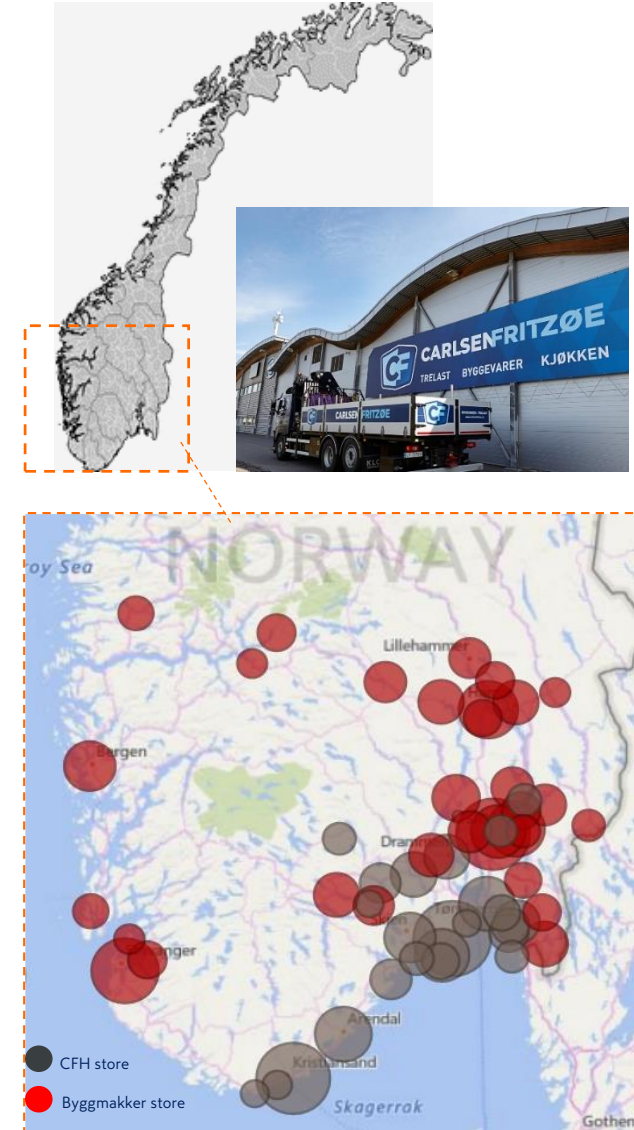
Determined Strategy Execution in Sweden Has Led to Significant Improvement in Profitability

- Profitability improved significantly and profit exceeded €10 million, strong market also contributed
- K-Rauta's net sales growth 17.1% comparatively, growth also strong in K-Bygg
- Significant measures taken to improve K-Rauta's profitability, work continues
- K-Bygg's sales and profitability have developed well as part of Kesko
- Technical wholesale company MIAB acquired in Sweden
- Sweden an important growth area also going forward



Acquisition of Carlsen Fritzøe Handel, a Leading Building and Home Improvement Operator in the Oslo Region

- Carlsen Fritzøe's 25 stores in the Oslo fjord region highly complement the Bygghuset store network
- In 2019, the company's net sales totalled some €201 million and EBITDA €13.3 million
- Debt-free transaction price some €142 million, objective to complete the acquisition in August-September
- Once the transaction has been completed, Kesko will be a leading building and technical trade operator in Norway with retail sales of nearly €900 million
- Significant growth potential in Norway also going forward





