



# 09

Kesko's year

**KESKO**





## 09

## Contents

## Kesko's year 2009

- 2 Kesko in brief
- 3 Vision and values
- 4 Review by the President and CEO
- 6 Year 2009 in brief
- 8 Strategic objectives
- 12 K-Plussa
- 14 Food trade
- 20 Home and speciality goods trade
- 26 Building and home improvement trade
- 34 Car and machinery trade
- 40 Real estate operations
- 42 Human resources
- 47 K-retailer career
- 48 Corporate responsibility
- 54 Kesko's Corporate Governance
- 66 Board of Directors
- 68 Corporate Management Board

## Financial statements

- 70 Contents
- 71 Report by the Board of Directors
- 78 Group performance indicators
- 86 Consolidated financial statements (IFRS)
- 89 Notes to the consolidated financial statements (IFRS)
- 137 Parent's financial statements (FAS)
- 146 Shares and shareholders
- 154 Information for shareholders
- 155 Information about Kesko for investors
- 156 Contact information
- 158 Glossary

## Kesko in brief

*Kesko is the leading provider of trading sector services and a highly valued listed company. Through its stores, Kesko offers quality to the daily lives of consumers. Kesko has about 2,000 stores engaged in chain operations in the Nordic and Baltic countries, Russia, and Belarus.*

### Our core competence areas

- Development and management of store concepts and brands
- Development, ownership and management of the store site network
- International retail expertise
- Combining retailer entrepreneurship and chain operations efficiently
- Leveraging centralised resources and economies of scale

### Divisions

#### KESKO FOOD | PAGE 14

Kesko Food is a strong operator in the Finnish grocery trade. K-retailers, whose operations are based on the K-retailer business model, are responsible for customer satisfaction at the more than 1,000 K-food stores.

Kesko Food manages K-citymarket's food trade and the K-supermarket, K-market and K-extra chains. Kesko Food's main functions include the centralised purchasing of products, selection management, logistics, and the development of chain concepts and the store site network. Chain operations ensure the efficiency and competitiveness of business.

Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the Finnish HoReCa business. It offers the best sourcing solutions in the sector for its customers.

#### HOME AND SPECIALITY GOODS TRADE | PAGE 20

Kesko's home and speciality goods trade operates in the clothing, home, leisure, home technology, entertainment and furniture product lines. The home and speciality goods trade comprises Anttila Oy, K-citymarket Oy, Intersport Finland Ltd, Indoor Group Ltd, Musta Pörssi Ltd and Kenkäkesko Ltd. The total number of home and speciality goods stores is 450.

#### BUILDING AND HOME IMPROVEMENT TRADE | PAGE 26

Rautakesko operates in the building and home improvement supplies trade in Finland, Sweden, Norway, the Baltic countries, Russia, and Belarus and the agricultural supplies trade in Finland. Rautakesko manages and develops its K-rauta, Rautia, K-maatalous, Bygghälsan, Senukai and OMA retail chains and B2B sales in its operating area. Rautakesko is responsible for the chains' concepts, marketing, sourcing and logistics services, store network, and retailer resources. There are 330 building and home improvement stores in eight countries and 90 agricultural stores in Finland.

#### CAR AND MACHINERY TRADE | PAGE 34

VW-Auto and Konekesko make up the car and machinery trade division.

VW-Auto imports and markets Volkswagen, Audi and Seat passenger cars, and Volkswagen commercial vehicles in Finland, and it also imports and markets Seat passenger cars in Estonia and Latvia. VW-Auto is also engaged in car retailing and provides after-sales services at its own outlets in the Greater Helsinki area and Turku.

Konekesko is a service company specialising in the import and sales of construction, environmental and agricultural machinery, trucks and buses, and recreational machinery. Konekesko operates in Finland, the Baltic countries and Russia. Konekesko arranges the manufacture of and sells Yamarin boats in Finland and exports them to several European countries and Russia.





## Vision

Kesko is the leading provider of trading sector services and a highly valued listed company.

## Values

### THE VALUES GUIDE OUR OPERATIONS:

#### **We exceed our customers' expectations**

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.

#### **We are the best operator in the trading sector**

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

#### **We create a good working community**

We operate in an open, interactive working community where people are respected and every individual can contribute to the full and use his or her initiative.

#### **We bear our corporate responsibility**

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



## Review by the President and CEO

### A year for adjustment

In all of Kesko's business divisions and operating countries, the recession had a major impact on the operating environment of the trading sector and on the willingness of customers to consume.

In 2009, we cut costs and adapted our business according to the prevailing market situation. We also had to decrease the number of employees, particularly in the building and home improvement and in the car and machinery trade.

### POSITIVE PERFORMANCE IN ALL DIVISIONS

The grocery sales of K-food stores increased by 5.6% and clearly exceeded market growth. The popularity of Pirkka products continued. The full reduction in the value added tax on retail sales of food, which took effect in autumn 2009, was implemented in the prices of K-food stores. Kesko Food's return on capital was the best of all times.

In the home and speciality goods trade, sales development during the latter part of the year clearly improved from the previous year. The sales and profitability of K-citymarket and Intersport improved throughout the year. Anttila, too, had brisk Christmas sales that exceeded expectations.

The halt in construction caused by the recession made 2009 a difficult year for the building and home improvement trade in all the operating countries and particularly in business-to-business trade. The building and home improvement segment managed to reduce costs and stocks and keep trade receivables

under control. This contributed to a clear profit despite the recession.

In the car and machinery trade, sales and profits decreased as demand declined. The market share of Audi, Volkswagen and Seat, the brands imported by VV-Auto, increased during the year and the number of new orders grew clearly towards the end of the year.

### AIMING AT PROFITABLE GROWTH

Kesko's solvency, cash flow and liquidity are at an excellent level. A strong balance sheet and good financial standing provide Kesko with opportunities for making investments during recession, too.

When making investment decisions, we take the market situation and customer demand of the particular country into consideration. We will continue to actively develop the store network.

We will continue to investigate opportunities for expanding the food trade into international markets, particularly in Russia.

### K-PLUSA PROVIDES CUSTOMERS WITH DIVERSIFIED BENEFITS

The K-Plussa customer loyalty programme provides total services for every K-retailer, store and chain of the K-Group to better cater for their customers and increase customer satisfaction.

More than 3.6 million Finns now have a K-Plussa customer loyalty card. The K-Plussa customer loyalty programme achieved the landmark of two million households in 2009 after more than 100,000 new households had joined. The K-Plussa network comprises over 3,500 outlets throughout Finland.





By concentrating their purchases, K-Plussa customers get diversified benefits. We utilise customer information obtained with the card when planning store-specific selections, targeting our marketing, and planning the store network.

#### **WE WANT TO BE THE MOST ATTRACTIVE WORKPLACE IN THE TRADING SECTOR**

Kesko and its chains' K-retailer entrepreneurs employ some 45,000 professionals and experts in trade. The wellbeing, competence and improvements in labour productivity of our employees are important to us. We will continue long-term projects in different companies for promoting wellbeing at work. We will improve labour productivity primarily by enhancing the efficiency of operating practices.

The Master Sales Assistant Training, organised by our own training centre, the K-instituutti, is one of the largest annual vocational training events for adults in Finland. The Master Sales Assistant Training was attended by more than 17,000 students in 2009.

#### **WE CONTINUE OUR SUSTAINABILITY WORK AND ARE COMMITTED TO ENERGY SAVINGS**

Kesko has established a top ranking in comparisons measuring the sustainability of international listed companies.

Kesko is included in the Dow Jones sustainability indexes, DJSI World and DJSI STOXX, and also in the FTSE4Good indexes, for example. We also continue on the 'The Global 100 Most Sustainable Corporations'

list published by the World Economic Forum.

We are proud for the appreciation shown by international independent sustainability experts and different assessment institutes towards our work.

This work will continue: we have drawn up a comprehensive responsibility programme for 2008–2012. The programme sets concrete targets, for instance, for combating climate change, wastage reduction, transportation, responsible purchasing and employee wellbeing.

As part of the implementation of the responsibility programme we have signed the trading sector energy efficiency agreement and committed to saving more than 65 GWh by the end of 2016.

#### **THANKS TO EMPLOYEES, SHAREHOLDERS, K-RETAILERS AND ALL BUSINESS PARTNERS**

I wish to extend my warmest thanks to all Kesko employees for their diligence and for a job well done. I would also like to thank all shareholders, K-retailers and their staff, and all our business partners for good cooperation during 2009.

**Matti Halmesmäki**  
President and CEO

*A 12-year-old genetically Finnish red oak was planted in Katajanokka Park, next to Kesko's main office building, at the Fiskars Orange Thumb charity event in October 2009. Kesko's President and CEO **Matti Halmesmäki**, Helsinki Mayor **Jussi Pajunen**, and Fiskars Group President and CEO **Kari Kauniskangas**, the host of the event, all did their part with spades.*

## Year 2009 in brief

- The Kesko Group's net sales from continuing operations totalled €8,447 million (€9,591 million)
- Operating profit excluding non-recurring items was €155.4 million (€217.0 million)
- Profit before tax was €216.6 million (€288.5 million)
- The Kesko Group's earnings per share were €1.27 (€2.24)
- Earnings per share excluding non-recurring items were €0.71 (€1.44)
- The Board of Directors proposes to the Annual General Meeting that €0.90 per share be distributed as dividends for 2009

### Net sales and profit

The deterioration in the general economic situation in 2009 affected sales particularly in Kesko's car and machinery trade and in the building and home improvement trade. Sales growth remained stable in the food trade.

Net sales decreased by 11.9% from the previous year. In Finland, net sales dropped by 7.5% and in other countries by 28.1%.

The K-Group's sales (incl. VAT) to retail and B2B customers were €12,614 million, representing a decrease of 9.1% from the previous year.

Net sales in the food segment increased by 2.4% and the grocery sales of K-food stores increased by 5.6% (VAT 0%) from the previous year. The sales growth of Pirkka products was particularly good. The K-citymarket's sales also performed well and showed an increase of 14.3% in food sales.

Net sales in the home and speciality goods segment decreased by 3.0%. Sales of home electronics and interior decoration items suffered from the weaker economic situation and growing unemployment. Towards the end of the year, however, sales started to pick up. Sales of clothing and sports items increased in particular and Christmas sales were very successful.

In the building and home improvement segment, net sales dropped by 22.4%. In Finland, the decline in net sales can be mainly attributed to the drop in B2B sales. In other countries, the decrease in net sales resulted from lower demand and the weakening of the Swedish krona, the Norwegian krone, and the Russian rouble. The construction market declined substantially in the Nordic and Baltic countries, and in Russia.

In the car and machinery trade, the market remained difficult and net sales decreased by 36.0%. The demand for cars dropped, but Audi, Volkswagen and Seat succeeded in increasing their market share to 18.5% (17.1%). The number of

orders grew towards the end of the year. Konekesko's net sales dropped due to the weakened machinery market and the discontinuation of the Baltic grain and agricultural supplies trade.

### Operating profit well short of the previous year

Operating profit excluding non-recurring items amounted to €155.4 million (€217.0 million). Non-recurring items totalled €77 million and they include a €93 million gain on the sale of properties. Non-recurring expenses include a €14.4 million impairment charge on properties.

The decrease in the operating profit excluding non-recurring items compared with the previous year can be attributed to weakened demand in the building and home improvement trade in particular and in the car and machinery trade.

### Kesko is transferring statutory employee pension insurance to Ilmarinen

Kesko has decided to transfer management of the statutory pension provision and the insurance portfolio to Ilmarinen Mutual Pension Insurance Company in two phases, starting 1 June 2010. The Kesko Pension Fund's statutory employee pension insurance (department B) covers about 8,700 people, and the first phase of the transfer will concern some 3,600 people. The transfer is estimated to have a positive effect on Kesko's cash flow. The transfer is subject to the approval of the Financial Supervisory Authority and the Finnish Competition Authority. The second phase will be implemented at the beginning of 2012 at the earliest.

### Number of shareholders increased

The number of shareholders totalled 38,888 at the end of 2009, an increase of 808 from the beginning of the year. Foreign shareholders owned 30% of the B shares at the end of 2009.



## Performance indicators for 2009

## Key figures

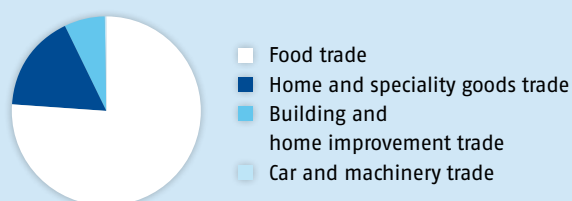
		2009	2008	Changes
Net sales*	€ million	8,447	9,591	-11.9%
Operating profit*	€ million	232	286	-18.7%
Operating profit excl. non-recurring items*	€ million	155	217	-28.4%
Profit before tax*	€ million	217	289	-24.9%
Return on capital employed	%	11.0	15.2	-4.2 pp
Return on equity	%	6.6	12.1	-5.5 pp
Cash flow from operating activities	€ million	379	131	(..)
Investments*	€ million	198	338	-41.5%
Equity ratio	%	54.1	52.4	1.8 pp
Gearing	%	-12.5	2.3	-14.8 pp
Dividend per share	€	0.90**	1.00	-10.0%
Earnings per share, diluted	€	1.27	2.24	-43.1%
Equity per share, adjusted	€	20.39	20.09	1.5%
Personnel, average*		19,184	21,327	-10.0%

\*continuing operations \*\*proposal to the AGM (..) change over 100%

## Net sales by division\*



## Operating profit excl. non-recurring items by division\*



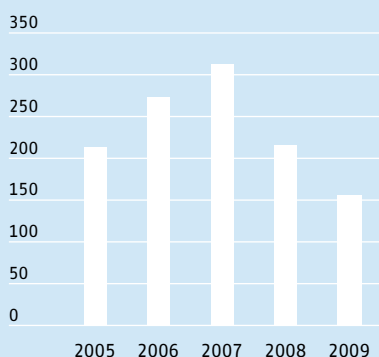
## Group's net sales\*

€ million

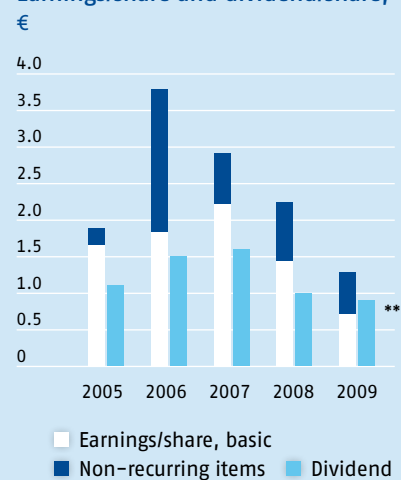


## Group's operating profit\*

excl. non-recurring items, € million



## Earnings/share and dividend/share, €



\*continuing operations \*\*proposal to the AGM



# 09

## Strategic objectives

Kesko is a highly valued listed trading sector company. It manages retail store chains that are valued by customers and efficiently produces services for retail store chains' purchasing, logistics, network development and data management. Kesko's operations include food, home and speciality goods, building and home improvement, and car and machinery trade. Its division parent companies and chains act in close cooperation with retailer entrepreneurs and other partners. Kesko operates in the Nordic and Baltic countries, Russia, and Belarus.

### Strategic objectives

#### HEALTHY, PROFITABLE GROWTH

- Our targeted sales growth exceeds that of the market
- We increase the shareholder value by improving profit
- We implement the strategy of selective internationalisation
- We expand our store network

#### SALES AND SERVICES FOR CONSUMER CUSTOMERS

- Our customer satisfaction exceeds that of competitors
- Retailers' knowledge of local customers' needs is our competitive asset
- We use loyal customer information efficiently in our customer programmes
- We develop e-commerce and services

#### RESPONSIBLE AND COST-EFFICIENT BUSINESS MODELS

- Our operating practices are responsible
- We efficiently combine retailer entrepreneurship and chain operations
- We leverage our economies of scale and competence to the benefit of customers
- We guide our business through efficient data management

### Customer-driven business models





## Objectives include customer satisfaction exceeding that of competitors

### Healthy, profitable growth OBJECTIVES INCLUDE CUSTOMER SATISFACTION EXCEEDING THAT OF COMPETITORS AND INCREASING SHAREHOLDER VALUE

Kesko's key strategic objectives in all store chains include achieving a level of customer satisfaction and sales growth that exceeds the level achieved by competitors. Shareholder value is increased by long-term profitable growth. Objectives also include maintaining good solvency and liquidity in all market conditions. The target return on equity is 12%, while the target return on capital employed is 14%.

### KESKO IMPLEMENTS A STRATEGY OF SELECTIVE INTERNATIONALISATION

The objective is to invest in healthy, profitable growth, while taking the market situation and customer demand into consideration.

Investments in the food trade are directed at expanding and refurbishing the store network in Finland. In addition, expanding business to the Russian market is studied.

In the building and home improvement trade, the international store network will be expanded in the next few years mainly in Russia, with the focus on the retailing markets of the St. Petersburg and Moscow regions. In addition to investments in new store sites, business growth may also be achieved through acquisitions. The Russian market in particular is considered to offer significant long-term growth potential in the home building and decoration trade. Synergy benefits are achieved through joint cat-

egory management and sourcing, which are supported by investments in the joint enterprise resource planning system and centrally directed logistics network.

### Sales and services to consumer customers

#### CUSTOMER SATISFACTION EXCEEDING THAT OF COMPETITORS

The strategic emphasis lies on sales to consumer customers. The objective is to achieve a level of customer satisfaction and sales growth that exceeds the level achieved by competitors. Success in the consumer customer trade requires clear customer and brand promises and the fulfilment of these promises during every store visit.

Customer promises are fulfilled through high-quality and competitively-priced products, a comprehensive store network and good service.

Kesko has dozens of successful chain and product brands that are managed and developed according to customer needs. The objective of brand development work is to increase the value of brands and to improve the efficiency of marketing.

The creation of customer-driven selections and targeted marketing are supported by the K-Plussa customer loyalty system, whose reward and payment card features have undergone reforms in recent years. The K-Plussa customer loyalty programme operates on three levels: benefits granted to customers are either store-specific, chain-specific or provided across the entire K-Plussa network. The objective of the system is to offer significant prod-

Breakdown of Kesko's net sales by business model, %



- Retailer entrepreneurs' retailing 51%
- Kesko's own retailing 27%
- B2B sales 22%

## Financial objectives and their realisation

The objectives announced on 5 Feb. 2009	Target level	Realised in 2009		Realised in 2008
Net sales growth	Growth rate exceeding that of the market	<b>Realised*: Food trade, sports trade, building and home improvement trade (Finland), car and machinery trade</b>		Realised: VV-Auto, Intersport Finland, Kenkäkesko
Return on equity	12%	<b>6.6%, excl. non-recurring items 3.8%</b>	12%, excl. non-recurring items	8.1%
Return on capital employed	14%	<b>11.0%, excl. non-recurring items 7.3%</b>	14%, excl. non-recurring items	10.0%
Interest-bearing net debt/EBITDA	< 3	<b>-0.7</b>		0.1
Equity ratio	40–50%	<b>54%</b>		52%
Economic value added	Growing positive EVA as internal indicator	<b>Not realised</b>		Not realised

\*Kesko's own estimate



uct and service benefits to customers, encouraging them to centralise their purchases in the K-Group. The use of customer information has been enhanced in key business areas. Chains and stores utilise customer information in their selection planning, pricing, marketing and store network planning, for example.

#### **CUSTOMER-DRIVEN BUSINESS MODELS**

The business models applied in Kesko's sales to consumer customers are retailing through retailer entrepreneurs and Kesko's own retailing. Kesko is also engaged in B2B sales.

##### *1) Retailer entrepreneurs' retailing*

The principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in chains managed by Kesko. In Finland, all food and building and home improvement stores in the K-Group are run by retailer entrepreneurs. Through its chain operations, Kesko provides a first-class setting for its retailer entrepreneurs to provide the best possible service to their customers. The K-retailer entrepreneur is responsible for his or her store's customer satisfaction, personnel and business profitability. Good service and knowledge of customer needs provide the K-Group with a competitive edge.

At the end of 2009, Kesko had 1,302 K-retailer entrepreneurs as partners and, in addition, about 250 other retailer partners in the Asko, Sotka, Bygghälsan and Senukai chains. Kesko's sales to retailer partners accounted for 51% of net sales in 2009.

##### *2) Kesko's own retailing*

Kesko acts as a retailer in business operations where the competitive advantage derives from the centrally managed chain concept and large units. Kesko's own retail stores in Finland include the Anttila and Kodin Ykkönen department stores. In addition, Kesko is also responsible for retailing home and speciality goods in the K-citymarket chain. Kesko's own retailing is also the model mainly used in expanding business operations outside Finland. In 2009, Kesko's own retailing accounted for 27% of net sales.

##### *3) B2B sales*

Kesko is engaged in B2B sales in those business operations in which B2B sales support consumer customer sales. Typical business customers include construction companies, agricultural entrepreneurs, the manufacturing industry, institutional kitchens and the public sector. In 2009, Kesko's B2B sales accounted for 22% of net sales.

#### **ELECTRONIC CUSTOMER COMMUNICATIONS AND E-COMMERCE**

The importance of electronic customer communications in trading has increased continuously. Kesko is developing online customer communications and the chains' online trading sites. The objective is to improve customer satisfaction and to increase sales. Kesko has gained a strong position in online sales of home and speciality goods through the NetAnttila, Kodin1.com, Konebox.fi and Budget Sport online stores.

#### **Responsible and cost-efficient business models**

##### **SUSTAINABLE DEVELOPMENT AND RESPONSIBLE OPERATING PRACTICES**

The principles of sustainable development and responsible operating practices are a central part of Kesko's and its chains' daily activities. Consumer customers require the trading sector to take responsibility for products' safety and health effects, and for the environmental and social impact of business operations. The results of responsible operations are reported annually in Kesko's Corporate Responsibility Report.

