



*Kesko's year 2002*

**KESKO**

# Kesko's vision and mission

## Kesko's vision

Kesko is the leading provider of services in the trading sector.

## Kesko's mission

Kesko, working together with its partners, creates trading services that are highly valued by customers.

## Our business divisions:

- Kesko Food Ltd: groceries trade
- Rautakesko Ltd: building and interior decoration supplies trade
- Kesko Agro Ltd: agricultural and machinery trade
- Keswell Ltd: home and speciality goods trade
- VV-Auto Oy: car and spare parts trade
- Kaukomarkkinat Oy: international technical trade, branded product trade

Kesko's main operating areas are Finland, Sweden and the Baltic countries.

## Our core competence areas:

- creation of new trading systems and store types
- purchasing and logistics services
- marketing
- development of retail store network



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The financial statements for 2002 are published in a separate report.

# Year 2002 in short

**Net sales increased and profit improved significantly.** The Group's net sales were EUR 6,466 million, representing a growth of 4.1%. The profit before extraordinary items was EUR 109.7 million, an increase of 28.0%.

**Benefits of chain operations are being reaped.** The K-stores' chain operations are now well-established in Finland and the positive consequences are visible in the sales development and cost savings of the chains.

**Investments in growth and competitiveness.** The Group's investments totalled EUR 185.1 million, 36.9% of which was targeted on foreign operations.

Store investments were made in large outlets, comprising six new K-citymarkets opened in Finland, three Citymarkets in the Baltic countries, two K-rauta stores in Sweden and two in the Baltic countries.

**Vigorous growth continues in the Baltic countries.** Kesko expanded its operations in the Baltic food, hardware and builders' supplies, and agricultural and machinery trade. In Sweden, the hardware and builders' supplies trade also experienced rapid growth and improved profit.

**Information system project close to implementation.** All of Kesko's division parent companies have been preparing for new SAP information systems, most of which will be implemented in 2003. The new division-specific systems will replace the old Kesko-specific system for operations control.

**Kesko recognised for bearing its corporate responsibility.** The United Nations' Environment Programme (UNEP) and the International Chamber of Commerce (ICC) recognised the K-environmental diploma as one of the world's ten best partnership programmes in Johannesburg.

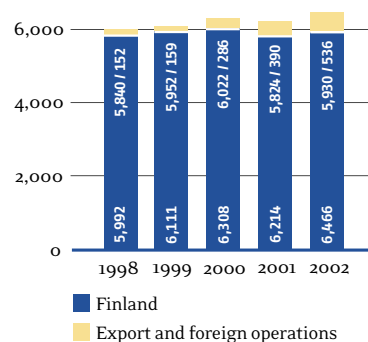
Kesko's corporate responsibility report was ranked the best in the world in the trading sector, and in Finland, Kesko was recognised for the second time in succession as being the best overall reporter of environmental and corporate responsibility.

## Key figures

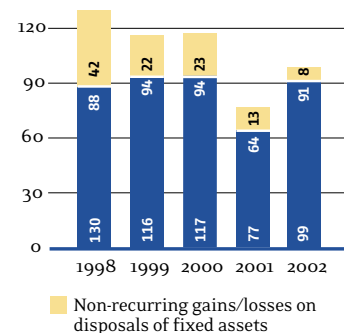
	2001	2002	Change, %
Net sales, EUR million	6,214	6,466	4.1
Operating profit, EUR million	77	99	28.7
Profit before extraordinary items, EUR million	86	110	28.0
Return on invested capital, %	6.6	7.6	15.0
Return on equity, %	4.1	4.9	21.6
Investments, EUR million	206	185	-11.5
Cash flow from operations, EUR million	209	146	-30.2
Equity ratio, %	53.6	53.3	-0.4
Gearing ratio, %	12.7	13.9	9.3
Personnel (average)	11,544	12,217	5.8
Dividend per share, EUR	0.60	1.00*	66.7
Earnings per share, adjusted, EUR	0.60	0.75	23.5
Equity per share, adjusted, EUR	14.78	15.02	1.6

\* proposal to the Annual General Meeting

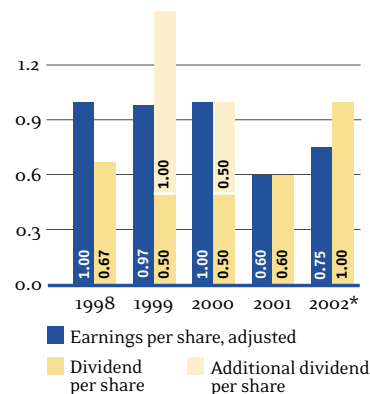
Group's net sales, EUR million



Group's operating profit, EUR million



Earnings per share and dividend per share, EUR



\* proposal to the Annual General Meeting

# Kesko's values

**1.** We recognise our customers' needs and expectations. We strive to offer them positive experiences through the continual reform of our operations and emphasis on entrepreneurial activity.

**2.** We offer our customers the best products and services in the market to ensure our competitiveness and success.

**3.** We operate in an open, interactive working community where people are respected and every individual can contribute to the maximum and use initiative.

**4.** Our operations are responsible and we follow ethically acceptable principles in all actions within our working community and in relations with our partners.



Our employees and operations are guided by the personnel principles and Kesko's values. The latter were revised in thorough value discussions in autumn 2001, and approved by Kesko's Board of Directors at their meeting in February 2002. Kesko's values were discussed in numerous events headed by President and CEO during spring 2002.

## **Our working practices – ethical principles**

The 'Our working practices' booklet, compiled by Kesko and the K-Retailers' Association in co-operation, gives more detailed information about our values and how every employee can act according to them. The booklet gives practical guidelines on operating practices that will promote the implementation of the principles presented in these values.

'Our working practices' can also be found on Kesko's Internet pages ([www.kesko.fi/inbrief](http://www.kesko.fi/inbrief)). Kesko's values and operating practices have also been translated from Finnish into other languages used in the Group: Swedish, Estonian, Latvian, Lithuanian, Russian and English. Separate training material is available to support their adoption.

## Divisions in brief



< Cashier Ulla Koppinen of Musta Pörssi Maailma, Vantaa and Juha Andelin, Marketing Manager of K-Plus.

> **Kesko Agro Ltd** purchases and sells animal feed, chemicals and agricultural machinery, and is involved in the grain trade. In addition to Finland, Kesko Agro is active in all Baltic countries. Kesko Machinery Ltd, a subsidiary of Kesko Agro, purchases and sells through its own network heavy machines for professional and commercial use, as well as light machinery, boats and boating equipment for consumers. Pages 32–35.

> **Keswell Ltd** specialises in the home and speciality goods trade. Keswell develops operating systems and the store network, manages the store chains and is responsible for the purchasing of goods, logistics and chain marketing. Its store concepts are well-known retail concepts which have gained a strong position in Finland. Keswell's subsidiary, Anttila Oy, is one of the biggest retailers in the home and speciality goods trade in Finland. Pages 36–39.

> **Kesko Food Ltd** is a developer of food trade operating systems and operates as a wholesaler and retailer in Finland and the Baltic countries. The key businesses of Kesko Food are the K-food store chain operations in Finland, Kespro Ltd's catering sales to HoReCa customers, and grocery retailing in the Baltic countries. The food trade is the largest of Kesko's divisions, accounting for over a half of the Kesko Group's net sales. Pages 24–27.

> **Rautakesko Ltd** develops the K-rauta and Rautia chains, its Industrial and Constructor Sales and is responsible for their marketing, purchasing and logistics services, network and retailer resources. In addition to Finland, Rautakesko carries on retail trade in Sweden, Estonia and Latvia and wholesale trade in Russia. The hardware and builders' supplies trade is one of Kesko's focal areas. Rautakesko's aim is to become the leading hardware trader in the Nordic and Baltic countries. Pages 28–31.

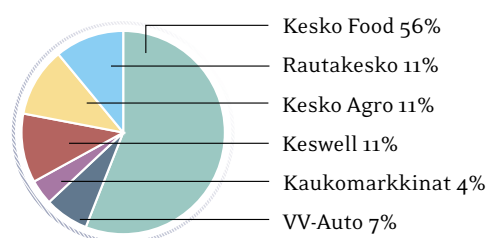
> **Kaukomarkkinat Oy** is the leading Finnish trading house operating internationally. It has over 20 subsidiaries or representative offices abroad. Kaukomarkkinat specialises in international technical trading, the import and wholesale of the world's leading branded products as well as the import, manufacture and marketing of high-quality optics. Pages 40–42.

> **VV-Auto Oy** imports Volkswagen and Audi cars and Volkswagen commercial vehicles. Its subsidiary, Auto-Span Oy, is responsible for importing and marketing Seat cars. In addition, the companies import original spare parts and accessories for the cars and arrange training, in their own training centre, for the personnel of the service and repair workshop network. Pages 43–45.

### Net sales and operating profit by division

EUR million	2002		2001	
	Net sales	Operating profit	Net sales	Operating profit
Kesko Food	3,628	60.5	3,433	40.0
Rautakesko	735	9.0	746	4.3
Kesko Agro	715	7.4	699	6.2
Keswell	687	-2.9	695	-5.9
Kaukomarkkinat	285	7.7	291	6.8
VV-Auto	450	14.4	391	14.2

### Breakdown of net sales by division in 2002



## *Review by the President and CEO*



International competition has become well-established in every product line in the Finnish trading sector now that Finland's accession to the European Union has made us a genuine part of the European market. National protective measures or our remote location no longer prevent active international competition from taking root in our home market.

The international trading chains, with their economies of scale and centralised operations, are putting pressure on all parts of the domestic trading sector, primary production and manufacturing, to adapt to the new situation.

Two years ago, Kesko prepared itself for the new situation by combining its main retail operations and the K-stores into a coherent chain operating system.

The positive consequences of these reforms, mainly completed last year, were clearly visible in Kesko's profit and sales for 2002. They were also reflected in improved competitiveness for the K-stores that changed over to chain operations.

Due to their intensified efforts to save costs and improve efficiency, all Group divisions improved their profits last year. Kesko Group's profit before extraordinary items was EUR 109.7 million. In view of this result, the Board proposes a dividend distribution of EUR 1.00 per share.

It is vital to our internationalisation that we tighten co-operation with European purchasing organisations. In 2003 we will also direct a greater share of our investments to operations outside Finland than their share of net sales. During recent years, Kesko has expanded particularly in Estonia, Latvia and Sweden. In Lithuania, we have reached a preliminary agreement on the acquisition of their largest hardware and builders' supplies chain.

The principal future challenge for Kesko and K-retailers is to put emphasis on increasing sales in Finland. For that purpose, we will invest strongly in accelerating growth and strengthening competitiveness. Kesko will renew most of its information systems this year, which will provide a much better platform for efficient information management and operations control throughout the trading chain.

Kesko's nearly ten years of development has produced sound principles and systems for measuring and reporting the environmental and social impacts of our operations. The development of key indicators has enhanced our operations and reporting.

In 2002, Kesko was awarded, both in Finland and abroad, for its work on behalf of environmental and corporate responsibility.

The United Nations' Environment Programme, UNEP, and the International Chamber of Commerce selected the K-environmental store system, developed by Kesko together with the K-Retailers' Association and the Finnish Association for Nature Conservation, as one of the world's ten best partnership programmes.

The award was presented at the UN Summit for Sustainable Development in Johannesburg. Later in the autumn, UNEP commissioned a comparison of reports, which resulted in Kesko's corporate responsibility report for 2001 being ranked as the best trading sector report in the world.

2002 was a good year for Kesko. The significant profit improvement and the highly esteemed awards we received indicate that Kesko is fundamentally in good shape. Our set of values also stand up to the most critical public scrutiny.

We will continue to operate on a sound basis. We will intensify efforts to accelerate our growth domestically and to maximise the benefit from our foreign investments.

I would like to thank our shareholders, whose growth in numbers is another indicator of confidence in our operations. I also wish to sincerely thank all our customers in Finland and abroad, and all of the K-retailers for their successful start to chain co-operation during the past year.

My special thanks go to all of Kesko's personnel in Finland and abroad. Their productive work has once again shown that Kesko has earned its position as the leading provider of services in the trading sector.

### **Matti Honkala**

President and CEO

# Strategy



^  
Rautakesko's Store Manager Üllar Haaboja (left) and Development Director Alo Ivask take a look at a new store site in Estonia.

## *Kesko – the Trade Maker*

### **1. Growth – the leading market position**

Both Kesko's size and its leading position in the trading market generate a competitive advantage. Kesko has a strong market position in Finland and is expanding its operations in the food, hardware and builders' supplies, and agricultural and machinery trade in the Baltic markets, and in the hardware and builders' supplies trade in Sweden, too. The target is to reach the leading market position in all these markets and product lines.

Operations in Finland are based on the continuous development of store types and store site investments to meet the demand for services. Chain operations and retailer entrepreneurship are key competitive advantages.

In the Baltic food trade market, growth is based on the growing market and on the structural change in retailing, as well as on the fast expansion of Kesko's store network. In Estonia, Kesko's

**Kesko's strategy**

**1. Growth**

- expansion in the Nordic and Baltic countries, particularly in the food and hardware and builders' supplies trade
- store site investments to meet the demand for services
- continuous development of store types

**2. Efficiency**

- overall management of the operations chain, integration of the wholesale and retail trade
- increasing international purchasing co-operation
- concentration on core competences

**3. Versatility**

- diversified channels and product lines
- varied selected markets
- wide network of partners in various business sectors

**4. Locality**

- retailer entrepreneurship and deep customer knowledge
- extensive store network

**5. Responsibility**

- economic, environmental and social responsibility

food store network is nearly completed. In Latvia, progress is mainly being made by establishing new stores and in Lithuania it is through possible business acquisitions and the establishment of new stores.

The growth of the hardware trade in both Sweden and Latvia will come mainly from the establishment of new stores. In Estonia, the network of hardware stores is nearly completed and in Lithuania progress is mainly made through business acquisitions.

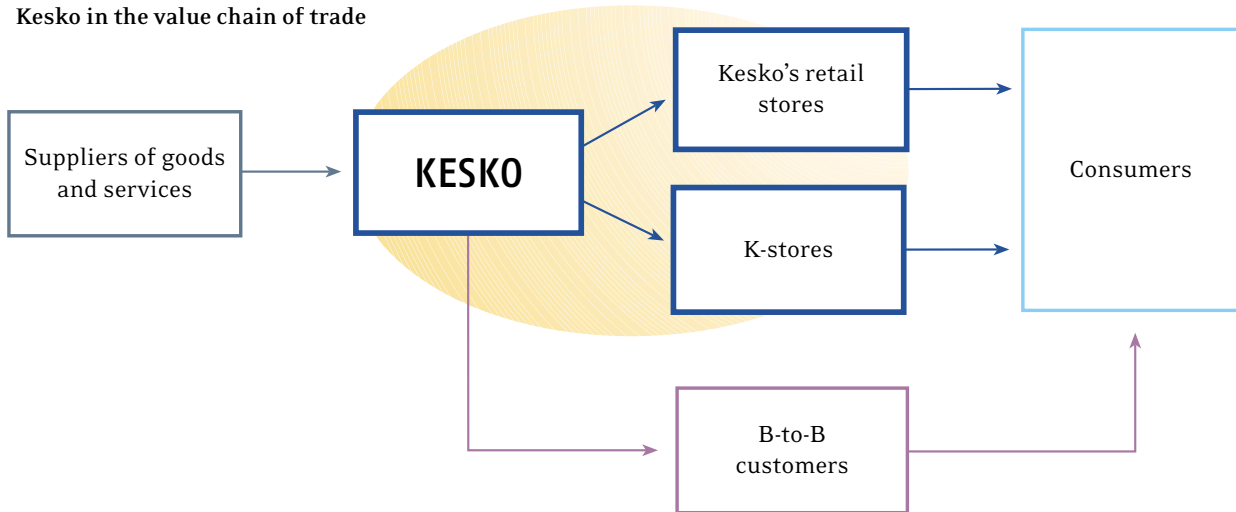
The frame of the agricultural and machinery store network has already been built in all the Baltic countries, and the network will expand throughout the area in the next few years.

### **2. Efficiency – a prerequisite of profitability**

The efficiency of the logistical chain is the main competitive factor in the trading sector. This necessitates the seamless integration of



### Kesko in the value chain of trade



the operations chain and the overall control from customer to supplier. To improve logistical efficiency Kesko is investing heavily in information systems and information management. In all product lines the management of goods flows is being streamlined with co-operation partners.

The centralisation of purchasing power is another key competitive factor in the trading sector. The purchasing power of the chain and of the professional customer units is, as far as possible, combined in each product line. International purchasing co-operation can benefit from the global merchandise market. Kesko has important international partners in every product line: in the food trade the leading European purchasing alliance AMS and the online trading site WorldWide Retail Exchange, in the hardware trade EuroMat, in the home technology trade EP:International and in the sports trade Intersport.

In recent years Kesko has outsourced many of its support services and concentrated instead on developing the core business and trading services appreciated by its customers. This improves the efficiency of operations by freeing resources and making the services of our specialised partners available to us. The incorporation of business sectors has increased efficiency and flexibility in each product line.

### 3. Versatility – comprehensive offerings and flexibility

In marketing goods and services Kesko uses several different channels to consumers and professional customers. The key channel is the K-retailers' store network, complemented by Kesko's own growing retail operations via the store network and the Internet.

In Finland Kesko operates in several different product lines using the mutual synergy benefits between them. Operating in many different markets also creates stability against cyclical fluctuations and changes in demand.

Wide customer, supplier and partner networks are a significant advantage and make it possible to benefit from market changes and to react flexibly to changes in demand.

### 4. Locality – better customer knowledge and exceeding expectations

Retailer entrepreneurship is a strong competitive advantage of the K-Alliance in Finland. Combined with efficient chain operations it is a superiority factor that enables good customer and market knowledge and the best local service.

Kesko and K-stores have the widest and most versatile store site network in Finland, ensuring a local service offering. In new market areas the network is under active construction.

### 5. Responsibility – long-standing operations and the basis for future operations

Trading is based on confidence between the buyer and the seller. Long-standing operations are only possible if customers have confidence in the products and services offered by the seller and in his operating practices.

Kesko has been a pioneer of responsible operations in Finland. Responsibility for economic operations has been Kesko's most important operating principle throughout its history. Kesko has made a profit and paid dividends in nearly every year of its operations.

Good financial management has also enabled responsible operations in environmental and social issues. In this area Kesko has acted and wants to continue acting as a pioneer in Finland.

#### *Dividend policy*

*Kesko distributes at least a third of its earnings per share as dividends, or half if the equity ratio exceeds 50%.*

# Kesko's operating environment



Top: Training Manager Seppo Lumikko (left) at the K-instituutti, Espoo, surrounded by retailer trainees of the Musta Pörssi chain: Kirsi Järvelä, Mikko Laurikainen, Henrik Westman and Matti Harjunen (in front, right).

Below: Karita Lorents (left) and Merike Morel, K-rauta sales assistants in Haabersti, Tallinn.

## Major developments in the trading sector:

- **the trading sector is consolidating and chains are being formed**
- **operator size and international competition are increasing**
- **suppliers are consolidating and internationalising operations**
- **information and customer management are becoming increasingly important for business operations control**
- **competition for customer loyalty is becoming keener**
- **number of cars continues to grow**
- **roles of corporate responsibility and company ethics are emphasised**

Kesko's most important market area is Finland, but the neighbouring countries are rapidly gaining in importance. Important factors in the operating environment include consumers' purchasing power, as well as private and public investments in Finland, the Baltic countries and Sweden.

The income level and purchasing power of the Baltic countries will long remain markedly below the EU average. Their growth, however, is faster than in Finland. This growth and the structural change taking place within the trading sector provide Kesko with new opportunities in the Baltic countries. We also study operating opportunities in the Russian market.

Kesko has pinpointed its strategy. The challenge of a tightening competition in Finland is met by strictly focusing on our core businesses and by increasing the efficiency of chain operations with the K-stores. Extensive investments and the systematic expansion in Finland's neighbouring areas will continue.

## Trading becoming more centralised and international

Companies operating with only one store format are fast expanding their operations to new markets with this rigorous concept. This global development is in progress in many sectors. Store networks are expanded by establishing new stores and making company acquisitions. The size of supplier companies is also growing, which sets new requirements for business relationship management and purchasing volumes.

Kesko has made its chain operations in Finland more coherent and is strengthening the position of its own branded products. Own retail store concepts are improved and developed on a continuous basis. Growth is sought in the Nordic and the Baltic coun-

tries. Service operations have been outsourced and some business operations have been relinquished. In the next few years, annual foreign investments are expected to exceed some 50 million euros. The target is to raise the proportion of net sales from outside Finland to 20% by the year 2005 and to attain

- in the food trade, a roughly 25% share of the Baltic market
- in the hardware and builders' supplies trade, a roughly 30% share of the Baltic market and a roughly 10% share of the Swedish market, as well as rising to become the biggest hardware and builders' supplies store chain in the Nordic and Baltic countries
- in the agricultural and machinery trade, the leading position in the Baltic market
- enhancement of international purchasing co-operation in different product lines

Competition in the Baltic food trade is becoming increasingly heavy. Kesko Food's current 20% share of the Estonian market makes it the second biggest retail operator in Estonia. The Latvian market is expected to experience drastic changes within the next few years. Kesko Food aims at gaining a strong position in Latvia particularly through new store construction (Citymarket and SuperNetto formats). Owing to fierce competition, expansion in Lithuania is possible mainly through company acquisitions.

In the hardware and builders' supplies trade, Rautakesko is currently the second biggest operator in the Baltic market. It aims at becoming the market leader through new construction and company acquisitions in Lithuania. Kesko Agro's target is a market share in excess of one third of the Baltic agricultural and machinery trade. The fact that Kesko is active in both the Finnish and the Baltic markets makes it an attractive partner for major international suppliers.

