KESKO CMD 2018

Kesko's Journey Towards a More Focused Retailing Company

Mikko Helander, President and CEO
Jukka Erlund, CFO

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

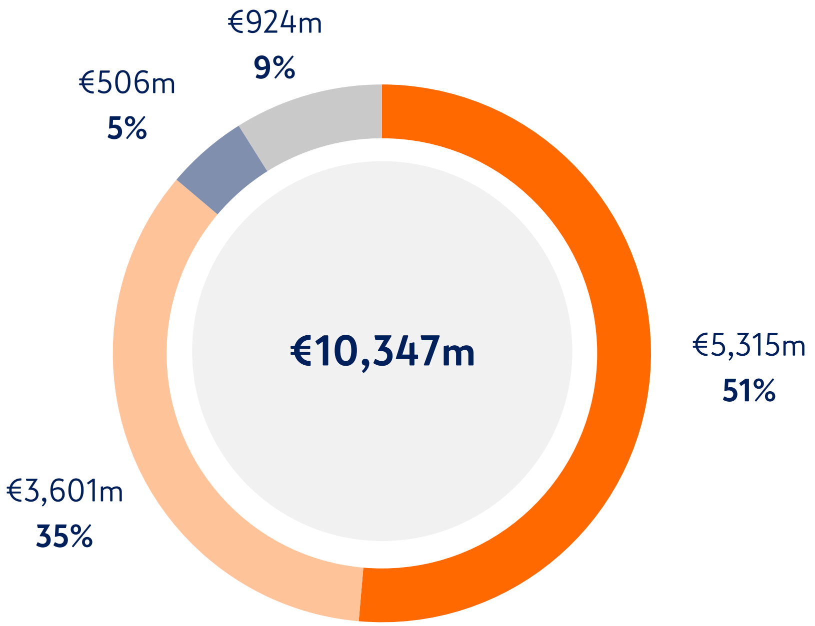
Strong financial position with good dividend capacity

Market cap approx. **€5bn** with **42,000** shareholders

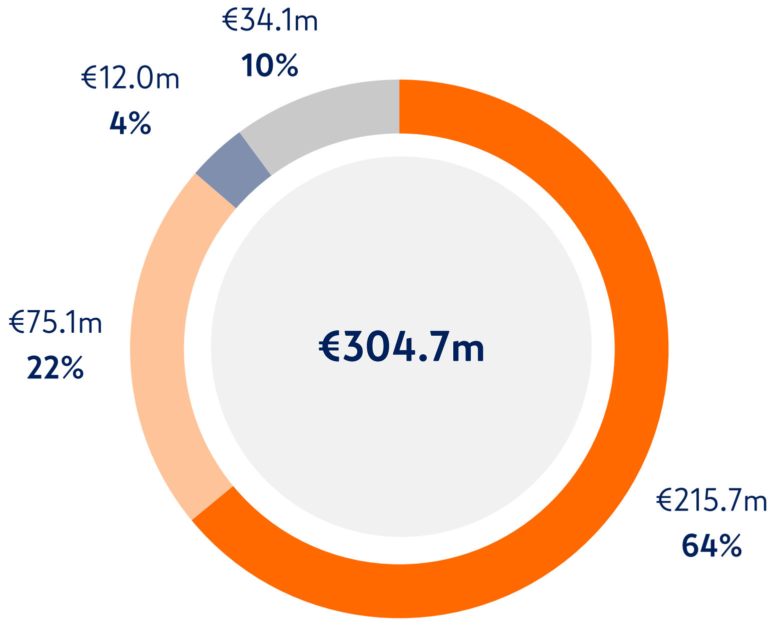
World's most sustainable trading sector company

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 Q1/18, continued operations

Targeting Profitable Growth

Grocery trade
Growth in grocery trade in Finland

Building and technical trade
Growth in building and technical trade in Northern Europe

Car trade
Growth in car trade especially in Finland

One unified K

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

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

Good Performance Has Continued in 2018

- Jan-May 2018 comparable sales growth 4.2%
  - Solid growth in grocery trade +5.8% and car trade +6.4%
  - Also good sales growth in building and technical trade in April-May
- Q1/2018 profitability better than previous year
  - Comparable operating profit €40.0m, divestments taken into account growth 49%
  - ROCE* at the level of 13.5%

Rolling 12 months Q1/18, comparable

Strong Customer Driven Strategy Execution

Quality and Customer Orientation

- Redesign of the K brand and chain brands
- Store site network upgrades
- New customer feedback systems
- Developing the retailer business model