##### **EFFICIENT COMBINATION OF RETAILER ENTREPRENEURSHIP AND CHAIN OPERATIONS AND BENEFITTING FROM ECONOMIES OF SCALE**

The strategic objective is to efficiently combine K-retailer entrepreneurship and chain operations. K-retailers are responsible for customer service, local selections and fulfilling the customer promise in their stores.

Kesko's efficient chain operations and joint processes provide support to retailers. Chain operations offer the retailer a joint business concept which includes, among other things, chain control related to chain selection, pricing and marketing, and business management support. Joint

chain operations carried out by retailers and Kesko are further enhanced by developing increasingly better tools and business models for the stores. The most important of these are regional and store-specific selections and pricing guidance as well as tools for customer relationship and store personnel management.

Kesko participates in international purchasing cooperation in various product lines, which increases purchasing volumes and efficiency. The most important partnership organisations in which Kesko participates include AMS Sourcing B.V. in the grocery trade, tooMax-x in the building and home improvement trade, Intersport International Corporation in the sports trade, and Electronic Partner International in the home technology trade.

#### **WORK AND PRODUCTIVITY PROGRAMME**

Cost-efficient operations build price competitiveness and customer satisfaction in the retailing sector. Cost-efficiency is also a basic requirement for increasing Kesko's profitability and shareholder value.

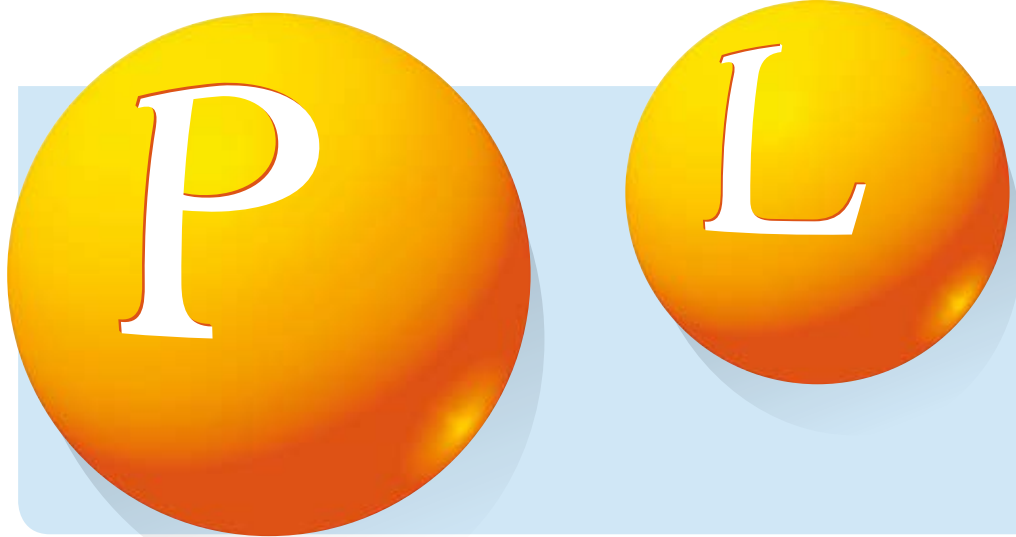
One of the key objectives of the work and productivity programme launched is to increase employees' work productivity in Kesko and the chain stores. The most important tools for improving productivity include increasing personnel competence and the efficiency of operating practices. Promoting the wellbeing of employees has also become an increasingly important factor. Retail stores also focus on enhancing the productivity of store space and inventories.

##### **ELECTRONIC AND AUTOMATED PROCESSES**

A project to automate processes and routines with the goal of improving cost-efficiency is underway in Kesko. Key areas in process automation include logistics automation projects, the forecast systems and automated orders that improve the availability of products in stores, the adoption of electronic purchase and sales invoices, and the automation of financial management routines in the shared services centre of the Kesko Group.

More detailed information on each division's strategic emphases and projects is provided in the division-specific presentations starting on page 14.

## K-Plussa is the biggest customer loyalty programme in Finland



*The widest and most diverse customer loyalty programme in Finland provides K-Plussa customers with benefits from more than 3,500 outlets and over 40 cooperation partners. Local K-retailers and the K-Group chains offer special benefits and services targeted to their K-Plussa customers. K-Plussa customers also get special benefits that are always at least 10% of the normal price. The benefit received in the form of K-Plussa points is up to 5%. In 2009, the K-Plussa customer loyalty programme gained 190,596 new customers and reached the landmark of two million households.*

By concentrating their purchases, K-Plussa customers get benefits and services that are based on their needs and shopping behaviour. The K-Plussa customer loyalty system operates on three levels: benefits granted to customers are either store-specific, chain-specific or provided across the entire K-Plussa network. Targeted marketing communications and special offers as well as electronic channels gained more importance in 2009 at all three levels of the K-Plussa customer loyalty programme.

### Retailer cater for customers

Research has shown that special benefits and services provided by stores for K-Plussa customers increase customer satisfaction and store visits.

Customer information obtained via the K-Plussa card is used in planning store-specific selections and services and in targeting the store's marketing messages. Targeted marketing both in electronic and traditional media is more cost-efficient and often attracts more attention. For example, results obtained from special benefits and events targeted to customers have been extremely good.

### K-Group chains' operations are based on customer information

At the chain level, customer information obtained via K-Plussa is leveraged in network planning and concept development, for example. Chain-level customer information is also useful when building the chains' selections and services to meet the needs of customers as well as possi-

ble. Many chains have built loyalty schemes for their important customer groups, such as Kodin Ykkönen's Ykkösasiakas programme.

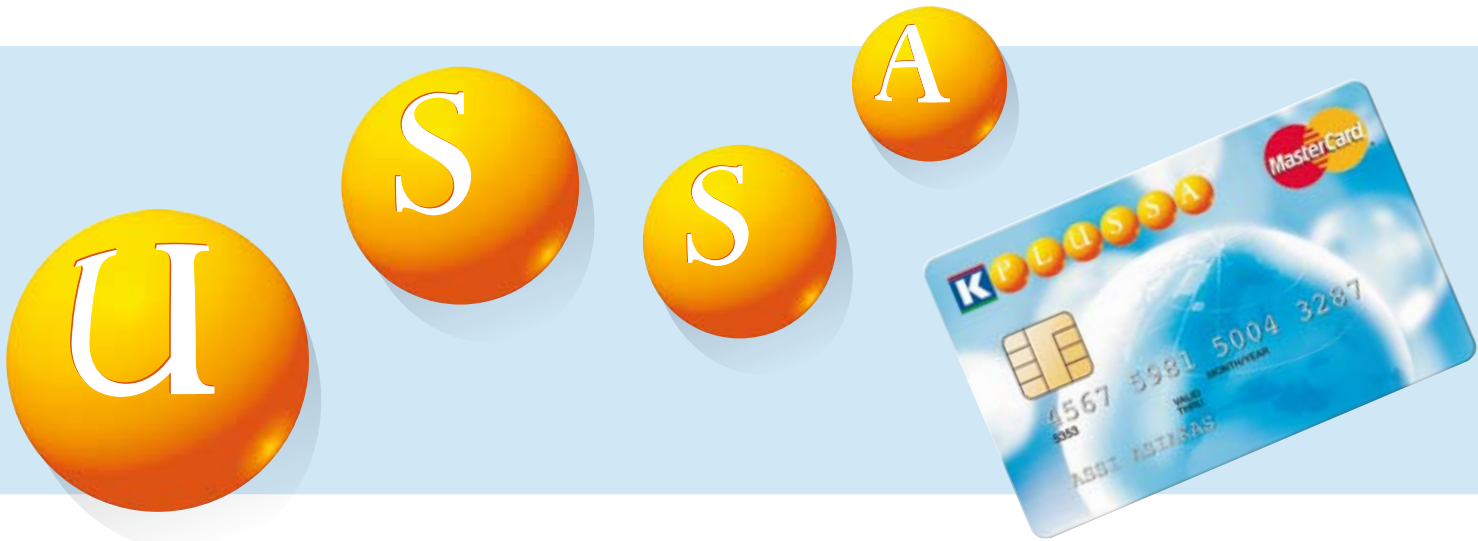
### Benefits for all K-Plussa customers

K-Plussa offers significant benefits available for all customers: each month hundreds of topical K-Plussa offers, which always reward customers with a discount of at least 10%, provided at the checkout. By centralising their purchases in the K-Plussa network, customers receive a reward of up to 5% in the form of K-Plussa points.

A joint benefit launched for all K-Plussa customers shopping at K-food stores in 2009 is the new electronic Nutritioncode service, which enables customers to monitor, free of charge, how healthy their purchases are. The electronic service registers the purchases made by the household in K-food stores and provides the users with information and hints on the nutrition values of the groceries purchased.

The importance of targeted electronic communications continues to grow. Customers who have agreed to electronic marketing receive a K-Plussa e-newsletter once a month. K-Group chains and stores also approach their customers with personal e-mail offers. Customers can deposit their K-Plussa points into their account with any bank.

As a customer benefit, K-Plussa customers receive Pirkka, the most widely read magazine in Finland. Readership of



the Pirkka magazine continued to increase in 2009 (source: the National Readership Survey).

Andiamo Club's electronic customer loyalty card was launched in 2009. Andiamo Club members can download their electronic membership cards to their mobile phones. The card works like a normal plastic loyalty card and the customer's personal K-Plussa data may also be combined with it. Customers can opt to receive new benefits and special offers direct to their mobile phones.

### New partners to the K-Plussa network

The K-Plussa network became increasingly diversified during 2009. In April, more than 100 Instrumentarium outlets throughout Finland joined the K-Plussa network. In addition to the K-stores and the K-Group chains, the K-Plussa network includes over 40 leading operators in their sectors. K-Plussa customers' total benefits have improved considerably during the year and the number of cooperation partners will continue to grow.

2009 brought more K-Plussa card benefits for leisure activities for the whole family. Visits to all Finnish HopLop indoor adventure parks now accrue K-Plussa points. HopLop is the biggest chain of year-round children's adventure parks in the Nordic countries.

Cooperation started between K-Plussa and Flamingo Spa. The Spa, located in the Greater Helsinki Area, comprises a large water park for the whole family and a spa & wellness world for adults. Since the

beginning of 2009, customers have also been able to accrue K-Plussa points from food and beverages served by Center Inn restaurants in Helsinki.

### More than 100,000 new K-Plussa households

In 2009, the K-Plussa customer loyalty programme reached the landmark figure of two million households. More than 3.6 million Finns already have a K-Plussa card. There are nearly 850,000 K-Plussa co-branding cards with OP-Pohjola and Nordea. In 2009, the K-Plussa customer loyalty programme gained 190,596 new customers.

To enable us to develop rewarding and customer programmes, we need a sufficient amount of information about customer relationships and the competence to analyse and leverage this information. K-Plus Oy collects and analyses this information in the K-Group.

Customers' privacy protection is ensured when customer information is collected and made use of. K-Plus Oy processes customers' purchasing data on the sum total or product group level. Anonymous receipt line level purchasing data may also be used. Customer information and programmes play a key role in business planning.

### Wellbeing in the K-Plussa network

*The K-Plussa network became increasingly diversified in April 2009, when consumer customers started to receive K-Plussa points from over one hundred Instrumentarium outlets throughout Finland. Thanks to this cooperation, K-Plussa benefits were extended to include wellbeing products and expertise.*









Kesko Food is a strong operator in the Finnish grocery trade. K-retailers are responsible for customer satisfaction at the more than 1,000 K-food stores. Kesko Food manages K-citymarket's food trade and the K-supermarket, K-market and K-extra chains. Kesko Food's main functions include the centralised purchasing of products, selection management, logistics, and the development of chain concepts and the store site network. Chain operations ensure the efficiency and competitiveness of business. Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the Finnish HoReCa business. It offers the best sourcing solutions in the sector for its customers.

# 09

## Food trade

### Kesko's brands in the food trade



Food segment's net sales

€3,798 million

Food segment's operating profit  
excluding non-recurring items

€133.1 million



## K-food stores focus on food and service



### Customer information as part of high-quality operations

*Customer information and understanding provide the basis for Kesko Food's business development. Leveraging of customer information relies on information produced by K-Plus Oy that is collected locally both at the customer and product group levels. Store- and chain-specific programmes as well as those available across the entire network are developed on the basis of the information to ensure that selections are as suitable and the service experience as good as possible for the customers. Customer information serves as a basis for the development of selections, concepts, network planning and marketing, for example.*

A K-food store is a quality store, which provides customers with the best food ideas and meal solutions at favourable prices. K-food stores operate efficiently and offer the widest and most exciting selections, and have the best fresh produce departments. Every K-food store stocks a wide range of Pirkka products, which are valued by customers, of high quality and sold at permanently low prices. The K-Plus customer loyalty programme rewards customers for centralising their purchases and the K-Plus card also provides versatile benefits. Customer programmes help cater for loyal K-Plus customers on an individual basis. The main purpose of the customer programmes is to locally offer the exact selections and services needed by particular customers.

### Market

The Finnish grocery market totalled some €14.7 billion in 2009, representing a growth of 3–4% from 2008 (own estimate). The increase was biggest in the hypermarkets in the largest size category (over 2,500 m<sup>2</sup>).

In addition to K-food stores, primary operators in the market include Prisma, S-market and Alepa/Sale (S Group), Valintatalo, Siwa and Euromarket (Suomen Lähikauppa Oy), and Lidl. The estimated market share of the K-food stores is 34% (own estimate).

In 2009, the HoReCa market's (hotels, restaurants and catering) purchases in Finland totalled about €2.4 billion (own estimate). Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the Finnish HoReCa business. Kespro's main competitors are Meiranova Oy, Metro Chain and Heinon Tukku Oy. Kespro strengthened its position in 2009 and achieved its best-ever customer satisfaction rate.

### The aim is a satisfied customer

K-food stores are visited by nearly 900,000 customers every day. Successful customer encounters every time are a prerequisite of overall success and are ensured with:

- The widest and most exciting selections, and an extensive selection of new arrivals.

- The best fruit and vegetable, meat and fish, and bread departments.
- High-quality and safe, permanently low-priced Pirkka products. The range now comprises more than 1,800 items.
- The best food expertise, including a diversified supply of recipes and cooking advice.
- The K-Plus customer loyalty programme, which rewards centralisation of purchases. The K-Plus card entitles holders to benefit from diverse special offers.
- The help of customer loyalty programmes, which offer K-Plus customers exactly the selections and services they need locally.
- Responsible operations, including active development of the Pirkka Fairtrade product range.

Favourable prices are a prerequisite for growth and customer satisfaction. The basis for favourable prices is built with the help of the selection that is available throughout the chain, permanently low-priced Pirkka products, the chain's campaigns and store-specific activities. Permanently low prices are reinforced by efficient practices all the way from customer to supplier, chain operations and long-term cooperation models with selected partners.

Considerable benefits are obtained both in Finland and internationally by combining purchasing volumes. Kesko Food is a member of the international sourcing alliance, Associated Marketing Services (AMS), that has rapidly expanded. Other major members of AMS include Ahold, Dansk SG, ICA, Migros and Système U.

### K-retailers are responsible for customer satisfaction

Local K-retailers are responsible for the customer service, competence of personnel, quality, and profitability of business. Making use of customer data, the retailer builds a selection and service that meets customer needs, offering, for example, food from local producers to complement joint selections of the chain.

In order to ensure high quality, K-food stores have their own quality system. Its

objective is to ensure continuous development of the operations of the store and the whole chain to best serve the customers. The system includes measuring customer satisfaction and the store's condition, and assessing price control and management. The best retailing competence is maintained with the help of constant training in cooperation with the K-instituutti, the K-Group's training centre.

Efficient cooperation between Kesko Food and the K-food retailer is based on the chain operations defined in the chain agreement. Chain operations ensure customer-orientation, operational efficiency, competitiveness and the attainment of competitive advantages.

### High-quality Pirkka products are K-food stores' strength

Pirkka products combine quality and low prices. The total number of Pirkka products reached 1,826 by the end of the year. According to consumer studies, customers feel that Pirkka products are an easy and safe choice because of their high quality and low price.

The Pirkka range also includes Pirkka Organic and Pirkka Fairtrade products. There are now more than 40 Pirkka Organic and nearly 30 Pirkka Fairtrade products.

The quality of Pirkka products is assured by Kesko Food's own Pirkka Product Research Unit, which carefully analyses all new Pirkka products. The research unit's laboratory has the ISO 17025 accreditation, an international recognition of competence. It is the only ISO 17025 accredited laboratory in Finland responsible for the quality assurance of own-brand products in the trading sector.

All Kesko Food's own recipes have been developed and tested by the Pirkka test kitchen, which is part of the Pirkka Product Research. Diverse recipes are published in the Pirkka magazine, which is mailed to K-Group loyalty customers, in the online cookery book on Pirkka.fi, in the K-RuokaPirkka leaflet that is published monthly and available at all K-food stores, on the TV programme "What are we having today?", and on Pirkka product packaging.

### Quality guaranteed by the letter K and the chain concepts

Strong chain concepts guarantee the high quality of K-food stores. Kesko Food's chain operations provide K-retailers with a strong basis for purchasing, building selections, marketing and price competition.

**K-citymarkets** offer their customers the most diversified selections of groceries and home and speciality goods. Their special strengths include fresh bread, fruit and vegetables, a diversified supply of foods, and exiting departments with their displays. K-citymarkets provide their customers with a low-priced shopping basket and the best offers – every day.

There are 69 K-citymarkets in Finland in 51 towns. Five new K-citymarkets were opened in 2009.

The **K-supermarkets'** strength is excellent service. In addition to the retailer and other staff, customers are also served by over 160 employees with a specialist food manager qualification. These meat and fish experts provide customers with cooking tips and advice. K-supermarkets are better than the average food stores and offer wide selections of food items at competitive prices.

The chain consists of 170 stores. In 2009, four new K-supermarkets were opened.

**K-markets** are reliable, service-oriented and local neighbourhood stores located near to customers. In addition to good basic selections, K-markets offer customers fresh bread straight from the store's oven, fresh, high-quality fruit and vegetables, and the best local services.

The chain comprises 487 stores. 15 new K-markets were opened in 2009.

**K-extras** are neighbourhood stores which focus on personal service and provide customers with daily essentials. Additionally, as the name implies, many K-extras located in the countryside offer extra services, such as the sale of agricultural and builders' supplies, fuel distribution, lottery and postal services.

The chain comprises 189 stores.



### Everyone has a favourite in the diversified Pirkka range

*The "My favourite" campaign encouraged Finns to vote for their Pirkka favourites in August 2009. The campaign site was visited more than 500,000 times and over 190,000 votes were cast. The fun campaign focused on the diversity of the Pirkka range in everyday food solutions. The range now comprises over 1,800 products. The number one favourite among Finns was the Pirkka AB rye nut yoghurt.*



### High-quality Pirkka products are tested and safe

*All new Pirkka products are carefully analysed by Kesko Food's own Pirkka Product Research. The unit was awarded the ISO 17025 accreditation, an important international recognition for competence, in March 2009 as the only laboratory in Finland responsible for quality assurance for the trading sector's own brands. The Pirkka Product Research includes the Pirkka test kitchen, which creates and tests recipes for everyday and special purposes alike.*

### Development of the store network continues

At the end of 2009, there were 1,030 K-food stores, catering for various consumer needs ranging from daily local services to the wide range of clothing and other home and speciality goods stocked by hypermarkets. The K-food store network is the most comprehensive in Finland. 51% of Finns live less than a kilometre away from a K-food store. The K-Group's neighbourhood store network is the most comprehensive in Finland. The total number of K-markets and K-extras is 676.

Kesko Food develops the K-food store network by investing in stores of all sizes. The constant development of the network is required to meet the needs of ageing stores, expanding selections, new services and migration.

### Year 2009

The food segment's net sales totalled €3,798 million in 2009, an increase of 2.4%. The operating profit excluding non-recurring items amounted to €133.1 million, which is €10.5 million up on the previous year.

The value added tax on retail sales of food was reduced at the beginning of October. Kesko Food and K-food retailers undertook to implement the reduction in full on food prices. The price monitoring survey published by the National Consumer Research Centre in November verified that at K-food stores food prices decreased even more than the VAT cut. Due to the reduction, K-food stores changed more than 6 million prices. A family who spent about €5,000 on food per year before the VAT decrease will now save €215 a year.

The Act to extend retail store opening hours came into force at the beginning of December. The amendment meant that

another 400 K-food stores would be able to benefit from extended Sunday opening hours. The total number of K-food stores is 1,030. For customers, this means much better accessibility to retail services. The fact that the stores no longer have to stay closed one day a week also improves efficiency and reduces waste, because total demand is easier to predict.

During the year, five new K-citymarkets, four K-supermarkets, and 15 K-markets were opened. A total of 25 new food stores were opened, one of which replaced an existing store. Several K-food stores were also extended and renovated in 2009.

### Objectives and strategic emphases

Kesko Food's key objective is to increase market share. The implementation of Kesko Food's strategy aims at growth faster than the market, increased customer satisfaction and competitiveness. Kesko Food's opportunities for internationalisation are also being actively investigated, particularly in Russia.

Kesko Food's key strategic focuses include increasing the efficiency of operations and enhancing electronic customer communications. Automated processes play a central role in increasing the efficiency of operations. In addition to more targeted information on the products and services available at K-food stores, electronic customer communications also provide customers with new methods of handling their customer relationship matters online. Opportunities for food retailing online are also being explored. The premise is that the retailing sector and electronic transactions should support customer needs and make shopping easier.