### The best parts of entrepreneurship and chain operations

The role of traditional wholesaling has weakened in the product value chain. Better knowledge of customers is a prerequisite for generating added value. The purpose of chain operations is to develop customer-driven and uniform store formats and operating practices.

The K-Alliance's strengths include retailer entrepreneurship, which enables individual stores to adapt their operations to different competition situations. Centralised purchasing, logistics and own branded products improve internal efficiency. Further contributors to enhanced efficiency include comprehensive information management as well as chain operations control and management.

Kesko and K-stores operate in Finland in a close-knit system that combines the best parts of entrepreneurship and chain operations:

- **Retailer-entrepreneurs** are responsible for their own stores' operations and profitability, local marketing, purchasing local products and strengthening customer relations. The retailer is also always responsible for the management and development of store personnel.

- **Kesko** is responsible for creating strategies for the different product lines and for the continuous development of store concepts in co-operation with retailers. Kesko purchases the products included in the joint chain selection and is responsible for nationwide and regional chain marketing. Kesko provides the required store sites, information systems and training for chain operations.

Retailer entrepreneurship is being developed as a competitive asset of the K-Alliance in Finland. The ongoing reform clarifies the distribution of duties between Kesko and retailers and increases the efficiency of both parties. The annual growth of Kesko's profits and cost savings after the implementation of the reform is estimated to exceed 35 million euros.

### New stores in growth centres

Most new stores are established in growth centres, where purchasing power is concentrated. Changes in consumption habits influence the development of store types and the construction of new stores. The majority of Kesko's retail store investments in Finland (over 100 million euros annually) are made in large store types:

- large store types: K-citymarket and K-supermarket in the food trade, Intersport megastore in the sports trade, Musta Pörssi Maailma in the home electronics trade, Kodin Ykkönen

- ✓ Toni Koskelin, warehouse worker in Kesko Food's freezer warehouse, Vantaa.





Product Managers Taru Wilander (left) and Päivi Pietiläinen of Kesko Sports select the collection for the coming winter.

- department stores in home goods and interior decoration, and K-rauta hardware and builders' supplies stores
- in Finland, Kesko's aim is to have a nationwide retail store network
- in the Baltic countries, Kesko invests mainly in Säästumarket, SuperNetto, Citymarket, K-rauta and Kesko Agro store types, and in Sweden in the K-rauta format

#### Information management is of key importance

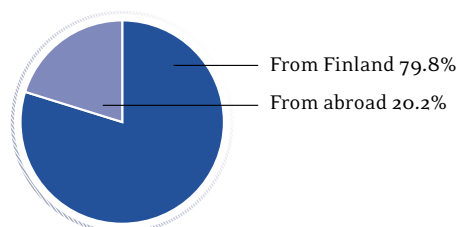
In the trading sector, the emphasis is shifting from the physical management of goods to the management of customer and goods information. The main targets of Kesko's logistics and information management strategies are:

- efficient management of information and goods flows to make Kesko the best distribution channel for both suppliers and customers
- in logistics management and goods handling, increased efficiency of operations and shortened throughput times, e.g. by improving warehousing and terminal operations

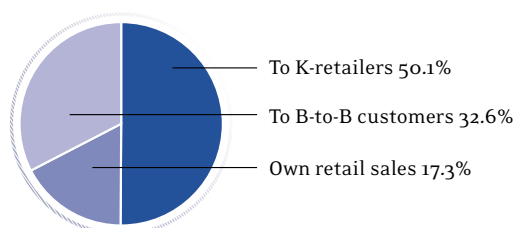
The renovation of the information systems in the main business sectors has continued on the basis of the SAP R/3 software. Basic operational applications in all business sectors will be implemented by 2004. In the next few years, Kesko's annual investment in information technology will amount to some 20 million euros.

Logistics efficiency will also be improved with more coherent co-operation with leading companies in this sector.

#### Kesko's purchases



#### Kesko's sales



#### Electronic commerce is increasing

E-commerce and the Internet complement trading services and offering. E-business accounts for nearly five percent of Kesko's net sales. It is mainly generated from sales to K-retailers and other B-to-B customers.

- all Kesko Food's chains and K-rauta, Rautia and K-agriculture stores use a browser-based order system
- Kespro (food trade for catering customers), Rautakesko, Kesko Agro, Kesko Machinery and the Kodin Ykkönen department stores for home goods and interior decoration have developed new web trading sites

#### In consumer trading

- NetAnttila has established itself as the best-known and most reliable Finnish Internet trading channel
- Kesko's consumer services are combined under the portal [www.plussa.com](http://www.plussa.com), which benefits from the high recognition level of the Plussa brand

#### Operations based on serving customers

Consumption habits have highlighted individuality, the quest for comfort and ease and the growing importance of quality. The ethical aspects of products have also become increasingly important as buying criteria.

Increasing customer expectations require that the trading sector is able to offer excellent retailing expertise and customer relationship management. On the other hand, it also creates new opportunities to offer versatile and auxiliary services (e.g. banking services).

#### Group-wide customer strategy:

- the Plussa customer loyalty system is the key medium
- about 2.8 million Plussa cardholders in over 1.5 million Finnish households

- between 40 and 85 percent of all K-store purchases, depending on the product line, are made through Plussa cards
- in 2002, Plussa customers were given a total of about 63.1 million euros in Plussa vouchers

### Corporate responsibility is emphasised

In the autumn of 2002, Kesko received important international recognition for its actions on behalf of the environment and sustainable development, when the United Nations' Environmental Programme UNEP and the International Chamber of Commerce ICC selected the K-environmental store diploma among the ten best partnership programmes in the world.

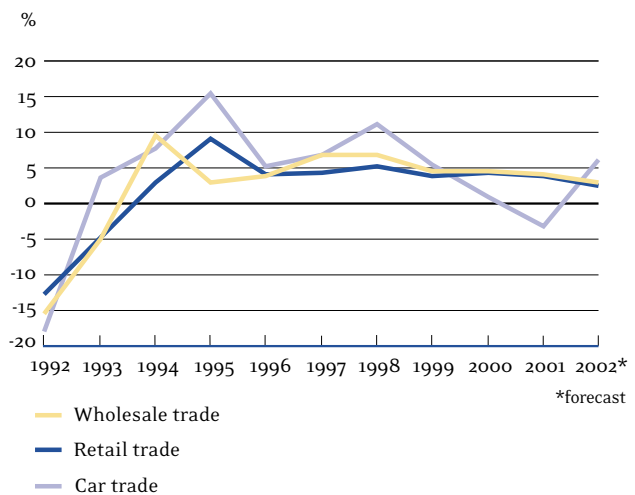
Company ethics and social responsibility are emphasised as competitive assets. Future consumers will increasingly choose products and services of those companies that recognise their corporate responsibility. At Kesko, corporate responsibility is considered to cover the economic, social and environmental responsibility:

- Guidebook on Working Practices – the ethical principles of personnel
- the standardisation of purchasing operations, the SA 8000 standard, including the prevention of the use of child labour in manufacturing countries
- the versatile development of environmental issues in stores, including K-environmental store diplomas
- increasing the number of organic products
- energy economy of business buildings
- the core and shell concept in building: business operations (core) can be flexibly modified during the life cycle of the building (shell)
- the development and training of personnel: the K-instituutti is one of the most important providers of adult training in Finland
- a nationwide and versatile store network

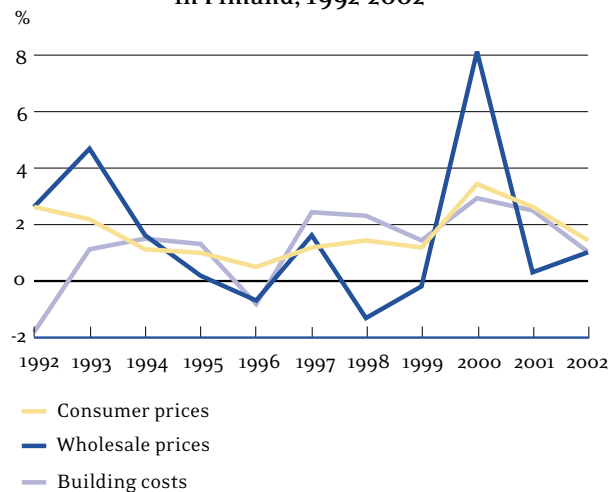
### Market outlook for 2003

	Total market, EUR billion	Change in %, estimate
<b>Kesko Food</b>	<b>23.8</b>	
Finland	19.4	+2 - +3
Estonia	0.8	+5 - +8
Latvia	1.3	+5 - +8
Lithuania	2.3	+5 - +8
<b>Rautakesko</b>	<b>8.7</b>	
Finland	3.1	+2 - +4
Sweden	4.5	+3
Estonia	0.4	+5
Latvia	0.3	+5
Lithuania	0.4	+3 - +4
<b>Kesko Agro</b>	<b>2.3</b>	
Finland	1.7	+/-0
the Baltic countries	0.6	+5 - +10
<b>Kesko Machinery</b>	<b>1.3</b>	
Finland	1.2	+/-0
the Baltic countries	0.1	+5 - +10
<b>Keswell</b>	<b>7.5</b>	<b>+2 - +3</b>

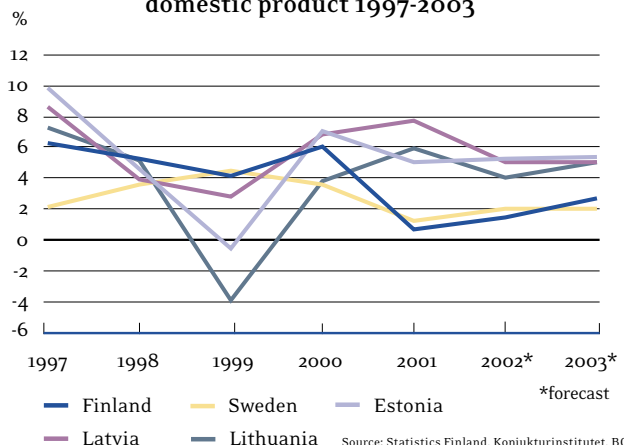
### Changes in trade volumes in Finland, 1992-2002



### Changes in prices and building costs in Finland, 1992-2002



### Annual changes in gross domestic product 1997-2003



Source: Statistics Finland, Konjunkturinstitutet, BOFIT

# Personnel



Top: Marketing Planners Leena Puukilainen (left) and Leena Kulomaa, and Marketing Manager Mauri Pylkkö of Kesko Food. Below: The final of the Kesko Staff Club's national football championships.

*In accordance with Kesko's values, we want to exceed our customers' expectations, to be the best operator in the trading sector, to create a good working community and to bear our corporate responsibility. Kesko's personnel principles include the strategy-driven development of competence and leadership based on our values, management model and quality thinking. Kesko wants to be the most attractive and stimulating employer in the trading sector.*

A more detailed review of personnel issues will be given in the 2002 corporate responsibility report, to be published in spring 2003. Reporting practices have been developed and the information provided is now more detailed.

## Values

### - put into practice

In autumn 2001 Kesko's values were revised to correspond to the present situation in the company. The values are presented on page 4.

An impressive starting shot for the practical work was fired at the beginning of 2002, when President and CEO Matti Honkala presented the values and discussed them with Kesko employees in a total of 24 events. In the value training arranged later in the spring, all Kesko employees discussed in their units the importance of the values to their work.

## Our working practices - ethical principles

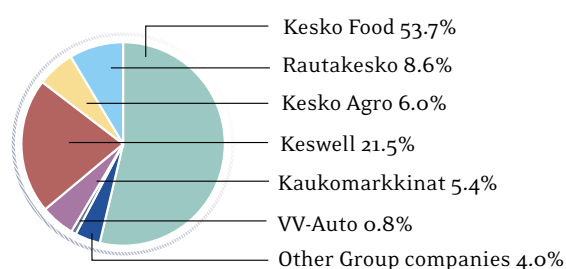
Our working practices - ethical principles based on our values - were published in autumn 2002. These principles are now in use across the entire K-Alliance, including the K-stores. Ethical principles can also be read in full on Kesko's Internet pages at [www.kesko.fi/inbrief](http://www.kesko.fi/inbrief).

## Personnel principles

### - define the direction

The personnel principles aim at supporting the implementation of the business strategy, guiding operations to comply with the values

Kesko Group personnel by division in 2002



and showing the direction to implement personnel issues. The key aspects of Kesko's personnel principles are the development of competence, leadership based on values, management model and quality management, and the willingness to create a working community that promotes excellent performance and development.

Key outlines of the personnel principles have been defined and made more concrete in the personnel programmes of division parent companies and business units. HR professionals from the Group management and various divisions make up a team which aims to promote the implementation of the principles by adapting best practices and co-ordinating operations at the Group level.

Personnel requirements are derived from the business strategy which provides the basis for defining what kind of competence Kesko needs in order to ensure its competitiveness.

Division parent companies are responsible for the development and training of their employees, while the Group's HR management is responsible for the development of managers and management potential. The use of the operating system based on competence management has proceeded with the help of Kesko Food's and Rautakesko's pilot projects.

### Versatile jobs

In recruiting new employees the focus is on competence, education, good work performance and a desire for self-improvement. The size and versatility of the Group – there are about 650 different job titles at Kesko – offer good opportunities to learn different jobs and to move up the career ladder. Internationalisation adds to the opportunities to work in different jobs.

In-house job rotation continues to be a Kesko asset. Internal mobility complements external recruitment. Working at Kesko is also a good stepping stone towards a K-retailer career.

### Good and stimulating working community

All Group units make annual self-evaluations using the criteria of the Finnish Quality Prize. This in-house quality competition is an incentive for personnel to continuously improve their working practices.

The K-instituutti training centre's management training ensures the basic qualities of managers and superiors by supporting career progress. This is complemented by other training and by providing important opportunities to gain experience in the various duties of the Group. The systematic evaluation of management practices was started in 2002.

A good physical, mental and social working environment is a prerequisite for the well-being and good performance of staff. The most important and versatile personnel indicator is the job satisfaction survey, conducted in autumn 2002 for the eighth time. The survey was expanded to cover all domestic operations fully comparable with 2001.

This annual survey measures the

- satisfaction with own job
- satisfaction with superior's performance

- satisfaction with own unit's operations
- satisfaction with Kesko's operations

Besides traditional job satisfaction, the material also gives an opportunity to analyse the implementation of Kesko's values. The response rate was quite high at 67%.

The changes in job satisfaction in Finland are presented in the table below.

The employees' estimations of their own job and superior's performance remain at a good level. Employees' judgements concerning their immediate environment have slightly improved and the estimates concerning Kesko's operations have clearly risen. Commitment to the targets of the unit and the overall satisfaction with superior's performance were considered the best properties. The areas with the most room for improvement were work feedback and the development and training of personnel.

In 2002, a fully comparable survey was also carried out in all foreign subsidiaries of the Kesko Group. The results will be completed in spring 2003.

The evaluation of superiors' practices was started in autumn 2002 with the systematic evaluation of managers. Assessments with related development plans will be continued, and the evaluation of operating practices will also be started at other managerial levels.

The selection of an 'Employee of the Month' and a 'Manager of the Year' continued in 2002. They are intended to highlight individuals who set a good example in promoting Kesko's values. This practice will be continued.

### Employees of the Month in 2002:

**January:** Veikko Vuorinen, Driver at Kesped Ltd, Tampere

**February:** Eeva Ylinen, Clerk at Wage and Salary Services, Kesko Corporation, Helsinki

**March:** Aila Ristolainen, Warehouse Worker at Logistics, Fresh Products, Kesko Food Ltd, Vantaa

**April:** Tarja Grönroos, Customer Service Clerk at K-Plus Oy, Helsinki

**May:** Simo Auvinen, Department Store Manager at Myyrmanni, Anttila Oy, Vantaa

**June:** Ari Puusniekka, Selection Manager at Entertainment unit, Anttila Oy, Helsinki

**July:** Eeva-Liisa Remes, Mail Clerk at Logistics, Office Services, Kesko Food Ltd, Kuopio

**August:** Kyllikki Mähönen, Complaints Settlement Clerk at Logistics, Kesko Food Ltd, Vantaa

**September:** Merja Savioja, Secretary at Kesko Food Ltd, Helsinki

### Group job satisfaction (scale 1-5)

	1999*	2000*	2001	2002
Own job	3.66	3.71	3.73	3.72
Superior's performance	3.67	3.74	3.82	3.82
Unit's operations	3.49	3.63	3.73	3.78
Kesko's operations	3.61	3.61	3.36	3.71

\* Not fully comparable with the figures of 2001 and 2002 which include all domestic operations.

**October:** Pekka Nylund, Forklift Operator at Logistics, Processed Foods, Kesko Food Ltd, Vantaa

**November:** Vesa-Pekka Tuominen, Marketing Consultant at Kespro Ltd, Tampere

**December:** Irmeli Hiltunen, Nurse at Hämeenkylä Occupational Health Care centre, Vantaa

Aila Hirvoila, Vice President of the Neighbourhood Chain Unit, was selected as the Manager of the Year.

Kesko personnel have several opportunities to give feedback, even directly to top management. The 'Keskonet' intranet has a channel entitled 'mail to the President and CEO' and a 'direct channel' where employees may, anonymously or with their name, comment on matters related to Kesko.

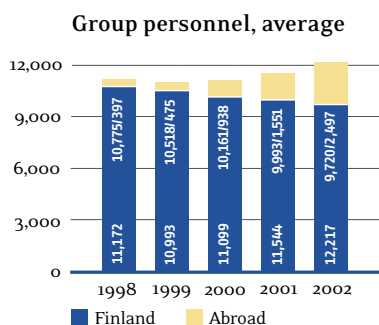
### Equality plan

Kesko Corporation has an equality plan, which was prepared in 1996 and the implementation of which has since been evaluated annually. Its targets include promoting equal application of women and men to open positions, promoting equal opportunities for women and men in training and advancing in their jobs, increasing the equality in the salary level and eliminating attitudes that make it difficult to reach equality.

The equality plan is available on Kesko's Internet pages [www.kesko.fi/inbrief](http://www.kesko.fi/inbrief). More detailed data of the 2002 statistics can be found in the corporate responsibility report to be published in spring 2003.

### Personnel plans

The participation of personnel in the planning and development of operations has increased openness and commitment. Each unit draws up an annual plan which includes human resources development, information flow, meeting procedures and performance appraisal discussions.



### Breakdown of Group personnel at the end of 2002



These discussions between superiors and subordinates focus on setting targets, giving feedback and planning individual development. According to the job satisfaction survey, employees' satisfaction with performance appraisal discussions has increased further.

The present profit-sharing system involves all personnel and was introduced in Kesko Corporation and most of its subsidiaries in 1997. In addition to the total performance of the Group and the sales and performance of each unit, the key factor which contributes to the profit bonus is customer satisfaction. For management, the job satisfaction of personnel is another contributing factor. Over EUR 8.5 million will be paid in profit bonuses for 2002.

### Occupational health service

The occupational health service focuses on activities that maintain working capabilities. These account for some 40% of its operations. The Occupational Health Service unit carries out an increasing number of working place assessments, guiding them towards the adoption of safe, ergonomic and healthy working methods, enhancing safety at work. The unit has participated in the preparation of induction programmes to teach ergonomic working methods to new and old employees, particularly those doing physical work.

Each year about 100 employees participate in rehabilitation programmes initiated and controlled by Kesko's own Occupational Health Service unit. The rehabilitation is implemented and paid for by the Social Insurance Institution. Additionally, Group superiors have participated in a 'job attitude' course run by the Social Insurance Institution. This course prepares superiors to handle both the pressure of their job and the welfare and working capacities of their subordinates. The Occupational Health Service also actively participates in labour protection and first aid activities.

### Kesko Pension Fund

The Kesko Pension Fund is responsible for the pension insurances of 4,000 employees of the Kesko Group. About 1,500 of them are members of the Pension Fund's department A - now closed - which provides them with extra benefits. There are about 3,000 Kesko pensioners. The Pension Fund grants 60-100 new pensions annually. The average retirement age has increased slightly since 1996 and is now about 57.5 years. The Pension Fund owns several blocks of flats, which mainly serve as dwellings for Kesko employees. Varma-Sampo is responsible for the retirement pension insurances of subsidiaries' employees.

### Kesko Sickness Fund

The Kesko Sickness Fund serves nearly 11,000 Kesko employees. The Sickness Fund is responsible for paying the benefits provided for in the Sickness Insurance Act.

### Kesko Staff Club

The Kesko Staff Club arranges recreational activities for personnel, thus promoting a good company spirit and working capability. In summer, an extensive survey was carried out of employees' wishes



concerning the club. The list of desires included wider communications and more equal opportunities in each unit of the Group to participate in club activities. In the future, activities will focus on physical fitness and exercise.

### In-house customer satisfaction

The annual in-house customer satisfaction survey was improved to provide more opportunities to participate. As a result, the number of replies increased considerably. Overall, customer satisfaction remained at the same level as the previous year but the differences between units decreased. The results with verbal comments support the development of operations at unit level.

### K-instituutti

#### *- transforming knowledge into competence*

The K-instituutti is the training centre of the K-Alliance. Its key function is to improve the competitiveness of the K-Alliance chains by enhancing the competence of organisations and personnel and by supporting changing processes. The K-instituutti has a significant role in assembling the tools and methods by which the Group's competence resources are managed.

Management training provided for Kesko's supervisors, managers and executives along with internationalisation training are the key general management development programmes. The goal is to extend the competence and perspectives of management and to enhance their willingness to change.

Development programmes for the retailing sector include courses for sales staff, store supervisors and entrepreneurs. The K-JET special vocational qualification in management is intended for retailers and Kesko employees alike. More than half of K-instituutti training is planned and implemented according to customer needs.

