



Questions and President and CEO Mikko Helander's answers at Kesko's Q3/2016 media and analyst briefing on 26 October 2016

Pirkko Tammilehto of Kauppalehti: What was the price of your Russian grocery trade and was it a mistake to own the properties instead of leasing them?

Mikko Helander: We sold our entire Russian grocery trade including related legal entities at the price we have just announced, in other words, 11 million roubles and at today's exchange rate, around 158 million euros.

Pirkko Tammilehto: But how much had you invested in them over the years?

Mikko Helander: Actually, the write-down says quite a lot about it: our book value was over 200 million, which gives more or less the announced non-recurring 69 million loss we will record on it on the basis of today's exchange rate.

Pirkko Tammilehto: But couldn't you have operated on leased properties and waited for the situation to improve?

Mikko Helander: In that respect too, we have acted very systematically in line with Kesko's strategy. Seeking growth in the grocery trade is very important to us, but at the same time, we strongly focus on the Finnish market. These decisions have been made based on the strategy statements, among other things, and we are very pleased with the disposal agreement signed in St. Petersburg in the early hours of today.

Pirkko Tammilehto: How many employees have you had to make redundant in the neighbourhood stores in Finland? And what is the situation in the 60 stores to be divested?

Mikko Helander: That work is still in progress. As I said, around 130 stores have been converted by now and at the same time, we are refurbishing our existing K-Markets. Building our new neighbourhood market is at a good phase. The number of employee redundancies and store closures will be seen over time. In the end, it depends on how frequently Finnish consumers shop at our renewed neighbourhood stores.

Pirkko Tammilehto: Has there been interest in the store sites to be divested, other than from M retailers?

Mikko Helander: We have received a number of inquiries and had several discussions with interested parties. And, Jorma, wasn't it a couple of weeks ago that a trustee, nominated by the Finnish Competition and Consumer Authority, was appointed to look for buyers. After he has completed the assignment, we'll know if any deals will be made. If not, we'll act on the

decisions of the FCCA. In other words, the stores will then remain in our possession and it'll be up to us what to do with them.

Viivi Salminen of STT: What kind of capital expenditures would have been required in Russia and why?

Mikko Helander: Major ones. Up to date, the capital expenditure in 11 large, modern, K-citymarket size grocery trade units has been a large investment. The first capital expenditures were made in 2012 and at that time, the outlook was very different. Gaining a sufficient critical mass, let alone a strong position in the Russian grocery trade, would have required really massive capital expenditures. And as I said, based on Kesko's new strategy, we saw no justification for such investments, and today, it's best to invest in Finland.

Viivi Salminen: Could you specify what you mean by 'massive capital expenditures'?

Mikko Helander: It very much depends on what we would have wanted to achieve. Gaining a sufficient critical mass in the St. Petersburg and Leningradskiy regions which would have enabled us to achieve profitable results in this situation would have required large amounts of money; one hundred million or more, it's difficult to estimate now. And if we had sought a position in Russia on a larger scale, capital expenditures would have been in another class altogether.

Outi Kokko of Taloussanomat and Startel: What is the role of the sanctions against Russia in this situation?

Mikko Helander: Actually no role at all. When we talk about our grocery stores in Russia, irrespective of sanctions, there has been no shortage of goods, the selections have been very good and attractive all the time, and the products that have not been available from EU countries, have been substituted by good quality products through other procurement channels. So, the sanctions have not had any direct effects. But of course, the current political situation between Russia and the west, as well as the general economic situation have resulted in a significant fall in consumers' purchasing power also in Russia, which naturally has a direct impact on the commercial situation.

Outi Kokko: What will happen to your building and home improvement trade in Russia?

Mikko Helander: As I said, this has no connection and nothing to do with the operations of our building and home improvement stores in Russia. They are doing well and have been able to strengthen their positions further in the Moscow and St. Petersburg regions. Commercially, they have outperformed many competitors and despite market challenges

and the weakened purchasing power of customers, they are reporting positive results. And I want to remind you that still in 2014, their result was 13 million positive, and contrary to what a financial magazine wrote yesterday, their financial result for 2015 was also positive.

Outi Kokko: But if the political situation in Russia continues to deteriorate, how do you take it into account in planning, or do you just look at the latest figures?

Mikko Helander: Well, Russia is no exception in this respect. In any business and in any country where we operate, we constantly assess the local operating environment, which is an important part of our work. The changes we expect to take place in the operating environment are considered and examined and we then make decisions on that basis. But I want to emphasize once more that the disposal announced today has nothing to do with our Russian building and home improvement stores.

Outi Kokko: There is a process going on to amend the land use and building act in respect of stores sizes. You, for example, have said that the future of small stores looks good and the emphasis is shifting from large units to small ones. So, isn't there a contradiction?

Mikko Helander: First of all, it should be said that Kesko and the K-Group see that any deregulation is good for our society. And when we look at the amount of regulations in the Finnish society, I'm sure there are some items that are beneficial to some and unfavourable to others. And the same applies to any amendments. From our point of view, the amendment you are referring to has no relevance to us. Above all, we are confident that deregulation promotes economic activity and wellbeing in the Finnish society, improves consumers' purchasing power, which benefits all.

