



Chair of Kesko's Board of Directors, retailer Esa Kiiskinen,
The Annual General Meeting of Kesko Corporation in Helsinki on 13 April 2015

ESTEEMED SHAREHOLDERS
DEAR AGM PARTICIPANTS

Welcome to the 2015 Annual General Meeting of the 75-year-old Kesko!

The long economic recession did not ease in Finland during 2014. The downward trend in employment and higher taxes further eroded consumers' purchasing power, which was reflected in consumers' choices and tighter price competition in the trading sector.

No clear signs of a turning point in the economy are in sight, though growth is forecast to accelerate to some extent in Europe over the course of this and next year. Kesko's market development differs greatly from one country and division to another. What is particularly alarming is that Finland seems to lag behind other EU countries. The weak economic situation has kept consumers cautious and diminished their willingness to buy. The weakening Russian economy and operating conditions have also impacted Finland more than many other countries.

Despite the difficult market situation, Kesko's overall performance in 2014 was good. Profit remained good in the food trade and the car trade, and the building and home improvement trade more than doubled its operating profit. Kesko's financial position remained very strong. At the end of the year, liquid assets totalled nearly €600 million and the balance sheet was net debt-free, which provides an excellent basis for developing the competitiveness of Kesko's business.

President and CEO Mikko Helander will speak about Kesko's key events, sales and performance last year in more detail.

I would like to thank both Matti Halmesmäki, the previous President and CEO, and Mikko Helander as well as the Group management for their professional, successful work and ask them to convey thanks to all employees in all of the countries where Kesko operates.



Dear listeners

The parliamentary elections will be held next Sunday and related campaigning work is approaching the final stretch. Decisions and measures taken by the previous government to speed up growth and balance the public economy have remained sadly modest. The next government has to implement the adaptation actions and structural reforms needed with determination and without delay.

Tax increases will not remedy the economic situation. In just five years, the total tax ratio in Finland has risen to the same level as in the mid-1990s after the great recession. In 2012, Finland's total tax ratio exceeded that of Sweden. In 2013, the tax ratio reached 44.0 percent, which was the fourth highest among all EU countries after Denmark, France and Belgium. This year the tax ratio will be as high as 45 percent.

Our extremely high taxation has further weakened the already poor outlook for growth and crippled demand on the domestic market. Domestic retailing and the service sector supported Finnish economy for years, but the poorer employment situation as well as tax and fee increases have also slowed down the pace of the companies which depend on the purchasing power of households. The success of the export sector is vitally important, but in public discussion it is often forgotten that private consumption accounts for about a half of the Gross Domestic Product of Finland.

Expectations for the success of the next government are huge. For the trading sector and households, it is of crucial importance that taxes are no longer increased. The extremely high tax ratio and increased regulation have greatly impaired the operational basis of the trading sector in Finland. Competition is global and it is difficult for domestic businesses to succeed if the competitive situation is not equal for them and foreign companies.

Best support for Finnish entrepreneurs is provided by increasing the long range approach in political decision-making. Solutions that extend further than one parliamentary term are needed in economic policy. While businesses are agile and flexible, entrepreneurs and business management require predictability and certainty about the rules to be applied. The next government has to apply predictable rules to make Finland a place where it pays to invest and establish businesses. Only the willingness of businesses to grow and invest creates opportunities for employment and a positive tone to economy.

Political decision-makers can also improve the livelihood of people by eliminating unnecessary regulation in the trading sector. For example, the liberalisation of the retail trade of over-the-counter medicines and the opening hours of retail stores would increase competition and efficiency in stores and lower consumer prices. According to a recent survey, three out of four (76%) Finns aged 18–69 would be ready to buy over-the-counter self-care medicines in grocery stores, and customers' wishes should be listened to. In many European countries, such as Sweden, Denmark and Norway, the sale of self-care medicines has to some extent been liberalised outside pharmacies.

Dear AGM participants



This year marks Kesko's 75th anniversary. Kesko was established in the autumn of 1940 after the end of the Winter War, in the circumstances when the fate of Finland was at stake. The post-war period and the first decade of the company were, on the one hand, tinged with concern about maintaining the democratic social system and, on the other hand, with the shortage of goods and controlled economy. Kesko and K-retailers played a significant role in the reconstruction of our society, which created the basis for the K-Group's success story that has lasted for decades. The journey has required courage, wisdom and persistence, which qualities are also needed in the future, when the world, Finnish society and the whole economic life are changing.

Today, the trading sector is undergoing a major change, in which the key factors are the growth of e-commerce and multi-channel retailing, internationalisation of competition in retailing, and the focus on price in customers' purchasing decisions. The current weak economic situation makes this change even more substantial. In order to respond to the changing circumstances, we have at Kesko taken strong measures, the most apparent of which are the changes made in the division structure in December last year and the divestment of the Anttila department store chain in March.

Bold actions and reforms are necessary to ensure Kesko's profitable growth. The basis for building the future is good as Kesko is in a good state. Kesko's profitability and solvency are good, and it holds a strong position in many areas of retailing. Kesko's corporate responsibility work has also been very successful, and this systematic work was continued last year. In January, Kesko was rated the fifth most sustainable company in the world and the most sustainable food and staples retailer. We can be genuinely proud of these achievements. Kesko and K-retailers don't do this work alone but the prerequisites for success are created together with our wide stakeholder groups. Kesko and K-stores create value for their customers above all, but at the same time for the entire society as significant providers of employment and taxpayers.

According to the report by the Prime Minister's Office, published early this year, Kesko is the fourth most important Finnish company in terms of economic welfare. Kesko's direct impact on the Finnish GDP is nearly one percent. When the multiplier impacts of domestic product purchases, transportation and other service acquisitions are taken into account, Kesko's total significance reaches several percent.

Esteemed shareholders

The Board of Kesko Corporation has proposed to this General Meeting that a dividend of €1.50 per share be distributed on the basis of the adopted balance sheet for 2014. The proposed dividend represents 91% of earnings per share excluding non-recurring items. In the previous five years, 79% of earnings per share excluding non-recurring items have been distributed as dividends on average.

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.



This General Meeting also makes decisions on the number of members in the Board of Directors and on the members for the following three-year period. I would like to extend my warmest thanks to the current Board members for their long-term and committed work for Kesko Group.

I would also like to thank all of you present and all our shareholders and other business partners for fruitful cooperation in 2014.

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!