Chairman of Kesko's Board of Directors, retailer
Esa Kiiskinen
The Annual General Meeting of Kesko Corporation in Helsinki on 8 April 2013

ESTEEMED SHARHOLDERS
DEAR MEETING PARTICIPANTS

Last year was characterised by the deterioration of the general economic situation and consumer confidence. The K-Group's sales totalled about €12 billion and we retained our position as the biggest operator in the Finnish trading sector.

The net sales of the Kesko Group increased by 2.4% despite a decline in car sales following the car tax change. Foreign operations increased by 9.0%.

Kesko's profitability remained good and return on capital employed was 9.3%, though the profit was down on the previous year owing to several store openings and the expansion of business in Russia. All divisions were profitable, and the Kesko Group's solvency and liquidity remained at an excellent level.

In the food trade, net sales increased by 3.1% and profitability remained at a good level. The market share of K-food stores decreased by 0.6 percentage points and was 34.7%. Sales of Pirkka products in K-food stores were up by 12%. The first K-grocery store was opened in St. Petersburg, Russia in December; the start up of the business has proceeded as planned.

In the home and speciality goods trade, sales of Intersport and Budget Sport in particular showed strong growth. The importance of electronic transactions and online stores continued to strengthen. The citymarket.fi online store, which was launched in October, gained much popularity. The profitability was adversely affected by several openings of new department stores and the restructuring of Intersport operations in Russia.

In the building and home improvement trade, sales particularly increased in Russia. In the Nordic countries, growth clearly declined towards the end of the year. In the building and home improvement trade, our market share increased in Finland, but the profit decreased clearly from the previous year.

Sales dropped in the car and machinery trade but profitability was at a good level. The market position of Audi and Volkswagen remained at a strong level of previous years and Volkswagen was the most registered car brand in Finland.

Last year, the deteriorated economic situation and the higher cost levels called for strong measures to ensure Kesko's competitiveness and to improve cost-efficiency. Kesko started a Group-wide profitability programme aimed at securing sales growth, implementing cost savings of €100 million and enhancing the efficiency of capital use by adapting capital expenditure and improving stock turnover rates. Most of the targeted cost savings are expected to be achieved during 2013.

President and CEO Matti Halmesmäki speak about Kesko's key events, sales and performance last year in more detail. I would like to thank President and CEO Matti Halmesmäki and the Group management for their professional and successful work and ask them to convey thanks to all of Kesko's employees in the eight countries where we operate.

Dear listeners

Last month, in its discussion on spending limits, the Finnish Government made some significant tax policy definitions.

Lightening company taxation was a positive solution, which will support companies' growth and competitiveness. The tax reduction will encourage companies to invest and develop their business operations at a time when there is still considerable uncertainty about the general economic outlook and consumer demand.

From the viewpoint of shareholders, the definition of tightening the taxation on dividend income is unreasonable and unequal, particularly from the perspective of small-scale investors.

The spending limits discussion also brought some bad news for the trading sector and households. The Government will further increase many consumption taxes. The taxation of sweets, electricity, alcohol and soft drinks will rise. All solutions that reduce purchasing power tend to lower consumer confidence and, consequently, consumer demand.

Owing to higher taxes and costs, the prices of groceries will increase faster than average consumer prices in Finland. According to the price index of Statistics Finland, grocery prices increased by 5.5% last December compared with a year before. Due to previous tax increases, the prices of alcoholic beverages and tobacco continued to increase most, by 7.9% from December 2011.

The prices of food and non-alcoholic beverages increased by 5.7% and those of consumer goods by 1.6% from a year before. The annual change of all consumer prices, that is, the inflation was 2.4% in December, while the average inflation in 2012 was 2.8%.

In Finland, the total tax rate of food is one of the highest of all EU countries and the proportion of various taxes is approximately 40% of the consumer prices of food. Without VAT, the price level of food in Finland would be lower than the European average.

At the beginning of this year, the VAT rate for food increased to 14% and the general VAT rate to 24%. The new rate of 14% for food is nearly double compared with European average, which is approximately 8%.

Rises of uniform tax rates have most impact on the daily lives and purchasing power of low-income households and families with children. High taxation increases food imports and may reduce the competitiveness of domestic food production and this way employment. Consumers would like to buy reasonably-priced Finnish food but severe taxation has a major adverse impact on the competitiveness of the domestic food chain.

