



KESKO ANNUAL REPORT
KESKO'S DIRECTION

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Kesko's Annual Report 2019 has four sections. This section describes Kesko and its divisions and the progress made in their strategy execution, as well as Kesko's financial targets, operating environment and value creation.

The following symbols indicate that additional information can be found either in this report or on our website:

Read more in the Annual Report

Read more on our website



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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 work in close cooperation with retailer entrepreneurs and other partners.

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

Kesko and K-retailers together form K Group, whose sales (pro forma) totalled approximately €13.3 billion in 2019. K Group is the biggest trading sector operator in Finland and one of the biggest in Northern Europe. We employ some 43,000 people.

Kesko's strategic business areas are grocery trade, building and technical trade, and car trade. These are all areas

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

Corporate responsibility is a strategic choice for K Group and it is integrated into our day-to-day activities. Key focus areas in our corporate responsibility work are transparency in sourcing, mitigating climate change and environmental care, and extensive value creation throughout the society.

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



KESKO'S BUSINESS MODEL

Kesko's principal business model on the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Retailer operations accounted for approximately 45% of Kesko's net sales in 2019.

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

B2B trade is a significant and growing part of Kesko's business. Net sales from B2B trade totalled some €4.0 billion in 2019, accounting for some 37% of Kesko's total net sales.

Outside Finland, Kesko mainly engages in own retailing and B2B trade. Net sales from international operations totalled some €2.3 billion, or 22% of Kesko's total net sales.

The biggest trading sector operator in Finland, one of the biggest in Northern Europe

Strong financial position with good dividend capacity

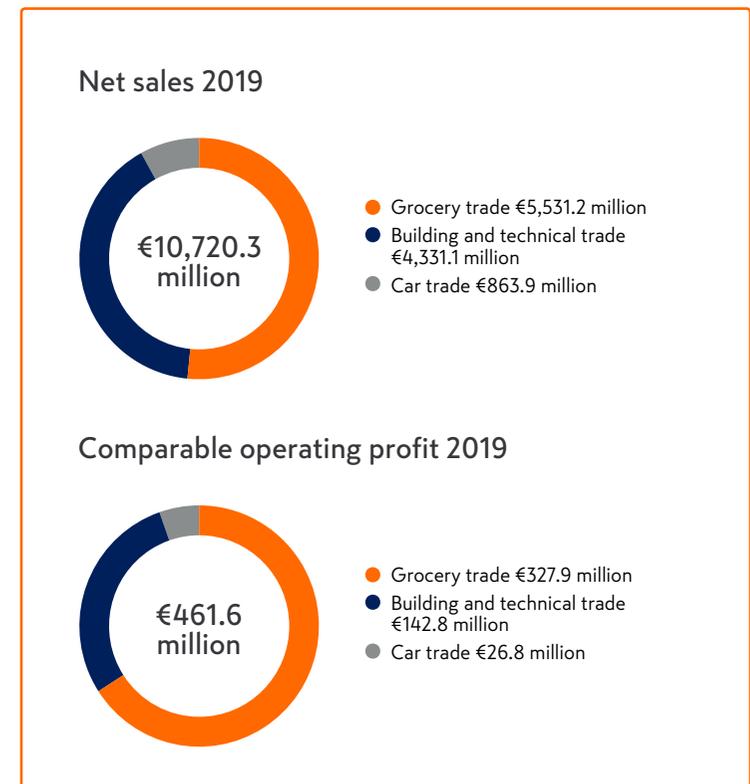
Market capitalisation €6.1 billion (31.12.2019), 41,000 shareholders

Profitable growth strategy, 3 divisions, 1,800 stores in 8 countries and extensive digital services

World's most sustainable grocery trade company (Global 100)

KEY INDICATORS

Successful execution of our growth strategy enabled us to achieve an all-time record result in 2019. Our net sales grew by 1.4% in comparable terms, and our comparable operating profit rose by €33 million. Comparable net sales and operating profit grew in the grocery trade and building and technical trade. The car trade division maintained good profit capacity despite the challenging market situation.



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

DIVISIONS IN BRIEF

Grocery trade



K Group is the second biggest grocery trade operator in Finland. A total of 913 independent K-food retailers are in charge of daily customer experiences. There are some 1,200 K-food stores in Finland, with 1.2 million daily customer visits. The K-food store chains are K-Citymarket, K-Supermarket, K-Market and Neste K. Kespro is the leading foodservice provider in Finland.

	2019	2018
Net sales, € million	5,531.2	5,385.7
Operating profit, comparable, € million	327.9	294.5
Operating margin, comparable, %	5.9	5.5
Return on capital employed, comparable, %	14.5	13.1
Capital expenditure, € million	180.8	124.1
Personnel, average	6,063	6,094

[+](#) Read more about the division and key events in 2019

Building and technical trade



The division has operations in eight countries – Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus – with a total of some 440 stores. Its chains are Onninen, which serves technical professionals, and K-Rauta, Byggnakker, K-Bygg, K-Senukai and OMA, which serve professional builders and consumers. The leisure trade chains Intersport, Budget Sport, The Athlete's Foot and Kookenkä are also part of the division with some 100 stores.

	2019	2018
Net sales, € million	4,331.1	4,102.6
Operating profit, comparable, € million	142.8	126.8
Operating margin, comparable, %	3.3	3.1
Return on capital employed, comparable, %	7.4	7.9
Capital expenditure, € million	332.7	200.7
Personnel, average	12,630	11,668

[+](#) Read more about the division and key events in 2019

Car trade



Kesko imports and sells Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars, Volkswagen Commercial Vehicles and MAN trucks in Finland, and SEAT cars in Estonia and Latvia. Kesko's retail company K-Caara and independent dealers are retailers of new and used vehicles and they offer servicing and after-sales services at 17 outlets across Finland.

	2019	2018
Net sales, € million	863.9	893.1
Operating profit, comparable, € million	26.8	35.2
Operating margin, comparable, %	3.1	3.9
Return on capital employed, comparable, %	9.5	20.8
Capital expenditure, € million	131.3	49.0
Personnel, average	1,179	835

[+](#) Read more about the division and key events in 2019

EVENTS IN 2019

JANUARY

The DIY retail business of Sørbø Trelast AS and Tau & Jørpeland Bygg AS acquired in Norway.

MARCH

Volkswagen and SEAT businesses acquired from Huittisten Laatuauto.

Volkswagen, Audi and SEAT businesses acquired from LänsiAuto.

MAY

Fresks Group acquired in Sweden. The acquisition significantly strengthens our market position among professional builders in Sweden.

JULY

Volkswagen, Audi and SEAT businesses acquired from Laakkonen Group.

SEPTEMBER

Kesko included in the Dow Jones Sustainability Indices, the DJSI World and DJSI Europe.

NOVEMBER

K-Citymarket Järvenpää named the best grocery store in the world (IGD Awards Store of the Year 2019).

Q1



Q2



Q3



Q4



JANUARY

Kesko ranks 88th on the Global 100 list, and for the fifth year in a row, is the most sustainable trading sector company in the world.

MARCH

K-Ostokset service launched; features enabling the tracking of Finnish purchases and the shopper's own carbon footprint introduced during the year.

MAY

Onninen's HEPAC contractor business divested in Sweden.

JUNE

Over 1,800 K Group employees move to Kesko's new K-Kampus headquarters.

AUGUST

Konekesko's agricultural machinery operations in Finland divested.

OCTOBER

K Group set to develop an operating model for carbon neutral grocery stores.

With 34 solar power plants, K Group is one of the biggest producers and users of solar power in Finland.

DECEMBER

All-time record result. Net sales up by 3.3%, comparable operating profit up by €33 million.

REVIEW BY THE PRESIDENT AND CEO

GROWTH STRATEGY YIELDS RECORD RESULT

2019 was a very strong year for Kesko and K Group. Our strategy of profitable growth and strong transformation has yielded results. At the core of our strategy is focusing our operations as 'One unified K' on the grocery trade in Finland, building and technical trade in Northern Europe, and car trade in Finland. Our strategic objective is to strengthen the customer experience for consumers and businesses, both in our stores and digital channels.

The record result for 2019 acts as proof of our excellent cooperation towards achieving common goals. I want to thank all Kesko employees, K-retailers and their staff, our shareholders and our partners for their valuable contributions to our success. I am particularly happy about the enthusiastic and collaborative spirit we now have at K Group. You can sense this spirit at the new K-Kampus headquarters, which has been home to some 1,800 K Group employees in the greater Helsinki area since last summer.

- Continued growth in net sales to €10,720 million. Comparable operating profit rose to a record €462 million, up by €33 million on 2018.
- Investments in growth in line with our strategy have significantly improved our profitability.
- Return on capital employed stood at 9.6% thanks to successful strategy execution.



Customer experience is at the core of everything we do

Our great success is based on the strategy established in 2015 and its successful execution. Customer-orientation drives everything we do. The cornerstones of our strategy are profitable growth, business focus, sustainability and combatting climate change, and "One unified K". The fact that trust towards K Group has significantly improved in recent years is another sign of our success.

Best grocery store in the world

Net sales for the grocery trade division grew by 2.7%, totalling €5.5 billion. The comparable operating profit for the division rose to €328 million, and its profitability stood at 5.9%, an excellent level on an international scale.

