



ANNUAL REVIEW 2017

# OFFERING SUSTAINABLE RETAIL SPACE FOR SHOPPING



Offering  
sustainable  
retail sites  
and the best  
shopping  
experience  
for customers





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# MERCADA IN BRIEF



Mercada owns, manages and improves retail sites mainly used by Kesko Group. It was established in June 2015 when Kesko Oyj divested properties to Mercada. Kesko generates approximately 80 per cent of Mercada's gross rental income with long lease maturities. Average portfolio lease maturity is 10,2 years. The company operates in Finland and Sweden. Mercada is owned in equal shares by Kesko Corporation, Ilmarinen Mutual Pension Insurance Company and Swedish AMF Pensionsförsäkring. Mercada has its headquarters in Helsinki, Finland.



3

SHOPPING  
CENTRES IN  
FINLAND

38

RETAIL SITES IN  
FINLAND AND  
SWEDEN

338<sup>000</sup>

SQ.M GLA

667

EUR MILLION  
(2017) MARKET  
VALUE OF  
PROPERTIES





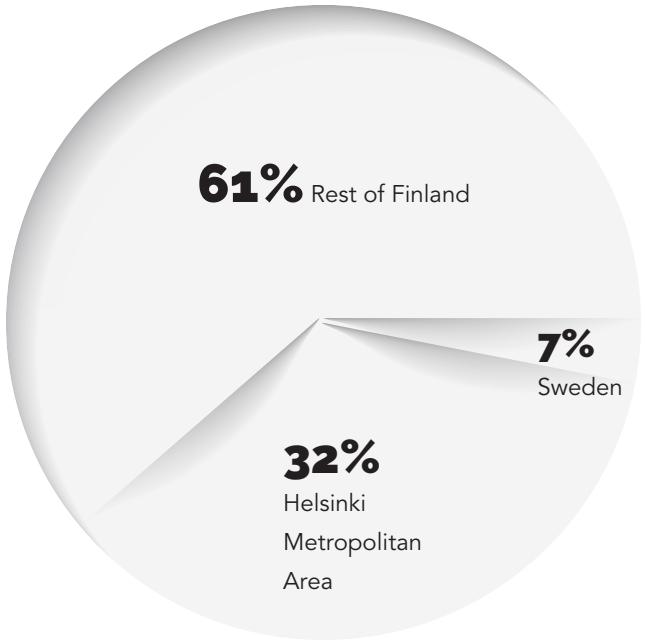
Shopping Centre Veturi, Kouvola, Finland



Shopping Centre Karisma, Lahti, Finland

# We operate in urban locations in Finland and Sweden

PORTRFOOLIO VALUE BY GEOGRAPHY (2017)



10

THE PORTFOLIO INCLUDES THREE SHOPPING CENTRES AND 38 RETAIL PROPERTIES IN FINLAND AND SWEDEN.

