

Questions and President and CEO Mikko Helander's answers at Kesko's Q4/2017 media and analyst briefing on 1 February 2018

Mikko Ervasti, Nordea: Let's start with questions about the food trade and the grocery trade. How much did the Independence Day celebrations affect the good profitability in Q4? Where did the profit improvement come from: volume, gross margin, costs?

Mikko Helander: Above all, the good profit in Q4 was the result of very good sales development, for the whole quarter. Our sales development was good for the whole year 2017. As for the impact of individual bank holidays, Christmas of course always has a big impact. However, we now did better than before in seasonal Christmas sales, which further improved our profitability. Independence Day did have an impact, but a much smaller one than for example Christmas. We did better overall and all our chains performed well in the market overall – and again I want to emphasise that Citymarket clearly outdid its competition – all these factors had a big impact.

Mikko Ervasti, Nordea: As for the price and inflation environment: your competitor keeps advertising lower prices. What makes you believe that inflation will continue or that price campaigns are decreasing?

Mikko Helander: As we've said before, the decline in food prices has been a temporary phenomenon. Developments in food prices are primarily driven by world market prices. No individual trading sector operator in Finland or in Europe can through its own actions affect the big trends. Food prices declining significantly in Finland over the past two years was primarily due to the fact that the prices of agricultural products and food declined globally, for various reasons. Now the trend has turned, meaning we've returned closer to normal.

Competition, of course, is ongoing and it is rough and all the players use the weapons they choose. The operator you referred to clearly has a very different strategy and emphasises the price angle, while we emphasise many other factors alongside price. Again, our analysis is that Kesko and K Group's strategy is effective, and we are very happy with it and will continue its determined implementation.

Mikko Ervasti, Nordea: Finally, a question about the changes in alcohol legislation. How are you and your competitors approaching this new opportunity?

Mikko Helander: Firstly, I have been happy to see that all trading sector operators have assumed a very responsible approach to the change. We haven't seen any over-the-top moves, and I don't think we will.

Sales are up, but you shouldn't draw too far reaching conclusions on that. We must later examine the trend in alcohol sales as a whole: what is the impact on grocery trade sales, on Alko, and on foreign imports? We continue to believe no dramatic changes are on the horizon in this area, but certainly some alcohol sales are likely to move over to grocery stores.

Mikko Ervasti, Nordea: Thank you, I'll turn this over to others.

Maria Wikström, Danske Bank: I have a few questions, first regarding the guidance for next year. You said you expect profit to improve over the next 12 months, yet you also mention various investments that will burden the profit somewhat. Could you quantify the size of these investments?

Mikko Helander: As we have said in our previous guidance statements, our investments will decrease. Especially the large investments we have made in our store chain networks will decrease in 2018. However, at the same time we are increasing investments in, for example, various digital services and new information systems, as these will become increasingly important. We have already carried out a major transformation and have a good development drive. Anni and her colleagues have managed to create excellent applications, enthusiastically received by our customers. But the more we do and the more experts we hire, the more we become aware of opportunities, which we want to take advantage of.

Thirdly, there are various types of leasing and financing services. In 2018, we will be offering more financing services to customers in our divisions, and that will raise our figures for capital expenditure. However, that is about creating new business. Not traditional investments in physical stores and properties, but investing in new services we see a market for.

Maria Wikström, Danske Bank: What is the budget for these digital investments in terms of euros?

Mikko Helander: I'm not going to go into detail for the full figure. Sums have been allocated for the different divisions, and we also have common projects related to the K-Plussa and services for our top customers, for example. So the investments are spread widely across our operations. We have, however, already invested considerably in this area, and will increase our expenditure also in 2018.

Maria Wikström, Danske Bank: Your presentation showed an improved balance sheet and good cash flow, which would've enabled higher dividend pay-outs, although the dividend was in line with forecasts. Are you, however, leaving room for future acquisitions?

Mikko Helander: Let me put it this way: we have an exceptionally strong financial position, we are in practice a debt-free company, our net sales are close to 11 billion euros, all our divisions are growing, and our strategy is crystal clear. Considering these factors, we are constantly reviewing opportunities in all our divisions. And we are in an excellent position to seize such opportunities should we find suitable acquisition targets. At the same time, however, we are heavily focusing on organic growth. So again we are in excellent position going forward.

Maria Wikström, Danske Bank: Finally, a question for Ari Akseli regarding Kespro, where growth in Q4 was 7.6% and full-year growth was 4.2%, likely affected by Independence Day, which is likely to have brought new customers to the wholesale trade. What is your view of the competitive environment for Kespro and future development? Do you expect

changes in the purchasing chain to affect the competitive dynamic and market shares this year?

Mikko Helander: I would have been happy to answer, but the question was for Ari. Kespro is such a great company and a great story for K Group, but Ari is the man to answer this question.

Ari Akseli: The market for Kespro is very promising. Eating out is growing, so there's value there. Kespro's strategy is based on customer channel specific actions. In each channel, we emphasise what is important for that particular customer group, for example, the significant private HoReCa customers. In terms of outlook, we are forcefully driving Kespro forward in multiple areas and the strategy is clearly working. We are adding focus on fresh foods, where we see further potential going forward. We have a good drive in Kespro and that's why we are eager to invest there and seek new opportunities.

Mikko Helander: Exactly, and I would also like to see the food trade being examined more as a whole in Finland, as it is in Sweden and elsewhere in Western Europe, where food trade market shares are examined as a whole. In Finland the focus has only been on market shares in the grocery trade. If the food trade is examined as a whole, K Group's position is even stronger, as our market share has risen notably in the grocery trade and Kespro is the undisputed market leader in its field, meaning the significance of Kesko and K Group is even greater for the whole Finnish food trade.