## Competitors

### Finland, market share 34%

#### (own estimate)

Competitors: Prisma, S-market and Alepa/Sale (S Group), Valintatalo, Siwa and Euro-market (Suomen Lähikauppa Oy) and Lidl

### HoReCa, Finland, Kespro

Competitors: Meiranova Oy, Metro Chain, Heinon Tukku Oy

## K-Group's food trade, retail and B2B sales

	Number		Sales (incl. VAT) € million	
	2009	2008	2009	2008
K-citymarket, groceries	69	64	1,412	1,249
K-supermarket	170	163	1,633	1,580
K-market (incl. service station stores)	487	490	1,502	1,494
Others	304	338	344	362
<b>K-food stores, retail sales</b>			<b>4,891</b>	<b>4,685</b>
Kespro			811	837
<b>Food trade, total</b>	<b>1,030</b>	<b>1,055</b>	<b>5,703</b>	<b>5,521</b>

## Food segment's key figures, continuing operations

		2009	2008
Net sales	€ million	3,798	3,707
Operating profit	€ million	170.6	185.5
Operating profit excl. non-recurring items	€ million	133.1	122.5
Operating profit as % of net sales excl. non-recurring items	%	3.5	3.3
Investments	€ million	69.4	139.7
Return on capital employed* excl. non-recurring items	%	20.9	19.3
Personnel average		3,035	3,440

\* cumulative average

## Food segment's net sales, continuing operations

	€ million	change, %
K-citymarket	854	12.1
K-supermarket	1,001	3.7
K-market and K-extra	1,067	-2.5
Kespro	677	-2.6
Others	199	4.1
<b>Net sales, total</b>	<b>3,798</b>	<b>2.4</b>

## Food segment's capital employed at 31 December, € million

	2009	2008
Non-current assets	632	704
Inventories	90	91
Short-term receivables	371	380
./. Non-interest-bearing debt	-489	-510
./. Provisions	-8	-8
<b>Capital employed**</b>	<b>596</b>	<b>657</b>

\*\* capital employed at the end of month







# 09

## Home and speciality goods trade

Kesko's home and speciality goods trade operates in the clothing, home, leisure, home technology, entertainment and furniture product lines. The home and speciality goods trade comprises Anttila Oy, K-citymarket Oy, Intersport Finland Ltd, Indoor Group Ltd, Musta Pörssi Ltd and Kenkäkesko Ltd. The total number of home and speciality goods stores is 450, of which 199 are owned by Kesko.

Kesko's brands in the home and speciality goods trade

**ANTTILA**

**K CITYMARKET**

**NETANTTILA.COM**

**KODINYKKÖNEN 1**

**INTERSPORT**

**kesport**

**budget  
sport**

**ASKO**

**SOTKA**

**MUSTA  
PÖRSSI**

**KONEBOX**

**ANDAMO**

**K-KENKÄ**



Home and speciality goods  
segment's net sales

**€1,558 million**

Home and speciality goods  
segment's operating profit  
excluding non-recurring items

**€29.5 million**



## Diversified selections and well-known brands



### Market and the operating environment

Kesko's home and speciality goods trade comprises well-known store concepts with a strong position in the hypermarket, department store, speciality store and online sales. The Finnish total market of home and speciality goods is estimated to be approximately €10 billion.

The economic recession has highlighted the importance of price. Customers are looking for opportunities to save and campaigns have become more and more important. In 2009, there were differences in the market development of various product lines in the home and speciality goods trade. Consumer demand for sports goods increased, while demand for home electronics and interior decoration items in particular declined.

The estimated market of home interior decoration and furniture is €1,800 million, representing a decrease of 5–10% from the previous year.

The market for home electronics and entertainment is estimated to total some €2,000 million, representing a change of about –13%.

The estimated sports trade market totals €900 million and increased by some 5% from the previous year.

The value of the shoe trade market declined by some 3–4% from the previous year.

### Year 2009

Since the beginning of 2009, Anttila Oy, K-citymarket Oy, Intersport Finland Ltd, Indoor Group Ltd, Musta Pörssi Ltd and Kenkäkesko Ltd have been reported in the

home and speciality goods segment. During the year, Anttila, K-citymarket's home and speciality goods and other Group's home and speciality goods companies intensified their cooperation. The objective of the cooperation is to improve competitiveness by defining the companies' joint strategy, developing retailing expertise on a centralised basis and ensuring that customers find the concepts interesting. Synergy benefits are sought, above all, in purchasing, in the development of the store network and through uniform, efficient business processes.

Kesko's net sales of home and speciality goods totalled €1,558 million in 2009, a decrease of 3.0%, which can be attributed to the deteriorated financial situation and the increase in unemployment. The combined retail sales of home and speciality goods stores were €2,050 million, a decrease of 3.1%.

The operating profit of the home and speciality goods trade excluding non-recurring items was €29.5 million, representing a decrease of €1.7 million from the previous year.

### Objectives and strategic emphases

Changes in the financial situation and consumption habits are strongly reflected in the home and speciality goods trade. Internationalisation and formation of chains will strengthen competition, and successful chains are based on efficient business models. Seasons and collections change faster than ever, while product series become smaller and their life cycles shorter.

The cooperation of the Kesko Group's home and speciality goods companies started in 2009 will be further intensified.

The K-Group's home and speciality goods trade aims to be a market leader in selected product lines. This will be achieved by enhancing store concepts and selections, by increasing the cost-efficiency of operations chains and the staff's sales and service competence.

### Hypermarket trade – K-citymarket

K-citymarket is a diversified and favourably-priced hypermarket chain, which offers its customers wide selections of groceries and home and speciality goods. K-citymarket Oy is responsible for the home and speciality goods business in these stores, while K-retailer entrepreneurs are responsible for the food business. There are 69 K-citymarkets in Finland.

K-citymarkets offer their customers up-to-date, frequently changing selections of everyday goods, quickly and at low prices. Key success factors include chain management and marketing combined with efficient, centralised purchasing and logistics. K-citymarket Oy's operations are based on long-term strategy and systematic leveraging of customer information in operations management.

The K-citymarket chain has approximately 60 million customer visits per year and a staff of some 5,700 employees in customer service.





### YEAR 2009

In 2009, the net sales of K-citymarket's home and speciality goods totalled €595 million, which represented an increase of 5.1%. K-citymarket Oy's retail sales amounted to €699 million.

In 2009, five new K-citymarket hypermarkets were opened: in Ylöjärvi, in the Skanssi shopping centre, Turku, in Kirkkonummi, in Linnainmaa, Tampere, and in Koivukylä, Vantaa.

### Department store trade – Anttila

Anttila retails entertainment, fashion and home goods. The multi-channel Anttila has 29 Anttila department stores and two smaller speciality stores in Finland. The nine Kodin Ykkönen department stores for interior decoration and home goods are complemented with the Kodin1.com online store. NetAnttila is engaged in distance sales in Finland, Estonia and Latvia.

Anttila department stores provide diversified selections of leisure items, clothing and home goods combined with a low price level and friendly service. The TopTen departments are the largest retailer of music, movies and multimedia in Finland, and a major seller of information technology and electronics.

Kodin Ykkönen provides a superior selection and services for home decorators.

For several years, NetAnttila has been the best-known and most popular online department store in Finland. It offers a pioneering position, ease and reliability of shopping as well as low prices and wide selections.

### YEAR 2009

Anttila's net sales were €513 million in 2009, a decrease of 8.0%. Retail sales of Anttila department stores totalled €368 million in 2009, a decrease of 6.1%. Retail sales of Kodin Ykkönen department stores for interior decoration and home goods totalled €161.2 million, down by 10.7%. Sales of NetAnttila amounted to €97.3 million, a decrease of 14.3%, which can be attributed particularly to the drop in the Latvian market.

In 2009, a new Anttila department store was opened in the Skanssi shopping centre, Turku and a new Kodin Ykkönen department store in Lielähti, Tampere.

### Sports trade – Intersport Finland

Intersport Finland's retail store chains are Intersport, Budget Sport and Kesport. Intersport Finland is responsible for the marketing, sourcing and logistics services, store network and retailer resources of the chains. There are 57 Intersport stores, five Budget Sport stores and 37 Kesport stores in Finland, of which 91 are owned by retailer entrepreneurs and eight by Intersport Finland.

Intersport is part of the international sports chain. The Intersport chain is the market leader in Finnish sports retailing. Intersport's strengths include the chain's high reliability and recognition among customers, wide and diversified selections, and its expert and service-minded staff.

Budget Sport is a sports store format, which is based on low prices and the cost-effective business concept. It offers

the sector's largest selections in outdoor activity-related product groups.

The Kesport stores are located in smaller rural centres and are the leading sports stores in their areas.

Kesko is a partner of Intersport International Corporation.

### YEAR 2009

The net sales of Intersport Finland were €165 million in 2009, representing an increase of 4.3%. The combined retail sales of Intersport, Budget Sport and Kesport stores were €305.8 million, up by 5.7%.

In 2009, new Intersport stores were opened in Ylöjärvi and in the Skanssi shopping centre, Turku. A new Budget Sport outlet was opened in Oulu, and the Budget Sport online store was launched to complement the network.

### Furniture trade – Indoor

Indoor is a furniture and interior decoration retailer, which runs Askö and Sotkä chains in Finland and the Baltic countries. There are a total of 83 stores in Finland, two in Latvia and seven in Estonia. In Finland, 56 of the stores are owned by Indoor, while 26 operate as a franchise.

Askö provides quality- and brand-conscious home decorators with an up-to-date and competitive product range combined with the best service in the sector, ease of purchasing and delivery accuracy.

Sotkä offers consumers who value low prices with a competitive range combined with high delivery accuracy and quick and easy shopping.



### International recognition for Kenkäkesko and Andiamo

*Kenkäkesko and Andiamo received international recognition and attention for The K.E.N.K.Ä 09 shoe design contest targeted for the young. They ranked fourth in the Retail/Direct Sales/Consumer category of the ECHO Awards, the direct marketing competition organised by DMA, and received the ECHO LEADER AWARD 2009.*

### YEAR 2009

Indoor's net sales totalled €155 million in 2009, down 12.4%. The combined retail sales of the Asko and Sotka chains in Finland were €190 million, a decrease of 5.9%.

In Finland, new Asko stores were opened in Lielähti, Tampere and in Savonlinna. The Sotka stores in Mäntsälä and Valkeakoski were closed. In Riga, Latvia, the Asko and Sotka stores located in the Alfa shopping centre were closed.

Both of the chains implemented comprehensive training programmes developing sales and customer service skills of the whole staff. The chains' cost-efficiency was enhanced and the efficiency of logistics was improved by concentrating all warehousing and terminal operations to an external operator.

### Home technology trade – Musta Pörssi

The Musta Pörssi and Konebox chains provide home technology products and services.

The Musta Pörssi chain of speciality stores offers its customers home technology products that make housework easier, enhance communications and provide entertainment. In addition, Musta Pörssi offers a comprehensive range of product-related services and customers can choose to have the home technology installed so that it's ready to use. The Musta Pörssi chain celebrated its 30th anniversary in 2009.

The chain consists of 53 stores specialising in home technology, of which 50 are owned by retailer entrepreneurs and three by Musta Pörssi Ltd.

On the home technology market, the Konebox.fi online store competes with quality products, their good availability and low prices, and round-the-clock opening. The prices are based on efficient logistics and warehousing combined with the online store's self-service.

### YEAR 2009

The net sales of Musta Pörssi Ltd were €107 million, representing a decrease of 12.5%. The combined retail sales of the Musta Pörssi and Konebox stores were €154 million and, a decrease of 15% from the previous year.

Besides the decline in consumer demand, the decreasing sales can be attributed to the decrease in the average prices of consumer electronics and transferring company-owned stores under retailer ownership. In 2009, new Musta Pörssi stores were opened in Lielähti, Tampere and in the Levi Centre, Kittilä. In addition, a new Konebox store was opened in Porttipuisto, Vantaa.

### Shoe trade – Kenkäkesko

Kenkäkesko's retail store chains are K-kenkä and Andiamo.

K-kenkä is a shoe store for the whole family, offering its customers a wide selection of branded footwear and expert service.

Andiamo's main target group is trendy and fashion-conscious shoppers, for whom the store offers a fashionable selection of shoes that is constantly being updated.

The K-Group's speciality shoe outlets also include the Kenkäexpertti stores which operate in smaller towns.

There are 55 chain stores in all: 35 K-kenkä, 16 Andiamo and four combined Andiamo/K-kenkä stores. There are also 34 Kenkäexpertti stores, which operate outside the chains.

### YEAR 2009

The net sales of Kenkäkesko were €24 million in 2009, a decrease of 7.9%. The sales of the Andiamo and K-kenkä stores declined by 3.0%, and the combined sales of all of the K-Group's speciality shoe stores amounted to €58.3 million.

In 2009, two new K-kenkä stores were opened, one in the Elo shopping centre, Ylöjärvi and one in the Skanssi shopping centre, Turku.

## Market shares and competitors

### Hypermarket and department store trade

K-citymarket, Anttila, Kodin Ykkönen and NetAnttila

Market share cannot be reliably calculated

Competitors: department stores, hypermarkets, speciality store chains and online stores

### Sports trade

Intersport, Budget Sport and Kesport

Market share 34% (own estimate)

Competitors: Sportia, Top Sport, Stadium, department stores and hypermarkets, and other speciality sports stores

### Furniture trade

Asko and Sotka

Market share in Finland about 17% (own estimate)

Competitors: furniture and interior decoration stores

### Home technology trade

Musta Pörssi and Konebox

Market share 9% (own estimate)

Competitors: stores specialised in home technology, hypermarkets and online stores

### Shoe trade

K-kenkä, Andiamo, Kenkäexpertti

Market share 10.5% (Association of Textile and Footwear Importers and Wholesalers and own estimate)

Competitors: other speciality stores, department stores, hypermarkets, sports stores and online stores

## K-Group's home and speciality goods trade, retail and B2B sales

	Number		Sales (incl. VAT), € million	
	2009	2008	2009	2008
Anttila department stores	31	30	370	393
Kodin Ykkönen department stores for interior decoration and home goods*	10	9	161	181
Distance sales (mail order and NetAnttila)	1	1	86	93
K-citymarket, home and speciality goods	69	64	699	666
Asko	33	32	91	94
Sotka	50	52	99	109
Intersport	57	57	243	233
Budget Sport*	6	5	32	26
Kesport	37	38	31	31
Musta Pörssi	53	54	145	180
Konebox*	3	2	10	3
Shoe stores	89	94	58	62
<b>Home and speciality goods stores, Finland</b>	<b>439</b>	<b>438</b>	<b>2,026</b>	<b>2,070</b>
Anttila, Baltic countries	2	2	11	17
Indoor, Baltic countries	9	13	13	26
<b>Home and speciality goods stores, Baltic countries</b>	<b>11</b>	<b>15</b>	<b>24</b>	<b>43</b>
<b>Home and speciality goods trade, total</b>	<b>450</b>	<b>453</b>	<b>2,050</b>	<b>2,113</b>

\* incl. online sales

## Home and speciality goods segment's key figures, continuing operations

		2009	2008
Net sales	€ million	1,558	1,606
Operating profit	€ million	66.5	63.6
Operating profit excl. non-recurring items	€ million	29.5	31.2
Operating profit as % of net sales excl. non-recurring items	%	1.9	1.9
Investments	€ million	29.6	60.5
Return on capital employed* excl. non-recurring items	%	5.8	6.2
Personnel average		5,666	5,801

\* cumulative average

## Home and speciality goods segment's net sales, continuing operations

	€ million	change, %
K-citymarket, home and speciality goods	595	5.1
Anttila	513	-8.0
Intersport	165	4.3
Indoor	155	-12.4
Musta Pörssi	107	-12.5
Kenkäkesko	24	-7.9
<b>Total</b>	<b>1,558</b>	<b>-3.0</b>

## Home and speciality goods segment's capital employed at 31 December, € million

	2009	2008
Non-current assets	304	345
Inventories	223	257
Short-term receivables	174	156
./. Non-interest-bearing debt	-260	-246
./. Provisions	-8	-7
<b>Capital employed**</b>	<b>434</b>	<b>504</b>

\*\* capital employed at the end of month



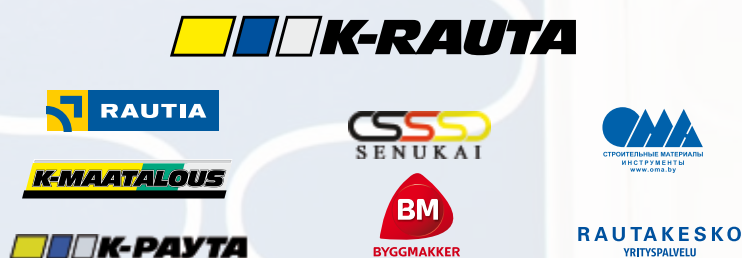


# 09

## Building and home improvement trade

Rautakesko operates in the building and home improvement supplies trade in Finland, Sweden, Norway, the Baltic countries, Russia, and Belarus and the agricultural supplies trade in Finland. Rautakesko manages and develops its K-rauta, Rautia, K-maatalous, Bygghälsan, Senukai and OMA retail chains and B2B sales in its operating area. Rautakesko is responsible for the chains' concepts, marketing, sourcing and logistics services, store network, and retailer resources. There are 330 building and home improvement stores in eight countries and 90 agricultural stores in Finland.

### Kesko's brands in the building and home improvement trade



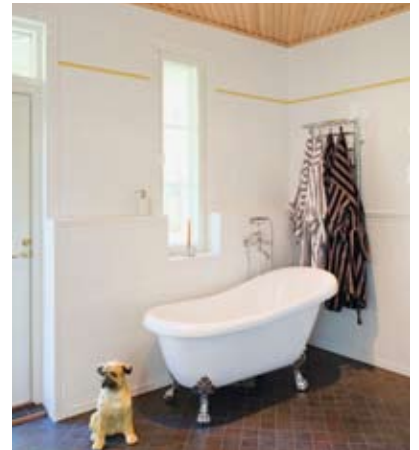
Building and home improvement segment's net sales

€2,312 million

Building and home improvement segment's operating profit excluding non-recurring items

€11.9 million

## Products and services for building, interior decoration and agriculture



### The building and home improvement market

Rautakesko aims to be the leading service provider in the building and home improvement trade. Rautakesko's building and home improvement store chains K-rauta, Rautia, Bygghälsan, Senukai and OMA serve both consumer and professional customers. Consumer customers mainly comprise home, leisure home and yard builders, renovators and interior decorators. Important professional customers include construction companies, the manufacturing industry and public institutions.

In terms of its chains' retail sales, Rautakesko is one of the five largest companies in the European building and home improvement market. The principal European competitors operating in Rautakesko's market area are Castorama (Kingfisher Group), Leroy Merlin (Groupe Adeo), DT Group, Bauhaus, Hornbach and OBI. Rautakesko is a partner in tooMax-x, a purchasing alliance. Rautakesko's partnership in tooMax-x made it the third largest European sourcing channel for home building and interior decoration items.

The total retail market of this sector in Rautakesko's operating area amounts to some €28 billion. It is estimated that the overall market change in the 2009 building and home improvement trade in the Baltic countries was -30%, in Norway -10%, in Sweden -5%, in Finland -15%, and in Russia -25%. The main reason for the decrease in demand has been the

strong decline in the construction market, resulting from the recession.

Retail sales of Rautakesko's chains totalled €3,778 million (incl. VAT) in 2009, a decrease of 18.0% from the previous year.

**In Finland**, the retail market in the building and home improvement sector totals some €3.4 billion and declined by 14.8% in 2009 (Finnish Hardware Association, DIY). The K-Group's market share in this sector was some 38% (Finnish Hardware Association, DIY, own estimate).

In Finland, Rautakesko operates the K-rauta and Rautia retail chains and Rautakesko B2B Sales which serves construction companies, the manufacturing industry and other professional customers. Rautakesko also provides services at 33 customer contract stores operating outside the chains.

The K-rauta chain consists of 42 stores, with some 70% of sales going to consumers. The Rautia chain consists of 107 stores, 50 of which also operate as K-maatalous stores, engaged in the agricultural trade. The emphasis in the sales structure of Rautia is more on basic building products. All Finnish chain stores are run by retailer entrepreneurs.

The combined sales of the K-rauta and Rautia chains, Rautakesko B2B Sales and K-customer contract stores in Finland were €1,484 million (incl. VAT), a decrease of -18.0%. The principal competitors in Finland are Starkki, Terra, S-rauta and Agrimarket, and Bauhaus.





**In Sweden**, the building and home improvement market totals some €3.8 billion (SCB). In 2009, the market declined by about 5% (SCB).

At the end of 2009, Rautakesko had 19 K-rauta stores of its own and one retailer-owned store in Sweden. Retail sales of K-rauta stores in Sweden totalled €235 million (incl. VAT), a growth of 0.7%. Rautakesko's market share is about 6% (own estimate).

Private customers account for around 85% of K-rauta clientele. Principal competitors are Bauhaus, Bygghuset, DT Group, and local speciality stores.

**In Norway**, the building and home improvement market totals some €4.7 billion (TBF), down by about 10% in 2009 (TBF).

Bygghuset Norge AS, which is owned by Rautakesko, manages the Bygghuset chain of 113 building and home improvement stores, 15 of which are owned by Bygghuset. Other stores in the chain are owned by retailer entrepreneurs who have chain contracts with Bygghuset. Retail sales of the chain's stores totalled €963 million (incl. VAT) in 2009, a decrease of 13.8% from the previous year. Rautakesko's market share in Norway is about 17% (TBF). More than half of all sales are to professional customers. Rautakesko's competitors are Monter/Optimera (Saint Gobain), Maxbo and Coop.

**In Estonia**, the building and home improvement market totals some €0.4 billion (own estimate) and in 2009 the market decreased by 20% (own estimate).

Rautakesko has nine building and home improvement stores in Estonia. Their retail sales totalled €76 million (incl. VAT) in 2009, a decrease of 21.4%. Professional customers account for some 59% of all customers. Rautakesko's market share in Estonia is about 20% (own estimate). Rautakesko's competitors are Ehitus ABC (Saint Gobain), Bauhof and Espak.

