



Interim report  
Q3 2016  
27 October 2016

---

Jukka Erlund



# Kesko to dispose of its Russian grocery trade to Lenta

- On 26 October 2016, Kesko Food Russia Holding Oy signed an agreement to dispose of its grocery trade business in Russia to Lenta Ltd
- Lenta is the largest hypermarket chain in Russia in terms of selling space and the country's fifth largest retail chain in terms of 2015 sales
- Aggregate consideration for the disposal is approximately RUB 11 billion (approximately €158 million)
- Growth of grocery trade in Russia would have required significant capital expenditures
- The disposal includes 11 food stores operating in the St. Petersburg and Leningradskiy regions, three land plots in the Moscow and Leningradskiy regions, as well as administrative and support functions
- The disposal is yet subject to the approval of the Russian competition authority, The Federal Antimonopoly Service of the Russian Federation, FAS, and the fulfilment of the other terms and conditions of the disposal
- The disposal is estimated to be completed on November 30, 2016

# Q3 highlights

- Kesko's net sales increased by 27%, comparable growth 1.1%
- Comparable operating profit increased to €98.2 million (€82.5 million)
- Return on capital employed 12.5% (11.3%)
- In the grocery trade, good profitability, integration of Suomen Lähikauppa has progressed well
- In the building and technical trade, market share continued to strengthen. Onninen increased the operating profit of the building and technical trade
- In the car trade, sales increased markedly and profitability improved

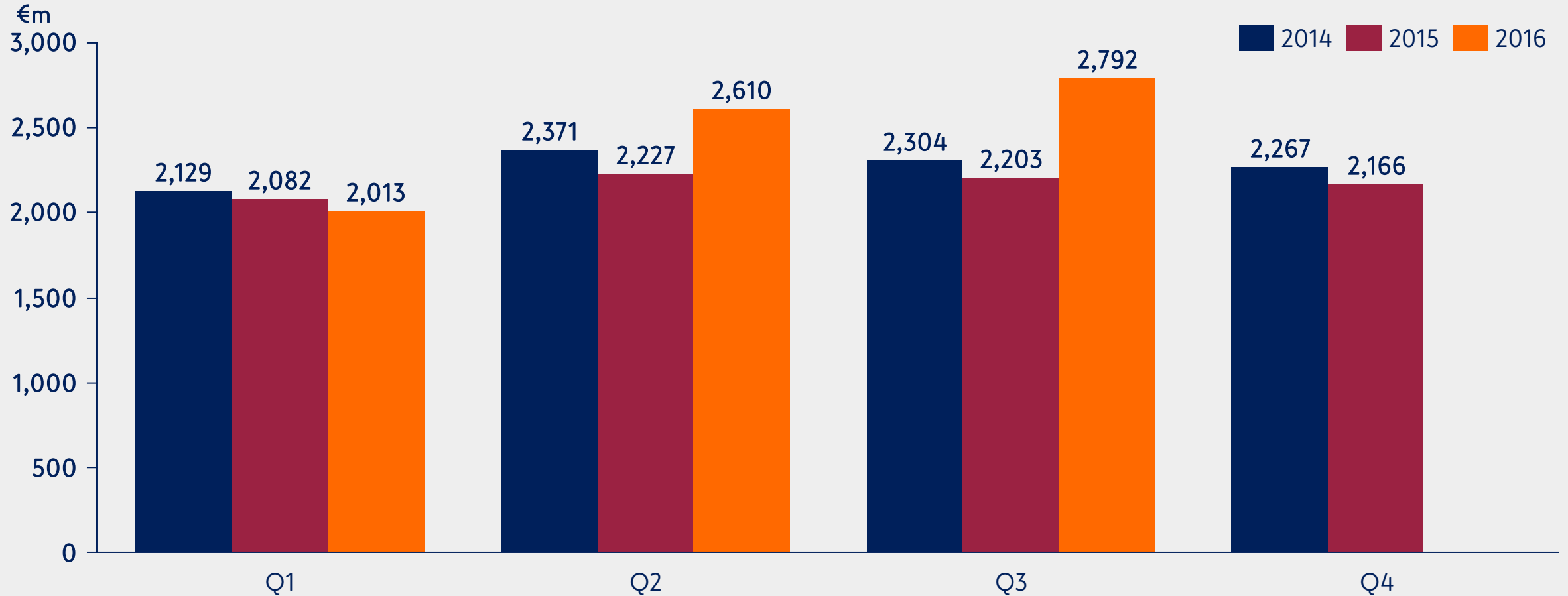
# Key performance indicators

	Q3/2016	Q3/2015	Q1-Q3/2016	Q1-Q3/2015
Net sales, €m	2,792	2,203	7,415	6,513
Operating profit*, €m	98.2	82.5	209.6	185.3
Operating margin*, %	3.5	3.7	2.8	2.8
Profit before tax*, €m	97.5	78.2	211.2	177.3
Earnings per share*, €	0.74	0.53	1.59	1.24
Return on capital employed*, %, rolling 12 mo	12.5	11.3		
Return on equity*, %, rolling 12 mo	10.2	8.0		

