



Retailer Esa Kiiskinen, Chair of Kesko's Board of Directors
Kesko Corporation's Annual General Meeting in Helsinki on 3 April 2017

ESTEEMED SHAREHOLDERS
DEAR PARTICIPANTS OF THE MEETING

Welcome to Kesko's 2017 Annual General Meeting!

Towards the end of last year, long-awaited, budding signs of the end of recession and the revival of growth emerged in the Finnish economy, irrespective of the fact that GDP growth is still slower than in the EU states on average. Cautiously optimistic development was seen in employment and consumers' confidence in the development of their own finances and the Finnish economy strengthened towards the year end. Companies are making capital expenditures and hiring more people, which gives hope for the future.

K Group's strong renewal continued in line with our strategy in 2016. Kesko's net sales turned to significant growth and comparable operating profit improved markedly. We continued to make Kesko's business more focused and strengthened the strategic growth areas with the acquisitions of Suomen Lähikauppa and Onninen, as well as AutoCarrera, responsible for the import and retailing of Porsche.

In 2016, we also started the grocery trade chain reforms in the K-Market and K-Citymarket chains. In the building and technical trade, we arranged the Baltic and Belarusian operations into Kesko Senukai, and in Finland, we started the combination and modernization of the K-Rauta and Rautia chains into the new K-Rauta chain. We made significant progress also in our digital services.

Kesko Group's financial position is strong. The comparable return on capital employed rose to 11.9% from the previous year's 11.7%. At the end of last year, liquid assets were 391 million euros and equity ratio stood at 48.6 per cent. The Company's good financial standing provides excellent conditions for developing the competitiveness of Kesko's business operations also 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 the Group's management for their professional and successful work and ask them to convey thanks to all employees in all of Kesko's nine operating countries.

Ladies and gentlemen

Last year in Finland, the total trading sector sales achieved growth for the first time in years. This trend has been underpinned by very low inflation and an increasing employment rate. The Finnish government will have their mid-term review and discussion on spending limits at the end of this month. In spite of the positive signals, the situation of public finances continues to be alarmingly weak, and the government seems to have major challenges in achieving its ambitious financial targets. Easy ways in which to increase employment and balance the public finances are few. Once again this spring, there has been public speculation about a possible increase in the VAT rate. K Group and the trading sector have a clear view about it: tax increases are not the right way.

In recent years, private consumption has been and still is the most important factor supporting the growth of our national economy. It is crucially important for the purchasing power of households and for the trading sector and the entire service industry that taxation is not increased. 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 work and enterprise, employment, risk taking, ownership, capital expenditure and investment in Finland. This is a good objective, because our abilities to make structural reforms, deregulate and nurture growth are the decisive elements in the sustainability of public finances and Finland's future as a whole.

Taxation in Finland is extremely high even today. For example, different taxes account for more than 40% of food prices in Finland. The VAT rate on food (14%) is nearly triple the average for the EU15 states (5%).

Taking care of consumers' purchasing power is essential for the trading sector. It would also be socio-politically highly justified for the government to continue loosening the income tax burden, because it would increase employment and people's disposable income, as well as boost activity across society. In order to ensure the viability of the service industries and to improve the operational agility of the whole of our country, it is also important that the government continue deregulation. Excessive regulation hinders both competition and the development of the home market. The European Commission has also prompted Finland to modernise retail regulations and remove restrictions.



The liberalisation of opening hours was a significant step in the right direction and further liberalisation measures should be taken. In May, the government will submit its proposal for the amendment of the Alcohol Act to Parliament for consideration. The proposal includes the expansion of the selection of mild alcoholic beverages at food stores. According to the survey conducted by the Finnish Grocery Trade Association and Taloustutkimus Oy, the reform will have many positive effects: the changes will halve the amount of strong beers, ciders and long-drinks imported by passengers, increase the domestic tax revenue by 35 million euros, as well as contribute to maintaining a comprehensive store network across Finland.

The government should also take a liberal stand towards changes in the regulation of pharmaceutical distribution. Last month, we announced that Kesko will build an overall health, beauty and wellbeing store chain jointly with Oriola-KD. As the regulation of pharmacies changes, we will be ready to expand our operations to include selling pharmaceuticals.

