



## **President and CEO Matti Halmesmäki's answers to questions at Kesko's Q3/2011 media and analyst briefing on 26 October 2011**

**Jarmo Aaltonen of Helsingin Sanomat:** About Kesko's structure: is it good and how is Kespro doing these days?)

**Matti Halmesmäki:** Kespro was for sale and at that time its annual profit level was €5.3 million and was indicated to stay flat. Kespro's profit level has quadrupled since we withdrew it from sale in and today it is the market leader in the horeca sector, regardless of the restaurant business' difficulties. Kespro is in a good position to develop its online sales also to smaller customers in cooperation with K-stores. Kespro has cemented its position in our portfolio. The threshold for entering new business areas is high, which is why we feel the need to focus. Especially now that Intersport has started its international expansion, Rautakesko is already a significant operator in eight countries and Kesko Food is also expanding abroad. An online question arrived asking do we have plans to acquire Rautakirja. The answer is that we have not taken a stand on it yet. Rautakirja is a retail operator and a success story in its sector, but certain worries have emerged as the circulation of print media is declining. Other factors include opening hours and the future of games. But I admit that Rautakirja is a possibility.

**Arto Jaakkola of Kehittyvä kauppa:** About Kesko Food's strategy: you said that Kesko Food will seek intensive growth in Russia. What do you exactly mean by 'intensive growth'?

**MH:** The figure announced at the AGM was €500 million in 2015 and profitable operation. The amount was discussed yesterday at the Kesko Board meeting and decisions on further capital expenditure in Russia were made.

**AJ: What is your opinion as the President and CEO about the progress of electronic projects being carried out in Kesko's divisions?**

**MH:** The Board has discussed them several times. The safe choice is to proceed through evolution, in other words, by means of continuous changes in order not to confuse customers or our systems. I think we should consider whether evolution is enough, or would revolution be better. A drastic change involves higher risks. But the key question is: while the K-Group puts €300 million in marketing, how will we reach the customer in the future. When we speak, does the customer hear what we're saying? It is understandable that because the introduction of electronic systems in both internal efficiency projects and customer communications has been fast, we have not done enough. Interactive web communities cannot be managed. Instead, we should be actively present in interactive web communities, and first of all, to identify them for the food trade, sports trade etc. All in all, e-commerce will grow intensively also in the food trade, although some online stores have been closed. The service function of a K-food store is nothing new: goods have been delivered to customers' homes. And it is possible that also in the future, we can take online



orders. But no business breakthrough will be possible, because customers are not willing to pay us for first placing goods on store shelves, then picking customer orders, packing and delivering them to customers. Self-service is the most efficient method and customers want it. An automated logistics system which also handles small items, like we have for home and speciality goods in Kerava, is complicated and cost intensive. As K-citymarket Oy opens its online store volumes in the Kerava facilities will increase, which means lower staff, store and other costs. E-commerce must also be profitable.

Customer behaviour online is different from customer behaviour in a conventional store and their shopping profiles are different, which makes matters more complicated. But we will be making efforts in order to achieve competitive advantages also in e-commerce.

**AJ:** Now that the car trade is doing so fine, how about service and maintenance operations?

**MH:** Volkswagen imports into Finland began in 1952 and the brand has enjoyed popularity ever since. Audi's success is more recent. The market has grown, which impacts service and maintenance operations and we are not perfectly happy about them. There is plenty of room for improvement in the car business, for example, arranging a test run is all too complicated.

**Jarmo Aaltonen of Helsingin Sanomat:** A question to Arja Talma: Do you have big plans for the building and home improvement trade?

**Arja Talma:** It is too early for any major plans, but I've been watching the segment being a member of its Board for the last six and a half years. It has given me certain ideas but plans will be made later on.

**MH:** Arja is also responsible for IT management. RAKSA has been a major IT project for our building and home improvement trade; a typical project which has been delayed and become twice as expensive as budgeted and users are complaining about the quality. Now Arja, who transfers from CFO to Rautakesko's President will see the project from the opposite angle. However, the SAP solution RAKSA has been introduced in all other operating countries except Finland, where the pilot will be launched in December. Arja has plenty of experience in IT matters also from her other Board memberships in other companies.

If there are no more questions, I thank you for your attention and wish you a nice autumn!