Kesko’s Half-Year Financial Report Q2/2018

President and CEO Mikko Helander

Highlights Q2/2018

Net sales +4.0%, operating profit €89m, growth operatively excl. divestments +€11m

Net sales grew and profitability improved in all core businesses

Acquisitions for Byggmakker in Norway, Kesko Senukai in the Baltics, and Kespro in Finland

Growth strategy adopted in 2015 further defined

Comparable figures, continuing operations

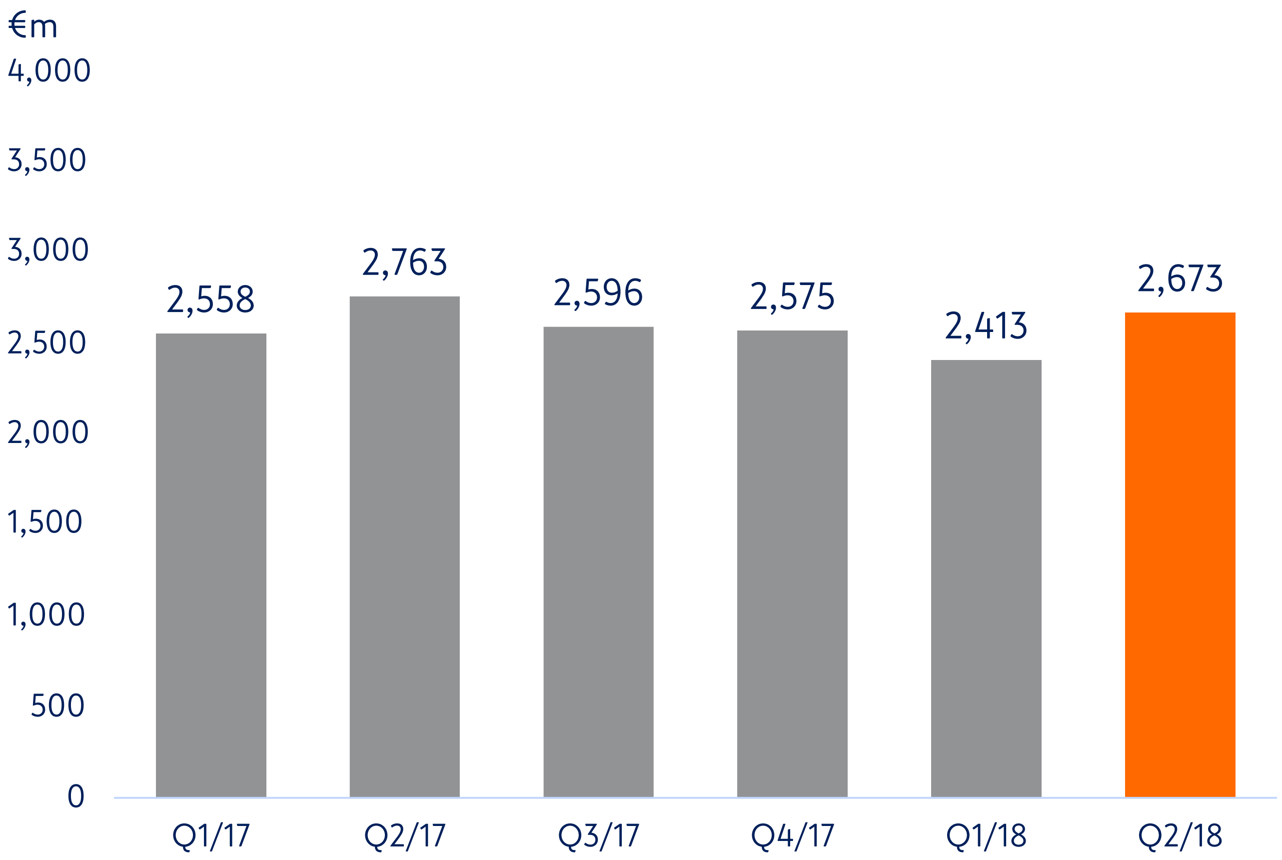
Net Sales and Operating Profit Grew

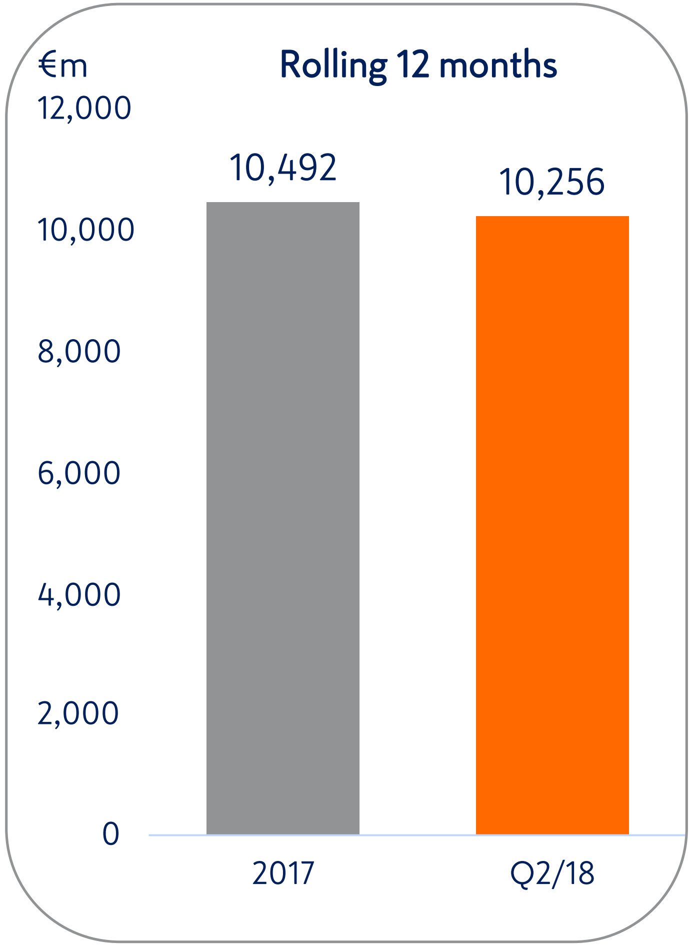
	Q2/2018	Q2/2017	H1/2018	H1/2017
Net sales, €m	2,673	2,763	5,086	5,321
Net sales growth, %	+4.0	+0.6	+3.7	+1.5
Operating profit, €m	89.0	83.8	129.1	115.3
Operating margin, %	3.3	3.0	2.5	2.2
Profit before tax, €m	86.0	82.1	125.9	118.4
Earnings per share	0.61	0.61	0.96	0.93
Return on capital employed, rolling 12 mo, %	13.7	12.1		
Return on equity, rolling 12 mo, Group, %	11.7	10.3		