Our success in the grocery trade is founded on good customer experiences. Our sales and market share have been growing at a good pace for some time, and continued to do so also in 2019. Profitability has improved not only thanks to sales growth, but also due to more extensive utilisation of technology and improved efficiency in logistics. Strategy execution has seen customer satisfaction strengthen further. Growth also continued strong in the online sales of groceries. The good performance was also supported by increased consumer purchasing power.

At the core of our strategy are store-specific business ideas built on top of our chain concepts. I have been pleased

to see how sales have grown in those K-stores where store-specific business ideas have resulted in even better selections and services for our customers. I see significant further potential to increase sales and profit by supporting and encouraging K-retailers to implement store-specific business ideas throughout our network of 1,200 K-food stores.

I am proud that K-Citymarket Järvenpää was named the best grocery store in the world at the IGD Awards gala in London in November. This prestigious international industry recognition is a sign of our and K-retailers' bold customer-oriented transformation efforts.

Kespro's growth in foodservice wholesale continued. The strong performance was underpinned by the robustly growing trend of eating out in Finland. People are also increasingly

buying high-quality ready meals from grocery stores.

Growth continued strong in the building and technical trade

In the building and technical trade division, sales grew and profit strengthened. Net sales for the division grew by 5.6% and totalled €4.3 billion. International operations accounted for 54% of net sales. The comparable operating profit for the division rose to €143 million, supported by successful acquisitions. Digital solutions and a multichannel customer experience are very significant for the division.

We saw growth especially in Sweden following the acquisition of the Fresks chain in spring 2019, which markedly strengthened our market position in Sweden and increased the share of the growing B2B business. We renamed the chain K-Bygg and successfully integrated it. We also continued actions to strengthen our market position and profitability in Norway. The Swedish and Norwegian markets offer considerable growth potential for Kesko.

Onninen's comparable net sales grew by 3.0%. Sales and profit grew especially in Finland, the Baltics and Poland. In Sweden, we divested Onninen's HEPAC contractor business to accelerate a turnaround and to focus fully on Onninen's growing infrastructure construction business in line with our strategy.

Kesko Senukai's net sales in the Baltic countries and Belarus also grew.

Changing market in the car trade

Net sales for the car trade division decreased by 3.3%, totalling €864 million. The comparable operating profit totalled €27 million despite the market disruptions. The market continued to be challenging, but grew stronger towards the end of the year. The Finnish market began to weaken in autumn 2018 due to the implementation of WLTP emissions testing, uncertainties regarding car taxation, and debate over motive power choices. Nonetheless, our competitiveness will increase thanks to an updated range, improved availability and efficiency measures carried out.

The division's strategic objective is to grow its business in collaboration with the Volkswagen Group and to strengthen its market position in retail. In 2019, we strengthened our dealer network by acquiring Volkswagen, Audi and SEAT businesses from Laakkonen Group, Huittisten Laatuauto and LänsiAuto.

We held a 16.9% market share in passenger cars and vans, and with our extensive brand portfolio, we are the market leader in Finland. Demand was particularly strong for electric cars: for example, pre-orders for the all-electric SEAT Mii electric were record-high. We want to offer our customers the full driving value chain and reduce the stress of car ownership by offering e.g. private and corporate leasing products and car sharing services.

Sustainability forms the foundation for our operations

In January 2020, we were once again ranked as the most sustainable grocery trade company in the world. This is thanks to years of effort. We engage in long-term, tangible corporate responsibility efforts on many fronts. Key issues include transparency in sourcing, mitigating climate change and environmental care, as well as creating welfare extensively throughout the society. In spring 2019, our Board of Directors made sustainability and combatting climate change a focus area for Kesko's strategy.

As a trading sector company, we have a unique opportunity and the responsibility to enable sustainable lifestyles for our customers. This means, for example, transparently disclosing the origin and carbon footprint of products we purchase, thus offering customers in K-stores the chance to make sustainable choices.

The key issue is how visible and tangible sustainability is in K Group's 1,800 stores. One example of our efforts is the Cursing Carbon campaign in Finland, designed to spur us and our customers towards more climate friendly choices.

Besides financial factors, investors increasingly take into account aspects related to the environment, social responsibility, and corporate governance (ESG) when making investment decisions. Kesko is again included in prestigious global sustainability indices, such as the DJSI World and DJSI Europe. In October 2019, we made financing agreements totalling €700 million where the interest margin will increase or decrease depending on our ability to meet set sustainability targets.

Kesko has been included on the Global 100 Most Sustainable Companies in the World list for 16 years straight. Kesko was the only company from the Food and Beverage Retail sector to be included on the list in 2020.

Our transformation continues

The rapid changes in the trading sector present us with great opportunities. We will continue the determined execution of our strategy, building 'One unified K' and further developing our customer-oriented operating model. Only through transformation and constant development of our operations can we take K Group to the next level. I see plenty of untapped potential to increase our sales further by improving customer experiences and working more efficiently. Our good profit ability and strong financial position enable both investments and good dividend capacity. Kesko's Board proposes a dividend of €2.52 per share to the Annual General Meeting. The combined market capitalisation of Kesko's A and B series shares at the end of December 2019 was over €6 billion.

This is an important anniversary year for us. Kesko was born when four regional wholesaling companies merged in October 1940. We will celebrate our 80th anniversary throughout the year both within K Group as well as with our stakeholders.



Mikko Helander
President and CEO

MEGATRENDS AFFECTING OUR OPERATIONS

The trading sector is affected by various global megatrends. By identifying the trends that affect K Group's operations, we strive to anticipate future challenges and opportunities.

Megatrends

GLOBALISATION

- Urbanisation
- Global supply
- Intensifying price competition

CLIMATE CHANGE

- Sustainable lifestyles: the carbon footprint of food, living and mobility
- Renewable energy, cutting emissions and carbon neutrality
- Circular economy solutions
- Minimising food waste

DIGITALISATION

- Growth in international and Finnish online trade
- Seamless multichannel customer experience
- Customer services that utilise customer data and artificial intelligence
- Targeted marketing

INCREASED CUSTOMER KNOWLEDGE AND POWER

- Customers seek information as the basis for their choices
- Customers want to impact selections
- Peer experiences have a big impact on choices

SUSTAINABILITY AND CONSCIENTIOUS CONSUMPTION

- Responsible operating principles
- Open dialogue with stakeholders
- Transparency of purchasing chains
- Strong brands
- Responsible investment

INDIVIDUAL CUSTOMER BEHAVIOUR

- Customers value convenience and quality
- Changes in purchasing habits, individualisation
- Customers want to optimise their consumption choices



STRATEGY AND OBJECTIVES

In line with its strategy, Kesko is a focused company that concentrates on growth and profitability improvement in three strategic areas: the grocery trade, building and technical trade, and car trade. Concentration enables the efficient allocation of capital to increase shareholder value. Quality and customer orientation are increasingly important strategic focus areas. In 2019, we made combatting climate change a strategic focus area alongside sustainability.

Our strategy, established in 2015, aims for profitable growth through stronger business focus and transformation. The fast-paced changes in the trading sector present us with great opportunities.

Our businesses – the grocery trade, building and technical trade, and car trade – are areas in which we have strong market positions and the best capabilities and long-term development potential. We use quality and customer orientation to differentiate ourselves from the competition, from store services to digital services.

‘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.

We continue to execute our strategy



Successful growth strategy execution

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. Our strategic investments in remodelling stores in all chains and store-specific business ideas tailored to each local customer base strengthened K Group's sales and customer satisfaction. K-retail entrepreneurs guarantee customer orientation and quality in our store network, which is the most extensive in Finland.

Strong growth continued in the online sales of groceries. In 2019, online grocery sales grew by 106%, and related net sales totalled €36.2 million. We thus exceeded the target for 100% growth set for the year. The growth in online sales supports the sales of our physical stores, as our most active online customers are also loyal customers for the brick and mortar stores.

Megatrends such as urbanisation, population ageing and increasingly individual customer behaviour support the strengthening of neighbourhood services. K Group holds a nearly 60% share of the neighbourhood market, with a network of 777 K-Market stores.

Growing Kespro's foodservice business is another strategic focus area, supported by the growing trend of eating out.

In the building and technical trade, we seek an even stronger position in Northern Europe, and strive to better address the expectations and particular local needs of each customer segment. Each operating country has its

own customer-oriented strategy. The division's customer segments are technical professionals, professional builders, and consumers. We seek synergies both within and between the operating countries. In line with our strategy, we seek growth both organically and through targeted acquisitions.

In spring 2019, we carried out the acquisition of Fresks Group to strengthen our market position in Sweden. During the summer, Fresks was integrated into our Swedish operations under the new name K-Bygg. We divested Onninen's HEPAC contractor business, and Onninen in Sweden will now concentrate on the Infra business, where we have a strong position on the growing market. In Norway, we completed the acquisition of Sørbo's DIY retail business first agreed in 2018. Together with the acquisitions made in 2018, this strengthens our own business in Norway. These acquisitions and operational changes have strengthened our market share and operating profit in Sweden and Norway.

B2B trade now accounts for 70% of the division's sales. Building and renovation are becoming more technical and increasingly outsourced to professionals. The need for renovation building is also growing in Northern Europe. Onninen and the acquisition of Fresks in particular have strengthened our position in the growing B2B segment.