Each year, about 6,000–9,000 employees of Kesko and the K-stores attend courses at the K-instituutti, which is also one of the biggest Finnish institutes awarding qualifications in the trading sector. Important projects in 2002 included the start of the K-JET vocational qualification, expanding online training to include retailer training, and the start of nationwide hygiene competence training.

In co-operation with Trainers' House, Kesko and the K-Retailers' Association arranged an extensive training programme for the K-retailers and store personnel on the implementation of the chain operations and the development of customer service.

### Operations of the K-instituutti in 1998-2002

	1998	1999	2000	2001	2002
Net sales, EUR million	3.4	4.3	4.4	4.9	3.9
Number of personnel	47	57	60	63	48
Number of student days	23,236	25,372	22,652	22,349	19,096
Number of students	8,593	9,447	6,665	9,180	6,147



Timo Akkanen, Kesped driver, loading reusable cases at Kesko's Central Warehouse, Vantaa.

# Corporate responsibility at Kesko



Marita Välinen (left), Consumer Service Manager, and Jenni Kunnaala, Consumer Consultant, of Kesko Food's consumer service.

***Kesko wants to act in a responsible way in its relations with stakeholder groups and society. In recent years Kesko has defined corporate responsibility more exactly, and it has become an important part of Kesko's values and operating strategy.***

Kesko has defined its corporate responsibility following the so-called 'Triple Bottom Line' thinking that has become increasingly widespread internationally. It divides corporate responsibility into:

- economic responsibility
- social responsibility
- environmental responsibility

## **A separate report gives detailed information**

Kesko evaluates its responsibility according to its direct and indirect effects: **direct** effects relate to own operations and **indirect** effects concern suppliers and other subcontractors. The indicators used are those suggested in international guidelines for reporting on sustainable development (Global Reporting Initiative, GRI).

For the past two years, Kesko has published a separate corporate responsibility report in Finnish and English based on the GRI guidelines. The report gives information on results in different areas of corporate responsibility. This reporting practice aims to provide an incentive for corporate responsibility and to promote uniform practices. The report for 2002 will be published in spring 2003.

## **Corporate responsibility is part of daily operations**

Policies concerning corporate responsibility are included in the long-term planning and annual planning of Kesko's units. Kesko aims to be a pioneer in many areas of corporate responsibility, such as environmental activities, social quality control and responsibility reporting. Besides minimising environmental and social risks, a long-term target is to improve profitability of operations and to gain a clear competitive advantage.

## ***Economic responsibility***

Economic performance is the cornerstone of corporate responsibility. If economic performance is poor, it will be difficult to be responsible in other ways. On the other hand, being socially or environmentally responsible must not reduce the economic performance of the company.

Traditional corporate reporting provides information on economic performance. Reporting on economic responsibility is based on key indicators of financial statements, but, in addition to shareholders, performance is also seen from the viewpoint of the well-being of other stakeholders. Kesko's stakeholder groups include employees, suppliers of goods and services, customers, the state and municipalities, and institutions operating for the public good. Financial success also provides well-being for stakeholders.

### **Kesko as an important buyer and employer**

Kesko has about 14,500 domestic and 4,500 active foreign suppliers of goods and services. In 2002, Kesko's purchases from suppliers amounted to about EUR 5.7 billion, accounting for nearly 90% of net sales. Kesko's growth also contributes to the increase in the operations of its partners. The majority of Kesko's purchases come from Finland, which means that the growth maintains and increases employment, salaries and tax income in many localities. Information on Kesko's personnel is given on pages 14–17.

### **Steady profit to shareholders**

Every year since its establishment in 1940, Kesko has made a profit and distributed dividends, with the exception of 1967. For its shareholders, Kesko has given a good annual return even during recession. The average dividend yield (B share) during the past five years has been 8.1%. More information on Kesko's shares and shareholders is given on pages 50–57.

### **Store network**

Sales to K-retailers in Finland account for a little over half of Kesko's total sales. The proportion of Kesko's own retail stores out of its total sales in Finland, the Baltics and Sweden is less than one fifth.

Together with K-retailers, Kesko provides a nationwide and versatile store network in Finland, complemented by mail order and e-commerce. Consumers evaluate the responsibility of the store on the basis of such things as the availability of services. At the end of 2002, there were K-stores in 398 towns and municipalities in all, out of a total of 448 in Finland. 47% of all Finns live no more than one kilometre from a K-food store. The network of Kesko food stores is also very comprehensive in Estonia where the total number is nearly 50.

At the end of 2002, there was a total of 651 K-Alliance speciality stores in Finland. In the Baltic countries, Kesko had 5 hardware and builders' supplies stores and 9 agricultural stores, in Sweden there were 11 hardware and builders' supplies stores.

### **Financial support to the community**

Kesko and its subsidiaries give donations to about one hundred organisations and institutions that operate for the public good. Kesko's support is primarily directed to the development of children and the young, giving incentive to physical exercise, innovation and creativeness. Support has been directed to youth and sports

organisations, projects with all-round education, environmental protection and children's health care. K-retailers' co-operation with local organisations and sports clubs is also significant.

The financial support given by the Kesko Group is specified in the corporate responsibility report. Major recipients are the Finnish Science Centre Heureka and the Young Finland Association. Heureka's target is to provide the joy of discovery and to encourage independent thinking. The Young Finland Association promotes children's and young people's well-being through physical exercise. The Children's Olympics, organised annually by Kesko, attracted about 212,000 participants in summer 2002.

## *Environmental responsibility*

Kesko published its first environmental policy in 1990, with the existing one drawn up in 1996, when Kesko also started building the environmental system complying with the ISO 14001 standard. The system has now been certified in all operations which have major environmental impact, and its introduction is also proceeding in Anttila and Kodin Ykkönen department stores.

Kesko's major causes of **direct** environmental impact are:

- warehousing, handling and transportation of goods
- construction and use of real estate
- waste management

Kesko can reduce this direct environmental impact by, for example, developing target-oriented environmental management and calculation, and by improving eco-efficiency in construction.

Kesko's **indirect** impact on the environment includes environmental damage arising from the manufacture and use of products sold. Kesko can reduce such damage by making requests to manufacturers, by promoting the sales of environmentally labelled or otherwise environmentally friendly products and by providing environmental information to consumers. It is also important to promote the recycling and recovery of products and packaging.

### **ISO 14001 environmental system**

At the end of 2002, the certified ISO 14001 environmental system was used in

- Kesko Food Ltd's logistics
- Kesped Ltd, the transport and forwarding company
- Viking Coffee Ltd, the coffee roastery
- the operations of Anttila Oy's central unit
- nine Anttila and seven Kodin Ykkönen department stores
- real estate management and maintenance (outsourced to ABB Kiinteistöpalvelut Oy)

These units have a total of 3,200 users of the environmental system.

### **K-environmental stores**

The K-Retailers' Association, Kesko and the Finnish Association for Nature Conservation have developed an operations model – the K-environmental store diploma – that helps K-stores to reduce

the environmental impact of store operations and to guide customers towards environmentally friendly consumption. The requirements of the diploma – for example, a checklist of over 160 items in food stores – are reviewed annually. An external auditor estimates how well the requirements have been fulfilled. By the end of 2002, there was a total of 175 K-environmental stores, of which 162 were food stores and 13 were hardware stores.

#### **KELO calculation model**

Effective environmental management requires the support of advanced information system solutions. Kesko Food Ltd put much effort into the environmental system and has developed the logistical chain's environmental calculation model KELO (short for 'sustainable logistics' in Finnish). The model is used for monitoring material, energy and waste flows in warehousing and terminal operations, the environmental burden caused by transportation, and the quantities and recovery of packaging material. The costs and environmental impacts of the operations are monitored together.

#### **Eco-efficient construction**

In Kesko's building projects, the so-called 'core and shell' model is used. The model allows for several flexible changes in the 'core' business operations inside the building during its life cycle. More information about eco-efficient construction is given on page 23.

#### **Saving energy**

Kesko has adopted the real estate and construction sector energy saving agreement (KRESS). The target of this agreement is to reduce specific heat consumption by 15% of 1998 levels by the year 2010 and to reverse the trend in specific electricity consumption downwards by 2005. The preliminary outlook is promising and shows that the investment payback periods are only from 0.5 to 2.0 years.

Monitoring of energy consumption was further improved (see corporate responsibility report). In 2002, the electricity consumption of Kesko and the K-retailers operating in store sites owned or leased by Kesko totalled 644 GWh, an increase of 2.5%. Heat energy consumption totalled 282 GWh, a decrease of 2.7%.

#### **Carbon dioxide balance**

Since 1999, Kesko has maintained an environmental profile of electricity and heat consumption. The profile specifies the key emissions caused by the production of purchased energy, their impact on climate change, the amount of radioactive waste, and the breakdown of the energy used into renewable and non-renewable energy.

When the emissions caused by transportation and business trips by personnel are added to the carbon dioxide emissions generated in the production of the energy consumed, an indicator called the carbon dioxide index is obtained. The data for 2002 will be published in Kesko's corporate responsibility report.

#### **Environmental values in purchasing decisions**

The effects of environmental and ethical values on consumers' purchasing decisions have been studied in surveys. About 90% of Finnish consumers think corporate ethics are important and as many as 70% say that they either reward or punish companies through their purchasing decisions. About 80% of shoppers have tried organic products and nearly 70% have tried Fair Trade products.

Sales of organic foods continued to grow. At the end of 2002, Kesko offered a selection of 445 organic products and 215 products with environmental labelling. Individual K-retailers also sell organic foods from local producers and other local foods to meet their customers' wishes.

Rautakesko offers a wide selection of products with environmental, energy or emission category labelling. The proportion of certified timber and furniture is growing, and the recycling of impregnated timber has expanded from K-rauta stores to include Rautia stores, too. Several recycling projects are underway in the speciality goods trade; for example a nationwide recycling system for electrical and electronic appliances is being initiated.

#### ***Social responsibility***

Kesko divides social responsibility – just like environmental responsibility – into two categories. **Direct** responsibility applies to corporate personnel, of whose composition, well-being and job satisfaction there is plenty of information available. Personnel issues are presented on pages 14–17 and in the separate corporate responsibility report.

The people who work in the supply chain of the products sold by Kesko are in the sphere of **indirect** social responsibility. At this stage, the development of the products' social quality focuses on such developing countries where national working condition legislation or its terms or supervision is insufficient. Kesko has carried out a risk analysis of corporate imports and, as a result, extended control to cover 35 countries. Purchases made from these countries account for about 16% of Kesko's imports and about 1% of Kesko's sales.

#### **SA 8000 standard**

Control of the social quality of the companies operating in developing countries necessitates knowledge of international agreements and national legislation. Interviewing employees is an essential part of the control, so knowledge of the local circumstances and language is also required. Kesko's buyers have been trained in the international minimum standards of working-life, but they cannot be in charge of production control. Kesko therefore applies the international standard and employs trained, independent auditors.

In its purchases from developing countries, Kesko applies the principles based on the United Nations Universal Declaration of Human Rights and Convention on the Rights of the Child and the

International Labour Organisation's conventions regulating working life. The practical tool used is the Social Accountability SA 8000 standard based on these conventions. Kesko's buyers are responsible for promoting the adoption of the standard so that as many suppliers as possible can prove that they meet the international standards of working-life by obtaining their certification. Kesko's partner in auditing affairs is Bureau Veritas Quality International.

Results of the social quality control are presented in the corporate responsibility report. There are about 450 companies in the sphere of Kesko's risk analysis. Of these, 17 had received the SA 8000 certificate by the end of 2002, covering a total of 26,000 employees.

### Co-operation of importers

As well as in its own purchases, Kesko wants to promote the introduction of social quality requirements in international trade and in home market areas. When publishing its own principles in spring 2000, Kesko suggested to Finnish importers that they draw up ethical principles for imports. The proposal led to the establishment of the network of responsible imports in November 2001.

The network comprises 14 companies, including all major food trading groups and many clothing and shoe manufacturers and importers. It is chaired by Kesko and operates in connection with the Central Chamber of Commerce. The members follow the principles which correspond to those previously adopted by Kesko and which can be audited using the SA 8000 standard. Further information about the network can be found at [www.keskukauppakamari.fi](http://www.keskukauppakamari.fi).

### Preventive work

Besides improving working conditions, Kesko participates in the prevention of social wrongs. Compared with the extent of the problems, Kesko's resources are limited. The purpose is to show by practical examples that it is worthwhile for companies to focus on preventive work too, and that results can be achieved even in small-scale partnership programmes. Since 2000, Kesko has financed a project implemented by UNICEF India preventing the use of child labour in the town of Bhiwandi, near Mumbai. Bhiwandi has a strong weaving industry, which employs a large number of children, mainly boys aged from 7 to 14. The field workers of the project cooperate with companies, authorities, schools and families.

Kesko also participates in the 'Global Movement for Children' project organised by UNICEF Finland. The funds raised in Finland will be used for the promotion of girls' education in Nepal.

*Kesko will publish a separate report on corporate responsibility for 2002. See page 65 for details on ordering publications.*

Top: Product Research Manager Matti Kalervo (left), Laboratory Worker Leena Koponen, and Home Economist Leena Korkalainen at the K-test kitchen, Helsinki.  
Below: Environmental Specialist Saila Grav of Kesko Food studies the selection of detergents at the K-supermarket Jättijako in Vantaa.



# Brands

***Kesko was a brand maker long before the notion of 'brands' had become established in Finland. Kesko and the blue and white K-emblem have become well known to everybody in Finland over Kesko's 60 plus years of existence. Kesko's store chains, organised by division, are both brands in themselves and the Group's strength. An image, customer promise and target group have been defined for each chain. Chain brands are created with long-term perspectives in mind and are, without exception, strong, highly respected and well-known factors in each product line.***

## Well-known brands

Some of the chain brands are clearly linked to the K-emblem and Kesko, thus exploiting the Kesko image as something that is synonymous with a traditional, reliable Finnish store. Some chains are marketed independently with their own brands. This is particularly true of the speciality goods trade, where store images must be profiled more closely for specific customer groups.

Positioning is aimed at ensuring chains' competitiveness and creating brands that are as strong as possible and that support the



The K-emblem was born over 50 years ago. In November 1947, this quality symbol was introduced simultaneously in about 2,500 K-store windows.



The Plussa customer loyalty programme was launched in November 1997.



The first Pirkka products were introduced in K-stores in 1986.

set objectives. In Finland Kesko and its chains share a strong, positive image of retailer enterprise, good customer service, local operations and customer satisfaction.

K-rauta is building a uniform brand not only in Finland but also in Sweden and the Baltic countries. Kesko Food has the City-market brand in Estonia and Latvia. It also has one discount store brand in each of these two countries.

For more information about all chains, see respective divisions on pages 24–45.

In addition to chain brands, Kesko has a strong loyal customer brand in Plussa, and own product brands, the best known of which is Pirkka. According to surveys, both Plussa and Pirkka are well known to all Finns. Kesko's role as brand maker and marketing company is highlighted by the fact that it sells, markets and imports thousands of brand products through its division parent companies.

## Benefiting from division expertise

Each chain handles its marketing operations independently, although K-food stores' joint advertising is coordinated by Kesko Food's marketing unit. This enables all chains to capitalise on their division-specific expertise and to answer the requirements of competition. Actual marketing and brand operations use all modern channels and media depending on which best suit each case and target group.

Kesko Food reformed its chain concepts in February 2002, and will concentrate operations in Finland within five store chains. The chains' brand images were modified to display the K-emblem more prominently. This will enhance recognition of the K-Alliance stores and highlight the positive image of the K-emblem. The reform is aimed at better meeting the diversified needs of consumers and at more effective marketing.

The success of Plussa has relied on successful, long-term marketing and a functioning and versatile customer loyalty system. Plussa is the K-Alliance's supporting brand, which awards customers for centralising their purchases and unites the product and service provision of the Alliance's chains and partners. Plussa acts as a unifying element throughout the Alliance's marketing, and it is used for deepening the relation between stores and consumers.

Kesko is Finland's leading trading company, which invests in strong brands, marketing and in intensifying trading concepts and operating systems. Strong brands create confidence in consumers, make it easier to distinguish from the competition and ensure future competitiveness.

# Real estate

**The aim of Kesko's real estate operations is to support the growth of Kesko's business divisions and interests. Key success factors include cost-efficiency in construction and in the use of real estate, and the ability to flexibly react to fast changing circumstances.**

Each division parent company of Kesko is responsible for planning its own retail store network and acquiring store sites. Kesko Real Estate is responsible, on a centralised basis, for the construction, maintenance and risk management of premises, and for controlling the return on the capital invested.

## Real estate operations management

For real estate capital management, the business premises used by the Group are annually classified according to their importance to Kesko.

- **Core properties** are strategically the most important properties. Owning or leasing them aims at securing the basic conditions for conducting business activities.
- **Leaseback properties** are owned by the Group; they can be sold, but leased back for the Group use.
- **Development properties** are those needing further development for their intended use.
- **Properties for sale** are those for which Kesko has no further use.

The book values of core properties and leaseback properties account for about 85% of the total book value of real estate. The share of properties for sale is insignificant.

The largest real estate investments are made in business premises needed by Kesko Food and Rautakesko. Some new store premises are owned by real estate investment companies and some by Kesko.

## Eco-efficient construction

Kesko applies an eco-efficient construction model. This means minimising the costs and environmental burden across the entire life cycle of a store site project. The aim is, in co-operation with other operators affecting the life cycle of a building, to create business premises with reasonable investment costs and lower than usual life cycle costs.

The key method in controlling life cycle costs and eco-efficiency is the so-called core and shell concept where a business building is made up of a real estate shell and a fast changing business core. This enables costs to be allocated either to real estate or to

business operations, thus leading to a better control and management of investments.

In September 2002, the European Heritage Days (EHD) honoured Kesko for preserving the building heritage in Forssa, where a modern shopping centre was built considerably in the premises of the renovated Finlayson weaving factory.

## Real estate operations in the Baltics and Sweden

In order to achieve its internationalisation targets, Kesko has made major investments in real estate operations and store site projects, particularly in Estonia and Latvia. Resources for store site acquisitions and construction have been increased significantly.

In December 2001, Kesko signed an agreement on co-operation with EBRD, the European Bank for Reconstruction and Development, and its partner banks. The agreed investments in Estonia and Latvia to a total value of EUR 57 million will be implemented in full by the end of 2004.

New store sites in Sweden are owned by real estate investors and leased by Kesko for the period required for business operations.

## Real estate management and maintenance

ABB Oy Kiinteistöpalvelut is responsible for the management and maintenance of real estate owned or rented by Kesko.

### Geographic breakdown of properties in Finland in 2002, m<sup>2</sup>

Southern Finland	1,286,000
Southwestern Finland	363,000
Western Finland	355,000
Eastern Finland	388,000
Northern Finland	282,000
<b>Total</b>	<b>2,674,000</b>

### Location of properties owned or leased by Kesko Group in 2002

	Owned, m <sup>2</sup>	Leased, m <sup>2</sup>	Total, m <sup>2</sup>
Finland	1,101,000	1,573,000	2,674,000
Sweden	0	71,000	71,000
Estonia	98,000	23,000	121,000
Latvia	30,000	11,000	41,000
Lithuania	0	4,000	4,000
<b>Total</b>	<b>1,229,000</b>	<b>1,682,000</b>	<b>2,911,000</b>

# *Kesko Food*





***Kesko Food Ltd is a developer of food trade operating systems and operates as a wholesaler and retailer in Finland and the Baltic countries. The key businesses of Kesko Food are the K-food store chain operations in Finland, Kespro Ltd's catering sales to HoReCa customers, and grocery retailing in the Baltic countries. The food trade is the largest of Kesko's divisions. It accounts for 56% of Kesko Group's net sales.***

In Finland, Kesko Food operates in close chain co-operation with K-food retailers and is responsible for store concept development, purchasing and logistics services, the network, chain marketing and retailer resources. In the Baltic countries, Kesko Food operates as a retailer and wholesaler of groceries.

The development of K-food stores is strongly customer-oriented. Their operational efficiency is derived from the management of the entire logistics chain, from information management to the effective combining of purchasing volumes.

#### **Market position and competitive advantages**

K-food stores are market leaders in the Finnish grocery trade, as is Kesko Food's subsidiary Kespro in its business area. Kesko Food is also aiming for market leadership in the Baltics.

#### Kesko Food's strengths

- the K-food store chains are the best-known brands in Finnish retailing
- the supply of K-food stores covers different customer groups
- K-food stores form the most comprehensive store network in Finland
- the ability to exploit the synergy advantages of the retail and catering trade in Finland and the Baltic countries
- strong co-operation with K-retailer entrepreneurs in Finland
- international purchasing co-operation
- strong house brands in the Finnish market
- expertise in environmental trading

#### **Finland**

##### Store chains

K-citymarkets are versatile, low-priced stores in the hypermarket size category, with an area of about 10,000 m<sup>2</sup>. Large selections consist of groceries and home and speciality goods. The customer promise of K-citymarkets is "one-stop shopping".

According to their promise, K-supermarkets are "better than your average food stores". Their special strengths include food expertise as well as wide and versatile selections of fresh foods.

K-markets are neighbourhood stores located in suburbs and municipal centres, offering a good selection of groceries at competitive prices.

K-extras are small rural neighbourhood stores, in which customers can find the products they need daily and which put an emphasis on service. As the name implies, many of them offer extra services, such as the sale of agricultural and builders' supplies, fuel distribution, lottery and postal services.

K-pikkolos are modern neighbourhood stores located in cities. K-pikkolos offer fast and versatile food solutions with an emphasis on ready-to-eat and take-away products. They have long opening hours.

There are about 1,100 K-food stores in Finland. In 2002, their estimated market share in Finland was over 36%.

Kesko Food's own brands are well-known in the Finnish market. The most important of them is Pirkka, with a positive quality and price image and a recognition level of nearly 100%. There are over 1,000 Pirkka products. The Rico range consists of imported fruit and vegetables. Euro Shopper is K-food stores' low-priced alternative, which includes basic groceries and non-food products. Costa Rica is K-food stores' own coffee brand.