Comparable figures, continuing operations

Net Sales

Comparable Q2 growth +4.0%, H1 growth +3.7%

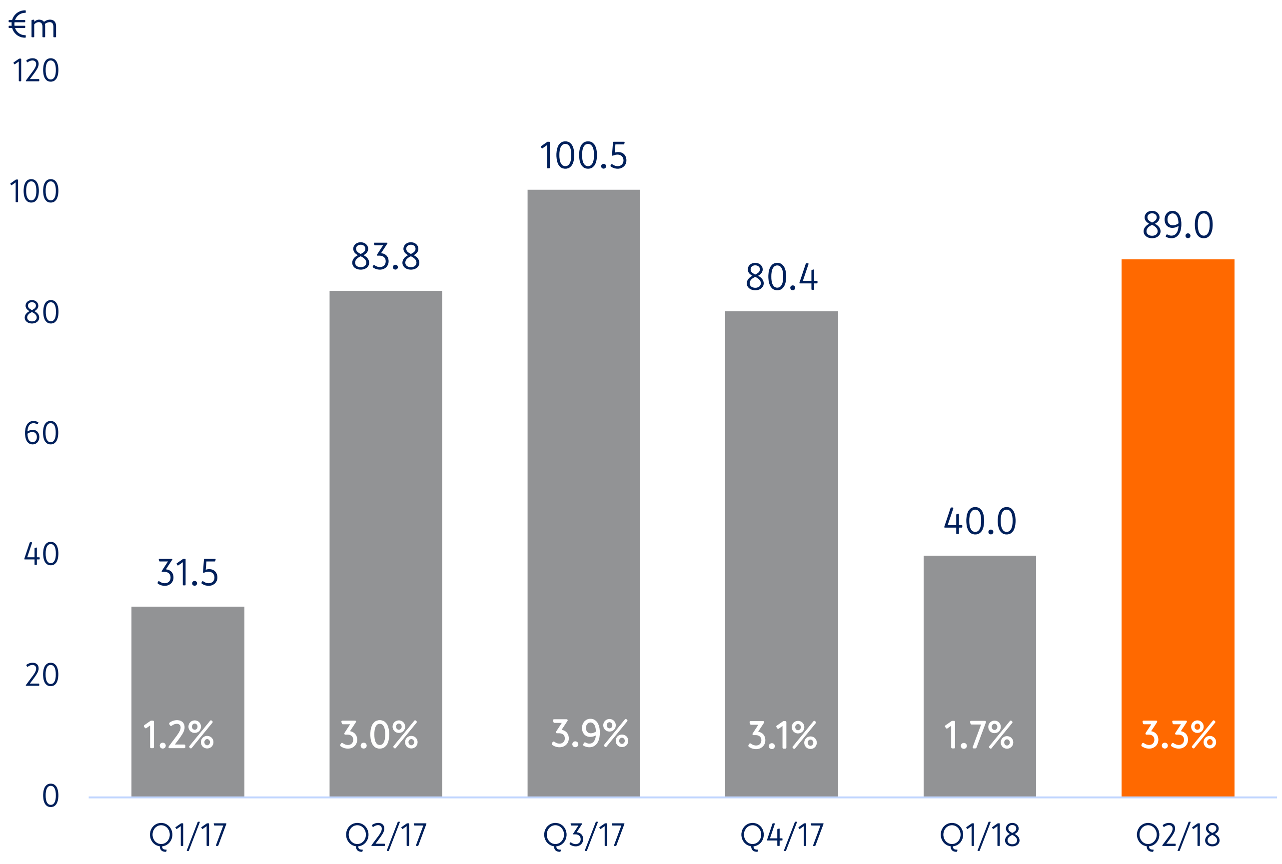


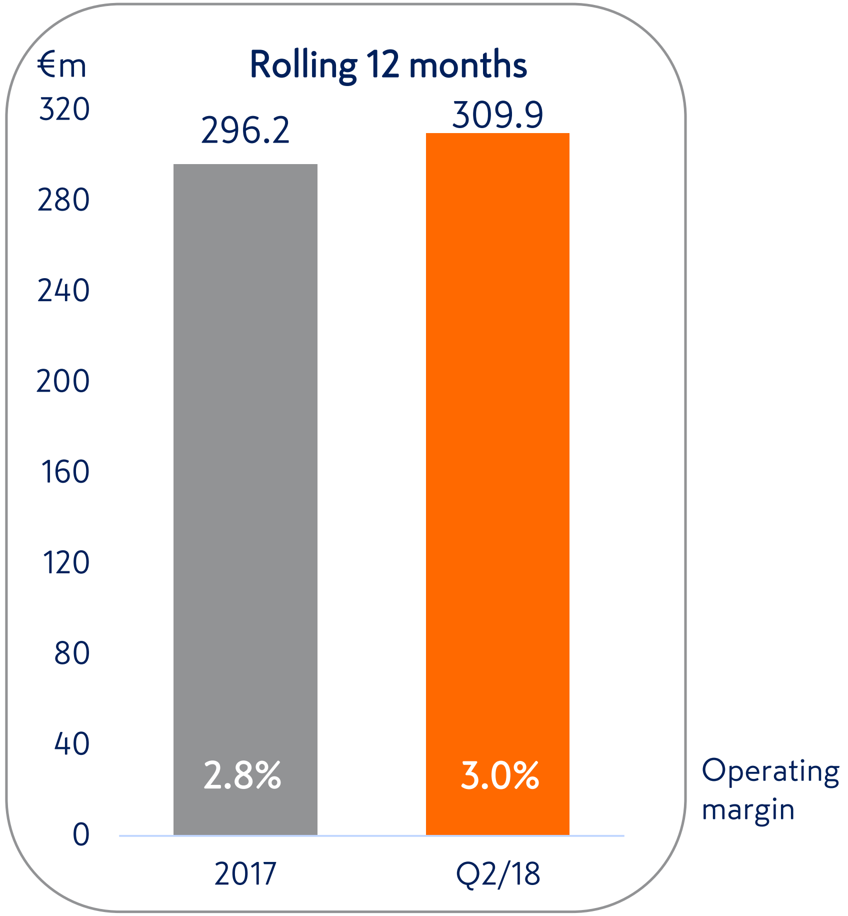


Comparable figures, continuing operations

Operating Profit

Q2 profit improvement +€5m, taking divestments into account +€11m

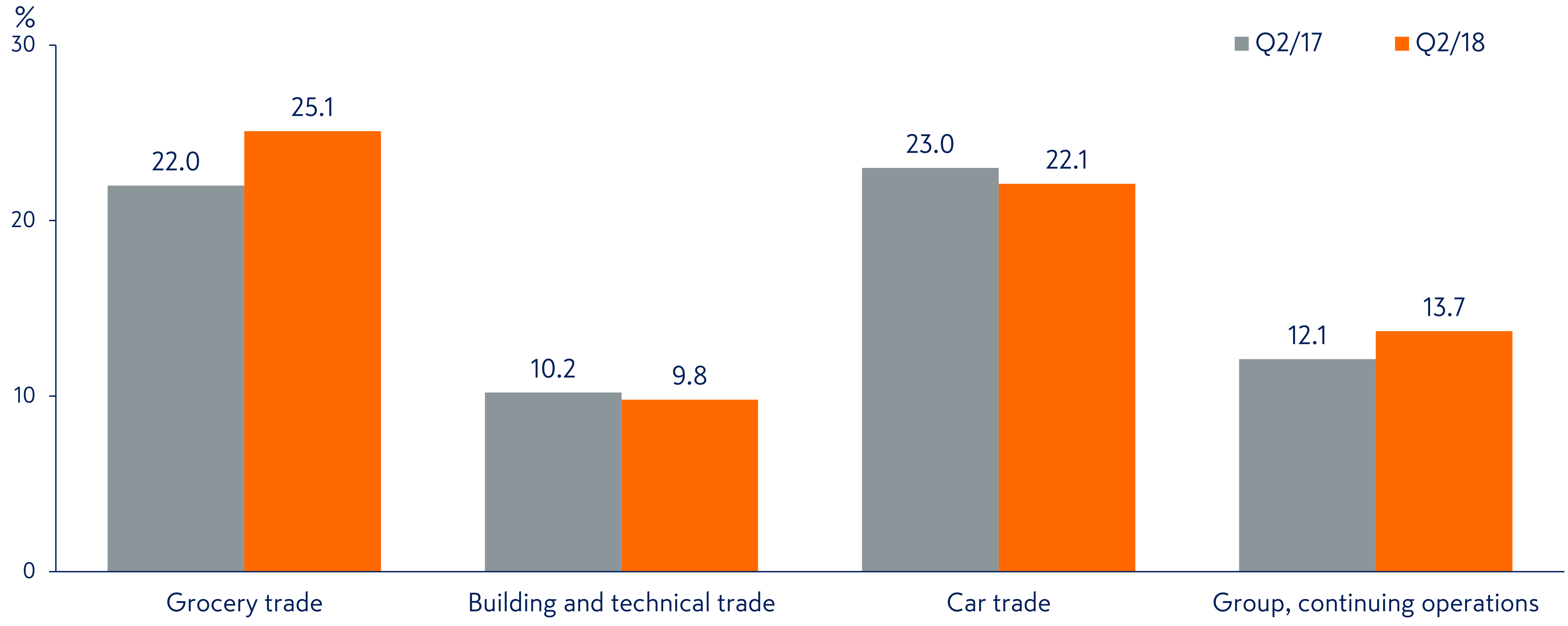




Comparable operating profit, continuing operations
Profit impact of the divested Asko and Sotka, K-maatalous and Yamarin businesses, Yamaha representation and Baltic real estate: €5.8m in Q2/17, €4.6m in Q1/17

Return on Capital Employed 13.7%

Comparable, rolling 12 months