**In Latvia**, the building and home improvement market totals approximately €0.4 billion (CSB), a decrease of 30–40% in 2009 (CSB). Rautakesko has nine K-rauta stores of its own in Latvia. Retail sales of K-rauta stores totalled €61 million (incl. VAT) in 2009, a decrease of 30.3%. It is estimated that Rautakesko's market share in Latvia is 16% (own estimate). Rautakesko's competitors are Depo DIY and Kursi.

**In Lithuania**, the building and home improvement market totals some €0.4 billion (own estimate) and it decreased by 40–50% in 2009 (own estimate). In Lithuania, Rautakesko has the majority shareholding in UAB Senukai prekybos centras, which is the market leader in the Lithuanian building and home improvement sector with a share of about 25%. The Senukai chain, which sells to both consumers and business customers, comprises 16 stores of its own, a logistics centre and 60 partner stores. Senukai's retail sales totalled €311 million (incl. VAT) in 2009, a decrease of 41.6%. Its competitors include local building supplies outlets and speciality stores.



### Own brands continue to grow

*The strong development of Rautakesko's own international brands continued. Cello, Prof, Fiorin and FXA offer a reliable and affordable solution for the building and renovation needs of both consumer and professional customers. Major launches in 2009 included Cello exterior paints and Cello storage systems.*

*In 2010 own brands will focus on improving the efficiency of selections and increasing international coverage. The web service of the Cello brand will be enhanced to make a channel which serves customers better.*



*Through its cooperation with tooMax-x, Rautakesko also participates in the charity work carried out by Eurogroup. In 2009, a school for over one thousand pupils, built as a cooperation project, was opened in Southern China. The Eurogroup organisation also provides training and consultation to various operators and carries out audits on factories in the Far East.*

*Rautakesko adopted a policy on ensuring origin and traceability of timber and wood products in October 2009. Rautakesko accepts the FSC and PEFC certification systems and is committed to the principles of responsible sourcing. Rautakesko's aim is to always ensure origin and traceability of the timber and wood products purchased and sold by the company.*

**In Russia**, the building and home improvement market totals some €14 billion (own estimate), a decrease of about 25% in 2009 (Ros Business Consulting and own estimate). There are 10 K-rauta stores in Russia and their retail sales totalled €200 million (incl. VAT) in 2009, a decrease of 16%. Rautakesko's market share in Russia is about 2.0% (own estimate). Rautakesko's competitors are Leroy Merlin, OBI, Castorama, Maxidom and Metrica.

**In Belarus**, the building and home improvement market totals some €1.0 billion (own estimate). OMA, the company acquired by Senukai in Belarus in July 2007, has four stores. Their retail sales amounted to €62 million (incl. VAT) in 2009, representing a decrease of 26.6%. The market share of OMA is about 5% of the total market (own estimate).

### Agricultural trade market

Kesko Agro Ltd's business operations were reorganised at the beginning of 2009. The K-maatalous chain and the agricultural trade (agricultural implements, inputs and supplies, and the seed and grain trade) were transferred to Rautakesko, while the tractor and combine harvester business and Kesko Agro subsidiaries in the Baltic countries were transferred to the car and machinery trade.

In Finland, 90 K-maatalous agricultural stores form the K-maatalous chain. 52 of the stores in the chain are combined Rautia K-maatalous or K-rauta K-maatalous stores. Major customer groups are agricultural entrepreneurs and contractors. K-maatalous provides agricultural entrepreneurs with solutions that help them efficiently produce the safe and pure foodstuffs that are valued by consumers.

In 2009, the net sales in the agricultural trade, which was transferred to Rautakesko, dropped by 32.6% in Finland. The reasons for this decline were the economic recession and a decrease in prices.

### Strong chain concepts

Rautakesko's operations are based on strong chain concepts, efficient sourcing, and the best practices, which are dupli-

cated internationally. Rautakesko operates in the background of the chains, combining their category management, purchasing, logistics, information system control and network improvements. The synergy benefits and economies of scale achieved enable the company to offer products and services to customers at competitive prices.

**K-rauta** is Rautakesko's international concept. K-rauta operates in Finland, Sweden, Estonia, Latvia and Russia. The K-rauta concept focuses on wide selections, total solutions that make customers' lives easier and a good price-quality ratio. The concept combines the service, selections and business models for consumers, builders and professional customers. Overall, the K-rauta chain's competitive advantages include stores and attached builders' yards that are larger than those of its competitors.

**Rautia** is the largest building and home improvement store chain in Finland. Its selections are targeted at builders, renovators and building professionals in particular. Key competitive advantages include comprehensive customer service, knowledge of the local market and the cooperation network. Many Rautia stores also complement their range with agricultural items.

The **K-maatalous** chain's strengths in Finland include the K-maatalous retailers, who know the local customers and circumstances, and the wide product range combined with the comprehensive services and network. Active contacts and sales and the utilisation of data and information technology provide the basis for close cooperation between agricultural entrepreneurs and K-maatalous.

**Byggmakker** is the largest building and home improvement store chain in Norway. The chain's business model is retailer entrepreneurship. Special strengths include sales of building supplies and knowledge of professional customers. The Norwegian concept has undergone a reform with the introduction of large Byggmakker outlets of a new type providing full service.

The **Senukai** chain is the market leader in Lithuania. The chain incorporates the

Mega Store concept, which offers customers just about every product related to building and living at its stores of over 20,000 m<sup>2</sup>.

**Rautakesko B2B Sales** operates in Finland. Its customers include nationwide construction companies, the manufacturing industry and other professional customers. Rautakesko B2B Sales' strengths include close cooperation with the network of Finnish K-rauta and Rautia stores through which a significant part of the deliveries are made.

### Year 2009

Rautakesko's net sales totalled €2,312 million, representing a decrease of 22.4%. Net sales in Finland amounted to €1,041 million, down by 21.1%. The building and home improvement trade contributed €744 million, and the agricultural supplies trade €297 million to the net sales in Finland. The net sales of subsidiaries in other countries totalled €1,271 million; the decrease was 23.4%. Foreign subsidiaries accounted for 55.0% of Rautakesko's net sales.

Rautakesko's operating profit excluding non-recurring items was €11.9 million, down by €44.4 million. Rautakesko's investments totalled €84.7 million, with investments outside Finland accounting for 82.8%.

In 2009, two new K-rauta stores were opened in Sweden and one in Russia, Estonia and Latvia. In addition, the store site network was strengthened by other new and replacement stores. During the year, one K-rauta was closed down in Sweden and seven Bygghälsan stores, five of which run by retailers, were closed down in Norway.

In 2009, Rautakesko continued to seek synergy and efficiency benefits in order to develop its international operations. Rautakesko made a cooperation agreement with tooMax-x Handels GmbH. The purchasing cooperation ensures an increasingly comprehensive and competitively-priced selection of products for customers.

Major focal areas of the year included centralised category management and supply chain management. The product lines are responsible for the centralised

formation of joint selections in all countries.

The construction of the international logistics network continued. A service agreement for central warehousing operations in Norway and Sweden was signed with Itella, Rautakesko's logistics partner.

The structure of the K-rauta concept's displays was revised. Customer visits and shopping are made easier by presenting different styles and price options clearly and together. The K-rauta chain is piloting the new design and service area business model at K-rauta Vantaanportti.

The service structure of the Rautia concept was clarified by increasing product and usage information to help customers.

The competence of Rautakesko staff was enhanced in 2009 with the help of a retail management training programme. The aim is to create a coherent strategic retail way of thinking and to ensure that best practices are shared.

Master Training for retail store staff in the SMS project (Store Management System) was started in Estonia, Latvia, Norway and Sweden.

### Objectives and strategic focuses

Rautakesko's aims include exceeding the market growth in 2010.

The recession will continue to be clearly felt in the building and home improvement trade. Demand in the building repair and interior decoration business is expected to remain at a good level, and sales of yard and gardening items will clearly increase. Demand for various services, such as design, transportation and installation is anticipated to further increase as customers are pressed for time and want tailored solutions.

Customer purchasing behaviour and consumption habits are becoming more and more varied. The importance of energy efficiency, environmental values and responsibility in consumers' decision-making will increase. Besides traditional shopping in physical stores, the use of the internet as a channel providing information and shopping sites will be emphasised. New international service providers will enter the market and new business models will arise.



### Safe and clean foodstuffs efficiently

*The K-maatalous Experimental Farm in Hauho does pioneering research and development work for agriculture by testing plant varieties, fertilisation and protection. The cultivation programme of K-maatalous includes guidelines on the choice of seed, on fertilisation, on plant protection and liming.*





## Responsibility is part of the selected strategy

*Rautakesko's chains aim to promote energy-efficient and healthy living. In the future, energy-efficiency, environmental values and responsibility will have a higher impact on both private and public decision-making.*

*The K-environmental store system was incorporated into the business concept in all Finnish chain stores. The focus of K-environmental stores, among other things, is on environmentally-friendly product selections and product labelling, on recycling and preventing the generation of waste at the stores, on store energy-use management and cleaning practices.*

*The Rautia chain's heat renovation truck presented economical heating systems and energy-efficient solutions for renovation and building, while also encouraging customers to reduce their household-related burden on the environment.*

*The K-rauta stores' nationwide campaign on energy-saving bulbs helped customers choose more energy-efficient and responsible lighting solutions.*

*Rautakesko participates in a project financed by Sitra, the Finnish Innovation Fund, and lead by Demos Helsinki, which supports people in their everyday energy choices.*

The new K-rauta store concept focuses on interior decoration and gardening. Product groups and categories are presented in a centralised display area close to desks providing service and design assistance. More comprehensive product information and signage facilitate self-service.

In the Rautia chain, special emphases will include the 'home yard' concept and sales of houses.

In the agricultural trade, the aim is to develop the K-maatalous concept and improve market position to meet customer expectations. Objectives include the most active sales and the best total selection of products and services in the agricultural trade, including the K-maatalous cultivation programme.

The store network will be strengthened. In 2010, one new K-rauta will be opened in Finland, two new stores in

Russia and one in Belarus. A new K-rauta will also be opened in Sweden.

The Best Practise Retail Solution, Rautakesko's most important project that aims to achieve uniform business models, will continue. The project will harmonise the business models and retail information systems in the countries where Rautakesko operates.

Enhancement of electronic customer information will continue in 2010. The aim is to launch the chains' new websites, first in Finland and later in other countries.

International cooperation concerning product lines will intensify. Rautakesko's international logistics network with Itella Logistics will expand.

The target is that by the end of 2010 all purchases from the Far East will be made via tooMax-x sourcing cooperation.

## Market shares and competitors

### Building and home improvement trade

Finland, market share 38%

(Finnish Hardware Association, DIY, own estimate)

Competitors: Starkki, Terra, S-rauta, Agrimarket, Bauhaus

Sweden, market share 6%

(HUI, own estimate)

Competitors: Bauhaus, Bygghmax, DT Group and local speciality stores

Norway, market share 17% (TBF)

Competitors: Monter/Optimera (Saint Gobain), Maxbo and Coop

Estonia, market share 20%

(own estimate)

Competitors: Ehitus ABC (Saint Gobain), Bauhof and Espak

Latvia, market share 16% (own estimate)

Competitors: Depo DIY, Tapeks/Aile and Kursi

Lithuania, market share 25%

(own estimate)

Competitors: local building supplies and speciality stores

Russia, market share 2.0%

(ROS Business Consulting, own estimate)

Competitors: Leroy Merlin, OBI, Castorama, Maxidom, Metrica

Belarus, market share 5% (own estimate)

### Agricultural trade

Finland, K-maatalous chain

Main competitor: Agrimarket chain

## K-Group's building and home improvement trade, retail and B2B sales

	Number		Sales (incl. VAT) € million	
	2009	2008	2009	2008
K-rauta*	42	42	617	669
Rautia*	107	102	541	556
Rautakesko B2B Sales			197	279
K-maatalous*	90	91	448	629
K-customer contract stores	33	34	68	72
<b>Finland, total</b>	<b>272</b>	<b>269</b>	<b>1,8+%</b>	<b>2,206</b>
K-rauta, Sweden	20	19	235	233
Bygghmakker, Norway	113	118	963	1,118
<b>Building and home improvement stores, other Nordic countries total</b>	<b>133</b>	<b>137</b>	<b>1,198</b>	<b>1,351</b>
K-rautakesko, Estonia	9	8	76	96
K-rauta, Latvia	9	8	61	87
Senukai, Lithuania	16	16	311	532
<b>Building and home improvement stores, Baltic countries total</b>	<b>34</b>	<b>32</b>	<b>447</b>	<b>715</b>
K-rauta, Russia	10	9	200	240
OMA, Belarus	4	3	62	84
<b>Building and home improvement stores, other countries total</b>	<b>14</b>	<b>12</b>	<b>262</b>	<b>324</b>
<b>Building and home improvement trade, outside Finland total</b>	<b>181</b>	<b>181</b>	<b>1,907</b>	<b>2,391</b>
<b>Building and home improvement trade, total</b>	<b>453</b>	<b>450</b>	<b>3,778</b>	<b>4,597</b>

\* In 2009, 2 K-rauta stores and 50 Rautia stores also operated as K-maatalous stores

\* In 2008, 2 K-rauta stores and 47 Rautia stores also operated as K-maatalous stores

## Building and home improvement segment's key figures, continuing operations

	2009	2008
Net sales	€ million 2,312	2,978
Operating profit	€ million 19.6	19.4
Operating profit excl. non-recurring items	€ million 11.9	56.4
Operating profit as % of net sales excl. non-recurring items	% 0.5	1.9
Investments	€ million 84.7	122.7
Return on capital employed* excl. non-recurring items	% 1.8	9.0
Personnel average	8,789	10,400

\* cumulative average

## Building and home improvement segment's net sales, continuing operations

	€ million	change, %
Building and home improvement trade, Finland	1,041	-21.1
K-rauta AB, Sweden	187	0.6
Bygghmakker, Norway	477	-16.4
Rautakesko, Estonia	63	-22.1
Rautakesko, Latvia	48	-32.9
Senukai (excl. OMA)	260	-42.1
OMA	53	-25.5
Stroymaster Group, Russia	169	-16.8
<b>Total</b>	<b>2,312</b>	<b>-22.4</b>

(..) change over 100%

## Building and home improvement segment's capital employed at 31 December, € million

	2009	2008
Non-current assets	494	459
Inventories	196	273
Short-term receivables	222	220
./. Non-interest-bearing debt	-284	-299
./. Provisions	-4	-5
<b>Capital employed**</b>	<b>624</b>	<b>649</b>

\*\* capital employed at the end of month









# 09

## Car and machinery trade

VV-Auto and Konekesko make up the car and machinery trade division.

VV-Auto imports and markets Volkswagen, Audi and Seat passenger cars, and Volkswagen commercial vehicles in Finland, and it also imports and markets Seat passenger cars in Estonia and Latvia. VV-Auto is also engaged in car retailing and provides after-sales services at its own outlets in the Greater Helsinki area and Turku.

Konekesko is a service company specialising in the import and sales of construction, environmental and agricultural machinery, trucks and buses, and recreational machinery. Konekesko operates in Finland, the Baltic countries and Russia.

Konekesko arranges the manufacture of and sells Yamarin boats in Finland and exports them to several European countries and Russia.

Kesko's most important brands in the car and machinery trade



Hyötyautot



Audi



SEAT

KONEKESKO

YAMAHA

YAMARIN



MUULI

CASE  
CONSTRUCTION

Kubota

CLAAS

NEW HOLLAND  
CONSTRUCTION

MANITOU



Car and machinery segment's  
net sales

€947 million

Car and machinery segment's  
operating profit excluding non-  
recurring items

€0.3 million



## Leading brands and comprehensive services



### VV-Auto's market

In 2009, 90,574 passenger cars, 8,677 vans and 3,173 trucks were registered in Finland. The passenger car market decreased by 35.2% from the previous year. Registrations of new vans fell short of the previous year by 44.1% and those of trucks by 39.1%.

The market position of the brands imported by VV-Auto strengthened. Volkswagen increased its market share and was in second place in the registration statistics of both passenger cars and vans. Audi maintained its position as the number one premium brand. Seat's market share decreased slightly over the previous year. The car taxation that is based on carbon dioxide emissions increased the share of passenger cars with lower emissions and the popularity of TSI, TFSI and TDI motors which place less of a burden on the environment.

The Volkswagen range continued to expand. Launches included the revised Golf Plus, the new Polo and Golf Variant. The range of EcoFuel natural gas vehicles was complemented with the Passat Variant, Touran and Caddy Maxi. The revised Transporter range was introduced in late 2009. The Audi range was complemented with the new Audi A5 Sportback and Cabriolet. Seat arrivals of the year were the Seat Exeo and Exeo ST and the revised Altea, Altea XL, Leon and Ibiza SC.

In 2009, the market share of Volkswagen passenger cars in Finland was 12.6% and the Volkswagen Golf was the best-selling passenger car in the country. The

market share of Volkswagen vans was 20.9%. Audi had a market share of 4.7% and Seat's share was 1.0%. Seat's market share in Estonia was 1.0% and in Latvia 0.5%.

### Konekesko's market in Finland, the Baltic countries and Russia

Konekesko's sales of recreational machinery are based on close and long-term cooperation with Yamaha Motor Co. Quality-minded customers are served by the comprehensive Yamaha dealer network. The Finnish market for recreational machinery totalled some €300 million in 2009.

In addition to farmers, Konekesko's most important customer groups in heavy machinery include construction, materials handling, transportation and service sector companies, and towns and municipalities.

Construction and environmental machinery is marketed in Finland, the Baltic countries and St. Petersburg through Konekesko's own dealer network. The construction market declined considerably in 2009, amounting to about €200 million in Finland, about €50 million in the Baltic countries and about €50 million in St. Petersburg, Russia.

Konekesko sells tractors, combines and their spare parts to farmers in Finland and the Baltic countries. In the latter, Konekesko also sells agricultural implements. The best-known product brands represented by Konekesko include Massey Ferguson tractors and Claas combines. The



market for agricultural machinery in Finland is some €400 million and in the Baltic countries some €200 million.

In Finland, Konekesko sells MAN trucks, and MAN and Neoplan buses through its own dealer network. The market for trucks (weight class of over 6 tons) is approximately €300 million. 146 MAN trucks and 14 buses were registered in 2009.

### Strengths

At the beginning of 2009, VV-Auto and Konekesko were combined and reorganised to form the car and machinery trade division. The new division structure aims at synergy benefits and the development of sales and maintenance services.

VV-Auto and Konekesko represent the leading brands in their market area and are responsible for the marketing and sales of these brands. They also offer diversified after-sales services to their customers either through their own or a contract service network.

Strengths also include the wide product selection, high-quality products and services, a comprehensive network in several countries, efficient operating methods, skilled and service-oriented staff, and its own chain of retail outlets in the car trade.

### Year 2009

In 2009, the net sales of the segment were €947 million, a decrease of 36.0%. The operating loss excluding non-recurring items was €0.3 million, €30.1 million less than in the previous year.

VV-Auto's net sales were €598 million, a decrease of 32.3% from the previous year. The net sales performance was affected by a decline in the car market, coupled with the car tax reform effective since April, as a result of which the car tax levied on cars after 1 April 2009 is excluded from the net sales. Taking the impact of the tax change into account, comparable net sales fell by 24.3%.

In terms of vehicle numbers, VV-Auto's own outlets in the Greater Helsinki area and Turku accounted for about one third of all new Volkswagen, Audi and Seat retail sales.

VV-Auto's retail sales network consists of 40 dealer shops selling Volkswagens and 59 service workshops, and 41 dealer shops and 58 service workshops for Volkswagen commercial vehicles. The corresponding figures for Audis are 17 and 39. Seats are sold by 23 dealers and maintained and repaired by 40 workshops in Finland and three in the Baltic countries.

A centralised customer relationship management system was adopted at all VV-Auto's own outlets. The construction of VV-Auto's new office building started in Veromies, Vantaa. The building will also include a new Audi outlet with a service workshop, maintenance and warehousing premises. The Volkswagen outlet and workshop located on the adjacent site will also be renovated and expanded during the process.

Konekesko's net sales were €350 million, down by 41.3% from the previous



### BlueMotion

*The Volkswagen cars with the best fuel economy in their size category can be identified by their BlueMotion badge. The Polo BlueMotion is the most economical five-seater in the world: combined consumption 3.3 l per 100 km and CO<sub>2</sub> emissions 87 g per km.*





### Yamaha in Finland

*In 2009, Yamaha also became the market leader in motorcycles in Finland. Yamaha has been the leader in the Finnish outboard motor market since 1977.*

year. This can be attributed to the decline in the machinery market and a decrease in the Baltic grain and agricultural inputs trade.

As the general economic situation deteriorated, the average sales of recreational machinery in Finland declined by about 30%. Sales of boats also dropped considerably from the previous year in the most important export markets (Norway, Sweden). Konekesko started importing and selling Linder boats in December 2009.

The Finnish and the Baltic market for construction and environmental machinery declined to less than half of the previous year, but Konekesko's market position strengthened. Konekesko returned to the warehousing technology business with Still forklifts and BITO storage systems and started the imports and sales of Dynapac compaction and paving machines in the Baltic countries.

The market for agricultural machinery dropped by about 30% in Finland and by some 50% in the Baltic countries.

Konekesko's market share of combines increased to 26.3%, but in the tractor trade the market share dropped to 14.0%.

In Finland, sales of MAN trucks declined more than the market, and the market share was 5.7%.

### Objectives and strategic emphases

The segment's objectives for 2010 include increasing the market share of the brands it represents, further developing the dealer network and improving profitability. The focuses will be expanding the selection of products and services and improving electronic customer communications. The car trade will continue to focus on the development of its own chain of retail outlets and expanding the adoption of the centralised customer management system. In line with its strategy, Konekesko will also concentrate on the machinery trade and dispose of its grain and agricultural inputs trade in the Baltic countries.