The amendment concerning store networks you described is absolutely desirable. We are very strongly developing our neighbourhood store network, but we are also confident about our large retail units, proof of which is the fact that the whole chain of 80 K-citymarkets is undergoing renewal. K-citymarkets' annual sales exceed 2 billion euros and their profitability is at a very good level. We have no reason to doubt Finnish consumers' willingness to continue shopping at these large retail units as well as in our good neighbourhood stores.

Viivi Salminen: Why is the building and home improvement trade doing so much better than the grocery trade in Russia?

Mikko Helander: I'm sure there are many reasons. But first we should not forget that our building and home improvement stores entered the Russian market much earlier than the food stores. And their entry was by acquisition, so that we started to build building and home improvement stores from a completely different basis and very much earlier before the downturn of the Russian economy. Another important factor is that the critical mass in our

building and home improvement stores is much bigger as we are a major operator in the St. Petersburg, Leningradskiy and Moscow regions, the number and volumes of our stores are much bigger relatively speaking. So that also in this sense, the starting points were quite different and our grocery trade entered the Russian market in 2012.

Pirkko Tammilehto: How is your market share doing in the Finnish grocery trade competition? Kesko's Q3 sales to K-food stores were smaller than last year. Does this reflect a fall in prices or in volumes?

Mikko Helander: That is the sum of many things. The decline in prices is one thing. But there have also been certain changes in, for example, the accounting practice related to bottle deposits. Another practical change has taken place in the sales of fittings; earlier we sold store fittings to retailers and recorded them in net sales. Now this is done on a commission basis. The change took place during this past third quarter. If this change in accounting for fittings sales, which in itself is a good change, is eliminated, the sales would have shown a slightly positive figure. But when we talk about market shares it's positive that the successful acquisition of Suomen Lähikauppa and its integration raise the market share of our grocery trade to a completely new level. And when we talk about market shares in the grocery trade, I always want to point out the significance of Kespro. In fact, we are the overwhelming market leader in the horeca sector. Looking at food as a whole and at what is consumed in Finland, the whole of our weight is very significant irrespective of indicator. We should not look only at the retail market share, even if it now stands at a completely new level in our case.

Pirkko Tammilehto: But from the point of view of retailers, isn't it important to look exactly at the market share, because the stores are run by independent retailers?

Mikko Helander: Of course we look at it from the point of view of retailers and also Kesko. We are now on a good growth path in terms of volumes, net sales, profitability and also market share.

Pirkko Tammilehto: How profitable is it for K-citymarkets to be open until 11 pm in the Greater Helsinki area, for example? And on what basis do the opening hours vary from one store to the next nowadays that the consumer doesn't always know which store is open and which is not?

Mikko Helander: In my opinion, the wrong way to approach this issue is to examine the profitability of the last one or two opening hours of the day. They alone are not very profitable. We should look at the whole service entity and the fact that the consumer no longer needs to worry about whether their local shop is open or not. Instead, retail services

are now available to consumers at the hours most convenient to them and their families. Owing to our structure, composed of Kesko and the retailers, we were a little slow in the adoption of this change. But now the opening hours have settled at those suitable to customers which can be seen also in our commercial performance. At the beginning of the year, the impact was slightly negative due to the somewhat slower start compared to one of our competitors.

Mikko Helander: Any other questions?

Terho Kalliokoski: There was a question about why K-rauta is doing so well in Russia. I'd like to answer and add that we should understand the difference in the structures of the grocery trade and the building and technical trade. In the building and technical trade, the business in Finland contributes less than half, or slightly over 45% to our net sales. And we are a very international operator, as most of our net sales are derived from outside Finland. Our entire organisation has been built to support the international operations, which I think also help our operations in Russia couple with our whole volume.

Mikko Helander: Exactly.

Outi Kokko: Now that you'll get money from the sale of your food business in Russia, what will you do with the money? Will you distribute bigger dividends or how will you use it?

Mikko Helander: Well, it's good to have money. And we haven't been actually short of money earlier either. Of course, we haven't thought about this. As you well know, the decision about dividend distribution will be made at the General Meeting next spring based on the Board's proposal. Let it be said, however, that Kesko has a history of a generous dividend payer including last year. One of our key objectives is to continue being a good dividend payer also in the future. It's good to remember that we have a very clear strategy according to which we seek strong growth in the Finnish grocery trade, in the building and technical trade also outside Finland and we increase our car trade. The pursuit of these objectives provides plenty of opportunities which are investigated all the time, bearing in mind, however, that we have taken significant steps and we now want to make sure that the integration of the new businesses goes well and we also want to make sure that the numerous other important strategic projects, some of which I described in the presentation, are completed the way they have been planned. All in all, we are in a good position to develop Kesko and the K-Group further.

Mikko Helander: As I see that there are no more question, I thank you and wish you a nice autumn!