



KESKO'S
ANNUAL REPORT 2018

KESKO'S DIRECTION





KESKO'S DIRECTION

This section describes Kesko and its divisions and the progress made in their strategy execution, as well as our financial targets, operating environment and value creation.

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Kesko in brief

Kesko is a Finnish trading sector forerunner. We operate in the grocery trade, building and technical trade, and car trade. Our divisions and chains act in close cooperation with retailer entrepreneurs and other partners.

Our chain operations comprise some 1,800 stores in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Belarus and Poland. Combining online sales and digital services with our extensive store site network, we enable a seamless customer experience in all channels.

Together, Kesko and K-retailers form K Group, whose sales (pro forma) totalled approximately €13 billion in 2018. K Group is the biggest trading sector operator in Finland and one of the biggest Northern Europe. We employ some 41,000 people.

Kesko's strategic business areas are grocery trade, building and technical trade, and car trade. They are areas where

Kesko has strong expertise and market positions and they offer good potential for profitable growth in the long term.

Corporate responsibility is a strategic choice for K Group and integrated into our daily activities. Responsible purchasing, product safety, the environment and good corporate governance are key focus areas for our corporate responsibility work.

Kesko's shares are listed on Nasdaq Helsinki. Its domicile and main premises are in Helsinki.








Kesko's business model

Kesko's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Sales to retail entrepreneurs accounted for approximately 46% of Kesko's net sales in 2018.

Kesko's own retailing accounted for some 18% of net sales.

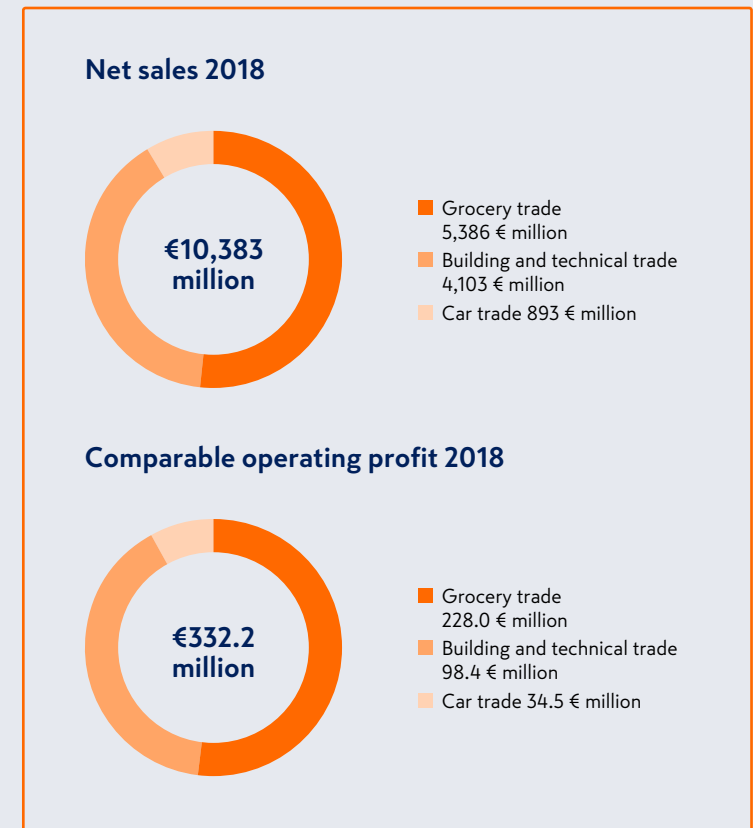
B2B trade is a significant, growing part of Kesko's business operations. In 2018, net sales from B2B trade totalled some €3.8 billion, accounting for 36% of Kesko's net sales.

Outside Finland, we mainly engage in own retailing and B2B trade. Net sales from international operations totalled some €2.1 billion in 2018, representing 20.5% of our net sales.

 <p>Biggest trading sector operator in Finland, one the biggest in Northern Europe</p>	 <p>1,800 stores in 8 countries and extensive digital services</p>	 <p>Strong financial position with good dividend capacity</p>	 <p>Market capitalisation of €5.1 billion (28.2.2019), 41,000 shareholders</p>	 <p>Profitable growth strategy, 3 divisions</p>	 <p>World's most sustainable trading sector company (Global 100)</p>
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Key indicators

Successful strategy execution enabled us to achieve our all-time best result in 2018. Our net sales grew by 3.5% in comparable terms and we made a record operating profit. We were also able to meet the 14% target level for return on capital employed set in 2015.



[Read more in the Report by the Board of Directors >](#)

Divisions in brief



Grocery trade

Net sales, € million

5,386

Comparable operating profit, € million

228.0

K Group is the second biggest operator in grocery trade in Finland, with a market share of 36.0% (2017: 35.8%). Our K-food store business is heavily based on retailer entrepreneurship. Independent K-food retailers are responsible for customer satisfaction, and we operate together with them under the chain business model. The K-food store chains are K-Citymarket, K-Supermarket, K-Market and Neste K service stations. There are some 1,200 K-food stores in Finland, with 1.2 million daily customer visits.

Our strengths include our versatile, high-quality selections, a high proportion of Finnish products, and professional service. The division includes the operations of Kespro, Finland's leading foodservice provider.



Building and technical trade

Net sales, € million

4,103

Comparable operating profit, € million

98.4

The building and technical trade division has operations in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus. We serve customers in 420 stores and extensively in digital channels. Our customers include technical professionals, professional builders and consumers. Some 70% of our retail sales come from B2B trade, as construction is increasingly delegated to professionals.

Our strong chains are Onninen, which serves technical professionals, and K-Rauta, Byggmakker, K-Senukai and OMA, which serve both professional builders and consumers. The leisure goods trade chains Intersport, Budget Sport, The Athlete's Foot and Kookenkä are also part of the division.



Car trade

Net sales, € million

893

Comparable operating profit, € million

34.5

K-Auto imports and markets Volkswagen, Audi, SEAT and Porsche passenger cars and Volkswagen Commercial Vehicles and MAN trucks in Finland, and SEAT cars in Estonia and Latvia. K-Auto also develops car-related multichannel services. K-Auto's market share in Finland was 18.5% (including passenger cars and vans).

K-Auto's retail company K-Caara is a major retailer of new and used vehicles and it offers servicing and after-sales services at its own outlets in the greater Helsinki area, Turku and Tampere (Porsche). K-Caara's services also include the online sales of used cars, a store for lower price range used cars, and leasing services for private and corporate customers.