## Market shares

### VW-Auto

Finland:

Volkswagen passenger cars 12.6%

Audi passenger cars 4.7%

Seat passenger cars 1.0%

Volkswagen vans 20.9%

(Transport Safety Agency TraFi, Vehicular and Driver Data Register)

Estonia:

Seat passenger cars 1.0%

Latvia:

Seat passenger cars 0.5%

(Estonian and Latvian car dealers associations)

### Konekesko

Finland: market share 6–41%, depending on product group (own estimate)

Estonia: market share 20% (own estimate)

Lithuania: market share 20% (own estimate)

Latvia: market share 30% (own estimate)

## K-Group's car and machinery trade, retail and B2B sales

	Number		Sales (incl. VAT) € million	
	2009	2008	2009	2008
VW-Auto, retail outlets	6	6	374	489
VW-Auto, imports	1	1	372	605
Konekesko, Finland	2	1	230	351
<b>Finland, total</b>	<b>9</b>	<b>8</b>	<b>977</b>	<b>1,445</b>
Konekesko, Estonia			38	69
Konekesko, Latvia			102	152
Konekesko, Lithuania			35	55
<b>Konekesko, Baltic countries</b>			<b>175</b>	<b>276</b>
<b>Car and machinery trade, total</b>	<b>9</b>	<b>8</b>	<b>1,152</b>	<b>1,721</b>

## Car and machinery segment's key figures, continuing operations

		2009	2008
Net sales	€ million	947	1,480
Operating profit	€ million	-5.1	30.5
Operating profit excl. non-recurring items	€ million	0.3	30.4
Operating profit as % of net sales excl. non-recurring items	%	0.0	2.1
Investments	€ million	13.4	15.6
Return on capital employed* excl. non-recurring items	%	0.1	10.8
Personnel average		1,291	1,451

\* cumulative average

## Car and machinery segment's net sales, continuing operations

	€ million	change, %
VW-Auto Group	598	-32.3
Konekesko, Finland	185	-31.9
Konekesko, Baltic countries	165	-49.3
<b>Total</b>	<b>947</b>	<b>-36.0</b>

## Car and machinery segment's capital employed at 31 December, € million

	2009	2008
Non-current assets	96	99
Inventories	157	255
Short-term receivables	67	89
./. Non-interest-bearing debt	-83	-127
./. Provisions	-15	-15
<b>Capital employed**</b>	<b>222</b>	<b>302</b>

\*\* capital employed at the end of month



## Real estate operations

*A store site network is a strategic competitive factor for Kesko. It provides opportunities for developing business operations and increasing sales and customer satisfaction.*

The Kesko's division parent companies are responsible for their own store sites throughout their life cycles. The companies plan their own retail networks and, on the basis of their network and business plans, make the investments in accordance with the Group's real estate strategy. The division parent companies develop their own store sites, manage their construction, and are responsible for maintaining, managing, leasing and selling them.

### Real estate property management

For the management of Kesko's real estate assets and liabilities, the retail stores and other real estate properties are classified as follows:

- Strategic properties are large retail stores which involve important business interests related to the continuity of management, the flexibility of change and the financial value of the premises. In order to protect such interests, Kesko usually prefers to own these properties.
- Standard properties are premises owned by the Kesko Group. They can be sold and leased back for use in the Group's business operations.
- Realisation properties are those for which Kesko has no further use.
- Development properties are those needing further development for their intended use.

### Investments

Kesko's real estate investments aim to enable the creation of trading services valued by customers by anticipating changes in customer behaviour and the operating environment and by maintaining the technical condition of properties.

Kesko invests only in properties needed in its own business operations. As a result of Kesko's internationalisation, investments outside Finland have become increasingly important.

### Life-cycle affordable and eco-efficient real estate operations

Kesko's construction activity is based on life-cycle affordability and eco-efficiency. This means optimising the costs and environmental burden across the entire life cycle of a store site.

The aim is to build business premises with the lowest life-cycle costs in the trading sector.

Further development of the eco-efficiency of existing properties has focused on monitoring energy consumption and improving energy use. The aim is to reduce both consumption and costs.

### Property maintenance

Property maintenance relies on systematisation and proactivity. Repair work is scheduled to coincide with the rebuilding necessitated by business operations.

The management and maintenance of properties owned or leased by Kesko has been outsourced to ISS Palvelut Oy, Ovenia Oy and YIT Kiinteistötekniikka Oy, which carry out the work in accordance with Kesko's requirements. Kestra Kiinteistöpalvelut Oy, owned by Kesko, is responsible for purchasing electricity for the K-Group.

### Kesko's energy team monitors energy consumption of properties

The emissions generated in the production of electrical and heat energy for properties account for a significant share of the K-Group's environmental impact. Therefore the K-Group's environmental policy obliges Kesko's real estate operations, in cooperation with its business partners, to develop solutions related to the building, repairs, concept changes, maintenance and use of real estate properties that reduce the consumption of materials and energy during the life cycle of these properties.

The electricity, heat and water consumption of Kesko's properties has been monitored closely since 1995. The managers responsible for property care and maintenance report about deviations in consumption to the energy team of the real estate operations. Reasons for deviations are investigated and corrective actions are taken immediately. Close energy monitoring helps keep the technical systems of properties in order and maintain the value of properties.

## Real estate operations indicators for 2009

### Owned properties

Capital*, € million	2009	2008
Finland	656	776
Other Nordic countries	70	57
Baltic countries	32	41
Russia	112	77
<b>Total</b>	<b>870</b>	<b>951</b>

Area, m <sup>2</sup>	2009	2008
Finland	629,000	756,000
Other Nordic countries	80,000	62,000
Baltic countries	103,000	103,000
Russia	46,000	34,000
<b>Total</b>	<b>858,000</b>	<b>955,000</b>

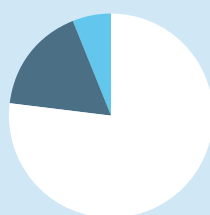
### Leased properties

Lease liabilities, € million	2009	2008
Finland	2,036	1,767
Other Nordic countries	118	110
Baltic countries	171	183
Russia	32	45
<b>Total</b>	<b>2,357</b>	<b>2,105</b>

Area, m <sup>2</sup>	2009	2008
Finland	2,358,000	2,191,000
Other Nordic countries	202,000	205,000
Baltic countries	429,000	431,000
Russia	25,000	25,000
<b>Total</b>	<b>3,014,000</b>	<b>2,852,000</b>

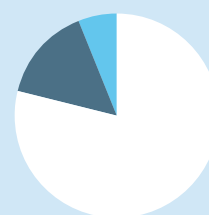
\*Carrying amounts

### Breakdown of owned properties 2009



- Strategic properties 77%
- Standard properties 17%
- Realisation properties 0%
- Development properties 6%

### Breakdown of owned properties 2008



- Strategic properties 79%
- Standard properties 15%
- Realisation properties 0%
- Development properties 6%







Kesko and the K-stores offer motivating and rewarding jobs with products and services valued by customers. Kesko is a good and responsible working community where employees are treated equally and fairly.

At the end of 2009, the total number of Kesko personnel was 22,220 in eight different countries. Kesko's most international division is Rautakesko, with 95.6% of its 8,789 employees working outside Finland. In all, Kesko and its chains' retailer entrepreneurs employ some 45,000 people. Kesko's strengths include providing an opportunity for versatile internal job rotation and career development. During 2009, some 2,000 people moved to new jobs within the Kesko Group.

# 09

## Human resources

Kesko personnel, average

**19,184** employees

Personnel in Finland

**10,284** employees

Personnel in other countries

**8,900** employees

Total personnel of Kesko and  
retailer entrepreneurs

some **45,000** employees



## Kesko is a good place to work



### Aiming to be the most attractive workplace in the trading sector

Commercial students are interested in Kesko and its chains as a workplace. In the Universum survey, those with an initial vocational education ranked Kesko 6th, just like in the previous year. In the 2009 Universum Young Professionals survey, Kesko was rated on top among one hundred companies, offering the widest variety of assignments. Kesko's overall ranking in the survey was 18.

Kesko carries out close cooperation with students and teachers in different sectors. For example, the job-orientation of Finnish teachers of commercial and technical subjects is promoted in trainings arranged by Kesko. Trainings will be revised in 2010.

### The most competent and motivated people in the trading sector

Key competitive assets for Kesko's and its stores' operations and for improvement in work productivity include systematic development of staff competence.

Kesko's subsidiary K-instituutti acts as a centralised planning, implementation and purchasing organisation of the K-Group's training services. Its key duties include ensuring competence development in the K-Group with the best price-quality relation. The competence development solutions which support business activities are planned in cooperation with business units and implemented in cooperation with the selected and audited

network of training partners. The role of K-instituutti also includes the fast and efficient duplicating and sharing of the best practices within the K-Group.

In 2009, the Master Sales Assistant training had more than 17,000 participants in 12 different product lines. The aim is, above all, continuous enhancement of sales people's service attitude, sales skills and product knowledge in cooperation with suppliers. More than 100 business colleges and polytechnics also implemented the training, in which some 5,000 students participated.

Some 99% (the target is 100%) of the checkout personnel and their supervisors selling age-restricted products in K-food stores completed the proficiency test in 2009. The test includes questions about the sale of age-restricted products.

### Management and leadership

At Kesko, management is conducted in a responsible manner and in compliance with the corporate values. Leadership and the working community that are motivating and encouraging are prerequisites for excellent performance and wellbeing at work.

The annual personnel survey plays a key role in measuring the operations of the working community, the quality of management and the internal employer profile. A similar survey is conducted throughout Kesko and its chain stores. In 2009, replies were received from 72.3% of the employees of the companies included in the survey. Active leverage of survey results in managerial work and the





efficient implementation of concrete development activities are of essential importance.

The personnel survey also looks into employees' experience of equality in terms of age, origin and gender. Equality was considered to be good in every area surveyed.

One of the key tools in efficient performance management and the motivating leadership of immediate superiors is the performance and development review whose implementation is included in the personnel survey. 72% of the employees have had a performance and development review during the past year, and rated their satisfaction with the review as 4.0 (on a scale of 1–5). Furthermore, the performance assessment of the entire Group's key personnel was further expanded in the companies.

Leadership skills and career progress are supported by Kesko's own three-step superior and management training. Since 2004, Kesko has implemented a long-term development programme for members of the management and potential management. There are some 200 participants in the programme, whose purpose is to ensure a sufficient supply of managerial resources both in terms of quality and quantity. In 2009, key employees participated in the training supporting the implementation of the work and productivity programme.

Common training is complemented by the chain's own training programmes. The building and home improvement sector's Master programme in international retail

management started in 2009 with the purpose of standardising the implementation of the sector's concepts in all the countries where the Group operates. In Anttila and Kodin Ykkönen department stores, 190 managers participated in store-specific HR training. The aim was to increase general competence in personnel and employment issues, while specifying and improving the efficiency of implementing HR processes at everyday level.

### Towards the best labour productivity in the trading sector

The key objective of the ongoing work and productivity programme is to improve the employees' work productivity, for example by focusing on the competence and well-being of people and on better leadership. The programme focuses on the development of sales and customer service skills, projects that promote wellbeing at work, efficient management of working hours and adapting the number of personnel to the current market situation. The programme also involves measures related to increasing electronic communications. The work and productivity programme applies to all of Kesko and its chain stores.

As a result of the decline in consumer demand, measures aimed at adjusting the number and cost of staff were continued. During the year, the Group's staff cost decreased by 7.4%.

Labour productivity has also improved thanks to the adoption of different working hour models and the systematic management of working hours. For example,



*The Volkswagen Retail Sales Excellence (RSE) is a sales management training programme for sales managers in Finland. The aim of the programme is to improve sales profitability with the help of tools supporting the training of sales people and the sales process. The RSE programme started in VW-Auto's own Volkswagen outlets in 2009 and will be expanded to cover all Volkswagen dealers in Finland.*





### The widest variety of job assignments at Kesko

*In the 2009 Universum Young Professionals survey, Kesko was rated top among one hundred companies, offering the widest variety of assignments. Respondents comprised approximately 6,000 young business, engineering and IT professionals.*

**Michaela von Wendt**, Universum's Country Manager for Finland says that Kesko has succeeded in communicating the variety of career alternatives and opportunities it offers to young professionals and students.

K-food stores carried out an extensive project, the aim of which was improving the planning of working hours, increasing the use of planning programmes and the electronic transfer of related information to the payroll accounting unit.

Long-term projects focusing on well-being at work will continue in companies. The introduction of the intervention model has further expanded during the year. The aim is to increase labour productivity by reducing sickness absences and raising the retirement age. A uniform sickness absence monitoring and reporting model was introduced at the beginning of 2009. All companies prepared a concrete action plan with the aim of reducing sickness absences.

In Finland, Kesko's Occupational Health Service Unit focuses on operations that maintain work capacity and promote the wellbeing of the working community. Currently 35–45% of the total costs of occupational health are allocated to these activities. In other countries, occupational health services have been arranged

according to the local practice and legislation. Support for personnel's recreational activities is provided through joint staff clubs and in the form of company-specific contribution.

Most of Kesko's employees belong to a bonus incentive system. The management's incentive systems are described on pages 59–60.

Kesko's internal communications became more efficient with the introduction of the new intranet in all operating countries in 2009.

Information about HR affairs will also be available in the Corporate Responsibility Report for 2009.

## Competitive advantage from chain operations and K-retailer enterprise

*The K-Group's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in the chains managed by Kesko. At the end of 2009, Kesko had 1,302 K-retailer entrepreneurs as partners, as well as about 250 other retailer partners.*

Cooperation between K-retailers and Kesko – chain operations – is based on equality, openness and willingness to develop joint operations. The objective of chain operations is improving competitiveness and customer satisfaction combined with achieving higher, uniform quality and lowering costs.

The obligations and rights of K-retailers and Kesko have been specified in the chain agreement.

Competitive edge is gained by combining systematic chain operations and the K-retailer operations based on entrepreneurship. Kesko is responsible for the constant development of the business model and the store concepts, for chain operations management and for sourcing and purchasing of the products included in the chain selections. The K-retailer entrepreneur is responsible for his or her store's customer satisfaction, personnel and profitability of business.

To ensure success, it is important that a new retailer's professional and other skills are at as high level as possible at the start of his/her career. About 200 stores are affected by retailer changes annually in the K-Group. The annual need for new entrepreneurs, ready to start their K-retailer careers, is approximately 100. The K-Group systematically trains new retailers to ensure a sufficient supply of people with the appropriate professional skills. New candidates interested in a

K-retailer career are sought through different channels. There are about 500 contacts annually. The requirement for new retailers is estimated for 1–3 years ahead.

The K-retailer trainee programme offers three alternative paths: a comprehensive programme, an intensive programme and the retailer entrepreneur path in polytechnics. Approximately 50% of those starting the programme have a fair amount of retailing experience, but in recent years the number of students transferring from other fields or having just finished their general education has grown. Before selection to the K-retailer trainee programme, the applicants are evaluated with regard to their development potential, values, work experience and education. After selection, would-be K-retailers start the K-retailer trainee programme, which consists of three parts: practical training in a retail store under the guidance of a mentor, theoretical training at the K-instituutti training centre or in the online learning environment, and regional K-trainee seminars.

Approximately 100 K-retailer trainees complete the programme every year. After completion, the trainees are ready to start as independent K-retailer entrepreneurs.

The K-Group gives its retailers strong background support and opportunities for further training and progress in their careers.

### Path to K-retailer career

#### Need

- About 50–100 novice retailers every year

#### Marketing

#### Screening

- K-stores and Kesko
- Manufacturing industry
- Competitors
- Entrepreneurs of various sectors
- Educational institutes
- Others

#### Assessment

- Attitude
- Values
- Experience / development needs
- Suitability assessment

#### Selection

- Key areas of self-development
- Planning of a personal training programme
- Apprenticeship contract assessment

#### K-retailer trainee programme

- Required theoretical training at K-instituutti (food retailer training) or in online learning environment
- On-the-job retailer work training under mentor retailer
- Regional training (theme days)

#### Further qualification in entrepreneurship

#### K-retailer reserve

- (personality, knowledge, skills)

#### K-retailer career





## Principles and indicators of responsibility support the management

Corporate responsibility in Kesko is included in the Group's normal management, complementing the management system with policies and principles guiding responsibility, with operating guidelines and indicators complying with the Global Reporting Initiative (GRI) recommendation. Corporate responsibility work includes good corporate governance, cooperation with stakeholders, risk management, economic, social and environmental responsibility, and all activities on behalf of product safety and consumer protection.

The corporate responsibility policies and principles approved by Kesko's Board of Directors or the Corporate Management Board and related international commitments have been published at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).

## Kesko's responsibility programme in 2008–2012

Our responsibility programme sets concrete targets for:

- combating climate change
- reducing wastage
- transportation
- responsible purchasing
- employee wellbeing.

# 09

## Responsibility



## Responsibility



### The Pirkka Organic range keeps growing

*The Pirkka Organic range now comprises about 40 products, some of which are sold during a certain season only. The most popular Pirkka Organic products are tomatoes, carrots and eggs. New products are constantly and actively*

*sought for the Pirkka Organic range. The most recent arrivals include Pirkka Fairtrade Organic cocoa powder and Pirkka Fairtrade Organic chocolates. These products combine Fairtrade certification and organic production.*

### Responsibility is day-to-day work

The plans and actions relating to corporate responsibility are included in the different phases of Kesko's management system like other activities. The general principles of corporate responsibility provide management guidelines, while more detailed operating practices and goals have been defined in the policies and principles relating to different areas of operations. The guide 'Our Responsible Working Principles' and a supporting online training programme have been prepared for training the whole personnel – including K-store people.

The corporate responsibility team that operates within the Corporate Communications and Responsibility Unit develops and coordinates responsibility actions implemented in the line organisation, and reports on the results. The team's work is supported by a Corporate Responsibility Advisory Board, which has been appointed by the Corporate Management Board. The Advisory Board consists of members representing the management of Kesko's various division parent companies. Its duties include determining the responsibility strategy and the operating policies and models needed for its implementation, and monitoring the results. In 2009, the Corporate Responsibility Advisory Board focused on preparing a responsibility communications plan, with the aim of starting planned communications, including the revising of the responsibility section of kesko.fi pages in 2010.

The Environmental Steering Group is responsible for developing and coordinating environmental issues in different divisions and countries. Its focuses included the actions needed to meet the collection requirements of the EU's Battery Directive and the progress of the implementation of REACH, the EU regulation on chemicals.

A steering group consisting of representatives from the purchasing management of division parent companies coordinates responsible purchasing. In 2009, the group addressed, for example, risk classification and monitoring of suppliers, and the introduction of the database of suppliers in high-risk countries.

### Kesko among the best in the world in sustainability indexes

For the seventh time, Kesko was included in the Dow Jones sustainability indexes, DJSI World and DJSI STOXX. In the 2009 assessment, Kesko ranked the best in the sector in innovations management, risk management, supplier controls, environmental reporting, eco-efficiency of operations, and anti-corruption and anti-bribery measures taken.

Based on the assessment made by the EIRIS research institute, Kesko was included in the FTSE4Good Global and FTSE4Good Europe indexes focusing on responsible investment in March 2009. The assessment by EIRIS consists of the following areas: environmental sustainability, fostering human rights, countering bribery, supply chain labour standards and curbing climate change. The FTSE is a company owned jointly by the Financial Times and the London Stock Exchange.

Kesko's listings in the ASPI Eurozone®, Ethibel Pioneer & Excellence and Kempen/SNS Smaller Europe SRI indexes were also repeated in 2009.

Every January since 2005, World Economic Forum has published the 'The Global 100 Most Sustainable Corporations in the World' list. Kesko has been included every year – on the 2010 list Kesko's ranking was 33rd.

As in 2009, Kesko qualified in the 2010 Sustainability Yearbook, published by the SAM Group which draws up the DJSI index, for the Silver Class in the Food & Drug Retailers sector. No companies qualified in the Gold Class in this sector. Kesko was also recognised as the "Sector Mover", a qualification given to the company that has achieved the greatest proportional increase in its sustainability performance.

Kesko's rankings in different indexes are on display at [www.kesko.fi/responsibility](http://www.kesko.fi/responsibility).

### Economic responsibility

Economic responsibility is reflected in good management of finances, efficient use of resources, and the stable and long-term generation of economic benefit to different stakeholders. Good financial performance is sought with responsible methods – supported by good corporate governance, open communications and

effective stakeholder interaction while taking environmental and social responsibility into account. In the Corporate Responsibility Report, Kesko specifies the economic benefit generated by it from the perspective of different stakeholders, market areas and communities.

#### MAJOR PART TO THE MANUFACTURING INDUSTRY

Most of the economic benefit generated by Kesko – nearly 83% of Kesko's net sales – goes to suppliers of goods from which total purchases were €7.0 billion in 2009. Finnish suppliers accounted for 70% of all. In 2009, Kesko had approximately 29,500 active suppliers of goods and services (Kesko's annual purchases exceeding €1,000), of which 16,300 operated in Finland. Kesko's investments in Finland totalled €128 million and in other countries €70 million.

#### COMPREHENSIVE STORE NETWORK FOR CUSTOMERS

Together with the K-retailers, Kesko is responsible for a nationwide store network in Finland. Its services are complemented by a mail order business and e-commerce.

At the end of 2009, there were 1,030 K-food stores i.e. 25 fewer than the year before. The store network covered 311 of Finland's 348 cities and municipalities. 51% of Finnish households lived within one kilometre of the nearest K-food store. 97 new K-retailers started during the year.

The total number of other K-Group stores in Finland was 720. Store numbers are specified in the tables of each division on pages 14–39.

There were 133 building and home improvement stores in other Nordic countries. There were 34 building and home improvement stores and nine furniture stores in the Baltic countries. There were 10 building and home improvement stores in Russia and four in Belarus.

Sales to the K-retailers accounted for 51% of Kesko's total sales. Kesko's own retail stores accounted for 27% of the company's total sales.