Strong Financial Position

	30.6.2018	30.6.2017
Group:		
Equity ratio, %	46.2	47.0
Liquid assets, €m	446	367
Interest-bearing net debt, €m	146	194
Interest-bearing net debt/ EBITDA, rolling 12 mo	0.4	0.5
Continuing operations:		
Cash flow from operating activities, Q2, €m	140	131
Cash flow from investing activities, Q2, €m	-54	112

Comparable figures

Grocery Trade

Grocery Trade

The market

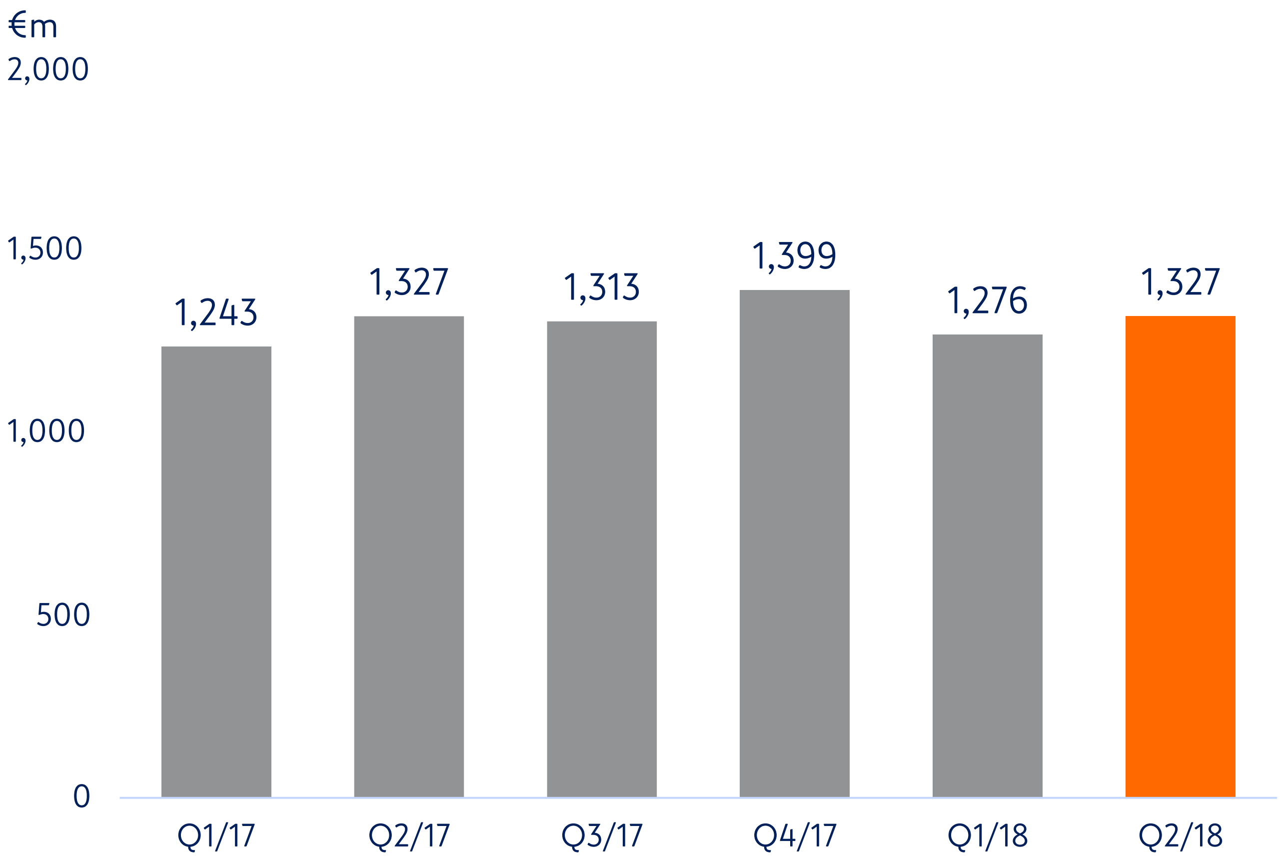
- Growth 3.1% in Q2 and 4.2% in H1, impacted by timing of Easter and warm weather early summer
- Price inflation approx. 2.3%, partially impacted by increases in alcohol and tobacco taxes