REVIEW BY THE PRESIDENT AND CEO

A year of strong growth and transformation

In 2018, Kesko and K Group continued to transform intensely. All our businesses – the grocery trade, building and technical trade, and car trade – increased their sales and improved their profitability. Our strategy of profitable growth, sharper focus, and “One unified K” has paid off.

- Net sales grew in comparable terms by 3.5% and comparable operating profit rose to an all-time high of €332 million.
- Comparable net sales grew in the grocery trade and in the building and technical trade. In all divisions, profitability improved in comparison to the previous year.
- Return on capital employed achieved our target level of 14%, thanks to successful strategy execution.

A strong year of transformation in the grocery trade

In 2018, net sales for the grocery trade grew by 5.1% in comparable terms. Comparable operating profit rose to €228 million, i.e. to 4.2%, which is a good level also by international standards. Our strong transformation efforts boosted growth in sales and market share.

The Suomen Lähikauppa acquisition has been a success, and has lifted K Group to clear leadership in the neighbourhood market. The integration was completed and synergies were obtained sooner than anticipated.

We have determinedly transformed our store network and continued the implementation of store-specific business ideas. Increasingly customer-oriented services and the recovery in consumer purchasing power have resulted in significant growth in sales and customer numbers in all K-food store chains. Customer satisfaction is also markedly higher. We now have the widest and most comprehensive store network in Finland. For the most part, these stores' selections and brand have been renewed. Robust growth also continued online, and more than 150 K-food stores offered online sales of groceries by the end of the year.

Kespro is the market leader in foodservice wholesale in Finland. In 2018, we strengthened Kespro's competitiveness by acquiring the leading Finnish fresh fish and meat providers, Kalatukku E. Eriksson and Reinin Liha. Kespro's strong performance is underpinned by the trend of eating out, which is vigorously growing in Finland too.

For many Finnish farmers, 2018 was a difficult year. K Group quickly took concrete action to support the



position of Finnish food, first doubling the sum paid in support of producers of the 'Thank the Producer' products, and then expanding the product range. The operating model has so far resulted in additional support of €1.5 million for food producers. We have expanded the model also in 2019.

Implementation of country-specific strategies improved profitability in the building and technical trade

Our building and technical trade division operates in eight countries, and our objective is to become an increasingly significant operator in Northern Europe. We made significant changes to the division's management model at the start of the year, and our increased country-specific focus resulted in improved competitiveness and profitability. We also enhanced profitability through acquisitions and the streamlining of operations. Net sales for the division grew by 2.7% in comparable terms, and over half of it came from outside Finland. Comparable operating profit grew

to €98 million despite the impact of divestments carried out in 2017.

The acquisition of Onninen in 2016 has strengthened our market position and B2B sales in building and technical trade. Onninen's net sales grew by 1.7% and its comparable operating profit rose to €40 million. Sales and profit grew especially in Finland, the Baltics and Poland.

In the first half of the year, we further focused our operations by completing the divestment of our building and home improvement trade operations in Russia. In the summer, we carried out two acquisitions in Norway, and consequently 29 retailer-owned Bygghjælp stores became part of Kesko. We completed a third acquisition of Bygghjælp stores in January 2019. These strategically important acquisitions create a good basis for further growth in upcoming years. In October, Kesko Senukai acquired the online player 1A Group, making Kesko Senukai one of the leading e-commerce operators in Estonia, Latvia and Lithuania.

Car trade brings new mobility services to the market

Overall, the year was good for the car trade division, although new WLTP emissions testing caused significant disturbances in European car trade in the latter half of the year. We had an 18.5% market share in passenger cars and vans, and with our extensive brand portfolio, we are the market leader in Finland. Porsche's performance was especially strong, while market shares also grew for SEAT and Volkswagen. Sales in the car trade division decreased by 1.8%, but the comparable operating profit grew to a total of €34 million.

The entire car sector and the concept of mobility are rapidly changing, and we need to constantly develop our operating models, services and technologies. In 2018, we introduced new consumer and corporate leasing products and car sharing services.

The Volkswagen Group intends to focus strongly on electric cars going forward. We want to take part in

2018



the shift towards electric cars, and are building a nationwide electric car charging network at K-store locations in Finland during 2018 and 2019.

Sustainability is the foundation of our operations

Our sustainability work is based on long-term, concrete actions in various areas. Key issues for us are transparency in sourcing and environmental care as well as extensive value creation throughout society. We want to enable a sustainable lifestyle for our current and future generations of customers, in the areas of food, mobility and living. Investors are also increasingly taking account of environmental, social and governance (ESG) factors alongside financials when making investment decisions.

Kesko is included in prestigious global sustainability indices, such as the DJSI World and DJSI Europe. In January 2019, Kesko ranked 88th on the Global 100 Most Sustainable Corporations in the World list, and was once again the most sustainable trading sector company in the world. In CDP's Climate questionnaire, Kesko received an A- score.

We are committed to international climate summit goals regarding the mitigation of global warming, and have set ambitious emission targets for our operations and supply chains. K Group is reducing its emissions through the use of renewable energy, energy efficiency at the stores, and efficient logistics. Since the beginning of 2017, all electricity purchased by Kesko in Finland has been produced with renewable energy based on hydropower or bioenergy. We have also installed solar power plants on the rooftops of over 30 stores, and are the biggest producer and user of solar power in Finland.

Promoting the sustainable use of natural resources and circular economy is a central aspect of our responsibility programme. In our updated plastics policy, we set tighter objectives for plastics recycling and for reducing and avoiding the use of plastics.

