

President and CEO Matti Halmesmäki's answers to questions at Kesko's Q2/2010 media and analyst briefing on 23 July 2010

Maria Wikström of Handelsbanken: I'd like to ask Arja about the profits you just announced. While Kesko Food's operating profit grew by 12 million, how much of it is attributable to the smaller number of campaigns?

CFO Arja Talma: It is difficult to quantify as profits are also generated by retail sales growth which also reflects on store site profits and chain fees. Campaigns do play a part, but that number was this time a smaller one.

MW: But the situation with the campaigns was a non-recurring factor, and I'm interested to hear your estimate of the second half year's profit trend in the food trade.

Matti Halmesmäki: The campaign cancellations also caused various additional costs, as goods could not be delivered and orders were cancelled. The situation did not last very long, however, and on the whole, we outperformed the competition during the strikes. And of course, we made savings in marketing costs since campaigns were cancelled. The reason why retailers' sales exceeded Kesko's sales is that retailers also made bigger than usual direct purchases from local producers. So no exact figures can be given. In a campaign agreement, the supplier gives a lower price and Kesko and retailers take a smaller margin to enable lower prices for customers. This is one of our ongoing programmes which are beginning to produce results: we really want campaigns to generate savings for customers. That is why we run Plussa campaigns and make sure that the price reduction is always at least 10%. The reduction of the normal price means that we not only achieve efficient logistics costs but also purchasing costs. On this analogy, we can calculate that if a campaign is cancelled, the product is 10% more expensive than in a campaign on average. Selecting campaign products requires special expertise, because they are intended to generate customer flows.

MW: I have a similar question concerning the building and home improvement trade: the Q2 profit increase year-on-year was no bigger than about three million, although net sales were up by 11% coupled with underlying cost savings, especially in staff cost. Is this because the result from the Baltic operations has continued to weaken as a result of a poor sales trend although you have normally achieved the best margins there. Or have there been, for example, some non-recurring IT costs which impact the profit performance?

AT: The recovery has been quite slow in certain markets and the Baltics are one of them. We have also opened two new stores in Russia and one in Belarus. Owing to the sales structure in these markets, best recovery is shown in the sales of building materials now that building activity is picking up. This has also caused quite substantial price increases.

MH: The sales performance was impacted by the strengthening of the Russian ruble, Swedish krona, the Norwegian krone. The exchange rates of the Baltic currencies have remained stable and, of course, Finnish currency is euro. In the building and home improvement trade, Senukai's profit performance matches the level of

Rautakesko's operations in Finland. As the Lithuanian market has been falling by 30-40%, the profit has decreased but still remains clearly positive, and the Q2 performance was good. The competence and brand in Lithuania are of superior class, which will become manifest as soon as the market recovers.

Jenni Honkanen of Turun Sanomat, Väli-Suomen Media: Talking about a possible company investment: in which division and which country are you planning to make it?

MH: Our focus is on our main divisions, i.e. the food trade and the building and home improvement trade. Our strategic emphasis is in the Nordic countries, the Baltic countries and Russia. We are concretely working on Russia and examining potential companies with consultants. In the food trade, we need new construction to be complemented by a good concept. We want to start building on a good basis. There have been various surprises, perhaps the biggest of which was that banks' balances show very high priced companies and it seems that it is easier for banks to keep them there instead of realising the losses now that the demand has fallen after overoptimistic expectations in an overheated market. The fundamental idea that the huge Russian market offers new opportunities has not changed.

JH: Do you have a time frame for extending your food trade into Russia?

MH: The Board of Directors sees that it is in the shareholders' interest that we seek expansion opportunities, because the recession has made prices affordable, because and we have the resources. On the other hand, we do not make hasty decisions which could be regretted afterwards. It has proved to be a sound policy.

If there are no more questions, I thank you for your attention and wish you a pleasant rest of the summer. Thank you!