

President and CEO Matti Halmesmäki's answers to questions at Kesko's Q4/2010 media and analyst briefing on 3 February 2011

Pirkko Tammilehto of Kauppalehti: You are planning major capital expenditures for 2011. Does their magnitude reflect your concern about the amendment of the land use and building act, in the sense that perhaps you won't get good store sites later on?

Matti Halmesmäki: Naturally, store site quality is important for us. But building a K-citymarket has taken nearly ten years even until today. Business on a poor store site is not profitable. Our store network expansion is based on careful planning, which has been enabled by our strong finances and business success. The projects are well advanced, which is why the amendment of the law will not play a significant part in them. Possible delays and problems will come later. Even if the expected amendments would raise the threshold for entering the business, which could also benefit us as such, we see that in a free market economy, bureaucratic systems can also mean inequality between operators and less transparency in general. We would like customers to decide the locations of stores and their opening hours. In terms of accounting, the choice is between recognising store sites as assets or leasing them out. As a rule, we want to own the strategically important stores, but in addition, there are store sites owned by a pension insurance company or a real estate investment company. The main thing for us is that the stores operate efficiently. But I'm sure CFO Arja Talma can give you some figures on this.

Arja Talma: Our capital expenditures this year will indeed exceed those made in 2010. We have a strong cash position, but its current return is quite low. And the return on investment is higher than the return on cash. Areas of growth are being sought.

Elina Pennala of Öhman: The Q4 result of your building and home improvement trade was way below expectations. Were there other reasons for it except store site expansion and weak demand?

MH: A quarter of a year is actually quite a short trading period, and the high seasons in the building and home improvement trade are naturally spring, summer and autumn. This has slightly changed, due to brisk renovation activity and year-round construction. Rautakesko's B2B sales, in other words sales to building firms, dropped very heavily but have now made a strong recovery. B2B sales also comprise direct delivery sales to building firms, which increased clearly more than sales to consumer customers. It is also typical of the building and home improvement trade that it takes a little longer for a new store to reach profitability, as stock turnover rates are considerably lower, and it is not always possible to open a new store at the beginning of a season when the natural demand is high. We are now looking at the full year figures and the future, but the fourth quarter as a whole showed an upturn, and Rautakesko's result reached the same level, although the sales performance was not seen in the result.

EP: From a full-year perspective, the operating profit of the building and home improvement trade has normally matched that of Kesko Food. When will it now return to the same level?

MH: It is true that the slump in the Baltics has been dramatic. I think it was in December when sales increased in the other Baltic countries except Estonia, where sales growth was not recorded in 2010 except in November. The Baltic countries are members of the EU and the Baltic currency situation was overheated, but the Baltics seem to be recovering. Lithuania and Belarus have performed strongly all the time. There are different situations in Kesko's different operating countries, but a shared IT system and product management process will soon deliver benefits. Sharing these systems does not, however, mean that we would be selling the same products in all countries. Russia is, in a way, a case of its own, although we use the same enterprise resource planning system there. We are the fifth largest operator in Europe and have lots of imports from Asia and large Asian units. It would naturally be important for us if Russia would be a member of the WTO, so that all operators would have the same rules. Customer relationships in Russia are also somewhat different, because people finish their flats themselves. We hold a strong and good position in the St. Petersburg area. Now we plan to achieve the same in the Moscow area. All in all, we have a lot of work to do in the Group-level operating systems and management operations, but also at country level.

But looking at the operations which achieved significant profit improvements, such as Kespro, Indoor, K-citymarket Oy, Anttila and so on, I'm confident about the efficiency of the building and home improvement trade concept and the competence vested in it.

Tiina Taipale of Maaseudun Tulevaisuus: Could you elaborate on your last year's performance in the agricultural supplies and machinery trade. The sector has been quite challenging lately. What is your guidance for this year?

MH: We are of the opinion that we made the only right decision a few years ago when we divided Kesko Agro's operations in two: engine-powered equipment, such as combines and tractors, were assigned to Konekesko, which has the same representations in the Baltics as in Finland. Their operations also include strong after sales marketing and spare parts operations and so on. Whereas the agricultural supplies trade, i.e. animal feed, fertilisers, grain and agricultural implements belong to Rautakesko's product lines. Half of the Rautia stores also belong to the K-maatalous agricultural chain. Before the separation, the productivity of our agricultural trade was clearly below the average. Today, it is highly productive. We saw that the number of farmers would fall and the role of the store in the value chain of trade would weaken, which is why a heavy organisation would not be able to compete with prices and operate flexibly. The competition has also cut out their networks. As the farm size has grown, production has become highly developed. Chicken and pig farms are nowadays also closely integrated with meat processing plants, which also deliver animal feeds to the farms under detailed agreements also including ethical issues. All of this has proved that we did the right thing then and now the business is very profitable. The change in grain price can be seen in our sales, and we closed down our agricultural business in the Baltics. In the agricultural trade, we hold the highest market share in northern Finland, and farmers on the whole are, and will be, one of our important customer groups. Our services provide added value to our farmer customers. Changes in agriculture and things like subsidies make the business somewhat unpredictable. There is a certain amount of

speculative demand for grain which is no longer tied to consumption, making grain price forecasting uncertain. That's why we have tried to minimise our own risk in order that in the autumn, we would not have so much grain assets. In short, our agricultural business is doing fine. And the number of horse farms and an interest in horses and riding as a hobby are increasing, which opens up new sales opportunities.

Marie Nemlander of Carnegie: I'd like to ask about Rautakesko's capital expenditure: how many new stores are you planning to open this year?

MH: Capital expenditures in the building and home improvement trade will be made according to plan, because they are part of our strategy. But because of the recession, the plans, customer numbers, purchasing power and spending targets, for example, in Russia must now be reviewed. As soon as we start our food trade operations in Russia, we'll be able to gain synergy benefits in store site construction too, when we can build a large K-rauta and a hypermarket on the same site. But as we know that establishing a building and home improvement store in Moscow costs about 25 million euros, it cannot be decided on uncertain grounds. The trend in the Russian market is a little difficult to forecast, but the presumption is that in any case, the Russian market growth will exceed that of Norway, Sweden and Finland, and also in terms of per capita.

Elina Pennala: Could you also specify your guidance: if we assume that the operating profit remains approximately at this level, should we understand that you do not expect any significant profit improvement of the building and home improvement trade?

MH: We are not in the habit of forecasting unit-specific performances, because we make an overall guidance based on the details given by each unit.

AT: The fact that we expect it to remain at the achieved level is due to the store site network expansion, both in the building and home improvement trade, but also in the food trade.

Heino Ylisipola of Kaleva, Turun Sanomat and Väli-Suomen media: I'd like to hear an update on the situation of your food trade in Russia.

MH: The situation is active. We have abandoned some potential enterprises in the due diligence process, and other companies because of too high prices, which is why no deals have been closed. At the same time, however, we have been examining plots of land and increasing our preparedness in terms of key personnel recruitment. We do not want to make hasty decisions, which we would have to regret afterwards. By no means is the Russian market easy, and we have already seen Finnish and other foreign companies withdrawing from there. The enormous 145 million population market is a developing market economy in terms of education, resources, and its location is an advantage for us. But nobody knows for certain the rate and the path of development.

If there are no more questions, I thank you for your attention and wish you a nice spring!