##### Logistics in Finland

Kesko Food's logistics guides the majority of K-food stores' flow of goods, using both direct deliveries and a network of warehouses and terminals. In Finland, the main warehouses and terminals are in Vantaa, Turku and Tampere. Processed foods are stored in Vantaa and Tampere, frozen and non-food products in Vantaa, and fresh foods that require refrigerated space are stored in Turku. Fruit and vegetables are stored in all three localities.

The main warehouses are complemented by local regional terminals, through which most meat industry products and the majority of the Neighbourhood Chain Unit's (K-market, K-extra and K-pikkolo) and Kespro Ltd's goods flows are directed. In forwarding and transportation, Kesko Food mainly relies on services provided by Kesped Ltd, a Kesko subsidiary.

##### Kespro Ltd

The Kespro Ltd subsidiary offers customer delivery and cash-and-carry services in Finland. Its customers include restaurants and other catering customers, service stations, kiosks, bakeries and industry. Kespro is the leading company in its business area in Finland. Kespro has developed a new wholesale concept (a new generation wholesale outlet) to complement the traditional customer delivery and cash-and-carry services. The new outlet offers customers all groceries, alcohol and home goods on one order and one delivery.



Kespro has 18 cash-and-carry outlets and seven sales units throughout Finland. Kespro's Menu range consists of about 340 products. For several years, their sales growth has exceeded average development in the HoReCa business.

### **Estonia**

Kesko Food has actively expanded in the Baltic markets. In Estonia, Kesko Food operates two Citymarkets in Tallinn, one in Pärnu and one in Tartu. In addition, Kesko Food owns Estonia's largest discount store chain, Säästumarket, which has over 40 stores. Kesko Food also runs two SuperNetto cash-and-carry outlets in Estonia.

Kesko has a 15,000 m<sup>2</sup> logistics centre in Jüri, Tallinn. The centre supports the building of Kesko's own retail store network and acts as a warehouse for imported goods. At the same time it is also an efficient distribution and export channel for the Estonian food industry. Kesko Food's market share of the Estonian food trade is about 20%.

### **Latvia**

In Latvia, Kesko Food operates under Citymarket and SuperNetto chain concepts, with two Citymarkets and one SuperNetto discount store.

### **International purchasing co-operation**

Kesko Food works in co-operation with the leading European food chains in AMS (AMS Marketing Service BV), and is a partner in the WorldWide Retail Exchange. The WWRE is a business-to-business web marketplace bringing synergy benefits to its partners via international purchasing co-operation.

### **Operating environment and future outlook**

#### Objectives of Kesko Food

- in Finland, the aim is to strengthen market leadership
  - growth exceeding business average in all markets
  - improving profitability

< Kalervo Haapaniemi, President of Kesko Food.

- in the Baltic countries, strong growth is sought
  - the target is a share of about 25% of the grocery market (in 2002 the value was estimated at EUR 4.5 billion)
  - a comprehensive network of food stores will be built in Estonia
  - a discount store chain and 4-5 Citymarkets will be built in Latvia

Kespro Ltd aims at increasing its market share in the HoReCa business (hotels, restaurants, catering) in particular. Key areas include expanding the network of new generation wholesale outlets, flexible and customer-oriented logistics solutions, a pioneering position in order tools, and increasing the offering of fresh products and alcohol, in particular.

International development in the grocery trade has been characterised by the strong formation of chains, mergers and alliances, for example in purchasing co-operation. The centralisation of purchases is important when international suppliers are growing in size and decreasing in number.

In most European countries food markets are growing slowly. In Finland the growth estimate for the next few years is about 2%.

The structural change of the Finnish retail trade is continuing. The importance of large outlets will continue to increase due to competition and internal migration. The extension of opening hours for stores of under 400 m<sup>2</sup> has improved their sales.

Potential new product categories will be of great importance for the sales growth of stores. Kesko Food's target is to bring wines and over-the-counter medicines to grocery stores in Finland. Liberalising opening hours and decreasing the value added tax on food would improve the operational basis of grocery retailing.

Important store selection criteria on weekdays are store location and ease and speed of shopping. On weekends, these criteria are complemented with the desire for a versatile selection, high product quality and the certainty that all the products needed are available. In the future, the emphasis will also be on excitement, convenience, and the healthiness and ethical aspects of food.

In the Baltic countries, the grocery market will grow strongly (by 5-8% per year) while demand will be shifting from open-air markets to modern stores. The share of store chains will also grow vigorously, but it will still remain much smaller than in Finland, for example. Changes in consumer behaviour are also fast and consumers in the Baltic countries are very quick to adopt new ideas.

Kesko Food's future growth prospects derive from its stronger position in the Finnish market, improvement in profitability and its expansion in the Baltic countries. The operating profit is expected to continue to improve slightly thanks to the new operating system. The expansion in the Baltic countries will create a basis for higher profit.

## Year 2002

Kesko Food's net sales amounted to EUR 3,628 million, an increase of 5.7%. The net sales from Baltic operations totalled EUR 177 million, representing 4.9% of net sales. Kesko Food's operating profit was EUR 60.5 million (EUR 40.0 million). The main factors contributing to the improved operating profit were the strengthening of chain operations and cost savings. On the other hand, investments in the expansion of business operations in the Baltic countries, the costs of developing new store concepts, and the costs of building new systems for operations control reduced the operating profit. Kesko Food's total investments were EUR 71.2 million, including investments of EUR 65.0 million in the retail store network. About 41% of the investments were made in Baltic business operations.

The overall growth of the Finnish food market is expected to slow down in 2003. The Baltic markets are anticipated to continue the development of 2002.

## Kesko Food

Net sales in 2002	EUR million	Change, %
Citymarket Chain Unit	924	10.4
Supermarket Chain Unit	736	6.6
Neighbourhood Chain Unit	969	-3.9
Kespro Ltd	756	2.8
Kesko Food, Estonia	160	90.0
SIA Kesko Food, Latvia	17	-
Others	23	-51.3
./. eliminations	43	-
<b>Total</b>	<b>3,628</b>	<b>5.7</b>

EUR million	2002	2001
Operating profit	60.5	40.0
Depreciation	37.7	37.6
Investments (gross)	71.2	90.6
Return on net assets, %	24	17

### Net assets at 31 Dec., EUR million

	2002	2001
Non-current assets	215.6	224.0
Stocks	199.3	169.7
Receivables	250.3	301.0
./. Interest-free liabilities	-404.2	-455.6
./. Provisions	-	-
<b>Net assets</b>	<b>261.1</b>	<b>239.0</b>

## K-Alliance's food stores in 2002

	Number		Sales (incl. VAT), EUR million	
	2002	2001	2002	2001
K-citymarket	47	42	1,404	1,271
K-supermarket	136	123	1,310	1,232
K-market	272	251	985	930
Other K-food stores and mobile stores	669	741	767	854
<b>Finland, total</b>	<b>1,124</b>	<b>1,157</b>	<b>4,466</b>	<b>4,287</b>
Citymarket, Estonia	4	-	24	-
Säästumarket, Estonia	44	33	122	74
Supernetto, Estonia	2	3	22	34
Citymarket, Latvia	2	1	18	5
Supernetto, Latvia	1	-	2	-
<b>Foreign countries, total</b>	<b>53</b>	<b>37</b>	<b>187</b>	<b>113</b>
<b>Food stores, total</b>	<b>1,177</b>	<b>1,194</b>	<b>4,654</b>	<b>4,400</b>

## Kesko Food's store concepts

### Finland



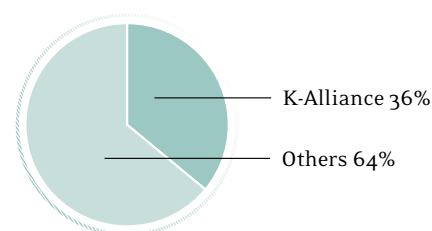
### Estonia



### Latvia



## Food retail sales in Finland in 2002 (estimate)



# *Rautakesko*



**Rautakesko Ltd develops the K-rauta and Rautia chains and Industrial and Constructor Sales and is responsible for their marketing, purchasing, logistics services, network and retailer resources. In addition to Finland, Rautakesko carries on retail trade in Sweden, Estonia and Latvia and wholesale trade in Russia.**

The hardware and builders' supplies trade is one of Kesko's focal areas. Rautakesko's aim is to become the leading hardware and builders' supplies operator in the Nordic and Baltic countries.

### Market position and competitive advantages

#### Rautakesko's strengths

- the K-rauta and Rautia chain concepts and the strong market position of Industrial and Constructor Sales
- direct purchase connections with domestic and foreign suppliers as well as EuroMat purchasing co-operation ([www.euro-mat.com](http://www.euro-mat.com))
- a comprehensive network in Finland
- strong main product lines:
  - building materials
  - interior decoration and house technology
  - tools, hardware, yard and garden
- in Finland, retailer entrepreneurship is a special strength of Rautakesko

#### **Finland**

The combined market share of the K-rauta and Rautia stores and the Industrial and Constructor Sales unit is about 37% in Finland.

There are 44 K-rauta stores operating in Finland. They have a wide selection of goods, including, in addition to building materials, products for interior decoration and gardening. According to its customer promise, K-rauta also provides ideas and solutions, emphasising the role of service alongside the products themselves.

The Rautia chain includes 102 stores, whose main competitive advantage is knowledge of local market conditions. Rautia is the most comprehensive hardware and builders' supplies store chain in Finland. The products offered by the Rautia stores are targeted at builders, renovators and professional customers in particular. In addition, many Rautia stores complement their service offer with, for instance, agricultural trading to meet local needs.

The customers of Rautakesko's Industrial and Constructor Sales unit are building firms, industry and other professional customers. The customer benefit is derived from the integration in customers' purchasing processes: the Industrial and Constructor Sales unit plans, guides and implements jobs related to the purchasing

process of the customer company, allowing it to concentrate in its core business. Advantages also include co-operation with the extensive network of K-rauta and Rautia stores, which enables local and flexible purchases.

#### **Sweden**

At present, there are 11 K-rauta stores operating in Sweden, the latest of which was opened in April 2002 in Södertälje, south of Stockholm. A wide and versatile choice of products and overall service packages offered to customers are competitive advantages of the K-rauta stores.

#### **Estonia**

In Estonia, Rautakesko is the market leader with four retail stores and nationwide wholesale operations. Rautakesko's market share in Estonia is about 20%.

#### **Latvia**

The first K-rauta there was opened in Riga in spring 2002. Rautakesko's wholesale network covers the whole country.

#### **Russia**

In Russia, Rautakesko has a wholesale warehouse in Moscow.

### Operating environment and future outlook

#### Objectives of Rautakesko

- market leader in the Nordic and Baltic countries
- International competition is increasing in Finland, and the hardware and builders' supplies trade will also become internationalised in the Nordic and Baltic countries. Increasing competition is giving impetus to the whole business sector. By growing its net sales Rautakesko aims at improving competitiveness, customer satisfaction and profitability. The growth will be strong in Sweden and the Baltic countries in particular.

#### Focal areas include

- lowering of costs by improving chain operations and by adopting new operating systems: co-operation with the Finland Post Corporation in warehousing operations and with Puukeskus Oy in purchasing are examples of this; as well as co-operation with Onninen Oy for outsourcing warehousing in hepac purchases for business implemented earlier



< Matti Halmesmäki, President of Rautakesko.

- improvement of competitiveness by increasing purchasing volumes, growing direct purchasing connections and own imports and by developing new product areas
- revising the chains' information systems to improve chain and information management
- development of e-commerce with chain stores, B-to-B customers and small contractors

### Finland

The rather low level of household and business debt, stable interest rates and internal migration all contribute to an improved outlook. Construction will be concentrated in centres of growth. The total market of hardware and builders' supplies is approximately EUR 5.4 billion and it is not expected to expand in a short term. In the area of construction, the emphasis of growth is on repair, renovation and the building of yards and gardens.

Both K-rauta and Rautia stores will be renovated so that both chains will operate with renovated stores in 2004. Retailer reserves will be strengthened with a special training programme. A focal area of the Industrial and Constructor Sales is the development of e-commerce and, in co-operation with the K-rauta and Rautia stores, the development of the service concept. About 4,500 products can be ordered through the extranet ([www.k-yrityspalvelu.com](http://www.k-yrityspalvelu.com)) intended for professional customers.

### Sweden

The aim is to have a network of about 25 K-rauta stores in Sweden, increasing the market share to about 10%.

### Baltics

The target is market leadership in the Baltic countries.

In June 2002, Rautakesko signed a letter of intent regarding the acquisition of a majority shareholding in UAB Senuku Prekybos centras, Lithuania's biggest trader of hardware and building supplies. The parties intend to conclude the deal during the first half of 2003.

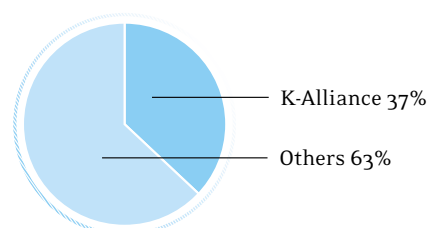
### Year 2002

Rautakesko's net sales in 2002 totalled EUR 735 million, a drop of 1.5% over the previous year. In Finland, the volume of new housing construction declined by 5.3% in comparison with the previous year (Statistics Finland), which also reduced Rautakesko's sales. Another factor reducing the net sales by approximately 5% was the fact that some hardware and builders' supplies stores remained outside chain operations. The sales of yard and gardening products and building supplies, as well as houses and holiday houses progressed best. Repair construction currently accounts for as much as one third of the total volume.

Rautakesko's operating profit in 2002 was EUR 9.0 million (EUR 4.3 million). In Finland, the operating profit increased owing to enhanced chain operations and savings gained through reorganised logistics. The profits of subsidiaries are affected by the opening costs of four new K-rauta stores. The performance in Sweden improved markedly, but remained loss-making. Rautakesko's operating profit includes EUR 2.8 million in profits from store real estate sales.

Rautakesko's total investments were EUR 14.2 million, of which EUR 11.8 million were made in the store network. The share of foreign investments was about 48.2%.

### Retail sales of hardware and builders' supplies in Finland in 2002 (estimate)



## Rautakesko

Net sales in 2002	EUR million	Change, %
Rautakesko Ltd	613	-4.5
K-rauta AB, Sweden	68	39.4
AS Rautakesko, Estonia	40	10.1
A/S Rautakesko, Latvia	18	18.0
ZAO Kestroy, Russia	4	12.8
./. eliminations	-8	-
<b>Total</b>	<b>735</b>	<b>-1.5</b>

EUR million	2002	2001
<b>Operating profit</b>	<b>9.0</b>	<b>4.3</b>
<b>Depreciation</b>	<b>5.9</b>	<b>5.6</b>
<b>Investments (gross)</b>	<b>14.2</b>	<b>22.9</b>
<b>Return on net assets, %</b>	<b>12</b>	<b>6</b>

### Net assets at 31 Dec., EUR million

	2002	2001
Non-current assets	29.8	41.3
Stocks	45.8	44.3
Receivables	65.0	67.5
./. Interest-free liabilities	-67.0	-74.1
./. Provisions	0.0	-0.1
<b>Net assets</b>	<b>73.6</b>	<b>78.8</b>

## K-Alliance's hardware and builders' supplies stores in 2002

	Number		Sales (incl. VAT), EUR million	
	2002	2001	2002	2001
K-rauta *	44	45	452	435
Rautia *	102	99	367	362
K-customer agreement stores	47	47	60	45
<b>Finland, total</b>	<b>193</b>	<b>191</b>	<b>878</b>	<b>842</b>
K-rauta, Sweden	11	9	86	60
K-rauta, Estonia	4	4	47	43
K-rauta, Latvia	1	1	21	18
<b>Foreign countries, total</b>	<b>16</b>	<b>14</b>	<b>154</b>	<b>121</b>
<b>Hardware and builders' suppliers stores, total</b>	<b>209</b>	<b>205</b>	<b>1,032</b>	<b>963</b>

\* 3 K-rauta stores and 40 Rautia stores also operate as K-agriculture stores.  
The table gives hardware and builders' supplies sales only.

## Rautakesko's store concepts

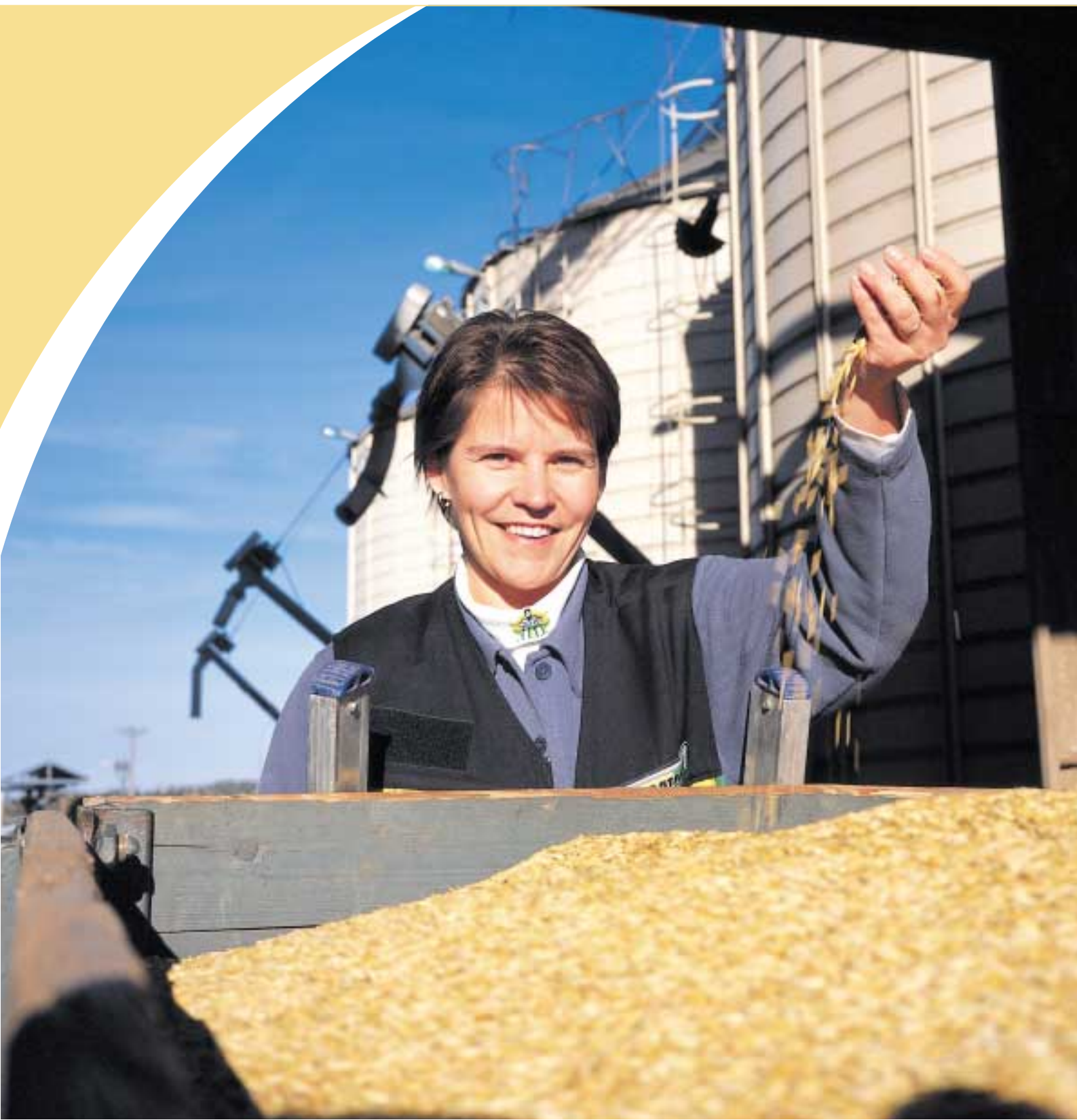
### Finland



### Sweden, Estonia and Latvia



# *Kesko Agro*





***Kesko Agro Ltd purchases and sells animal feed, chemicals and machinery, and is involved in the grain trade. In addition to Finland, Kesko Agro is active in all Baltic countries. Kesko Machinery Ltd, a subsidiary of Kesko Agro, purchases and sells through its own network heavy machines for professional and commercial use, as well as light machinery, boats and boating equipment for consumers.***

## Market position and competitive advantages

### Agricultural trade

#### Kesko Agro's strengths

- comprehensive product selection, services and after-sales operations
- K-agriculture retailers who are familiar with regional and local circumstances

The K-agriculture chain's customers are farmers. Kesko Agro and about 102 agricultural stores form the K-agriculture chain. The K-Alliance's share of the Finnish agricultural market is about 35%.

The best known product brands represented by Kesko Agro include Deutz-Fahr, Massey Ferguson and Same tractors, Claas combines and Tume and Elho agricultural implements. In May, Kesko Agro Ltd and Agco Corporation signed an agreement on representing Massey Ferguson tractors in Finland.

Kesko Agro Eesti AS in Estonia, SIA Kesko Agro Latvia in Latvia and UAB Kesko Agro Lietuva in Lithuania are the Kesko Agro Ltd subsidiaries that carry on agricultural and machinery trade in the Baltic countries.

### Machinery trade

#### Kesko Machinery's strengths

- nation-wide sales and service network for each product line in Finland
- strong brand products and leading international principals

Kesko Machinery Ltd markets, through its own sales organisation, lorries, construction machines, lift trucks, warehouse equipment, as well as industrial and environmental machines for contractors, industry and other professional users. Light machines and boating products are marketed to consumers through the K-Alliance's

retail store chains, the Kesmotors store network and specialised boat stores. Over 70% of the sales of Yamarin boats are directed to other Nordic countries. Kesko Machinery organises a maintenance and spare parts service covering the whole market area for the products it represents.

