

President and CEO Matti Halmesmäki's answers to questions at Kesko's Q1/2010 media and analyst briefing on 27 April 2010

Hanna-Maria Heikkinen, Nordea Markets: I'd like to hear more about the competitive situation in the building and home improvement trade. Now that the market is reviving after a lengthy slumber and your main competitor, the S-Group, is planning heavy investments in Finland in the Kodin Terra network. Could you tell us about your plans in each country?

MH: We are prepared to respond to the 7-8 new Terra outlets announced by the S-Group to total 11 by the end of the year. We have experiences of meeting new players and have prepared programmes to meet them. Bauhaus will also open new outlets. We welcome the competition because it offers more alternatives to customers. I expect Terra will to compete with our other chains too, because the concept differs from our K-rauta, Rautia and Kodin Ykkönen concepts. All in all, they will be a fair and tough competitor, but we rely on our strong brands and concepts, excellent retailers and their staffs. The building and home improvement trade involves a great number of project customers, which requires an understanding and integration into the projects from our side. Customer relationship management is an intricate process in the building and home improvement trade. Our competitive advantages consist of large-scale outlets offering wide product selections. We are an international operator, the fifth biggest in Europe, and enjoy best purchase prices coupled with diversified selections. Customers will eventually decide and the role of various smaller "wild" players will decrease especially in localities where, for example, a large Terra outlet is opened.

In Norway, the implementation of an IT system shared by all our operating countries has faced some difficulties. But now it is being leveraged as the Norwegian market is experiencing vigorous growth. The Swedish market has not revived quite as rapidly as the Norwegian. In Estonia, the market is also picking up again, assisted by their admission to the euro zone. Latvia plunged deep but the large market miraculously survived. We have a strong position in Lithuania, where Senukai has produced a positive surprise year after year. We will open a large-scale building and home improvement store in Belarus, with an active involvement in the project from the nation's leaders. The demand is high and our competitive position is favourable, because we have a reliable brand, OMA. Russia is a big question mark, but we remain confident and if possible, even more active than before in seeking a suitable acquisition target in the food trade. At the same time, we are also paying attention to plots of land so that we could achieve growth also in tandem with Rautakesko. We have been able to demonstrate our competence in Russia: all our building and home improvement stores have been completed in schedule and kept to cost estimates. They also have excellent locations. All this is very important. In the building and home improvement trade in Finland, we have K-rauta and Rautia retailers responsible for the retail operations and the performance has been steady. Rautakesko B2B Service sells directly to building firms. I'm very confident about Rautakesko's outlook.

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H-MH: How would you describe the business acquisition outlook in Russia? With view of Kesko's abundant liquid assets and your borrowing power, what would be the maximum acquisition size?

MH: Any size actually. But we will consider whether such a risk is worth taking, because we know that more than half of all acquisitions fail in some sense. Kesko does not have a tradition of taking big one-time risks and we want to pay dividends every year and so on. There is also the possibility of making several smaller acquisitions and I'm mainly referring to the food trade and the building and home improvement trade. Intersport has also been offered opportunities to expand into Russia; Baltic expansion opportunities have already been offered earlier and they are being examined. But we have seen many companies which first achieved rapid growth in Russia ending in difficulties, which means that we must be conscious of the risks involved.

Arja Mikkola of Kaleva, Turun Sanomat, Väli-Suomen Media (Helsinki editorial offices): With reference to the recent industrial actions and the current lock-out, I'd like to make a slightly provocative question and ask, how you speculate on the prevailing situation, which after all is a threat, although the lock-out will end sooner than expected. Will the stores eventually benefit from the situation rather than suffer from it, considering that people are now buying food like crazy?

MH: Because the K-Group is committed to the domestic supply chain of food, this situation is painful for us. I don't see us threatening anybody with massive food imports. The purpose of retail stores is to serve customers and I'm sure K-food stores will not run out of food, except for minor temporary shortages in some ranges.

It seems that on average, K-stores are doing better than others in the strike, thanks to direct purchasing and other retail competence. It is true that, for example, K-supermarkets have achieved very good sales on some days, but that is not the whole truth. Strikes as massive as these are not a good thing; first the strike of the Service Union United PAM members caused substantial costs and losses of revenue and now the strike of Finnish food workers is doing the same. I'm also surprised at Finnish employees' readiness to strike at a time of increasing unemployment. The strikes also have a negative impact on our campaigns for domestic production in which we have invested a lot. It makes me sad to see that jobs and people's future play no part in the aggravated relations between employer organisations and trade unions and I can only hope that reason soon wins.

When Finland applied for admission to the EU, an enormous flow of food imports was expected to invade Finnish households. In that respect, we have done well and our product selections have only become increasingly diversified. We have done well especially because Finnish consumers genuinely appreciate fresh Finnish products.

Pirkko Tammilehto of Kauppalehti: How about the Sunday opening hours of your bigger than 400 m² stores: can the retailer decide or is there a common agreement?

MH: There is an item in the chain agreement which enables an agreement on the whole chain's opening hours to be made. The

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stores of a chain, however, operate in so different locations that I trust the retailers to know when the store should be kept open. At this stage, Sunday shopping is expanding and it is important for customers to know when the stores of a chain are open. This is not a legal but practical matter and profitability comes first. It will take quite long before Sunday opening becomes profitable, because the costs are high and Sunday sales don't even match Thursday's level. But it is certain that Sunday sales will grow and neighbourhood stores will play an important part. We have already seen small stores' weekly sales return to growth.

PT: Indoor's sales have declined and there have been rumours about it being for sale. What have you planned for it?

MH: If I remember right, the Asko chain's sales grew by 20% while Sotka's comparative sales performance was $\pm 0\%$. We are not negotiating Indoor's sale and the role of a reliable brand will be increasingly important in the market. Indoor's performance is in line with the calculations we made before its acquisition now that it has increased healthy sales.

PT: Have you changed your strategy to expand your food trade into Russia, because it seems that you are so clearly avoiding risks there?

MH: Today we are indeed happy that we did not take the expensive advice from advisors and did not recognise a one-billion-euro goodwill. The companies that were then willing to sell are now priced at no more than one third and have seen that if they develop their operations they can also ask higher prices. Selling activity has been surprisingly low recently, partly because state exercises strict control and it also provides finance to retail companies. Company and store site ownerships are often unclear and we want to avoid any such risks. The market is enormous and if we want to make things work, we must make a strong entry. Our logistics surveys show that goods are largely delivered directly from manufacturers and distances are long, which enables big stores to operate without central warehousing, at least for some time. Our strategy has not changed. On the contrary, Kesko's Board has put more pressure on the management, because it may prove a mistake to carry all this cash beyond the recession without doing anything with it. In that sense, we must have the courage to seize opportunities when they come along.

PT: Could you not follow the example of your competitor and start building a network of your own in Russia, now that you already enjoy a good reputation there?

MH: As I said, we are also examining plots and may even buy some because they are a good business. But building a chain requires special competences and recruitment would not be easy either. In addition, establishing systems for purchasing and customer relationship management are issues as such. We give priority to the grocery trade and are seeking a healthy business with a good concept and a sufficient amount of stores mainly in the St. Petersburg and Moscow regions even if the competition is keen in those areas.

If there are no more questions, I thank you for your attention and hope to be able to tell you good news next time too. Thank you!

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