



## **President and CEO Matti Halmesmäki's answers to questions at Kesko's Q4/2011 media and analyst briefing on 2 February 2012**

**Question:** Your operating profit is expected to fall this year owing to various uncertainties. What does the expansion in Russia actually mean, in other words how do you quantify it?

**Matti Halmesmäki:** First I'd like to point out that we are prepared to see the operating profit fall. But we have expectations from the home and speciality goods trade, because this year, the sources of non-recurring items will not be the same as last year. And we also have expectations concerning Rautakesko's profit improvement, which will largely depend on the implementation of the changes and the market trend in Finland. As for the food trade, I'd say that wages and salaries alone account for some five to ten million euros. In addition, there are the costs from construction, IT systems and the concept roll-outs, in which we leverage local but also foreign expertise. We could compare the project with the establishment of a large supermarket in Finland. The emphasis is on quality, which means that our food stores in Russia will also include a scratch bakery and service counters. As for Intersport, it's difficult to say how rapidly the operations become profitable. But with the store locations in good shopping centres and 70% sales growth we have already seen, last year's loss will soon turn around. What's more, sports goods are sold with good margins. And thanks to the Intersport brand, Finland's good situation and Kesko's solvency, the stores have been welcomed by all international operators in Russia. Nike and Adidas are present in the vast Russian market with their own stores, but the Intersport chain is dynamic and operates with a different structure, which is why its presence is well justified. Our building and home improvement trade is profit-making. Kesko Food has announced that their objective is to achieve €500 million in net sales and a positive operating result in Russia within three years, which will be a challenging effort. We are naturally engaging in cooperation with Finnish suppliers, especially because Finnish quality products are in great demand in the St. Petersburg area where, on the other hand, competition is nearly as keen as in the Moscow region.

**Question:** What size is your food store network in Russia going to be?

**Matti Halmesmäki:** At this initial stage, we are seeking clusters and possible acquisition targets and in the process, have examined quite many companies. But their concepts have been regionally dispersed and we would have had to pay large amounts for goodwill - Kesko's balance sheet only includes 5% of goodwill and write-downs on it are not expected - and forecasts based on due diligence surveys have not been good. In other words, we have maintained a rather high threshold level. In consequence, we have started with clusters, i.e. regional concentrations of stores, because in the building and home improvement trade, goods have slower turnover rates than food. In short, we don't want to speak about conquering the Russian market. Instead, we aim to gain a foothold in certain areas in St. Petersburg and Moscow and to build a denser store network in those areas. We are prepared to make the announced capital expenditures amounting to €300 million and then we hope to accelerate and operate profitably according to plan. It would not be reasonable to build single stores. We'll know within three or five years how the network has expanded and in which cities.

**Question:** What is the significance of agricultural trade for Kesko today?



**Matti Halmesmäki:** Our agricultural trade has performed very well and profitably. Some years ago, the transfer of agricultural machinery to Konekesko and accessories to Rautia from the former Kesko Agro was a very good separation in terms of cost-efficiency and competitiveness. This is because farm sizes are growing and farming is becoming increasingly systematic with prices playing a major role for farmers. We have done very well in this sector with minor costs. Fluctuation in the sector is caused by subsidies, weather conditions and the market trend. The recent issues concerning pig farming have even put a halt on capital expenditures. But as a whole, we are quite satisfied with the performance of our agricultural trade, including the contribution from our Baltic operations, especially tractor and combine sales.

**Question:** Are you going to build a warehouse for Citymarket on the site adjoining the new Anttila warehouse?

**Matti Halmesmäki:** We have an option to the site and have decided to consider the price and possible schedule. We have reserved the site from the City of Kerava and have one or two years to make our final decision. Currently, Citymarket's so-called pallet warehouse is located in Hakkila, Vantaa.

**Question:** What if the warehouse is not built in Kerava?

**Matti Halmesmäki:** It will be built in Kerava, but it is not certain when. This is a matter of logistical optimisation, including certain arrangements in the repayments of capital expenditures. We must also consider the differences between Anttila's and Citymarket's operations: Anttila consists of NetAnttila and Anttila and Kodin Ykkönen department stores, while the logistics of Citymarket are partly shared with our food trade from Hakkila, which plays a significant part, as more than 60% of Citymarket's sales is food. And on the other hand, products like washing powders and household tissues are sold in food stores too. In addition, labour for shift work is not readily available.

**Question:** How about warehousing in Estonia?

**Matti Halmesmäki:** It is a matter of calculation. We know for certain, that the balance for Finland will not improve. Finland is our primary option, but the growth of international e-commerce will continue in any case. With over 5-10% margins, coupled with building and staff costs etc. the operation may generate a significant competitive advantage, and the distance from Hakkila to Oulu is much longer than to the Baltics. Representatives from the Baltic countries are quite frequent visitors in Kesko, offering sites and services. And Lithuania, for example, is well located as a gateway to the Russian market with many projects being financed by international money.

If there are no more questions, I thank you for your attention!