New digital services and online sales are a significant part of the customer journey and more efficient operations. For B2B customers, digital services primarily provide an efficient order channel. Consumers compare and seek information on products online, yet still usually get

professional advice on choosing and using the products at the store.

In the car trade, our objective is to grow our market-leading position in Finland through close partnership with the Volkswagen Group and to strengthen our own service business and market position in retail. Our goal is to outgrow the market and improve profitability.

We strengthened our dealer network with three significant acquisitions in 2019. Their integration has proceeded well, supporting our profitable growth. During the year, K-Auto began importing Bentley and opened a Bentley showroom in Espoo.

In addition to traditional car sales and servicing operations, we continued to strengthen our service business, and began offering leasing services to both consumers and businesses. The whole car sector and the concept of mobility are rapidly changing, and we need to be constantly developing our operating models, services and technologies.

We expect the sales of electric cars to grow in upcoming years, and support the trend by expanding our K Charge network.

Sustainable choices for our customers

Kesko has been ranked as the most sustainable grocery trade company in the world multiple times. Our key issues include transparency in sourcing, mitigating climate change and environmental care, and extensive value creation throughout the society. We want to become an even more active member of society and engage in public discussion.

We want to enable a sustainable lifestyle for our customers, and offer a multitude of sustainable alternatives in different areas. Our customers must always be able to trust that K-stores enable them to make responsible choices.

We are committed to international climate summit goals on mitigating global warming, and have set Science Based Targets for emissions from our operations and supply chain. 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

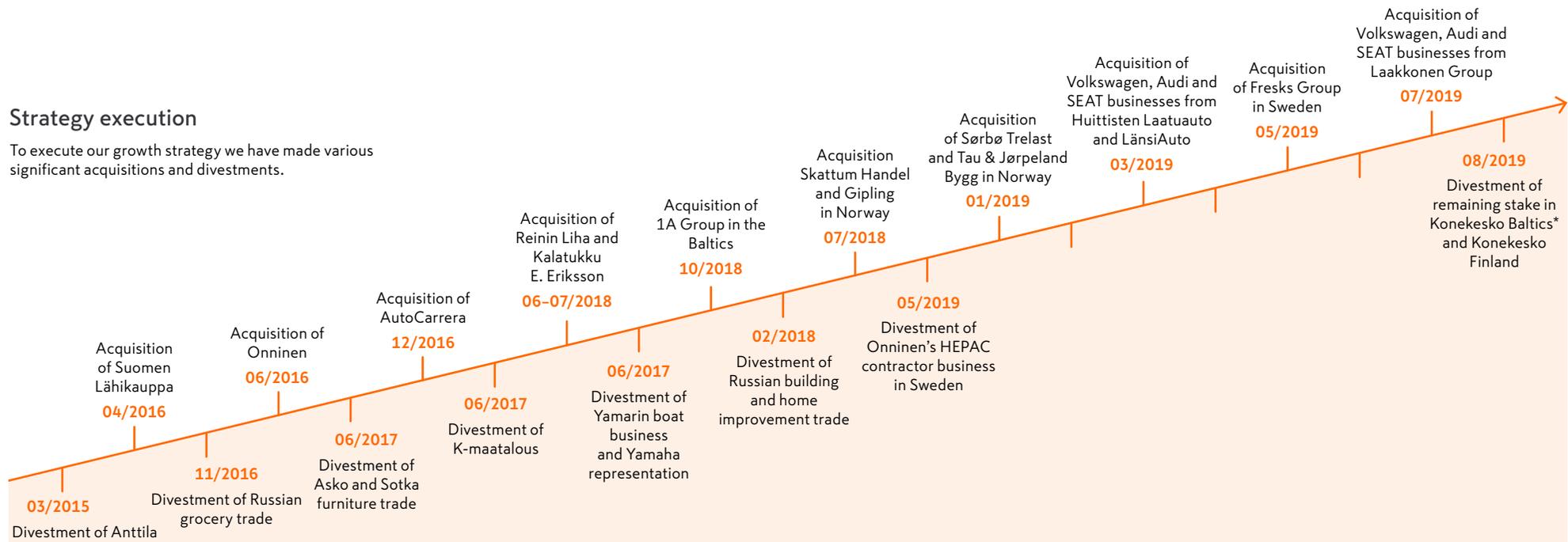
generated with renewable energy, and we are one of the biggest producers and users of solar power in the country with 34 solar power plants.

In October, we made financing agreements totalling €700 million, where the interest margin will increase or decrease depending on our ability to meet the sustainability targets set for our carbon footprint, food waste, and audits in high-risk countries. These also support Kesko's sustainability strategy and Science Based Targets.

As a sign of our long-term commitment to corporate responsibility, Kesko is included in the prestigious Dow Jones Sustainability Indices the DJSI World and DJSI Europe. Kesko ranked 99th on the Global 100 Most Sustainable Corporations in the World list published in January 2020.

Strategy execution

To execute our growth strategy we have made various significant acquisitions and divestments.



*Agreement signed, waiting for completion

OPPORTUNITIES AND RISKS IN OUR OPERATING ENVIRONMENT

	OPPORTUNITIES	RISKS
<p>Economic operating environment Our three strategic growth areas are the grocery trade, building and technical trade, and car trade. In terms of growth, it is crucial that we increase our market share in the Finnish grocery trade, grow our building and technical trade in Northern Europe, strengthen our market leadership in the Finnish car trade, and develop digital services.</p>	<ul style="list-style-type: none"> • Customer orientation, quality and competitive prices lend us a competitive advantage. • In Finland, retailer entrepreneurs enable agile operations. • Our strong financial position provides excellent opportunities for growth and operational development. • Responding to the needs of different customer groups utilising customer data and analytics. 	<ul style="list-style-type: none"> • Rapid changes in the market and customer behaviour could affect our growth potential and profitability. • Cyclical fluctuations and tightened competition could weaken business profitability. • Failure to deliver on quality and service would result in poorer customer experience. • Misjudged acquisitions and failure to integrate could result in financial losses.
<p>Climate change The impacts of climate change are twofold:</p> <ul style="list-style-type: none"> • The impacts of climate change on Kesko are related to increased regulation and extreme weather phenomena. • The impacts of Kesko's operations on the climate are related to the lifecycle impact of products and services sold and energy solutions and emissions. 	<p>All Kesko divisions can offer customers solutions that help them reduce their climate impact, as living, food and mobility are the biggest sources of greenhouse gases in private consumption.</p> <ul style="list-style-type: none"> • New business models related to mobility • Climate responsible products • Increased energy efficiency • Promoting circular economy 	<p>Transition risks</p> <ul style="list-style-type: none"> • Increasing regulation necessitates changes in business operations and leads to additional costs. • In the long term, changes in consumer behaviour require changes to business models. <p>Physical risks</p> <ul style="list-style-type: none"> • Increase in extreme weather phenomena can impact product availability and cause disturbances in logistics and the store site network. <p>Climate impacts</p> <ul style="list-style-type: none"> • Life cycle impact of products and services sold on climate change. • Emissions resulting from energy solutions and energy consumption.
<p>Social responsibility and human rights in the purchasing chain Our objective is to provide our customers with more information on the origin, production conditions and environmental impacts of products offered.</p>	<ul style="list-style-type: none"> • By cooperating with goods and service suppliers who share our operating principles, we improve transparency and promote responsibility in the whole supply chain. • Our efforts to improve responsibility in the supply chain and product safety increase stakeholder trust in us. 	<ul style="list-style-type: none"> • Irregularities in the management of social or environmental responsibility in the purchasing chain could result in human rights violations, environmental damage, financial losses, and loss of stakeholder trust and negatively affect our corporate responsibility work and its credibility. • A failure in product safety control or supply chain quality assurance could result in financial losses, loss of customer trust, or, in the worst case, a health hazard to customers.
<p>Digital services and management by information As our strategy states, we aim to offer our customers the best digital services in the trading sector.</p>	<ul style="list-style-type: none"> • We use customer data and research to develop a more personalised customer experience and store-specific business ideas. • We offer a seamless customer experience in all channels by utilising artificial intelligence, data analytics and service design. • By combining online sales and digital services with our extensive store site network, we enable excellent customer service in K Group. 	<ul style="list-style-type: none"> • Challenges related to the profitability of online commerce include the efficiency of logistics operating models and the adaptability of existing store sites to the logistics of online commerce. • Cyber threats directed at digital services and information systems increase risks related to business continuity and customer data management. • The constant evolution of online commerce and digital services presents special challenges to the fast development and integration of new services into existing operating models and systems.

FINANCIAL TARGETS

We are moving strongly towards our financial targets and a better return on capital through growth, increased profitability, synergies and better working capital efficiency. In addition to growth, we continue to focus on improving 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 capacity. Between 2015 and 2019, we invested €2.4 billion in business operations and acquisitions, and divested some €1.0 billion worth of non-strategic business operations and real estate.

