

President and CEO Matti Halmesmäki's answers to questions at Kesko's Q1/2009 media and analyst briefing on 28 April 2009

Hanna-Maria Heikkinen of Nordea Markets: In your opinion, what were the factors contributing to Kesko Food's good performance?

MH: It's attributable to many elements. I see it as a proof of the fact that Kesko Food's engine is running smoothly. This time last year we discussed the management of shrinkage and campaigns. Kesko Food's share of retail prices is approximately 2%. The difference between Kesko Food's purchase and selling prices is marginal, which stresses the importance of managing the components of that percentage.

H-MH: What size of cost savings are to be expected for the rest of the year?

MH: The work and productivity programme we launched a year ago is being implemented in all of the Group divisions and units, and its progress is reported on a regular basis. In order to reach the 2007 profitability level, we need to cut costs by €30 million. The demand in our different divisions varies a lot, and there are certain projects which must be accelerated, for example the electrification of operations, and investments in information systems. Development actions like these cannot be neglected. But it's quite clear, that we carefully consider the forecast for gross profit, and costs must be controlled accordingly. Of course, this is not easy with regard to fixed costs of premises etc.

Kalle Heiskanen of Turun Sanomat and Väli-Suomen Media: Is there anything you can do about the results of the building and home improvement trade, or must you just face the facts?

MH: It goes without saying, that if there is no building activity, it's difficult to sell building materials. The sector is indeed very demand-driven. In the previous recession, we saw that K-rauta and Rautakesko in Finland were by far the best performers. They were the quickest to respond to the situation and not more than a few stores had to close down. I'm confident that the same kind of flexibility can be achieved this time, even if this recession is sharper and more severe. But in any recession, some operators sell more than others. So we must be careful not to give in and make the mistake we've often seen when you stop purchasing altogether. When your best selling products are in poor supply, you'll lose customers and sales. In other words, the stores must be kept in good operating condition and purchasing must continue. Product lines with excessive inventories experiencing weak demand are in a difficult situation, for example, if you have a large stock of garden supplies in the spring and the demand is poor. But waiting for the next spring is in many ways a bad and expensive alternative. The market leadership position is always better and the chains that enjoy a strong position in the market have better possibilities to maintain their customers.

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KH: You said that only a few stores closed down during the previous recession. Are you prepared to see the same this time?

MH: Actually I referred to the fact that all other (than K-Group's) building and home improvement stores went under. It's part of the market economy that the strongest will survive. Our retailers have the advantage of a financial guarantee system which makes them independent of banks. The price of money they pay has increased somewhat, but not to any significant extent. Their balances are also better than in the early 1990s, which is another reason why we haven't seen very many bankruptcies yet. But the sales decreases now posted will mean a wave of bankruptcies, or at least credit losses.

Manu Rimpelä of Deutsche Bank: For Rautakesko, you listed Finland and Belarus as the two topmost countries. What are the two lowest on your list?

MH: In Latvia, we opened several large new stores and the hardships of the financial situation have been felt there from an early stage. Therefore I think Latvia's situation is the most difficult.

MR: Are you referring to the absolute profitability or to the absolute operating profit in euros?

MH: I'm talking about the amount of loss in relation to sales. But three months is a short time. And in own retailing, the cost structure is much heavier than in wholesaling, so that in those countries where we have retailer-run operations, the recession is reflected in different items than in Norway's Bygghuset or Finland's Rautakesko. In Lithuania, our operations are partly retailer-run and partly own. In Sweden, we only have own operations, and the sales decrease has been more moderate. But that is partly because of new construction.

MR: Can you list your operating countries in terms of euros? I mean which unit made the biggest losses and which recorded the best result?

MH: I can only say that operations in Finland were the best performer and the second best was Belarus. Again, a three-month period is absolutely too short. For example, Senukai has continuously performed well. Although it now shows a drop in sales and profit, we expect it to achieve a good full-year result. Estonian operations have also performed well and have good cost management. K-rauta enjoys a strong position in the Estonian market.