The best-known brands of Kesko Machinery are MAN lorries, Case, Fiat-Kobelco and Kobelco construction machines, BT and Hyster lift trucks, Manitou telescoping handlers, Mecalux warehousing equipment, Kubota mini tractors and rider mowers, LM-Trac municipal machines, Yamaha outboard engines, Yamarin boats, Lynx snow mobiles and MBK scooters.

In summer 2002, Kesko Machinery signed an agreement on the import and sales of Hyster forklift trucks in Finland and the Baltic countries.

### Operating environment and future outlook

#### Objectives of Kesko Agro and Kesko Machinery

- growing into the leading agricultural and machinery store chain in Finland and the Baltic countries
- developing and expanding the e-commerce solutions, which have started well
- improving the financial result through growth

### Kesko Agro

The Finnish agricultural market has remained at the level of about EUR 1.7 billion. The size of farms will increase, while their number will continue to decrease over the coming years. Some farmers, however, are intensifying their production strongly, which is why agricultural production and investments are expected to remain at their present level.

New agricultural and machinery trading centres were opened in Jüri, Estonia and Vilnius, Lithuania in spring 2002. A corresponding centre has earlier been opened in Riga, Latvia. In 2002, Kesko Agro became the biggest company operating in the Baltic agricultural market.

The online trading channel for spare parts – the spare parts web service – is used by the chain customers of Kesko Agro and Kesko Machinery, i.e., the K-agriculture, K-rauta and Rautia



< Matti Halmesmäki, President of Kesko Agro.

stores, as well as the dealers and service network of spare parts and recreational machines. The supply covers all the product brands represented by Kesko Agro and Kesko Machinery including their spare parts: about 640,000 items in total.

The service also includes the grain web, Finland's leading marketplace for the grain trade. It provides farmers with grain trade management tools, such as real time price and market information. Customers may do all their grain trading over these pages, buy grain or make counter-offers for special lots.

The Internet is very important for the trade-in machinery business. Kesko Agro provides a service at [www.vaihtokone.com](http://www.vaihtokone.com) where customers can choose from a range of around 2,000 trade-in machines. The supply covers 60 product groups from snowmobiles to construction machines. Around 30% of customer contacts that lead to a trade-in transaction take place via the Internet.

### Kesko Machinery

The demand for heavy machinery follows economic trends in industry and construction, so machinery investments are not yet forecast to increase significantly. Sale of recreational machines has grown at the pace of the overall consumer demand. The expanded product selection will improve Kesko Machinery's growth potential.

### Year 2002

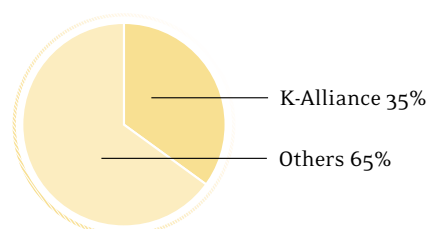
The net sales of the Kesko Agro Group were EUR 715 million, an increase of 2.3%. The foreign subsidiaries' net sales amounted to EUR 69.8 million, which was 9.8% of the total net sales. The operating profit of the Kesko Agro Group was EUR 7.4 million (EUR 6.2 million). The result was affected by the costs arising from the development of information systems and by the initiation and expansion costs in Latvia and Lithuania. The operating profit of Kesko Machinery Ltd was clearly better than in the previous year and better than expected. Investments totalled EUR 4.4 million, 52% of which were made in foreign projects.

Kesko Agro Ltd's net sales were EUR 464.8 million. In August, Kesko Agro started the sales and after sales operations of Massey Ferguson tractors. Additionally in the autumn, the import and marketing operations of the Danish He-Va agricultural implements were started. The crop harvest of the year equalled the level of the previous year, but the amount of grain offered for sale was 10% smaller.

Kesko Machinery Ltd's net sales totalled EUR 159.3 million, representing a growth of 13.7% over the previous year, regardless of the partly declining overall market.

The agricultural and machinery sales in the Baltic countries have progressed according to plan. New agricultural and machinery centres were opened in Tallinn and Vilnius, and a new district centre in Paide, Estonia. In 2003, new stores will be opened in Tartu, Estonia and Kaunas, Lithuania.

Retail sales of agricultural products in Finland in 2002 (estimate)



## Kesko Agro

Net sales in 2002	EUR million	Change, %
Kesko Agro Ltd	465	-2.8
Kesko Machinery Ltd	159	13.7
K-maatalousyhtiöt Oy	156	-1.7
Kesko Agro Eesti AS	29	42.5
SIA Kesko Agro Latvia	29	52.6
UAB Kesko Agro Lietuva	14	-
./. eliminations	-137	-
<b>Total</b>	<b>715</b>	<b>2.3</b>

EUR million	2002	2001
Operating profit	7.4	6.2
Depreciation	2.1	3.5
Investments (gross)	4.4	2.0
Return on net assets, %	9	8

### Net assets at 31 Dec., EUR million

	2002	2001
Non-current assets	9.6	8.0
Stocks	109.8	89.4
Receivables	80.2	77.8
./. Interest-free liabilities	-107.3	-94.3
./. Provisions	-0.7	-0.7
<b>Net assets</b>	<b>91.6</b>	<b>80.3</b>

## K-Alliance's agricultural stores in 2002

	Number		Sales (incl. VAT), EUR million	
	2002	2001	2002	2001
K-agriculture*	102	109	454	445
<b>Finland, total</b>	<b>102</b>	<b>109</b>	<b>454</b>	<b>445</b>
Kesko Agro Eesti AS	5	5	34	23
SIA Kesko Agro Latvia	3	2	32	22
UAB Kesko Agro Lietuva	1	-	17	-
<b>Foreign countries, total</b>	<b>9</b>	<b>7</b>	<b>83</b>	<b>45</b>
<b>Agricultural stores, total</b>	<b>111</b>	<b>116</b>	<b>537</b>	<b>490</b>

\* 3 K-agriculture stores also operate as K-rauta stores and 40 Rautia stores.  
The table gives agricultural sales only.

## Kesko Agro's store concepts

### Finland



### Estonia, Latvia and Lithuania



# *Keswell*



***Keswell Ltd specialises in the home and speciality goods trade. Keswell develops operating systems and the store network, manages the store chains and is responsible for the purchasing of goods, logistics and chain marketing. Its store concepts are well-known retail concepts which have gained a strong position in Finland. Keswell's subsidiary, Anttila Oy, is one of the biggest retailers in the home and speciality goods trade in Finland.***

### **Market position and competitive advantages**

#### **Keswell's strengths**

- well-known chain concepts for the home and speciality goods trade in Finland
- a nationwide store network in Finland
- several strong product lines: home technology, sports goods, shoes, clothes, home goods, interior decoration items, music and movie recordings
- expertise in the mail order business supports e-commerce
- international purchasing co-operation: Intersport International in the sports trade and EP:International in the home technology trade

### **Anttila**

Anttila Oy, which is the biggest subsidiary of Keswell, concentrates on the home and speciality goods trade with four concepts: the Anttila department stores, Kodin Ykkönen, the Anttila mail order business and [www.netanttila.com](http://www.netanttila.com). There are 26 Anttila department stores located in various parts of Finland. There are seven Kodin Ykkönen department stores for home goods and interior decoration. NetAnttila is the best-known online store in Finland. Anttila carries out its mail order business in Finland, Estonia and Latvia.

In 2001, Anttila became the first Finnish retail company to adopt an environmental system based on the ISO 14001 standard. The system will be certified in all Anttila and Kodin Ykkönen department stores and in the Hämeenkylä distribution centre gradually by the year 2004. So far certificates have been awarded to 17 outlets and centres. Anttila is a member of the international IGDS group (Intercontinental Group of Department Stores).

### **Sports trade**

Intersport and Kesport are two different store formats. The Intersport stores are located in urban centres or shopping centres and have nationwide marketing. The Kesport stores are smaller, leading sports stores in rural centres which focus on local marketing.

Keswell develops sports store formats in co-operation with Intersport International. Keswell Ltd's subsidiary, Interwell Oy, is

a retail company operating in the sports business. It has an Intersport megastore in Mikonkatu, Helsinki and an Intersport shop & rental pilot store in the Levi skiing centre. The Intersport and Kesport stores in Keswell are all served by the Kesko Sports chain unit. The Intersport chain is the market leader in the Finnish sports trade.

### **Home technology trade**

Musta Pörssi is one of the best-known home technology chains in Finland. It has two store concepts: Musta Pörssi and Musta Pörssi Maailma. Musta Pörssi Maailma stores operate in the largest Finnish market areas where they offer wider product assortments and selections than traditional Musta Pörssi stores. Musta Pörssi is a member of the ElectronicPartner: International purchasing organisation. This co-operation strengthens Musta Pörssi's competitive position in the fast changing and internationalising Finnish market.

Keswell Ltd's subsidiary, Jättipörssi Oy, a retail company operating in the home technology business, has nine Musta Pörssi stores. Kesko Musta Pörssi is the chain unit that serves the Musta Pörssi stores in Keswell. The unit also imports and markets many brands, such as Salora, Daewoo, Ahma, Fuji and Eltax.

Academica Oy is a pioneer in Finland in offering business customers a total service for information technology products. Academica Oy continues its investment in on-line business-to-business commerce.

### **Shoe trade**

K-kenkä and Andiamo are the K-Alliance's shoe store formats. Kenkäexpertti stores operate in the smallest towns.

Andiamo focuses on trendy consumers, while K-kenkä mainly serves consumers who appreciate classic styles and comfort. Motorfeet Ltd, a retail company operating in the shoe business, is owned by Keswell Ltd and has two stores: an Andiamo store in Helsinki and a K-kenkä store in Rauma. Kesko Shoes is the chain unit that serves the K-kenkä and Andiamo chains in Keswell.

### **Operating environment and future outlook**

#### **Keswell's objectives**

- increasing the market share
- growth is sought from the interior decoration, sports and home technology trade and from e-commerce

< Valeria Leppe de Kruse (left), Interior Decorator, and Sanna Snellman, Sales Assistant, at Kodin Ykkönen department store in Varisto, Vantaa.



< Matti Laamanen, President of Keswell.

- more competitiveness and profitability through the chain reform
- to be a pioneer in the electronic trading of home and speciality goods to consumers

The home and speciality goods business is characterised by a heavy formation of chains and the increased number and market share of international chains in Finland. This is true of the home technology, and home and interior decoration chains in particular.

Concepts are renewed quickly, they are more accurately defined than before, and are tightly controlled. In big cities, competition for the best store sites is strong and rents are at a high level.

Consumption patterns are diversifying and customer loyalty is weakening as consumers become more demanding and seek experiences along with products. The importance of trademarks and brands will remain at a high level and the lifecycle of products will continue to shorten. Ethical consumption is increasing and in the home and speciality goods trade, too, customers are more and more interested in where and how goods have been produced. Various intangible services will increase their share of consumption, and electronic trading will also continue to grow.

Through the chain reform, Keswell Ltd will improve the competitiveness of its chains in a quickly changing competition environment. The focal areas are customer-oriented chain concepts, uniform goods selections and efficient business operating processes.

### Year 2002

Keswell's net sales in 2002 totalled EUR 687 million, a decrease of 1.3%. The net sales of foreign operations totalled EUR 21.5 million representing 3.1% of the net sales. Keswell's operating loss was EUR 2.9 million, which is EUR 3.0 million smaller than in the previous year. Total investments were EUR 7.5 million.

The net sales of the Anttila Group were EUR 437.3 million, a decrease of 5.8%. The sales of the Kodin Ykkönen department stores for home goods and interior decoration grew by 2.7%, while the sales of the Anttila department stores dropped by 9.6%. The main reasons for the decrease in sales are the winding up of

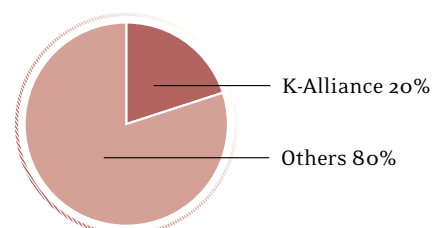
the Raisio department store and the Lohja and Kaarina department stores being transferred to the K-citymarket hypermarket chain. NetAnttila's sales increased by 86.8%. Mail order sales decreased by 5.7%, mainly due to the poor development at the beginning of the year. The Anttila Group's operating profit was EUR 0.6 million, including EUR 1.6 million in VAT refunds. The operating profit was EUR 2.0 million bigger than in the previous year. Both Anttila and the Kodin ykkönen department stores made an operating profit.

The net sales of Kesko Sports increased by 2.1% to EUR 109.0 million. However, the retail sales of the Intersport store chain dropped by 1.0%, which is mainly due to the sluggish clothes trade at the beginning of the year. The chain's sales developed favourably for the rest of the year. The sales of the Kesport stores increased by 13.4%.

The net sales of Kesko Musta Pörssi totalled EUR 101.7 million, a growth of 21.5%. The retail sales of the Musta Pörssi home technology chain increased by 4.9% owing to the excellent development towards the end of the year, regardless of the fact that the number of the chain's stores has decreased.

The net sales of Kesko Shoes decreased by 1.9%, totalling EUR 26.9 million. The retail sales of the K-kenkä chain dropped by 0.6% due to poor sales in November–December. The sales of the Andiamo chain decreased by 8.1%. This is mainly attributable to the decrease in the number of stores in the previous year. The sales of the Kenkäexpertti stores increased by 9.7%.

Retail sales of home and speciality goods in Finland in 2002 (estimate)



## Keswell

Net sales in 2002	EUR million	Change, %
Anttila Group	437	-5.8
Kesko Sports	109	2.1
Kesko Musta Pörssi	102	21.5
Kesko Shoes	27	-1.9
Others	12	-10.6
<b>Total</b>	<b>687</b>	<b>-1.3</b>

EUR million	2002	2001
Operating profit	-2.9	-5.9
Depreciation	12.4	11.4
Investments (gross)	7.5	12.9
Return on net assets, %	-2	-4

## Net assets at 31 Dec., EUR million

	2002	2001
Non-current assets	60.0	64.9
Stocks	107.6	114.5
Receivables	93.3	99.0
./. Interest-free liabilities	-97.1	-106.0
./. Provisions	0.0	0.0
<b>Net assets</b>	<b>163.8</b>	<b>172.4</b>

## K-Alliance's home and speciality goods stores in 2002

	Number		Sales (incl. VAT), EUR million	
	2002	2001	2002	2001
Anttila department stores	26	27	327	360
Kodin Ykkönen department stores for home goods and interior decoration	7	7	130	126
Anttila mail order business and NetAnttila	-	-	73	74
Intersport	57	58	191	193
Kesport	30	27	21	18
Musta Pörssi	53	51	143	139
K-kenkä	31	33	23	24
Andiamo	23	27	24	26
Kenkäexpertti	54	48	16	14
Other home and speciality goods stores	17	25	5	9
<b>Home and speciality goods stores, total</b>	<b>298</b>	<b>303</b>	<b>953</b>	<b>983</b>

## Keswell's store concepts

## Finland




# *Kaukomarkkinat*





***Kaukomarkkinat is the leading Finnish trading house operating internationally. It has over 20 subsidiaries or representative offices abroad. Kaukomarkkinat specialises in international technical trading, the import and wholesale of the world's leading branded products as well as the import, manufacture and marketing of high-quality optics.***

### **Market position and competitive advantages**

#### Strengths of Kaukomarkkinat

- Finland's leading expertise in technical trading in several sectors
- the strategy for international operations is to concentrate on market areas that require special expertise and local knowledge, where manufacturers' threshold for establishing sales companies of their own is high
- major operations in China and other countries of the Far East, in Russia, Poland and increasingly around the whole rim of the Baltic Sea
- represents well-known consumer goods brands in Finland

### **International technical trading**

International technical trading is the largest business sector of Kaukomarkkinat and one of its strongest areas of expertise. In recent years, Kaukomarkkinat has become Finland's leading operator in several sectors of technical trading. The key product lines in technical trading include machines, raw materials and accessories for the food, forest, electronics, plastics, building materials and packaging industries.

Telko Oy, purchased in 2000, markets raw materials, accessories, machines, equipment and necessary maintenance, spare parts and installation services to Finnish industry. Telko also has expanded its operations to other Nordic countries and the Baltics. Leipuri Tukku is the leading supplier of raw materials, machinery and equipment for bakeries in the Finnish market. It has also achieved a strong position in the Baltic countries, Poland and Russia. Kauko Electronics supplies production automation machinery, measuring and testing equipment, components and video surveillance systems for the manufacturing industry.

- < At Kaukomarkkinat's Hamina terminal: Eija Talsi, Traffic Manager, Jouni Ilvesoksa, Development Engineer in charge of environmental and safety issues, and Kimmo Lankinen, Terminal Director.

### **Branded goods**

Kaukomarkkinat imports the world's leading branded products to Finland. The three main business sectors are home electronics, sports and watches. The best-known brands include adidas, Citizen, Panasonic and Technics. Consumer electronics are sold in the Baltics and watches in Sweden. Adidas Suomi Oy is responsible for the sale of adidas products in Finland and in the Baltics. Kaukomarkkinat and adidas each own half of the company.

Tähti-Optikkko is a chain of branded products in the optical trade. A third of outlets are owned by Kaukomarkkinat and two thirds by partners. The chain operates nation-wide and has about 120 optical businesses.

### **Operating environment and future outlook**

#### Objectives of Kaukomarkkinat

- to be the leading supplier in its product lines and to serve all customers impartially
- to grow profitably and to maintain the leading position in its areas of expertise

The situation in Russia is improving the outlook for international trade. If the Russian economy continues to develop favourably it will provide opportunities for a significant increase in trading. China's membership of the World Trade Organisation will improve the operating environment in China, where Kaukomarkkinat has been operating for 50 years already.

Digital pictures and sound will boost the sales of consumer electronics over the coming years. Matsushita/Panasonic is the world's largest manufacturer of consumer electronics and one of the leading manufacturers of wide screen and digital televisions and DVD equipment.

The aim is to increase the market share of the Tähti Optikko chain through new partnerships and acquisitions of existing optical outlets.

### **Year 2002**

In 2002, the Kaukomarkkinat Group's net sales amounted to EUR 285 million, which is 1.8% less than in the previous year. The



< Hannu Närhi, President of Kaukomarkkinat.

Group's operating profit was EUR 7.7 million (EUR 6.8 million), a growth of 12.7% over the previous year. Investments totalled EUR 9.6 million.

The drop of net sales is mainly attributable to the winding up of Leitok, a company active in the clothes wholesale trade, towards the end of 2001. Its effect was -4.5%. The net sales of consumer electronics decreased too. The net sales of Leipurien Tukku registered the biggest growth. The companies acquired during the year also increased the Group's net sales.

The increase in the operating profit is mostly attributable to company acquisitions, growth of the Russian trade and cutting of costs.

Kaukomarkkinat increased its technical trade through the acquisition of Glastech Oy, a company operating in Finland, the Baltic countries, the Ukraine and Russia, and Nordica AS, which operates in Denmark, Sweden and Norway. The total annual sales of these companies are about EUR 20 million.

#### Optics chain of Kaukomarkkinat



#### Kaukomarkkinat

Net sales in 2002	EUR million	Change, %
Kaukomarkkinat Group	285	-1.8

EUR million	2002	2001
Operating profit	7.7	6.8
Depreciation	6.3	6.1
Investments (gross)	9.6	7.6
Return on net assets, %	8	7

#### Net assets at 31 Dec., EUR million

Non-current assets	54.3	55.5
Stocks	32.2	35.6
Receivables	40.2	42.2
./ Interest-free liabilities	-34.5	-37.5
./ Provisions	-0.4	-0.4
<b>Net assets</b>	<b>91.7</b>	<b>95.4</b>

## VV-Auto



^  
Juha-Pekka Sihvonen (centre),  
District Manager of VV-Auto, Sirkka  
Liisa Välimäki, Office Manager, and  
Matti Välimäki, Managing Director,  
both of Autola, Lohja, inspect the  
engine of a Volkswagen Golf Variant

***VW-Auto Oy imports Volkswagen and Audi cars and Volkswagen commercial vehicles. Its subsidiary, Auto-Span Oy, is responsible for importing and marketing Seat cars. In addition, the companies import original spare parts and accessories for the cars and arrange training, in their own training centre, for the personnel of the service and repair workshop network.***

A network of independent dealers with a total of 56 sales outlets is responsible for sales to consumers. There are also 34 service centres for car maintenance and repair.

#### **Market position and competitive advantages**

The general mood in the Finnish car market was positive throughout the year 2002. The total number of cars registered increased by 7.0% to 117,034 cars. The number of vans registered increased by 0.2% over the previous year.

#### **Strengths of VW-Auto**

- represents strong European product brands
- a wide choice of brands and a diversified choice of models
- leadership in the diesel car market
- a strong network of private dealers

The Volkswagen range has retained its position among the top brands of both cars and commercial vehicles in Finland. In the registration statistics for 2002, the Volkswagen cars were on the second place with a 10.4% market share, and the Volkswagen vans were also on the second place. A record number of new Audi cars were registered and the market share reached 2.4%. Seat's market share was 1.3%.

VW-Auto's spare parts and accessories sales grew by 14.8% over the previous year. The good development was attributable to the increased service capacity of the dealer network.

A joint environmental programme of VW-Auto and the Central Organisation for Motor Trade and Repairs has been implemented by the Volkswagen and Audi dealers. At present, the programme is being introduced by Seat dealers. Apart from a few exceptions, the VW-Auto Group's car range now already meets the EU4 emission requirements that become effective in 2006.

#### **Operating environment and future outlook**

##### **Objectives of VW-Auto**

- each brand among the leading brands in respective competitive group
- adaptation of international concepts in the Finnish market
- expert service and improved customer satisfaction through brand specialisation

Audits of the Volkswagen quality system have been continued in the dealer network. The aim is for all dealers to be included in the quality programme by the autumn of 2003.

