

Q&A with President and CEO Mikko Helander at Kesko's Q1/2018 media and analyst briefing on 25 April 2018

Mikko Ervasti, Nordea: How much of the growth and profit improvement in the grocery trade do you attribute to price/volume/mix, and what was the impact of the changes in alcohol legislation?

Mikko Helander: The changes in alcohol legislation have not had any significant impact. As we've said before, we do not expect to see much of an impact there: the main impact is on customers, making their everyday lives easier.

The main factor is that for three years, we have been able to successfully implement the strategy established in 2015 in all our chains: K-Citymarket, K-Supermarket, K-Market and Neste K, and also in Kespro. The further we move forward in our strategy implementation – as we continue to emphasise that we are a different kind of a player in the grocery trade market than our competitors – the more our stores seem to attract customers and the more those customers seem to spend their money at K Group stores.

On top of that, there is the very successful acquisition of Suomen Lähikauppa and its excellent integration – this also had a particularly big impact on Q1/2018. These are the factors behind the good performance. Obviously, these results encourage and motivate us to continue our strategy implementation: the work is not yet done, but will continue in upcoming years.

Mikko Ervasti, Nordea: As for the markets for building and technical trade: you still seem positive about the Swedish market as a whole, why is that?

Mikko Helander: Of course, the Swedish *market* is very good, as are other markets in Northern Europe. As for us, we have been making big changes since last autumn, and under Jorma Rauhala, we are managing and developing the division using a very different management model. Our starting point is that we must be able to better serve our customers at country level, both B2B and B2C customers, and acknowledge the specific needs of customers in each country. This is a big change in our philosophy compared to before. For example in Sweden, our previous approach was that we could take our successful Finnish K-Rauta concept and apply it to Sweden, but we found out that this did not work because Sweden is not Finland, and the Swedish market, Swedish customers and competition in Sweden are very different. We have now acknowledged this, and we are changing and developing our whole building and technical trade division from a new perspective.

Mikko Ervasti, Nordea: But you are not concerned about Swedish housing prices, construction and reduced purchasing power due to currency?

Mikko Helander: No, we are not. Building and technical trade is a significant strategic division for us, and we are developing the division with a long-term focus. We must remember that Sweden is an excellent market: the population is growing, political stability

is very high, and there is an enormous amount of renovation debt. We see no reason to be concerned about Sweden from a long-term perspective.

Mikko Ervasti, Nordea: Finally, is the divestment in Russia guaranteed, with no way the buyer could back out of the deal?

Mikko Helander: No, they cannot back out. We have brought home the money, the stores have sold out their stock. We are already handing stores over to Leroy Merlin. The deal is done. Of course, it will take some time before we can close the books and turn out the lights in our final remaining office in Russia, but there is no need for our shareholders and investors to be concerned. Instead, they should be pleased, we are very happy with the way we handled the divestment of the Russian building and home improvement operations. The only thing that bothers me is that there was some media speculation that gave an entirely incorrect picture of the type of deal we were making. We were very successful in bringing capital home from Russia and can be very happy with the arrangement.

Mikko Ervasti, Nordea: Thank you.

Mikko Helander: Any more questions?

Olli Herrala, Kauppalehti: How many more former Suomen Lähikauppa stores will be transferred to retailers in the near term?

Mikko Helander: Ari, is it 50 stores?

Ari Akseli: Yes, the number is constantly shrinking, and agreements need to be closed only on a few more stores. All stores will be transferred by the end of June. In total, there are 50 stores without a retailer, but we have signed agreements on nearly all of them.

Mikko Helander: Slightly over 10% of the stores are still operated by Kesko, but as Ari said, all stores will be operated by retailers by early summer.

Olli Herrala, Kauppalehti: How many stores were closed?

Mikko Helander: When we acquired Suomen Lähikauppa, they had some 600 Siwa and Valintatalo stores. At the time of signing the deal, we already knew that some of the stores, especially in the greater Helsinki area, would be taken over by our competitor, as the stores were renting their premises from S Group. Colleagues, am I right in thinking that we obtained slightly over 550 stores? The number of stores we initially estimated would remain under the K brand was significantly less than 400. However, our people did an exemplary job in terms of integration, and when retailers took over the stores they brought a new drive to them and boosted sales growth considerably. As we said, the sales of the former Siwas and Valintatalos have grown by 15% on average under K Group so far. Consequently, we kept 400 stores running, which is clearly more than we originally estimated.

Olli Herrala, Kauppalehti: And is the 50 stores on top of that?

Mikko Helander: No, of the 400 stores, some 50 are currently operated by Kesko and 350 are already run by retailers, and the remaining 50 stores will be transferred to retailers, after which all K Group K-food stores will again be operated by K-retailer entrepreneurs. Kesko operated the smaller stores for a while, and once again we concluded that the best division of labour is that retailers operate the stores and Kesko manages other matters.

Olli Herrala, Kauppalehti: In terms of investments, there have been figures of new Citymarkets to be built and opened. What can you tell us about that?

Mikko Helander: We have consistently said that the number of Citymarkets is not set to increase significantly. We have 81 Citymarkets in Finland. The big effort for us is the redesign of the stores. I believe so far we have remodelled 44 Citymarkets, and the rest will be remodelled during 2018 and 2019. That is a big investment. But the total number of Citymarkets is not set to change significantly. Of course, we may open new stores, but at the same time, in some locations, a K-Citymarket might be turned into a K-Supermarket, for example. These are the types of changes we may see. But the overall number of hypermarkets is not likely to change notably for K Group.

Mikko Helander: Thank you, thanks everyone for coming.