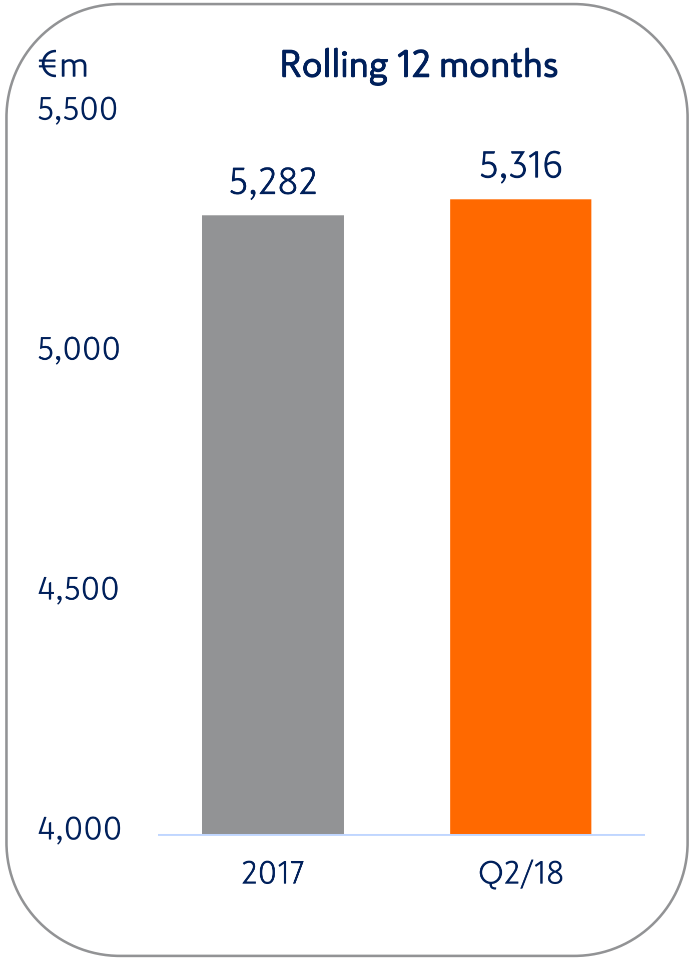
Q2

- Customer numbers up in all chains thanks to successful chain redesigns
- Growth strongest in neighbourhood market due to timing of Easter and warm weather early summer
- Profitability improved thanks to net sales growth and synergies
- Integration of Suomen Lähikauppa and transfer of stores to retailers successfully completed
- Kespro’s foodservice operations strengthened by acquiring Kalatukku E. Eriksson and Reinin Liha

Grocery Trade Net Sales

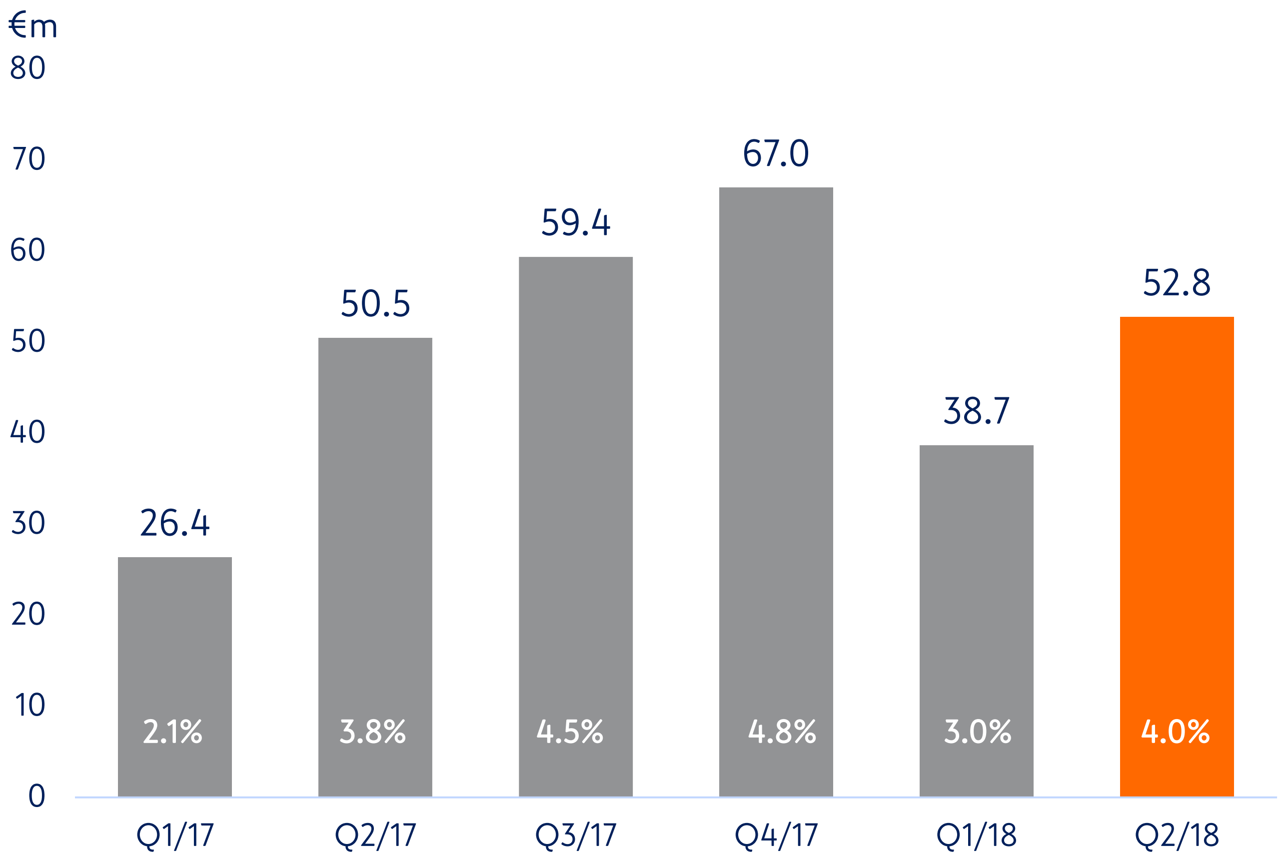
Comparable Q2 growth +2.9%, growth strongest in the neighbourhood market