**3**

SHOPPING CENTRES:  
KARISMA,  
VETURI,  
MERITUULI

**16**

K-SUPERMARKET

**13**

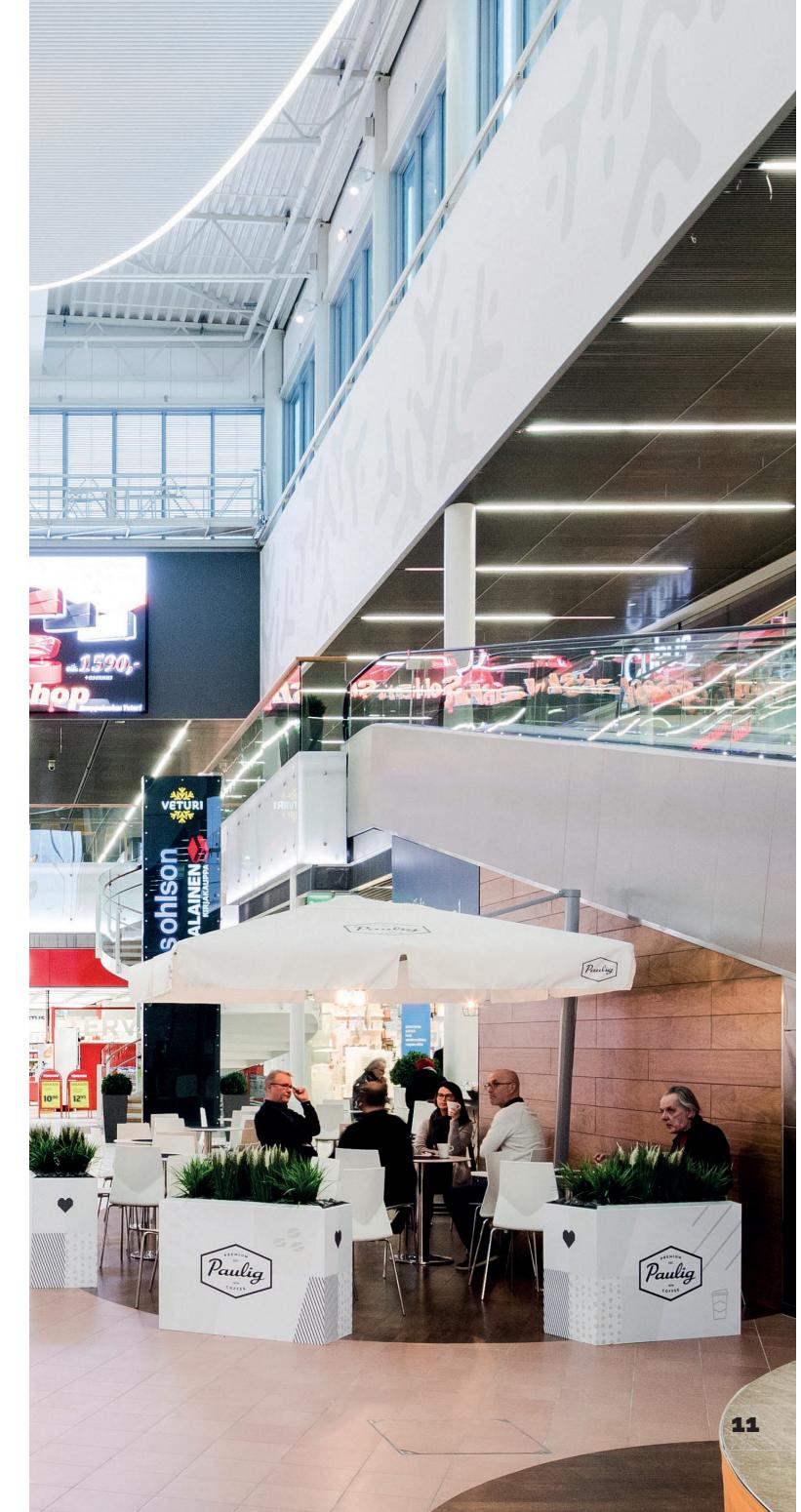
K-CITYMARKET

**1**

K-MARKET

**8**

K-RAUTA



11

# Mercada clocks a strong performance for 2017

## HOW WOULD YOU DESCRIBE MERCADA'S FINANCIAL DEVELOPMENT IN 2017?

Our operational result during the reporting period continued as stable. The net rental income stayed at a high level and the occupancy rate remained strong. In addition, the value of our portfolio in 2017 increased by 2,3 percent and is approximately 677 million euros.

We continued strengthening our financial position by lowering financing costs and by extending loan maturities. We are extremely pleased with the considerable success of Mercada's first bond issue. In autumn 2017, we issued a 175-million-euro senior secured bond. The placement of the bond was substantially oversubscribed and sold out in a matter of hours.

The proceeds from the bond offering will be used for the early repayment and refinancing of existing loans. No application will be made to have the notes listed. Thanks to the issuance of the bond, the company's financial structure broadened and the great result on the market demonstrated the strength of Mercada's credit profile.

Mercada enjoyed a predictable cash flow from Kesko, which is Mercada's most important tenant generating approximately 80 percent of our gross rental income with long lease maturities. Kesko is the sole tenant with triple-net lease agreements in 39 out of 41 Mercada-owned properties.

We are extremely pleased that during 2017, our shopping centres Veturi and Karisma increased both their annual sales and customer volumes, in this respect outperforming the average Finnish shopping centres. For example, the average purchase value at Veturi is comparatively higher than in other shopping centres in Finland.

## WHAT WERE THE OTHER HIGHLIGHTS OF THE YEAR 2017?

The Karisma shopping centre located in Karisto, Lahti, achieved the esteemed BREEAM In-Use certification with Excellent rating in both the Asset and the Management sectors. This was due to our sustained efforts in diminishing the environmental impacts of our retail sites.