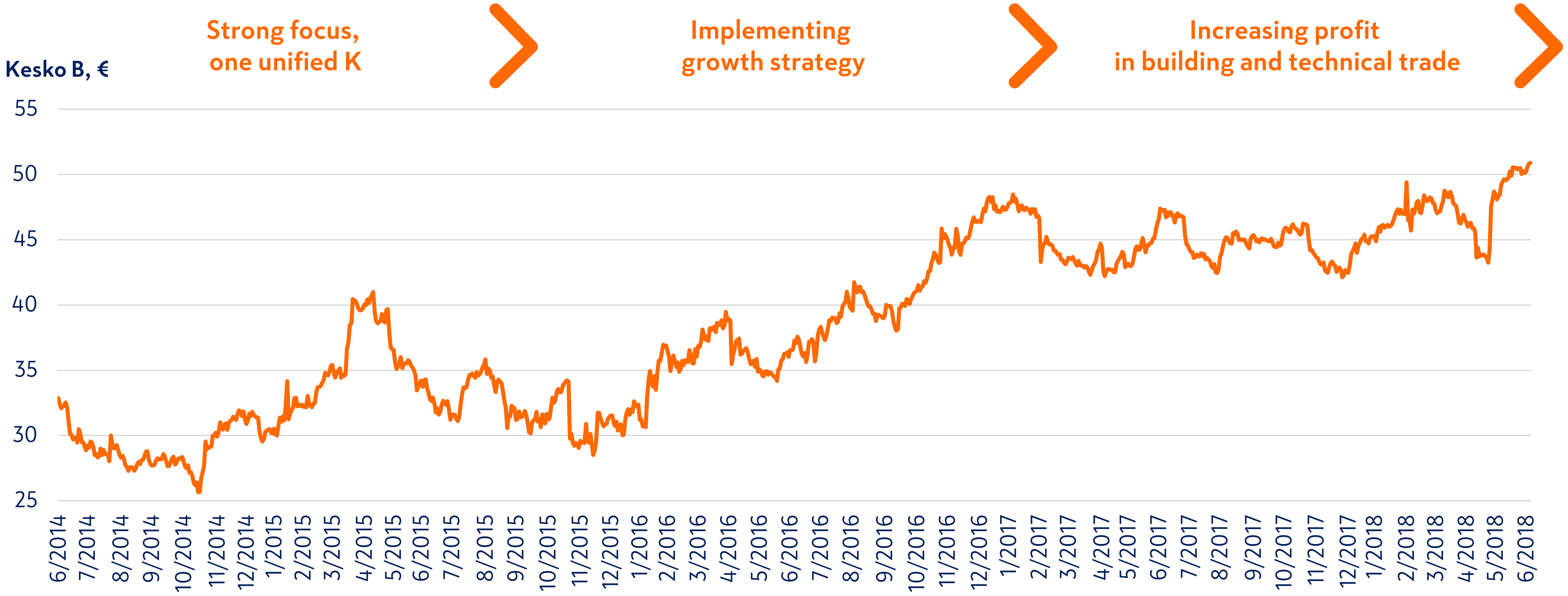
Best Digital Services

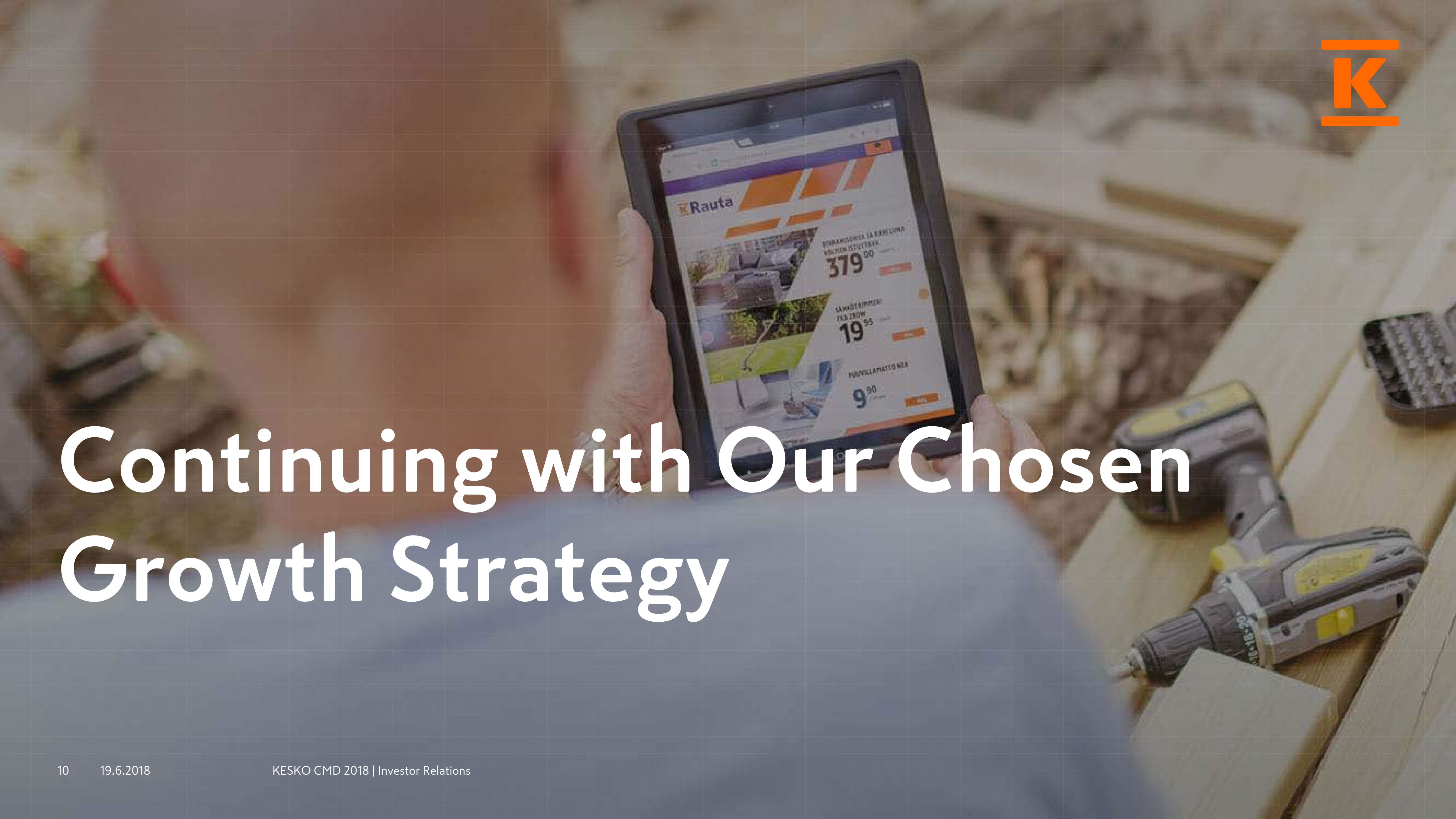
- Launching new eCommerce and mobile services
- Utilising data and analytics
- Investments in new technology

One Unified K

- Building one strong K brand
- Remodelling the Plussa loyalty programme
- Streamlining company structure

Value Creation Through Good Strategic Choices and Successful Execution

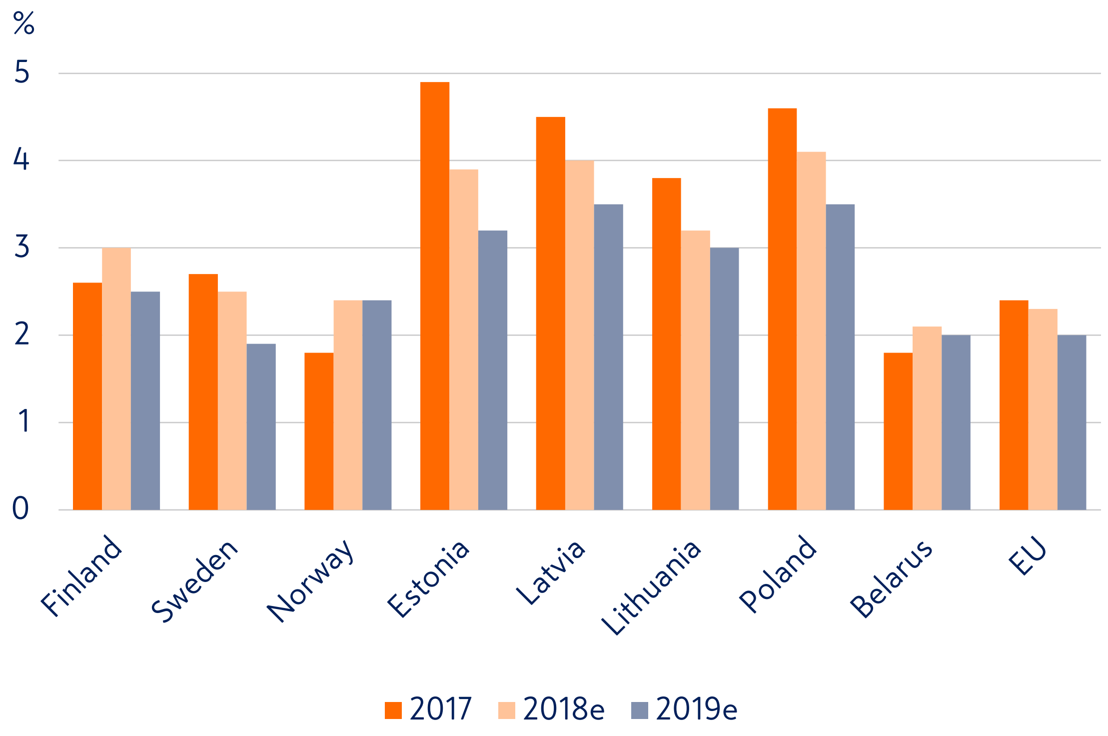




Continuing with Our Chosen Growth Strategy

Kesko's Operating Countries Among the Best in Europe with Healthy and Stable Business and Political Environments

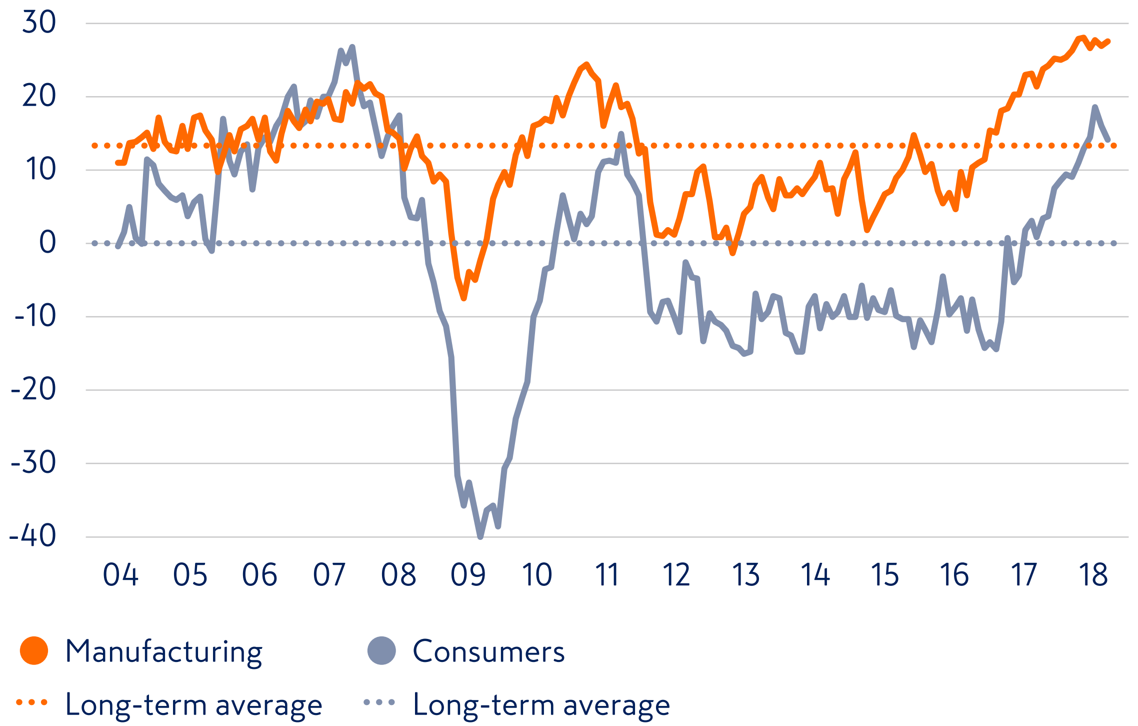
Expected GDP growth in Kesko's operating countries