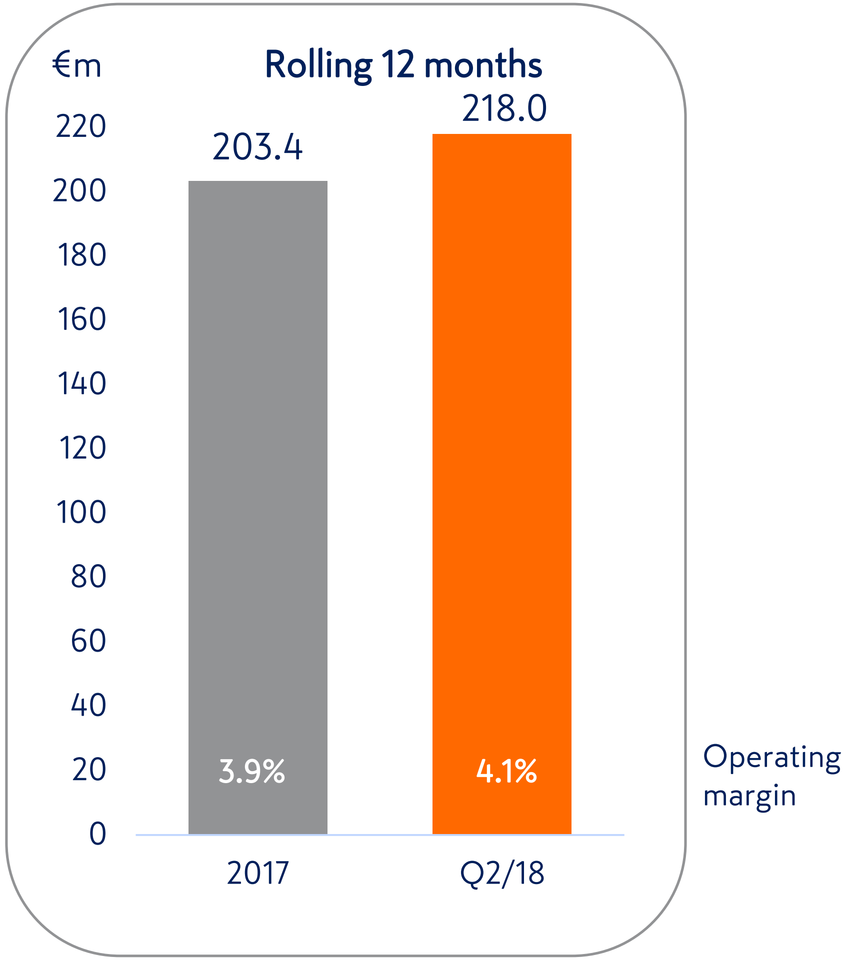




Grocery Trade Operating Profit

Profitability improved by sales growth and synergies





Comparable operating profit

Suomen Lähikauppa’s Integration and Transfer of Stores to Retailers Successfully Completed

- Additional sales of nearly €700m from the acquisition of Suomen Lähikauppa
- Targeted synergies of €30m achieved ahead of schedule
- Total investment €120m
- Clear leading position in the neighbourhood market
- A total of 380 stores converted to K-Markets transferred to retailers by the end of June 2018

Kespro's Offering Strengthened by Acquisitions of Kalatukku E. Eriksson and Reinin Liha

- The acquisitions will strengthen Kespro's competitiveness in the fast-growing foodservice wholesale market
- Kespro will be able to offer restaurant customers a more extensive selection of fish and meat fresh food products
- Combined net sales of the acquired companies approx. €30m, good profitability
- The products will be gradually made available to a wider customer-base from autumn onwards with Kespro's efficient logistics

Building and Technical Trade

Building and Technical Trade

The market

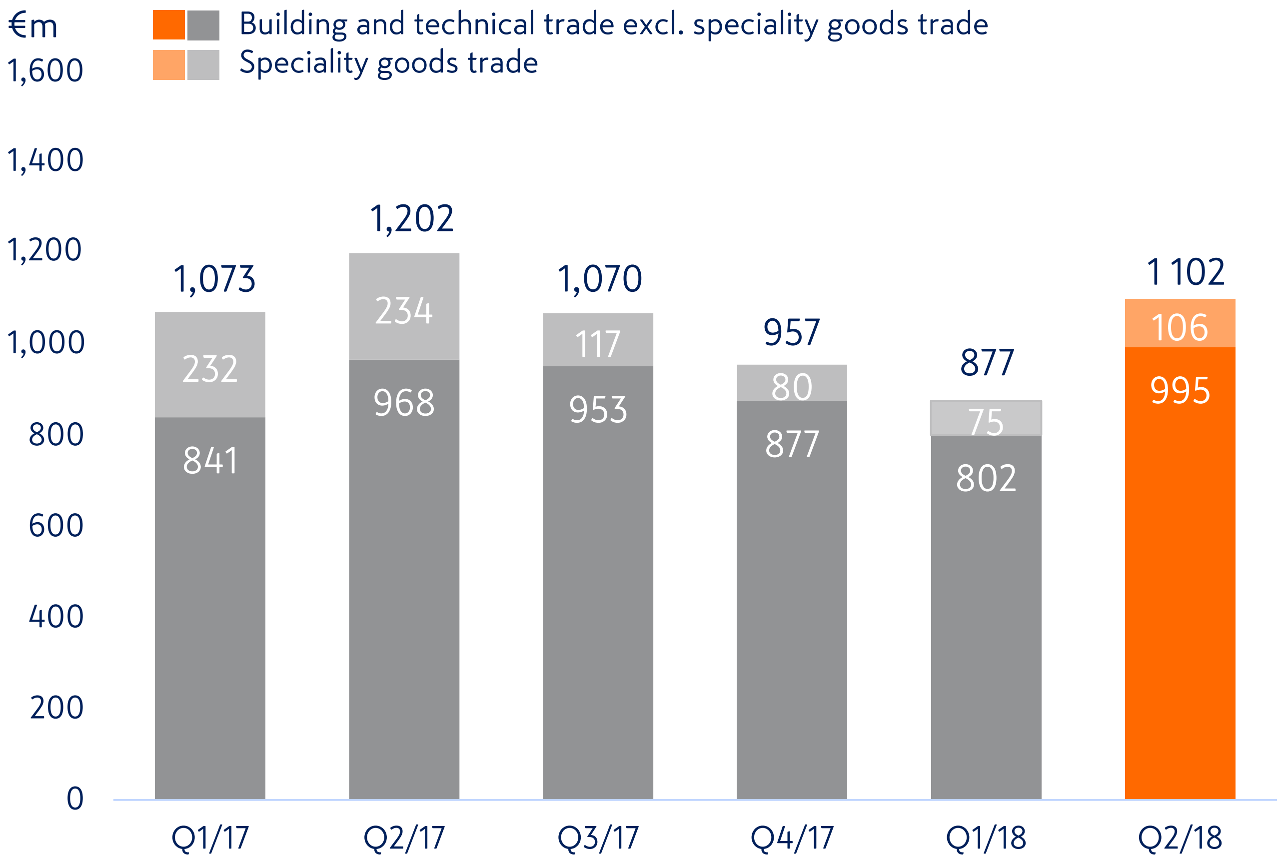
- Outlook for the market still favourable, although growth pace is expected to slow down
- Strong economies, warm weather early summer and the timing of Easter supported the market

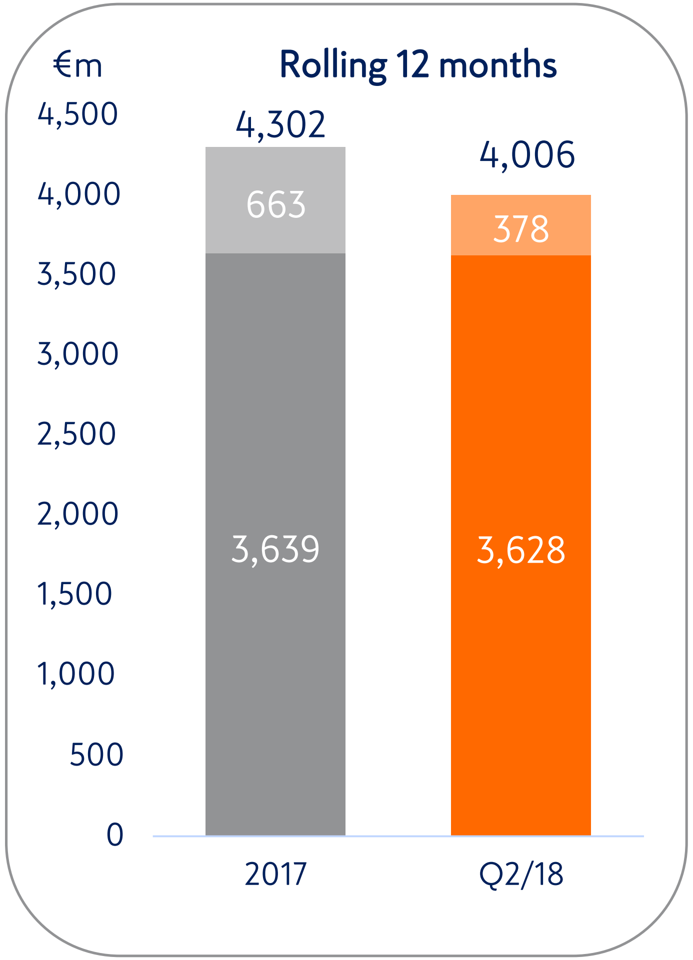
Q2

- Net sales and operating profit grew excluding the speciality goods trade
- Good sales and profit development especially in Finland and in Kesko Senukai in the Baltics
- Restructuring in Sweden and changes in network structure in Norway decreased sales
- Acquisitions of Skattum and Gipling for Byggmakker in Norway and of the online operator 1A Group in the Baltics
- Divestments in line with strategy decreased sales and profit in the speciality goods trade as expected