When redeveloping our retail properties, the goals have been environmental friendliness and energy-efficiency. Operations are enhanced throughout the life-span of the entire centre. For instance, in lighting the prevalent solution are led lights whereas in heating we use green electricity and our re-utilisation rate in recyclable waste is 100 percent. The internal environmental improvements are visible to the customers for example as better lighting and tidier surroundings but more than this, also offer the tenants to practice environmental sustainability in their own operations.

In addition, we have focused on the development of an even stronger customer experience through the modernisation of in-door decoration in Veturi and in Karisma, by building an indoor children's play area called Papu Park. Also, the extension of the existing investment property K-Supermarket in Uusikaupunki was completed to fit the increasing tenant demand in the area.

## WHAT ACTIVITIES HAS MERCADA CARRIED OUT IN ORDER TO IMPROVE SUSTAINABILITY?

Sustainability is a key ingredient of Mercada's operational mode. In 2017 we defined a strategy of sustainability for the next few years. We produced a sustainability report, the results of which indicate that the volume of greenhouse gas emissions in Mercada-owned retail facilities diminished 3,9 percent in comparison to the previous year.

Both of Mercada's shopping centres, Karisma and Veturi, have been awarded certifications by the esteemed BREEAM sustainability assessment rating. Last year, Karisma received the well-respected Excellent level in both the Asset and the Management categories. Veturi was granted a BREEAM Very Good rating during its construction stage already.





# OUR PERFORMANCE IN 2017

GROSS RENTAL INCOME MEUR

**50,1**

NET RENTAL INCOME MEUR

**43,1**

GREENHOUSE GAS EMISSIONS DECREASED

**3,9%**

OCCUPANCY RATE

**99%**

PROFIT MEUR

**23,3**

BREEAM is one of the world's leading sustainability assessment methods for masterplanning projects, infrastructure and buildings. Two Excellent-level certifications are rare and before Karisma, only two Finnish shopping centres had managed to gain those.

In January 2018, our main tenant Kesko was ranked 31st on the Global 100 Most Sustainable Corporations in the World list and at the same time, as the most sustainable trading sector company in the world. In the fall of 2017, Kesko was listed on the Dow Jones Sustainability Indices DJSI World and DJSI Europe, which are among the most prestigious listings in the world.

In 2017 we further increased our collaboration with Kesko with the aim of utilising larger volumes of renewable energy in the facilities. This would lead to improved energy-efficiency. At the moment, we are surveying with Kesko the opportunities for using solar power in the Mercada facilities.

## WHAT ARE THE GOALS FOR THE YEAR 2018?

Operatively speaking we are looking for a moderate business growth for 2018. In terms of strategy, we are investigating new opportunities for portfolio optimisation. We aim to increase the customer comfort level of our retail sites with for example by cafes, restaurants and play areas.

The comfort experienced by customers is in direct correlation with the development of both number of visitors and sales. We continue to invest in those of our existing centres wherever we see the best opportunities for adding value. Collaboration with Kesko further facilitates reaching this objective.

We develop sustainability further according to our strategy. We expect our tenants to operate in a sustainable manner and vice versa, act sustainably in line with their expectations, as well. We are looking to offer all of our visitors a high-comfort and unforgettable shopping experience in our sustainably retail sites in 2018.

Harri Holmström  
CEO

We want to offer sustainable retail space for shopping

## Our vision

Mercada owns, manages and improves retail sites mainly used by Kesko Group. We offer sustainable retail space for shopping.

## Our mission

Mercada is a long term owner and aims to actively develop its property portfolio and increase its value. The company's objective is in partnership with Kesko to provide retailers premises meeting their needs.

## Our strategy

Mercada focuses on retail properties. Its core business consisting of groceries including both hyper-and supermarket concepts, grocery anchored shopping centres and DIY stores. Its business operations concentrate on good urban locations in Finland and Sweden.

## Sustainability creates long-term values

Mercada defined its sustainability strategy and targets during the year 2017. The objective was to create values both for Mercada and its stakeholders.

Mercada has identified three sustainability themes on the basis of code of conducts, operating environment and stakeholder co-operation. Mercada has also identified five Agenda 2030 Sustainable Development Goals set by the United Nations, to which identified sustainability themes are related. Mercada seeks to implement these sustainability themes and goals in its daily business.