#### SUPPORT FOR THE PUBLIC GOOD

In 2009, Kesko and its subsidiaries gave financial support amounting to approxi-

mately €1.5 million to some 150 organisations and institutions operating for the public good.

Support is primarily directed to areas associated with wellbeing of families with children. In 2009, funds were above all directed to support the work for the mental health of the young. Kesko's cooperation with the Young Finland Association to promote physical exercise of children and the young and a healthy way of life has continued for over a decade. Scholarships were granted to talented young athletes, art students and polytechnic students for the 22nd time. Through the UNICEF, Kesko also donated funds to the education of children in Vietnam.

The Happy Christmas Spirit collection organised jointly for the 13th time by the Mannerheim League for Child Welfare, the Finnish Red Cross, the Finnish Broadcasting Company's YLE Radio Suomi and Morning TV, and Kesko for the benefit of low-income Finnish families with children raised €950,000, which was a new record. K-food stores' and Chiquita's 'Give Children a Life' campaign raised €160,000 for purchasing intensive care equipment for premature babies in the university hospitals in Helsinki, Turku, Tampere, Kuopio and Oulu. Procter&Gamble's and K-food stores' Pampers campaign raised funds for UNICEF to provide vaccine for the protection of newborn babies against tetanus. K-retailers complemented the campaign by donating funds for nearly 600,000 further inoculations.

#### Environmental responsibility

The Kesko Group's certified ISO 14001 environmental management system covers all major environmental impacts of operations. During the year, the certification of Kesko's transportation and warehouse operations was revised and Anttila Oy included their new department store in Rovaniemi and the Anttila Store in Nummela in the system. Business partners providing property construction, maintenance and waste management services for Kesko have similar systems. VV-Autotalot Oy and Turun VV-Auto Oy comply with the action plan of the Finnish Central Organisation for Motor Trades and Repairs and the quality requirements of the Volkswagen Group.



*In its reporting, Kesko follows the recommendation for reporting on sustainable development drawn up by the Global Reporting Initiative (GRI) and is an Organisational Stakeholder of the GRI. Kesko's Board of Directors discusses the Corporate Responsibility Report annually after it has been published. Since 2002, reporting has been assured by an independent party. The report for 2009 will be published in May 2010 and PricewaterhouseCoopers Oy will be responsible for its assurance.*

*Kesko is committed to the Global Compact challenge launched by the UN Secretary General. In June 2009, the Global Compact Office thanked Kesko for excellent responsibility reporting and presented Kesko's report on its web pages, classified as Notable.*





### Carrotmob challenged K-markets to save energy

*The Carrotmob consumer movement arranged events at K-market Kotikontu in Helsinki and at K-market Tullintori in Tampere in October 2009. Carrotmob offers ordinary consumers a concrete way to combat climate change. The target of the events was to challenge food stores to save energy. "Every euro generated from extra sales will be invested in improving the energy efficiency of the store," the retailers promise.*

*K-food stores have long focused on energy efficiency. All new island freezers purchased for K-food stores have been fitted with lids since the beginning of 2008.*

K-stores' environmental management is based on the requirements of the K-environmental store diploma. Bureau Veritas Quality International (BVQI) audits the fulfilment of these requirements. At the end of the year, 457 K-food stores had the diploma. All K-citymarkets and K-supermarkets fulfil the requirements in accordance with their chain concept, as do 138 K-rauta and Rautia stores, and 29 K-maatalous agricultural stores.

### ENERGY AND EMISSIONS

The combined electricity consumption of Kesko and the K-stores operating in Kesko's premises in Finland was 766 GWh. Electricity consumption increased by 2.0% while the total area of real estate increased by 2.6%. The consumption of heat energy totalled 329 GWh (288 GWh in 2008). In all real estate, the specific consumption of electric energy decreased by 0.6%, whereas the specific consumption of heat energy increased by 11.1% due to the cold weather.

Kesko used centralised purchasing to buy 75% of the electricity used. All electricity bought was carbon-free, produced with nuclear power and renewable energy sources. The carbon dioxide emissions of electricity used by the whole K-Group have decreased by 93% since 2001.

A total of 12.0 million kilometres was driven in distance and trunk transportation, 17.0 million kilometres were driven in distribution transportation, and 9.9 million kilometres were driven in outsourced transportation. Transportation caused approximately 46,025 tons of carbon dioxide emissions in Finland, or about 0.0252 kilos per each kilo transported. Proportional CO<sub>2</sub> emissions increased by 3.7% from the previous year.

Emissions of electricity and heat energy purchased in Finland and the energy and emissions statistics of foreign subsidiaries will be presented in the Corporate Responsibility Report.

### WASTE MANAGEMENT AND RECYCLING

Waste recovery rate dropped slightly from the previous year. In Kesko Food's warehouse operations, the total amount of waste was 6,539 tons and the waste recovery rate was 86%. 74 million cans and 28 million recyclable plastic bottles were collected in return logistics. The total

waste amount of the Anttila distribution centres was 651 tons (740 tons) and the recovery rate was 97% (96%). Recovery rates of department stores varied between 68% and 100% depending on regional recycling possibilities.

In the autumn, Intersport organised a recycling campaign with the Finnish Red Cross and Halti. The stores received more than 2,200 old outdoor coats and jackets brought by customers. In all, 64 bales of inspected coats and jackets were transported to Kyrgyzstan, Mongolia and Tadjikistan, which suffer from the cold and poverty.

### Social responsibility

Kesko's social responsibility can be divided into direct social responsibility for its own personnel, and indirect social responsibility for personnel helping to produce the merchandise sold by Kesko.

The core areas of social responsibility for own personnel are a good working community, equality, competence development, and health and safety. An annual personnel survey with the same content that is conducted throughout Kesko and its chain stores provides information about the strengths and development needs of working communities.

The work and productivity programme that had started in 2008 continued in 2009. The programme has promoted the adoption of different working hour systems, the systematic management of working hours and specified the monitoring absences due to illness. Other core areas have included competence, wellbeing and leadership development as well as occupational health care services, which in Finland focus on operations that maintain work capacity and promote the wellbeing of work community.

For more information about HR issues, see pages 44–46 and the Corporate Responsibility Report.

### Responsible purchasing

Kesko's own two-member monitoring team that was established in Shanghai in October 2008 made 161 factory visits to the premises of 50 suppliers in China in 2009. The suppliers and the factories they use first fill in Kesko's self-assessment form, which complies with the practices of the BSCI audit. The monitoring officers

compare the responsibility practices of factories on site with Kesko's requirements, decide on any required corrective actions and give support to factories implementing these corrective actions. Compliance with chemical regulations defined by Kesko is also verified during these visits.

The goal of monitoring is always an independent audit, carried out according to either the BSCI audit model or the SA8000 standard. The objective of Kesko, such as all BSCI members, is to do business in the so-called high-risk countries only with suppliers who have passed the audit. At the end of 2009, audits had been carried out in 107 of the factories of Kesko's high-risk suppliers, compared with 32 the year before. More than 40 Kesko's suppliers participated in the training events arranged by the BSCI in China, Vietnam, Bangladesh and Turkey.

Suppliers' audit information is collected in the database developed by Kesko for this purpose. In addition to BSCI audited suppliers, Kesko had 30 suppliers with SA8000 certification and 112 suppliers of Fairtrade products. In all, Kesko has participated in ensuring decent working conditions and terms for workers of some 250 companies in developing countries.

### Responsibility in the product trade

Kesko's division parent companies have several sustainable sourcing policies concerning the origins and production conditions which affect the creation of selections and promote the sales of the products in question.

The selection and marketing policies concerning organic and Fairtrade products and products with environmental labelling are included in the K-food stores' chain concepts. Kesko's statement on fish and shellfish purchases relies on the guidelines of the WWF for products from nearby areas and on the guidelines of the Marine Conservation Society for products from further away.

In the development of Pirkka products, the focus is on promoting a healthy way of life, like in other marketing. The K-city-market chain has launched to the market clothing collections that are based on the Global Organic Textile Standard or made of recycled plastic material.

Rautakesko offers a wide selection of products with environmental, energy or emission category labelling. The proportion of certified timber out of total timber sales exceeded 90%. Garden furniture sold by all K-Group stores is either FSC-certified or made of sustainably cultivated tropical wood species.

### Product safety

Kesko Food's Pirkka Product Research is responsible for ensuring the quality of purchases, keeping abreast of food legislation, maintaining and providing support for the self-control plans required by law and for developing own brand products together with the purchasing and marketing units.

Quality control is carried out by auditing the operations of product manufacturers and analysing product composition and quality. In 2008, the Pirkka Product Research Unit's laboratory became the first laboratory representing the Finnish trading sector with the ISO 17025 accreditation.

In 2009, the Product Research audited 41 suppliers, of which nine were Finnish. Most of them were manufacturers of Kesko's own brand products. A total of 5,702 food novelties and product development samples were analysed, while the total number of batch control and other self-control samples was 1,393.

The Product Research Unit also plays a key role in exceptional situations, when a product launched on the market deviates from quality or safety requirements. During the year, there were 61 product recalls (66 in the previous year), most of which related to defective quality or taste, or to a defect in manufacturing or packaging. 21 of the recall cases were Kesko's own brands; in other cases the Product Research Unit assisted manufacturing industry. Three of the recall cases were public recalls, involving potential health hazards.

During the year, the recipe service of the K-test kitchen, which changed its name to the Pirkka test kitchen to celebrate its 50th anniversary, produced 620 recipes for both the K-Group units and directly for consumers. Kesko Food's Consumer Service answers consumer inquiries and receives feedback. In 2009, there were 20,999 such contacts.



### New signs at K-food stores illuminated with LEDs

*LED lighting technology is replacing neon and fluorescent tubes in signage at K-food stores. The benefits of LED lighting include the following:*

- *Energy consumption is 60–80% lower*
- *Reduced need for maintenance work for illuminated advertising and, as a consequence, less travel*
- *Life-spans of LED lights are over 10 years*
- *Over time, LED lights dim considerably less than neon and fluorescent tubes*
- *Advertising with LED lighting contains no hazardous waste.*

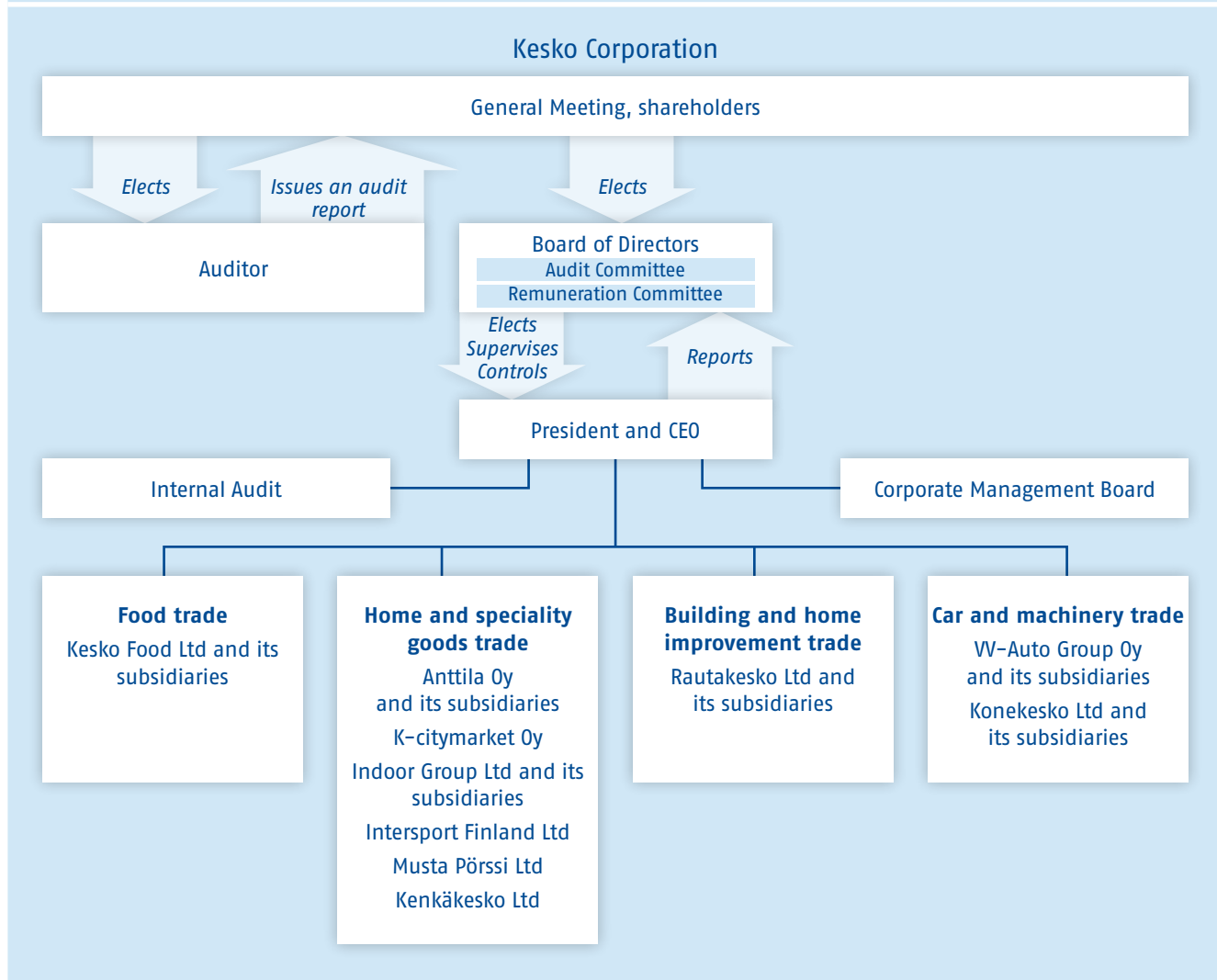
### A monitoring team controls the responsibility of Chinese suppliers

*Kesko's monitoring team in Shanghai, China guides, trains and monitors Chinese suppliers of Kesko's division parent companies. Monitoring officers Angel Yang and Buick Bie help suppliers correct any deficiencies found. Monitoring also helps suppliers develop their operations and apply for a BSCI audit or SA8000 certification.*

*Monitoring in China started in October 2008. The monitoring team made 161 factory visits to the premises of 50 suppliers in 2009.*

# Kesko's Corporate Governance

## Kesko Group's Corporate Governance structure



### The rules and the Corporate Governance Code observed by Kesko

Kesko Corporation (Kesko or the company) is a Finnish public limited company in which the duties and responsibilities of the executive bodies are defined according to the Finnish law. The international Kesko Group comprises the parent company, Kesko, and its subsidiaries. The company is domiciled in Helsinki.

The highest decision-making power in Kesko is exercised by the company's shareholders at a General Meeting. The company's shareholders elect the company's Board of Directors and auditor at a General Meeting. The Kesko Group is managed by the Board of Directors and a Managing Director, who is the President and CEO. The company uses a single-tier governance model.

Kesko's decision-making and administration comply with the Finnish Limited Liability Companies Act, other regulations concerning publicly traded companies, Kesko Corporation's Articles of Association, and the rules and guidelines of NASDAQ OMX Helsinki Ltd. In addition, the company complies with the Finnish Corpo-

rate Governance Code for listed companies ("Corporate Governance Code"). The Corporate Governance Code is available in full at [www.cgfinland.fi](http://www.cgfinland.fi). As provided by the Comply or Explain principle of the Corporate Governance Code, the company departs from the Corporate Governance Code's recommendation concerning the terms of office of Board members as specified hereafter.

### DEPARTURE FROM CORPORATE GOVERNANCE CODE RECOMMENDATION

The terms of the members of Kesko's Board of Directors depart from the term of one year given in Recommendation 10 of the Corporate Governance Code. The term of the company's Board is defined in the company's Articles of Association. The General Meeting makes decisions on amendments to the Articles of Association. According to the company's Articles of Association, the term of office 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.

A shareholder which, together with controlled companies, holds over 10% of all voting rights attached to Kesko's shares, has informed the company's Board of Directors that it considers the term of three (3) years good for the company's long-term development and sees no need to shorten the term of office set in the Articles of Association.

### CORPORATE GOVERNANCE STATEMENT

A separate Kesko's Corporate Governance Statement referred to in the Corporate Governance Code and inspected by the Audit Committee of Kesko's Board of Directors at its meeting on 4 February 2010 is available at [www.kesko.fi](http://www.kesko.fi).

### General meetings

The Annual General Meeting, which is held on a date before the end of every June as designated by the company's Board of Directors, handles the business specified for the Annual General Meeting in the company's Articles of Association and any other proposals that may be made to the Meeting. Kesko's Annual General Meeting has usually been held in March or April. If needed, the company may also hold an Extraordinary General Meeting.

All General Meetings are convened by the company's Board of Directors. An Extraordinary General Meeting must also be convened if shareholders with at least 10% of the shares so demand in writing in order to deal with a given matter. As a rule, General Meetings handle the matters placed on the agenda by the company's Board of Directors.

Individual shareholders have the right, prescribed in the Limited Liability Companies Act, to place those matters that fall within the competence of a General Meeting, on the General Meeting agenda, provided they make a written request to the Board of Directors in time for the matter to be included in the notice of the meeting. Shareholders must send such requests, together with a written account of the reasons behind the requests or the proposed resolutions to the Kesko Group's Legal Affairs, Kesko Corporation, FI-00016 KESKO or by e-mail to [cg@kesko.fi](mailto:cg@kesko.fi).

### MAJOR MATTERS TO BE DECIDED BY A GENERAL MEETING

The major matters to be decided by a General Meeting include:

- decisions on the number of Board members
- the election of Board members
- decisions on the remuneration and financial benefits of the members of the Board of Directors and Board Committees
- the election of the auditor and decisions on the auditor's fee
- the adoption of the financial statements
- decisions on discharging the Board and the Managing Director from liability
- amendments to the Articles of Association
- decisions on increases in the share capital
- decisions on the distribution of the company's earnings, such as profit distribution.

### CONVENING A GENERAL MEETING

Shareholders are invited to a General Meeting by a notice published in at least two nationwide newspapers, specifying e.g.

- the time and place of the meeting
- the proposed agenda of the General Meeting
- the proposals for the number and appointment of Board members and biographical information on the candidates
- the proposal prepared by the Audit Committee for the appointment of the auditor
- other proposals to the General Meeting
- matters placed on the General Meeting agenda for which no resolutions are proposed
- a description of the procedures that shareholders must comply with in order to participate in and cast votes at the General Meeting
- the 'record date' that defines the right to participate in and cast votes at the General Meeting
- the place where the General Meeting documents and proposed resolutions are available
- the address of the company website
- the total number of shares and voting rights by share class on the date of the notice.

The notice is delivered no earlier than two (2) months and no later than twenty-one (21) days before the record date of the General Meeting. The notice and the proposals of the company's Board to the General Meeting are published in a stock exchange release. Proposals for the number, and proposed nominations and fees of Board members made by shareholders who hold at least 10% of the votes carried by the company shares are also published in a stock exchange release.

The notice of the General Meeting and the following information is made available to shareholders on the company website at least 21 days before the General Meeting:

- the documents to be submitted to the General Meeting
- the resolutions proposed by the Board or another competent body.

### RIGHT TO PARTICIPATE IN A GENERAL MEETING

Shareholders have the right to participate in a General Meeting if they are registered as shareholders in the company's register of shareholders kept by the Finnish Central Securities Depository Ltd at the record date separately given by the company. Those wishing to attend a General Meeting must notify their intention in advance by the date announced in the notice of the General Meeting, which date must not be earlier than ten (10) days before the meeting. Shareholders may attend the meeting themselves or through an authorised representative. The representative shall produce a proxy document or otherwise provide reliable evidence of the right to represent the shareholder. Each shareholder or representative may have one assistant at the meeting.

### MINUTES OF THE MEETING

The minutes of a General Meeting, together with voting results and appendixes relating to decisions made, can be read by shareholders on the company's website within two (2) weeks of the meeting. Appendixes to decisions made by a General Meeting are available on the company website only insofar they describe the actual content of the decision. General Meeting decisions are also published in a stock exchange release immediately after the meeting.

### PRESENCE OF GOVERNING BODIES AT A GENERAL MEETING

Kesko's aim is that all members of the company's Board of Directors and the auditor are present at Annual General Meetings. Extraordinary General Meeting are attended by the Chair of the company's Board of Directors, a sufficient number of Board members and the President and CEO. First-time candidates for the Board of Directors are present at the General Meeting that elects them, unless there is a weighty reason for their absence.

### Share series

The company has two share series, A and B shares, which differ only with respect to the votes to which they give entitlement. Each A share entitles its holder to ten (10) votes and each B share to one (1) vote at a General Meeting. When votes are taken, the proposal supported by more than half of the votes will normally be the decision of the General Meeting, as prescribed by the Limited Liability Companies Act. However, the Act specifies several matters, such as amendments to the Articles of Association and decisions on directed share issues, where a legally binding decision requires a higher qualified majority in relation to the number of shares and the votes to which they give entitlement.

Kesko's Articles of Association do not include any redemption clauses or voting restrictions. No shareholder agreements on the use of voting rights in the company or agreements on restricting the transfer of company shares are known to the company.

### Board of Directors and Board Committees

#### TERM, COMPOSITION AND

#### INDEPENDENCE OF THE BOARD OF DIRECTORS

According to the Articles of Association, the term of office 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.

According to the Articles of Association, Kesko's Board of Directors consists of a minimum of five (5) and a maximum of eight (8) members. The General Meeting elects all members of the Board of Directors. The Board elects the Chair and the Deputy Chair from among its members. The Board of Directors elected by Kesko's Annual General Meeting of 30 March 2009 consists of seven (7) members: Heikki Takamäki (Chair), Seppo Paatelainen (Deputy Chair), Maarit Näkyvä, Ilpo Kokkila, Esa Kiiskinen, Mikko Kosonen and Rauno Törrönen. According to the Articles of Association, the term of each Board member will expire at the close of the 2012 Annual General Meeting.