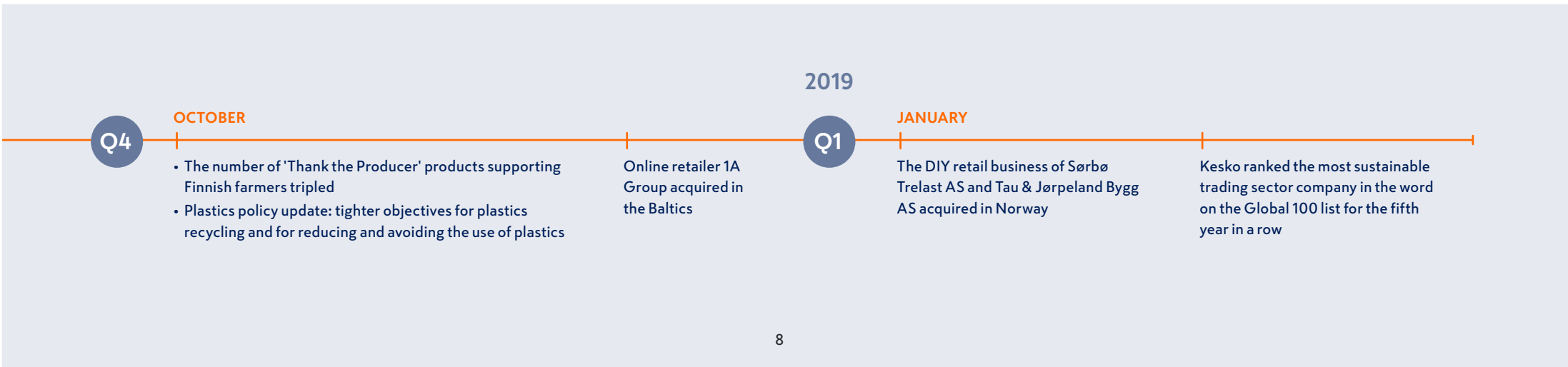
In autumn 2018, we took part in Plan's Girls Takeover event, and made the promotion of gender equality part of our responsibility programme.

Thanks to our personnel, K-retailers and stakeholders

K-Kampus, our new headquarters in Helsinki's Kalasatama, will be completed in spring 2019. It will bring together some 1,800 K Group employees in the greater Helsinki region and offer us entirely new types of operating premises, along with new possibilities in terms of ways to work. Our personnel have actively taken part in the planning and implementation of the changes, and we are eager to test our great new environment and new ways of working in practice.

I'm very happy with our cooperation at K Group. I wish to extend my warmest thanks to all our Kesko employees, K-retailers and their staff, our shareholders and our business partners for the valuable work you have done towards our success.

Mikko Helander
President and CEO



Six reasons to invest in Kesko

Kesko is a growing and profitable Northern European retail company that uses a long-term approach in strengthening its cash flow and dividend capacity.



“Our growth strategy has yielded increasingly good results. Strong transformation continued in all our divisions, with improved competitiveness. We also carried out various acquisitions and divestments. Our strong financial position enables both investments in growth and good dividend capacity.”

Jukka Erlund,
Chief Financial Officer

[Kesko in sustainability indices >](#)

1 Growth strategy

Kesko's growth strategy is based on customer-oriented operations and using quality for differentiation in both our stores and digital channels. We seek growth organically and through acquisitions. In business, we focus on growth in three divisions where we have strong competencies and competitiveness: the grocery trade in Finland, building and technical trade in Northern Europe, and car trade in Finland. These divisions and markets offer good growth and value creation potential long into the future.

2 Strong market positions

Kesko is one of the leading retail companies in Northern Europe and the largest retail operator in Finland. We strive to be among the top two operators in all our businesses in order to ensure economies of scale. Finland accounts for nearly 80% of Kesko's net sales. Kesko is the second biggest operator in the Finnish grocery trade, and the biggest operator in the Finnish building and technical trade as well as in the car trade. Outside Finland, we have strong market shares in the Baltics, Belarus and Norway.

3 Long-term profitability improvement

Kesko's strategic objective is to achieve profitable growth in all its businesses. Our comparable operating profit in 2018 was €332 million. In 2014, before we adopted our new strategy, it was €233 million. This improvement in profitability is a result of customer-oriented growth strategies in our business divisions, measures taken to improve gross profit, and the effective management of capital employed. We operate under “One unified K” and maximise the use of synergies between our businesses.

4 Attractive dividend yield

Kesko's good dividend capacity is based on the solid and consistent ability of its operations to generate cash flow. Kesko has paid uninterrupted dividends every year since 1968, and our aim is to sustain an attractive and steadily growing dividend yield.

5 Ability to increase shareholder value

The total shareholder return of a Kesko B share since 2015 is 17.5% p.a. This growth in shareholder value is the outcome of successful strategic decision making and execution and the efficient allocation of capital – these have seen Kesko's return on capital employed rise from 11.7% in 2015 to 14.0% in 2018.

6 Responsibility

Thanks to Kesko's long-term and comprehensive sustainability work, it is included in prestigious global sustainability indices, such as the DJSI World and DJSI Europe. Furthermore, we have been counted among the Global 100 Most Sustainable Corporations in the World list.

Financial targets

We are moving strongly towards our financial targets and better returns on capital employed and equity through growth, increased profitability, synergies and working capital efficiency. Alongside growth, we continue to focus on higher cost-efficiency in all our operations to ensure competitiveness.

Our strong balance sheet enables both investments in strategic growth endeavours as well as good dividend payments. Between 2015 and 2018, we invested more than €1.7 billion in our business operations, financing the investments with €1.0 billion divestments of non-strategic business operations and real estate.

Organic investments were at their highest in 2017, and are planned to come down to an annual level of €200-250 million. Investments in store sites will decrease, while investments in digitalisation will increase. In future acquisitions, we will aim for economies of scale and improved competitiveness, especially in the building and technical trade division.

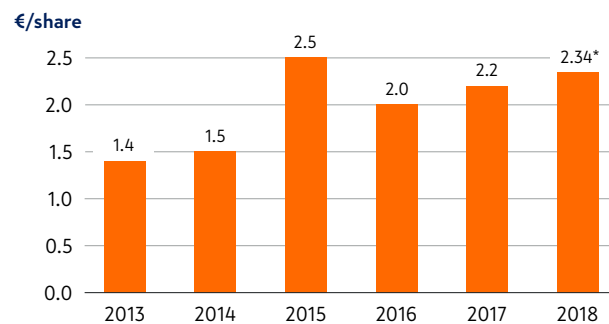
Key financial targets

	2017	2018	Target level
Return on capital employed, %*	13.3	14.0	14%
Return on equity, %	10.9	11.7	12%
Interest-bearing net debt/EBITDA	0.3	0.4	<2.5

Updated 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. Kesko plans to pay its dividends in two instalments, starting with the dividend paid for the year 2018.