Source: Nordea, IMF, European Commission

Manufacturing and consumer confidence

Balance, seasonally adjusted



Our Strategy Responds to the Changing Retail Landscape

Digitalisation and eCommerce

Sustainability and strong brands

Increasingly individual customer behaviour

Globalisation

Increased consumer knowledge and power

Convenience

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				

Our Grocery Trade Among the Most Profitable Retailers in Europe

- Market share growth with good profitability
- Exceeding customer expectations with store-specific business ideas
- Retailer model as a competitive advantage
- Growth from eCommerce and mobile services
- Expanding the foodservice business

Good Value Creation Potential for Upcoming Years in Building and Technical Trade

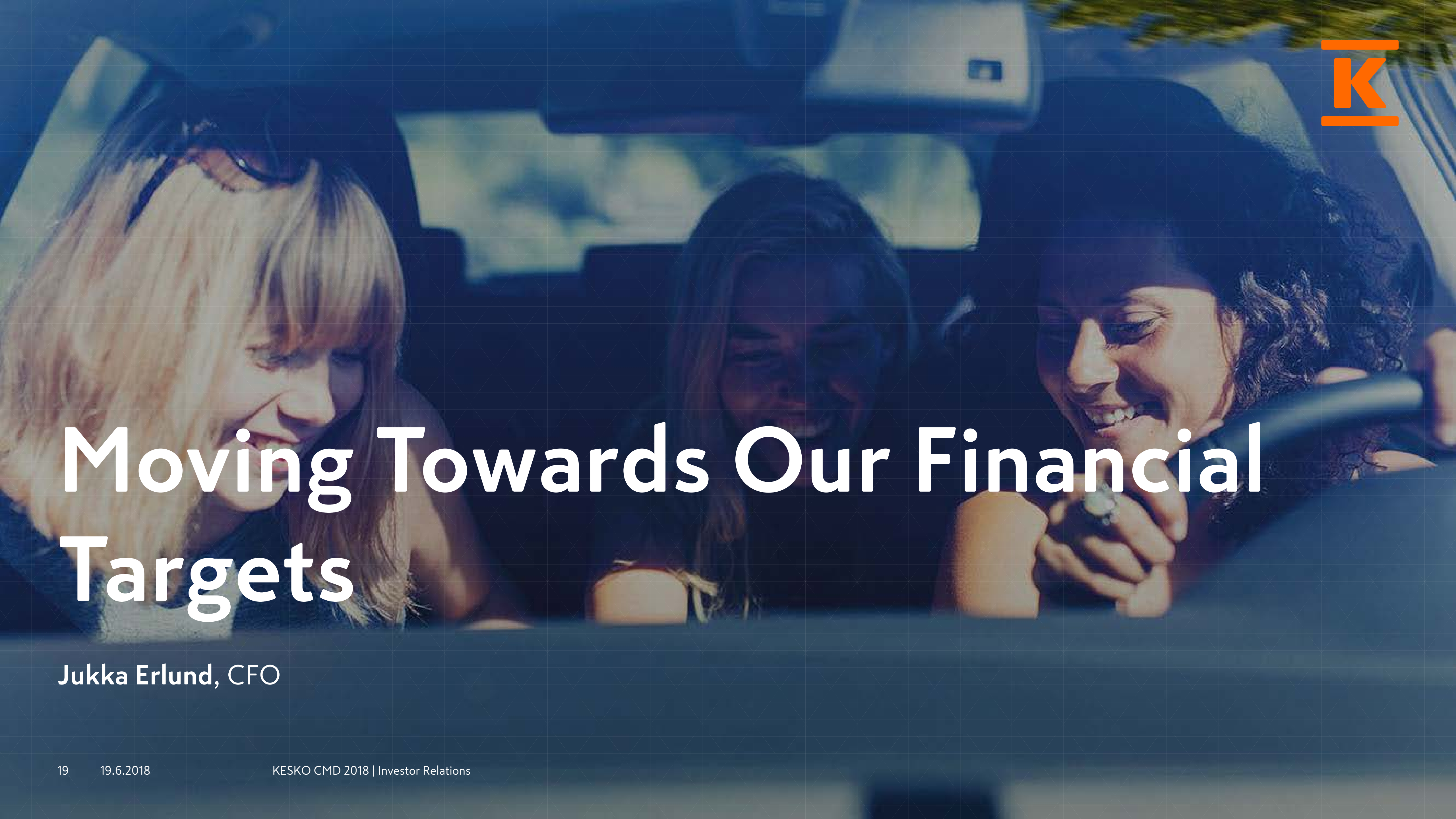
Car Trade Growing Faster Than the Market

- Close partnership with the VW Group
- Targeting market share growth
- Improving profitability in importing, retailing and after-sales
- Expanding new mobility services
- Omni-channel customer experience

One Unified K – Creating Value For Customers

- Building a strong and trusted K brand
- Further synergies across businesses
- Loyalty programme: serving our most loyal customers better
- Innovations and new business opportunities

Kesko Is the Most Sustainable Trading Sector Company In the World and an Active Member of Society



Moving Towards Our Financial Targets

Jukka Erlund, CFO

Main Financial Targets

	Roll. 12 months Q1/18	Target level
Return on Capital Employed, %*	13.5	14.0
Return on Equity, %	10.9	12.0
Interest-bearing net debt / EBITDA	-0.1	<2.5

Kesko's dividend policy

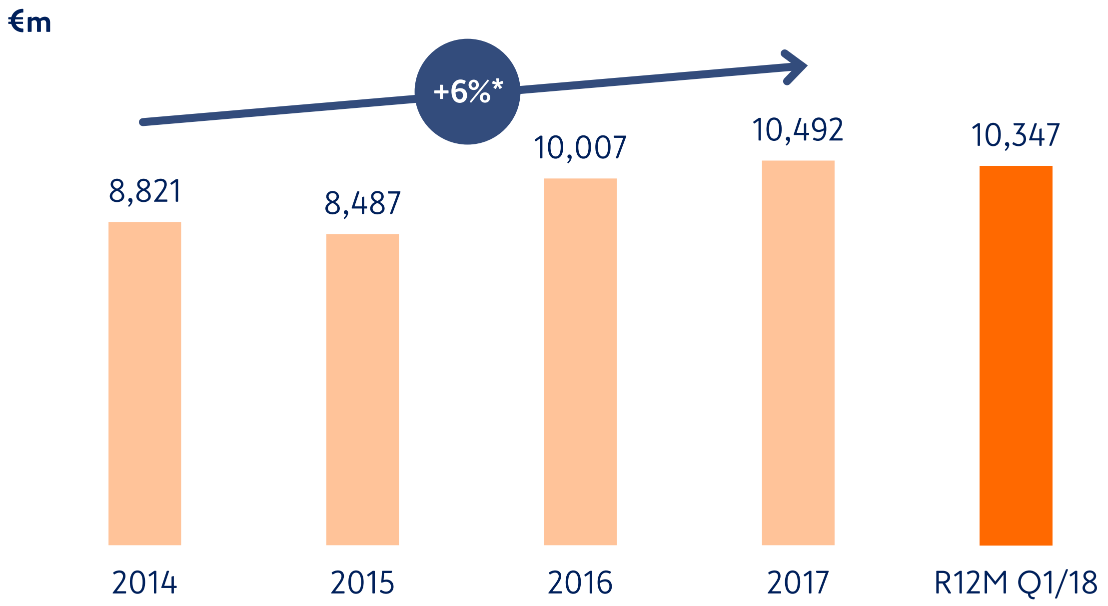
At least 50% of comparable earnings per share distributed as dividends