Building and Technical Trade Net Sales

Comparable Q2 growth +5.4%, H1 growth +1.8%

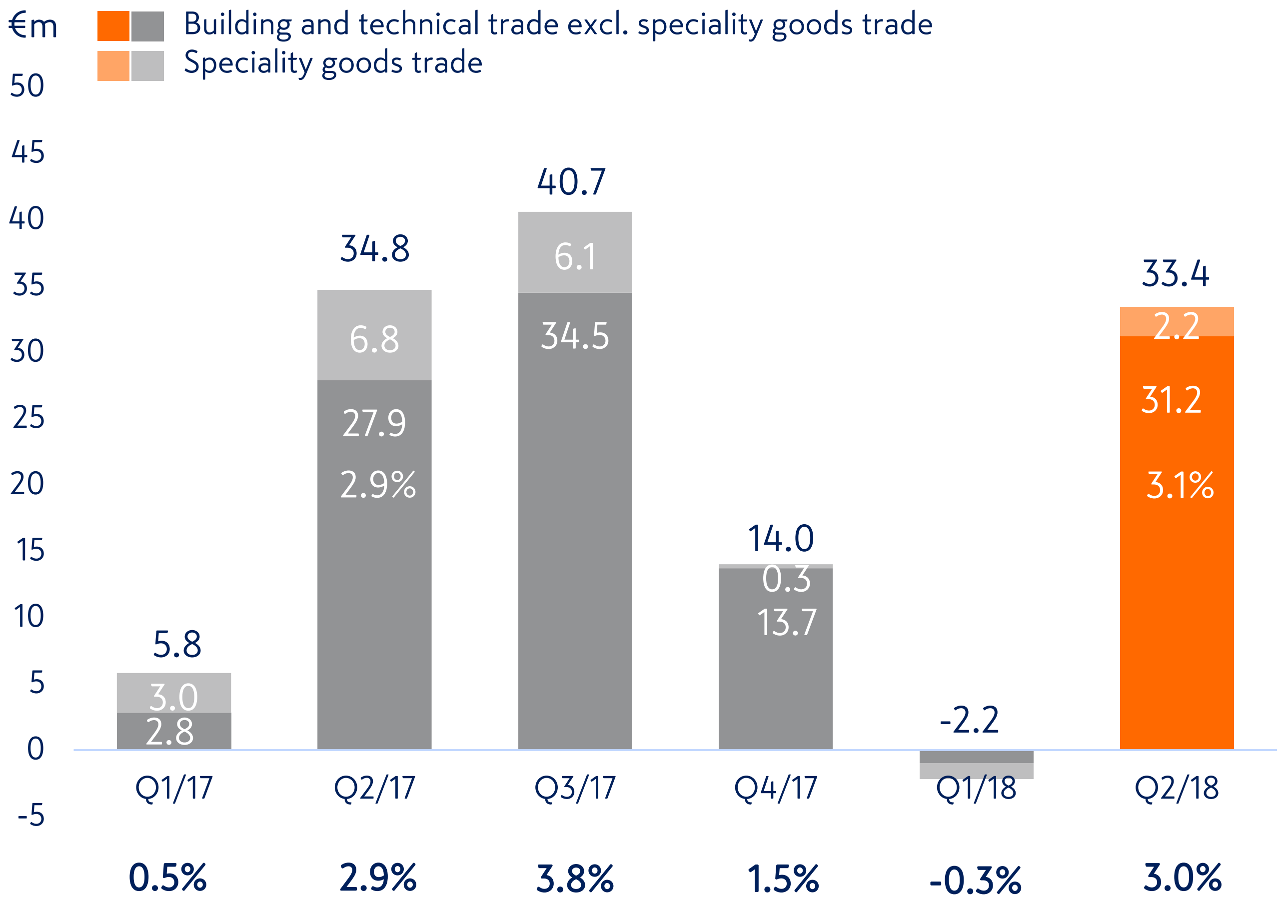




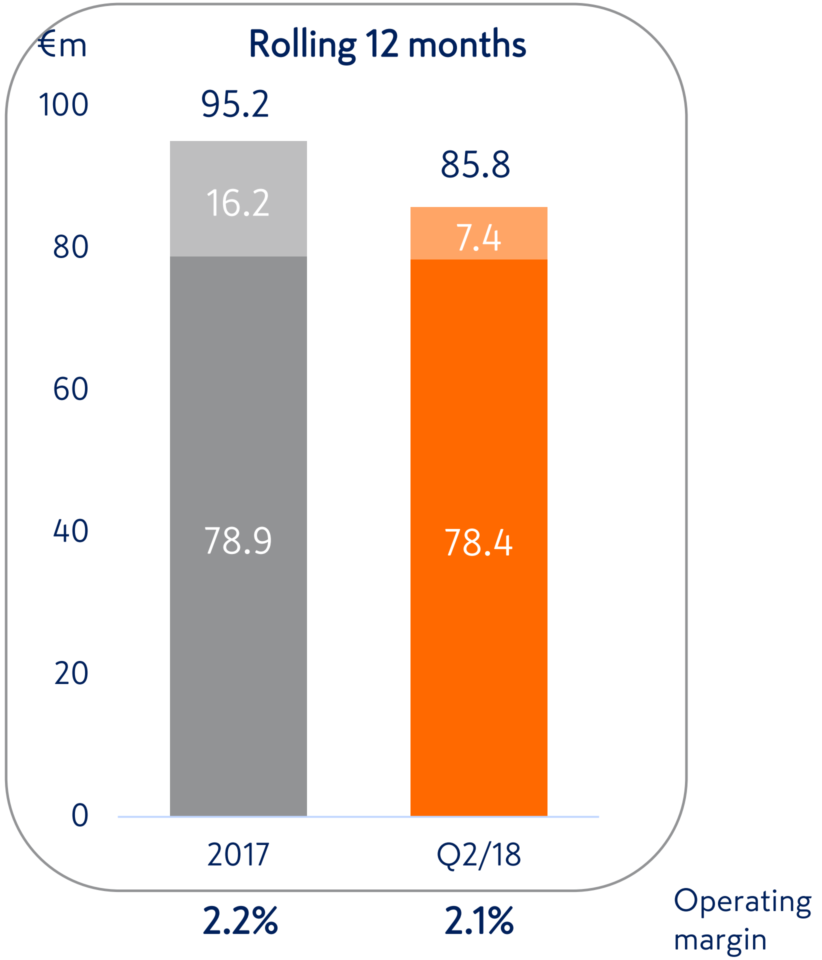
Comparable figures, continuing operations