Challenges for the near future include the requirements specified in the scrapping directive for cars to be removed from circulation, and the implementation of recycling in Finland.

The government proposal to the Finnish Parliament regarding car taxation is expected to increase the car trade in 2003.

The Volkswagen range will expand to include cars for representative purposes and all-terrain vehicles, as Volkswagen Phaeton and Touareg will be launched to the Finnish market. The new Volkswagen Touran multi-purpose vehicle will also be launched in the summer.

Through the Internet, more versatile and comprehensive information on products and services is made available for customers, which speeds up decision-making when people actually come to purchasing.

#### **Year 2002**

In 2002, the net sales of the VW-Auto Group totalled EUR 450 million, representing a growth of 15.1%. The operating profit was EUR 14.4 million (EUR 14.2 million). Investments totalled EUR 7.6 million.

The market share of the cars imported by the VW-Auto Group totalled 14.1%, an increase of 0.8 percentage points over the previous year. Volkswagen and Audi increased their market shares, whereas that of Seat decreased slightly. Volkswagen's market share in the van trade was 17.7%.



< Erkki Sillantaka, President of VV-Auto.

#### VV-Auto

Net sales in 2002	EUR million	Change, %
VV-Auto Group	450	15.1

EUR million	2002	2001
<b>Operating profit</b>	<b>14.4</b>	<b>14.2</b>
<b>Depreciation</b>	<b>3.1</b>	<b>3.1</b>
<b>Investments (gross)</b>	<b>7.6</b>	<b>6.1</b>
<b>Return on net assets, %</b>	<b>29</b>	<b>25</b>

#### Net assets at 31 Dec., EUR million

Non-current assets	23.2	22.0
Stocks	56.3	46.7
Receivables	11.1	11.9
./. Interest-free liabilities	-32.4	-29.1
./. Provisions	-7.0	-4.6
<b>Net assets</b>	<b>51.2</b>	<b>46.8</b>

# Corporate governance

## Group structure

Kesko Group comprises the parent company, Kesko Corporation, and its subsidiaries. The parent companies of Kesko Group's most important subgroups are Kesko Food Ltd, Rautakesko Ltd, Kesko Agro Ltd, Keswell Ltd, Kaukomarkkinat Oy and VV-Auto Oy. Operations of the companies are presented in pages 24–45 of the annual report.

## Provisions applied

Kesko Corporation follows the valid legislation, provisions given by virtue of it, and the Articles of the Association. In addition, Kesko Corporation follows in its operations the recommendations given by the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers on the governance of listed companies, and the insider regulations prepared by the Helsinki Exchanges, Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers.

## General Meeting and use of voting power at the General Meeting

At Kesko Corporation, the highest decision-making power is exercised by the company's shareholders at the General Meeting. Kesko's General Meeting is convened by the company's Board of Directors. According to the Companies Act, the General Meeting makes decisions on the following matters:

- the number, election and fees of Board members
- the number, election and fees of Auditors
- the adoption of financial statements
- the distribution of profit
- the amendment of the Articles of Association.

Kesko Corporation's Articles of Association have no redemption clauses nor voting limitations. The company has A and B share series which differ as to the votes they give. Each A share entitles the holder to ten votes and each B share to one vote. The company is not aware of any shareholder agreements as to the use of voting rights in the company nor of any limitations in the surrender of company shares.

## Board of Directors

### Composition and term

According to the Articles of Association, Kesko Corporation's Board of Directors consists of a minimum of five and a maximum of eight members. The Extraordinary General Meeting held on 30 October

2000 elected eight members to the Board of Directors. Their term started on 1 January 2001 and will expire at the close of the 2003 Annual General Meeting. According to the Articles of Association, the term of each Board member is three (3) years with the term starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election. In the Articles of Association no maximum age has been set for Board members nor has their number of terms been limited.

The Board of Directors elects a Chairman and a Deputy Chairman from among its members. The Chairman, the Deputy Chairman and the members of the Board of Directors for 2002 are presented on pages 58–59. Among the Board members, Kalevi Sivo-nen, Heikki Takamäki and Jukka Toivakka are K-retailers in normal business relations with the Kesko Group. Kesko Corporation's President and CEO Matti Honkala is a member of the Board of Directors. Kesko Corporation has given no guarantees or other contingent liabilities for its Board members.

### Functions and meetings

The function of the Board of Directors is to duly arrange the company's management, operations and bookkeeping, and to supervise the company's financial management. In its meeting on 3 January 2001, the Board of Directors confirmed the guidelines that specify the Board of Directors' meeting practice and functions. The Board of Directors handles and decides on matters that are fundamentally or financially significant for the Group's operations, including:

- making decisions on Group strategy and the confirmation of strategies for divisions
- confirmation of the Group's operational plan and budget
- the handling and adoption of interim reports, consolidated financial statements and the annual report
- confirmation of the Group's investment plan
- making decisions on strategically or financially important individual investments, company acquisitions or disposals, and contingent liabilities
- approving the Group's financial policy
- confirmation of Group-level risk management and reporting practices
- making decisions on reward and incentive schemes for Group management
- making decisions on Group structure and organisation
- the formulation of a dividend policy and the responsibility for the development of shareholder value

- the appointment of the company's Managing Director and the determination of his salary and benefits
- the appointment of the Deputy Managing Director
- the appointment of the Presidents of Kesko Food Ltd, Rautakesko Ltd, Kesko Agro Ltd and Keswell Ltd
- other duties determined for a Board of Directors in the Companies Act, in the Articles of Association or that are otherwise specified

The Board of Directors meets about 10 times a year. In meetings, matters are presented by Kesko Corporation's Managing Director or, by his order, another person in Kesko Group's management. The secretary to the Board of Directors is Kesko Group's General Counsel. The Board of Directors assesses its operating practices on a regular basis.

#### Fees and other benefits

Based on the decision made at the General Meeting, the monthly and meeting fees paid in 2002 to the members of the Board of Directors, with the exception of persons employed by the company, were

- the monthly fee to the Chairman was EUR 3,370
- the monthly fee to the Deputy Chairman was EUR 2,190
- the monthly fee to each Board member was EUR 1,690
- the fee per meeting to each participant was EUR 420

In addition, the members of the Board of Directors are entitled to daily allowances and compensation for travelling expenses in accordance with the general travel rules of Kesko Corporation. Neither the monthly nor the meeting fees of a Kesko Corporation Board member are paid to Kesko Corporation's Managing Director. The monthly and meeting fees paid to Kesko Corporation Board members in 2002 totalled EUR 189,784.74.

#### **Managing Director and Deputy Managing Director**

Kesko Corporation has a Managing Director whose duty is to manage the company's activities in accordance with the Board of Directors' instructions and rules. The Managing Director is also known as President and CEO. The Board of Directors elects the Managing Director and the Deputy Managing Director and decides on the Managing Director's terms of employment. Kesko Corporation's President and CEO is Matti Honkala and his deputy is Kesko Food's President Kalervo Haapaniemi.

In 2002, the salaries and fringe benefits paid to President and CEO Matti Honkala totalled EUR 404,637.14, while the salaries and fringe benefits paid to his deputy, Kalervo Haapaniemi, for his position as Kesko Food's Managing Director totalled EUR 280,197.92. No bonuses under the profit-sharing system were paid to either of them in 2002. Shares and stocks options held by the President and his deputy are presented on pages 60–61.

The Managing Director's retirement age is 60 years, with his full pension being 66% of the annual salaries serving as the basis for pension calculation. The retirement age of the Deputy Managing Director is 60 years, with his pension being 60% of the annual salaries serving as the basis for pension calculation. A six-month notice period is needed to terminate the employment contracts of the Managing Director or the Deputy Managing Director. In addition to the salaries for the period of notice, they are entitled to a severance pay corresponding to 18 months salary.

#### **Corporate Management Board**

Kesko Group has a Corporate Management Board, whose Chairman is Kesko Corporation's President and CEO Matti Honkala and members are Kesko Food Ltd's President Kalervo Haapaniemi, Rautakesko Ltd's and Kesko Agro Ltd's President Matti Halmesmäki, Keswell Ltd's President Matti Laamanen, Kesko Corporation's Corporate Executive Vice President, CFO Juhani Järvi, Senior Vice President, Corporate Communications, Erkki Heikkinen and Senior Vice President, Administration, Riitta Laitasalo. The Corporate Management Board meets 8–10 times a year. It is responsible for dealing with Group-level development projects and Group-level principles and practices. In addition, the Corporate Management Board is informed about the Group's and the division parent companies' business plans, profit performance and matters that are handled by Kesko Corporation's Board of Directors, and it also participates in the preparation of these matters.

#### **Subsidiary management**

Board members of the major subsidiaries are elected from among the management of the Kesko Group. The Chairman of the Boards of Kesko Food Ltd, Rautakesko Ltd, Kesko Agro Ltd and Keswell Ltd is Kesko Corporation's President and CEO Matti Honkala. The most important duties of the subsidiary boards include defining company strategy, confirming the operational plan and budget and making decisions on investments, company acquisitions and contingent liabilities within the limits determined by Kesko Corporation's Board of Directors.

#### **Auditors and the control system**

##### Auditors

The company has a minimum of one and a maximum of three auditors elected by the Annual General Meeting. The term of an auditor is the company's financial year and an auditor's duties terminate at the close of the Annual General Meeting following the election. The auditors shall be auditors or firms of auditors authorised by the Central Chamber of Commerce. The 2002 Annual General Meeting of Kesko Corporation elected two auditors for the company: Authorised Public Accountants PricewaterhouseCoopers Oy, with APA Pekka Nikula as the auditor with principal responsibility, and APA Mauno Tervo. Auditors of the subsidiaries of Kesko

Group come mainly from PricewaterhouseCoopers firm of auditors or are auditors employed by them.

#### **Control and reporting system**

The main function of statutory auditing is to verify that the financial statements show a true and fair view of the Group's performance and financial position for the financial year. The auditors give reports to the Board of Directors at least once a year and give company shareholders an auditors' report in connection with the annual financial statements.

The company has a Quality and Risk Management unit that is subject to the President and CEO and whose function is to evaluate and ensure the adequacy, appropriateness and efficiency of the Group's risk management, control and administrative processes. More information about the management of business risks can be found on page 49. Kesko Corporation's Board of Directors has confirmed the operating principles of internal control to be applied in the Group.

Implementation of financial targets is monitored through Group-wide financial reporting. The reports include realisations, plans and up-to-date estimates for the current year. Accumulation of financial added value is monitored with monthly internal reporting. Sales figures for the Group are published in monthly Stock Exchange releases.

Appropriate insurance is taken in case of property damage, consequential loss or liability damage risks arising from business operations. Information about the management of financial risks can be found on page 49.

#### **Company insiders**

According to the Securities Markets Act, persons in the following positions are considered to be Kesko Corporation's permanent insiders: members of Kesko Corporation's Board of Directors, the Managing Director and his deputy, and auditors, including the

auditor of a firm of auditors with principal responsibility for the company. In addition, Kesko Corporation's permanent insiders include persons who are working, at the time in question, in such duties as determined by the Board of Directors. The list of Kesko Corporation's insiders and their holdings of shares and stock options, updated monthly, can be read on Kesko Corporation's web pages at [www.kesko.fi](http://www.kesko.fi).

Kesko Corporation's Board of Directors has confirmed Kesko Corporation's insider regulations, which include rules for permanent and project-specific insiders, and the insider organisation and procedures defined for the company. These insider regulations have been distributed to all insiders. The Corporate Legal Affairs unit monitors compliance with insider regulations by, for instance, sending the extract from the insider register to the insiders to check at regular intervals. The company has adopted trading restrictions on insiders' trading with company shares or securities entitling to them during 14 days prior to publication of financial results.

Kesko Corporation's insider register is held by the Finnish Central Securities Depository Ltd. Up-to-date ownership information on insiders is available from the premises of HEXGate in Helsinki, address Fabianinkatu 14, at street level.

#### **Updating corporate governance**

An updated Kesko corporate governance can be read on Kesko Corporation's web pages at [www.kesko.fi](http://www.kesko.fi). Kesko Corporation's Internet pages are published in Finnish and English, and most of them also in Swedish.



# Risk management

## *Management of business risks*

Kesko develops and maintains the joint management of Kesko and the K-retailers using a system based on quality and process management. A risk map has been defined to form part of the management system, and it is being used by the division parent companies and Kesko units both to assess risks related to the achievement of the goals and targets of business operations and to determine the measures needed for managing risks.

Kesko's major business risks are related to customer loyalty, the threats arising from increasing competition and operational efficiency.

The function of the Group's Quality and Risk Management unit is to assess, on the basis of the divisions' risk definitions, the management of the entire Group's business risks and to report on them to the Corporate Board of Directors.

The operating environment of each division parent company has been analysed in the reviews on pages 24–45.

## *Management of financial risks*

The Group's long-term funding has been arranged through the parent company, and intra-Group loans are mainly used for providing finance to subsidiaries. Kesko Corporation's Treasury is responsible for the management of Kesko Group's financial risks. The Group companies' cash flows are netted by the Group accounts, and the Treasury is responsible for investing liquidity surplus.

### **Interest risk**

In order to manage interest rate risks, the Group's borrowings and investments have been distributed in fixed and floating rate instruments by means of derivative contracts. The aim is to hedge against the negative effects of variations in interest rates. During the financial year, the average duration for loans granted by financial institutions was one year and for liquid funds (cash, commercial papers and certificates of deposit) one month. The duration for loans is allowed to vary between one (1) and three (3) years.

### **Exchange rate risk**

The Group's exchange rate risks either relate to foreign subsidiaries or transaction risks that arise from trade debts. Due to the fast

product turnover that is typical of the grocery trade, the exchange rate exposure relating to purchases cannot grow to a considerable level. The subsidiaries and commercial units make decisions on the extent of hedging their exposure. The currencies mainly causing this risk include the US dollar, the Swedish krona, the Danish krone and the Estonian kroon. Forward exchange contracts and option agreements are used to hedge exchange rate exposure in these currencies. The business units carry out their hedging operations together with the Treasury, which hedges risk positions using market transactions within the limits confirmed for each currency.

Kesko's foreign subsidiaries are located outside the euro area. On 31 December 2002, the counter value of the foreign subsidiaries' equity and subordinated loans was EUR 44.3 million (EUR 39.4 million in 2001). The major currency positions are in Swedish krona, Estonian kroon and Latvian lat. The balance sheet exposure related to them has been mainly hedged with foreign currency denominated loans and other financial instruments.

### **Liquidity risk**

The aim of liquidity risk management is to maintain liquid funds and credit limits at a sufficient level to secure the financing of the Group's business operations at any time. The liquid funds form a cash portfolio which shall amount to at least EUR 50 million on average, with the duration being not longer than two (2) months. If the liquid funds exceed EUR 50 million, a separate investment policy has been defined for them.

At the end of 2002, the Group's liquid funds and investments totalled EUR 173 million. On the balance sheet date, the counter value of the committed non-current credit limits available was EUR 117 million.

### **Credit risk**

Financial instruments also cover the risk of counter parties failing to fulfil their obligations. Currency and interest rate derivative contracts are made only with those domestic and foreign banks that have good creditworthiness. Likewise, liquid funds are invested, within the limits confirmed, in objects with good creditworthiness. The investment objects and the limits determined for them are adjusted annually.

### **Credit ratings**

Kesko Corporation has not considered it necessary to obtain a credit rating in the Company's present financial situation.

# Shares and shareholders

## Share series and share capital

Kesko Corporation's share capital is divided into A shares and B shares. The company's share capital is EUR 182,240,800. The minimum share capital is EUR 100,000,000 and the maximum EUR 400,000,000, within which limits the share capital can be increased or decreased without amending the Articles of Association.

The minimum number of A shares is one (1) and the maximum number two hundred and fifty million (250,000,000), while the minimum number of B shares is one (1) and the maximum number two hundred and fifty million (250,000,000), provided that the total number of shares is at minimum two (2) and at maximum four hundred million (400,000,000).

The total number of shares is 91,120,400, of which 31,737,007 (34.8%) are A shares and 59,383,393 (65.2%) are B shares. The book counter value of the shares is EUR 2.00.

Each A share entitles the holder to 10 votes and each B share to 1 vote. Both shares give the same dividend rights. The votes to which A shares entitle account for 84.2% and the votes to which B shares entitle account for 15.8% of the total number of votes.

The company's shares are included in the book-entry securities system held by the Finnish Central Securities Depository Ltd.

The right to receive funds distributed by the company and to subscribe to shares when the share capital is increased belongs only to those

- who are registered as shareholders in the shareholder register on the record date
- whose right to receive funds has been entered by the record date into the book-entry securities account of the shareholder

registered in the shareholder register, and registered in the shareholder register

- if a share has been registered in a nominee name, into whose book-entry securities account the share has been entered by the record date, and whose custodian has been registered in the shareholder register as the custodian of the shares by the record date

## Authorisations of Board of Directors

The Board of Directors has no authorisation to increase the share capital, or to acquire or assign the company's shares. At the end of January 2002, Kesko Corporation's subsidiary Jäätipörssi Oy held 33,400 Kesko Corporation's A shares. The counter value of these shares totalled EUR 66,800, and they account for under 0.04% of all shares and 0.09% of all votes.

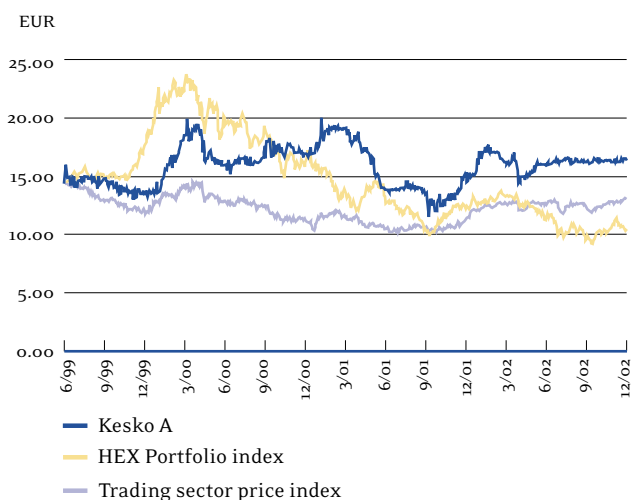
## Stock options

### Stock option scheme 2000

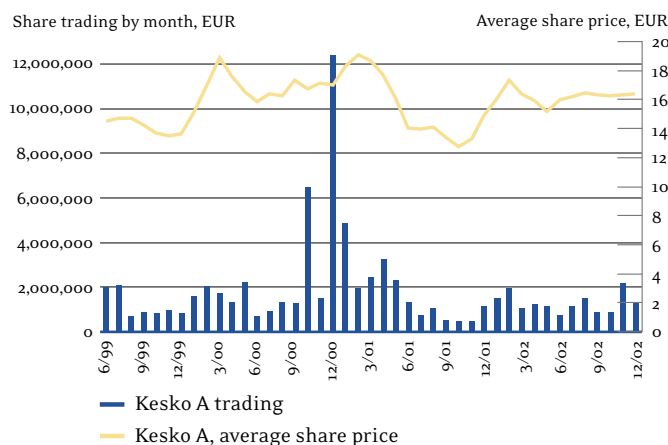
The Annual General Meeting of 10 April 2000 approved a stock option scheme for the top and middle management as part of the management's incentive programme. There were two classes of warrants issued, B warrants and C warrants, both without consideration. There were 3,825,000 B warrants issued and 2,015,000 C warrants issued, i.e. a total of 5,840,000 warrants.

Each B and C warrant entitles to the subscription of one B share of Kesko. The share subscription period began on 1 November 2002 for B warrants and shall begin on 1 November 2003 for C warrants, and shall end on 31 March 2006 for all warrants. The

Trends in Kesko's A share price



Trends in Kesko's A share trading by month



share subscription price for B warrant shall be the trade volume weighted average price of Kesko's B share on the Helsinki Exchanges during March 2000 with an addition of 15% (EUR 15.97), and for C warrant the corresponding average price of the B share during March 2001 with an addition of 15% (EUR 12.71). From the share subscription price shall be deducted the amount of the dividend per share distributed after the period for the determination of the share subscription price has ended but before the date of subscription for shares. After the distribution of dividend in 2001, the B share subscription price with B warrants is EUR 12.87 and with C warrants EUR 11.11. When the stock option scheme was announced it comprised nearly 600 persons.

The issued warrants entitle to the subscription of a total of 5,840,000 B shares, which would account for 6.0% of the share capital and 1.5% of voting rights. The company has no other convertible bonds or bonds with warrants in issue.

#### Subscription of shares under the stock option scheme in 2002

During the period from 1 December 1999 to 30 April 2002, a total of 907,000 Kesko Corporation B shares were subscribed with warrants issued under the 1996 stock option scheme. The subscription price of a B share with a warrant was EUR 10.01 per share. As a result of these subscriptions, Kesko Corporation's registered share capital increased by EUR 1,814,000 to a total of EUR 182,240,800. The subscriptions increased Kesko Corporation's equity by EUR 9,079,070, of which the share premium accounted for EUR 7,265,070. New B shares were listed on the main list of the Helsinki Exchanges for public trading with old B shares starting from 22 May 2002. New B shares are entitled to a dividend for the first time for the financial year 2002. Warrants totalling EUR 222,849 issued to company management entitled them to subscribe to a maximum of 1,325,000 Kesko Corporation B shares.

#### Basic information of the shares

The symbol of the A share is KESAV  
The symbol of the B share is KESBV  
The symbol of the B warrant is KESBVEW100

The trading unit of both share series is 100 shares.  
The share capital is EUR 182,240,800.  
The number of shares is 91,120,400.  
The voting rights carried by all shares total 376,753,463.