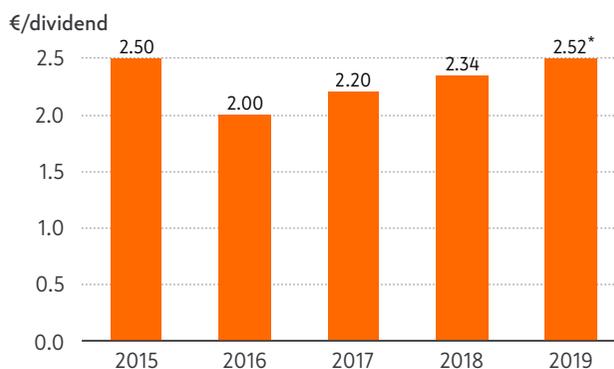
Organic investments were at their highest in 2017, and are planned to come down in upcoming years to an annual level of €200-250 million. Investments in store sites will decrease, while investments in digitalisation will increase. In future acquisitions, we will seek economies of scale and improved competitiveness,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

In spring 2019, Kesko's Board of Directors approved new medium-term financial targets for the Group. The financial targets for profitability are a comparable operating margin of 5.0% and a comparable return on capital employed of 11.0%. The profitability targets take into account the impacts of IFRS 16 Leases. In terms of financial position, as before, the Group uses interest-bearing net debt/EBITDA and targets a maximum level of 2.5, excluding the impact of IFRS 16.

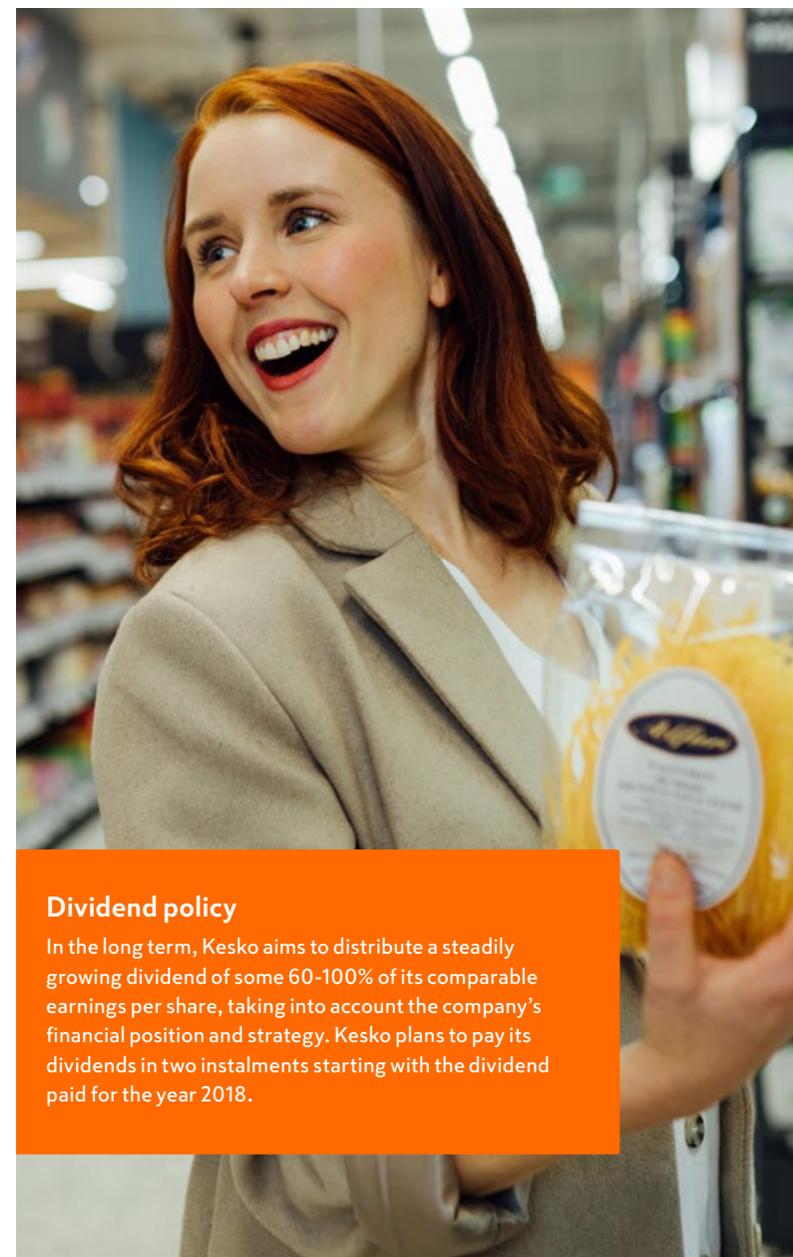
Financial targets

Indicator	Target	Level achieved in 2019
Comparable operating margin, %	5.0	4.3
Comparable return on capital employed, %	11.0	9.6
Interest-bearing net debt/EBITDA, excluding the impact of IFRS 16	2.5	0.9

Dividend history 2014–2019



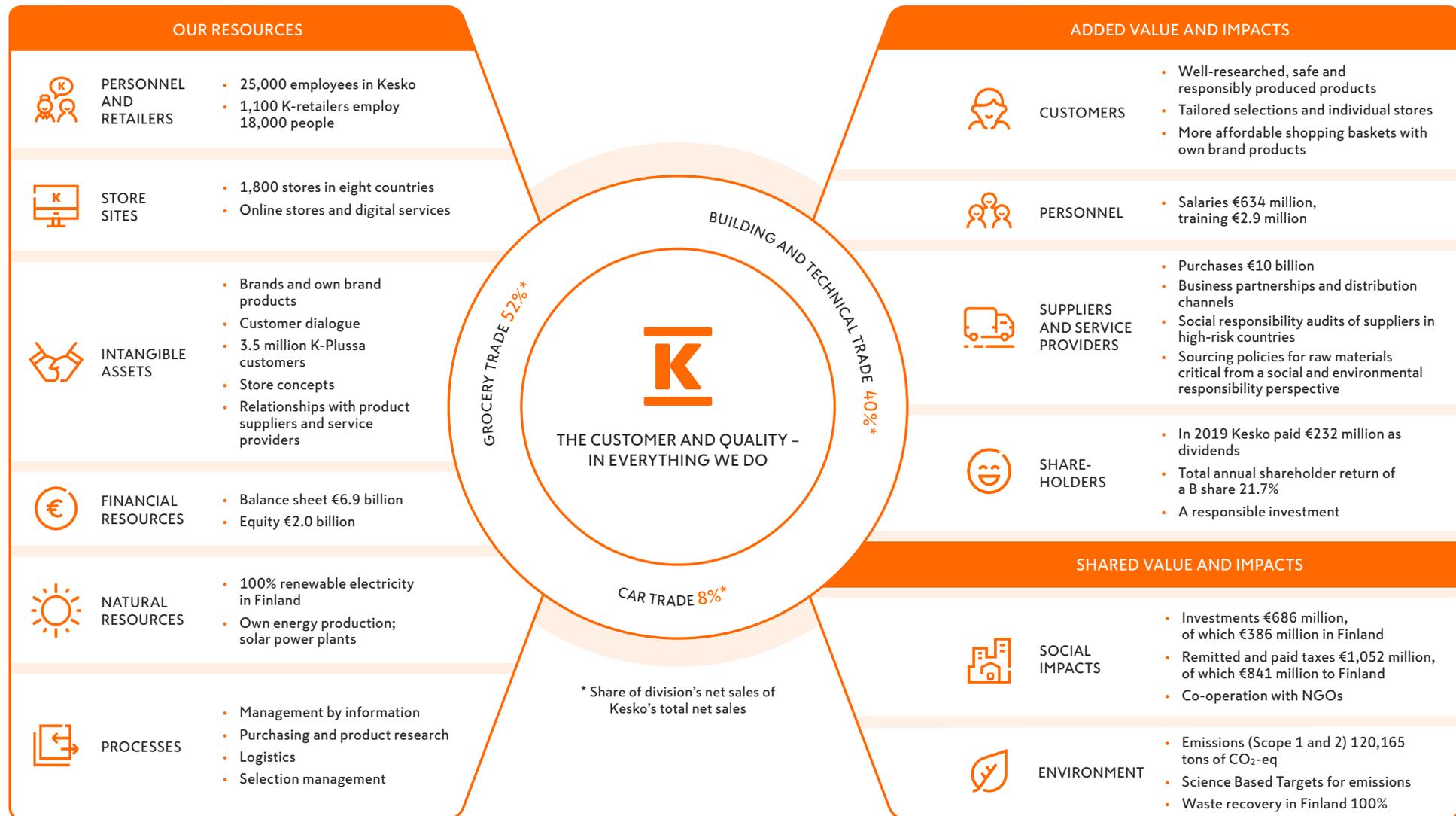
*Proposal to the Annual General Meeting



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.

RESPONSIBLE VALUE CREATION FOR THE WHOLE SOCIETY



A YEAR OF STRONG GROWTH IN THE GROCERY TRADE

The strategy for the grocery trade division is to increase sales and profitability in a changing market with a customer-oriented approach. Our sales, market share and profitability continued to strengthen, with marked improvement in customer satisfaction. Strong growth also continued in Kespro.



Ari Akseli
President,
grocery trade division

“

Our strategy in the changing market is working. In 2019, customer satisfaction grew in all our grocery store chains and our market share increased. Store-specific business ideas have proven the right strategic choice and have now been implemented in nearly all our stores. The popularity of online grocery sales grew forcefully and customer numbers doubled. As part of our corporate responsibility work, we offered our customers the chance to track their carbon footprint and level of Finnish purchases.