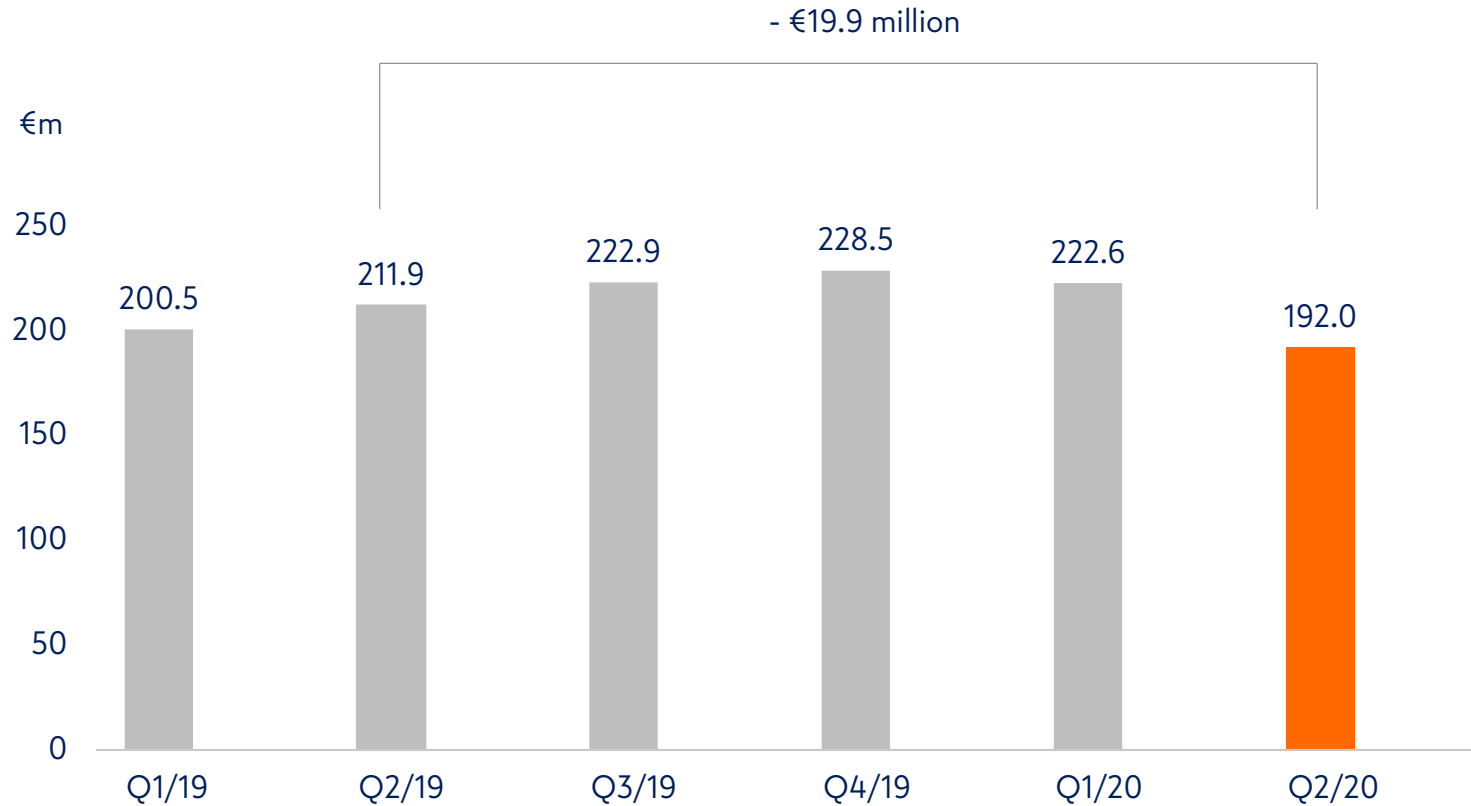
CAR TRADE

Car Trade Managed a Positive Result
Under Difficult Circumstances

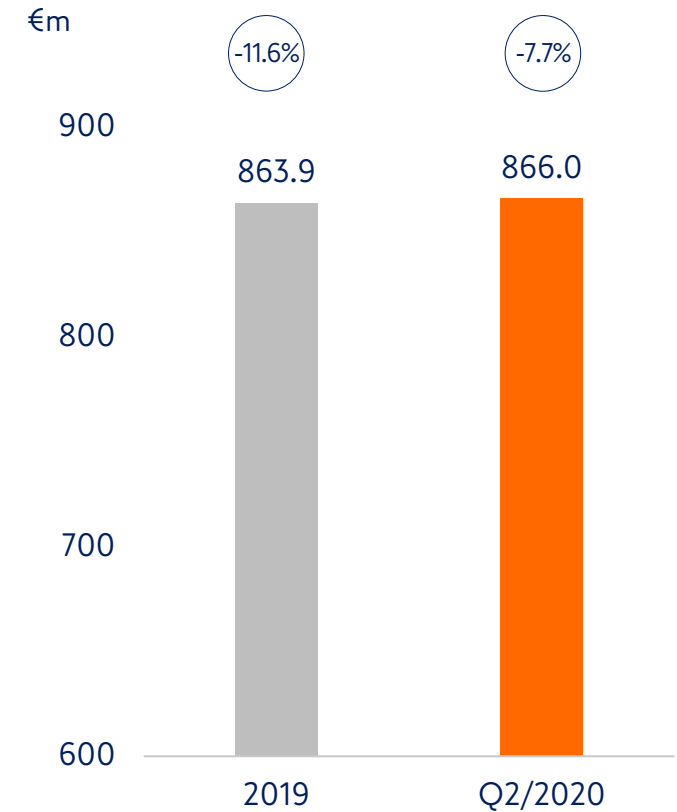


Net Sales

Q2 net sales down by 9.4%, or 21.5% in comparable terms

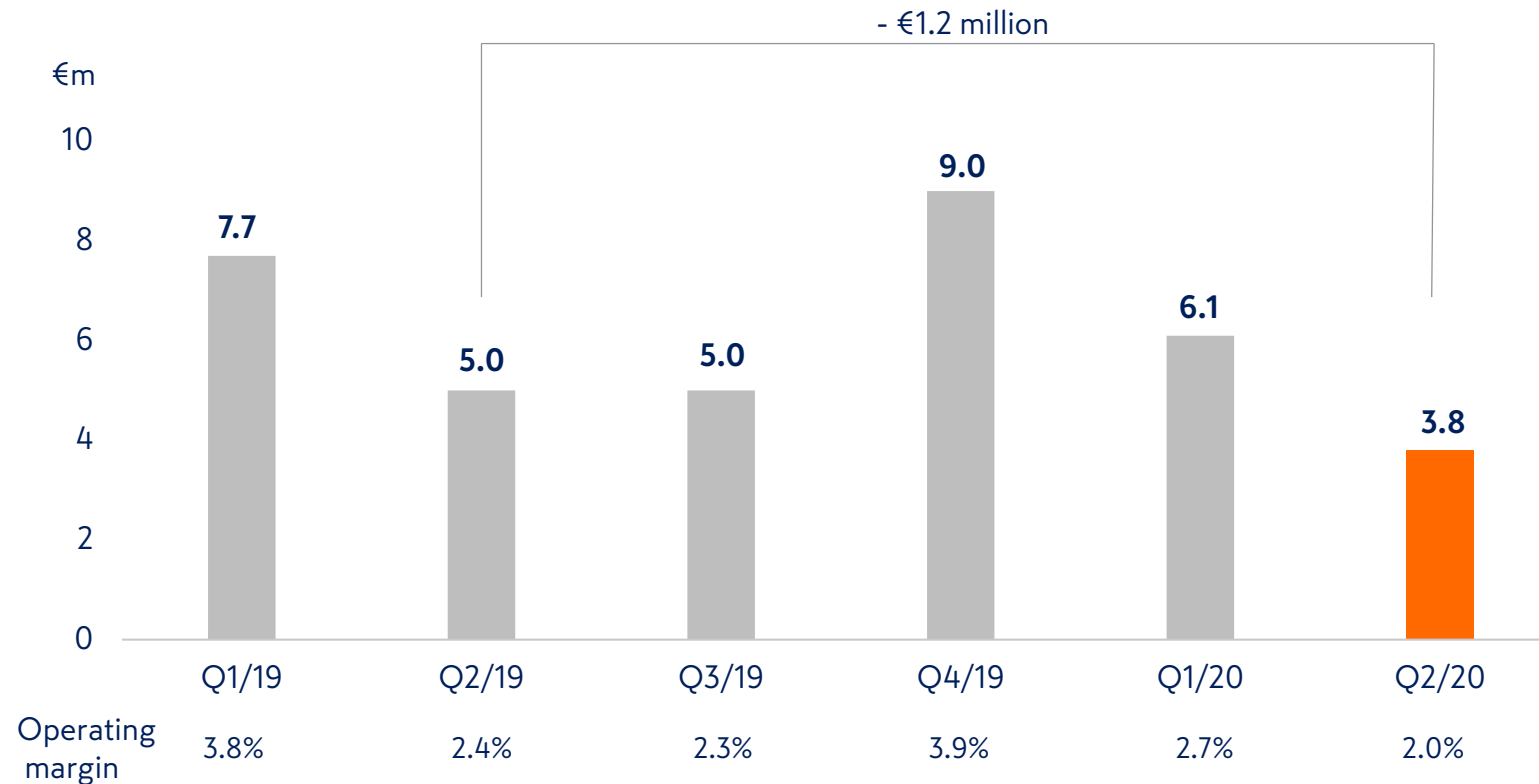


Rolling 12 months

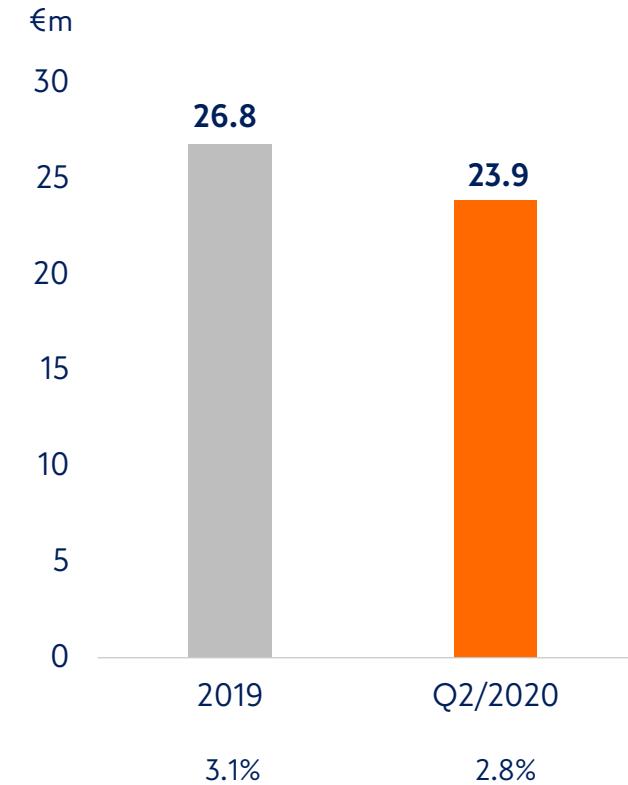


Operating Profit

Operating profit down by €1.2 million



Rolling 12 months



Car Trade Q2

Market Q2

- Automotive sector struggling globally due to the coronavirus epidemic and tightened emission limits
- Orders for new passenger cars in Finland down by more than 40%, orders for vans down by nearly 20%
- Decline in demand for servicing, repairs and spare part services and used cars more moderate
- Signs of recovery in the car trade towards the end of Q2

K Group

- New car sales and orders below normal levels, car sales improved clearly in June
- Market share of brands represented rose to 17.8%, 18.5% in June and Volkswagen the market leader
- Development of own leasing fleet good despite the epidemic, totalling 2,600 cars at the end of Q2
- Servicing and spare part sales have remained good
- Adjusting operations has helped in managing the situation

Volkswagen in Finland for 70 Years

- First Beetles handed over to buyers on Senate Square, Helsinki on 9 June 1950
- More than 347,000 Volkswagen vehicles on Finnish roads
- Strategic partnership with the world's biggest car manufacturer Volkswagen Group since 1977



Strategic Review in the Baltics and Belarus

