



Questions and President and CEO Mikko Helander's answers at Kesko's Q2/2016 media and analyst briefing on 3 August 2016

Minna Nalbantoglu of Helsingin Sanomat: Will you be collecting customer data in the revised Plussa customer loyalty system in a more detailed manner than before?

Mikko Helander: We have been, we are and we will be collecting customer data in a detailed manner. Anni can tell you more about it.

CDO Anni Ronkainen: Yes, our data collection will not change from the current system, which we started using in 2012. And like before, our customers will be able to decide the extent to which their purchase details are collected also in the new system.

Minna Nalbantoglu: So, will it be collected at product level?

Anni Ronkainen: There are several levels in our system: the product level, the product group level and the sum total level, and the customer has also the option to forbid the collection of their customer data altogether. But naturally, the choice influences the services we are able to offer the customer.

Minna Nalbantoglu: In other words, the more detailed information the customer allows to be collected, the more precisely targeted benefits you will offer.

Anni Ronkainen: Quite right; the special offer contents are then more closely targeted.

Eeva Nikkilä of STT: Quite recently, the S Group and the Data Protection Ombudsman have been debating about customer data collection. Will there be a similar debate about your revised Plussa system?

Anni Ronkainen: I cannot comment on the S Group's system. I've understood it is operated on an either-or basis. Our customers can, if they wish, determine the level of data collection. This is the most significant difference.

Mikko Helander: And I'd like to add that we have been operating our system in the same way since 2012 and have not been the topic of any such debate. I believe our system is good also for the customer.

Arto Jaakkola of Kehittyvä Kauppa: Will the revision of the Plussa system increase the total rewards level?

Anni Ronkainen: Yes, one can say that it will. If we talk about the monetary rewards customers will get in the form of Plussa points which will be converted to Plussa money, the total rewards level will probably be the same as before. But the value of other benefits, such as product and service benefits and benefits available from our partners, will increase significantly.

Outi Kokko of Taloussanomat: With respect to data protection issues, how many of your customers have prohibited or restricted the collection of their data?

Anni Ronkainen: We have a total of 3.55 million cards owned by individual customers and depending on the level, less than 1% have prohibited the collection of product level data. And no more than some hundredths of a percent have prohibited data collection at the level of product group or sum total.

Outi Kokko: How, in practice, does the customer get the benefits? Do they have to ask for them at the checkout, or something?

Anni Ronkainen: The loyalty benefits available from our food stores will be loaded onto the customer's Plussa card.

Rauli Juva of Nordea: How was seasonality felt at Suomen Lähikauppa last year; now that this year's Q1 loss was quite deep and Q2 somewhat less, what does the rest of the year look like?

Mikko Helander: As we know, seasonality is characteristic of the trading sector in general and of neighbourhood retailing in particular. The summer months are traditionally better for the neighbourhood market. I can say that as a whole, the Lähikauppa business has got off to a good start, in many respects even better than planned. We are quite confident about the outlook for the coming months. But on the other hand, we no longer look at Lähikauppa Oy as a separate component, because the realisation of synergies has already started and will become visible also on other lines in the coming months. All in all, we are very pleased to see how well the neighbourhood market renewal has started.

Rauli Juva: So, has Q4 been traditionally worse than Q2 or Q3 in neighbourhood retailing?

Mikko Helander: Yes, it's true of the entire sector, competitors included.

Rauli Juva: You say lots of positive things about the current building and technical trade division and that the profit has improved in many areas. But if we look at the division excluding Anttila and Onninen, the profit for the last few months has not increased that

much. Does the division contain some units that prevent the financial performance from improving more?

Mikko Helander: Yes, there's a lot of truth in what you say. We're happy about the good trend, but we see a great number of areas with plenty of room for improvement. For example, our building and home improvement stores in Finland: although we have done well in the business and our market shares have strengthened a lot, owing to the sluggish trend in the Finnish market, the overall profitability has stagnated and there is room for improvement. Another thing which should be mentioned as a challenge are our building and home improvement stores in Russia. We have done well – I'd say very well - commercially compared to the competition, but owing to the market challenges in Russia, profitability has deteriorated significantly, even if our financial result has been positive, to which I take my hat off. In the Baltics, our performance has been very good irrespective of the indicator used and our good profitability has improved further. Another thing we can be happy about is the ongoing improvement in Sweden, although we started quite low, but now the trend is good. But there too, the Q2 performance is not good enough. We have to do a lot of work there.

Riitta Ryynänen of Maaseudun Tulevaisuus: You've said that price competition in the grocery trade is intensive and a couple of days ago, the Finnish Commerce Federation said that especially small stores are not happy about the deregulation of opening hours. You have lots of independent retailers. How will you keep them alive?

Mikko Helander: In the K-Group, the success of retailers and Kesko starts from doing business together; we're all in the same boat. The only way in which we succeed also in the future is by attracting customers in Finland and abroad to shop at our stores. And that's what we've been doing, as the figures show. All in all, we can say that at the same time when Kesko has succeeded in improving profitability, the profitability of retailers has remained at an OK level without any significant changes this year or in recent years. But the going is tough. The only way in which we've succeeded, in respect of both retailers and Kesko, is a continuous improvement of operating efficiency. And we've been doing it on a large scale.

Riitta Ryynänen: What does "continuous improvement of operating efficiency" mean in practice? You said that you need to attract customers abroad. Don't you mean in Finland?

Mikko Helander: In Finland and abroad; we have a great number of building and home improvement stores in foreign countries.

Riitta Ryynänen: I was talking about food stores.

Mikko Helander: I was talking about all our stores.

Riitta Ryynänen: I wanted to talk about food stores.