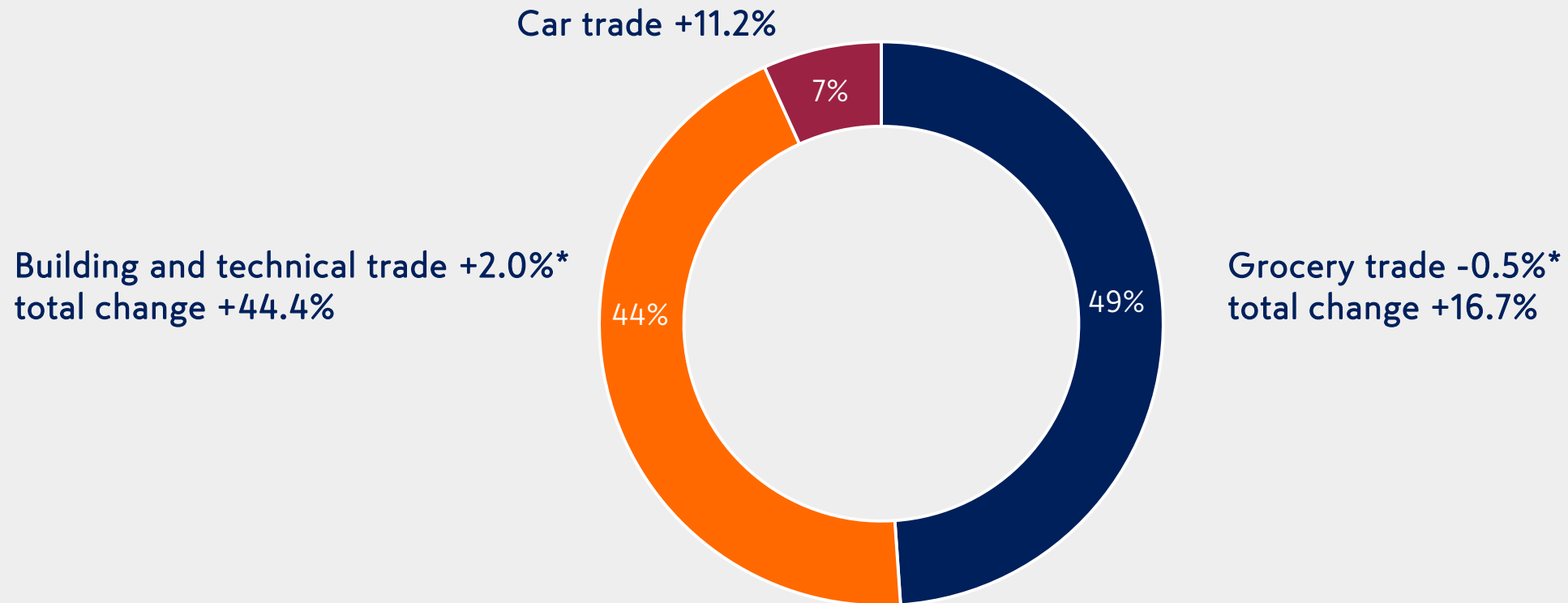
\* Comparable

# Net sales by quarter

Q3 growth 26.7%, in local currencies excl. acquisitions 1.1%



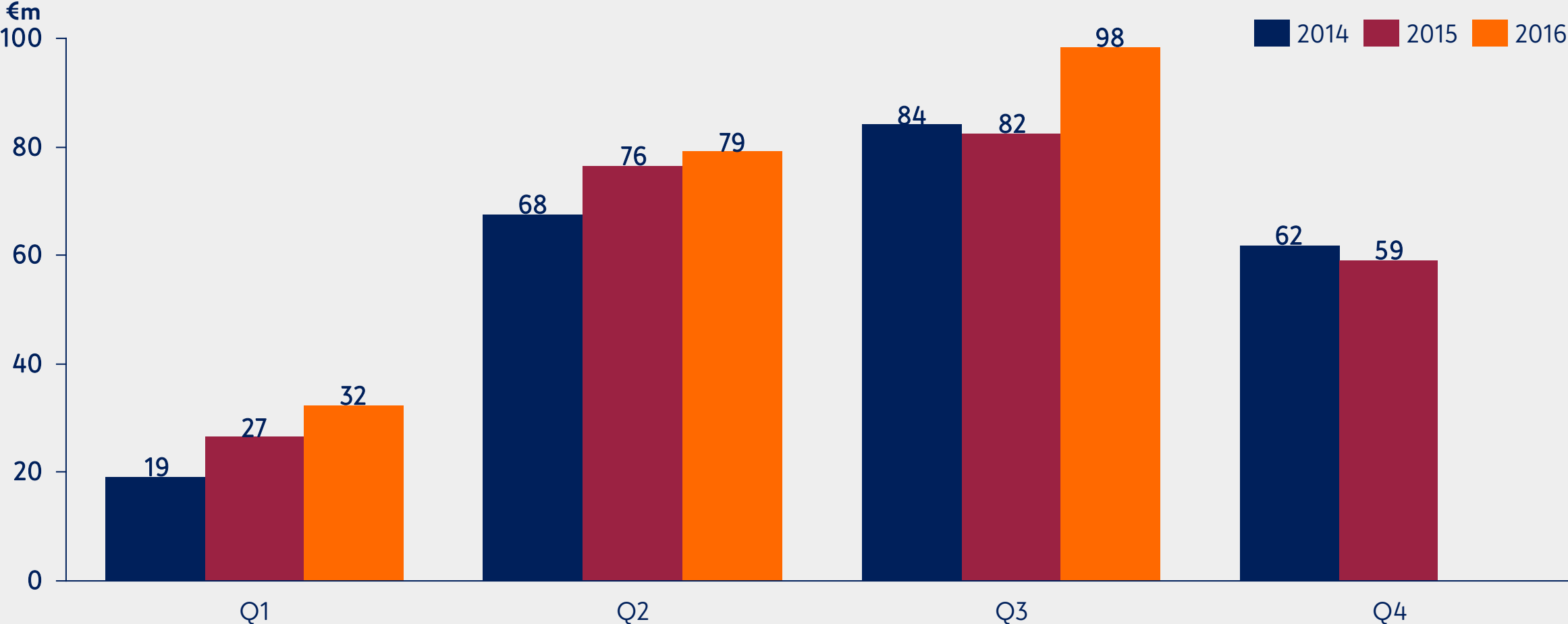
# Q3/2016 net sales by division



\*In local currencies excl. acquisitions

# Operating profit

## Comparable, by quarter



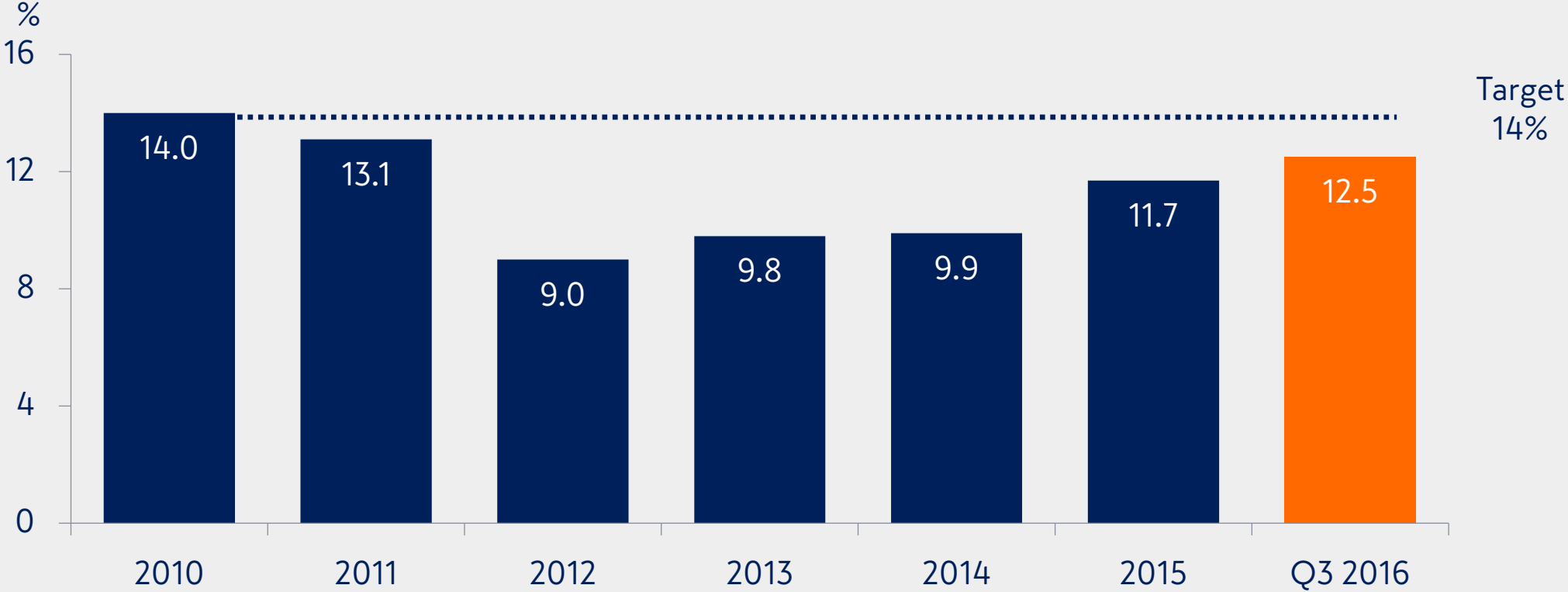
# Seasonal nature of operations

- Owing to seasonal fluctuations, the net sales and the operating profits of the grocery trade and the building and technical trade vary significantly by quarter
- In terms of the operating profit level, the second and third quarter are strongest, whereas the impact of the first quarter on the full year profit is smallest
- The acquisitions of Suomen Lähikauppa and Onninen increase the seasonal fluctuations between the quarters
  - The operating profit levels of Onninen and Suomen Lähikauppa are lowest for the first quarter



# Return on capital employed

comparable, rolling 12 mo



# Strong financial position

	30.9.2016	30.9.2015
Equity ratio, %	47.9	54.2
Liquid assets, €m	245	858
Interest-bearing net debt, €m	299	-394
Cash flow from operating activities, Q3, €m	80	86
Cash flow from investing activities, Q3, €m	-48	-46