The other Nordic countries have already liberalised their pharmacy markets and their experiences have been good. In Finland, the regulations governing the selling of pharmaceuticals is among the tightest in the Nordic countries. The pharmacy market of the ageing Finland needs its operating practices to be modernised and competition to be responsible. This change would not compromise the safety or availability of medicinal products. Instead, enhanced operations would benefit both consumers and society on an even wider scale.

Dear participants

K Group differentiates itself from the competition with quality and customer orientation. Winning customer confidence at every shopping visit, both offline and online, is a prerequisite for success in the trading sector competition. Every customer is different and therefore we listen to the wishes and needs of our customers with a keen ear at all K Group stores. Our strategic objective in all divisions is to strengthen consumers' and businesses' customer experience at physical stores as well as in digital channels.

In addition to customers, we engage in an active dialogue with our other stakeholders. We aim to maintain our position as a frontrunner in responsible business operations in and outside Finland. In January, Kesko was once again included 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. This is a fine proof of the quality of our long-term corporate responsibility work. In the future, we will more actively highlight the benefits from our responsibility work to customers and its significance to the society around us.



K Group is one of the most significant employers and taxpayers in Finland. According to the report published by the Research Institute of the Finnish Economy ETLA last year, Kesko is the fifth most important company for the Finnish economy in terms of the gross domestic product. Last year, merely the income taxes paid by Kesko and K-retailers to Finland totalled nearly 70 million euros.

At the end of last year, the number of Kesko personnel was nearly 28,000 and the whole K Group employed around 45,000 people. The key principles in Kesko's recruitment, remuneration, advancement and other personnel matters are equal opportunities, non-discrimination and justice. We assess people based on their competencies, skills and achievements. We have signed the Diversity Charter Finland aiming to help the Company make diversity management as one of the starting points in the development of operations. A pluralistic working community that supports diversity ensures equal opportunities, rights and treatment to all our employees.

Diversity is an essential component of Kesko's success, the achievement of Kesko's strategic objectives and good governance. This naturally applies to the Company's top management too. Last year, we drew up and approved the diversity policy of Kesko's Board of Directors, which describes the objectives in the achievement of diversity in the Board's operations and composition.

Kesko's HR and equality plans cover, for example, recruitment, career development and training, remuneration and the reconciliation of work and family life. In addition to gender equality, the plans also guide the equal treatment of people of different ages and with different cultural backgrounds. Employees' experiences of equal treatment have been monitored as part of the personnel survey.

According to K Group's operating principles, all of the K Group personnel are jointly responsible for creating and maintaining a good working atmosphere. An efficient and fair working community, in which everyone can enjoy working, is built on mutual trust, valuing people, genuine caring, willingness to help and an open community spirit. Competition for the best employees will tighten in the future. Therefore, in my opinion, it is important that we systematically develop our high-level operations as a responsible employer and workplace.

Esteemed shareholders

Kesko Corporation's Board of Directors has proposed to this General Meeting that a dividend of €2.00 per share be paid for the year 2016 on the basis of the adopted balance sheet. The proposal is based on the Company's dividend policy, according to which Kesko



Corporation distributes at least 50% of its comparable earnings per share as dividends, taking into account, however, the Company's financial position and operating strategy. Although we have made capital expenditure of nearly one million euros in the past two years – and what's more, mainly in Finland – capital has been released from making the Company more focused, and that combined with our solid profit making capacity enables the whole profit to be distributed in dividends to shareholders. In the opinion of the Board of Directors, the proposed distribution of profits will not risk the Company's solvency.

In addition to the distribution of profits and the matters falling within the decision-making power of the General Meeting according to article 10 of the Articles of Association, the General Meeting also addresses the Board's and its Audit Committee's proposals for the election, remuneration and basis for reimbursement of the expenses of the Auditor, donations for charitable purposes, as well as shareholders' proposals for the number of Board members and their remunerations.

I would like to thank all those present, all our shareholders and other business partners for successful cooperation in 2016.

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 within the framework of the agenda.

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