Pirkko Tammilehto, Kauppalehti: In the building and technical trade, Sweden is still making a loss. What concrete actions are you taking to solve the issue?

Mikko Helander: I'll answer first and then Jorma will continue, I'll also be exited to hear what he has to say. Not talking just about Sweden, but overall in the building and technical trade, our performance development has been very good over the past three years, yet it's clear that for us to rise to the operational and profitability level of the best European sector companies, we ourselves must operate at the next level. The key is to have a stronger country-specific approach and a stronger country-specific focus. We must have a clearer local strategy for each country, we must have the best people in each country running, managing and developing the business, and in the background, we must have strong support and steering for the countries, led by Jorma. This is a change we are currently implementing under Jorma, and related measures have already begun in Sweden. Jorma, please elaborate.

Jorma Rauhala: Well, Mikko actually said pretty much all, I don't have that much to add. I've spent the few months I've worked in this position by reviewing the situation. My background is in Kespro, and for 20 years I've been engaged in B2B, which is where this business is and will increasingly be focused. In my view, it's not that different from the HoReCa business.

So, a country-specific approach, as the situations in our operating countries vary considerably in terms of the size of our business, market share, profit ability, business

model, which may be the retailer model, a joint venture or our own business, the situations vary greatly. For Sweden, we have short-term programmes, things we are doing right now to improve the result. There are certain cost cuts and some store closures. But at the same time, we are updating our strategy, and Sweden is a key future growth area. We need to make a strong growth strategy for Sweden and we will do so over the spring.

Mikko Helander: We will also strengthen the management.

Pirkko Tammilehto, Kauppalehti: Are the management local, Swedish people who know the market?

Jorma Rauhala: Yes. We will be making some changes, but local knowledge is essential, especially with corporate customers. We need to carefully review which operations should be concentrated – some operations can be handled centrally for all countries while some, such as customer relationship management, are very local, and we need people who know the local situation and customers.

Pirkko Tammilehto, Kauppalehti: Are there differences between the countries? Here you have heavily focused on B2B, and less so on B2C. Do you have different systems for different countries, are there a lot of consumer builders in Sweden?

Jorma Rauhala: The focus is shifting more towards B2B in all countries, but there are big differences. For example in the Baltics B2C trade is bigger, while in Finland, Sweden and Norway the emphasis is on B2B. In Finland, we will strongly engage in both, and surely in other countries as well. But this is one of the issues that needs to be decided at country level: where do we focus specifically? That does not mean we turn our backs completely to the other segment, but we need to find the strengths and competitive advantages we focus on.

Pirkko Tammilehto, Kauppalehti: A question about K-Citymarket, where the performance was so good. What is the situation in Citymarket's home and speciality goods, which has been an issue for some time?

Mikko Helander: Again, I would like to answer myself, but we'll let Ari do it.

Ari Akseli: Citymarkets' home and speciality goods have performed very well. We have made a clear allocation, focusing on product segments where the growth in online will not result in a decline, and where margins are better, especially clothing and home textiles. We have reached a good sourcing alliance co-operation through e.g. IGS with ICA and Ahold, which has led to good launches and improved margins.

Mikko Helander: That was very modest, the turnaround in Citymarkets' home and speciality goods has been amazing. And it's particularly attributable to the changes we have made. Successful changes have turned sales up and profitability is, in my view, at a very good level. Remember, the department store trade overall is really struggling, yet in our Citymarkets, the trend is entirely the opposite. It's my understanding that the home and speciality goods trade in Citymarkets is one of the most successful concepts in the Finnish

department store trade at the moment. This shows that the changes we have made and our strategy are also successful here.

Pirkko Tammilehto, Kauppalehti: Do you intend to open new Citymarkets as you develop the store chain network?

Mikko Helander: As we've said before, the current 81 Citymarkets is likely to be the number also going forward. There will be normal development of the network: a Citymarket may close in one area, or one or two may be opened. It should be remembered that also in Finland, people are increasingly polarising and concentrating in the greater Helsinki area and growth centres, so there is a significant social change going on. In the long term at least, this will affect the networks. Mostly, however, we consider the current number appropriate.

Pirkko Tammilehto, Kauppalehti: Will there be many further changes to the K-Market chain this year? You've now closed some of the former Suomen Lähikauppa stores, will the situation change further?

Mikko Helander: Would you agree Ari that there will normal changes in the network, nothing more?

Ari Akseli: Yes, normal chain development. There will be new stores, it's possible some stores are closed, but there won't be significant changes to the total number of stores. What we are heavily focusing on are the further redesigns of the stores. The results of K-Market redesigns have been excellent, reflected in both customer feedback and sales.

Mikko Helander: And the same is true for Citymarkets and K-Supermarkets. The redesigned stores have met with excellent reception everywhere.

Ari Akseli: Indeed, and one additional product segment in Citymarkets where we've done excellent work are cosmetics, where sales are growing at a staggering pace.

Mikko Helander: Perhaps one thing is worth mentioning. As you, Pirkko, remember, two or three years ago we tested the multi-store model, meaning we opened up the opportunity for the retailers to have more than one store. Here too, the results have exceeded all our expectations. Ari, am I correct in thinking there are now over 500 retailers with more than one store?

Ari Akseli: There 500 stores.

Mikko Helander: Exactly, out of 1300 stores, 500 already operate under the multi-store model, and the results are very good. We can now better utilise the expertise of good retailers, and it has also brought more energy to the whole K Group. If we examine individual factors behind the good progress in our grocery trade, this is one of the many factors. It has clearly exceed all our expectations, and we will be absolutely expand it further.

Are there any more questions? No. Thank you and please have some coffee. Thank you everyone.