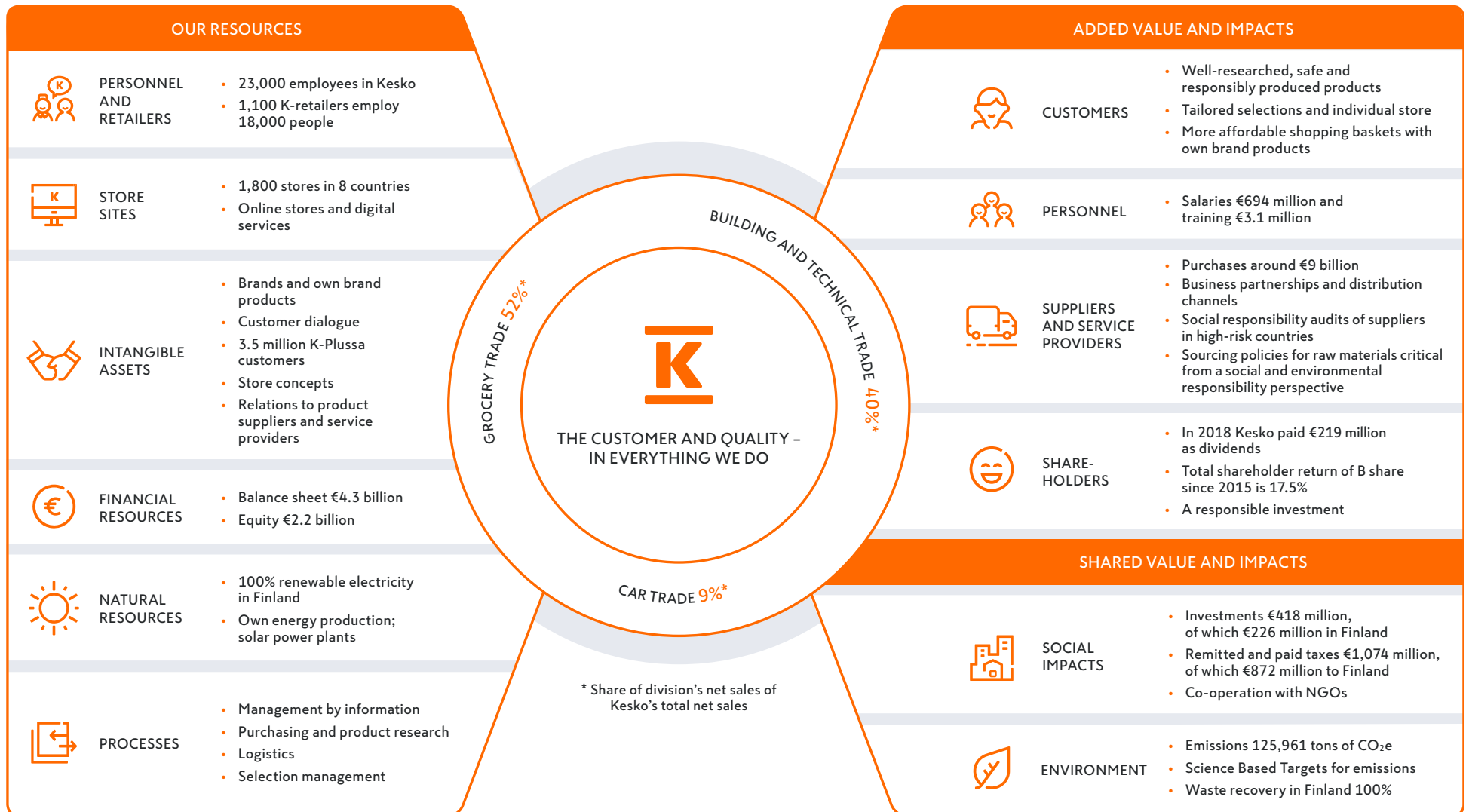
Dividend history 2013–2018



* Proposal to the Annual General Meeting



Responsible value creation for the whole society



Operating environment

The trading sector is affected by various global megatrends ranging from digitalisation to climate change. By identifying the trends that affect K Group's operations, we can effectively anticipate future challenges and opportunities and better respond to them.

MEGATRENDS

Globalisation

- Intensifying price competition
- Global supply

Digital trade and services

- Growth in international and Finnish online trade
- Seamless online and mobile customer experience
- Impactful marketing that addresses individual needs

Increasingly individual customer behaviour

- Customers value convenience and quality
- Urbanisation
- Changes in purchase habits, individualisation
- Customers looking to optimise their lives

Customers hold the power

- Conscientious consumers seek information as the basis for their choices
- Peer experiences have a big impact on choices
- Customers want to affect selections
- Transparency in pricing, availability and the supply chain
- Responsibility and smart consumption significant criteria

Sustainability and strong brands as preconditions for success

- Good corporate governance
- Responsible operating principles
- Transparency of purchasing chains
- Open dialogue with stakeholders
- Responsible investment

Climate change

- Sustainable lifestyle: food, living and mobility
- Renewable energy
- Circular economy solutions
- Minimising food waste



[Read more about opportunities and risks >](#)

Strategy and objectives

In line with its strategy, Kesko is an increasingly focused company that concentrates on growth and improving its profitability in three strategic areas: the grocery trade, the building and technical trade, and the car trade. Quality and customer orientation are increasingly important as the focal points of our strategy.

Our strategy established in 2015 aims for profitable growth through stronger focus and transformation. Concentration enables the efficient allocation of capital to increase shareholder value. The rapid transformation of the trading sector presents us with great opportunities.

Our businesses are the grocery trade, building and technical trade and car trade. These are areas where we have strong market positions and the best capabilities, and they offer the best potential for long-term development. We use quality and customer orientation to differentiate ourselves from the competition, from service in stores to digital services.

Consistent progress in the execution of our growth strategy

In the **grocery trade**, we aim for continued profitable growth in Finland. We want to offer the most inspiring and customer-oriented food stores and the best digital solutions on the market. K-retail entrepreneurs ensure customer focus and quality in our store network, which is the most extensive in Finland. In recent years, we have successfully remodelled K-food stores and Neste K service stations, and all store redesigns are to be completed in 2019.

We continue the execution of our growth strategy



We completed the acquisition of Suomen Lähikauppa, and our share of the neighbourhood market is now nearly 60%. Megatrends such as urbanisation, population ageing and increasingly individual customer behaviour support strengthening neighbourhood services. The acquisition doubled our store network with almost 400 new stores. After the conversion and transfer of the stores to retailers, our sales are up and continue to grow. We obtained the targeted synergies of €30 million sooner than anticipated.

