

Questions and President and CEO Mikko Helander's answers at Kesko's Q3/2017 media and analyst briefing on 25 October 2017

Pirkko Tammilehto, Kauppalehti: A question about the specialty trade: how have you fared in the sports trade? Intersport faces tough competition, do you have anything special to tell us about that?

Mikko Helander: We have fared well in the competition. As everyone knows, recent years have been very interesting also for the sports trade. Competition is extremely tight, and has tightened further, but our chains, both Intersport and Budget Sport, have fared well, and we are pleased with the development in sales and profitability. We still hold a good, strong market-leading position, which we have managed to defend.

Pirkko Tammilehto: What about the divestment of Asko and Sotka stores, has that now been completed?

Mikko Helander: It has been completed. The transaction has been concluded, and a new owner has taken over. As far as I know, the development in Asko and Sotka has continued very strong also under the new owner.

Pirkko Tammilehto: Is there anything you can tell us about the Alibaba online sales? Of course it's fresh news, but do you have anything new to tell after one and a half months?

Mikko Helander: As we've said before, this is a start-up project for us, and it is off to a good start in that sense and spirit. Jorma can maybe shed some more light on this. Products are sold there all the time, and it will be interesting to see how things develop.

Jorma Rauhala: I don't have much to add. As Mikko said, products are sold there every day. The biggest sellers are currently Pirkka muesli products. Sales are growing and in the next phase, we'll be increasing the product selection. We entered this with a start-up frame of mind, and we are learning the trade. Things look promising.

Pirkko Tammilehto: A question about the sales of home and speciality goods in Citymarkets. There have been issues for some time. You showed good figures, but how are you faring in home and speciality goods?

Mikko Helander: I can repeat what I've said before and Jorma can elaborate. There's been tremendous work done. We're very impressed by the developments in home and speciality goods. Everyone knows it's the area where retailers across the line all over the world are facing problems. What Jorma and others have done, the results are very impressive. Jorma can shed some more light on the matter.

Jorma Rauhala: The crucial thing are the choices we have made regarding which home and speciality goods product groups to include. We have made changes to these starting 2015 up until today. We now focus on cosmetics, home textiles and clothing, and we have found good solutions for these groups. It's better trade than, for example, the sales of

home electronics, which get outdated fairly quickly and where margins are small. That is the crucial factor for Citymarket's success. We have found a solid foundation for the concept, which we are now rolling out and making the changes mentioned. This process is still at early stages.

Pirkko Tammilehto: Finally, a question about the online sales of food, which have expanded to include many K-retailers in Finland. How are things looking there?

Mikko Helander: Again I would like to note that we have done a lot of work this year and partly also last year in developing the so-called third-generation online food store. We have piloted the online stores since the beginning of this year in Iso Omena and Citymarket Itäkeskus, and developed the stores further. Now they're operating well and we'll now take them to a national level. Jorma can tell you more details.

Jorma Rauhala: Yes, we now have a new online store, implemented in all stores that have been involved in online sales for some years. There some 80 such stores. In addition, we have piloted three things in Iso Omena and Itäkeskus: the actual online store and order system, the collection system, to make it more efficient and reduce mistakes, and the delivery system, so we can tell customers when to expect their deliveries. The results have been excellent: efficiency has improved, customer satisfaction measured in NPS is above 70 for the online store, which is tremendous, the highest score for any our operations. Now we're at a stage where we will begin to expand to cover almost the whole of Finland, so that we will have a very good, extensive delivery service widely across Finland.

Mikko Ervasti, Nordea: I'll continue on the same topic. I had a look at your IT capex, which was of course very high in the first half of the year. In Q3, the figure came down somewhat. Do these figures relate to the investments you just mentioned, and have these investments now been completed and will IT costs now stay lower?

Mikko Helander: Yes, they do relate to these investments, among others. As you know, as a trading group we are making big investments in renewing our stores and store chains. But alongside that, our development focus is also on digital services, online store and ERP systems which improve our efficiency. Jukka can tell you more on IT costs.

Jukka Erlund: A few words. Actually, our ICT and digital investments are growing. All our divisions have clear digital strategies, and of course we need to increase investments in ICT in this changing market situation. We have a significant number of ongoing projects at the moment, and we are likely to increase these investments somewhat next year, that much is clear.

Mikko Helander: However, correspondingly, investments in stores and walls will decrease somewhat, so it is more a question of emphasis.

Jukka Erlund: Yes, the emphasis will change. As we have said before, our capital expenditure as a whole will decrease somewhat, especially with regard to store sites, while ICT and digital investments will increase.

Mikko Ervasti: Thank you. With regard to the profitability of Onninen in Sweden, you said that measures will continue and more work needs to be done. But are there some issues or challenges there that have surprised you? What kind of further measures are required? The result of the whole unit was perhaps poorer than anticipated.

Mikko Helander: Yes, of course there are issues if we look at the losses still recorded there, although the losses have decreased. It's worth remembering that when we acquired Onninen, we already knew that Poland and Sweden were heavily loss-making. And we said then that we would implement even hard measures to get them into shape. In Poland, we have been successful at this, things in Poland are progressing very well. In Sweden, we have been successful in significantly reducing the losses, but losses are still recorded, I'll note again that we have initiated further measures, which will be implemented during the remainder of this year and early next year. Of course our aim is that we will not produce losses in Sweden, or anywhere else. One reason why Kesko's profitability has developed well in recent years has been that we do not accept loss-making operations, and will resolve any losses one way or another.

Mikko Ervasti: Could you describe the main challenges that persist in Sweden?

Mikko Helander: The biggest challenge is that our position in Sweden overall is not yet strong enough. That applies to Onninen as well as to the K-Rauta chain. Another challenge is that Onninen is of course a separate operator and K-Rauta is another separate operator, while our aim is that they will be acting increasingly as a united entity. A third notable challenge is the infrastructure segment in Sweden is operating well enough, but the rest are problematic. I can't and won't go into details on the measures, but will repeat that we have already decided to initiate further measures, and I am confident we will be gradually able to eliminate the issues behind the losses.

Mikko Ervasti: Thank you.

Mikko Helander: Do we have any questions from other channels? Ok, the channels are not open and therefore we have no questions. Thank you everyone for coming, and I'll see you next year at the latest, when we will discuss Kesko's 2017 results. Thank you.