



Heikki Takamäki, Chairman of Kesko's Board of Directors  
The Annual General Meeting of Kesko Corporation in Helsinki on 16 April 2012

DEAR PARTICIPANTS, LADIES AND GENTLEMEN

Last year was a year of profitable growth for Kesko and the whole K-Group. The K-Group's sales totalled €11.8 billion and the Kesko Group's net sales were €9.5 billion, representing an increase of 7.8%. Kesko's solvency and liquidity remained, as in previous years, at an excellent level.

In the food trade, market share and profit improved. Volkswagen and Audi achieved record level profits and market shares. In the home and speciality goods trade, Asko's and Sotka's sales and profits were excellent. In the building and home improvement trade, sales increased markedly, but profit performance remained slow.

Kesko's capital expenditure on growth was high both in Finland and other countries. Last year, we made a decision to expand Kesko's business operations in the Russian building and home improvement trade, food trade and sports trade, which offer significant growth potential in the future.

Both in the building and home improvement trade and in the food trade, the aim is to open around ten new stores in Russia by the end of 2015. The total capital expenditure of the building and home improvement trade, the food trade and Intersport in Russia will amount to around €600 million in 2011–2015.

Kesko acquired Intersport Russia's business operations in August 2011 and at year-end there were 36 Intersport stores in Russia. The aim is to double the network of Intersport stores by 2015.

President and CEO Matti Halmesmäki will deal with Kesko's 2011 key events, sales and performance in more detail. I would like to thank President and CEO Matti Halmesmäki and the Group's management for their professional and successful work and ask them to convey thanks to all of Kesko's employees in the eight operating countries.

### **Dear listeners**

Last month, the Finnish Government made the expected decision to increase taxes and cut public expenditure. Curbing debt and balancing public economy called for action from the government and therefore Finnish people mainly had an approving attitude towards increases.

In the trading sector, however, the budget framework decisions caused some disappointment and concern. Flat tax increases and higher earned income taxes will cut the purchasing power of private citizens and eat up the service sector's development and employment potential. Families with children are those who suffer most from flat taxes.

Reductions in purchasing power threaten to increase the unemployment rate of the young, which is high already, and the alarming trend of marginalisation. Trade and services is the largest employer of young people in the private sector and for many, store duties provide the first access to the working life.



Private consumption and capital expenditure by the trading sector have greatly contributed to employment and kept Finland afloat during difficult economic times. The trading sector is the biggest employer in our country, with around 300,000 employees in the retail and wholesale trade. Together, Kesko and K-stores employ 45,000 trading professionals.

The value added tax has a major impact on food prices, in particular. The current value-added tax on food in Finland (13%) already clearly exceeds the EU average (5.5%). Without this impact, Finnish consumer prices of food would remain below the average of the EU15 countries.

In Finland, different taxes now account for around 40% of food consumer prices. In addition to the value-added tax, the prices are also affected by corporate tax, earned income tax, real estate tax, capital gains tax, energy taxes and various environmental taxes and excise duties.

All agree that the growth of national debt needs to be stopped. There is, however, a great risk that the government's targets won't be achieved if the purchasing power of citizens decreases, demand for domestic products and services reduces and, as a result, economic growth and employment decline.

In terms of cost impact, the so-called frame agreement was expensive for trading sector companies and it also involves such working life development projects which, if implemented, make the labour market even more rigid.

### **Esteemed shareholders**

There has recently been public discussion about market shares and centralisation in the food trade. The discussion has been regrettably one-sided. Comments do not usually take into account the high tax rate of Finland or the regulations complicating the offering of retail services.

As for Kesko and K-retailers, it should be noted that all of the 900 food stores in the K-Group are run by retailers. The retailers compete against each other and, in many cases, competition between K-retailers is the hardest of all.

There are over 900 independent K-retailer entrepreneurs in K-food stores and more than 300 in other divisions. This business model combines the local knowledge of a retailer entrepreneur and the efficient chain control to the benefit of the consumer. Our retailer model promotes multifaceted competition and local approach.

In retailer business operations, chain control is applied to achieve efficiency and lower prices for consumers. However, competition legislation sets strict limits on chain control in retailer business. Single-owner chains can instead make their decisions on a centralised basis without any restrictions by the Competition Act.

