

President and CEO Matti Halmesmäki's answers to questions at Kesko's Q2/2011 media and analyst briefing on 26 July 2011

Robin Santavirta of Handelsbanken: I'd like to ask about the transfer of Anttila's warehouse operations and the SAP expenditure of the building and home improvement trade: could you quantify this year's expenditure by quarter?

Matti Halmesmäki: The income statement shows €6 million in direct expenditure for Anttila, plus a certain discontinuity of operations. On the other hand, the new logistics centre is much more efficient and will generate competitive advantage as soon as it runs normally. The SAP expenditure stands at dozens of millions, because SAP is implemented in all of our operating countries. It also involves a lot of consultation and implementation work, basic information technology and software, and the SAP licences are limited. The whole process also requires great efforts from our own people, such as piloting, testing, error correction etc. and expenses are incurred long before the actual implementation.

RS: When will the implementation be completed?

MH: In Finland, all K-rauta and Rautia stores are run by retailers. They start paying a higher system fee as soon as the system has been delivered to them. In Finland, the delivery time is about one year. All of our subsidiaries currently run SAP, but there are some development versions which are being modified, because we are not perfectly satisfied with the model serving the business customers of Rautakesko B2B Service, for example. The system must be quick and it must produce all specifications. This follows that development costs vary between operating countries, but the basic cost will decrease when divided between a larger number of users. The costs have not been evaluated by quarter. And considering that the previous system was used for fifteen years, some of the costs are expensed and the rest is capitalised.

Juha Roppola of Kauppalehti: How does the global rise in food prices affect Kesko, and how should consumers be prepared with view of the inflation?

MH: Poor harvest is one factor and an increasing speculation is another, as cocoa, coffee, grain, for example, are commodities traded on the stock exchange at high prices. But in my opinion, the situation will calm down. Basically, harvests are always tied to the annual rhythm and in some parts of the world, some plants produce more than one harvest per year. This is also a matter of index which is a combination of an enormous number of products. We keep a close eye on the trends, but we have also realised that forecasts are impossible to make even for any statistical centre. There are also changes in the products and the sizes of packaging. In this respect, the trading sector has to consider the customer perspective and see to it that prices are not raised without a good reason. Therefore, we have adopted a system of continuous negotiations and competitive tendering between suppliers, if there are competitive alternatives. In some cases, the supply of products is very concentrated, which reduces our possibilities to influence the price level. There have been quite substantial price increases, but I believe that they are not repeated in this context. More products are needed in primary production, if the prices of fertilisers, animal feeds, plant protection products and grain do not go down. It is a fact that the

profitability of pig farms is very weak, and after heavy capital expenditures, their tolerance is quite limited. No forecasts can be made on the price level trend, but we do not accept the role of the villain. The food chain must be built on joint efforts and good cooperation and I'm confident that Finnish foods will do fine also in the future. At least, it is in the best interest of K-stores.

Rauli Juva of Nordea Markets: A question concerning your building and home improvement trade: for about a year now, you have been saying that its sales growth derives from basic building materials with low margins, which is why the profit performance has not been as good as hoped for, especially in Q2. What is the situation in the sales to consumers: have volumes not recovered yet, or are customers buying cheaper products, or are prices lower than before the recession? And do you expect any future upturn which would help increase your profit to a significant extent?

MH: Traditionally, when we have first sold building materials, we have then been able to sell interior decoration and furnishing products, followed by yard and garden products to same customers. And when housing business is brisk, people buy products for repairs later on. I'm sure there are differences between our operating countries, but sales outside Finland account for more than half of the sales of our building and home improvement trade. In Finland, the segment has been doing better than the market. The sales in June were slightly negative and the year before, they showed a 10% increase although otherwise we were clearly in the red, as a result of the VAT rate rise at the beginning of July 2010. Suppliers, as well as Kesko, used the old tax rate in invoicing. This July, sales performance even reached 15% in the first weeks. Therefore, June is not a good basis for any conclusions. The same can be seen in the car trade: 1% in a price of a car is quite a lot and June last year was quite exceptional, but in Finland only. We build K-rauta stores because they serve both consumer and professional customers and most of their sales are to consumers. Rautia stores operate at lower costs and building materials inherently represent a bigger part of their sales. But now we are not satisfied with the sales of garden furniture and further analyses must be made. We will know more in the autumn, or by the end of the year. Personally, I rely on Rautakesko, because I know the business from my previous career. They have worked hard with the management system in order to capitalise on the benefits of scale with regard to the ERP system. It will take so time to have the selections in place. The product offer includes lots of local products, for example timber, which customers prefer and we do not want to change that. Opening a total of 30 K-rauta stores involves a lot of capital, employee training, warehousing costs, finding the right products in new areas etc. For example, Jaroslavl, relying on the oil refining industry, suffered heavily in the recession and we had to modify the selection. Now it seems that we have found the right system. Russia is a huge market with many "white areas" to conquer by our food trade, building and home improvement trade, as well as Intersport. It is not possible without competitive stores and operations. The large number of population is delusive, because the purchasing power per capita is quite low, although it is increasing strongly.

If there are no more questions, I thank you for your attention and wish you all a good rest of the summer. See you in October!