The number of A shares is 31,737,007  
The number of B shares is 59,383,393  
The book counter value of the shares is EUR 2.00  
The taxable value of an A share (in 2002) was EUR 11.48  
The taxable value of a B share (in 2002) was EUR 8.40

Voting rights:  
A share: 10 votes  
B share: 1 vote

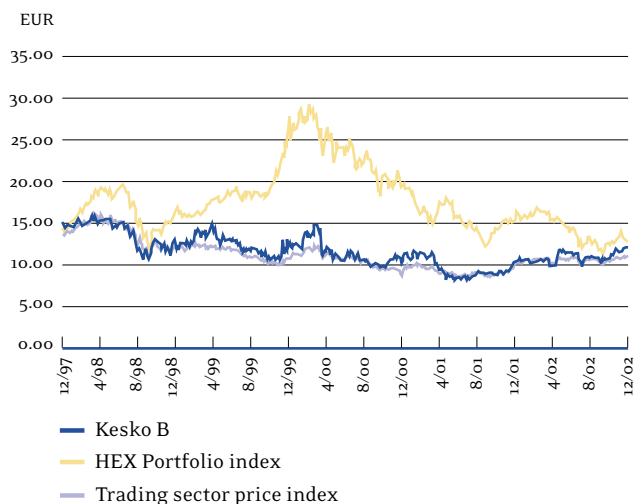
Kesko Corporation's B warrants issued in 2000 were included in the main list of the Helsinki Exchanges on 1 November 2002. No B shares were subscribed for with B warrants during 2002.

#### Shareholders

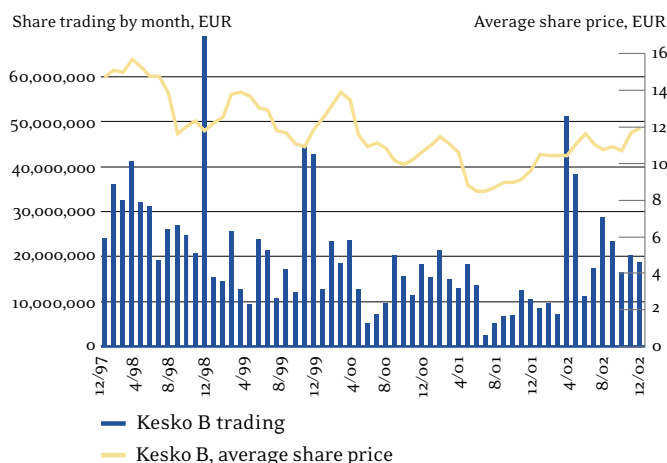
According to the register of Kesko's shareholders kept by the Finnish Central Securities Depository Ltd, there were 25,485 shareholders at the end of 2002. The total number of shares registered in a nominee name was 18,626,791, accounting for 20.4% of the share capital. The number of votes entitled by these shares was 18,771,358, or 5.0% of the total voting rights. K-retailers owned a total of 17.1% of the shares, and had 34.9% of voting rights.

A list of Kesko's largest shareholders can be found on the Internet at [www.kesko.fi](http://www.kesko.fi).

Trends in Kesko's B share price



Trends in Kesko's B share trading by month



### Shares held by Kesko's management

The members of Kesko's Board of Directors whose term began on 1 January 2001, including the Managing Director and the Deputy Managing Director and the corporations under their control, held at the end of December 2002 a total of 1,084,949 Kesko shares, which represented 1.19% of the company's share capital and 2.04% of its voting rights.

Detailed information on shares held by the management are given on pages 58–61 where the Board of Directors and the Corporate Management Board are presented, and on Kesko's Internet pages.

### Share trading

Kesko Corporation's shares are listed on the HEX Helsinki Exchanges and traded in euros.

Key information about the Kesko share trading is given in the table below.

The trading sector index rose by 8.4% during the year, while the HEX general index dropped by 34.4% and the HEX portfolio index by 16.7%.

At the end of 2002, the market value of A shares was EUR 520.5 million and that of B shares EUR 718.5 million, with the total market capitalisation of the company being EUR 1,239.0 million.

Kesko's share prices and trading volumes can be monitored through the company's Internet pages at [www.kesko.fi](http://www.kesko.fi).

### Dividend policy

Kesko distributes at least a third of its earnings per share as dividends, or a half if the equity ratio exceeds 50%.

### Proposed dividends

Kesko Corporation's Board of Directors proposes to the Annual General Meeting that EUR 91,120,400 be distributed as dividends from the net profit for 2002, or EUR 1.00 per share, representing 134% of earnings per share. During the past five years, 110% of earnings per share, on the average, have been distributed as dividends.

### Flagging notifications

During 2002, the company did not receive any flagging notifications. The company has not been informed of any agreements relating to its share ownership or the exercising of its voting rights.

### Kesko's A and B share prices and share trading in 2002

Share	Share price, EUR 31.12.2001	Share price, EUR 31.12.2002	Change, %	Lowest price, EUR	Highest price, EUR	Trading volume, 1,000 pcs	Total value, EUR million	Turnover rate, %
Kesko A	15.00	16.40	9.3	14.40	17.70	946	15.4	3.0
Kesko B	10.30	12.10	17.5	9.75	12.28	22,782	248.8	39.0

### The latest changes in share capital

Year	Subscription period	Subscription terms	Change	New share capital
1998	8.4.		FIM -300,000	FIM 902,134,000
1999	31.5.		EUR 28,700,000	EUR 180,426,800
2002	1.12.1999-30.4.2002	S 1 for 1 at EUR 10.01	EUR 1,814,000	EUR 182,240,800

S = subscription with warrants

EUR 1 = FIM 5.94573

### 20 largest shareholders by number of shares at 31 December 2002

	Number of shares	% of shares	% of votes
1 Kesko Pension Fund	3,404,485	3.74	9.04
2 The K-Retailers' Association	2,771,139	3.04	7.26
3 Vähittäiskaupan Takaus Oy	2,628,533	2.88	6.98
4 Valluga-sijoitus Oy	1,340,439	1.47	3.56
5 Varma-Sampo Mutual Pension Insurance Company	1,318,353	1.45	0.35
6 Ilmarinen Mutual Pension Insurance Company	1,201,400	1.32	0.32
7 Sampo Life Insurance Company Limited	1,044,930	1.15	0.28
8 Oy The English Tearoom Ab	1,008,400	1.11	0.27
9 Tapiola Mutual Pension Insurance Company	1,000,000	1.10	0.27
10 The Finnish Local Government Pensions Institution	914,600	1.00	0.24
11 Foundation for Vocational Training in the Retail Trade	818,325	0.90	1.72
12 Pohjola Non-Life Insurance Company Limited	800,000	0.88	0.21
13 Tapiola General Mutual Insurance Company	794,500	0.87	0.21
14 Suomi Mutual Life Insurance Company	690,000	0.76	0.18
15 Fortum Pension Foundation	455,000	0.50	0.12
16 Kaleva Mutual Insurance Company	394,000	0.43	0.10
17 Tapiola Mutual Life Insurance Company	393,000	0.43	0.10
18 Mutual Fund Conventum Finland Value	350,300	0.38	0.09
19 Pension Foundation Polaris	340,000	0.37	0.09
20 LEL Employment Pension Fund	323,900	0.36	0.09

### 20 largest shareholders by number of votes at 31 December 2002

	Number of votes	% of votes	Number of shares	% of shares
1 Kesko Pension Fund	34,044,850	9.04	3,404,485	3.74
2 The K-Retailers' Association	27,343,740	7.26	2,771,139	3.04
3 Vähittäiskaupan Takaus Oy	26,285,330	6.98	2,628,533	2.88
4 Valluga-sijoitus Oy	13,404,390	3.56	1,340,439	1.47
5 Foundation for Vocational Training in the Retail Trade	6,487,443	1.72	818,325	0.90
6 Ruokajätti Kalevi Sivonen Oy	2,274,000	0.60	281,400	0.31
7 Ruokacity Myyrmäki Oy	2,200,000	0.58	220,000	0.24
8 A.Toivakka Oy	1,934,500	0.51	211,450	0.23
9 Mauri ja Nina Penttinen Oy	1,931,600	0.51	198,020	0.22
10 Vesa Laakso Oy	1,591,000	0.42	177,100	0.19
11 K-Food Retailers' Club	1,568,660	0.42	208,040	0.23
12 Kotihalli Oy	1,481,500	0.39	247,600	0.27
13 Hannu Aaltonen Oy	1,417,800	0.38	141,780	0.16
14 Heimo Välinen Oy	1 332 000	0.35	133,200	0.15
15 Varma-Sampo Mutual Pension Insurance Company	1,318,353	0.35	1,318,353	1.45
16 Ilmarinen Mutual Pension Insurance Company	1,201,400	0.32	1,201,400	1.32
17 Sundman & Co-Holding Oy Ab	1,108,020	0.29	110,802	0.12
18 Matti Himberg Oy	1,052,000	0.28	118,700	0.13
19 CM Yliveto Oy	1,050,000	0.28	150,000	0.16
20 Kallio Matti Vilho Juhani	1,049,600	0.28	215,480	0.24

## Ownership structure at 31 December 2002

All shares	Number of shares	% of all shares
Private enterprises	25,826,782	28.34
Public companies	29,331	0.03
Financial and insurance institutions	7,439,570	8.16
General government*	10,125,306	11.11
Non-profit institutions**	4,591,117	5.04
Households	24,384,031	26.76
Foreigners (incl. nominee registrations)	18,724,263	20.55
<b>Total</b>	<b>91,120,400</b>	<b>100.00</b>

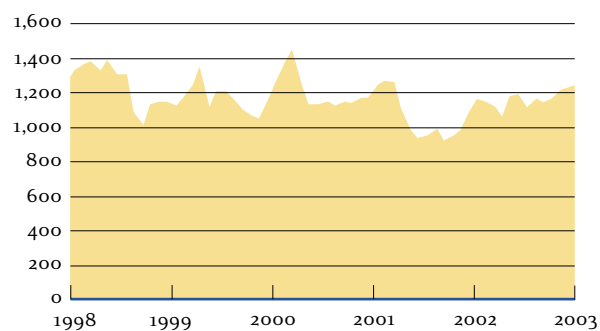
A shares	Number of shares	% of A shares	% of all shares
Private enterprises	18,612,424	58.65	20.43
Public companies	2,900	0.01	0.00
Financial and insurance institutions	1,340,539	4.22	1.47
General government*	3,427,398	10.80	3.76
Non-profit institutions**	967,392	3.05	1.06
Households	7,367,443	23.21	8.09
Foreigners (incl. nominee registrations)	18,911	0.06	0.02
<b>Total</b>	<b>31,737,007</b>	<b>100.00</b>	<b>34.83</b>

B shares	Number of shares	% of B shares	% of all shares
Private enterprises	7,214,358	12.15	7.92
Public companies	26,431	0.04	0.03
Financial and insurance institutions	6,099,031	10.27	6.69
General government*	6,697,908	11.28	7.35
Non-profit institutions**	3,623,725	6.10	3.98
Households	17,016,588	28.66	18.67
Foreigners (incl. nominee registrations)	18,705,352	31.50	20.53
<b>Total</b>	<b>59,383,393</b>	<b>100.00</b>	<b>65.17</b>

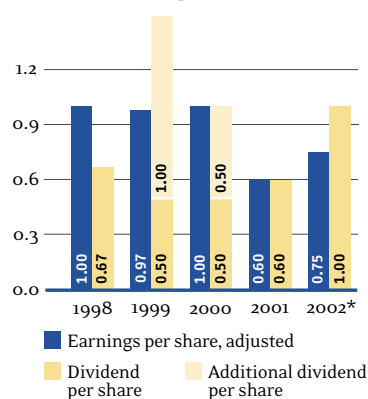
\* General government includes municipalities, the provincial administration of Åland, employment pension institutions and social security funds.

\*\* Non-profit institutions include foundations awarding scholarships, organisations safeguarding certain interests, and charitable associations.

### Market capitalisation of Kesko, EUR million



### Earnings per share and dividend per share, EUR



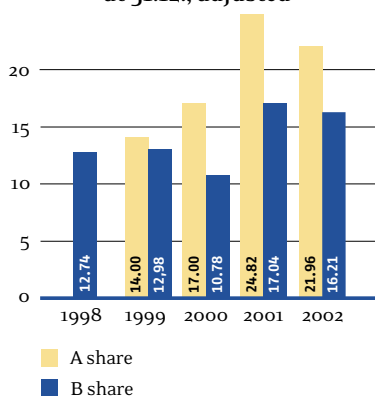
## Distribution of share ownership at 31 December 2002

All shares	Number of shareholders	% of shareholders	Shares, total	% of shares
Number of shares				
1 - 100	5,324	20.91	299,546	0.33
101 - 500	8,949	35.15	2,514,073	2.76
501 - 1,000	4,191	16.46	3,259,536	3.58
1,001 - 5,000	5,262	20.67	11,935,410	13.10
5,001 - 50,000	1,596	6.27	20,673,381	22.69
50,001 -	136	0.53	52,438,454	57.55
<b>Total</b>	<b>25,458</b>	<b>100.00</b>	<b>91,120,400</b>	<b>100.00</b>

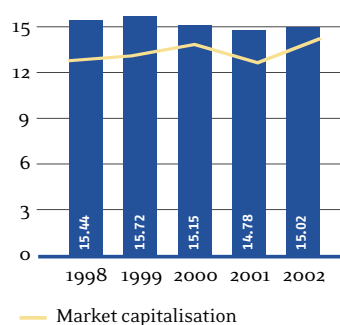
A shares	Number of shareholders	% of holders of A shares	A shares, total	% of A shares
Number of shares				
1 - 100	723	14.54	36,835	0.12
101 - 500	971	19.52	266,650	0.84
501 - 1,000	678	13.63	552,243	1.74
1,001 - 5,000	1,678	33.74	4,179,850	13.17
5,001 - 50,000	871	17.51	11,554,477	36.41
50,001 -	53	1.07	15,146,952	47.73
<b>Total</b>	<b>4,974</b>	<b>100.00</b>	<b>31,737,007</b>	<b>100.00</b>

B shares	Number of shareholders	% of holders of B shares	B shares, total	% of B shares
Number of shares				
1 - 100	5,267	23.36	296,254	0.50
101 - 500	8,707	38.62	2,436,097	4.10
501 - 1,000	3,814	16.92	2,943,414	4.96
1,001 - 5,000	3,910	17.34	8,403,464	14.15
5,001 - 50,000	775	3.44	9,958,076	16.77
50,001 -	70	0.31	35,346,088	59.52
<b>Total</b>	<b>22,543</b>	<b>100.00</b>	<b>59,383,393</b>	<b>100.00</b>

Price per earnings ratio (P/E),  
at 31.12., adjusted



Equity per share, EUR,  
at 31.12., adjusted



## Share capital and shares

	1998	1999	2000	2001	2002
Share capital, EUR million	152	180	180	180	182
Number of shares at 31 Dec., 1,000 pcs	90,213.4	90,213.4	90,213.4	90,213.4	91,120.4
Adjusted number of shares at 31 Dec., 1,000 pcs	90,213.4	90,213.4	90,213.4	90,213.4	91,120.4
Adjusted average number of shares during the year, 1,000 pcs	90,213.4	90,213.4	90,213.4	90,213.4	90,807.3
of which exclusive/A shares, %	35	35	35	35	35
of which ordinary/B shares, %	65	65	65	65	65
Market capitalisation, EUR million, A shares		432	538	476	520
Market capitalisation, EUR million, B shares	748	736	629	602	718
Number of shareholders at 31 Dec.	23,704	23,235	24,496	25,057	25,485
Share turnover, EUR million					
A share		8	33	20	15
B share	382	248	177	139	249
Share turnover, million pcs					
A share		1	2	1	1
B share	28	20	15	14	23
Turnover rate, %					
A share		1.8	6.2	3.9	3.0
B share	47.8	34.8	26.1	24.3	38.6
Change in share turnover, %					
A share			241	-37.5	-23.3
B share	-17.7	-27.2	-25.1	-6.7	60.3
Share price at 31 Dec., EUR					
A share		13.60	16.95	15.00	16.40
B share	12.78	12.60	10.75	10.30	12.10
Average share price, EUR					
A share		14.22	16.85	16.57	16.26
B share	13.65	12.18	11.59	9.79	10.92
Highest share price during the year, EUR					
A share		16.00	19.90	20.00	17.70
B share	16.40	15.45	14.99	11.80	12.28
Lowest share price during the year, EUR					
A share		12.50	13.50	11.50	14.40
B share	10.09	10.50	9.61	8.10	9.75
Earnings per share, adjusted, EUR	1.00	0.97	1.00	0.60	0.75
Equity per share, adjusted, EUR	15.44	15.72	15.15	14.78	15.02
Dividend per share, EUR	0.67	1.50	1.00	0.60	1.00*
Dividend of earnings, %	66.6	153.5	99.7	98.7	134.4
Cash flow from operations per share, adjusted, EUR	2.11	2.95	1.42	2.30	1.61
Price per earnings ratio (P/E), A share, adjusted		14.00	17.00	24.82	21.96
Price per earnings ratio (P/E), B share, adjusted	12.74	12.98	10.78	17.04	16.21
Dividend yield, %, A share		11.0	5.9	4.0	6.1
Dividend yield, %, B share	5.3	11.9	9.3	5.8	8.3
Yield of A share (from 1 June 1999), %			18.3	8.6	9.9
Yield of B share, %					
For the last five financial years	12.2	10.2	9.8	6.1	2.8
For the last ten financial years	8.1	5.7	8.2	11.0	12.8

\* proposal to the Annual General Meeting



# Information about Kesko for investors

## Investor relations

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Investor Relations Manager

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*Additional information about Kesko for investors is available at the following banks and brokerage firms:*

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Fax +358 9 6162 8769

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## Board of Directors on 31 December 2002



< **Matti Kallio**, b. 1945

**Chairman**

Kotihalli Oy, Chairman of the Board, domicile Helsinki.

Other major duties: Sampo Life Insurance Company Limited, Supervisory Board member

Kesko Corporation's shares and stock options held on 31 December 2002: A total of 229,780 A shares and 233,300 B shares held either by him or his company.



< **Keijo Suila**, b. 1945, B.Sc. (Econ.).

**Deputy Chairman**

President and CEO, Finnair Oyj, domicile Helsinki.

Other major duties: the Employers' Confederation of Service Industries, Board of Directors' member; Elisa Communications Corporation, Board of Directors' chairman; the Finnish Cultural Foundation, Supervisory Board member; the Finnish Fair Corporation, Supervisory Board member; Sampo Life Insurance Company Limited, Supervisory Board member.

Kesko Corporation's shares and stock options held on 31 December 2002: None.



< **Matti Honkala**, b. 1945, B.Sc. (Econ.).

Kesko Corporation's President and CEO, domicile Kauniainen.

Other major duties: the Employers' Confederation of Service Industries, Board of Directors' Chairman; the Finnish Fair Corporation, Board of Directors' member; Varma-Sampo Mutual Pension Insurance Company, Supervisory Board chairman; Sampo Life Insurance Company Limited, Supervisory Board chairman; Luottokunta, Supervisory Board chairman; the Federation of Finnish Commerce and Trade, Board of Directors' deputy chairman; the Central Chamber of Commerce, Board of Directors' member; Finpro, Supervisory Board deputy chairman; the International Chamber of Commerce (ICC), World Council member; UGAL, Board of Directors' member.

Kesko Corporation's shares and stock options held on 31 December 2002: 2,000 Kesko Corporation's B shares and 150,000 stock options, which entitle to subscribe for a maximum of 150,000 Kesko Corporation's B shares.



< **Eero Kasanen**, b. 1952, Dr.Sc. (Econ.)

Doctor of Business Administration.

Rector of the Helsinki School of Economics and Business Administration, domicile Helsinki.

Other major duties: Elcoteq Network Oyj, Board of Directors' member; Kaleva Mutual Insurance Company, Board of Directors' member; Holding Oy of Helsinki School of Economics and Business Administration, Board of Directors' chairman; the Research Foundation of the OKOBANK Group, Board of Directors' member; the National Theatre of Finland, Board of Directors' member; the Emil Aaltonen Foundation, Board of Directors' member.

Kesko Corporation's shares and stock options held on 31 December 2002: None.



- < **Maarit Näkyvä**, b. 1953, M.Sc. (Econ.).  
Sampo plc's EVP, Head of Retail Distribution, domicile Espoo.  
Other major duties: Sampo Bank plc, Board of Directors' deputy chairman.  
Kesko Corporation's shares and stock options held on 31 December 2002: None.



- < **Kalevi Sivonen**, b. 1949  
Retailer, K-citymarket Itäkeskus, domicile Vantaa.  
Kesko Corporation's shares and stock options held on 31 December 2002: A total of 221,429 A shares and 60,400 B shares held either by him, by person under his guardianship or by his company



- < **Heikki Takamäki**, b. 1947  
Retailer, Rauta-Otra Nekala, domicile Tampere.  
Other major duties: K-Retailers' Association, Chairman; the Foundation for Vocational Training in the Retail Trade, Board of Directors' chairman; SV-Kauppias-kanava Oy, Board of Directors' chairman; Finnish Employers' Confederation of Service Industries, Delegate; Vähittäiskaupan Takaus Oy, Board of Directors' member; Vähittäiskaupan Tilipalvelu Oy, Board of Directors' chairman.  
Kesko Corporation's shares and stock options held on 31 December 2002: A total of 89,470 A shares and 37,120 B shares held either by him or his company.



- < **Jukka Toivakka**, b. 1962, M.Sc. (Econ.).  
Retailer, K-citymarket Mikkeli, domicile Mikkeli.  
Kesko Corporation's shares and stock options held on 31 December 2002: A total of 191,450 A shares and 20,000 B shares.

*A monthly updated list of Kesko Corporation's shares and stock options held by the members of the Board of Directors is available on Kesko's Internet pages at [www.kesko.fi/investorinformation](http://www.kesko.fi/investorinformation).*

## Corporate Management Board *on 31 December 2002*



< **Matti Honkala**, b. 1945, B.Sc. (Econ.).