From the perspective of competition, it would be important to have the level playing field for all trading sector operators. The rules should be the same for all, irrespective of the structure and ownership. The competitive basis in retailer business should be equal compared with single-owner chains.

Current market positions have been achieved through competition. The market has also become more centralised as a result of business acquisitions made during the last decade and approved by



the authorities. Furthermore, several operators have left the market, because they have not survived in the tough competition.

## **Dear listeners**

As I have already said, the trading sector is by far the largest employer of young people. It has a wide range of opportunities to offer for people with various competencies.

Kesko has had long-standing and successful cooperation with educational institutions. Last year, we started a scholarship programme aimed for polytechnic students of business economy. By completing a study-related training period in a K-store or Kesko, the student has an opportunity to receive an incentive scholarship of Kesko. A training period provides the students with a good chance to familiarise themselves with Kesko, K-stores and the trading sector as a place of work. We also annually support talented young athletes and art students with Kesko scholarships. Part of the funds proposed for the approval by the Annual General Meeting for donation will be used for these scholarships.

This year, Kesko and the K-retailers have decided to support the employment of people with disabilities. The K-Retailers' Association and the Finnish Association on Intellectual and Developmental Disabilities (FAIDD), have started a cooperation project called 'Many kinds of performers'. The purpose of the project is to support the employment of people with intellectual and developmental disabilities by creating jobs and traineeships for them in K-Group stores. Kesko participates in the project with a donation of €30,000.

This donation is part of Kesko's long-standing and committed work for responsibility over several years. We have been recognised for our work both in Finland and internationally. Kesko has been included in the 'The Global 100 Most Sustainable Corporations in the World' list since it was established and is also included in several other sustainability indexes. Kesko's Corporate Responsibility Report was selected the best report in Finland and the students' favourite in the responsibility reporting 2011 competition.

Competition in sustainable development and responsibility is getting tougher year by year and being ranked among the most sustainable companies in the world requires constant development of operating practices. Responsibility is part of the daily activities in Kesko and K-stores. Customers can rely on the fact that their responsible choices start when they enter a K-Group store.

Responsible activities are concrete actions that, for example, improve energy efficiency, reduce the amount of waste, offer a safe product range and improve wellbeing at work and working conditions. Kesko's and K-stores' duties include helping customers make choices that are good for their wellbeing and for the environment.

## **Dear shareholders**

I have been the Chairman of the Board of Directors since 2003 and I am leaving my job today. I can do so with a cheerful mind but a little wistfully; the company is in a good condition and responsibility in management is at an excellent level.

I can assure, as the saying goes, that "...the company has no skeletons in the closet".



Kesko and the K-Group have been on the path of strong development for years already and I know that the development will also continue.

I also want to thank Kesko's Boards of Directors for excellent cooperation over all the years of my chairmanship.

To the new Board to be elected, I wish success, wisdom and comprehensive foresight concerning the entire K-Group in their work for future development.

I would like to thank President and CEO Matti Halmesmäki for excellent cooperation and profitable work at the top of the Group. Last May, the Board of Directors agreed with Matti Halmesmäki that his term as President and CEO will continue until the end of May 2015, when he will be 63. According to the original managing director's service contract, the term would have terminated at the end of next May.

On behalf of Kesko's Board of Directors, I also want to thank all of you present, all our shareholders and other partners for the past years and for successful cooperation.

I would also like to congratulate the K-Retailers' Association which is celebrating its 100th anniversary. The K-retailer entrepreneurship is a competitive asset and superiority factor of the K-Group. The common objective of Kesko and K-retailers is that the K-Group retains its position as the largest and most successful trading sector operator in Finland.

Therefore it is important that we continue to make capital expenditure, reforms and focus on service and selections. Customer expectations and needs change faster than ever, which means that we must listen to customers closely.

Kesko and the K-Group will continue to succeed in the future by meeting and exceeding customer expectations at every store encounter. Kesko's shareholder value and dividend yield are based on high customer satisfaction and effective operations.

## **Finally**

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 according to the dividend policy approved.

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