



ANNUAL REVIEW 2018

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. The 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

338⁰⁰⁰

Sq.m GLA

677

MEUR (2018)
market value of properties





Shopping Centre Karisma, Lahti, Finland



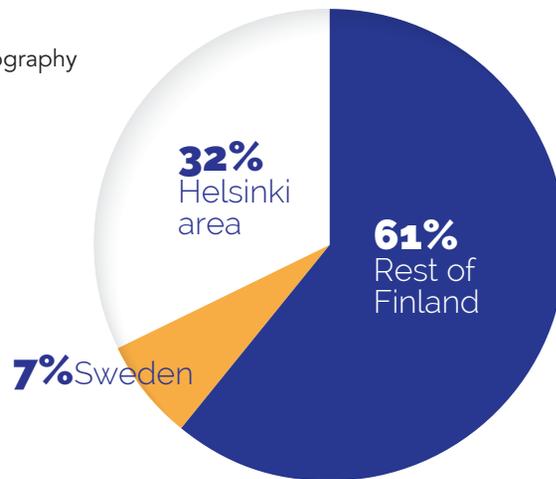


Shopping Centre Veturi, Kouvola, Finland



We operate in urban locations in Finland and Sweden

Portfolio value by geography





**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

A middle-aged man with glasses, wearing a dark blue suit jacket over a light blue shirt, stands behind a glass railing. He is looking towards the camera. The background is a brightly lit clothing store with various garments on display. The railing has a string of small lights attached to it.

OUR PERFORMANCE IN 2018

Operating performance remained at a stable level and we improved customer experience

How would you describe Mercada's financial development in 2018?

Mercada's operational results continued as stable during the year 2018. Nearly all the shopping centre's retail premises were leased. The net rental income stayed at a high level and the occupancy ratio remained strong. Kesko is the most important tenant generating approximately 80% of Mercada's gross rental income with long lease maturities.

The value of our portfolio in 2018 continued as stable and is approximately 677 million euros. Our operating performance remained on a good level at our shopping centres' Karisma and Veturi. According to KTI's comparison, our average occupancy rates were at a higher level at Veturi and Karisma than in shopping centres in Finland on average. Both Veturi and Karsima have good locations.

Gross rental income MEUR

49,9

Net rental income MEUR

42,7

Greenhouse gas emission decreased %

8,7

Occupancy rate %

99

Profit MEUR

11,9

Based on Management Accounts in line with IFRS accounting principles.

What were the other highlights of the year 2018?

We created an even better customer experience when we opened Children's playground Papu Park in February at shopping centre Karisma. It was a tremendous success and partly due to this Karisma was able to increase its amount of visitors to over 2,9 million. Papu Park attracted more than 100,000 visitors in its first year of opening.

Our tenants are very satisfied with the quality and functionality of our shopping centres. We carried out a customer satisfaction survey at Veturi shopping centre and overall customer satisfaction rose to 4,23 on a 1–5 scale. Tenants are extremely satisfied with waste management, product logistics, interior lighting and customer parking spots. There are now even more charging stations for e-cars and bicycle stands.

We have heavily invested in that customers and our tenants feel safe and comfortable in our retail premises. Both Veturi and Karisma received SAFE Retail Destination certification in excellent level during the year 2018. Certificates are provided by SAFE Shopping Centres, which is a global management company that comprises shopping center, risk management and crisis communication experts who work with industry leading clients around the world to create SAFE Retail Destinations for the benefit of owners, tenants and visitors.

We continued to develop our infrastructure and systems in order to achieve higher rating in the BREEAM environmental assessment. In 2018, Veturi was awarded the well-respected Excellent level in both the Asset and Management categories. Karisma already managed to gain this Excellent level 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.

We increased our environmental responsibility and the amount of self-generated renewable energy. One of the biggest solar power plants in Finland was built on the roof Veturi in August 2018.



What activities have made Mercada as a forerunner in sustainability?