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

* Comparable figures, continued operations

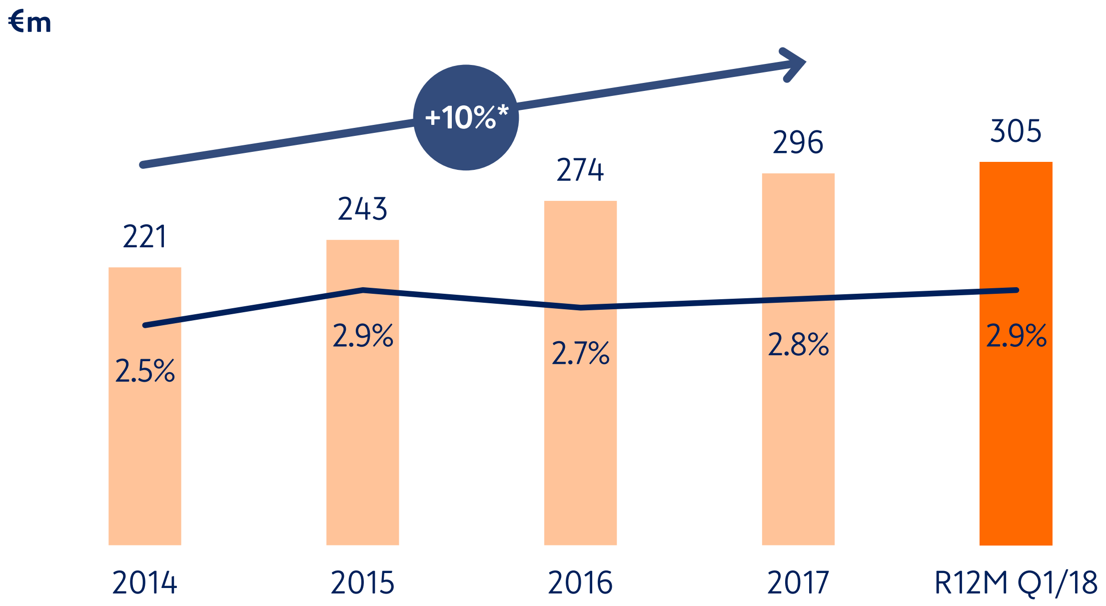
Executing Profitable Growth Strategy

Net sales



Net sales growth €1.7bn in 2014-2017

Comparable operating profit

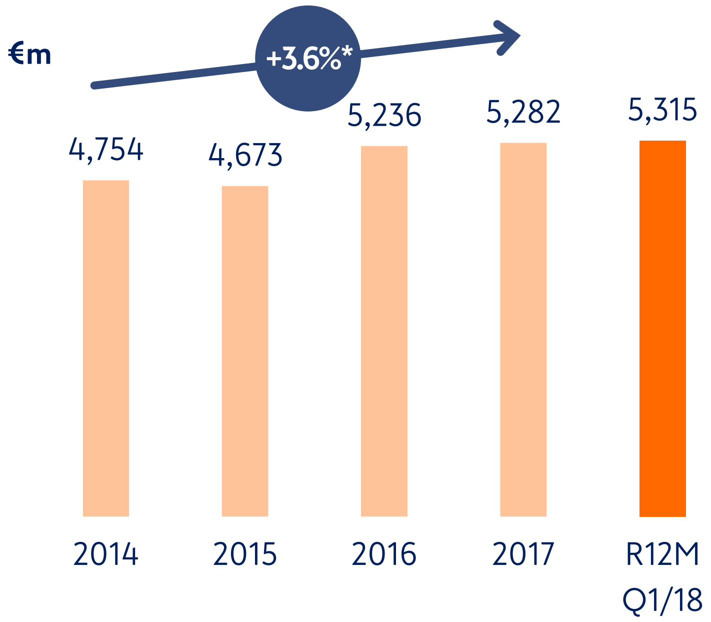


Operating profit growth €76m in 2014-2017

Continued operations *CAGR

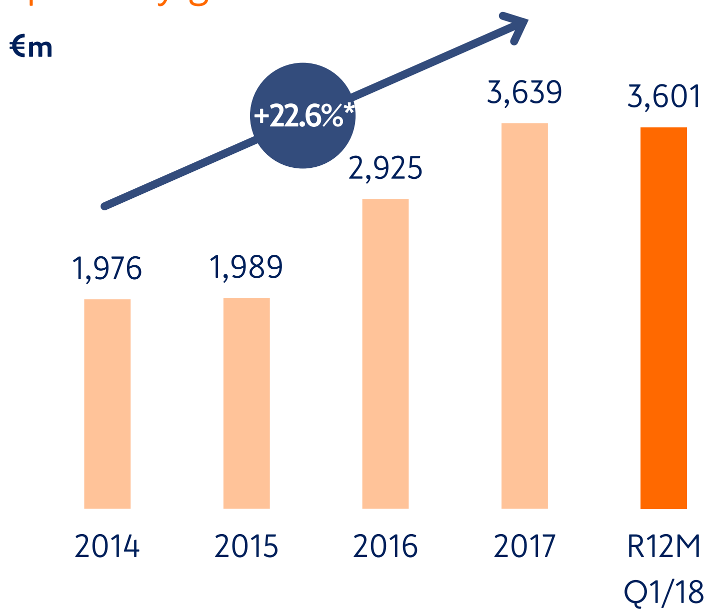
Sales Growth in All Divisions

Grocery trade – net sales



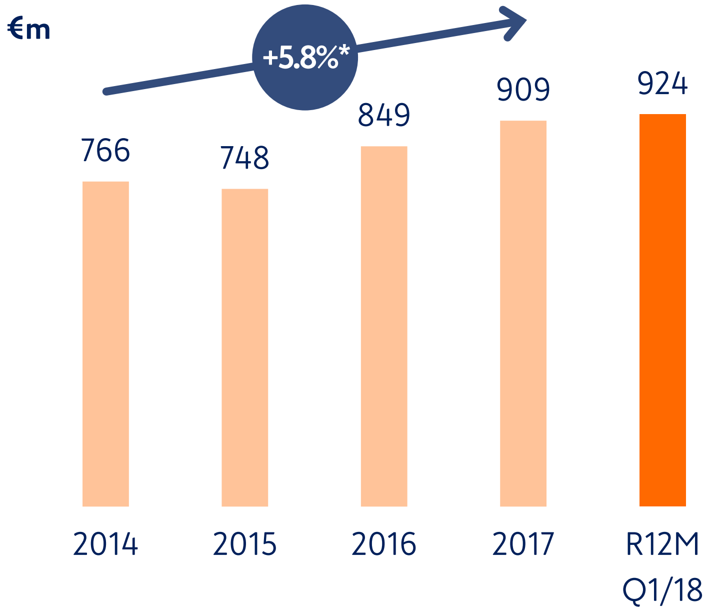
Growth: €528m

Building and technical trade excluding speciality goods – net sales



Growth: €1,663m

Car trade – net sales

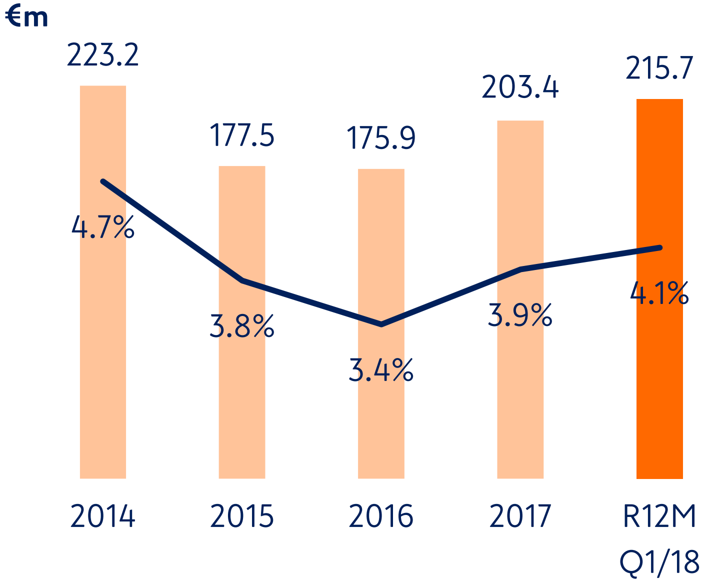


Growth: €143m

Continued operations *CAGR

Operating Margin on a Growth Track