Strategic Review of Business Operations in the Baltics and Belarus Continues

- We have strived to resolve significant differences of opinion with UAB R Investicija on how Kesko Senukai should be developed and managed.
- Kesko has proposed to UAB R Investicija negotiations to change Kesko Senukai's ownership structure. Alternatives include e.g. splitting the company, Kesko acquiring the whole company, or Kesko selling its stake.
- If the negotiations were not to lead to a satisfactory result, Kesko will seek to ensure appropriate management of the company in accordance with the partnership agreement by legal means, if necessary.

Kesko Examining Conditions for Subsidiary Consolidation of Kesko Senukai in Kesko's Consolidated Financial Statements

- Kesko has a majority holding, voting power and majority of Board members in Kesko Senukai
- Due to disagreements concerning the management and control of the company, Kesko is examining conditions for subsidiary consolidation of Kesko Senukai
- Potential lack of control would mean the company would be consolidated as an associate
 - An associate would be presented on one line in the income statement and balance sheet, as opposed to a line-by-line presentation for a subsidiary
 - A change in the method of consolidation would not affect the Group's comparable net profit*, EPS or Kesko's dividend distribution. The change would also not have a material impact on the Group's comparable operating profit or equity*

Guidance for 2020

Outlook and Guidance for 2020

Outlook for Kesko Group's continuing operations is given for year 2020, in comparison with year 2019.

Kesko estimates that the comparable operating profit for continuing operations will be in the range of €430-510 million in 2020. Before, the company estimated that the comparable operating profit for continuing operations would be in the range of €400-450 million.

Guidance upgrade rationale

The profit guidance upgrade is based on better than anticipated net sales development in the building and technical trade division in various operating countries as well as in the grocery trade. Consumer sales have developed better than anticipated during the exceptional circumstances. B2B sales have also continued stronger than anticipated in both building and home improvement stores and Onninen. Retail sales for all the grocery trade chains have developed better than anticipated, compensating for the decrease in sales in the foodservice business.

In addition to the foodservice business, net sales have clearly decreased in the car trade. Adjustment measures carried out have enabled the company to manage the situation and costs in its various business operations under the challenging circumstances.

Although conditions surrounding the coronavirus have improved in Kesko's operating countries, it is hard to predict the development of the epidemic situation and its economic impact. Therefore, the range for the guidance on comparable operating profit for 2020 is still wide.



Contact

Hanna Jaakkola

Vice President, Investor Relations

tel.+358 40 5666 070

hanna.jaakkola@kesko.fi