Sustainability is a key ingredient of Mercada's operational mode. In our sustainability report, we define a precise strategy of sustainability themes and targets for the next year.

In order to achieve our sustainability targets, we work in close collaboration with Kesko and our tenants.

One of Mercada's most important strategic objectives and sustainability targets is to minimize the environmental impacts of retail premises. According to Mercada's sustainability report 2018, the total greenhouse gas emissions decreased by 12 per cent compared to 2016. The total energy consumption was 6,7 per cent less than in 2017 and total water consumption was 13 per cent less than in 2017.

Our retail premises were built according to the principles of sustainable development and energy efficiency and environment friendliness plays a key role in many issues. The shopping centre, for instance, uses the geothermal energy to heat and cool the premises. In addition, recycling facilities are easy to use, LED lights are available for lighting and in cleaning we use ecologically friendly cleaning products. Our waste management rate is one of the highest among shopping centres' in Finland.

In 2019, our main tenant Kesko was ranked as the most sustainable trading sector company on the Global 100 Most Sustainable Corporations in the World for the fifth time in a row. Kesko was ranked 88th in the World list. It is the only Finnish company that has been included in The Global 100 Most Sustainable Corporations in the World list since it was established in 2005. In the fall of 2018 Kesko was also listed on the Dow Jones Sustainability Indices the DJSI World and the DJSI Europe.

What are the goals for the year 2019?

We want to be the future leaders in sustainability performance. We will invest in new energy-efficient solutions and we will significantly focus on improving the environmental performance of existing buildings and systems.

Operatively speaking we are looking for a moderate business growth for 2019. We continue to look for new opportunities and to optimise our portfolio. We want to expand our tenant services and other services to meet customer needs. We aim to increase the customer comfort level of our retail sites with for example restaurants, cafes and play areas.

We are looking for a growth in sales and in the amount of visitors in 2019. We have an optimistic growth outlook.

We expect our tenants to operate in a sustainable manner and vice versa, act sustainably in line with their expectations, as well. We are ready to fulfil our promises and to offer the best shopping experience for customers at our sustainable retail sites in 2019!!



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.



CODE OF CONDUCT

Mercada's code of conduct includes six guidelines outlining the environmental, social and financial norms and responsibilities. These principles were added to new leases during the year 2018. By signing a new lease, the tenant agrees to pursue these norms in its every day operations. Guidelines are based on Kesko's code of conduct.

We comply with the law and regulations

We are committed to fair competition

We do not offer or accept bribes

We respect human rights

We secure confidential information

We respect environment

Veturi is the largest and most attractive shopping venue in South-East Finland. It is located in Kouvola 135 km North-East of Helsinki, in a traffic node of route 6, one of Finland's busiest highways. Built in 2012, Veturi covers an area of 48,500 m² for leasing. Over 12,000 vehicles per day use the Highway 6 running beside Kouvola and the Veturi shopping centre. Veturi's average purchase is among the highest in market.

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 are a total of 1,800 parking spaces.

QUICK FACTS

10th largest shopping centre
in Finland

GLA 48,500 m²

Annual visitors 3.2 million

Annual sales 124 MEUR

Catchment area 90,000
inhabitants

Sustainability: BREEAM
In-use-certification with
Excellent rating

Shopping Centre Veturi, Kouvola, Finland







The solar power plant cuts purchased electricity consumption significantly

Mercada increased the self-sufficiency of energy production of the commercial property when, in August 2018, in cooperation with Kesko, the largest solar power plant in Finland was completed on the roof of Veturi. It includes 3,339 solar panels and generates electricity at a maximum power of 902 kWp for the K-Citymarket in the shopping centre.

Solar power is an excellent source of electricity for commercial property, as the shopping centre consumes electricity the most in cooling and refrigeration, for example, when the sun is shining and the production of the power plant is at its peak. On sunny summer days, it can cover up to 60% of the electricity consumption of the shopping centre. The construction of a solar power plant is a natural continuum to strengthen the environmentally responsible activity of Veturi and to increase the self-sufficiency of its energy production.