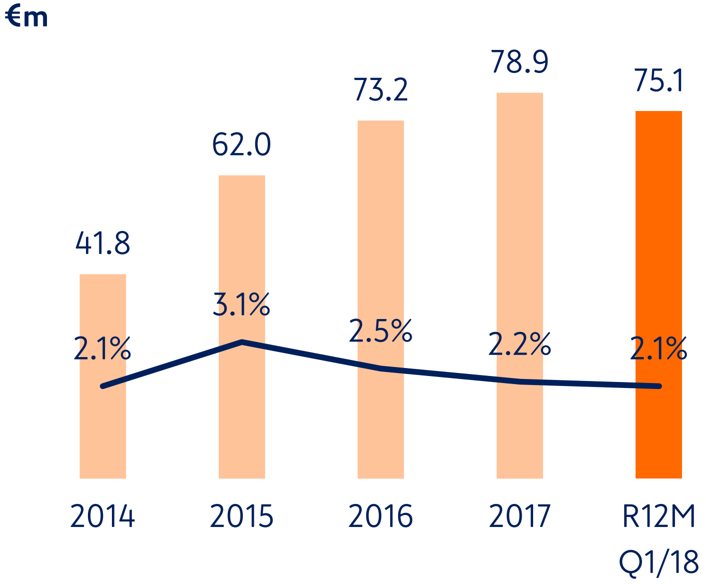
Grocery trade – operating profit



Increase in traffic and basket due to quality initiatives
Successful integration of Suomen Lähikauppa
Profitability uplift in non-food and Kespro Horeca

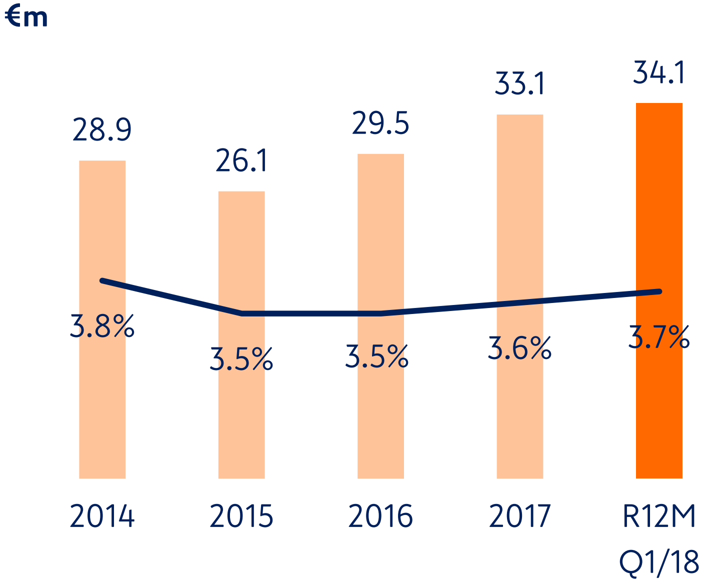
Comparable figures, continued operations

Building and technical trade excluding speciality goods – operating profit



Onninen acquisition and profitability uplift
Finland and the Baltics performing well and on a growth track
Targeted improvement in Sweden, Poland and Norway

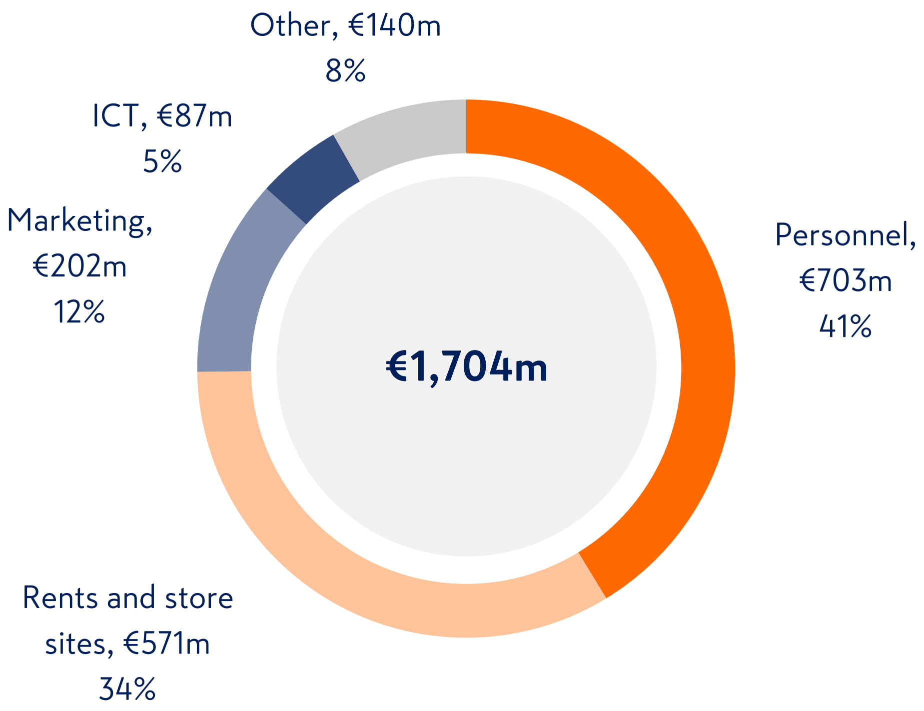
Car trade – operating profit



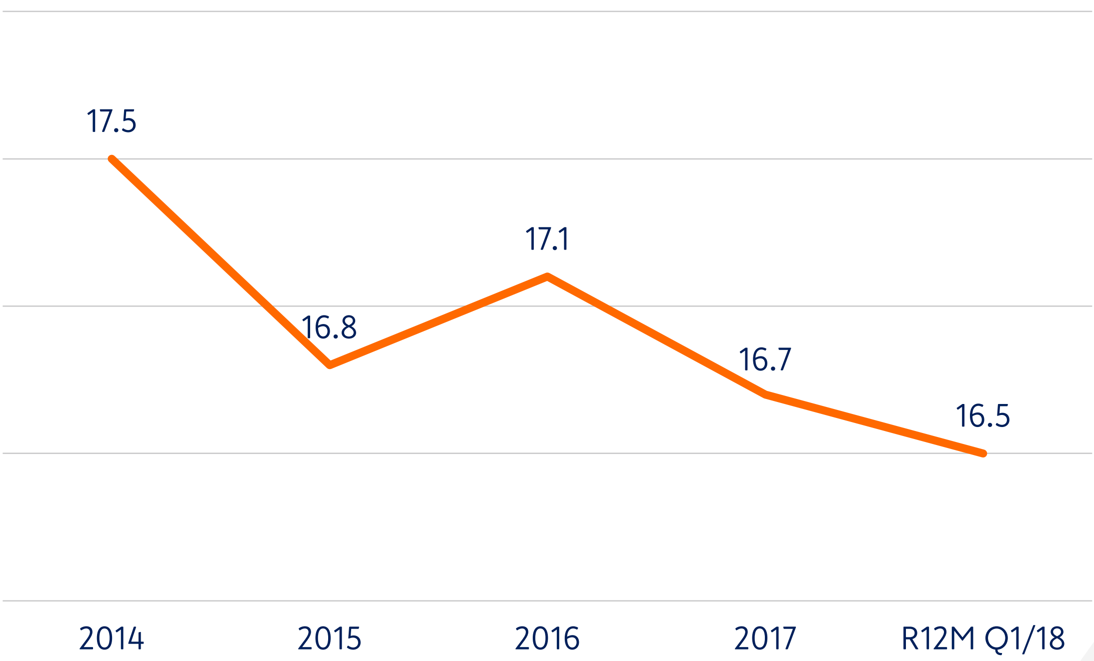
Good growth track in importing, retailing and after sales
Strong performance in Porsche operations