In 2018, we began to forcefully grow K Group's network of stores offering online grocery sales, and the service is now available to three million Finns. The growth in online grocery sales is accelerating fast, and we aim for 100% growth with net sales of over €40 million in 2019. Online grocery sales do not erode the sales of our traditional stores, but rather the two support each other.

Growing Kespro's foodservice business is another strategic focus area, supported by the trend of eating out. To support the business, we acquired two top companies in the field, Kalatukku E. Eriksson and Reinin Liha, in summer 2018.

In the **building and technical trade**, we aim for an even stronger position in Northern Europe. We updated the division's organisation and strategy in spring 2018, and redefined its customer segments. We now aim to offer added value to technical professionals, professional builders and consumers. We serve each customer segment according to its specific needs. The strategy also has a stronger country-specific focus that enables us to better take into account local customer needs. We seek synergies both within and between the operating countries. Growth is sought organically and through selected acquisitions.

B2B trade already accounts for some 70% of the division's sales, but we see further growth potential. Building and renovation are becoming more technical and increasingly outsourced to professionals. The need for renovation building is also growing in Northern Europe. The acquisition of Onninen strengthened our position in the growing B2B segment and extended our offering.

We use quality and customer orientation to differentiate ourselves from the competition, from service in stores to digital services.

New digital services and online sales are a significant part of the customer journey and more efficient operations. Consumers increasingly seek information and compare products online, although still often come to the store to get them. In B2B trade, online sales and digital services have gained a strong foothold.

In spring 2018, Kesko discontinued its building and technical trade operations in Russia by selling most of its building and home improvement store properties to the French Leroy Merlin. All building and home improvement trade operations in Russia were discontinued during the first half of 2018. The divestment clearly improves the division's return on capital employed.

In the **car trade**, our objective is to grow our market-leading position in Finland through tight cooperation with the Volkswagen Group. We expect the sales of electric cars to grow in upcoming years, and support the trend

Sustainable choices in K-stores

We want to enable a sustainable lifestyle for our customers in terms of food, mobility and living.



by expanding our K Charge network. Our objective is to improve profitability in imports, retail and after-sales. K-Caara develops service concepts and alternatives to owning a car, for example, car sharing paid by use.

One unified K is an important part of our strategy. We want to establish a strong reliable K Brand and provide even better service to our customers. In addition to a common strategy, One unified K means seamless cooperation with retailers and across divisions. In recent years, we have successfully executed our strategy and focused operations via various acquisitions and divestments, while also making investments to accelerate growth and improve profitability.

Increased focus on customers in our corporate responsibility work

Kesko has been ranked the most sustainable trading sector company in the world multiple times. This obliges us to ensure even more thoroughly the sustainability and responsibility of the products we sell and their purchasing, and care for the environment. We want to become an even more active member of society and engage in public discussion.

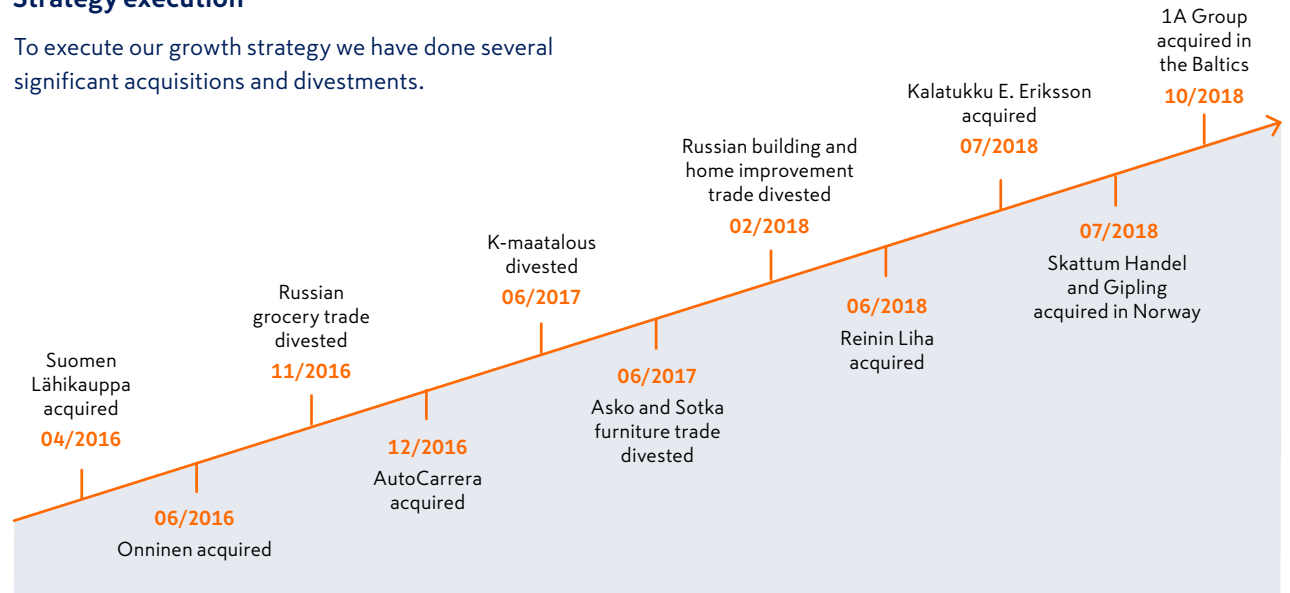
Our sustainability strategy, established in spring 2018, focuses our responsibility efforts increasingly on our customers. We want to enable a sustainable lifestyle for our customers in terms of food, mobility and living. Customers must be able to trust that K-stores enable them to make responsible choices. For example, in our updated plastics policy, we set even tighter objectives for plastics recycling and for reducing and avoiding the use of plastics.

We were the first Finnish company to set emission targets approved by the Science Based Targets initiative in line with the Paris Climate Agreement. We are reducing emissions through the use of renewable energy, energy-efficiency at our stores, and efficient logistics. All electricity purchased by Kesko in Finland is generated with renewable energy, and we are the biggest producer of solar power in the country.

As a sign of our long-term commitment to corporate responsibility, Kesko has been included in the prestigious Dow Jones Sustainability Indices of the world's most responsible companies, the DJSI World and the DJSI Europe. Kesko ranked 88th on the Global 100 Most Sustainable Corporations in the World list published in January 2019.