# Grocery trade

---



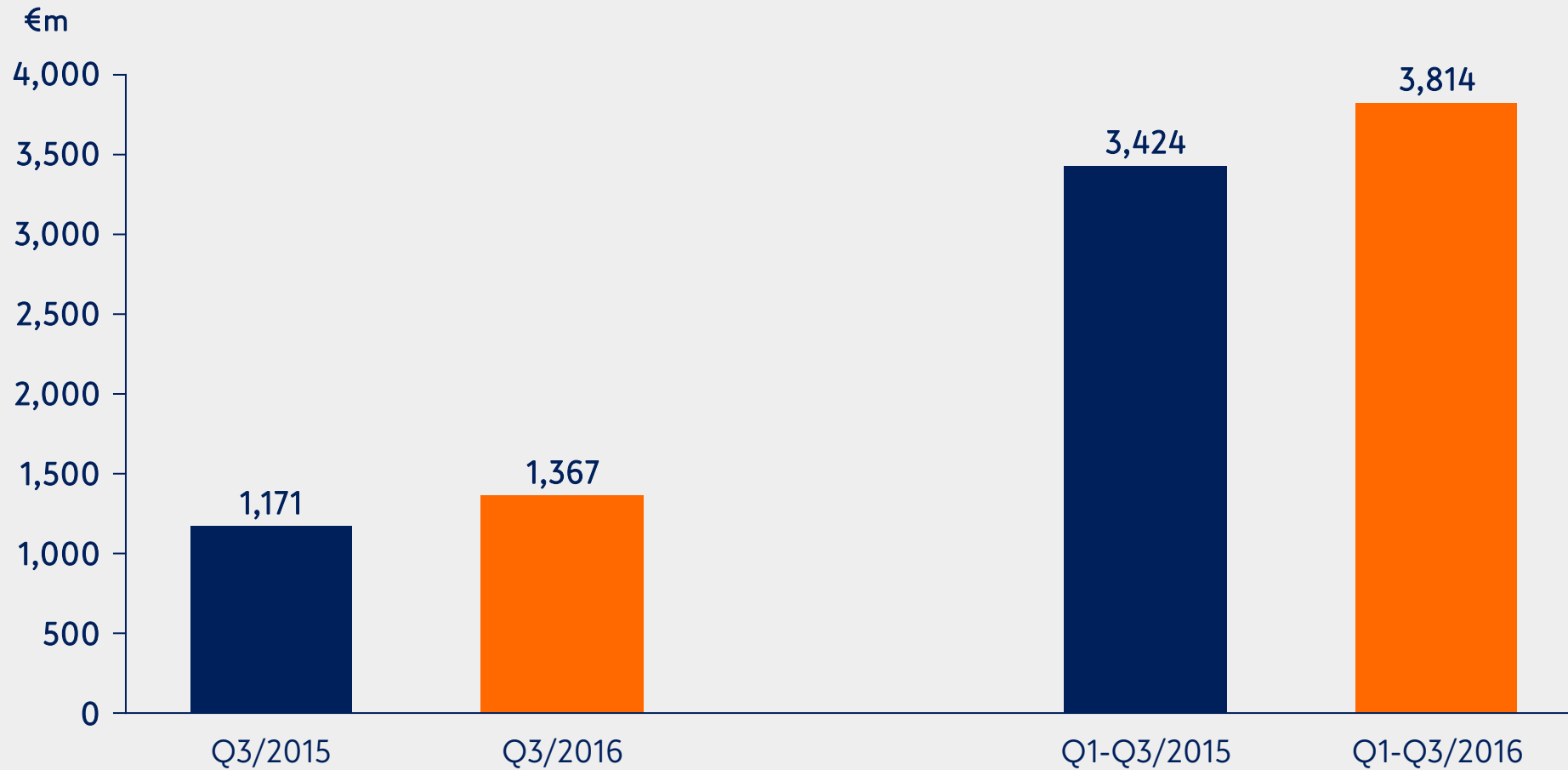
# Q3 grocery trade

- K-Group's grocery sales +17.3%, Suomen Lähikauppa excluded, +0.7%
- Profitability is good and operating profit strengthened due to synergies and enhancement actions taken
- Change in grocery market prices around -0.5%
- 130 Siwa and Valintatalo stores already converted into K-Markets. Their sales have changed by +9% compared to pre-conversion sales