### MERCADA'S SUSTAINABILITY THEMES





# CODE OF CONDUCT

Mercada defined its code of conducts during the year 2017. Mercada's code of conducts include six guidelines outlining the environmental, social and financial norms and responsibilities, which the company pursues in its every day operation. Guidelines are based on Kesko's Code of Conducts.

**We follow the law**

**We are committed to fair competition**

**We do not offer or accept bribes**

**We respect human rights**

**We treat customer information confidentially**

**We minimize environmental impacts**

# Sustainability cases

## **Customer satisfaction**

Papu Park was implemented in shopping center Karisma during the year 2017 to improve customer satisfaction. It is a free jungle theme indoor playing area for children. It includes climbing and balancing places, a digital wall game, a foam deck and a mobile game, which works also in the other premises of the shopping center. The main idea of this Papu Park is to entertain, but also stimulate the imagination of children. The playing area was introduced to customers at the beginning of 2018.

## **Excellent rating**

Shopping centre Karisma became the third shopping centre in Finland to achieve the valued excellent rating in the BREEAM environmental assessment in 2017. BREEAM In-Use International classification is the most widely used environmental rating method worldwide and it assesses the performance of buildings against a diverse range of issues. It helps to reduce buildings' running costs and improves working and living conditions. BREEAM rating is granted to the building on a scale of Pass, Good, Very Good, Excellent and Outstanding.

## **Reducing energy consumption**

Mercada started a new project for reducing energy consumption and improving indoor environment comfort in shopping centres Karisma and Veturi in cooperation with Nuuka Solutions. The goal is to reduce the energy consumption of both shopping centres by at least 5 per cent during the year 2018. This will be done by optimizing heating, ventilation and air conditioning processes. In addition to reducing energy consumption, indoor air conditions will also improve.

## **Greenhouse gas emissions**

The total greenhouse gas emissions of Mercada's portfolio were 9340 tons of CO<sub>2</sub> (alaindeksi) during the year 2017. This is 3,9 per cent less than in the year 2016. Approximately 76 per cent of Mercada's gross leasable area is purchasing its energy from renewable sources. This is more than six times compared to the year 2016. Before shifting to renewable electricity, these properties used carbon dioxide-free electricity produced from nuclear power.

# Shopping Centre Veturi, Kouvola, Finland

Veturi is the largest and most attractive shopping venue in South-East Finland. It is located in a traffic junction of route 6, one of Finland's busiest highways. Veturi covers an area of 44 000 m<sup>2</sup> for leasing and it is the 8th largest shopping centre in Finland. Over 9,000 vehicles per day use the Highway 6 running beside Kouvola and the Veturi shopping centre.

The shopping centre complex includes retail spaces on two floors and a clear parking space in front and behind the centre. There are almost 80 companies operating in Veturi and there is a total of 1 800 parking spaces.

## QUICK FACTS

GLA  
**43671**  
m<sup>2</sup>

Sustainability  
certifications:  
**BREEAM**  
In-use -certification  
with "Very Good"  
rating received

Catchment  
area:  
**90 000**  
inhabitants

Annual  
sales:  
**120**  
MEUR  
Annual  
visitors  
**3.2** million

### HIGHLIGHTS 2017

Steady growth in amount of visitors  
**3,26%** and total sales **4,36%**

Veturi's average purchase is among the highest in market. Unchanged vacancy rate

### PROJECTS 2017-2018

Parking spots and charging  
stations for e-cars

Located in Kouvola  
**150** km  
north of Helsinki

**10**th  
biggest shopping  
centre in Finland

Built **2012**



# Shopping Centre Karisma, Lahti, Finland

In terms of sales, Karisma is the largest shopping centre in Lahti. It is located right next to route 4, the busiest highway near the city. More than 26,000 vehicles per day use the Highway 4 running close to Lahti and the Karisma shopping centre. Karisma covers an area of 32 500 m<sup>2</sup> for leasing. There are 60 retail units that are located on two floors. The complex includes a parking garage and there is a total of 1 600 parking spaces.