Improved Cost-to-Sales Ratio due to Volume Growth

Fixed cost base



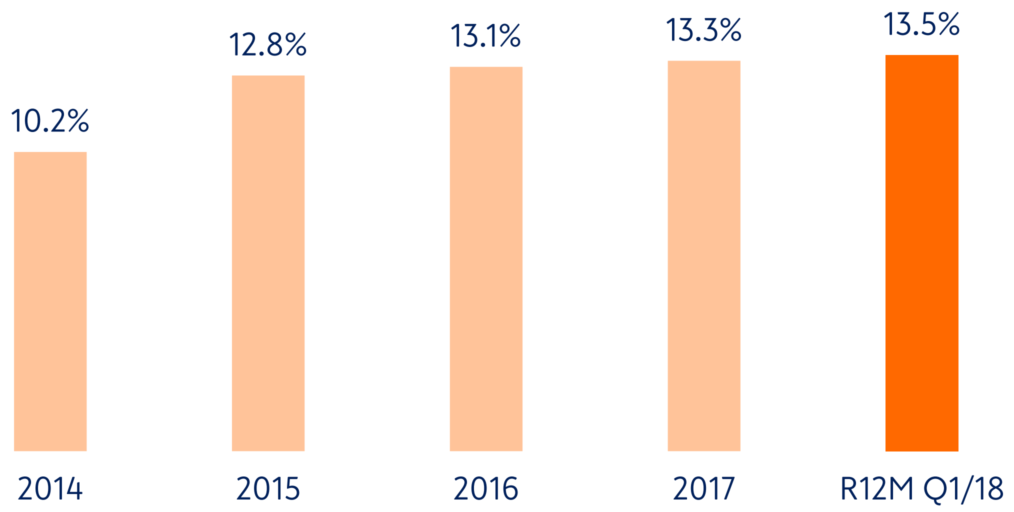
Costs as share of net sales, %



Comparable figures, continued operations

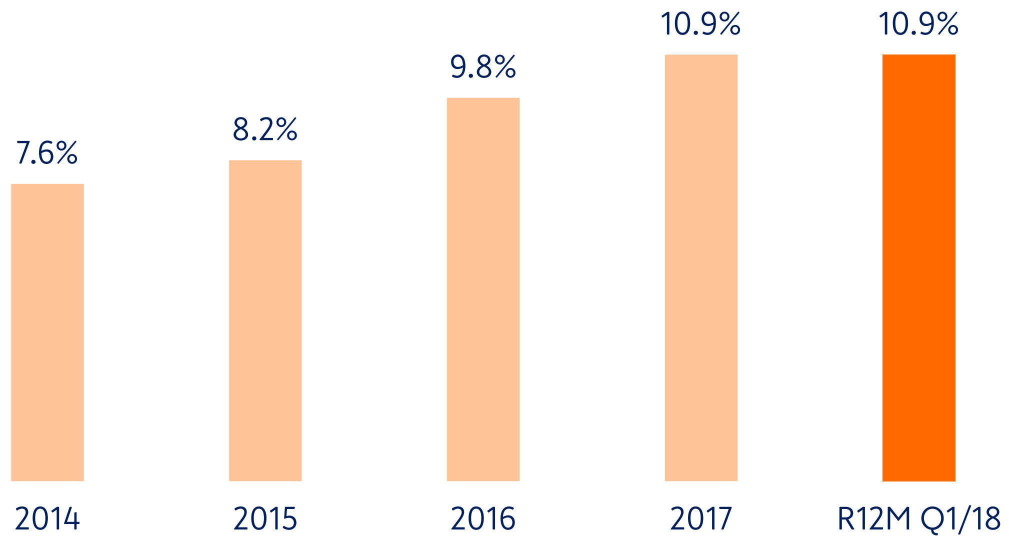
ROCE and ROE on Track towards Their Targets

ROCE*, target 14%



Profitability improvement in core businesses
Divestments of low profitability operations

Comparable ROE, target 12%

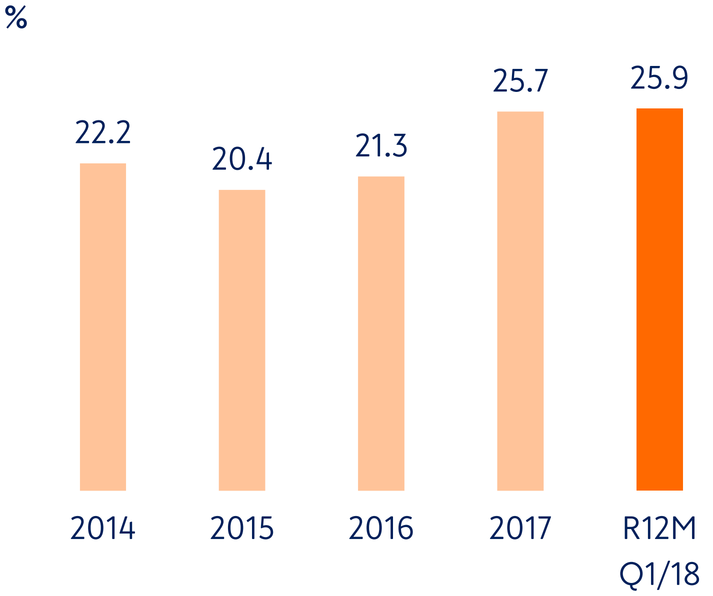


Operating profit uplift combined with improved financial net and effective tax rate
Close to 100% pay-out ratio in dividends

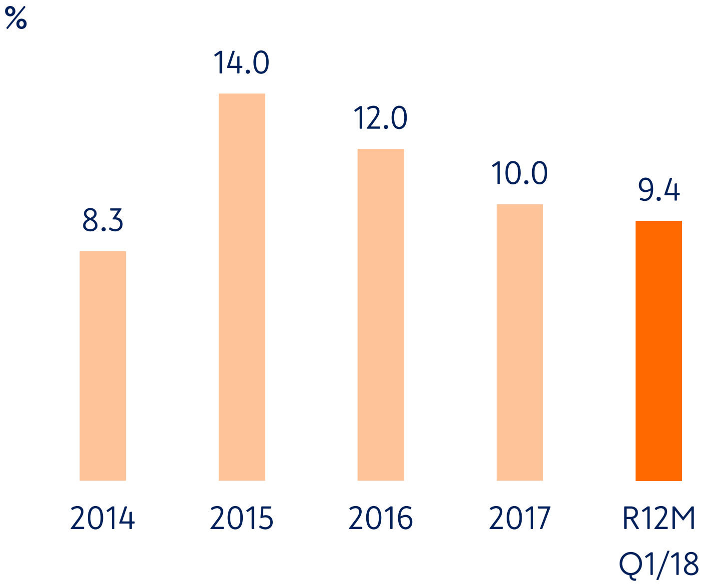
*Comparable figures, continued operations