Strategy execution

To execute our growth strategy we have done several significant acquisitions and divestments.



Profitable growth continued in the grocery trade in 2018

The strategy for the grocery trade division is profitable growth in all channels. Strategy execution saw good progress, with positive development in our customer numbers, sales and market share. Online grocery sales also grew forcefully, and Kespro continued on a strong growth track.

K Group is the second biggest grocery trade operator in Finland, with a market share of 36.0% (2017: 35.8%). In 2018, we opened 10 K-Supermarkets, 13 K-Markets and one Neste K service station. We will continue to expand our store network in 2019. We also extended opening hours, and now all K-food stores are open every day of the year.

The remodelling of K-food stores proceeded well in 2018, and over 90% of our food stores and Neste K service stations have now been rebranded. The reshaping of our store network will continue in 2019. We will open new stores primarily in growth centres.

The online sales of groceries grew forcefully in 2018, with annual rate of over 70%. Around 160 K-food stores now offer online sales of groceries. Customer numbers have doubled and customer satisfaction is high. We target online sales of over €40 million in 2019 and a market leading position in Finland within the next few years.

Our digital services are also growing strongly. K-Ruoka is the biggest food media in Finland: the K-Ruoka.fi website and the K-Ruoka app have 1.5 million weekly visitors. The app has over 600,000 registered users, and the number grew by 100,000 in 2018.

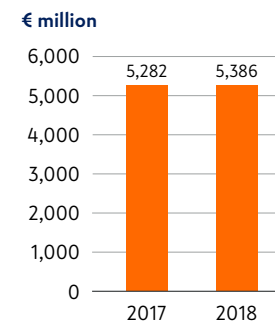
In the autumn, we celebrated the one-year anniversary of our collaboration with China's biggest online store operator Alibaba. We export Finnish food brands and our own Pirkka products to the growing Chinese market, and also learn from a global e-commerce pioneer and use the knowledge to develop our own online store.

Our K-food store business is heavily based on retailer entrepreneurship. K-food retailers handle selections, customer service, staff competencies, product quality and business profitability in their stores, based on their own store-specific business ideas. Over 550 K-food stores are now operated under the multi-store model, in which one K-retailer has multiple stores.

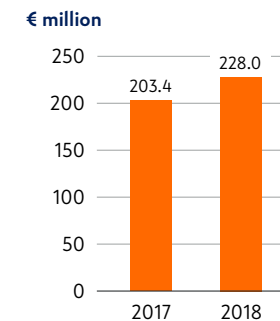


Kespro is the leading foodservice provider in Finland. In 2018, Kespro grew through two complementary acquisitions, namely Reinin Liha and Kalatukku E. Eriksson. Kespro's strong development is underpinned by the robustly growing trend of eating out in Finland.

Net sales



Operating profit*



* Comparable

Megatrends and strategic focus areas

STRATEGIC OBJECTIVE	WHAT WE ARE DOING
The most customer-oriented and inspiring food stores	<ul style="list-style-type: none"> • Wide implementation of store-specific business ideas • Using data to enable more personal customer experiences • Continuous store concept development • We take actions to ensure our price competitiveness
Developing and modernising our store network	<ul style="list-style-type: none"> • Profitably maintaining and expanding our network • Maintaining our focus on growth centres
Seamless omnichannel customer experience	<ul style="list-style-type: none"> • Expanding online grocery to cover 75% and K Transport deliveries 50% of Finnish households
Developing retailer entrepreneurship as a competitive advantage	<ul style="list-style-type: none"> • Focusing on store-specific business ideas • Utilising the multi-store model
Expanding the foodservice business	<ul style="list-style-type: none"> • Developing our own brands • Growing the sales of fresh foods

Megatrends affecting grocery trade

- Digitalisation as a standard
- The age of hybrid consumer
- Demographic changes
- Growth in premium
- Sustainability



Read more about grocery trade chains, key figures and market information on [Kesko.fi](https://kesko.fi) >

Profitability improved in the building and technical trade

The building and technical trade division's strategic objective is to become an even stronger operator in Northern Europe. To ensure a solid foundation for the execution of our international growth strategy, in 2018 we concentrated on improving our profitability through acquisitions and streamlining of operations.

K Group's building and technical trade division is a leading operator in building and technical trade in Northern Europe. During 2018, we strengthened the country focus of both our management model and business operations, and made good progress in the execution of country-specific strategies. In Finland, Onninen's good sales growth continued and K-Rauta's profit development was strong. In the leisure trade, Intersport and Kookenkä maintained their positions as Finland's leading sports and shoe store chain, respectively. Sales grew for the Budget Sport and The Athlete's Foot chains.

In the division's other operating countries, our market position varies significantly. In Norway, we actively sought to increase our profitability during the year 2018, and carried out two targeted acquisitions for the Byggmakker chain, agreeing on a third. The acquisitions enabled us to significantly increase our operating profit. In Sweden, we actively continued measures to improve profitability. In Poland, we managed to turn the operations into profit. Kesko Senukai's strong sales performance continued and profitability improved in the Baltics.

Our goal is to offer an efficient combination of online sales, electronic services, professional sales staff and a comprehensive store network to best suit the needs of each of our customer segments. We are constantly developing our digital services. Particularly good development has been seen in the OnnShop online store for Onninen's technical professional customers.

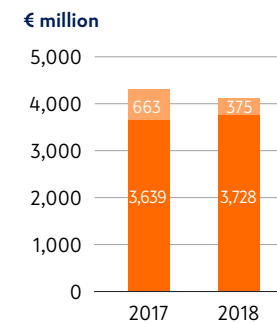
To further strengthen our digital foothold, we acquired 1A Group, a leading online retail company in the Baltic region, thus becoming the largest omnichannel retail player in the Baltics and obtaining a comprehensive e-commerce platform to serve our customers in Estonia, Latvia and Lithuania.

During the year 2018, we focused our operations by divesting our building and home improvement trade operations in Russia, and by agreeing to sell our remaining stake in the Baltic machinery trade subsidiaries and Konekesko Finland's agricultural machinery trade operations.



Acquisitions enable the division to better seek new opportunities for growth and improved profitability on the stable Northern European markets.