All of Kesko's Board members are non-executive directors. The Board of Directors evaluates the independence of its members on a regular basis. Each Board member is obliged to provide the Board with sufficient information that will allow the Board to evaluate his/her independence. The majority of Kesko's Board members are independent of the company and all Board members are independent of the company's significant shareholders. Board members Heikki Takamäki, Esa Kiiskinen and Rauno Törrönen each have a corporation over which they exercise control and which has a chain agreement with a Kesko Group company.

### PRINCIPAL DUTIES

The function of Kesko's Board of Directors is to duly arrange the company's management, operations and accounting, and to supervise the company's financial management. The Board of Directors has confirmed the written rules of procedure that specify the Board of Directors' duties, business to be handled, meeting practice and the decision-making process. The Board of Directors handles and decides on all matters that are financially, commercially or fundamentally significant for the Group's operations.

The principal duties of the Board of Directors include:

- making decisions on Group strategy and confirming strategies for the divisions
- confirming the Group's rolling plan, which includes the investment plan
- approving the Group's financing and investment policy
- confirming the Group's risk management policy and handling the Group's major risks and uncertainties
- confirming the Group's insurance policy
- handling and adopting consolidated financial statements, interim reports and related stock exchange releases and the report by the Board of Directors
- making decisions on strategically or financially important individual capital expenditure, acquisitions, disposals or other arrangements, and contingent liabilities
- making decisions on management authorisation rules
- making decisions on key Group structure and organisation
- appointing and dismissing the company's President and CEO approving his/her managing director's service contract and making decisions on his/her salary and other financial benefits
- approving the appointments, salaries and financial benefits of the Corporate Management Board members responsible for business divisions
- making decisions on Kesko's remuneration systems including possible granting of stock options within the terms and conditions decided by the General Meeting
- establishing a dividend policy and being responsible for the development of shareholder value
- confirming the company's values
- handling the Corporate Responsibility Report.

### DECISION-MAKING, ACTIVITIES AND MEETINGS

The purpose of Kesko's Board of Directors is to promote the interests of Kesko and all its shareholders. In the company, the Board members do not represent the interests of the parties who proposed their election. Board members are disqualified from participating in the handling of any matter between him/her and the company. When a vote is taken, the Board of Directors' decision will be the opinion of the majority. If the vote results in a tie, the decision will be the opinion supported by the Chair. If the votes cast at an election end in a tie, the results will be decided by drawing lots.

The Board met 10 times in 2009, and the average attendance at meetings was 98.6%. New Board members were systematically introduced to Kesko's activities during the year.

At its meetings, the Board of Directors has focused particularly on strategies of the Kesko Group and its divisions. At the meetings, the Board receives regular reviews from the President and CEO, handles financial reports and actively monitors the financial situation of the Kesko Group. It also approves major capital expenditure, such as store site investments. On the basis of the

Audit Committee's recommendation, the Board handles and approves the interim reports and the financial statements before they are published. The Board also discusses reports on committee meetings, made by the Chairs of the Audit Committee and the Remuneration Committee. The auditor presents his findings to the Board once a year.

The Board of Directors regularly assesses its operations and working practices and carries out a related self-assessment once a year. Most recently the Board made a self-assessment of its operations and working practices in December 2009. This was based on a questionnaire, followed by a discussion on the results and further actions. On the basis of the assessment, the Board of Directors decided to continue to focus on strategies.

### COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has an Audit Committee and a Remuneration Committee, both of which consist of three (3) Board members. At the close of the Annual General Meeting, the Board of Directors elects the Chairs and the members of the Committees from among its members for one year at a time. All members of

#### Members of Kesko Corporation's Board of Directors and its Committees and their attendance at meetings in 2009

	Committee membership	Attendance		
		Board	Audit Committee	Remuneration Committee
Heikki Takamäki (Chair)	Remuneration Committee (Chair)	10/10	–	3/3
Esa Kiiskinen**		8/8	–	–
Ilpo Kokkila	Remuneration Committee**	10/10	–	3/3
Mikko Kosonen**	Audit Committee	8/8	4/4	–
Maarit Näkyvä	Audit Committee (Chair)	10/10	5/5	–
Seppo Paatelainen (Dep. Chair since 30.3.2009)	Audit Committee, Remuneration Committee**	9/10	4/5	3/3
Rauno Törrönen**		8/8	–	–
Keijo Suila (Dep. Chair until 30.3.2009)*	Audit Committee, Remuneration Committee	2/2	1/1	–
Pentti Kalliala*	Remuneration Committee	2/2	–	–
Jukka Säilä*	–	2/2	–	–

#### Independence of the Board members in 2009

	Independent of the company	Independent of significant shareholders
Heikki Takamäki (Chair)	No***	Yes
Esa Kiiskinen**	No***	Yes
Ilpo Kokkila	Yes	Yes
Mikko Kosonen**	Yes	Yes
Maarit Näkyvä	Yes	Yes
Seppo Paatelainen (Dep. Chair since 30.3.2009)	Yes	Yes
Rauno Törrönen**	No***	Yes
Keijo Suila (Dep. Chair until 30.3.2009)*	Yes	Yes
Pentti Kalliala*	No***	Yes
Jukka Säilä*	No***	Yes

\* until 30 March 2009

\*\* since 30 March 2009

\*\*\* The companies in which Kalliala, Kiiskinen, Säilä, Takamäki and Törrönen exercise control each have a chain agreement with a Kesko Group company.



the Audit Committee are independent of the company and its significant shareholders. All members of the Remuneration Committee are independent of the company's significant shareholders and the majority of them are also independent of the company. The Committees regularly assess their operations and working practices and carry out a related self-assessment once a year. The Board of Directors has confirmed written rules of procedure for the Committees that lay down their key duties and operating policies.

The Committees have no independent decision-making power, but the Board makes decisions based on the preparations made by the Committees. The Chair of the Committee reports on the work of the Committee at the Board of Directors meeting following the Committee meeting. Minutes of all Committee meetings are submitted to Board members for information.

Kesko's Board of Directors has not established any other committees in addition to the Audit and Remuneration Committees.

#### *Audit Committee and its activities*

The Audit Committee comprises Maarit Näkyvä (Chair), Seppo Paatelainen and Mikko Kosonen.

According to the rules of procedure, the duties of the Audit Committee include:

- monitoring the financial position and financing of the Kesko Group
- monitoring the company's financial statements reporting process
- supervising the company's financial reporting process
- evaluating the efficiency of the company's internal control, internal audit and risk management systems
- handling the Corporate Governance Statement submitted by the company, including a description of the main features of the internal control and risk management systems related to the financial reporting process
- handling the plans and reports of the Corporate Internal Audit
- monitoring the statutory audit of the financial statements and consolidated financial statements
- evaluating the independence of the company's audit firm
- evaluating the related services provided to Kesko by the company's audit firm and the audit companies belonging to the same chain
- preparing the draft resolution concerning the election of the company's auditor
- maintaining contact with the company's auditor.

The Audit Committee met five (5) times in 2009, and the average attendance at meetings was 93.3%. At Committee meetings, the CFO, the Corporate Controller, the Chief Audit Executive and the General Counsel of the Group give regularly reports on their areas of responsibility to the Committee. The Committee also receives information on the Kesko Group's financing, risk management and insurances. The auditor is present at meetings and presents his audit plan and report to the Audit Committee.

During the year, the Committee handled reports on the financial position of the Group, including the financial statements

release and interim reports before they were published and recommended that the Board of Directors discuss the interim reports and the financial statements release. It discussed the Group's external and internal audit and risk management reports, and made a proposal to the Annual General Meeting on the auditor to be elected for Kesko.

#### *Remuneration Committee and its activities*

The Remuneration Committee comprises Heikki Takamäki (Chair), Seppo Paatelainen and Ilpo Kokkila.

According to the rules of procedure, the duties of the Remuneration Committee include:

- preparing the salary and other financial benefits of the company's President and CEO for the company's Board of Directors
- preparing the salaries and other financial benefits of the Corporate Management Board members responsible for the business divisions
- preparing the appointment matters of the President and CEO and the Corporate Management Board members responsible for the business divisions and the assessment of their successors
- preparing and developing the company's remuneration systems, including the preparation of matters related to the possible granting of stock options for the company's Board of Directors on terms and conditions decided by a General Meeting.

The Remuneration Committee met three (3) times in 2009, and the average attendance at meetings was 100%. The committee prepared a proposal for the Board of Directors on granting stock options as part of the Group executives' and other key persons' long-term incentive system, and approved the principles of the Group's performance bonus system. It also monitored progress on the Group's work and productivity programme.

Further information on Kesko's Board members is available on pages 66–67 and at [www.kesko.fi](http://www.kesko.fi).

#### *President and CEO*

Kesko's President and CEO is Matti Halmesmäki, M.Sc. (Econ.), LL.M. He has been Kesko's President and CEO since 1 March 2005.

The President and CEO is responsible for managing the company's activities within the guidelines and limits set by the Board of Directors, and informing the Board of Directors about the development of the company's business and financial position. He is also responsible for arranging the company's day-to-day administration and for ensuring the reliable arrangement of the company's financial administration. The President and CEO also chairs the Corporate Management Board and the Boards of the Group's major subsidiaries, such as Kesko Food Ltd and Rautakesko Ltd.

The President and CEO is elected by the Board of Directors, which also decides on the terms of the President and CEO's service contract.

A written managing director's service contract has been made between the company and the President and CEO.

Further information on Kesko's President and CEO is presented on page 68 and at [www.kesko.fi](http://www.kesko.fi).

## Corporate Management Board

The Kesko Group has a Corporate Management Board, the Chair of which is Kesko's President and CEO.

The Corporate Management Board has no authority based on legislation or the Articles of Association. The Corporate Management Board is responsible for dealing with Group-wide development projects and Group-level policies and practices. In addition, the Corporate Management Board deals with the Group's and the division parent companies' business plans, profit performance and matters handled by Kesko's Board of Directors, in whose preparation it also participates. The Corporate Management Board meets 8–10 times a year.

Further information on Kesko's Corporate Management Board is presented on pages 68–69 and at [www.kesko.fi](http://www.kesko.fi).

## Members of the Corporate Management Board and their responsibility areas in 2009

Corporate Management Board member since	Responsibility area
Matti Halmesmäki, Chair	Kesko's President and CEO
Terho Kalliokoski President of Kesko Food Ltd	Food trade
Jari Lind President of Rautakesko Ltd	Building and home improvement trade
Matti Leminen President of Anttila Oy	Home and speciality goods trade
Pekka Lahti President of VW-Auto Group Oy	Car and machinery trade
Arja Talma, Kesko's Senior Vice President, CFO	Finance
Riitta Laitasalo Kesko's Senior Vice President, Human Resources	Human Resources
Paavo Moilanen Kesko's Senior Vice President, Corporate Communications and Responsibility	Corporate Communications and Responsibility

## Board of Directors' annual and meeting fees in 2006–2009, decided by the Annual General Meeting

Annual fee	2009	Fee per year, € 2006–2008
Chair of the Board	80,000	60,000*
Deputy Chair of the Board	50,000	42,000*
Board member	37,000	30,000*
Meeting fees	2009	Fee per meeting, € 2006–2008
Fee for Board meeting	500	500
Fee for Committee meeting	500	500
Fee to Chair for Committee meeting if he/she is not also Chair or Deputy Chair of the Board	1,000	1,000

\* Monthly fees decided in 2006–2008 have been converted into annual fees.

## Annual and monthly fees paid to the members of the Board of Directors in 2009 for Board and Committee work

	Annual fees	Meeting fees		Remuneration Committee	Total, €
		Board	Audit Committee		
Heikki Takamäki (Chair)	75,000	5,000	–	1,500	81,500
Esa Kiiskinen**	27,750	4,000	–	–	31,750
Ilpo Kokkila	35,250	5,000	–	1,500	41,750
Mikko Kosonen**	27,750	4,000	2,000	–	33,750
Maarit Näkyvä	35,250	5,000	5,000	–	45,250
Seppo Paatelainen (Dep. Chair since 30.3.2009)	45,000	4,500	2,000	1,500	53,000
Rauno Törrönen**	27,750	4,000	–	–	31,750
Keijo Suila (Dep. Chair until 30.3.2009)*	10,500	1,000	500	–	12,000
Pentti Kalliala*	7,500	1,000	–	–	8,500
Jukka Säilä*	7,500	1,000	–	–	8,500
<b>Total</b>	<b>299,250</b>	<b>34,500</b>	<b>9,500</b>	<b>4,500</b>	<b>347,750</b>

\* until 30 March 2009 \*\* since 30 March 2009

## Remuneration

### REMUNERATION AND OTHER FINANCIAL BENEFITS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Annual General Meeting makes decisions on the annual remuneration and other financial benefits of the members of the Board of Directors and its Committees. All fees of the members of the Board and its Committees are paid in cash. Board members have no share or share-linked remuneration systems.

### REMUNERATION OF THE PRESIDENT AND CEO AND OTHER EXECUTIVES

The remuneration system of the President and CEO and other executives of Kesko consists of a fixed monthly salary, a performance bonus based on criteria set annually, an executive's pension benefits, and a stock option system. The company has no share remuneration system.

Kesko's Board of Directors makes decisions on the individual salaries and other financial benefits of the President and CEO and the Corporate Management Board members responsible for the business divisions, on the principles of the performance bonus system, and on the bonuses to be paid. As for the other executives, Kesko's Board of Directors makes decisions on performance bonus principles. The President and CEO makes decisions on the salaries and bonuses of Corporate Management Board members

other than those mentioned above and on the details of other executives' performance bonus systems, following the one-over-one principle. Depending on the profit impact of each management position, the maximum bonuses of Kesko's President and CEO and other company executives can vary up to an amount corresponding to an executive's salary for 3–8 months. The performance bonus criteria consist of the Group's profit before extraordinary items and tax, the executive's area-specific EP ratio and operating profit, net sales performance, customer and personnel indicators, and an overall assessment. The results used as the basis for the performance bonuses are exclusive of non-recurring items, and the weights given to the bonus criteria vary depending on the task. Bonuses are paid at the end of March, after the annual financial statements have been completed. The management's performance bonus system covers about 100 executives of the Kesko Group.

In addition, Kesko has a valid year 2003 stock option scheme for Kesko Group executives, which expires on 30 April 2010, and a valid year 2007 stock option scheme for Group executives and other key persons. The 2007 option scheme includes an obligation placed by Kesko's Board of Directors on option recipients to use 25% of their option income to buy company shares for permanent ownership. Kesko's Board of Directors makes decisions on the distribution of stock options on the basis of proposals

### Salaries, bonuses and fringe benefits of the President and CEO and the Corporate Management Board in 2008–2009

	Fixed salary		Bonuses		Fringe benefits		Total	
	2009	2008	2009**	2008***	2009	2008	2009	2008
Matti Halmesmäki	569,300	541,100	152,250	280,000	23,014	17,460	744,564	838,560
Corporate Management Board*	1,415,291	1,359,636	93,650	346,910	112,441	101,085	1,621,382	1,807,631
Total	1,984,591	1,900,736	245,900	626,910	135,455	118,545	2,365,946	2,646,191

\* excluding President and CEO Matti Halmesmäki \*\* based on 2008 performance \*\*\*based on 2007 performance

### Stock options granted to the members of the Corporate Management Board in 2007–2009, and the members' retirement age and benefits, notice period and severance pay

	Granted stock options			Retirement age	Retirement benefits*, pension as % of pensionable salary	Notice period, months	Severance pay
	2009 (2007C)	2008 (2007B)	2007 (2007A)				
Matti Halmesmäki, Chair	50,000	50,000	50,000	60	66	6	12 months' salary
Terho Kalliokoski	30,000	25,000	25,000	62	66	6	6 months' salary
Jari Lind	25,000	25,000	25,000	62	66	6	6 months' salary
Matti Leminen	20,000	20,000	20,000	60	66	6	12 months' salary
Pekka Lahti	20,000	20,000	20,000	62	66	6	6 months' salary
Arja Talma	25,000	25,000	25,000	Based on the Employees' Pensions Act	Based on the Employees' Pensions Act	6	6 months' salary
Riitta Laitasalo	15,000	15,000	15,000	60	66	6	12 months' salary
Paavo Moilanen	15,000	15,000	15,000	60	66	6	12 months' salary
Total	200,000	195,000	195,000				

\* Supplementary pension benefits are granted by department A of the Kesko Pension Fund in accordance with its rules.



made by the Remuneration Committee and within the terms and conditions of the stock option scheme decided by the company's General Meeting.

Further information on the terms and conditions of Kesko's stock option schemes is available on pages 147–148 and at [www.kesko.fi](http://www.kesko.fi).

### Outline of internal control and risk management systems related to the Group's financial reporting

#### KESKO'S MANAGEMENT SYSTEM

Kesko's financial reporting and planning are based on the Kesko Group's management system (Fig. 1). The Group units' financial results are reported and analysed inside the Group on a monthly basis, and disclosed in interim reports published quarterly. Financial plans are prepared for quarterly periods, in addition to which significant changes are taken into account in the monthly performance forecasts. The Group's and its units' strategies and related long-term financial plans are updated annually.

#### ROLES AND RESPONSIBILITIES

The Kesko Group's financial reporting and its control is divided between three organisational levels. The subsidiaries analyse and report their figures to the respective divisions, which then report the division-specific figures to Corporate Accounting. Analyses and controls for ensuring the correctness of reporting are used at each level.

The correctness of reporting is ensured by using different automated and manual controls at every reporting level. In addition, the income statement and balance sheet are analysed by controllers at subsidiary, division and Group level every month. The implementation of analyses and controls is supervised on a monthly basis at company, division and Group level.

#### PLANNING AND PERFORMANCE REPORTING

The Group's financial performance and the achievement of financial objectives are monitored via Group-wide financial reporting. Monthly performance reporting includes Group-, division- and subsidiary-specific results, progress compared to the previous year, comparisons with financial plans, and forecasts for the next 12 months. The Group's short-term financial planning is based on plans drawn up by the quarter, extending for 15 months. The financial indicator for growth is sales performance, while that for profitability is the accumulation of economic value added, monitored via monthly internal reporting. When calculating economic value added, the requirements concerning return on capital are determined annually on market terms, and the performance requirements take account of risk-related division- and country-specific differences. Information about the Group's financial situation is given by interim reports and the financial statements release. The Group's sales figures are published in a stock exchange release each month.



Fig 1.

The Kesko Group's management system

Financial planning takes place in the subsidiaries, divisions and the Group where rolling plans, each for a 15-month period, are made. The plans are updated quarterly, and any significant changes are taken into account in the monthly performance forecasts. Any deviations between the plan and the actual result are analysed by the company, division and Corporate Accounting, and the reasons are reported to the division and Corporate Accounting every month.

The performance reports provided monthly for the Group's top management comprise the subsidiaries', divisions' and the consolidated income statements and balance sheets. Each subsidiary is primarily responsible for the financial reporting and the correctness of its figures. The financial management and the controlling function of each division analyse the respective division's figures, while Corporate Accounting analyses the whole Group's figures. The income statement and the balance sheet are analysed monthly at the company, division and Group level, based on the documented division of duties and specified reports. This enables a real-time knowledge of the financial situation, as well as real-time response to possible defects. The performance reports provided for the top management also include Group-level monitoring of sales on a weekly, monthly and quarterly basis.

Public performance reporting comprises interim reports, the annual financial statements and monthly sales reports. The same principles and control methods are applied to the public performance reporting as to the monthly performance reporting. The Audit Committee reviews the interim report and the financial statements and gives a recommendation to the Board of Directors. The Board of Directors approves the interim report and the financial statements before they are published.

#### ACCOUNTING POLICIES AND FINANCIAL MANAGEMENT IT SYSTEMS

The Kesko Group has adopted the International Financial Reporting Standards (IFRSs) endorsed by the European Union. The accounting policies adopted by the Group are included in the accounting manual, updated as the standards are amended. The manual contains guidelines for stand-alone companies, the parent company, and instructions for the preparation of consolidated financial statements.

The Kesko Group's financial management information is generated by division-specific enterprise resource planning systems, via a centralised and controlled common interface, into the Group's centralised consolidation system, to produce the Group's main financial reports. The key systems used in the production of financial information are certified and secured by back-up systems, and they are controlled and checked regularly to ensure reliability and continuity.

#### Risk management and internal audit RISK MANAGEMENT IS AN INTEGRAL PART OF KESKO'S MANAGEMENT

Kesko's risk management is proactive and an integral part of management and day-to-day activities. The objective of Kesko's risk management is to ensure the implementation of Group strategies, the delivery of customer promises, the maintenance of shareholder value, and the continuity of business. Efficient risk management is a competitive advantage for Kesko.

The risk management policy approved by the Board of Directors guides risk management in the Kesko Group. The policy defines the objectives, principles, responsibilities and key practices of risk management. Kesko divides risks into strategic, financial, operational and damage/loss risks.

In the Kesko Group, a risk is defined as any kind of uncertainty that may lead to:

- a failure to exploit business opportunities,
- events or reasons which prevent or hinder the attainment of objectives or have other unwanted consequences.

The Kesko Group applies a business-oriented and comprehensive approach to risk assessment and management. This means that key risks are systematically identified, assessed, managed, monitored and reported as part of business activities at the Group, division, company and unit levels in all the countries where Kesko operates. Risk identification and assessment play a key role in Kesko's strategies and rolling planning.

Kesko has a uniform risk assessment and reporting system. Risks are identified and prioritised by assessing the impact and probability of their materialisation, and the level of management. An owner is named for all risks and the most significant risks are analysed in detail to find out causes and effects. The risks classified as critical are regularly dealt with by the Corporate Management Board, which also monitors the actions taken. The development of the risk situation is also assessed on the basis of the progress made through these actions and the changes in external factors, for example. In risk assessments the time span is one year, except for strategic risks where the span is 3–5 years. The outcome is a clearer picture of the scope, mutual relations and expected trends of the risks.