Veturi Shopping Centre has been built in accordance with the principles of sustainable development and aims to continuously develop energy efficient and environmentally friendly operations. The heating of the shopping centre uses heat from the ground and condensate heat from the shop refrigeration systems, and only during the toughest frosts district heating has to be used.

In summer, the energy produced by the Veturi geothermal system is utilized in cooling. With the size-class solar power plant Veturi has, the K Group saves tens of thousands of euros annually in costs. The electric power generation of the solar panels of Veturi corresponds to 10–15% of the annual consumption of electricity in the grocery store.

Highlights 2018

Solar power plant was built on the roof

Modern charging stations for e-cars

SAFE RetailDestination© certification in Excellent level

Excellent level in the BREEAM environmental assessment

Projects 2018–2019

Developing the business mix, increasing attractiveness

Enhanced comfort for families

Shopping Centre Karisma, Lahti, Finland



In terms of sales, Karisma is the largest shopping centre in Lahti. It is located 100 km north of Helsinki, right next to route 4, one of the busiest highways in Finland. More than 32,000 vehicles per day use the Highway 4 running close to Lahti and the Karisma shopping centre. Built in 2011, Karisma covers an area of 33,500 m² for leasing. There are 60 retail places that are located on two floors. The complex includes a parking garage and a total of 1,600 parking spaces.

15th largest shopping centre
in Finland

GLA 33,500 m²

Annual visitors 2.9 million

Annual sales 92 MEUR

Catchment area 200,000
inhabitants

Sustainability: BREEAM
In-use-certification with
Excellent rating

QUICK FACTS





More than 100,000 visitors at the Papu Park

Children's indoor playground, Papu Park, was opened in February 2018 as an important part of the development of customer satisfaction at Shopping Centre Karisma. A total of 112,304 visitors visited Papu Park in 2018, averaging 10,200 visitors per month. The launch of the playground had a positive impact on the total number of Karisma visitors, which exceeded 2.9 million.

The jungle style 300 sq. ft. space includes climbing frames, a climbing wall, a digital wall game, a foam pool and a playground where you can jump from one stone to another. The free playground that borrowed its name from the Karisma mascot Papu Kaijanen, offers children not only entertainment but enhances imagination and cognitive skills while playing, too. One of Papu Park's most visionary adventure products is the free Papu Park mobile game based on AR technologies.

Karisma invests in the comfort of families with children in many ways. The shopping centre has separate nursing facilities and diaper changing rooms as well as childcare facilities for fathers and mothers. If the child is tired of wandering around, parents can borrow a stroller for the duration of their stay. Car trolleys and shopping carts are also available at the shopping centre.

Highlights 2018

Steady growth in the volume of visitors and total sales
SAFE Retail Destination® certification in Excellent level
Papu Park attracted more than 100,000 visitors in its first year of opening

Projects 2018–2019

Developing the business mix, increasing attractiveness, 2 new restaurant contracts
Increasing the capacity and renovating of WC facilities
Enhanced comfort for families

Sustainability creates long-term values

Mercada identified three sustainability themes and nine sustainability topics during the year 2017. The topics were identified by evaluating the impacts on the surrounding society and environment and recognising the expectations and interests of the stakeholders. Mercada follows the achievements and set new sustainability targets every year.

Mercada's sustainability themes

Customers first

- Customer Satisfaction
- Customer Safety and Privacy
- Sustainable Tenants

Sustainable environment

- Energy and Water Consumption
- Waste Efficiency
- Greenhouse Gas Emissions

Honest business

- Financial Flows
- Anti-corruption
- Human Rights



Sustainability cases

Continuously improving the customer experience

Mercada continuously improves customer satisfaction in order to meet customers' needs. In 2018, according to survey results, tenants were very satisfied with the quality of services in Mercada's shopping centres. The measured customer satisfaction at Veturi was on an excellent level, reaching 4,23 on a scale of 1 to 5. Tenants were very satisfied with waste management, goods logistics, interior lighting and customer parking. There are now even more charging stations for electric cars and in addition to parking spots, there is a wide selection of bicycle stands.

