

## **President and CEO Matti Halmesmäki's answers to questions at Kesko's Q4/2009 media and analyst briefing on 5 February 2010**

**Maria Wikström of Handelsbanken: I'd like to ask about your guidance; with all the relevant factors as they are, what is the main reason why your profits would not increase in 2010?**

**MH:** This is a good question, and the Board has asked the same. The targets are determined by the units themselves, and higher profit and sales targets must now be set.

**MW: If some unit fails to achieve a positive result, does it eat away the others' results?**

**MH:** We don't expect to see any dramatic movements because the trends in our segments are quite steady. We expect that Byggnakker and Konekesko will improve their results, but that requires a revival of the markets. But it cannot be guaranteed, because the recession is not over and consumers and businesses have financial difficulties. Recently we've seen many companies post huge losses, which also reflect on the trading sector. Arja and Jukka, you compile the information for the Board, do you want to add something?

**CFO Arja Talma:** Store network maintenance and development operations planned for this year will have an impact. And to some extent also the property sale and leaseback transactions we completed in 2009. Big question marks are the developments in the market, private consumer demand and unemployment.

**MW: I have a couple of more questions to Arja about the Q4 results: did you release any provisions? And what's your guidance for hedging costs, if the exchange rates remain at their current levels? And your guidance for the 2010 tax rate?**

**AT:** Q4 did not include anything special, if we compare it to Q4 in 2008 with the around €17 million impairment charges which lowered the basis. But Q4 in 2009 was very good especially in the home and speciality goods trade, with inventories in good condition and decent margins. As for hedging costs, the most important factor is the development of interest rate differentials. But we will lower the degree of our balance sheet hedge to some extent, given our high equity ratio. In principle, we operate on a long-term basis in those countries where we have operations. And in 2010, the tax rate will be clearly higher than in Finland.

**Hanna-Maria Heikkinen of Nordea Markets: Is it possible for Kesko Food to increase its margin further?**

**MH:** We look at the whole value chain and continuously improve its efficiency by automated ordering, centralised warehousing and various background functions. We aim to achieve Kesko's result with as low margins as possible (if margin is defined as the difference between the purchase and selling

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prices) to make us more competitive in the market. But all our divisions are implementing the work and productivity programme. It was gratifying to report that regardless of the substantial sales decreases, the percentage of wages and salaries out of the gross margin had not weakened since the level of 2007 when we launched the programme, even if it was for different reasons because we had a shortage of labour and wages were rising out of proportion. Since then, the programme has changed into an adjustment programme. Kesko Food's net sales and volumes are so big that even minor increases in efficiency or cost savings are significant. In my opinion, we've only started to improve the operating efficiency of the food chain. Big issues also exist in the retail end of the chain, especially with regard to logistics costs. We aim at operating with smaller margins, but if we talk about profit margins, we aim higher.

**HMH: What investments plans do you have for 2010?**

**MH:** As for the big investments in citymarkets, we intend to implement them all as soon as zoning permits are obtained. It seems that customers appreciate the wide product selections and accessibility of big stores. Smaller stores benefit from the ageing of population and the increasing number of single households. We'll open 30-40 supermarkets as soon as zoning permits and the competitive tendering process allow. Competition makes the retail trade increasingly centralised in Finland, which is nothing new as such. We have efficient competition and also the manufacturing industry is efficient, which is why the centralisation also benefits customers. In our case, all of our 900 food retailers compete with each other every day, while the Finnish Competition Authority imposes restrictions on their cooperation, which is why we are forced to fight with one arm tied behind our backs.

**HMH: How about your investments in the building and home improvement trade?**

**MH:** Our building and home improvement trade has shown good performance, and Rautakesko's result was good. Its market share increased, but in a keen competition stores must be in a good condition. In the Baltic countries, we must increase store efficiencies. We'll soon open two stores in Russia. There's no point in slowing down operations because we're able to make investments, and Kesko Food has just proved that profit improvement is possible regardless of new store openings. This was not the case ten years ago,

**HMH: Are you more likely to achieve growth through store openings than from business acquisitions?**

**MH:** We don't have any compulsive need to acquire businesses. We are seriously looking for suitable targets. The supply has increased, but in Russia the government, banks and the financial system is such that actual forced sales are not made. Prices have fallen since the level of one of two years ago. We are convinced that we'll find a suitable target with a suitable network and concept.