Building and Technical Trade Operating Profit

Operating profit excluding the speciality goods trade grew



Comparable operating profit, continuing operations



Building and Technical Trade Operating Profit

Operating profit excl. speciality goods trade improved operatively by +€3.9m

Comparable operating profit, continuing operations
Profit impact of the divested Asko and Sotka, K-maatalous and Yamarin businesses, Yamaha representation and Baltic real estate: €5.8m in Q2/17, €4.6m in Q1/17

Successful Acquisitions and Divestments in Line with Strategy Continued

Acquisitions of Gipling and Skattum to strengthen Byggmakker chain in Norway

- Profitability to improve and share of own retailing in Norway to rise to 40%
- Strong market position in the Oslo and Trondheim regions, 29 stores in total
- Combined 2017 net sales €245m, operating profit €9.8m

Acquisition of 1A Group in the Baltics

- Comprehensive e-commerce platform to serve the Baltic markets
- 2017 net sales approx. €41m

Divestment and discontinuation of Russian operations proceeded according to plans

Divestment of machinery trade in the Baltics and agricultural machinery trade in Finland agreed

Car Trade

Car Trade

The market

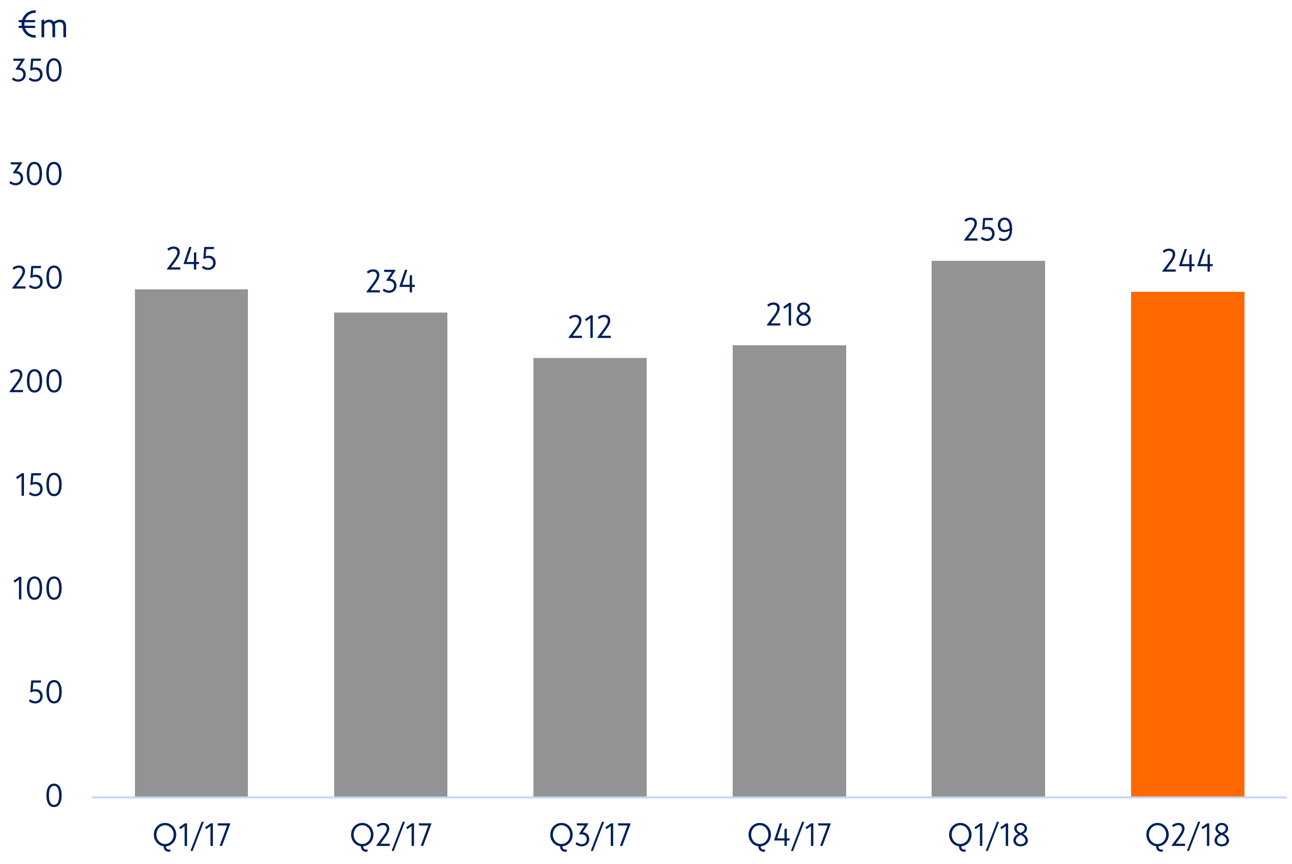
- First time registrations of passenger cars and vans up by 11.5% in Q2, 7.3% in H1
- New WLTP emissions testing, implemented from September onwards, may slow down car trade in Europe in the latter half of the year

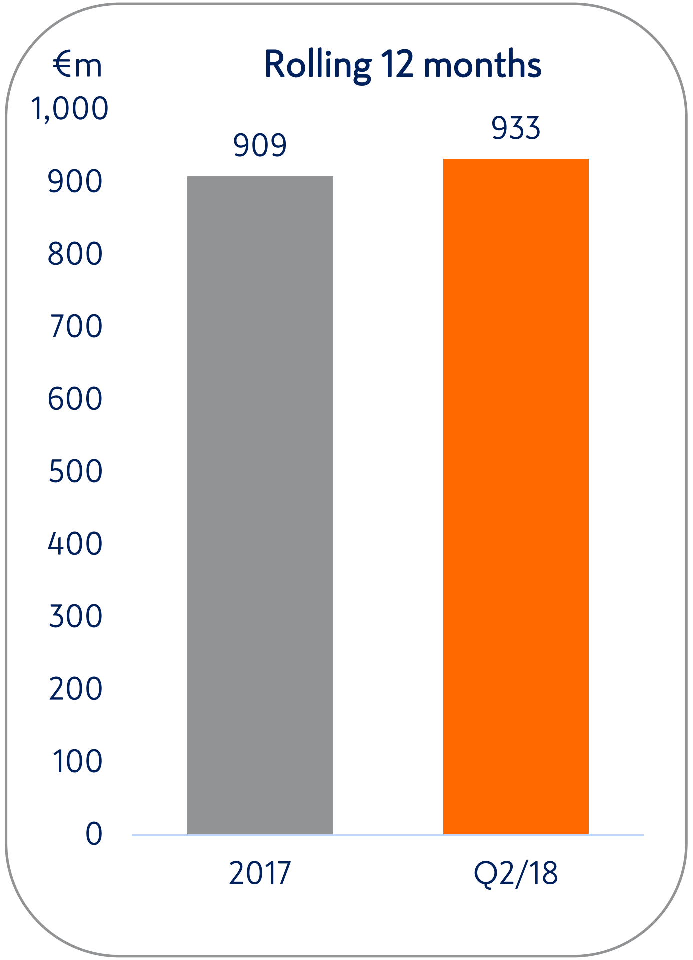
Q2

- Net sales and operating profit continued to grow
- Market share of Volkswagen, Audi, SEAT and Porsche passenger cars and vans 19.5%
- Order book for new cars +5%
- Investments in leasing services and a charging network for electric cars at K-food store locations