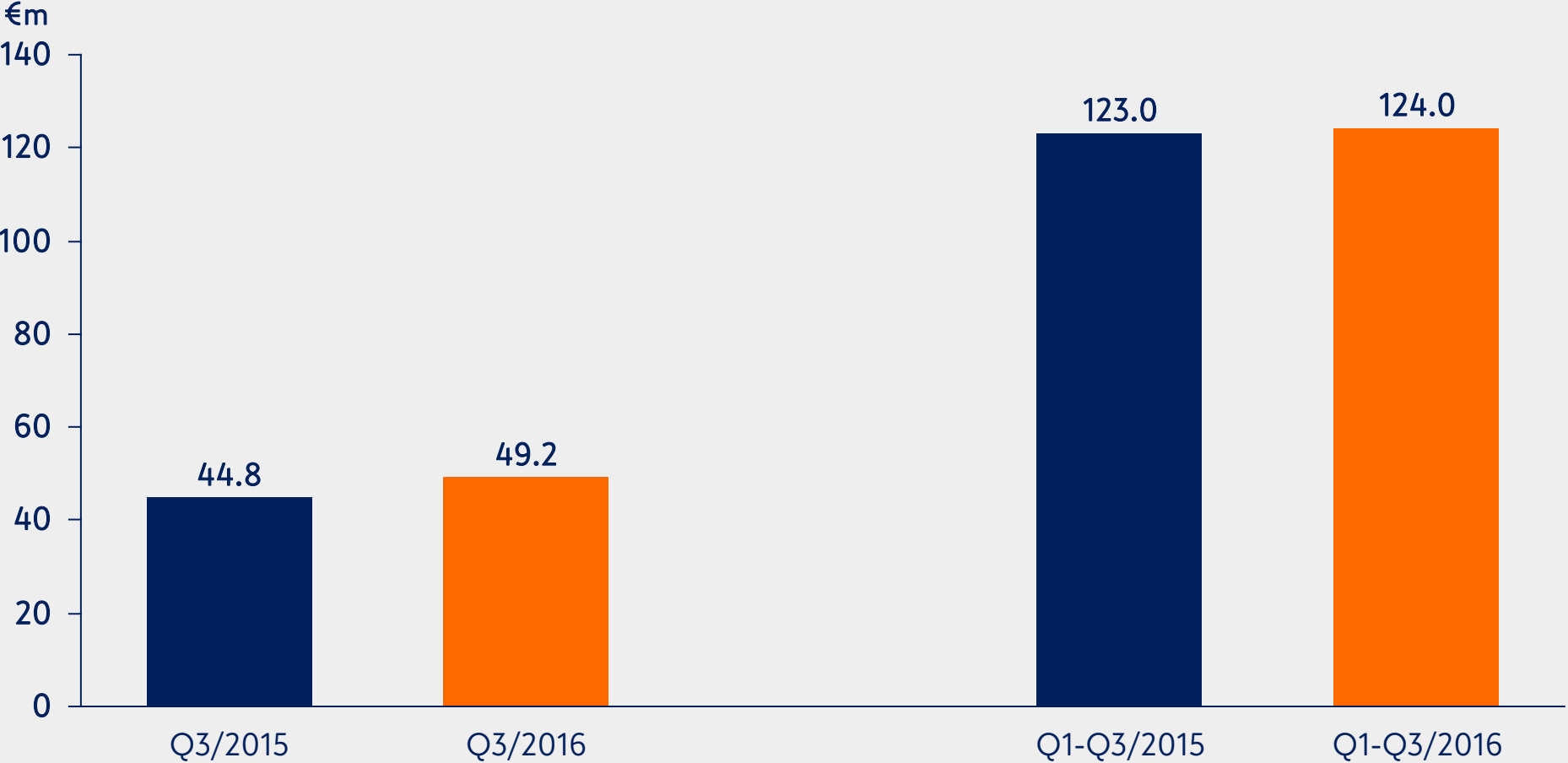


# Net sales

Q3 growth 16.7%



# Operating profit comparable







# Building and technical trade

---



# Q3 building and technical trade

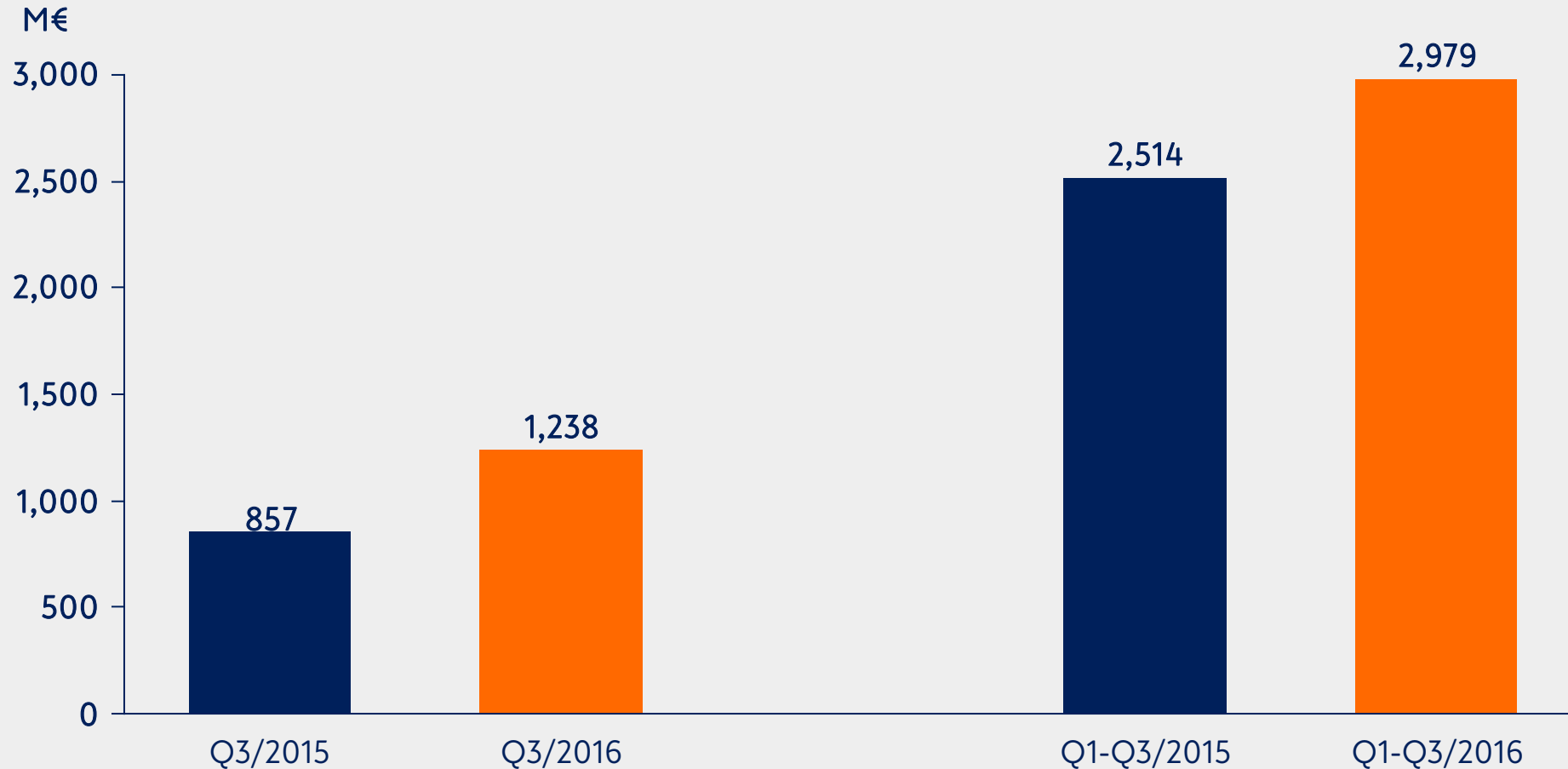
- Net sales growth 44.4%, in local currencies, excluding Onninen, 2.0%
- Market share of Kesko's building and technical trade strengthened further
- Strong growth in B2B trade continued
- Operating profit of the building and home improvement stores in Sweden turned positive
- Positive profit performance in the agricultural and machinery trade, the sports trade and the furniture trade