The Biggest ROCE Improvement Potential in Building and Technical Trade

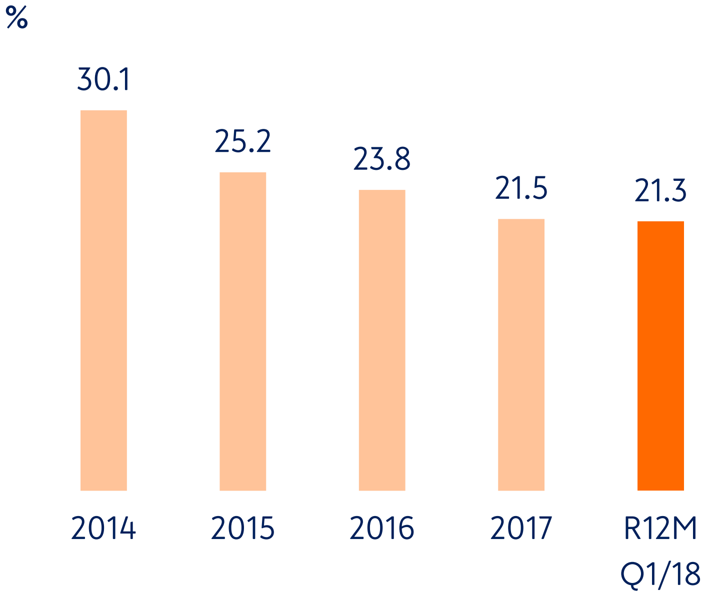
Grocery trade – ROCE



Building and technical trade excluding speciality goods – ROCE



Car trade – ROCE

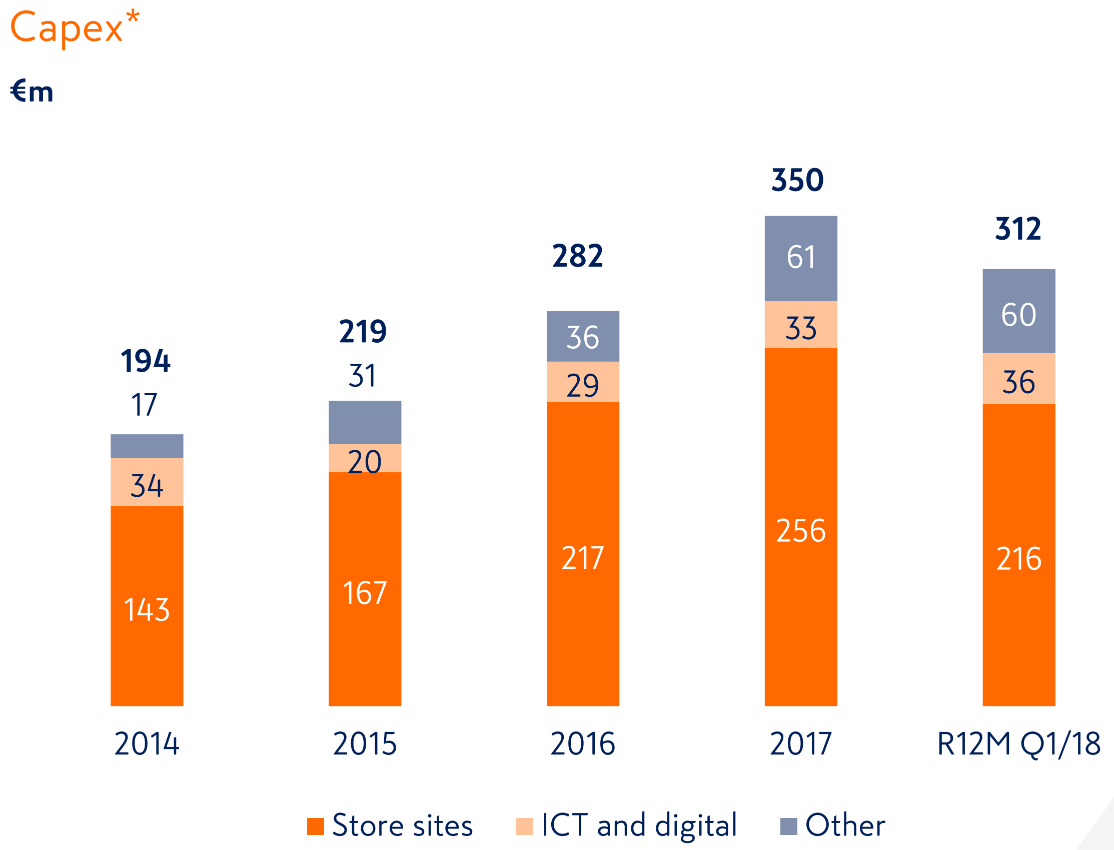


ROCE affected by increased capital employed due to acquisitions and growth investments

Comparable figures, continued operations

Capital Expenditure to Decrease from the 2017 Level Excluding Acquisitions

- Organic capex peaked at 2017 – going forward, expected to decrease to a level of €200-250m
  - Capex in store sites to decrease after exceptionally high level in recent years
  - ICT and digital investments to increase
  - Leasing fleet to raise capex in the next few years
- Additional acquisitions targeted to build scale and improve competiveness especially in building and technical trade