MR: About your food trade: how have the new stores, especially K-citymarkets, affected the division's profitability?

MH: Naturally they reflect in several ways. For one thing, lower rents are charged from the retailers of new stores. Then there are various joint investments, including the launch marketing expenses of the new stores, all of which total millions of euros per each store site. Most of the building costs are capitalised, but we also have lots of store renovations in

progress, for example all K-markets, and all possible costs are expensed. So new store openings reflect on many accounting items. Suppliers also participate in store launches.

MariaWikström of Handelsbanken: My question is about gross profit: the Group's gross profit has dropped to 13% compared with 13.4% for last year's Q1. Could you give a breakdown between the divisions and explain if the Q1 figures include an increased gross profit for Kesko Food. We've already heard that the gross profit for the building and home improvement trade dropped, but not so much due to the B-to-B sales. How does the gross profit of your units behave during an economic cycle like this?

MH: The coefficients have not been changed for the food trade.

CFO Arja Talma: The profit improvement in the food trade is not generated by pricing. In the building and home improvement trade, sales to B-to-B customers are the biggest factor while the product groups have smaller margins and the sharp sales decline also reflects on it. The margin is also affected by the €9 million expense recognition in the Baltic operations. It is partly related to receivables, but mostly to inventories.

MW: But is it fair to assume that we see a gross margin decrease of 50-100 basis points in the building and home improvement trade.

AT: Your estimate sounds quite accurate. We haven't published exact figures for the divisions, but the building and home improvement trade and the car and machinery trade are the biggest drivers.

MH: As far as I can see, Rautakesko Group's gross profit percentage improved because the sales of basic building materials with smaller margins have decelerated the sale to building firms. And there's also a lot of 3rd party invoicing with merchandise delivered directly from factory to stores.

MW: Last year's Q4 report showed a 400-people decrease in personnel. What kind of staff reductions do you anticipate in countries where you have own operations in order to achieve a positive full-year result in the building and home improvement trade? Are you going to make further staff reductions?

MH: The Rautakesko Board has prepared plans in its regular meetings and internal monitoring meetings have been added to review the savings in staff costs reported by each unit. Zero reductions and even a few additions have been reported in the interim financial report. The issue is very much division-specific and even varies from one locality to another. Anttila traditionally has the best monitoring systems and they have managed to reduce 200 working hours without any major staff reductions or lay-offs. The Group does not use practically any hired helpers, but we do have temporary employees and various working hour arrangements in order to generate savings. All costs are being adjusted in all units.

Robin Santavirta of ICE Capital: How did your market share in the food trade and in the building and home improvement trade in Finland develop during Q1?

MH: In my opinion, the market share of our building and home improvement trade has developed in a positive direction, because the sales from our K-rauta and Rautia concepts traditionally comprise 60-70% of sales to consumers, and this percentage has fallen. Those of our competitors who mainly sell to building firms have recorded bigger decreases. The reports from the Building and Home Improvement Retailers' Club show the same trend. I think that our market share of the food trade has increased somewhat, but we won't have exact figures until March next year. I'm convinced that K-food stores' market share will increase this year. Local food is one of our special areas of emphasis. Four years ago, we made the policy definition that quality comes first and retailers are encouraged and rewarded for carrying wide product ranges. Hannu Aaltonen, the K-citymarket Kupittaa retailer, told me that five years ago the citymarket food selection comprised 8,500 articles and that now the number is over 20,000. Single-owned operators cannot compete with qualitative advantages and special services that should be offered throughout the country. The importance of local food is also discussed in our corporate responsibility report with accurate figures on this competitive advantage of the K-food stores.

Pirkko Tammilehto of Kauppalehti: Some of your business activities, namely home appliances and furniture, have quite a long history of poor performance. Are you operating in too many product lines? How are you going to manage them all?

