



Esa Kiiskinen, Chair of Kesko's Board of Directors
Kesko Corporation's Annual General Meeting in Helsinki on 4 April 2016

ESTEEMED SHAREHOLDERS
DEAR PARTICIPANTS OF THE MEETING

Welcome to Kesko's 2016 Annual General Meeting!

First of all, I want to tell you the sad news we received at the weekend: Tomi Korpisaari, who was a member of Kesko's Board of Directors until the beginning of March, has passed away after suffering from a long-term illness.

I would like to ask you all to stand for a moment of silence in Tomi Korpisaari's memory.

DEAR PARTICIPANTS OF THE MEETING

The Finnish economy has suffered from an unusually long recession and there was no long-awaited turn last year. The development of the competitive ability of Finland in the export market has been lagging behind our key countries of comparison and public debt continues to rise. Unemployment is high and consumers' purchasing power has developed weakly in our main market area. Last year, the price competition increased further in the trading sector, particularly in the grocery trade.

Despite the difficult market situation, 2015 was a successful year for Kesko. The implementation of the strategy published last May proceeded as planned and with determination. Kesko's financial performance was good. The return on capital employed excluding non-recurring items rose to 11.7% from the 9.9% in the previous year. Kesko Group's financial position is very strong. At the end of last year, liquid assets were €887 million and the equity ratio stood at 54.7%.

Regarding Kesko's growth strategy, key measures included the agreement on the acquisition of Suomen Lähikauppa made in November 2015 and the acquisition of Onninen, published at the beginning of January this year. Kesko's good financial standing also creates an excellent basis for developing the competitiveness of our business operations in the future.



In his review, President and CEO Mikko Helander will discuss the strategic focuses, last year's key events and the company's results in more detail.

I thank President and CEO Mikko Helander and Group management for their competent and fruitful work and ask them to convey thanks to all employees in all of Kesko's operating countries.

Dear listeners

Positive news about the economic situation in Finland have been few and far between but one significant achievement is that the social contract seems to be alive and well at least for the time being. Even if the Government's original target of a leap in profitability were not achieved in the end, the contract would, however, provide a good start for labour market revision, which is absolutely necessary from the viewpoint of Finland's future.

The solution would give Finnish companies better opportunities to succeed in international competition and provide jobs in Finland. It would also add stability and hopefully calm the labour market. More agility and flexibility are needed at workplaces and therefore it is important that progress is made in local contracts. Finland can only achieve growth with work and enterprise.

In addition to the social contract and the Finnish model sketched for wage negotiations, the extremely stringent taxation needs to be alleviated. Tax reductions contribute to an increase in the purchasing power and particularly increase the consumption potential of low-income people. At the time of weak economic growth in recent years, Finland has relied on domestic demand and this development should not be compromised.

From the viewpoint of the trading sector and households' purchasing power, it is crucial that tax rates won't at least be raised. In public, there have been occasional speculations about a possible increase in the VAT rate. The Government should stick to the taxation policy set in its programme, according to which the total tax ratio will not rise during this parliamentary term. According to the Government's policy definition, taxation should encourage people to work, to entrepreneurial activity, to employ, take risks, own, make capital expenditure and invest in Finland. This is a good target.

kesko's and any other trading sector companies' capital expenditure in Finland is high. As comprehensive social contract as possible and tax reductions would support the projected capital expenditure and maintain employment. In addition, there are a significant amount

of capital expenditure waiting for final decisions, to be made after seeing what direction Finnish economy will take.

In addition to tax reliefs, Finnish consumers' purchasing power can be improved by reducing rules and regulations in the trading sector. The Government has stated that it is committed to reducing unnecessary regulations and bureaucracy. The Government took quick action and proposed that the legislation on store opening hours be repealed, and the change entered into force after the Parliament's decision at the beginning of the year. It is a good start to cancelling rules, which is also one of the key targets set in the Government programme. Hopefully there is more to come later on. For example, the liberalisation of the retail trade of over-the-counter medicines and the sale of mild alcoholic beverages would increase competition and efficiency in business and lower consumer prices. Most other Nordic countries have already liberalised the sale of over-the-counter medicines.

Studies indicate that Finnish people are increasingly willing to reduce alcohol regulation which is currently among the tightest in Europe. According to the most recent survey, as many as 56% of Finns are in favour of allowing the sale of mild wines in grocery stores. Abolishing restrictions on alcohol sale would have most impact on operational preconditions of small food stores and ensure that the store network remained wide also in sparsely populated areas. The impact of the location of Alko stores that now distorts competition would also be smaller. It's time for Finland to become European and give up our paternalistic alcohol policy. Wines and special beers are part of food culture and belong close to food both on the table and in the store. This should also be the case in Finland.