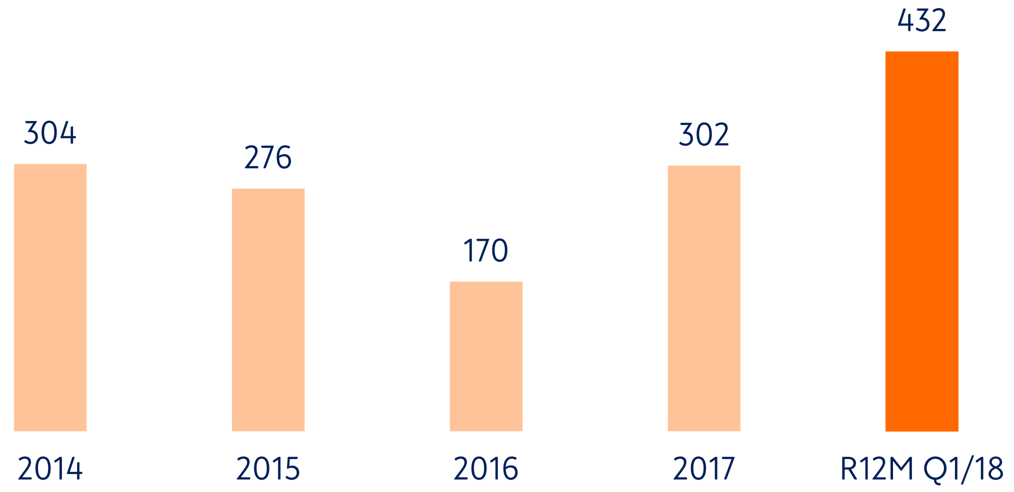


*Additionally, €462m in acquisitions in 2016

Cash Flow Generation to be Further Enhanced

Operative cash flow

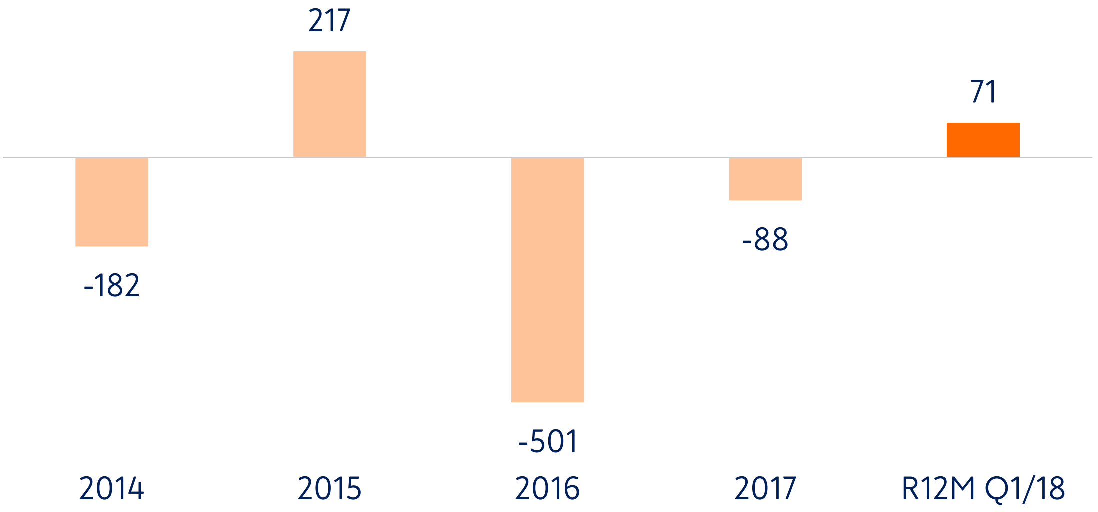
€m



Focus on further improvements in profitability and NWC

Cash flow from investing activities

€m

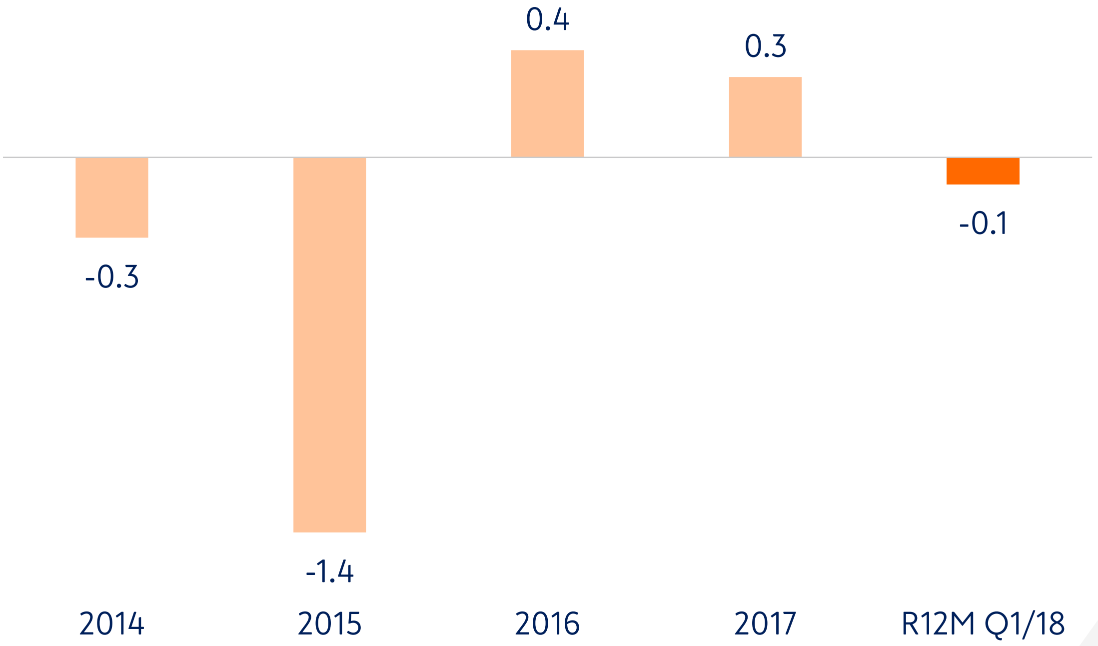


Total net capex at a moderate level due to €1bn from divestments

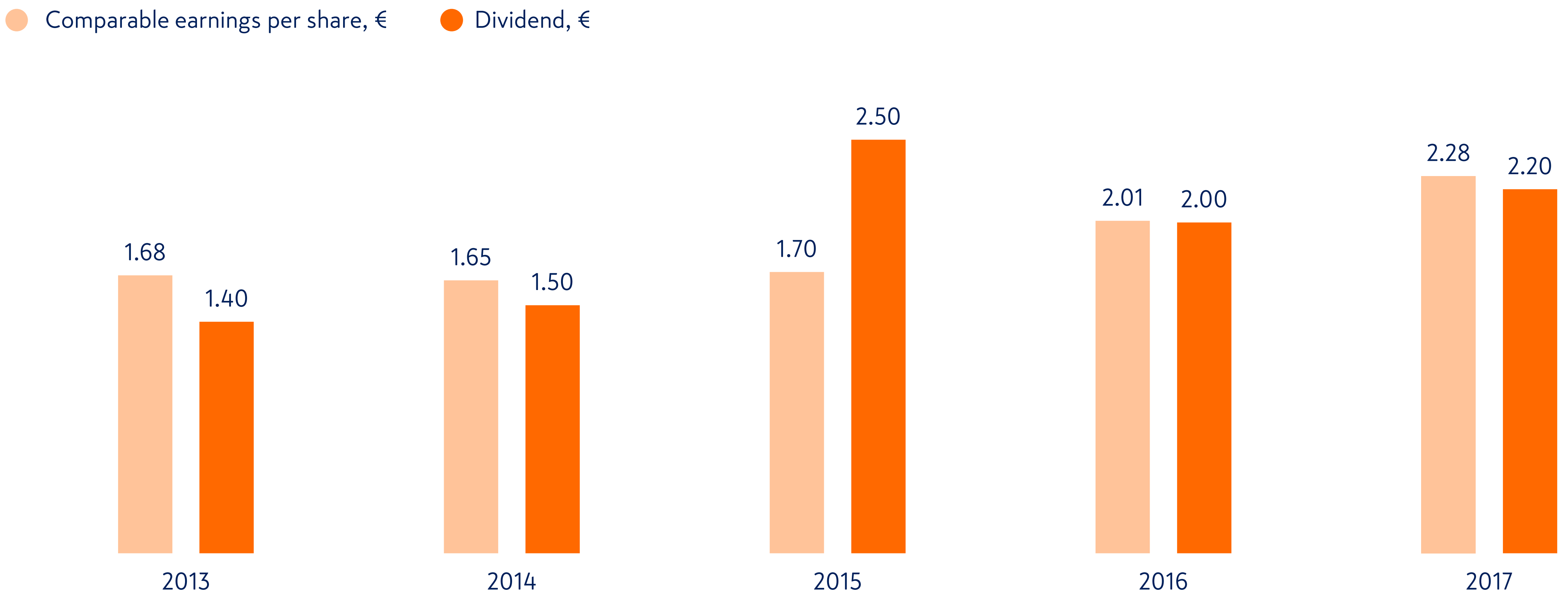
Strong Financial Position

- 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

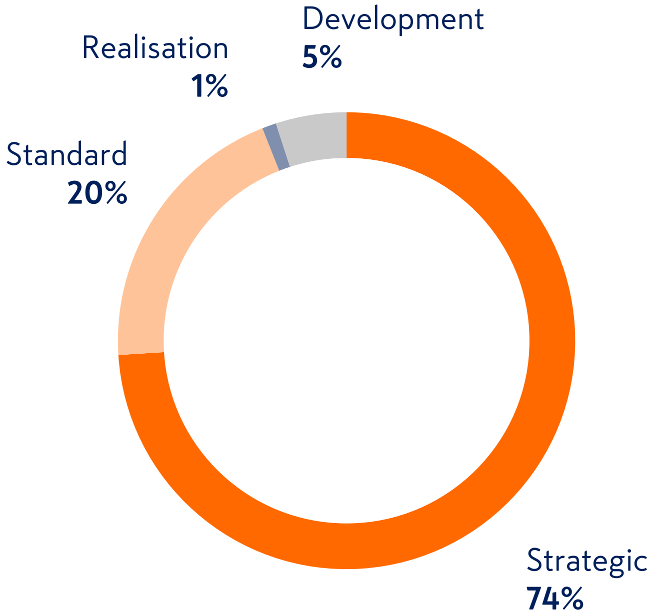


Real Estate Portfolio in Good Shape

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

IFRS 16 Leases

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