Kesko Corporation's President and CEO, domicile Kauniainen.

Other major duties: the Employers' Confederation of Service Industries, Board of Directors' Chairman; the Finnish Fair Corporation, Board of Directors' member; Varma-Sampo Mutual Pension Insurance Company, Supervisory Board chairman; Sampo Life Insurance Company Limited, Supervisory Board chairman; Luottokunta, Supervisory Board chairman; the Federation of Finnish Commerce and Trade, Board of Directors' deputy chairman; the Central Chamber of Commerce, Board of Directors' member; Finpro, Supervisory Board deputy chairman; the International Chamber of Commerce (ICC), World Council member; UGAL, Board of Directors' member.

Kesko Corporation's shares and stock options held on 31 December 2002: 2,000 Kesko Corporation's B shares and 150,000 stock options, which entitle to subscribe for a maximum of 150,000 Kesko Corporation's B shares.



< **Kalervo Haapaniemi**, b. 1947, M.Sc. (Econ.).

President, Kesko Food Ltd, Deputy Chief Executive, domicile Espoo.

Other major duties: Luottokunta, Board of Directors' member; Publicis International Oy, Board of Directors' member; Rautakirja Oyj, Board of Directors' member; Association of Finnish Advertisers, Board of Directors' member.

Kesko Corporation's shares and stock options held on 31 December 2002: 75,000 stock options, which entitle to subscribe for a maximum of 75,000 Kesko Corporation's B shares.



< **Matti Halmesmäki**, b. 1952, M.Sc. (Econ.), LL.M.

President, Rautakesko Ltd and Kesko Agro Ltd, domicile Helsinki.

Kesko Corporation's shares and stock options held on 31 December 2002: 75,000 stock options, which entitle to subscribe for a maximum of 75,000 Kesko Corporation's B shares.



< **Erkki Heikkinen**, b. 1949, M.A.

Senior Vice President, Corporate Communications, domicile Helsinki.

Kesko Corporation's shares and stock options held on 31 December 2002: 100 Kesko Corporation's B shares and 50,600 stock options, which entitle to subscribe for a maximum of 50,600 Kesko Corporation's B shares.



< **Juhani Järvi**, b. 1952, M.Sc. (Econ.).

Corporate Executive Vice President, Finance, CFO, domicile Helsinki.

Other major duties: Citycon Oyj, Board of Directors' member.

Kesko Corporation's shares and stock options held on 31 December 2002: 75,000 stock options, which entitle to subscribe for a maximum of 75,000 Kesko Corporation's B shares.



< **Matti Laamanen**, b. 1948, M.Sc. (Econ.), LL.M.

President, Keswell Ltd, domicile Kerava.

Kesko Corporation's shares and stock options held on 31 December 2002: 1,000 Kesko Corporation's B shares and 53,400 stock options, which entitle to subscribe for a maximum of 53,400 Kesko Corporation's B shares.



< **Riitta Laitasalo**, b. 1955, M.Sc. (Econ.).

Senior Vice President, Administration, domicile Espoo.

Other major duties: the Commercial Employers' Association in Finland, Board of Directors' member.

Kesko Corporation's shares and stock options held on 31 December 2002: 55,600 stock options, which entitle to subscribe for a maximum of 55,600 Kesko Corporation's B shares.

*A monthly updated list of Kesko Corporation's shares and stock options held by the members of the Corporate Management Board is available on Kesko's Internet pages at [www.kesko.fi/investorinformation](http://www.kesko.fi/investorinformation).*

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#### Auditors in 2002

- PricewaterhouseCoopers Oy, Authorised Public Accountants, auditor with principal responsibility Pekka Nikula, B.Sc. (Econ.), APA
- Mauno Tervo, B.Sc. (Econ.), APA

# Addresses and subsidiary information

## KESKO CORPORATION www.kesko.fi

### Corporate Management

Satamakatu 3, Helsinki, FIN-00016 Kesko  
Corporate Board of Directors and Management Board: see pages 58-61  
Tel. +358 10 5311 (Mon-Fri 7.30-18.00 local time)  
Fax +358 9 657 465  
E-mail: firstname.lastname@kesko.fi

### District Centres

#### Southern Finland

District Director Timo Huurtola  
Jokiniementie 31, P.O.B. 152, FIN-01301 Vantaa  
Tel. +358 10 5311, fax +358 1053 28517

#### Eastern Finland

District Director Pertti Rusanen  
Päivärannantie 18, P.O.B. 46, FIN-70701 Kuopio  
Tel. +358 10 5311, fax +358 1053 29020

#### Southwestern Finland

District Director Olli Setänen  
Rydönnotko 1, P.O.B. 116, FIN-20101 Turku  
Tel. +358 10 5311, fax +358 1053 21309

#### Western Finland

District Director Jaakko Jussila  
Jokipohjantie 28, P.O.B. 330, FIN-33101 Tampere  
Tel. +358 10 5311, fax +358 1053 25448

#### Northern Finland

District Director Jari K. Saarinen  
Äimäkuja 2, P.O.B. 16, FIN-90401 Oulu  
Tel. +358 10 5311, fax +358 1053 30572

## Kesko Food Ltd

	average personnel in 2002	net sales, EUR million
Satamakatu 3, Helsinki FIN-00016 Kesko Tel. +358 10 53030, fax +358 1053 23486 President Kalervo Haapaniemi Category Management and Logistics: Executive Vice President Harri Sivula Marketing: Vice President Jaakko-Pekka Vehmas Retail Services: Vice President Jukka Sipilä Controlling, IT and Personnel: Vice President Aatos Kivelä Neighbourhood Chain Unit (K-market, K-extra, K-pikkolo): Vice President Eija Jantunen	6,264 (incl. subsidiaries)	3,016

K-supermarket: Vice President Lasse Lehtinen  
K-citymarket: Vice President Kari Kivikoski  
Baltic Operations: Vice President Seppo Hämäläinen

## SUBSIDIARIES

<b>Citymarket Oy</b>	2,433	426
Managing Director Kari Kivikoski Satamakatu 3, FIN-00016 Kesko Tel. +358 10 5311, fax +358 1053 23492 www.citymarket.fi		

<b>Kespro Ltd</b>	568	756
Managing Director Ari Virnes Sähkötie 1, Vantaa, P.O.B. 15, FIN-00016 Kesko Tel. +358 10 53040, fax +358 9 851 4452 www.kespro.com		

<b>Kinnisvaravalduse AS/ Kadaka Säätumarket AS</b>	544	103
Managing Director Gunnar Kobin Põrguväljatee 3, Pildiküla, EE 75301 Harjumaa, Estonia Tel. +372 605 9400, fax +372 605 9401 E-mail: firstname.lastname@keskofood.ee www.smarket.ee		

<b>Kesko Food AS</b>	440	76
Managing Director Gunnar Kobin Põrguväljatee 3, Pildiküla, EE 75301 Harjumaa, Estonia Tel. +372 605 9400, fax +372 605 9401 E-mail: firstname.lastname@keskofood.ee		

<b>SIA Kesko Food</b>	246	17
Managing Director Henrijs Fogels Vienības gatve 87, LV-1004 Rīga, Latvia Tel. +371 706 4210, fax +371 706 4211 E-mail: firstname.lastname@keskofood.lv www.keskofood.lv		

## Rautakesko Ltd

	average personnel in 2002	net sales, EUR million
Vanha Porvoontie 229 P.O.B. 75, FIN-01301 Vantaa Tel. +358 10 53032, fax +358 9 857 4783 www.rautakesko.com President Matti Halmesmäki Executive Vice President Simo Manner K-rauta chain and Industrial and Constructor Sales: Vice President Jari Lind Rautia chain: Vice President Jorma Mykrä Retail Services: Vice President Jouko Björkman Finance and Administration: Vice President Matti Mettälä	1,189 (incl. subsidiaries)	613

<b>SUBSIDIARIES</b>		
<b>AS Rautakesko</b>	316	40
Managing Director Raul Kadaru Tähetorni 100 A, EE-11625 Tallinn, Estonia Tel. +372 6 257 501, fax +372 6 257 563 E-mail: info@rautakesko.ee www.k-rauta.com		
<b>A/S Rautakesko</b>	177	18
Managing Director Artis Biteniēks Rencenu iela 21, LV-1073 Riga, Latvia Tel. +371 7 810 090, fax +371 7 810 091 E-mail: rautakesko@rautakesko.lv www.k-rauta.com		
<b>K-rauta AB</b>	352	68
Managing Director Mikael Forss Bagarbyvägen 61, 19134 Sollentuna, Sweden Tel. +46 8 625 6960, fax +46 8 625 6998 E-mail: firstname.lastname@k-rauta.se www.k-rauta.com		
<b>ZAO Kestroy</b>	22	4
Managing Director Ilkka Sinkkonen Ul Ryabinovaya 43 A, 121471 Moscow, Russia Tel. +7095 447 1836, fax +7095 913 9048 E-mail: sales@kestroy.ru www.kestroy.com		

### Kesko Agro Ltd

	average personnel in 2002	net sales, EUR million
Tikkurilantie 10 P.O.B. 54, FIN-01380 (01301) Vantaa Tel. +358 10 53033, fax +358 9 857 4729 President Matti Halmesmäki Executive Vice President Kimmo Vilppula Agricultural Product Lines: Vice President Juha Nuutila K-agriculture chain: Chain Director Antti Ollila	812 (incl. subsidiaries)	465
<b>K-Alliance's Experimental Farm</b>	9	
Hahkialantie 30, FIN-14700 Hauho Tel. +358 10 53033, fax +358 3 615 0230 www.k-koetila.fi		
<b>SUBSIDIARIES</b>		
<b>Kesko Machinery Ltd</b>	199	159
Managing Director Pekka Lahti Tikkurilantie 10, P.O.B. 54, FIN-01380 (01301) Vantaa Tel. +358 10 53034, fax +358 9 873 5700 www.konekesko.com		
<b>K-maatalousyhtiöt Oy</b>	194	156
Managing Director Janne Eriksson Tikkurilantie 10, P.O.B. 54, FIN-01380 (01301) Vantaa Tel. +358 10 53033, fax +358 9 857 4729 www.k-maatalous.fi		
<b>UAB Kesko Agro Lietuva</b>	53	14
Managing Director Erlandas Jakubonis Savanoriu pr. 191, 2053 Vilnius, Lithuania Tel. +370 5 247 7400, fax +370 5 247 7420 www.keskoagro.com		

<b>Kesko Agro Eesti A/S</b>	62	29
Managing Director Tõnu Kelder Põrguvälja tee 3 a, Pildiküla, Rae vald, EE-75301 Harju mk, Estonia Tel. +372 6059 100, fax +372 6059 101 www.keskoagro.com		
<b>SIA Kesko Agro Latvia</b>	71	29
Managing Director Peteris Stupans Vienibas Gatve 93, LV 1058 Riga, Latvia Tel. +371 7 805 420, fax +371 7 805 421 www.keskoagro.com		

### Keswell Ltd

	average personnel in 2002	net sales, EUR million
Valimotie 17, Helsinki FIN-00016 Kesko Tel. +358 10 53031, fax +358 1053 39108 President Matti Laamanen Kesko Sports: Vice President Jussi Mikkola Kesko Musta Pörssi: Vice President Martti Toivanen Kesko Shoes: Vice President Leena Havikari Chain Services: Vice President Pasi Mäkinen	2,455 (incl. subsidiaries)	485

<b>SUBSIDIARIES</b>		
<b>Academica Oy</b>	26	12
Managing Director Jaakko Ryttilä Valimotie 9, FIN-01510 Vantaa Tel. +358 1053 46600, fax +358 1053 46611 www.academica.fi		
<b>Anttila Oy</b>	2,172	437
Managing Director Matti Leminen Valimotie 17, Helsinki, P.O.B. 1060, FIN-00016 Kesko Tel. +358 10 5343, fax +358 1053 40109 www.anttila.fi		
<b>Interwell Oy</b>	46	9
Managing Director Juha Nurminen Valimotie 17, Helsinki, FIN-00016 Kesko Tel. +358 1053 40950, fax +358 9 653 304		
<b>Jättipörssi Oy</b>	58	16
Managing Director Arto Rasi Valimotie 9, FIN-01510 Vantaa Tel. +358 9 7597 1844, fax +358 9 7597 1829		
<b>Motorfeet Ltd</b>	9	2
Managing Director Kati Tersa Valimotie 17, Helsinki, FIN-00016 Kesko Tel. +358 1053 39327, fax +358 9 224 6730		
<b>Kaukomarkkinat Oy</b>		
	average personnel in 2002	net sales, EUR million
President Hannu Närhi Kutojantie 4, P.O.B. 40 FIN-02631 Espoo Tel. +358 9 5211, fax +358 9 521 6641 www.kaukomarkkinat.fi	831	285

**VV-Auto Oy**

	average personnel in 2002	net sales, EUR million
President Erkki Sillantaka	113	450
VV-Auto Oy/Auto-Span Oy Hitsaajankatu 7 B, P.O.B. 80, FIN-00811 Helsinki Tel. +358 9 75 831, fax +358 9 758 3267 www.volkswagen.fi, www.audi.fi, www.seat.fi		

**Other subsidiaries**

	average personnel in 2002	net sales, EUR million
<b>Kesped Ltd</b> Managing Director Mika Salmijärvi Jokiniementie 31, P.O.B. 47, FIN-01301 Vantaa Tel. +358 10 53050, fax +358 1053 27021 www.kesped.fi	224	104
<b>K-Plus Oy/K-Luotto Oy</b> Managing Director Niila Rajala Satamakatu 3 Helsinki, FIN-00016 Kesko Tel. +358 10 53020, fax +358 9 698 6952 www.plussa.com	72/25	88/5

**Finance**

	average personnel in 2002	net sales, EUR million
Executive Vice President, CFO Juhani Järvi Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 10 5311, fax +358 9 657 465	105	
<b>Accounting</b> Vice President, Corporate Controller Teemu Kangas-Kärki Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 10 5311, fax +358 9 624 679	23	
<b>Treasury</b> Treasurer Heikki Ala-Seppälä Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 10 5311, fax +358 9 666 131	23	
<b>Legal Affairs</b> General Counsel Anne Leppälä-Nilsson Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 10 5311, fax +358 9 672 900	4	
<b>IT Management</b> Vice President, Corporate CIO Eero Vesterinen Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 10 5311, fax +358 1053 23460	6	
<b>Kesko Real Estate</b> Senior Vice President Terho Kalliokoski Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 10 5311, fax +358 1053 23481	36	
<b>Strategic Development</b> Vice President Lasse Mitronen Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 10 5311, fax +358 1053 22126	3	
<b>SUBSIDIARIES</b>		
<b>K-Rahoitus Oy</b> Managing Director Jouni Järvinen Tikkurilantie 10, P.O.B. 54, FIN-01301 Vantaa Tel. +358 10 5311, fax +358 1053 20556	6	1

<b>Hämeenkyllän Kauppa Oy</b> Managing Director Jukka Anttila Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 10 5311, fax +358 1053 23425	-	9
<b>Sincera Oy</b> Managing Director Heikki Ala-Seppälä Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 10 5311, fax +358 9 666 131	-	21

**Administration**

	average personnel in 2002	net sales, EUR million
Senior Vice President Riitta Laitasalo Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 10 5311, fax +358 9 657 465	120	
<b>Human Resources</b> Vice President Kyösti Pärssinen Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 10 5311, fax +358 1053 23479	17	
<b>SUBSIDIARIES</b>		
<b>K-instituutti Oy</b> Managing Director Kari Heiskanen Siikajärventie 88-90, FIN-02860 Espoo Tel. +358 10 5311, fax +358 9 863 8571 www.k-instituutti.fi	48	4

**Corporate Communications and External Relations**

	average personnel in 2002
Senior Vice President Erkki Heikkinen Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 10 5311, fax +358 9 174 398	8

**Quality and Risk Management**

	average personnel in 2002
Vice President Asko Ihalainen Satamakatu 3, Helsinki, FIN-00016 Kesko Tel. +358 1053 22046, fax +358 1053 22126	13

**Central Warehouse**

**Central Warehouse 1** (home and speciality goods), Tikkurilantie 5, P.O.B. 145, FIN-01301 Vantaa  
tel. +358 10 5311, fax +358 1053 27505  
**Central Warehouse 2** (groceries), Jokiniementie 31, P.O.B. 152  
FIN-01301 Vantaa, tel. +358 10 5311, fax +358 1053 28517  
**Hämeenkyllä Warehouse** (Anttila), Ainontie 5, FIN-01630 Vantaa  
tel. +358 10 5343, fax +358 1053 39499

**Service numbers**

Plussa customer service +358 800 1 55 818  
- for consumers (Mon-Fri 8.00-18.00 local time)  
- for retailers (Mon-Fri 8.00-21.00, Sat 8.00-18.00,  
Sun when stores open 12.00-21.00)  
www.plussa.com

Kesko Food's consumer service  
(Mon-Fri 9.00-13.00) +358 800 0 1000



# Information for shareholders

## Schedule for financial publications and other key dates in 2003

Annual General Meeting record date	21 March 2003
Closing date for registering in the Annual General Meeting	25 March 2003
Annual General Meeting 2003	31 March 2003
Decisions by the Annual General Meeting 2003 published	31 March 2003
Record date for proposed dividend	3 April 2003
Dividends payable from (Board of Directors' proposal)	10 April 2003
Interim report for the first 3 months of 2003	7 May 2003
Interim report for the first 6 months of 2003	6 August 2003
Interim report for the first 9 months of 2003	5 November 2003

In addition, the Group's sales figures are published monthly.

### Registering in the Annual General Meeting

The Annual General Meeting of Kesko Corporation will be held in the Helsinki Fair Centre's congress wing, Rautatietäisenskatu 3, on 31 March 2003 at 13.00 hrs. Shareholders wishing to attend the Annual General Meeting should notify Kesko Corporation/ Legal Affairs by letter to FIN-00016 Kesko, by fax to +358 1053 23421, by telephone to +358 1053 23211, by e-mail to [taina.lepisto@kesko.fi](mailto:taina.lepisto@kesko.fi), or through the Internet pages at [www.kesko.fi/investorinformation](http://www.kesko.fi/investorinformation), not later than 25 March 2003 at 16.00 hrs. Notifications must be received by the end of the notification period.

### Financial publications

The annual report and interim reports are published in Finnish, Swedish and English. Interim information is published in special sections of the TradeMaker magazine rather than in separate printed reports. The TradeMaker magazine is published in Finnish and English in February, May, August and November.

The annual report, interim reports, monthly sales figures and other key releases are also published on the Group's Internet pages at [www.kesko.fi/pressinfo](http://www.kesko.fi/pressinfo).

Financial statements for 2002 are published in a separate report.

Kesko also publishes a separate report on corporate responsibility in Finnish and English.

### Publications may be ordered from

Kesko Corporation/Corporate Communications  
 FIN-00016 Kesko  
 Tel. +358 1053 22404  
 Fax +358 9 174 398  
 Internet: [www.kesko.fi/materialservice](http://www.kesko.fi/materialservice)

### Changes of address

Shareholders should notify the bank in which they have a book-entry securities account of any change of address.

# Recognition for work

***During 2002, Kesko was given plenty of both national and international recognition for its corporate responsibility work.***

> In May's European Retail Solutions information systems fair in Birmingham, Kesko was honoured as the best introducer of the euro. According to the jury, Kesko's changeover to the euro had been planned accurately and implemented effectively, in a reliable way and with low costs. Information technology was under control, all K-store personnel had been trained and customers were given useful information throughout the changeover period.

> The United Nations' Environmental Programme UNEP and the International Chamber of Commerce ICC placed the K-environmental store diploma, developed by Kesko, the K-Retailers' Association and the Finnish Association for Nature Conservation, among the 10 best partnership programmes in the world. The World Summit Business Award was given during the ceremony in connection with the UN World Summit on Sustainable Development in Johannesburg.

> In the annual comparison by Elinkaari (the Finnish Forum of Environmental Experts), of environmental and corporate responsibility reports in autumn 2002, Kesko was honoured as best overall reporter, just as the year before. Kesko's corporate responsibility report was also awarded as best in the category of separate reports. In the 'Global Reporters Survey' comparison ordered by UNEP and carried out by SustainAbility Ltd Kesko's report was ranked among the TOP 50 in the world and was named the best in the trading sector.

> The shopping centre built by Kesko in the old Forssa weaving mill premises had the honour of being the main venue for the European Heritage Days (EHD) in Finland in September. The Heritage Days honorary mention and plate were awarded to the shopping centre for reforming and developing the environment.

> Kesko's TradeMaker magazine for personnel and stakeholders was awarded as one of the best Finnish personnel magazines in the competition arranged by ProCom, the Finnish Association of Organizational Communicators. The magazine was given praise for highlighting corporate values and strengthening the corporate image.

> Kesko was the winner in the Company Disclosure and Financial Reports 2002 evaluation arranged by HEX Plc and the Helsingin Sanomat newspaper. The results were published in January 2003. Kesko won the category for international companies. The aim of the competition is to promote open and consistent disclosure of stock exchange information and to stimulate general interest in the content and quality of communications. In addition, Kesko's Internet pages were considered the best among Finnish listed companies in the competition arranged by the Finnish Foundation for Share Promotion, the Finnish Society of Financial Analysts and the Talouselämä magazine.



< The United Nations' Environment Programme UNEP and the International Chamber of Commerce selected the K-environmental store diploma as one of the world's ten best partnership programmes at the UN World Summit for Sustainable Development in Johannesburg.



# **KESKO**

*The Trade Maker*

Kesko Corporation, Satamakatu 3  
FIN-00016 Kesko, Helsinki, Finland. Tel. +358 10 5311  
Business ID 0109862-8  
[www.kesko.fi](http://www.kesko.fi)