**Raisa Karsikko of STT: I have a question about the price trend in the grocery trade.**

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**You said that the prices are expected to turn down. Does it mean that the price competition between chains will increase, and how big do you expect the decline to be?**

**MH:** I think it's going to be very product-specific. For example, vegetable prices dropped by some 20% at the end of last year. When production input prices fall, it must reflect on prices. The clearly improved profitability of the Finnish food industry relies on good work but there's also more leeway for price decreases. This also shows that the trading sector has not been too hard on food manufacturers. There are also product groups whose prices are higher in Finland than elsewhere in Europe. Labour costs seem to be quite unchanging, but the unemployment and lay-offs will eventually change that too.

**Juha Kaihlanen of Turun Sanomat, Kaleva and Väli-Suomen Media: From which operators did you win market share, and how is the market structure changing, i.e. who are the winners and who are the losers?**

**MH:** The exact market share figures will be available in March. Until then, we rely on the relatively reliable information provided by the Finnish Grocery Trade Association. And as we're the only listed operator in this market, the market share information is not completely accurate until then. We aim to win market share by adjusting our daily work to every local operating environment. We abandoned AC Nielsen's survey programme, because we didn't want our competitors to get too detailed information about our store operations. Some information is available from suppliers, and we visit competitors' stores. And whenever stores are closed down, it's a sign of difficulties.

**JK: VV-Auto dismissed so many people that their service level suffered. Are they now hiring more people?**

**MH:** Yes, they're taking back some of the people who were given notice. Our policy is to strongly react to the reality, because it's easier to put inputs and costs back again. In this respect, Anttila has achieved good results by adjusting working hours.

**Jarmo Aaltonen of Helsingin Sanomat: You've said that you'll respond to the amendments of the business hours act on a store and store site specific basis. What is the situation now?**

**MH:** We've considered it even before the amendment became effective, and the last time was the latest Kesko Food's Board meeting. In principle, our store opening hours will be extended. But we're not forcing extended hours on locations where business would be slack for some natural reason. We support unrestricted opening hours and rely on our retailers to know when their customers need the store to be open. Of course for marketing purposes, we need a certain amount of uniformity and chain-specific rules. There'll be a certain run-in period until customers learn the new opening hours of their stores. So far, there have been comments that Sunday trading has remained at a somewhat lower level than expected. We're convinced that the extended hours will become significant, as we've seen happen in other countries. But it also means that

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the stores must be tuned up to meet customer needs at all opening hours.

**Tiina Taipale of Maaseudun Tulevaisuus: I have a question about the agricultural supplies trade: your net sales dropped by nearly one third, are we talking about sales in Finland?**

**MH:** The agricultural supplies trade contributed negatively to Rautakesko's result. Kesko Agro's tractors, combine harvesters and agricultural machinery were transferred to Konekesko, which sells them also in the Baltic countries. The agricultural supplies trade, i.e. fertilisers, animal feed etc. was transferred to Rautakesko's Rautia chain, because half of the Rautia stores also operate as agricultural stores. The agricultural supplies and grain trade in the Baltics will be discontinued. This will decrease the Group's sales on a permanent basis. The centralisation of farms and direct factory operations has caused the trading sector's role to diminish. Meat processing companies have integrated and are selling inputs to farmers, which steers the whole production chain. The agricultural machinery trade is impacted by the expectations from investments, which has negatively contributed to the business. Finland has traditionally been a very machinery intensive country, and it's only natural to have a quieter period. Nevertheless, farmers continue to be one of our key customer groups and we have a wide network of agricultural stores.

**An online question: Why was the tax rate so high in Q4?**

**CFO Arja Talma:** Actually the Q4 tax rate was somewhat lower compared to Q3 estimates, which is attributable to good Christmas sales we had in Finland.

**HMH: Have the exceptionally heavy winter conditions affected trading?**

**MH:** I've always said that weather should not be used as an excuse or reason for sales performance. But it's obvious that clothing and winter sports equipment sell well on a winter like this. On the other hand, the construction activity has suffered. The weather has also influenced customers' shopping frequency at speciality stores, as they've concentrated on the daily groceries.

Thank you!