MH: We have reduced the number of our divisions. We sold Tähti Optikko and Kauko-Telko and we're prepared to sell divisions or companies belonging to our divisions. On the other hand, the threshold of any acquisition is very high. We seek food trade growth in Finland, the Baltic countries and Russia. Any other steps in this sector are placed under special consideration. The other spearhead is the national and international growth of the building and home improvement trade. In addition to these, some minor product lines can be considered. The offer is abundant. The need and difficulty of focus has increased as we have become integrated in retailing. Previously our operations were almost exclusively retailer-run. Today our success largely relies on cooperation. Selling the large amount of real estate and K-Rahoitus were good because now it would be much more difficult, and the same applies to subsidiaries. At present, we're not planning company disposals. It's better to have a need for focus than for expansion.

PT: Perhaps you should dispose of the furniture trade or somehow concentrate the home and speciality goods trade. Previously you suggested that the furniture trade sector will be reorganised. What is your role going to be in that?

MH: Asko is the leading and most reliable furniture store chain and serves as a good central element. Our furniture trade operations are consistent in that we concentrate on customer sales. The brand of Kesko, the biggest operator, plays an important role in international purchasing which is beneficial for our chains. The incorporation into subsidiaries implemented in the 21st century now enables us to review the divisions separately with their different customer relationships. In

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addition to this, they are provided Group benefits in terms of finance, management systems, information systems etc. But customer relationships largely rely on the divisions, with Plussa as the umbrella system for all of the K-Group customer relationships.

PT: Are there food stores in need of your support and will there be food or other store closings?

MH: The present situation is much better than a few years ago. We have some 900 food retailers whose situations are, of course, different. Our building and home improvement stores are not in very difficult situations either, except for individual cases of increased payment difficulties. Perhaps the Musta Pörssi chain is the most challenging in this respect because of its significant fall.

PT: So stores are not going to be closed down?

MH: There are store closings and store network structure changes going on all the time. The need for adaptation and smaller premises has not changed. Online trading especially in the home electronics business is becoming increasingly important and will affect the operations of this division. The changes that have already taken place will alleviate the competition and the supply situation both in the home electronics and the furniture trade.

H-MH: Have you implemented price increases in the Russian building and home improvement trade and how have they affected consumer behaviour?

MH: Investments are made in euros which is why our store site costs are mainly in terms of euros. This follows that when business is done in rubles we must increase the margin for the sake of profitability. We also made the decision to increase prices regardless of suppliers' prices and the impact is being monitored. Of course, it's not easy but the competitive situation has permitted the price increases. Salaries and many other costs are in terms of rubles, but the costs of premises are euro-denominated. It takes some time before imported goods are sold out and new products are purchased at higher prices than before which automatically raises the price level. The sales of imported goods decline in a situation like this. Could you Arja, being a member of the Stroymaster Board, give any further information on this?

AT: In terms of rubles, the sales were up 14%, if I remember correctly. Of course, the growth has slowed down there too, and it's difficult to say which part of it is due to price increases and which part to the general market trend. But in terms of the local currency, growth continued.

H-MH: How much have prices been increased, if the sales were up 14%?

AT: Usually the aim is to cover devaluation impact.

H-MH: How attractive do you find the present business acquisition market in Russia?

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MH: There's a lot of activity going on and prices have come down. Some time ago there were lots of firms saying that they first wanted to develop their operations and then sell at huge profits. Financial or operational difficulties have made them change their minds. Naturally we keep a close eye on both the food trade and the building and home improvement trade developments, but in this respect our own risk readiness has fallen from what it was a year ago even if we have money and more finance is available. The buyer's market has improved and is improving further. We'll carefully consider any steps in this situation. The fact remains, that we have a very attractive, interesting and growing market in our neighbourhood. It may well be that if their local rules on, for example, ownership protection and the functionality of the legal system are improved, and double invoicing is abolished operating in that country becomes more predictable. The problem today is that even if you're right, you don't necessarily get justice.

Thank you!

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