

President and CEO Matti Halmesmäki's answers to questions at Kesko's Q3/2013 media and analyst briefing on 24 October 2013

Tiina Taipale, Maaseudun Tulevaisuus: A question about food trade: I understood that volumes did not grow although net sales increased. And on the other hand, were there any changes in the sales structure? Did some products sell better than some others?

Matti Halmesmäki: Sales structure has in fact changed a lot. People are more price conscious and shop more frequently, which has perhaps benefited neighbourhood stores to some extent. That's good as such and people also cook more at home. But beef fillets have not been in such excessive demand as some years ago. It seems that buying behaviour between consumer groups has differentiated. The fact is that this is a really tough time for families with children. Money is tight even if both parents go to work. I'm still worried about all these flat rate tax increases. Regardless of their good fiscal, funding or guiding purposes they don't benefit families with children who consume most of their income. And it seems that municipalities will also be collecting hundreds of millions especially from working parents. Families' other expenses have also grown, such as energy and telecommunications as many kinds of electric devices and equipment are used by all family members. This is also related to issues of time management and the prioritisation of expenses.

But I'm happy to see that people still shop which is why we must develop our stores and a multi-channel approach and provide exciting shopping environments. We don't think the situation is very dramatic, but we must be humble and active and through a systematic change get the better of the difficult conditions. Like I've said, Finnish people rely on Finnish retail operators regardless of minister level statements advising them to buy from foreign online stores. Nevertheless, Finnish consumption and the Finnish trading sector play a central role in ensuring the right direction for Finnish economy and the lives of families with children.

Arto Jaakkola, Kehittyvä Kauppa: In your opinion, how important is the approval of the Pact for Employment and Growth from the trading sector's perspective? And does the trading sector have an opinion on which sectors should absolutely be included in the Pact?

Matti Halmesmäki: If I'm not mistaken, the deadline for the approval of the Pact is tomorrow by 4 pm and the trading sector negotiations haven't been completed yet. The trading sector has participated in drawing up the Pact of the national labour and employer confederations of Finland. Thereby we are committed to it and it is important for us. It helps build predictability and stability and it also has a mental aspect in showing that in our society, we work towards a common future. It will not, however, reduce costs or improve the operating environment. Moreover, euro-denominated contracts are expensive for the trading sector and our pay legacy is high. We've seen that although the number of our personnel has decreased markedly the reduction in staff cost is small owing to increasing social security expenses and individual salaries. Nevertheless, it would be a disappointment

if the Pact failed to be approved at the national level or that the trading sector would have to be excluded from it. The impact on employment is crucial although the Pact would unfortunately not improve the cost situation of the trading sector. Anyway, I hope the Pact will be approved.

Tiina Taipale, Maaseudun Tulevaisuus: Another question about the food trade: this year, the role of the trading sector in the food chain has been discussed a lot and there have been initiatives to change it. Have there been any recent developments to that effect?

Matti Halmesmäki: K-stores emphasize quality and thereby Finnish foods. They run campaigns for Finnish products and offer products customers want to buy. I've always said that the difference between a Finnish product and a foreign product must not be too big. For the agricultural sector, subsidies are important and now a decision has been made which, in the long term, will weaken the EU's subsidy policy. We must take care of the food industry's competitiveness and together find products for which consumers are willing to pay. But I'm afraid the number of imported products will rise heavily in Finland, which is not in the best interest of Finnish consumers or the Finnish trading sector. But we must develop operations to meet customers' wishes in competitive ways.

Heidi Asplund, Yle Uutiset: You said that efficiency improvements are still required. What does it mean in practice now that you have given notice to a great number of employees quite recently. So, will there be more notices?

Matti Halmesmäki: We consider these things separately for each division. Efficiency improvements are not only about personnel expenses but all costs. The savings we've achieved so far, also include property maintenance and IT expenses. We also consider structural issues for higher operational efficiency. We also have good experiences of shared service centres as the divisions develop joint operating systems. No Kesko-level decisions have been made this time or the last time. Retailers make their own decisions concerning their operations; we have around 1,200 K-retailers in Finland employing most of the retail personnel. On the other hand, there are several Kesko divisions with projects which need more personnel and some fields even suffer from labour shortage, such as car mechanics, for example. From the point of view of the trading sector as a whole, I'm afraid that there will be a total workforce reduction of 10%, which means tens of thousands of people. Unfortunately, the K-Group's position is not any better in this respect. But as soon as sales take an upturn, the situation becomes easier and more people will be needed again.

In case there are no more comments or questions, I wish you all a nice autumn. Remember to shop for Christmas at K-stores. Thank you!