Dear participants

Success requires courage to renew. In the trading sector, the need for change is necessary because customer behaviour is changing fast as a result of digitalisation, the internationalisation of retailing and the differentiation of consumption habits. We listen to our customers' wishes with a keen ear and also engage in an active dialogue with our other stakeholder groups. We are committed to following responsible operating principles in all of our operations. A fine proof of the quality of our responsibility work is the fact that in January Kesko ranked 15th in the Global 100 Most Sustainable Corporations in the World list and was, at the same time, the most sustainable trading sector company in the world.

In the K-Group, responsibility means above all that we create value to our stakeholders, that is, to you shareholders, employees, retailers, suppliers and service providers, customers, municipalities and the states. We create value to the whole society. The K-



Group is one of the most significant companies in Finland from the viewpoint of the entire national economy.

Kesko and K-retailer entrepreneurs are, for example, very significant employers. At the end of last year, Kesko had nearly 22,000 employees and the whole K-Group employs around 40,000 people. As a big and responsible employer, our key principles are the diversity of staff, equality, justice and non-discrimination.

In recent years, the K-Group has initiated important projects in order to employ special groups. The Youth Guarantee in the K-Group programme provided more than 2,500 young people at risk of social exclusion with jobs through a work trial, wage support or apprenticeship by the end of last year. The K-Retailers' Association started a project called 'Many kinds of performers' with the Finnish Association on Intellectual and Developmental Disabilities, which was built into a permanent operating model for employing intellectually disabled people. Most of those employed under the project still work at the K-Group.

Kesko and K-stores also wave their flags in favour of Finnish work. The Blue and White Footprint is a joint campaign of the Association for Finnish Work, K-Group stores, Finnish food manufacturers and the home and speciality goods industry as well as construction and renovation companies, the principal aim of which is to increase sales of Finnish products, tell consumers about Finnish design and work behind the products and make it easier for consumers to choose products that promote Finnish work.

During the past year there was much talk about fierce price competition particularly in food retailing. Competition has also got unhealthy features, when competitors started to sell some individual items under their production costs. This is no sustainable option in the long run. Finnish consumers want to buy domestic, clean food, and therefore we consider that being a responsible operator the K-Group's duty is to take care of the wellbeing of the entire food chain.

The Thank the Producer products we launched last year are one way to show support to producers who are in a difficult situation. A certain percentage of the price of the products in the range is paid directly to Finnish producers. The operating model has been received well and our aim is to support Finnish producers with hundreds of thousands of euros during this year. We also want to contribute to ensuring that Finnish production will also remain vital in the future.

These examples are only a small part of the valuable work Kesko and K-retailers do for society and for shopping to be fun.

Esteemed shareholders



Kesco Corporation's Board of Directors has proposed to this General Meeting that a dividend of €2.50 per share be paid for the year on the basis of the adopted balance sheet. The proposal is based on the company's dividend policy, according to which Kesko distributes at least 50 percent of its earnings per share excluding non-recurring items as dividends, taking however the company's financial position and operating strategy into account. After the end of the financial year, no material changes have taken place in the company's financial position. In the opinion of the Board of Directors, the proposed distribution of profit will not put the company's solvency at risk.

An authorisation is also proposed for the General Meeting to decide on the acquisition of the company's own shares and to decide on share issue. With these authorisations, we want to provide for the company to have a long-term share-based incentive scheme which, on the basis of Kesko's good results for last year, is a material and important competitive element in the operating environment that is getting harder. Well-considered, long-term commitment is very much in the interests of the company and its shareholders.

This General Meeting makes decisions on the number of Board members and the members, for example. I would like to extend my warmest thanks to Kaarina Ståhlberg, who resigned from the Board as of 1 March, for her distinguished work for Kesko Group and the K-Group.

New members proposed to the Board are Managing Director Jannica Fagerholm and retailer Matti Naumanen. I want to say that both candidates' competence and personal qualities provide excellent support to Kesko's management and implementation of the strategy. It is important and valuable that there are women and men of different ages and with different working experiences as Board members. We are also observing the same principles of a diversified working community in all other K-Group positions. Kesko is preparing the diversity principles in line with the Finnish Corporate Governance Code for Listed Companies and they will be published by the end of this year.

Finally, I would like to thank all those present, all our shareholders and other business partners for successful cooperation in 2015.

I would also like to note that the General Meeting is also intended to serve as a forum for an active dialogue between the shareholders and the Board in the framework of the agenda.

I wish you all warmly welcome to Kesko Corporation's Annual General Meeting!