Veturi got international recognition for its good environmental work

In 2018, Veturi was awarded the prestigious, two Excellent ratings of the BREEAM environmental assessment. Two of the Excellent ratings have been previously received by the Shopping Centre Karisma. Veturi was awarded the Excellent ratings of the BREEAM Asset Performance and Building Management parts. Asset Performance describes the performance of the assets built form and Building Management the way in which the asset is managed. The enhancement of the property's operations can be seen in the ease of sorting and recycling, optimized lighting, air conditioning and heating, and ecologically cleaned operating environment.

Towards an even smaller carbon footprint

Mercada's sustainable development is guided by the desire to cut down the effects of climate change. The total energy consumption of Mercada's portfolio in 2018 was 91 GWh, 6,7 per cent less than in 2017. The total water consumption decreased 13 per cent to 73 cubic tonnes. Waste management is on an excellent level: all waste accumulated is either recycled or obtained as energy. As a result, the amount of greenhouse gas emissions has decreased by 12 per cent from the year 2016.

Safe and convenient business environment

Mercada Shopping Centres are investing a lot in ensuring that customers feel safe and comfortable on their properties. Both Shopping Centre Veturi and Shopping Centre Karisma received an Excellent-level International Safety Certificate at the beginning of 2019, issued to shopping centres that comply with international risk and safety standards and best practices of the industry. Veturi and Karisma clearly exceeded the average level of the industry by reaching a rating of 82 per cent. The shopping centres were evaluated by SAFE Retail Destination, an independent risk mapping expert in the industry.

Mercada's retail sites



The portfolio includes three shopping centres and 38 retail properties in Finland and Sweden.

Shopping Centre Veturi Kouvola
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

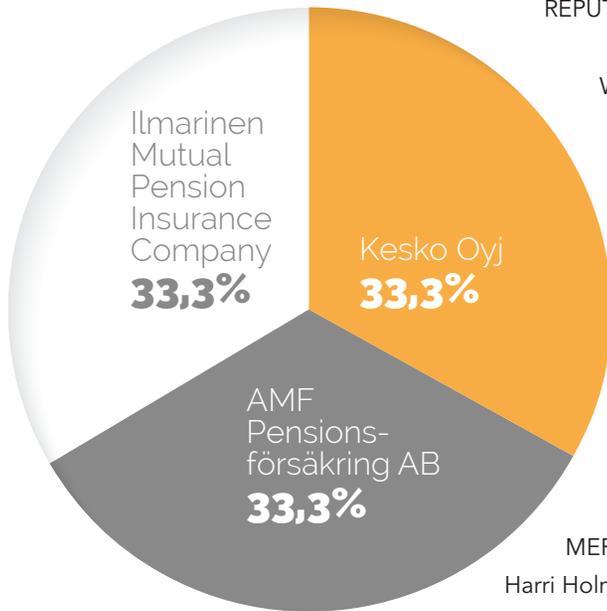
K-citymarket Kankaanpää
K-citymarket Lieksa
K-supermarket Sodankylä
K-supermarket Huittinen
K-supermarket Kouvola Kankaro
K-supermarket Lappeenranta Kaukas
K-supermarket Kangasala
K-supermarket Järvenpää
K-supermarket Jalasjärvi
K-supermarket Kempele
K-supermarket Kuhmo
K-supermarket Savonlinna Mertala
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
K-rauta 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



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

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

OUR BOARD OF DIRECTORS

31 December 2018



PERNILLA ARNRUD MELIN

Portfolio Manager
AMF Pensionsförsäkring AB

JUKKA ERLUND

CFO
Kesko Oyj

TOMI AIMONEN

Chairman of the Board
Head of Direct Real
Estate Investments
Ilmarinen



MERCADA

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