Customer satisfaction and market share strengthened further

K Group is a strong forerunner in the changing Finnish grocery trade market. We focus on responsible high-quality selections, convenience in shopping, multichannel service and individuality, as well as price levels. Based on customer data, we have introduced new services that best suit the needs of each store's customers. Our strategic choices have proven correct, and customer satisfaction grew year-on-year in all our grocery store chains.

K Group is the second biggest grocery trade operator in Finland, with a market share of 36.7%* (2018: 36.1%). We gained market share in all chains. In 2019, we opened one K-Citymarket (replacement new building), two K-Supermarkets and 14 K-Markets (five replacement new buildings). We have redesigned all our chain brands and remodelled almost our entire store network, not forgetting digital channels. During the year, we invested €94 million in remodelling the network: nearly 100% of our grocery stores and Neste K stations have now been rebranded. We extended opening hours, and 15 stores now serve customers 24/7.

Growth continued in online sales of groceries

The online sales of groceries grew by 106% in 2019, totalling €36.2 million. Around 230 K-food stores now offer online purchasing. Customer numbers have doubled

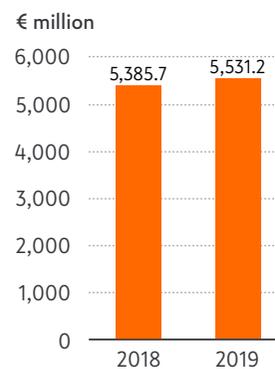
* Kesko's own estimate, based on Nielsen's peer group

and satisfaction among online customers is very high. Our digital services are also growing strongly: K-Ruoka is the biggest food media in Finland with 2.4 million weekly visitors at the K-Ruoka.fi website and the K-Ruoka mobile app. The app has over 700,000 registered users, and the number grew by 100,000 in 2019.

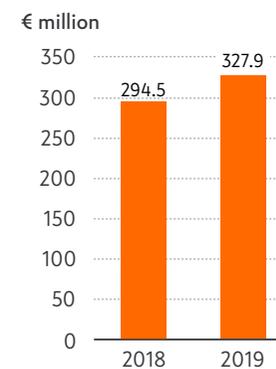
We develop retailer entrepreneurship as a competitive advantage

Our grocery store business is heavily based on retailer entrepreneurship. K-food retailers are pioneers in modernising Finnish grocery store selections. Based on their own store-specific business ideas, they handle selections, customer service, staff skills, product quality and business profitability in their stores. We have made management

Net sales



Operating profit*



*Comparable

PIRKKA IS THE BEST KNOWN STORE BRAND

The share of retail sales of own brand products of grocery trade retail sales was approximately 18%. Own brand products play a significant role in ensuring versatility in selections. They also offer small producers a pathway to K-food store selections nationwide.

- Some 2,800 Pirkka products in total; 265 new products launched
- Nearly 250 Pirkka Parhaat premium products
- Nearly 200 Pirkka Luomu organic products
- Some 300 K-Menu products

BEST GROCERY STORE IN THE WORLD

The implementation of store-specific business ideas has proven the right strategic choice. As proof, K-Citymarket Järvenpää was named Store of the Year 2019 at the IGD Awards, a prestigious international industry recognition.

SUSTAINABILITY

We introduced a carbon footprint calculator for our customers as part of the K-Ostokset service, which also allows people to track how much local Finnish products they are buying.

By the end of 2019, we had accumulated some €3 million in total to Finnish food producers with our 'Thank the Producer' operating model. We will double the number of Thank the Producer products in 2020.

We are creating an operating model for a carbon neutral grocery store together with the Natural Resources Institute Finland (Luke). We are currently piloting the model and will expand it in 2020.

by information an integral part of the stores' operations, and support K-retailers in creating their own store-specific business ideas based on customer data. Customer satisfaction has improved significantly in stores that have adopted the model. We see plenty of potential to improve

sales and profit by creating store-specific business ideas for all 1,200 K-food stores.

Over 550 K-food stores and 225 retailers now operate under the multi-store model, in which one K-retailer has

multiple stores. The model has proven successful and will continue to be expanded. In 2019, 44 people began their careers as new K-food retailers.

The strategy for the grocery trade division is to increase sales and profitability in a changing market with a customer-oriented approach

We aim to significantly grow Kespro's business

Kespro is the leading foodservice wholesale company in Finland and acts as a partner for its customer businesses, municipalities and other public operators. Kespro offers a diverse range of tailored procurement solutions as well as delivery and collection services on the basis of extensive customer data. The specialty fish and meat wholesalers Kalatukku E. Eriksson and Reinin Liha are part of Kespro. Kespro has 14 cash & carry outlets in Finland. During the year, we remodelled the outlet in Lahti, and established Kespro's third Foodsteri product development kitchen. The Foodsteri in Helsinki is the most modern product development kitchen in the country, and is located at the new K-Kampus headquarters.

Kespro's net sales continued to grow in 2019, with all-time high sales.

<p>BUSINESS ENVIRONMENT</p> <ul style="list-style-type: none"> • Digital is a basic requirement • Hybrid and polarised consumption set to grow stronger • Significant demographic changes • Emphasised importance of climate change and environmental consciousness • Operations and concepts must be responsible and sustainable 	<p>STRATEGIC OBJECTIVE ></p>	<p>WHAT WE ARE DOING</p>
	<p>The most customer-oriented and inspiring food stores with store-specific business ideas</p>	<ul style="list-style-type: none"> • Further sharpening store-specific business ideas • Improved food solutions • Developing digital solutions and services
	<p>Profitable development and redesign of the store network</p>	<ul style="list-style-type: none"> • Brand and concept redesigns
	<p>A seamless omni-channel customer experience</p>	<ul style="list-style-type: none"> • Expanding the online sales network and increasing sales • Updating the K-Ruoka mobile application • Implementing personalised customer communications
	<p>Good price competitiveness</p>	<ul style="list-style-type: none"> • Developing selections • Utilising synergies • Own brands
	<p>Developing retailer entrepreneurship as a competitive advantage</p>	<ul style="list-style-type: none"> • Strengthening the good reputation of K-retailership as a career • More extensive implementation of store-specific business ideas • Developing tools for management by information
	<p>Significant growth in the foodservice business</p>	<ul style="list-style-type: none"> • Increasing sales and profitability • Developing services and concepts

Grocery trade in figures

Retail sales and number of stores	Number of stores		Sales (VAT 0%) (pro forma), € million	
	2019	2018	2019	Change, %
K-Citymarket, food	81	81	1,711.3	5.4
K-Citymarket, non-food	81	81	586.5	0.5
K-Supermarket	243	244	2,051.3	4.1
K-Market	777	782	1,863.7	2.1
Neste K	73	72	130.9	-1.2
Others	78	80	43.6	5.9
Total	1,252	1,259	6,387.3	3.4
Kespro	-	-	944.3	7.6
Grocery trade, total	1,252	1,259	7,331.5	3.9

In addition, several K-food stores offer e-commerce services to their customers.

Key figures	2019	2018
Net sales, € million	5,531.2	5,385.7
Operating profit, comparable, € million	327.9	294.5
Operating margin, comparable	5.9	5.5
Return on capital employed, comparable, %, rolling 12 months	14.5	13.1
Capital expenditure, € million	180.8	124.1
Personnel, average	6,063	6,094

Properties	2019	2018
Owned properties, capital, € million	763	658
Owned properties, area, 1,000 m ²	516	433
Leased properties, lease liabilities, € million	1,495	1,512
Leased properties, area, 1,000 m ²	1,520	1,581

Markets

In 2019, the Finnish grocery trade market was worth approximately €18.6 billion (incl. VAT), representing a growth of some 2% (Kesko's own estimate). The overall market growth was impacted by e.g. continued good consumer purchasing power and a rise in prices, over one-third of which was attributable to increases in alcohol and tobacco taxes. Price competition in the Finnish grocery trade market has continued to be intense. However, consumers also increasingly value local food, sustainability, healthiness and quality.

Market shares

Food trade

The market share in Finland is 36.7% (Kesko's own estimate, based on Nielsen's new peer group which includes discount stores and service stations as well as grocery stores).

Competitors: Prisma, S-market, Alepa/Sale and Food Market Herkku (S-Group), ABC, Lidl, Tokmanni, Minimani, Halpa-Halli and M-chain stores.

K-Citymarket's home and speciality goods trade

Market share cannot be reliably calculated.

Competitors: hypermarkets, department stores, discounters, specialist chains and online stores.

Foodservice Kespro, Finland

The market share is estimated to have strengthened to 42.2% (in the Finnish Grocery Trade Association's foodservice wholesale peer group).

Competitors: Meira Nova, Metro-tukku, Heinon Tukku, Suomen Palvelutukkurit.

PROFITABILITY IMPROVED IN THE BUILDING AND TECHNICAL TRADE

The strategic objective for the building and technical trade division is an even stronger position in Northern Europe. To ensure a solid foundation for the execution of our international growth strategy, in 2019 we concentrated on improving profitability through organic growth and acquisitions.



Jorma Rauhala

President, building and
technical trade division,
Deputy CEO

“

In 2019, we continued the execution of country-specific strategies, with marked improvement in our profitability. Our strategy acknowledges the differing needs of our three customer segments, and we seek synergies both within and between our operating countries. We continued to improve operational efficiency and implemented our growth strategy with targeted acquisitions in Norway and Sweden. The integration of the Fresks acquisition and the consequent adoption of the K-Bygg brand have been a success.