Car Trade Net Sales

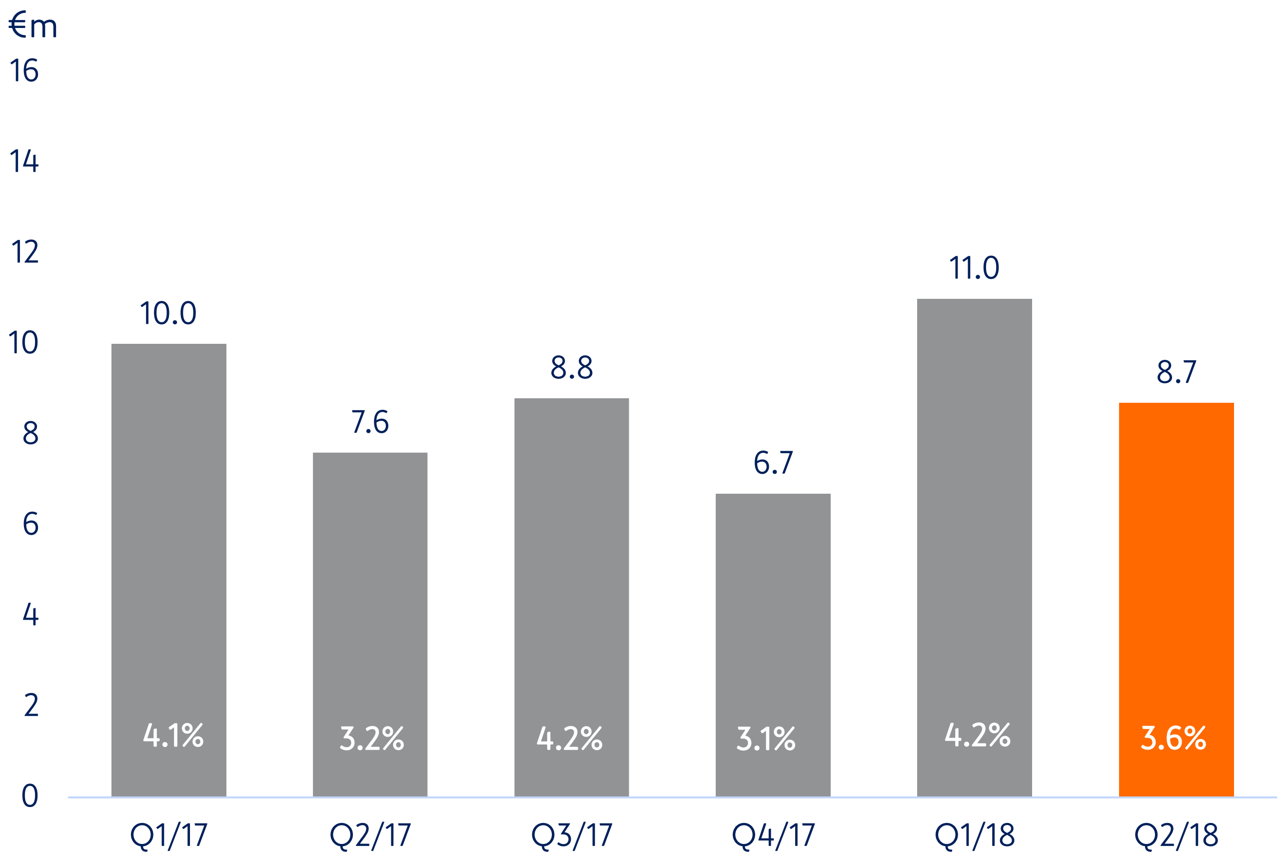
Q2 net sales growth +4.0%

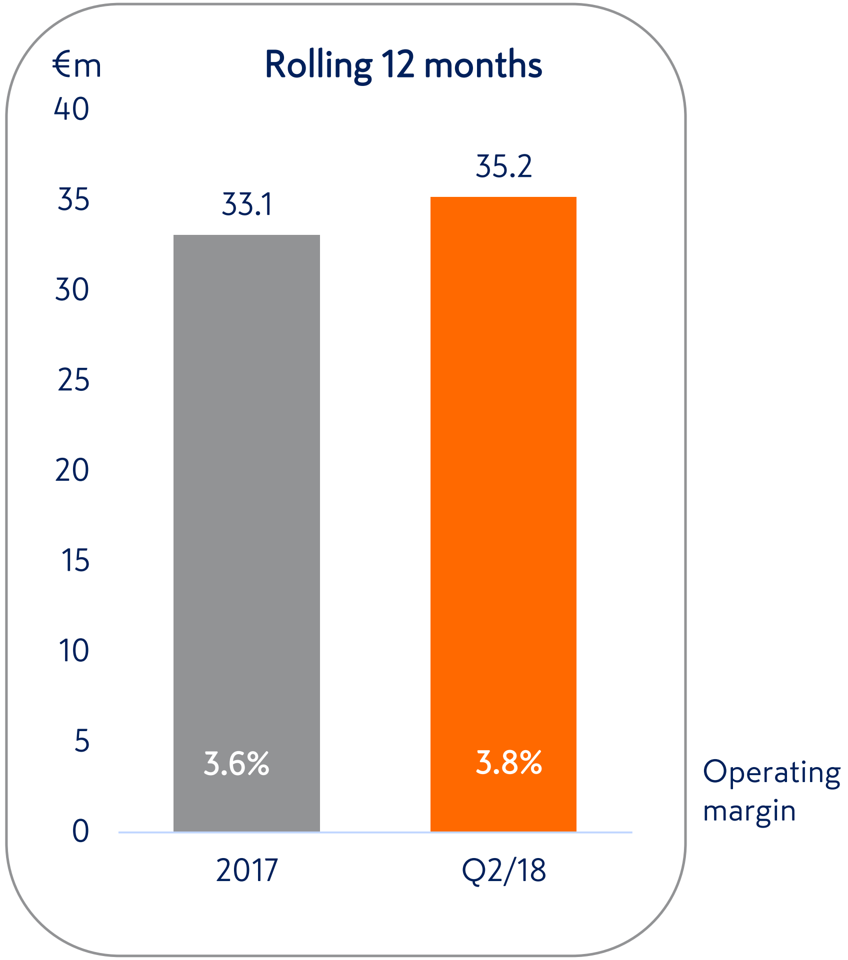




Car Trade Operating Profit

Q2 profitability strengthened further





Outlook

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 (7/2018-6/2019) in comparison with the 12 months preceding the end of the reporting period (7/2017-6/2018).

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. However, investments in the expansion of logistics operations and in information systems and digital services will burden profitability during the period.

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