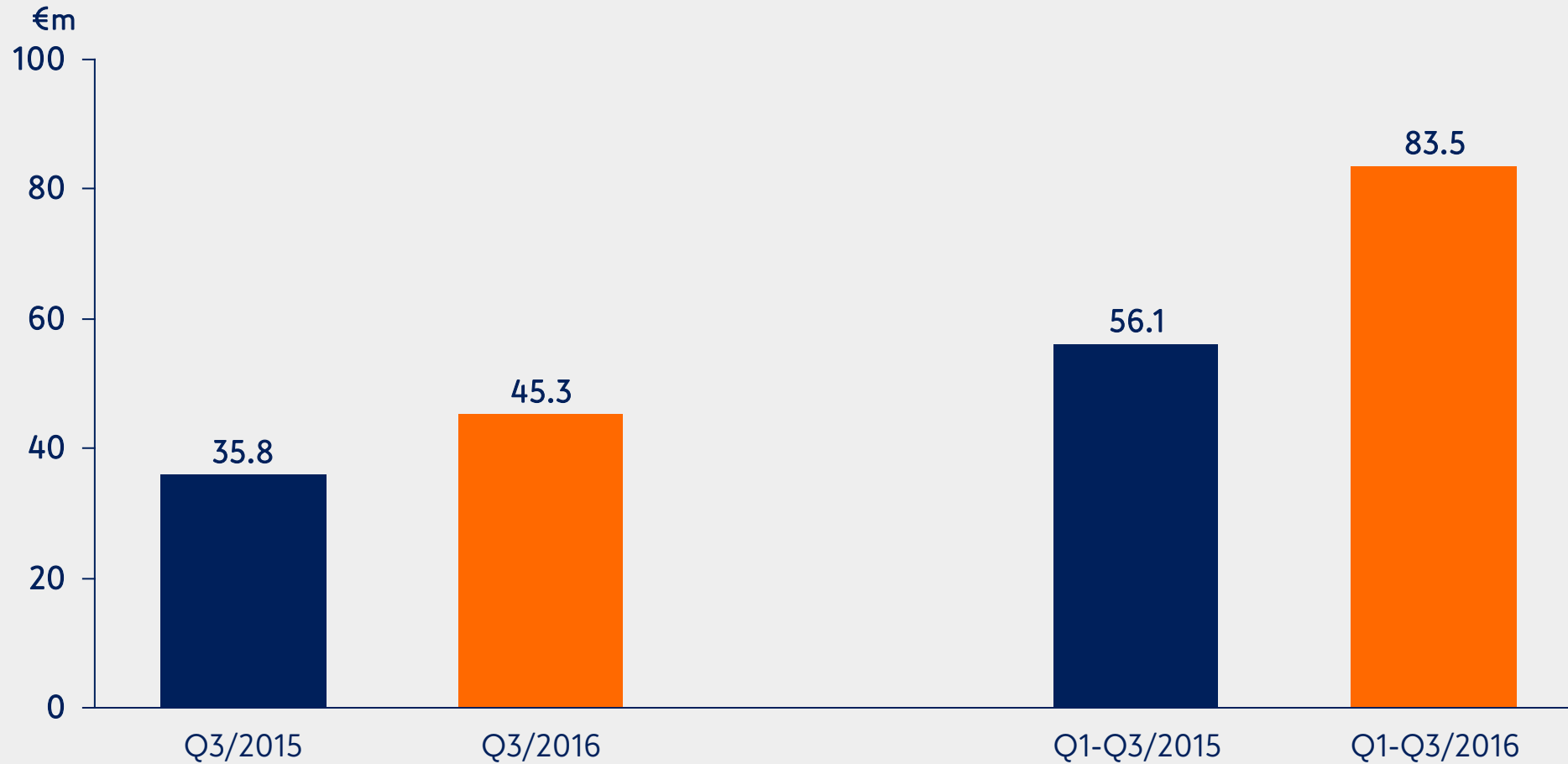


# Net sales

Q3 growth 44.4%, in local currencies excl. acquisitions 2.0%



# Operating profit comparable





# Car trade

---



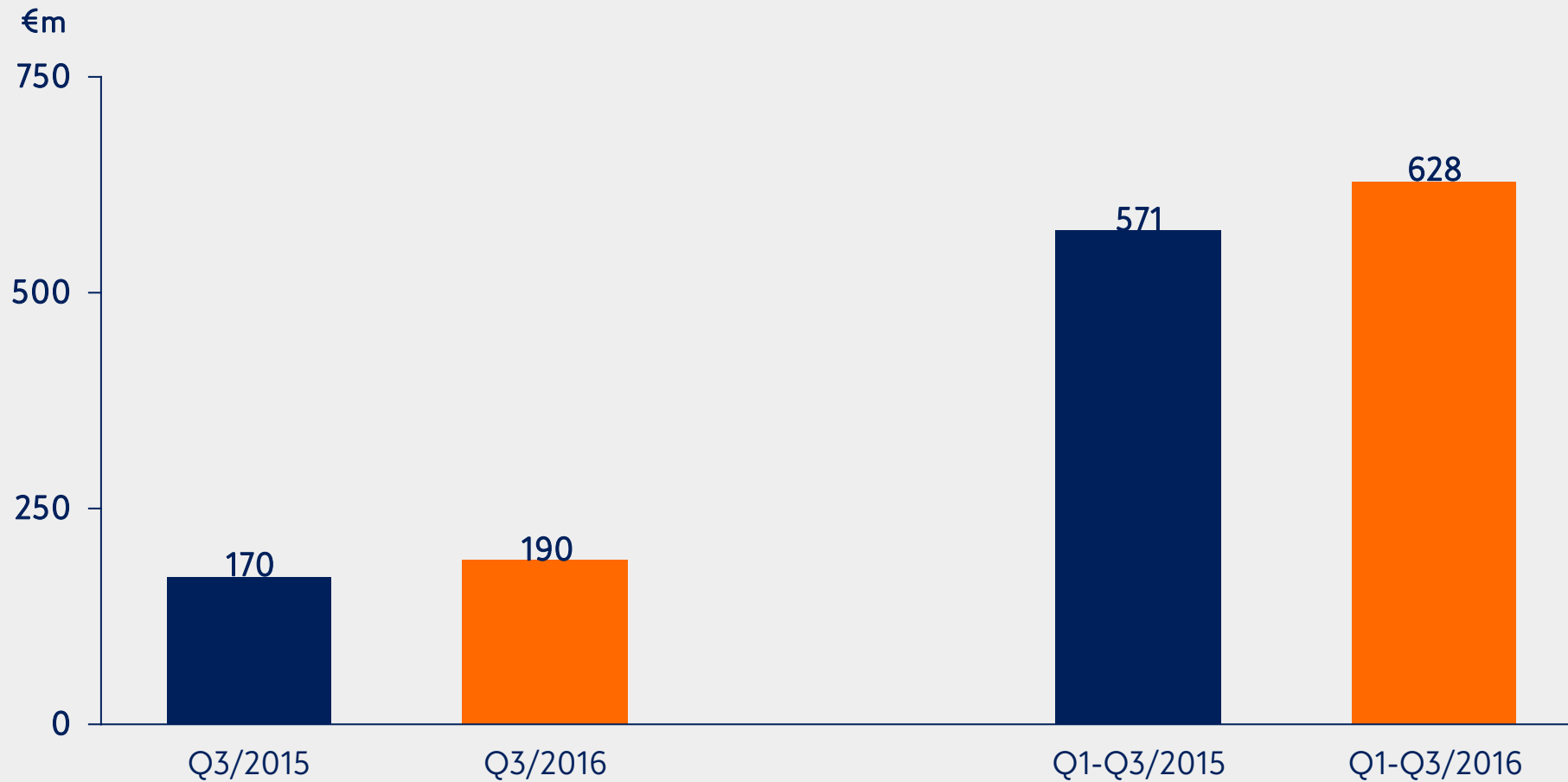
# Q3 car trade

- Car trade net sales growth 11.2%. Total car trade market increased markedly
- Profitability remained at a good level, operating profit €6.8 million
- First registrations of Volkswagen passenger cars increased by 1.5%, those of Seat by 32.7% and those of Audi by 8.2% in January-September
- Trade-in car trade increased by 20%. Strong start for the new Caara.fi online store
- Order book growth 11%