Dear listeners

In addition to high taxation, the trading sector and the entire domestic food chain are also punished with strict regulation and restrictions on competition. The amendment to the Finnish Competition Act currently undergoing parliamentary proceedings would, if it becomes effective, lead to increases in consumer prices. The trading sector would have to accept suppliers' requirements more easily than currently and include products in their selections with less justification and be more prepared to pay the price they are asking. The amendment would also lead to increased imports at the cost of domestic production.

The law proposal as a whole is unsuccessful and unnecessary. The evaluation of impacts has been neglected in the proposal, and the disadvantages to consumers and the impact of the structure of the K-retailer operations has not been investigated. Uncertainly about what the law would actually mean in practice and the risk of legal proceedings would petrify business operations and decrease the functioning of the market.

No EU country has corresponding legislation on defining a dominant market position. Kesko and the K-Group have always been keen supporters of open and fair competition. We consider it astonishing that the Competition and Consumer Authority wants to increase competition restrictions and regulation - the objective of the authority should be to promote, not to restrict free competition.

Esteemed shareholders

Last spring, Kesko joined Climate Partners, a cooperative network between businesses and the City of Helsinki, whose objective is to find new kinds of operating methods for mitigating climate change. The project is one proof of Kesko's long-standing work over many decades for decreasing energy consumption and increasing energy-efficiency.

Energy can be saved in many ways, for example by fitting K-food stores' new freezers with lids. We use increasingly LED technology in stores' illuminated signs. The efficient recovery of condensation heat contributes to the fact that K-food stores need purchased heating for their premises only when temperatures drop below zero.

The maintenance and development of the Finnish trading industry and service structure require that energy production is secured. An unbroken cold chain is an essential part of food safety and the quality of the products offered to consumers. A comprehensive store network necessitates efficient energy production.

With our consistent operations, we have succeeded to significantly reduce our impact on climate change: the carbon dioxide emissions of the electricity used by the K-Group have decreased by 93% in Finland from the year 2001. It is important to promote the availability of carbon dioxide free and low-priced electricity.

Dear listeners

An essential part of our responsibility work is taking care of the wellbeing of our personnel. Kesko and K-retailers employ approximately 45,000 trading sector professionals and specialists in eight countries. Employees' competence and the good working atmosphere are key factors for wellbeing at work, work productivity and the stores' competitiveness. Despite the changes implemented, job satisfaction among Kesko employees remained at a good level in the 2012 personnel survey.

The importance of responsibility in building the employer image will be increasingly highlighted in the future. As the population ages and the labour structure changes, the trading sector will face a shortage of labour. We participate in the Youth Guarantee initiative, launched this year, and our objective is to employ as many young people threatened by social exclusion as possible in Kesko's units and around 1,300 K-stores across Finland.

The Remuneration Committee of Kesko's Board of Directors discusses HR issues more extensively than before. The Committee keeps an active eye on the level of compensation in Kesko and the effectiveness of the incentive systems in relation with other listed companies. In spring 2012, President and CEO Matti Halmesmäki would have been entitled to retire on old age pension at the age of 60 according to the rules of the Kesko Pension Fund. However, Kesko's Board of Directors wanted him to continue in the position for another three years, and the decision was taken in 2011. The Board of Directors was pleased that President and CEO Matti Halmesmäki accepted the offer made to him.

The possibility of paying part of the fees to Board members as Kesko shares was taken up at last year's Annual General Meeting. Now it can be stated that all Board members have, on their own initiative, acquired Kesko shares. It is also positive that Kesko's share-based compensation plan has increased the number of Kesko shares held by the company's management.

There has recently been active public discussion about the products' supply chains and product safety. Kesko monitors and takes a proactive approach to changes in the operating environment, and will engage in increasingly closer cooperation with our stakeholders and partners to ensure the responsibility of our operations chains. Responsibility work is essential for the K-Group and its significance will continue to grow in the future.

Dear shareholders

The company's Board of Directors proposes that this Annual General Meeting approves a dividend of €1.20 per share, which will strengthen Kesko's share as a value share and Kesko as a good dividend payer. The proposal is based on the company's dividend policy, according to which Kesko distributes at least 50% of its earnings per share excluding non-recurring items as dividends, taking into account, however, the company's financial position and operating strategy.

On behalf of Kesko's Board of Directors, I would like to thank all of you present and all our shareholders and other business partners for profitable cooperation and the excellent year 2012.

I would also like to add that the general meeting is, within the limits of the agenda, also intended to serve as a forum for active discussion between shareholders and the Board of Directors.

I would like to warmly welcome all of you to Kesko Corporation's Annual General Meeting!