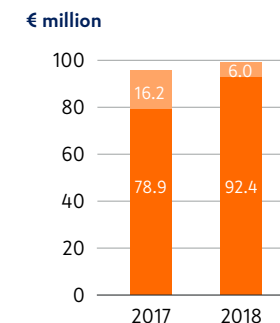
Net sales*



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

* Continuing operations

Operating profit*



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

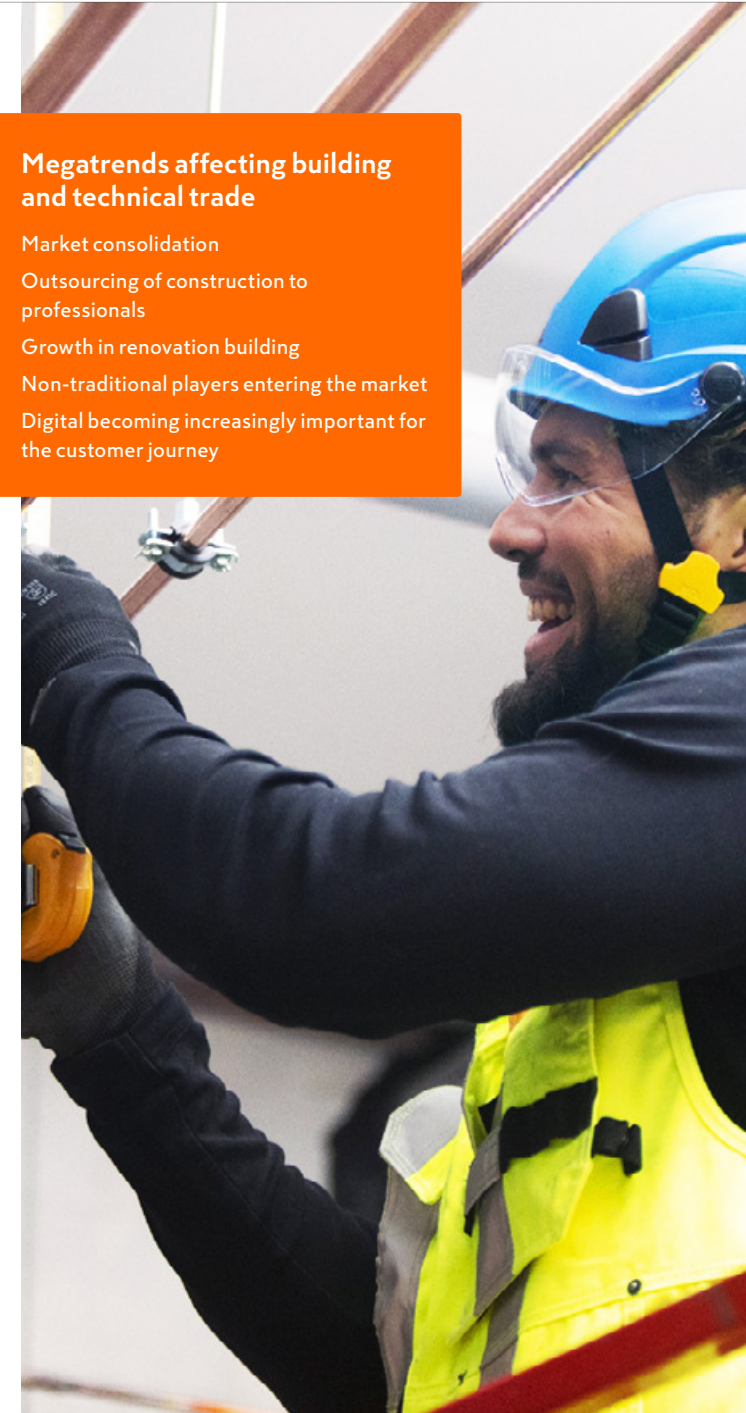
* Comparable, continuing operations

Our strategic objective is to gain an even stronger position in building and technical trade in Northern Europe

STRATEGIC OBJECTIVE	WHAT WE ARE DOING
Country focus, with country-specific strategic actions	<ul style="list-style-type: none"> • Finland: We focus on fully utilising the potential provided by our market-leading position and on constantly improving the customer experience: expanding Onninen's store network and developing store-specific business ideas for K-Rauta. • Norway: We seek growth in sales and profitability by strengthening Byggnakker's business and management model • Sweden: We continue measures to improve profitability • The Baltics and Belarus: We focus on growing and redesigning our store network • Poland: We systematically develop our business operations
Serving three different customer segments according to their specific customer needs	<ul style="list-style-type: none"> • Continuing the development of digital channels for each customer segment • Striving for the best customer experience in all channels
Seeking synergies	<ul style="list-style-type: none"> • We are actively seeking synergies within the operating countries, for example, in support functions, as well as between the operating countries, for example, in sourcing, digital services and concept development
Organic growth and profitability improvement	<ul style="list-style-type: none"> • We continue systematic measures to support growth and profitability • Increasing the role of our own brand products
Targeted acquisitions	<ul style="list-style-type: none"> • We continue acquisitions in selected markets and segments

Megatrends affecting building and technical trade

- Market consolidation
- Outsourcing of construction to professionals
- Growth in renovation building
- Non-traditional players entering the market
- Digital becoming increasingly important for the customer journey



[Read more about building and technical trade chains, key figures and market information on Kesko.fi >](#)

Car trade division's profitability strengthened in 2018

The car trade division's strategic objective is to grow its business in collaboration with the Volkswagen Group and strengthen its market position in retail by expanding its operating area in Finland.

In 2018, K-Auto's market share in Finland was 18.5% (passenger cars and vans) and in trucks 4.1% (over 6 t). Volkswagen and SEAT both increased their market share and Porsche made a new sales record. Volkswagen Commercial Vehicles were the most registered brand of vans in Finland. In addition to traditional car sales and servicing operations, we strengthened our own service business and multichannel customer service. Growth in the user numbers of online service booking and chat supports the strong development of our digital services.

Of the brands represented by K-Auto, new models introduced to the market in 2018 included the

- Volkswagen Tiguan Allspace and Touareg
- Audi A7 Sportback, A6 Sedan and Avant, Q8 and A1
- SEAT Tarraco and CUPRA Ateca
- Porsche Cayenne E-Hybrid, Macan and 911 GT3 RS, and Panamera 4 E-Hybrid and Sport Turismo Advantage Package Finnish editions
- MAN TGE van.