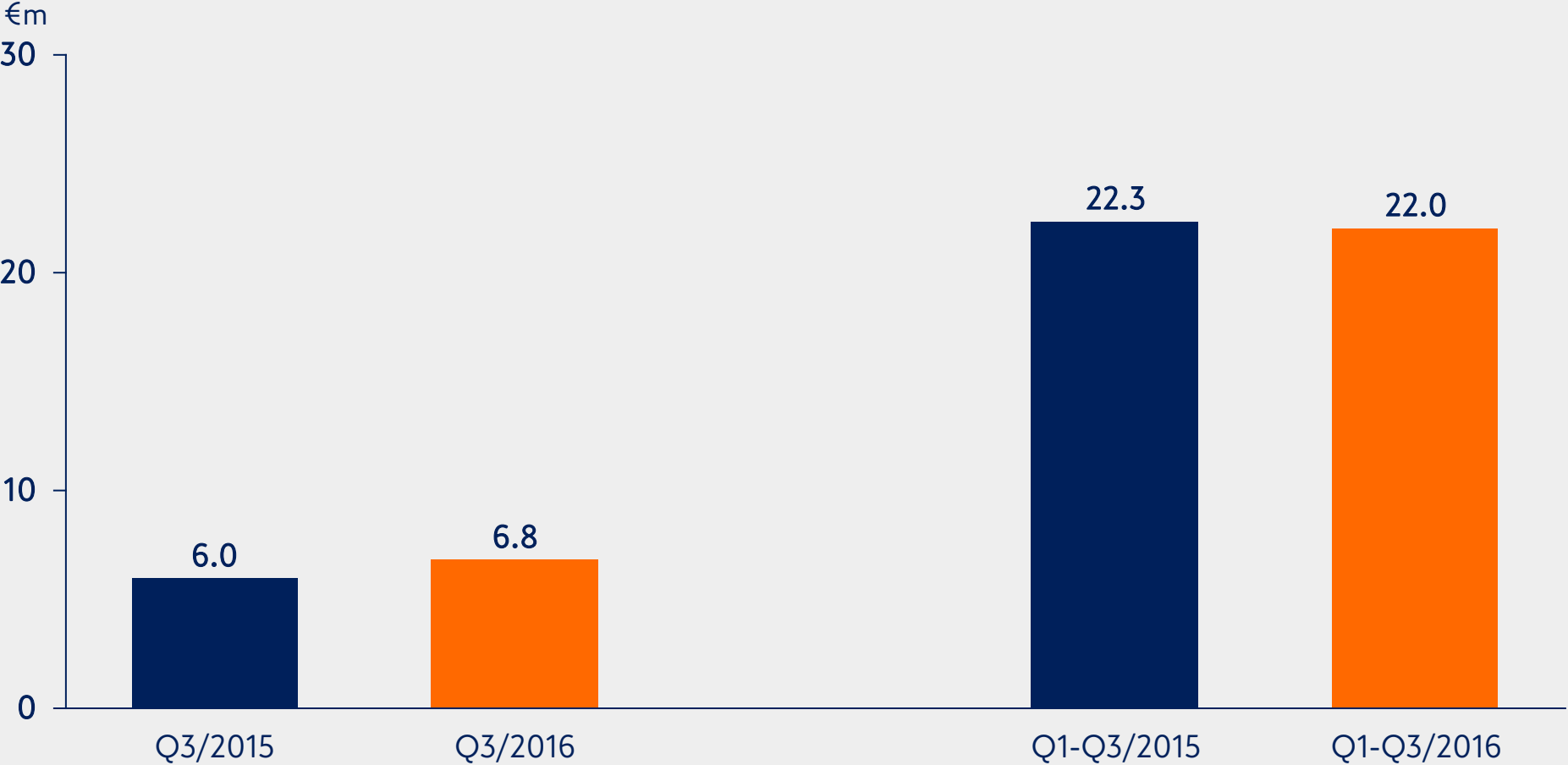


# Net sales

Q3 growth +11.2%



# Operating profit comparable





# Outlook

---



# Outlook

Estimates for the outlook of Kesko Group's net sales and comparable operating profit are given for the 12-month period following the reporting period (10/2016-9/2017) in comparison with the 12 months preceding the end of the reporting period (10/2015-9/2016).

The general economic situation and the expected trend in consumer demand vary in Kesko's different operating countries. In Finland, owing to the weak trend in consumers' purchasing power, the trading sector's growth is expected to remain slow. In the Finnish grocery trade, intense competition is expected to continue. The market for the Finnish building and technical trade is expected to improve slightly. In Sweden and Norway, the market is expected to grow but at a somewhat slower rate. The trend in the Russian market is expected to remain modest. In the Baltic countries, the market is expected to grow.

Kesko Group's net sales for the next 12 months are expected to exceed the level of the preceding 12 months. The comparable operating profit for the next 12-month period is expected to exceed the level of the preceding 12 months.




# Special focus areas

- The most inspiring food stores in the market
  - Extensive neighbourhood market renewal and renewal of the K-citymarket chain
  - Integration of Suomen Lähikauppa and achievement of synergies
  - Fast digitalisation of customer experience: food online store and other digital services
- Increasing building and technical B2C and B2B trade in all markets
  - Combining K-rauta and Rautia into a new K-rauta in Finland
  - Further improve financial performance in Sweden, Poland and Norway
  - Continue profitable growth in Baltics and Belarus
  - Creation of new building and technical trade entity and achievement of synergies
  - New generation online stores for B2B and B2C customers

# Special focus areas

- Fast expansion of Caara online dealership service in the car trade
- Reduction of unit costs and further improvement of efficiency
- Total reform of marketing
  - Improving marketing effectiveness
  - Management by data and increasing targeted marketing
  - Building a single unified K-brand and identity



**Our Responsible  
Working Principles  
guide is now called  
K Code of Conduct**

**Main changes:**

- Separate guides for personnel and business partners
- K Code of Conduct ambassadors in all operating countries
- SpeakUp reporting channel



For shopping  
to be fun