Execution of country-specific strategies continued with good results

K Group's building and technical trade division is the leading operator in Northern Europe. In 2019, we continued to execute our country-specific strategies, and the division's profitability improved markedly. Our strategy execution takes account of our three customer segments – consumers, professional builders, and technical professionals – and their distinctive needs. We have also sought synergies within and between the operating countries in areas such as concept and own brand development. In 2019, we continued targeted acquisitions in line with our strategy in Sweden and Norway, and the integration of previously acquired businesses.

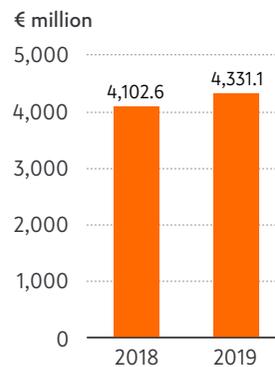
K-Rauta and Onninen continued as market leaders in Finland

Sales growth in K-Rauta in Finland outpaced the market and its market share totalled 42%, with marked improvement in profitability as well. Well-performing B2B trade has been established alongside strong consumer business. We are improving customer service and customer experience and maintaining sales growth with store-specific business ideas, online sales and extended opening hours. Store-specific business ideas have proven successful in the grocery trade, and we have begun implementing them also in K-Rauta. Management by information enables selections and services that meet the specific needs of each store's customer base.

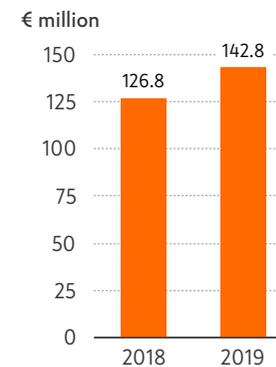
*Reader's Digest Trusted Brand survey

Onninen has been a success as part of Kesko, and has given us a strong foothold in technical wholesale. Onninen's net sales improved and operating profit grew significantly in 2019, and its market-leading position in Finland strengthened, with a market share of 38%. The market and growth outlook for technical wholesale and Onninen are good in Finland and elsewhere in Northern Europe. In the leisure trade, the sales development for Intersport and Budget Sport was in line with the market, with strong profit performance. Profitability improved for The Athlete's Foot. The Intersport and Kookenkä chains kept their positions as the most trusted brands in their respective fields in Finland*.

Net sales



Operating profit*



*Comparable

ACQUISITIONS SUPPORT OUR STRATEGY

The building and technical trade division has been undergoing a major transformation in recent years. We have used acquisitions to expand on the Nordic and Baltic markets. In 2019, the most significant acquisition was Fresks Group in Sweden, which made us one of the leading building and home improvement store operators in the country. The stores now serve customers under the K-Bygg brand.

We have actively concentrated the division's operations in recent years, divesting non-core operations such as the furniture and the agricultural machinery trade businesses.

SUSTAINABILITY

According to K Group's timber and paper policy, by the year 2025, 100% of the wood and paper products in Kesko's range will be of sustainable origin, either FSC or PEFC certified or recycled material.

K-Rauta focuses in particular on the sustainability of wood, and is committed to increasing the number of PEFC-certified products in its selections. K-Rauta stores in Finland offer e.g. PEFC-certified construction timber, panels and terrace boards. PEFC certificates in K-Rauta Finland's selections cover spruce and pine timber and wood products manufactured from those. The selections also include other wood-based yard and garden products with a PEFC certificate.

Profitability improved in Sweden

Sweden has the biggest building and technical trade market of our operating countries. In spring 2019, we carried out the acquisition of Fresks, which strengthened our market position. The integration of Fresks and adoption of the new K-Bygg brand have been a success. We now more distinctly serve three customer segments: K-rauta consumers, K-Bygg B2B customers, and Onninen Infra customers.

We divested Onninen's HEPAC contractor business to accelerate the turnaround in Sweden. Onninen in Sweden will now concentrate on the Infra business, where it has a strong position on the growing market. The acquisitions and divestments and operational changes have resulted in a turnaround in profitability and we expect to see synergies in 2020. We see strong further growth potential in Sweden.

In Norway, we concluded the acquisition of Sørnbø's DIY retail business as agreed in 2018. Following the acquisitions in 2018 and 2019, we now operate over half of all Bygghjelp stores. This enables further operational development and better profitability. We have also managed to turn around Onninen's sales in Norway. We see significant growth potential in Norway in the long term.

An even stronger position in building and technical trade in Northern Europe as our strategic objective

BUSINESS ENVIRONMENT	STRATEGIC OBJECTIVE >	WHAT WE ARE DOING
<ul style="list-style-type: none"> Market consolidation Outsourcing of construction to professionals Growth in renovation building 	Country focus, with country-specific strategic actions	<ul style="list-style-type: none"> Finland: Focusing on fully utilising the potential provided by our market-leading position and constantly improving customer experience by expanding Onninen's services and focusing on implementing store-specific business ideas in K-Rauta; actively developing multichannel business in the leisure trade Norway: Seeking growth in sales and profitability by developing Bygghjelp's business Sweden: Continuing measures to improve profitability; utilising synergies from acquisitions and serving our three customer segments comprehensively The Baltics and Belarus: Focusing on growing and redesigning the store network Poland: Systematically developing the business
<ul style="list-style-type: none"> Non-traditional players entering the market 	Serving three different customer segments according to their specific customer needs	<ul style="list-style-type: none"> Continuing digital channel development by customer segment Striving for the best customer experience in all channels
<ul style="list-style-type: none"> Digital becoming increasingly important for the customer journey 	Seeking synergies	<ul style="list-style-type: none"> Actively seeking synergies within operating countries in e.g. logistics and support functions, and between the countries in e.g. in sourcing, digital services and concept development Utilising synergies obtained from integrating acquisitions
	Organic growth and profitability improvement	<ul style="list-style-type: none"> Continuing systematic actions to support growth and profitability improvement Increasing the role of our own brand products
	Targeted acquisitions	<ul style="list-style-type: none"> Continuing acquisitions in selected markets and segments

Good profit development in the Baltics and Poland

In the Baltics, Kesko Senukai's sales growth was very strong, especially in Latvia. Store redesigns have brought good results and we have invested in network and concept development. Onninen's performance in the Baltics was good. OMA in Belarus also performed strongly in terms of both sales and profit.

In Poland, Onninen's good profit performance continues, and we have strengthened our position in technical wholesale.

We agreed to sell our remaining stake in the Baltic machinery trade subsidiaries and Konekesko Finland's agricultural machinery trade operations in 2018, and completed the latter divestment in 2019.

Strong sales growth online

Our ambition is to offer an effective combination of online sales, electronic services, professional sales and comprehensive store network to best suit the needs of each of our customer segments. In 2019, we developed logistics for the K-rauta.fi online store in Finland, offering new delivery options to consumers. Reception was positive and online sales in Finland grew by 80%. Onninen's digital sales in Finland also developed well and grew by 10%.

Building and technical trade in figures

Retail sales and number of stores	Number of stores		Sales (VAT 0%) (pro forma), € million	
	2019	2018	2019	Change, %
K-Rauta and Rautia	131	135	1,075.1	1.9
Rautakesko B2B Service	-	-	255.5	-2.4
Onninen, Finland	57	56	926.6	3.3
Leisure trade, Finland	107	109	283.5	-0.2
Finland, total	295	300	2,540.7	1.7
K-Rauta, Sweden	18	18	164.3	-6.3
K-Bygg, Sweden	34	-	204.4	-2.3
Onninen, Sweden	-	13	99.4	17.7
Byggmakker, Norway	63	65	485.6	-6.6
Onninen, Norway	18	25	258.1	-5.1
Kesko Senukai, Baltic countries	42	40	723.1	12.6
Onninen, Baltic countries	17	15	85.4	10.5
Machinery trade, Baltic countries	-	-	131.4	-10.4
OMA, Belarus	17	17	146.6	14.4
Onninen, Poland	36	36	283.3	-0.8
Other countries, total	245	229	2,536.5	1.6
Building and technical trade, total	540	529	5,077.2	1.7

In addition, building and technical trade stores offer e-commerce services to their customers. Two Onninen stores in Finland operate in the same store premises with K-Rauta.

Key figures	2019	2018
Net sales, € million	4,331.1	4,102.6
Building and technical trade excl. speciality goods trade	3,984.5	3,728.0
Speciality goods trade	346.7	374.6
Operating profit, comparable, € million	142.8	126.8
Building and technical trade excl. speciality goods trade	133.3	117.5
Speciality goods trade	9.5	9.3
Operating margin, comparable, %	3.3	3.1
Building and technical trade excl. speciality goods trade	3.3	3.2
Speciality goods trade	2.7	2.5
Return on capital employed, comparable, %, rolling 12 months	7.4	7.9
Capital expenditure, € million	332.7	200.7
Personnel, average	12,630	11,668
Properties	2019	2018
Owned properties, capital, € million	222	169
Owned properties, area, 1,000 m ²	298	235
Leased properties, lease liabilities, € million	758	748
Leased properties, area, 1,000 m ²	1,253	1,169

Markets and market shares 2019

Market by country, along with the improvement from the previous year (retail trade, VAT 0%), market shares and main competitors.

