

## **President and CEO Matti Halmesmäki's answers to questions at Kesko's Q4/2012 media and analyst briefing 5 February 2013**

**Mia Jouslehto, Kauppalehti: What is actually happening at Anttila and Kodin1? What are the measures you are taking in order to improve its competitiveness?**

**MH:** First of all, shopping visits at Anttila's Top Ten entertainment departments have fallen significantly as a result of downloading from the internet. This has obviously had a negative impact on profits and the change is permanent. Among Kodin1's competitors, Ikea has strengthened its position and store network. But Kodin1 is a store of brands, highlighting its customer promise, displays, offer of new products and services. The emphasis will be on brand visibility. The background functions of K-citymarket home and speciality goods and Anttila were combined, which involved a major IT systems project. One of the positive developments is the 5.9 million improvement in the efficiency of the newly introduced Kerava logistics centre, which serves both online and department stores. We are also developing the organisation of customer relationships management, and product management, i.e. selections, marketing etc., is increasingly separated from customer service at the Anttila, K-citymarket and Kodin1 stores. Anttila does enjoy a good image among customers in terms of price/quality ratio and customer service. Although growth is not expected of the interior decoration sector as a whole, there are certain areas of growth, such as products related to the trend of spending more time at home and hobby interests. The market is quite similar to Indoor's Askö and Sotka, which have been able to maintain their position. I see that it is possible to operate in that market, but we need to consider the product selections by segment.

**Elina Kervinen, Helsingin Sanomat: Why has Kesko not been able to increase its market share in the grocery trade, and could you tell us more about your food store openings in Russia?**

**MH:** In recent years, food prices have increased quite a lot, and the market has grown by some 5%. The fact that market shares change only proves that competition is efficient. We have 1,000 stores and 900 retailers who are responsible for their own operations. Kesko delivers goods and participates in marketing campaigns etc. but there is great variety between local operating environments. As far as I know, changes in market shares are quite small: in five years out of seven, we have gained market share. Successful campaigns are another important element. Our strengths include service counters of fresh fish, meat and ready meals, but perhaps in the present economic situation, they are not an option for as many customers as we would hope.

As for Russia, based on the first sales figures from our first K-ruoka store, it will correspond to our large units in Finland. Its home and speciality goods selection is smaller compared to a K-citymarket, but otherwise the store is the same size. This is as it should be, because building costs in St. Petersburg are more or less as high as in Finland and in Moscow even higher. The store is open 24 hours a day. The arrangement of logistics differs from the

Finnish operating environment, because suppliers do not have logistics and there are no such subcontractors. Reducing the back store area is a development target for us. The production for service counters takes place in the store, which adds to the freshness of the offer. But the storage area is bigger compared to Finnish stores. Traffic jams in the Russian metropolitan areas make store replenishment difficult, but on the other hand, it is easier at the night time and the store is open around the clock.

We also launched Kesko's joint customer loyalty card in Russia, which has become very popular among the customers of our food store and the building and home improvement stores and in the spring, it will be accepted at our Intersport stores too. This means that the K symbol will become visible in Russia also at the Group level. Gradually we will also be able to collect information on customer behaviour and use targeted marketing. All in all, the project has been a major effort for Kesko Food and the whole Kesko Group and we have gained lots of useful experiences from it. I've visited the K-ruoka store in St. Petersburg a couple of times and the general atmosphere has been very motivated and committed. Kesko has a principle that in all of our foreign operations, the operational leader is of local nationality and a top class professional. For the food trade, we found a man who had been working for Auchan and Lenta and has now gathered an efficient team. At present, we are looking for a leader for the building and home improvement trade in Russia. We hired a leader for Intersport last summer, and a new managing director for both Sweden and Norway was selected on the same principle. Especially in Russia, it is important to understand the local mentality, culture and operating practices. The operating environment is very difficult, but I'd like to think that within 50 years, our return on capital and market share stands at the same level as in Finland. We now have three segments operating in Russia, but I don't see why VV-Auto could not do good business there too.

**Rauli Juva, Nordea: Arja Talma did not act as Rautakesko President for long. What were the reasons why she was transferred to a new post?**

**MH:** As I already explained quite openly at the beginning, we want to develop the return on capital. Well located store sites are crucially important, but they involve major capital expenditures for long periods of time, because their life cycles are long, whereas the returns are quite low in respect of the targets set for the result of operating activities. Thanks to her employment history and experience, Arja has the best possible qualifications for the post. Terho has been Kesko Food's President for eight years and has proven his capability for the new post. And also Jorma has convinced Kesko Board of his commitment and motivation. In other words, there is nothing dramatic behind these changes in the Corporate Management Board composition, especially because both Arja and Terho will continue as its members.

**Rauli Juva, Nordea: Will there be some major changes in your real estate portfolio in the near future?**

**MH:** Our Board member Ilpo Kokkila was very much in favour of this arrangement arguing that a major real estate investor like Kesko should have sufficient resources and allocated responsibilities. Kesko always pays its rents which makes us an attractive partner for long-term leases in, for example, shopping centres and also attracts international investors. In addition, Finnish investors are also increasingly interested in real estate, especially when interest rates are low and the European stock market seems to be slow in recovery. Interest rate on leaseback has indeed remained at a surprisingly high level. I hope Finnish investors could be able to invest in shopping centres. Direct investment contracts involve a lot of work and liquidity tends to be poor, compared to structured systems like the stock exchange, for example.

**Mikko Laitila, Talouselämä: In the car and machinery trade, net sales for the last quarter decreased by 14%, which was clearly more than for the whole year. Why was that?**

**MH:** I'm the Chair of VV-Auto Oy's Board and we actually were the market leader. I think Volkswagen was down by some 18% for the whole year, i.e. the market decrease. Audi more or less maintained its market share. Eva Kaukinen is also member of the VV-Auto Board. Could you perhaps tell us more about this?

**Eva Kaukinen:** A substantial increase in car sales began as early as in Q4/2011 anticipating the car tax change.

**MH:** That was the case. Normally, December is a quiet month in car sales, because customers want their car registrations to be recorded for the next year. December 2011 was an exception to this.

**Arto Jaakkola, Kehittyvä Kauppa: While capital expenditures in Russia concentrate on the food trade, how about Finland?**

**MH:** All capital expenditures put forward to the division Boards have been approved and I think the matters have been prioritised within the divisions before they are presented to the Boards. The best return on capital is generated by the food trade, whereas the home and speciality goods trade typically takes place on leased premises, and I'm sure there are some K-rauta projects underway. No policy definitions have been made to abandon profitable investments. Zoning processes are long as we have seen in, for example, Kivistö and Lommila. I think that building activity will become so contracted in Finland that the government and municipalities will have to encourage zoning, because of the employment effect during and after the construction of new stores. There are lots of vacant office premises in Finland at present, which is why they have become unattractive to investors.

**Elina Kervinen, Helsingin Sanomat: You have announced a plan to open three more food stores in Russia. Where will they be located?**



**MH:** They will be the same kind as the first one and located at the best intersection areas. We have made a decision to acquire two sites, at €6 million each, on motorways out of the city, some 10-15 km from the city centre, in existing or emerging residential areas. We want to build a cluster of stores in St. Petersburg before moving on to Moscow to be able to leverage marketing, logistics and purchasing synergies. There is plenty of room and demand for modern retail services. K-rauta's success has paved the way and built confidence and recognition.

Thank you!