K-Auto launched a new online service leasing service for corporate customers, K-CaaraLeasing, which offers extensive service leasing services to companies of all sizes. K-Caara's service selection grew with the K-CaaraVaihtoautot service, which combines the used car selections of Volkswagen, Audi and SEAT Centers. Customers can buy the cars online or at the stores.

K Group launched K Charge, a nationwide network of electric car charging stations, to be built in 2018 and 2019. It enables people to charge their car during a shopping trip. The K Charge network will increase the number of public fast charging points in Finland by over 50%, making K Group one of the most significant electric car charging network operators in Finland. By the end of 2019, the network will comprise over 70 charging stations with nearly 400 charging points.

We also piloted new cross-divisional mobility services. In spring 2018, K-food stores and K-Rauta stores in Finland began piloting rental car sharing for passenger cars and

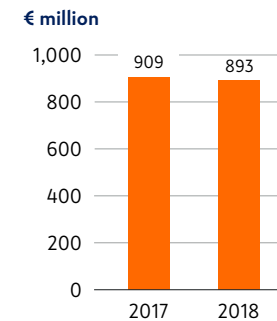


"Thanks to our extensive selection of brands, we are the market leader in Finnish car trade. Our objective is to grow faster than the market. In addition to traditional car sales, we continue to expand our own service business and develop the multichannel customer experience."

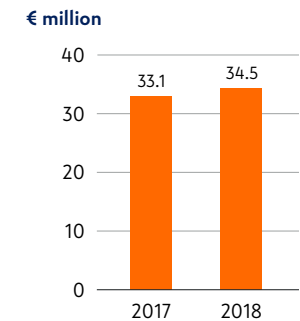
Johan Friman, President of the car trade division

vans, thus utilising K Group's store network and customer flows and helping to establish how attractive local stores would be as pick-up points for car sharing.

Net sales



Operating profit*



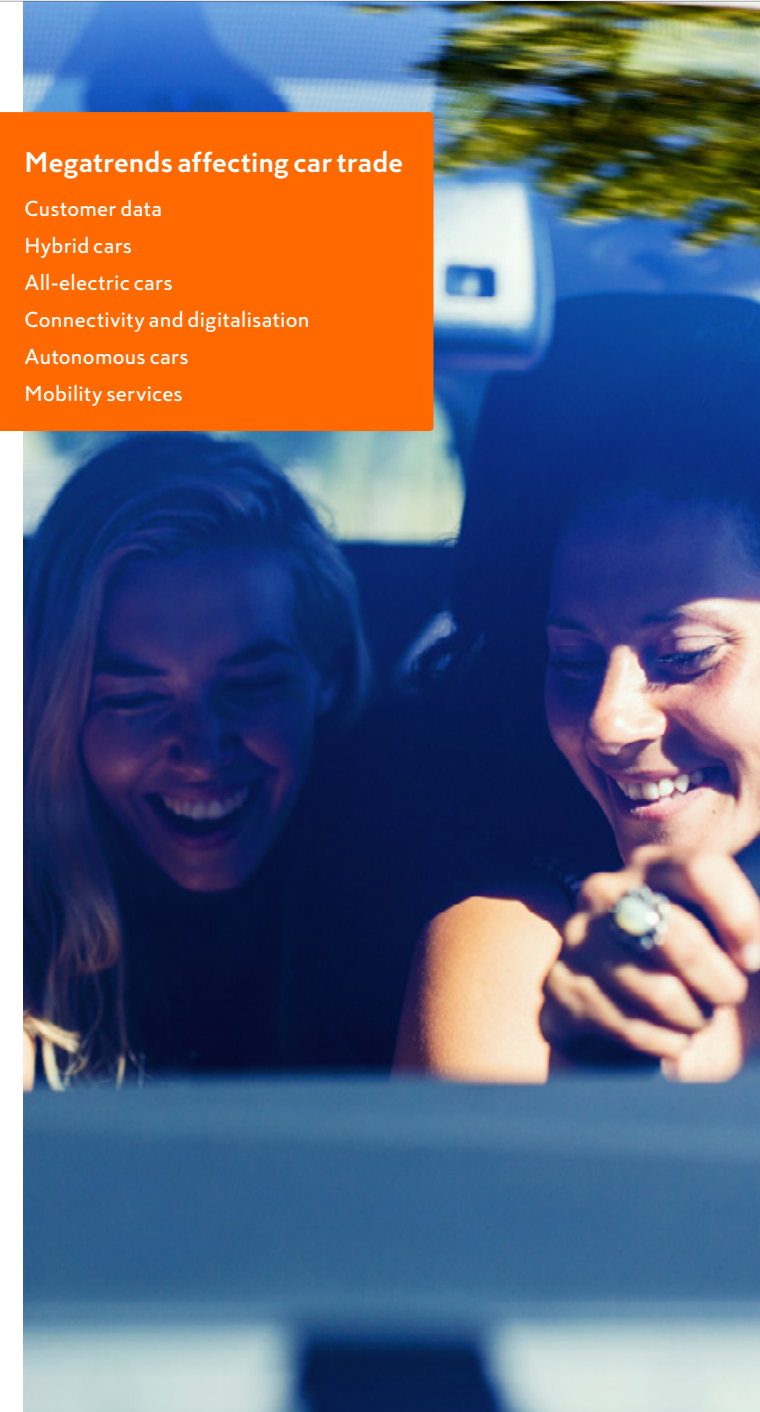
* Comparable

Megatrends and strategic focus areas

STRATEGIC OBJECTIVE	WHAT WE ARE DOING
Growing our business in collaboration with the Volkswagen Group	<ul style="list-style-type: none"> • Strengthening the position of Volkswagen passenger and commercial vehicles, Audi, SEAT, MAN and Porsche in Finland • Successfully integrating the Porsche business into K-Auto • Further developing the MAN network • Growing the range of all-electric cars and rechargeable hybrids
Expanding our own service business	<ul style="list-style-type: none"> • Launching the K Charge network • Developing new mobility services under the K-Caara brand • Offering leasing services to private and corporate customers
The best customer experience in all channels	<ul style="list-style-type: none"> • Utilising K Group's customer data • Continuous improvement of digital services

Megatrends affecting car trade

- Customer data
- Hybrid cars
- All-electric cars
- Connectivity and digitalisation
- Autonomous cars
- Mobility services



[Read more about car trade key figures and market information on Kesko.fi >](#)