President and CEO Matti Halmesmäki's answers to questions at Kesko's Q3/2010 media and analyst briefing on 26 October 2010

Maria Wikström of Handelsbanken: I'd like to ask about the 86% profit improvement in your Lithuanian operations in Q3, whereas the net sales remained at the year-ago level. Does the profit improvement include any one-offs, or are the costs just so low that such a profit performance was possible?

Matti Halmesmäki: In addition to Rautakesko's business in Finland, Senukai has been one of the gems in its operations. It is a well managed and tightly controlled enterprise. They made major cost adjustments, and their last year's profit was negatively affected by reorganisation. But they have managed stock turnover correctly, and the staff cost has been kept in proportion to the sales margin. In other words, no non-recurring income items are included.

MW: Today's newspaper tells us that the S-Group is expanding in Russia in tandem with a local entrepreneur in their shopping centres. What is your present vision for expanding into the Russian food market, because it is beginning to seem that there is not much room left? Or is the expansion of your building and home improvement business your number one focus at the moment?

MH: There is, in fact, a due diligence process being carried out in several enterprises. We are perhaps overly cautious, but so far, we have not made any final decisions. Kesko's Board meetings nowadays discuss three constant issues at every meeting, one of them being Russia. The focus in international expansion is placed on our key divisions, namely the building and home improvement trade, and the food trade. There have been demands for Intersport's expansion into the Baltics and Russia, and we are considering whether it could have appropriate operating conditions there. And then there is the question of Kesko Food's competitive advantages, i.e. fruit & vegetables, bread, plus service counters, as well as electronic operating systems, which are among our strategic priorities. New construction and customer relations management systems are also important strategic projects.

Pirkko Tammilehto of the Kauppalehti magazine: What is the K-Groups' estimate of food price changes next year? Pellervo Economic Research PTT estimates a rise of 3.7%.

MH: We see that we have the authority from our customers and we will use it. Of course, every link in the food chain must get their share. These days the prices of production factors and needs for price changes are considered in a very analytical and transparent process. It is a law of the market that prices go up more easily than they go down. I don't see any single factor, and big changes also take place in raw material prices. It is my hope that the large percentage of domestic foods in Finnish stores is maintained, because customers want them, their availability can be easily predicted, their transport distances are short, and they generate employments, which can then be seen in stores' sales figures. I hope price pressures won't translate into increasing import. Milk is a case in point, because the short-term maximisation of producer's price created a terrible opportunity for imported milk, escalated by the Swedish krona. And it would be against market economy, if stores did not capitalise on such an opportunity, and we understand that imported milk was introduced to the market. But it was not us who seized the opportunity. Instead, we launched Finnish Pirkka milk, which has been very popular. Price pressures and changes are very supplier-specific or at least product group specific. Although K-retailers are free to buy where they want, their purchases have become increasingly concentrated. Kesko has been given an increasingly explicit operating authority by K-retailers, which enables us to plan purchases and logistics when we have a clear operating model.

PT: So, in your opinion, how much will prices go up? Does the estimated 3.7% increase seem possible?

MH: To me it seems very big. But the price level is not decided in a single room. There is a big number of product managers and suppliers with whom individual negotiations are conducted. Today, we also have many strategic partnerships in which we consider the actual price changes and so forth. Stores naturally want to offer products which customers want to buy, and they want to purchase them at as low prices as possible. Anyway, I can say that at least the Pirkka product prices will not go up that much.

PT: How do you comment on the criticism from producers, saying that their share is too small?

MH: Of course, there are many farmers who have made big investments and carry heavy debt loads. And if the calculations on which their plans are based change, the situation may be difficult. We must also remember that Finland has replaced price subsidies by regional, environmental subsidies to the extent that today, more than half of farmers' income comes from subsidies. And as the sizes of farms have grown, I think that comparisons should be made per farm. In Finland, we produce top quality and it costs money. I am positively surprised by the modest extent to which the EU has changed Finnish eating habits and the fact that Finnish foods are doing fine in the competition. Kesko has no intentions to act against this trend and we would be sorry if the percentage of imported food went up. Even if we operate in the EU and comply with its regulations, the Finnish product wins in a tie situation. And I'd like to add that our local, organic foods provide further opportunities. Recent survey results also show that the price is not the decisive factor. The safe Finnish foods are also the winners in unfortunate food scandals.

Rauli Juva of Nordea: I'd like to ask about your outlook statement, where you say that store site investments are a major profit element. Firstly, do you see any other factors that could have a negative impact on your profit for the next twelve months? And secondly, are your store site openings scheduled evenly over the next twelve months, or can we expect a cluster of new store openings at some period?

MH: In principle, we open building and home improvement stores in the spring when the peak season starts, whereas big K-citymarkets are opened in the autumn, well before the Christmas sales begin. We have wisely started the projects as soon as the permits have been granted. For example, we saved several millions of euros in the price of steel used in the shelving of Anttila's new logistics centre, as well as in the building costs when we started building when the recession hit the rock bottom.

Returning to your first question, there are some 60 Kesko directors, who present their views on the profit performances of their units to the division presidents, after which the estimates are added up. It is perhaps slightly confusing to see the profits double and exceed even our own expectations, but nevertheless, such a profit level in the present situation is very good. For example, in the food trade, our profit comes from extremely small sales margins. We have also improved our competitiveness with regard to customers and price comparisons. Strengthening our price competitiveness in the market is very important.

RJ: Another question about your home and speciality goods trade: you said that there have been shortages of goods. How significant have they been and have they had a negative impact on sales? And have you increased purchases for Christmas and next spring to avoid such shortages?

MH: We have been assured that product shortages will not be repeated. But because purchases have to be made almost a year in advance, excessive quantities of goods are also a problem. In my opinion, our prudence in purchasing has been well-advised. I have been told that purchase quantities have now been increased. The biggest problems in this respect have been experienced by K-citymarket Oy, which on the other achieved the best sales performance. If campaign products are sold out very quickly, it will not only impact sales but also customer satisfaction.

If there are no more questions, I thank you for your attention!