Building and home improvement trade

Market area	Market size and change	Market share	Main competitors
Finland	€3.2 bn (-0.6%), (RaSi ry, Finnish Hardware Association, DIY)	43% (RaSi ry, Finnish Hardware Association, DIY)	STARK, S-Group, Bauhaus
Sweden	€4.8 bn (+3.0%) (Byggmaterialhandlarna and Kesko's own estimate)	8%*	Beijer, XL Bygg, Optimera, Woody, Bauhaus, Byggmax, Bolist
Norway	€5.0 bn (+1.0%), (Virke, Kesko's own estimate)	10%*	Optimera, Mestergruppen, Coop, Maxbo
Estonia	€0.6 bn (+5.5%)**	19%**	Espak, Bauhof
Latvia	€0.6 bn (+0.9%)**	17%**	Depo, Kursi
Lithuania	€1.1 bn (+5.9%)**	36%**	Ermitazas, Moki-Vezi, Depo
Belarus	€1.4 bn (+9.1%)*	11%*	Mile, Materik, Praktik

*Kesko's own estimate **K-Senukai's selection, Kesko's own estimate

Onninen

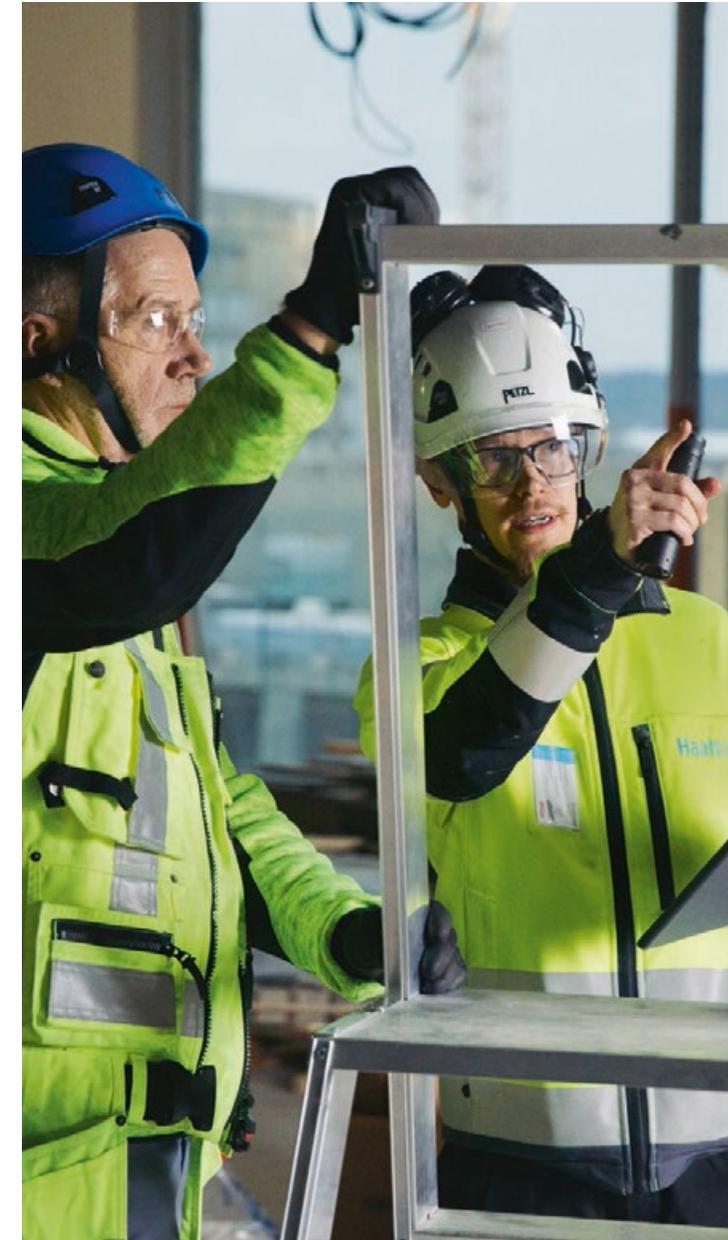
Market area	Market size and change	Market share	Main competitors
Finland	€2.2 bn (+1.1%), (STK, Talteka)	38% (STK, Talteka)	Dahl, Ahlsell, SLO, Rexel
Sweden	€2.1 bn (+3.1%), (SEG, electrotechnical trade)	5% (SEG)	Dahl, Ahlsell, Elektroskandia, Rexel
Norway	€1.4 bn (+3.0%), (EFO, electrotechnical trade)	17% (EFO)	Elektroskandia, Solar, Ahlsell, Berggård Amundsen, Otra
Poland	€5.1 bn (+3.0%)*	5%*	GC Group (BIMs, HTI, Hydrosolar), Grudnik, TIM, Kaczmarek, Alfa Elektro, Grodno
Estonia	€0.4 bn (+8.6%)*	11%*	FEB (Ahlsell), W.E.G (Würth), Dahl, Esvika, SLO
Latvia	€0.4 bn (+11.5%)*	5%*	Sanistal, EVA-SAT, Energokomplekss, SLO
Lithuania	€0.6 bn (+5.4%)*	3%*	Sanistal, Dahlgera, Elektrobalt, SLO

*Kesko's own estimate

Leisure goods trade, Finland

Market area	Market size and change	Market share	Main competitors
Sports trade	Around €0.9 bn (-0.3%), (Textile and Fashion Suppliers and Retailers Finland TMA and Kesko's own estimate)	Intersport, Budget Sport, The Athlete's Foot and Kesport 28%*	XXL, Stadium, hypermarkets and online stores
Shoe trade	Around €0.3 bn (-2.6%), (Textile and Fashion Suppliers and Retailers Finland TMA and Kesko's own estimate)	Kookenkä and Kenkäexpertti 10%*	Other speciality stores, department stores, hypermarkets, sports stores and online stores

*Kesko's own estimate



CAR TRADE PICKED UP TOWARDS THE END OF A CHALLENGING YEAR

The strategic goal for the car trade division is to outgrow the market and improve profitability by growing our business in collaboration with the Volkswagen Group and by strengthening our market position throughout the car trade value chain.



Johan Friman
President,
car trade division

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The car trade market, driving and mobility are constantly evolving. Thanks to our strategic partnership with the world's biggest car manufacturer the Volkswagen Group and our extensive and constantly updated range of brands and models, we have long been the market leader in the Finnish car trade. Developing our own service business, digital services and a multichannel customer experience have become increasingly important alongside traditional car sales.



The market grew stronger towards the end of the year

In 2019, K-Auto's market share in Finland was 16.9% for passenger cars and vans, down due to availability issues in H1/2019. The market share for trucks (over 6 t) was 3.1%. The market for the car trade continued to be challenging, but strengthened towards the end of the year. Demand for all-electric cars and rechargeable hybrids grew, with e.g. pre-orders for the SEAT Mii electric breaking records. Volkswagen Commercial Vehicles was the second most registered brand of vans in Finland. Uncertainties regarding car taxation and debate over motive power choices caused disruptions in the consumer market. Moreover, the implementation of the new WLTP emissions testing in autumn 2018 continued to impact the sales of Audi and Porsche in particular in the first half of 2019. New car sales in Finland were also impacted by the significant rise in imports of used cars.

Bentley Suomi, operated by K-Auto's retail company K-Caara, began as the official importer for Bentley Motors in Finland. The sales, servicing and after-sales services are located in a new facility in Espoo.

Acquisitions support profitable growth

K-Auto's retail company K-Caara carried out three significant acquisitions in 2019 to strengthen our dealer network. In the spring, we completed the acquisitions of car trade businesses from Huittisten Laatuauto and LänsiAuto, and in the summer, the acquisition of Volkswagen, Audi and

SEAT businesses from Laakkonen Group. The integration of the operations has proceeded well, supporting our profitable growth.

Expansion of K Charge network continued, nearly 400 charging points in use

K Group wants to be a pioneer in mobility, and make sustainable choices easier for its customers also when it comes to electric vehicles. We continued to build the K Charge electric car charging network launched in 2018, and by the end of 2019, the network comprised nearly 270 basic charging points and over 100 fast charging points at nearly 80 K-store locations. The K Charge network hosts some 40% of all public fast charging points in Finland. All K Charge electricity is renewable Finnish wind power,

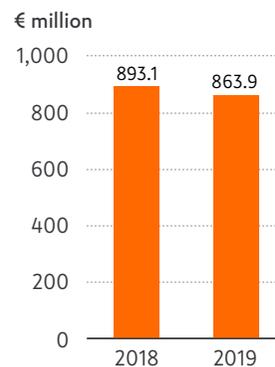
NEW ADDITIONS TO THE RANGE

The updated and expanding range of brands represented by K-Auto strengthens our competitiveness.