Mikko Helander: Let's talk about food stores then.

Riitta Ryynänen: Well, tell me how to keep small, independent food retailers in business.

Mikko Helander: We have a vast number of independent small K-retailers very much alive and doing well in the market.

Riitta Ryynänen: Also in the future?

Mikko Helander: Absolutely. And I also stress that retailer entrepreneurship is at the core of our strategy. It's one of the positive things with which we differentiate ourselves. One of the reasons why we've been doing as well as this in a tight market this year is based on the very good work done by the retailer entrepreneurs'.

Riitta Ryynänen: So, you've not received any messages from small retailers saying that they are in difficulties among the big ones?

Mikko Helander: Certainly not. We should not forget that we have more than 900 retailer entrepreneurs in the grocery trade alone and there will always be individual retailers who have financial difficulties. We have various systems in place for taking care of them. Such retailers exist in good times as well as bad. When we examine the situation in figures chain by chain and look at trends in retailer profitability, we can see that there have been no significant changes in recent years. In other words, the situation is well under control.

Terho has something to add.

Terho Kalliokoski: To Rauli Juva I'd like to say that we opened several stores in Q2: a large building and home improvement store in Vilnius, Lithuania, two in Belarus and one in Russia, which had an effect on our result. And in Belarus, owing to the exchange rate change, last year's operating profit was record high. Now it has dropped slightly, but still remains high.

Mikko Helander: Thank you, Terho.

Arto Jaakkola: What is the sales trend in those Suomen Lähikauppa stores that will be sold? Are they selling well, thanks to the introduction of Pirkka products, compared to those which have been or will be converted into K-Markets and whose customer visits and sales have increased?

Mikko Helander: We should keep in mind that the performance of the whole neighbourhood market in Finland has been negative compared to last year, and the poorest performance

has been recorded by the Siwa and Valintatalo stores. Among them too, there are great differences and bigger than normal negative performance among the stores waiting to be sold, as well as those waiting to be converted into K-Markets. But from our point of view, the most important thing is that as soon as these stores have been converted, very strong, positive changes have taken place.

Arto Jaakkola: Is this a particularly problematic time for selling the stores?

Mikko Helander: I'm not sure about 'particularly problematic', but I'm sure it's not easy. We will do everything we can as provided by the Finnish Competition and Consumer Authority. We have received some inquiries and will tell more about them as things progress.

Rauli Juva: You said that Lähikauppa's net sales have improved by 10% and prices have fallen by 20%. Does this mean that the volume has risen by 30%?

Mikko Helander: It's perhaps not quite as straightforward as that, but your comment is relevant. Indeed, customer visits and volume have increased, and when prices have fallen, it means that volume has developed well. We expect this strong trend to continue as we continue the conversions, which have got off to a good start.

Rauli Juva: Does comparison to the Q1 performance mean that you have compared a certain period from the beginning of the year with the same period last year to show the change after conversion and 12 is their difference?

Mikko Helander: We look at the first four months of the year preceding the closing of the acquisition and immediately after the closing we look at the converted stores. 12% is the growth percentage of these stores compared to the first months of the year. The 6% growth in traffic is in comparison to the previous year.

Minna Nalbantoglu: The consumers' association has criticised the S Group's customer loyalty system saying that it goes too deep into customers' private lives. Would you like to comment on the public debate it has sparked?

Mikko Helander: Like Anni said, we don't have much to say about the debate mainly focusing on our competitor. I'll just repeat that we have had efficient systems in place since 2012 and every consumer can decide the level at which their purchase data is collected, which, quite reasonably, influences the services we can offer them, because detailed, product specific data gives us a huge number of opportunities to provide personalised benefits we very much want to offer Finnish consumers.

Eeva Nikkilä: Has the Data Protection Ombudsman contacted you before or about the upcoming Plussa system revision and asked for more information?

Mikko Helander: We keep continuous contacts and communicate with different authorities, including the Data Protection Ombudsman. To my knowledge, we haven't been contacted about the Plussa system revision by the Ombudsman. Media representatives have approached us and last week we told them, when asked, what we are going to do. So far, it hasn't been discussed in public.

Outi Kokko: Will there be normal offers available to customers whose annual purchases do not amount to €6,500 or even €3,000?

Anni Ronkainen: Yes, the Plussa offers are intended to all customers whereas there will be different types of benefits to customers whose purchases exceed these amounts. They can be products free-of-charge, product samples, novelty products, or service benefits, etc.

Outi Kokko: How do you expect the Plussa system revision to impact on your sales?

Mikko Helander: Naturally, the starting point in everything we do is aimed to increase sales.

Outi Kokko: Can you give any estimated figures?

Mikko Helander: No, I cannot.

Riitta Ryyänen: Will you recognize my birthday?

Anni Ronkainen: I don't think we will.

Mikko Helander: Well, we'll have to give this a thought.

Arto Jaakkola: The new Plussa system has been tested in practice. Will the customer find it easy when they use it the first time on October 1st, or have there been some problems?

Anni Ronkainen: It is very easy to use. We have indeed piloted the use of Plussa money in some 13 stores. The first version was only commented by one customer who said that the text 'yes/no' was too small. That problem has been corrected.

Mikko Helander: And when we think that so far more than 300,000 customers have downloaded the K-ruoka app and the number is growing fast. And the system is developed continuously with new features. We just heard today that you will be able to see the balance of your Plussa account on your mobile phone. These are unique functionalities even on a global scale. Us Finns can be satisfied with the offering of stores in our country and the



digital services already available and introduced to us and there's nothing to feel embarrassed about when compared to other countries. And that's how it should be.

Mikko Helander: As I see that there are no more question, I thank you all. See you next time!