## QUICK FACTS

Sustainability  
certifications:

**BREEAM**

In-use -certification  
with "Excellent"  
rating received

Annual  
sales: **91**  
MEUR

Annual  
visitors  
**2.9** million

Built **2011**

Located in Lahti  
**100** km  
north of Helsinki

Catchment  
area:  
**90 000**  
inhabitants

**15<sup>th</sup>**  
biggest shopping  
centre in Finland

GLA **32**  
**777** m<sup>2</sup>

## HIGHLIGHTS 2017

Steady growth in amount of visitors

**13,6%** and total sales **4,5%**  
Unchanged vacancy rate

## PROJECTS 2017-2018

Kids's playroom **300** m<sup>2</sup>, Papupark  
Opening in February 2018  
Toilet's renovation planning



Shopping Centre Veturi Kouvolan  
Shopping Centre Karisma Lahti  
Shopping Centre Merituuli Espoo  
K-citymarket Helsinki Malmi  
K-citymarket Vantaa Koivukylä  
K-citymarket Imatra  
K-citymarket Rauma  
K-citymarket Kokkola  
K-citymarket Kuopio Päiväranta  
K-citymarket Mäntsälä  
K-citymarket Äänekoski  
K-citymarket Kauhajoki  
K-citymarket Pietarsaari  
K-citymarket Loimaa  
K-citymarket Kankaanpää  
K-citymarket Lieksa  
K-supermarket Sodankylä  
K-supermarket Huittinen  
K-supermarket Kouvolan Kankaro  
K-supermarket Lappeenranta Kaukas  
K-supermarket Kangasala  
K-supermarket Järvenpää  
K-supermarket Jalasjärvi  
K-supermarket Kempele  
K-supermarket Kuhmo  
K-supermarket Savonlinna Mertala  
K-supermarket Uusikaupunki  
K-supermarket Oulu Haukipudas  
K-supermarket Rauma Monnankatu  
K-supermarket Kirkkonummi Veikkola  
K-supermarket Helsinki Torpparinmäki  
K-supermarket Pihtipudas  
K-rauta Helsinki Oulunkylä  
Rautia K-matalous Kauhajoki  
K-rauta Uppsala (Sweden)  
K-rauta Sundsvall (Sweden)  
K-rauta Eskilstuna (Sweden)  
K-rauta Umeå (Sweden)  
K-rauta Haparanda (Sweden)  
K-rauta Halmstad (Sweden)  
K-market Oulunkylä Helsinki

# Mercadá's shopping retail sites

# Ownership

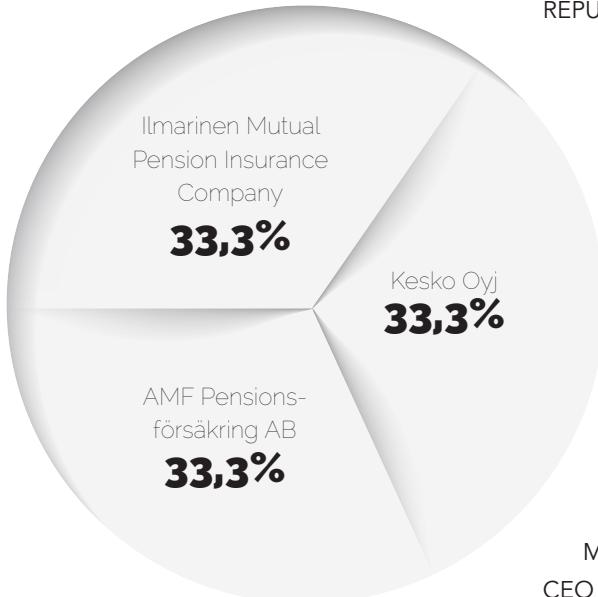
REPUTABLE SHAREHOLDERS AND PARTNERSHIP WITH KESKO.

## WHY TO INVEST IN MERCADA

- Stable and predictable business model.
- Predictable cash flow from grocery dominated Kesko business.
- Long lease agreements and low vacancy rates allowing stable cash flows.
- Business operations concentrated in good locations in Finland and Sweden.
- Shopping centres showing stable growth in amount of visitors and total sales.
- Solid and predictable financial performance.
- Funding base diversified now with bond issuance.

## MERCADA ORGANISATION

CEO Harri Holmström is the only employee. All the other functions are outsourced.



# OUR BOARD OF DIRECTORS

31 December 2017



**JUKKA ERLUND**  
Chairman of the  
Board  
CFO, Kesko Oyj



**FREDRIK RONVALL**  
Head of Transac-  
tions & Analysis  
AMF Fastigheter AB



**TOMI AIMONEN**  
Head of Direct Real  
Estate Investments  
Ilmarinen