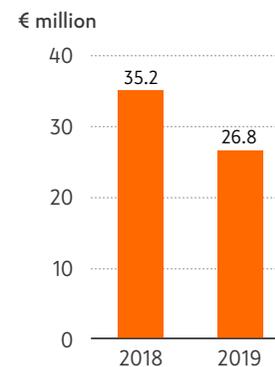
New models introduced to the market in 2019:

- Volkswagen T-Cross and T-Roc R
- Audi A1 citycarver, Audi Q3 and Audi e-tron
- Porsche 911 4S Cabriolet, 911 S Cabriolet, 911 Speedster, Cayenne Coupé, Cayenne Turbo Coupé, Cayenne E-Hybrid Coupé and Cayenne Turbo S E-Hybrid Coupé and Cayenne Turbo S E-Hybrid
- Volkswagen e-Crafter

Net sales



Operating profit*



*Comparable

SUSTAINABILITY

- All electricity charged at K Charge stations is renewable Finnish wind power
- K-Auto joined the Green Deal for the Finnish automotive sector
- A 57% increase in registered passenger cars imported by K-Auto (Volkswagen, SEAT, Audi and Porsche) in the below 100 g/km CO2 bracket
- Over 99% waste recycling rate in the network – dealerships produce less than 10 kg of non-recyclable waste per year
- K-Caara's spare parts logistics in Finland are carbon neutral (freight partner)

and has powered journeys of approximately 5 million kilometres in total.

We expanded our service offering

In addition to traditional car sales and servicing operations, we continued to strengthen our service business, introducing private leasing to our offering. We now offer leasing services to both private customers and businesses.

We will also continue to evaluate the car-sharing market and its service potential based on an ongoing pilot. The changes in the automotive sector and new forms of mobility necessitate the constant development of operating models, services and technologies.

K Group's car trade division aims to return its sales and profitability to a good level and to further improve them.

Due to the challenging market situation, we had to adjust our costs and conduct related codetermination negotiations with personnel in autumn 2019. We also made some changes to our organisation to be better able to respond to the situation following the acquisitions. Thanks to these efficiency improvement measures, an updated range and improved availability, we have strong faith in our ability to achieve the goals.

Car trade's strategic objective is to outgrow the market and improve profitability

BUSINESS ENVIRONMENT <ul style="list-style-type: none"> • Utilisation of customer data • Hybrid cars • All-electric cars • Connectivity and digitalisation • Mobility services 	STRATEGIC OBJECTIVE >	WHAT WE ARE DOING
	Growing our business in collaboration with the Volkswagen Group	<ul style="list-style-type: none"> • Strengthening the market position of Volkswagen passenger and commercial vehicles, Audi, SEAT, CUPRA, Porsche, Bentley and MAN in Finland • Growing the range of all-electric cars, rechargeable hybrids, mild hybrids and gas cars • Growing and developing our own dealer network
	Expanding our own service business	<ul style="list-style-type: none"> • Further developing our private and corporate leasing services • Expanding the K Charge network • Introducing new mobility services to our service selection
	The best customer experience in all channels	<ul style="list-style-type: none"> • Utilising K Group's customer data • Developing digital services and increasing offering

Car trade markets

In 2019, there were 114,199 first registrations of passenger cars, 14,702 first registrations of vans and 4,020 first registrations of trucks in Finland. The passenger car market declined by 5.2% and the market for vans declined by 5.2% compared to the year before, while the market for trucks grew by 3.1%.

The total number of first registrations of passenger cars and vans imported by K-Auto was 21,505 (excluding motorhomes). The number of MAN trucks registered was 100.

Car trade in figures

Retail sales and number of stores	Number of stores		Sales (VAT 0%) (pro forma), € million	
	2019	2018	2019	Change, %
K-Caara	42	13	616.0	-18.2
K-Auto, import	-	-	268.0	8.3
AutoCarrera	3	3	48.0	-23.1
Car trade, total	45	16	932.0	-12.3

Key figures	2019	2018
Net sales, € million	863.9	893.1
Operating profit, comparable, € million	26.8	35.2
Operating margin, comparable	3.1	3.9
Return on capital employed, comparable, %, rolling 12 months	9.5	20.8
Capital expenditure, € million	131.3	49.0
Personnel, average	1,179	835

Properties	2019	2018
Owned properties, capital, € million	53	50
Owned properties, area, 1,000 m ²	47	47
Leased properties, lease liabilities, € million	72	6
Leased properties, area, 1,000 m ²	98	26

Market shares 2019

Car trade, Finland

- K-Auto's market share 16.9% (Volkswagen, Audi, SEAT, CUPRA, Porsche and Bentley passenger cars and Volkswagen vans combined, excluding motorhomes)
- Volkswagen passenger cars 10.5%
- Audi 3.2%
- SEAT 2.2%
- Porsche 0.2%
- Volkswagen vans 23.0%
- MAN trucks 3.1% (over 6t)

FOUR REASONS TO INVEST IN KESKO

Kesko is a growing and profitable Northern European retail company that strives to strengthen its cash flow and dividend capacity with a long-term focus.



Jukka Erlund
Executive Vice
President, CFO

“

Our customer-oriented growth strategy has proven effective, as evidenced by our record result in 2019. Our strong financial position enables further investments in growth and good dividend capacity.

1 Profitable growth strategy and strong track record in strategy execution

Customer-orientation and quality are at the core of Kesko's growth strategy. We seek focused profitable growth in three strategic areas – the grocery trade in Finland, building and technical trade in Northern Europe, and car trade in Finland – both organically and via acquisitions. We began the execution of our current strategy in 2015, and since then our net sales have annually increased on average by 5.4% and our operating profit on average by 17.2%. During the period, the net sales for Kesko's core businesses have increased by €3.1 billion, and we have invested €2.4 billion in growth, while divesting some €1.0 billion worth of non-core business operations. The improvement in profitability is the result of customer-oriented growth strategies in our divisions, constant improvements in cost efficiency, and efficient capital allocation. We operate as “One unified K” and maximise the utilisation of synergies between our businesses.

2 Strong market position

Kesko is one of the leading retail companies in Northern Europe and the biggest retail operator in Finland. Our objective is to always be among the top two operators in all our businesses to ensure economies of scale. Finland accounts for approximately 78% of our net sales, and Kesko is the biggest trading sector company in Finland, and the biggest operator in the Finnish building and technical trade and car trade. We also have strong market shares outside Finland in Sweden, Norway, the Baltics and Belarus.

3 Ability to increase shareholder value

Kesko's good dividend capacity is based on the strong and steady ability of its businesses to generate cash flow. Our objective is a steadily growing, attractive dividend yield. Kesko has paid dividends uninterrupted every year since 1968, and over the past five years, Kesko's dividend yield has averaged 5.4% a year. The total annual shareholder return of a Kesko B share since the beginning of 2015 is 21.7%. Growth in shareholder value is based on making and implementing successful strategic choices and on efficient allocation of capital – these saw Kesko's return on capital employed rise to 9.6% in 2019.

4 Corporate responsibility

Thanks to our extensive long-term corporate responsibility work, Kesko is included in prestigious global sustainability indices, such as the DJSI World and DJSI Europe, as well as the Global 100 Most Sustainable Corporations in the World list. Kesko's climate work focuses on the purchasing and production of renewable energy and increased energy efficiency. We have set tight Science Based Targets for emissions from our operations and supply chain. We also actively offer our customers convenient ways to reduce their carbon footprint.

[Kesko in sustainability indices](#)

INVESTOR INFORMATION

Kesko's shares are listed on NASDAQ Helsinki. The shares are divided into series A and series B shares, with the respective trading symbols KESKOA and KESKOB.

At the end of December 2019, the total number of Kesko Corporation shares was 100,019,752, of which 31.7% were A shares and 68.3% B shares. Kesko's share capital totalled €197,282,584. The combined market capitalisation of the shares was €6,114.7 million at the end of December 2019, an increase of €1,562.0 million from the end of 2018.

At the end of 2019, the company had 41,000 shareholders.

Annual General Meeting

Kesko Corporation will hold its Annual General Meeting of shareholders on Monday, 30 March 2020, starting at 13.00 EET, at Messukeskus Helsinki, Rautatieäisenkatu 3 (Siipi entrance), Helsinki.

Participants must register for the Annual General Meeting beforehand. A shareholder in the register of shareholders wishing to participate must register by 25 March 2020 at 16.00 EET at the latest, by which time the registration will have to have been received by the Company.

→ **Additional investor information on our website**

→ **More information on the Annual General Meeting**

Dividend

The Board of Directors proposes to the Annual General Meeting to be held on 30 March 2020 that based on the adopted balance sheet, a dividend of €2.52 per share be paid for the year 2019. The Board proposes that the dividend be paid in two instalments. The first instalment, €1.28 per share, is proposed to be paid on 8 April 2020.

The Board proposes to the Annual General Meeting that shareholders be issued, without payment, three (3) new A shares for each current A share held and three (3) new B shares for each current B share held. If the proposal is approved, the second instalment will be divided between one current and three new shares, so that a dividend of €0.31 is paid on each share. If the General Meeting does not approve the Board proposal concerning a share issue without payment, the second dividend instalment will be €1.24 per share.

Kesko's investor relations

The objective of Kesko's investor relations is to support the appropriate valuation of Kesko's shares by continuously and consistently communicating all essential information on the company equally to all market parties. We want to serve both private and institutional investors and analysts covering the company in Finland and elsewhere. Investor relations contact details and more investor information can be found on our website.



INTERIM REPORT PUBLICATION DATES IN 2020:

- Interim report for January–March 2020: 28 April 2020
- Half year financial report for January–June 2020: 23 July 2020
- Interim report for January–September 2020: 29 October 2020