The management of financial risks is based on the Group's treasury policy, confirmed by Kesko's Board of Directors. The Group Treasury is centrally responsible for funding, liquidity management, debt investor relations and the management of financial risks.

Providing insurance cover is part of Kesko's risk management, and the insurance policy confirmed by Kesko's Board of Directors defines the principles of providing insurance. The aim is to ensure that the Group's employees, property, business and liabilities have proper and economical insurance cover, while taking account of legislative requirements, and the Group's current risks and risk-bearing capacity. The Group's risk management functions are responsible for providing Group-level insurance

programmes, for their competitive tendering and for brokerage services as part of the Group's damage/loss risk management.

#### THE KESKO GROUP'S PRINCIPLES OF RISK MANAGEMENT

Objectives relating to risks and opportunities are set for the divisions and the business operations.

- We take conscious and carefully evaluated risks within the limits set in strategy selections e.g. in expanding business operations, in enhancing market position and power, and in creating new business. Risk-taking is based on the defined risk-bearing capacity.
- We avoid or reduce financial, operational and damage/loss risks.
- We ensure a safe shopping environment for customers and product safety.
- We create a safe working environment for employees.
- We minimise opportunities for unhealthy phenomena, crime or malpractice through operating principles, controls and supervision.
- The continuity of operations is ensured by safeguarding critical functions and essential resources.
- Crisis management and continuity plans are prepared in case any risks are realised.
- The costs and resources involved in risk management are in proportion to the obtainable benefits.
- Information on risks and risk management is provided to stakeholders.

#### RESPONSIBILITIES AND ROLES IN RISK MANAGEMENT

The business division and Group management are responsible for risk management in practice. Each division has appointed one Board member, usually the finance director, to be responsible for coordinating risk management and security and providing guidelines in each respective division and reporting on risk management activities. In addition, the food, building and home improvement, and home and speciality goods divisions each have a risk manager who is responsible for the development and control of risk management and security in the division in cooperation with the business management and supporting functions.

The Group's risk management function controls and coordinates the development of joint risk management and security procedures, introduces best practices to the Group and reports on risk management to the Group management.

Kesko has a Group-level Risk Management Steering Group, which is chaired by the President and CEO, and consists of the representatives of the management of the various divisions and Group units. The Steering Group discusses risk management and safety procedures and key policy definitions, and assesses and monitors the Group's risks and safety situation, and the implementation of risk management responses.

Kesko's Board of Directors discusses the major risks and the responses required to control them, and assesses the efficiency of risk management. Significant risks and uncertainties, as well

as changes in and responses to them, are reported to Kesko's Board of Directors' Audit Committee when the interim reports are handled. The Board of Directors also submits reports to the market on significant risks and uncertainties in connection with the financial statements as part of the Report by the Board of Directors.

The Corporate Internal Audit annually assesses the efficiency of the Group's risk management and reports on it to Kesko's Board of Directors' Audit Committee.

#### RISK MANAGEMENT IN 2009

As a result of the global financial crisis, risk management has become increasingly important. Risk management has been harmonised in the Kesko Group and divisional management now plays an increasingly important role in risk management. The risk assessment and management system has been made more explicit, and the process is now more efficiently applied in all countries where Kesko operates.

The divisions have made their risk assessments and updated them according to the schedule of the strategy process and rolling planning. The management of the division parent companies and the Group have discussed the companies' risks and how to manage them. In their own areas of responsibility, the Group units have also analysed the risks threatening Group objectives and how to manage them.

On the basis of these risk analyses, the Group's risk management function has prepared summaries of significant risks and their management on a quarterly basis. The resulting risk report has been handled by the Audit Committee of Kesko's Board of Directors. Major risks and uncertainties have been reported in connection with the interim reports.

Continuity has been ensured by updating the existing continuity and contingency plans, arranging crisis exercises and appointing substitutes for people in critical duties. Preparations for the swine flu pandemic started in the spring. The risk management function has also arranged competitive tendering of insurances, improved loss prevention and the safety of shopping centres. As a result of the 'glass splint problem' that spread from Sweden, Kesko revised its instructions relating to groceries.

#### FOCAL AREAS OF RISK MANAGEMENT IN 2010

Kesko's risk management function will continue its work to reduce wastage, prevent malpractice, maintain and test continuity plans, and provide cost-efficient insurance services. Management's crisis exercises will be arranged on a more regular basis. The risk reporting model will be developed, for example, by improving the use of electronic portals.

The risk management function works in close cooperation with other Group units, particularly with the finance, treasury and IT functions. Cooperation will be improved with the Corporate Internal Audit and responsibility functions in order to ensure that ethical working principles are implemented and the management of environmental risks improves.



Significant risks and uncertainties related to Kesko's business operations and risk management responses are described in the Report by the Board of Directors on pages 71–77, in notes Nos. 44–45 to the consolidated financial statements on pages 133–135 and at [www.kesko.fi](http://www.kesko.fi).

### INTERNAL AUDIT

Kesko's Corporate Internal Audit is responsible for the Group's independent assessment and assurance function, required from a listed company, which systematically defines and verifies the efficiency of risk management and control, as well as of management and administration. The management and organisation are supported to ensure that Kesko's goals and objectives are achieved, and to develop the control system. The Audit Committee of Kesko's Board of Directors has confirmed the Charter of Kesko's Corporate Internal Audit.

The Corporate Internal Audit works under the Group's President and CEO and the Audit Committee, and it reports on its audit findings and recommendations to the Audit Committee, the President and CEO, the management of the audited activity or business, and the external auditors. The function covers all of Kesko's divisions, companies and activities. The Corporate Internal Audit is divided into the foreign audit, the Group audit and the IT audit and has a staff of 11. Auditing is based on risk analyses and the control discussions carried on with Group and divisional management. An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The Corporate Internal Audit can also carry out special audits during the year. If required, the unit acquires external services for occasional needs or assessment assignments that require special competence.

The Corporate Internal Audit cooperates with the Group's risk management function and participates in the work of the Risk Management Steering Group. The Corporate Internal Audit assesses the effectiveness of Kesko's risk management system annually.

According to its Charter, the Corporate Internal Audit must have sufficient resources available and the knowledge, skills and other competencies needed for performing its duties. The auditors' competencies are developed by systematic professional

education and examinations. Kesko's Corporate Internal Audit currently has six employees with the international qualification of Certified Internal Auditor, granted by the Institute of Internal Auditors (IIA). The extent and expertise of auditing is ensured and coordinated by regular contacts and exchange of information with the Group's other internal assurance operations and external auditors.

The focal areas in the internal audit have included foreign operations and corporate IT. In foreign operations audits, the emphasis has been on basic controls and the management of goods stocks and trade receivables, while in the corporate IT audit special attention has been paid to new systems projects, IT continuity and security. Compliance with Kesko's accounting policies and reporting guidelines has been verified and assessed in audits in Finland and other countries.

### Auditing

According to the Articles of Association, Kesko has one (1) auditor, which shall be an audit firm authorised by the Central Chamber of Commerce. The Board of Directors' Audit Committee prepares the Board's proposal concerning the company's auditor for presentation at a General Meeting. The term of an auditor is the company's financial period and an auditor's duties terminate at the close of the Annual General Meeting following the election. A company belonging to the same chain as the audit firm represented by the auditor elected by Kesko's General Meeting acts primarily as the auditor of the Group subsidiaries outside Finland.

The 2009 Annual General Meeting re-elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the company's auditor, with APA Johan Kronberg as the auditor with principal responsibility. PricewaterhouseCoopers Oy acts primarily as the auditor of all subsidiaries, coordinates auditing and prepares a compilation report about its findings to the Audit Committee for all the auditors of Group companies. Auditors annually audit both individual legal companies and the consolidated financial statements.

The auditor presents the audit report required by law to Kesko's shareholders in connection with the company's financial statements. The auditor regularly participates in the meetings of

### Auditors' fees:

€ thousand	2009				2008			
	PwC		Other audit companies	Total	PwC		Other audit companies	Total
	Kesko Corporation	Other Group companies			Kesko Corporation	Other Group companies		
Auditing	129	717	63	909	84	785	155	1,024
Tax counselling	16	48	50	114	122	49	46	216
IFRS counselling	6	–	2	8	24	–	4	28
Other services	82	74	101	257	109	570	259	938
Total	233	839	216	1,288	339	1,404	464	2,206

the Audit Committee, and reports on his findings to it. The Audit Committee regularly assesses the independence of the audit firm and the auxiliary services provided by it.

## Insider administration

### KESKO'S INSIDER REGULATIONS

Kesko complies with the insider guidelines of NASDAQ OMX Helsinki Ltd., effective as of 9 October 2009. Kesko's Board of Directors has confirmed Kesko's insider regulations for permanent and project-specific insiders. The contents of the regulations correspond with the insider rules of NASDAQ OMX Helsinki Ltd. Kesko's insider regulations have been distributed to all insiders.

### KESKO'S PERMANENT INSIDERS AND INSIDER REGISTERS

In accordance with the Securities Markets Act, Kesko's permanent public insiders include Kesko's Board members, the President and CEO (managing director), and the audit firm's auditor with principal responsibility for Kesko. Kesko Corporation's Board of Directors has also stipulated that, in addition to the President and CEO, other members of the Corporate Management Board are regarded as the company's permanent public insiders. All permanent public insiders and the statutory information about them, their related persons and the corporations that are controlled by related persons or in which they exercise influence, have been entered in Kesko's register of public insiders.

Other permanent insiders of Kesko include persons working in positions determined by the Board of Directors who, in their duties, receive insider information on a regular basis and who are thus entered in the company's own, non-public insider register. Kesko's company-specific insider register is divided into individual registers that consist of permanent insiders and of possible insider projects and persons participating in their preparation.

### MONITORING

The Group's Legal Affairs Unit monitors the compliance with insider regulations and maintains the company's insider registers in cooperation with Euroclear Finland Ltd. At regular intervals, the Legal Affairs Unit sends an extract of the information in the insider register to permanent public insiders for checking and monitors the compliance with permanent insiders' trading

restrictions. Kesko's permanent insiders may not acquire or transfer securities issued by the company, including securities or derivative financial instruments entitling to them, during 21 days prior to the publication of interim reports and during 28 days prior to the publication of annual financial statements. These publication dates are announced annually beforehand in a stock exchange release. Furthermore, people involved in possible insider projects may not trade in Kesko's securities or derivative financial instruments during such a project.

Further information on the holdings of Kesko's permanent public insiders is available on pages 66–69 and at [www.kesko.fi](http://www.kesko.fi).

## Other matters

### STOCK EXCHANGE COMMUNICATIONS AND STOCK EXCHANGE RELEASES

The Group's Senior Vice President, CFO is responsible for the financial content of stock exchange releases as well as for investor information. The Corporate Communications and Responsibility Unit produces Group-level communications material and is responsible for providing stock exchange releases and financial information. The Vice President, General Counsel is responsible for ensuring that the rules related to stock exchange releases are observed at Kesko.

In its investor communications, Kesko follows the principle of impartiality and publishes all investor information on its website in Finnish and English. Kesko observes a two (2) week period of silence before publishing information on its results.



## Board of Directors on 31 December 2009

### Heikki Takamäki

b. 1947

**Domicile:** Tampere, Finland.

**Chair of the Board** and the Remuneration Committee.

**Principal occupation:** Retailer, K-rauta Rauta-Otra Nekala.

**Main employment history:** K-rauta retailer since 1979. Kesport-Inter-sport retailer 1995–1999.

**Board member since:** 1 January 2001.

**Main simultaneous positions of trust:** –

**Fees in 2009:** €81,500.

**Kesko shares and stock options held on 1 January 2009:** 104,470 A shares and 68,120 B shares held by him or his company. No stock options.

**On 31 December 2009:** 104,470 A shares and 68,120 B shares held by him or his company. No stock options.

### Seppo Paatelainen

b. 1944, M.Sc. (Agr. & For.)

**Domicile:** Seinäjoki, Finland.

**Deputy Chair of the Board**, and member of the Audit Committee and the Remuneration Committee.

**Principal occupation:** –

**Main employment history:** Itikka Co-operative: Director 1970–1973, Luja-Yhtiöt: Director, Itikka Lihabotnia Oy and Itikka Co-operative: CEO 1988–1991, Atria Group plc: CEO 1991–2006.

**Board member since:** 27 March 2006.

**Main simultaneous positions of trust:** Alma Media Corporation: Deputy Chair of the Board of Directors, Ilkka-Yhtymä Oy: Chair of the Board of Directors, Finavia Corporation: Chair of the Board of Directors, Seinäjoki Region Business Service Center: Chair of the Board of Directors  
**Fees in 2009:** €53,000.

**Kesko shares and stock options held on 1 January 2009:** No shares. No stock options.  
**On 31 December 2009:** No shares. No stock options.

### Esa Kiiskinen

b. 1963, Business College Graduate

**Domicile:** Helsinki, Finland.

**Principal occupation:** Retailer, K-supermarket Kontumarket, Helsinki.

**Main employment history:** K-food retailer since 1990.

**Board member since:** 30 March 2009.

**Main simultaneous positions of trust:** K-Retailers' Association: Chair of the Board of Directors, the Foundation for Vocational Training in the Retail Trade: Chair of the Board of Directors, Vähittäiskaupan Tilipalvelu VTP Oy: member of the Board of Directors, the Federation of Finnish Commerce: member of the Board of Directors, Saija ja Esa Kiiskinen Oy: Chair of the Board of Directors.

**Fees in 2009:** €31,750.

**Kesko shares and stock options held on 30 March 2009:** 102,350 A shares and 0 B shares held by him or his company. No stock options.

**On 31 December 2009:** 102,350 A shares and 0 B shares held by him or his company. No stock options.

### Ilpo Kokkila

b. 1947, M.Sc. (Techn.)

**Domicile:** Helsinki, Finland.

Member of the Remuneration Committee.

**Principal occupation:** SRV Group Plc: Chair of the Board of Directors.

**Main employment history:** A-Betoni Oy: Constructor 1972–1974, Perus-yhtymä Oy: Director 1974–1987, SRV Group Plc: Chair of the Board of Directors 1987–, Pontos Ltd: Chair of the Board of Directors 2002–

**Board member since:** 27 March 2006.

**Main simultaneous positions of trust:** JTO School of Management: Chair of the Board of Directors, Finnish-Russian Chamber of Commerce (FRCC): Deputy Chair of the Board of Directors.

**Fees in 2009:** €41,750.

**Kesko shares and stock options held on 1 January 2009:** 16,100 B shares held by him. No stock options.  
**On 31 December 2009:** 16,100 B shares held by him. No stock options.





### Mikko Kosonen

b. 1957, D.Sc. (Econ.)

**Domicile:** Espoo, Finland

Member of the Audit Committee.

**Principal occupation:** Executive Vice President of Finnish Innovation Fund Sitra.

**Main employment history:** Nokia plc: Senior Vice President for Strategic Planning and Information Management 1996–2005 and Senior Advisor 2005–2007. Finnish Innovation Fund Sitra: Executive Vice President 2007–2008 and President 2008–.

**Board member since:** 30 March 2009.

**Main simultaneous positions of trust:** Itella Corporation: Deputy Chair of the Board of Directors, Fifth Element Ltd: member of the Board of Directors, Kauppatieteellinen yhdistys: member of the Board of Directors.

**Fees in 2009:** €33,750.

**Kesko shares and stock options held on 30 March 2009:** No shares.

No stock options.

**On 31 December 2009:** No shares.

No stock options.



### Maarit Näkyvä

b. 1953, M.Sc. (Econ.)

**Domicile:** Kirkkonummi, Finland.

Chair of the Audit Committee.

**Principal occupation:** –

**Main employment history:** Unitas Bank Ltd.: Director 1990–1995, Merita Bank Ltd.: Director 1995–1996, Merita Fund Management Ltd: President 1996–1997, Leonia Bank plc: member of the Board of Directors 1998–2000. Sampo plc's Executive Vice President 2001–2006. Sampo Bank plc's Deputy CEO 2005–2008.

**Board member since:** 1 January 2001.

**Main simultaneous positions of trust:** –

**Fees in 2009:** €45,250.

**Kesko shares and stock options held on 1 January 2009:** No shares. No stock options.

**On 31 December 2009:** No shares.

No stock options.



### Rauno Törrönen

b. 1958, Hospitality Management

Training

**Domicile:** Joensuu, Finland.

**Principal occupation:** Retailer, K-citymarket Kauppakatu, Joensuu.

**Main employment history:** Pohjois-Karjalan Osuuskauppa: member of the management team 1986–1998. K-food retailer since 1998.

**Board member since:** 30 March 2009.

**Main simultaneous positions of trust:** Joensuun kauppaopetuksen tukisäätiö: member of the Board of Directors, Alepro Oy: member of the Board of Directors.

**Fees in 2009:** €31,750.

**Kesko shares and stock options held on 30 March 2009:** 15,900 A shares and 9,600 B shares held by him or his company. No stock options.

**On 31 December 2009:** 15,900 A shares and 9,600 B shares held by him or his company. No stock options.

Up-to-date information about the main positions of trust of the Board members is available at [www.kesko.fi](http://www.kesko.fi).

According to the company's Articles of Association, the term of each Board member will expire at the close of the 2012 Annual General Meeting.



## Corporate Management Board on 31 December 2009

### Matti Halmesmäki

b. 1952, M.Sc. (Econ.), LL.M.  
Kesko Corporation's President and CEO, Chair of the Corporate Management Board.

**Domicile:** Helsinki, Finland.

**Other major duties:** Confederation of Finnish Industries EK: Deputy Chair of the Board of Directors, the Finnish Fair Corporation: member of the Board of Directors, the Federation of Finnish Commerce: member of the Board of Directors, Varma Mutual Pension Insurance Company: Supervisory Board member, Luottokunta: Chair of the Supervisory Board, Foundation for Economic Education: member of the Board of Directors, Finnish Business and Policy Forum EVA: member, Helsinki Region Chamber of Commerce: Delegation member, Helsinki School of Economics: Advisory Board member, the Association for Promoting Voluntary National Defence of Finland: Delegation member, the Association for the Finnish Cultural Foundation: member, the Central Chamber of Commerce in Finland: Board member, ICC Finland – the Finnish Section of International Chamber of Commerce: Executive Board member, Savonlinna Opera Festival Patrons' Association, member of the Board of Trustees.

**Employment history:** employed by Kesko Ltd since 1980: Director of the Accounting and Office Administration Department 1985–1989, Executive Vice President, Finance and Accounting 1989–1993, Executive Vice President, Agricultural and Builders' Supplies Division 1993–1995, Executive Vice President, Speciality Goods Division 1995–1996, Managing Director of Tuko Oy 1996–1997, Executive Vice

President, Speciality Goods Trade 1997–2000. Member of Kesko Corporation's Board of Directors 1989–2000. President of Rautakesko Ltd and Kesko Agro Ltd 2001–2005. Kesko Corporation's Managing Director and the Kesko Group's President and CEO since 1 March 2005.

**Kesko shares and stock options held on 1 January 2009:** 2,000 A shares, 7,000 B shares, 50,000 2007A stock options and 50,000 2007B stock options.

**On 31 December 2009:** 2,000 A shares, 7,000 B shares, 50,000 2007A stock options, 50,000 2007B stock options and 50,000 2007C stock options.

**Retirement age and benefits:** 60 years. Full pension is 66% of the pensionable salary.

**Notice period and severance pay:** 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.

**Corporate Management Board member since:** 1 January 2001.

### Terho Kalliokoski

b. 1961, M.Sc. (Econ.)  
President of Kesko Food Ltd.  
**Domicile:** Kirkkonummi, Finland

**Other major duties:** the Finnish Food Marketing Association: member of the Board of Directors, the Association of Finnish Advertisers: member of the Board of Directors, the Association for Finnish Work: member of the Board, Helsinki Region Chamber of Commerce: member of the Board of Directors, the Finnish 4H Federation: member of the Supervisory Board.

**Employment history:** employed by Kesko Ltd since 1985: Project Planner,

Store Site Office (Helsinki) 1985–1987, Investment Manager, Real Estate Department (Helsinki) 1988–1990, Financial Manager, Northern Finland (Oulu) 1990–1995, Retail Services Manager, Grocery Retail Services (Oulu) 1995–1996, Sales Director, Supermarket Chain Unit (Oulu) 1996–1997, District Director, Northern Finland (Oulu) 1998–2002, Senior Vice President, Kesko Real Estate (Helsinki), 2002–2005. President of Kesko Food Ltd since 1 May 2005.

**Kesko shares and stock options held on 1 January 2009:** 3,250 B shares, 25,000 2007A stock options and 25,000 2007B stock options.

**On 31 December 2009:** 3,250 B shares, 25,000 2007A stock options, 25,000 2007B stock options and 30,000 2007C stock options.

**Retirement age and benefits:** 62 years. Full pension is 66% of the pensionable salary.

**Notice period and severance pay:** 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.

**Corporate Management Board member since:** 17 March 2005.

### Jari Lind

b. 1958, Engineer  
President of Rautakesko Ltd.  
**Domicile:** Vantaa, Finland.

**Other major duties:** –

**Employment history:** employed by Kesko Ltd since 1990: Rautakesko, Purchase Logistics Director 2000–2001, Vice President for the K-rauta chain and B-to-B Service 2002–2004. President of Rautakesko Ltd since 1 March 2005.

**Kesko shares and stock options held on 1 January 2009:** 25,000

2007A stock options and 25,000 2007B stock options.

**On 31 December 2009:** 25,000 2007A stock options, 25,000 2007B stock options and 25,000 2007C stock options.

**Retirement age and benefits:** 62 years. Full pension is 66% of pensionable salary.

**Notice period and severance pay:** 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.

**Corporate Management Board member since:** 1 March 2005.

### Matti Leminen

b. 1951, B.Sc. (Econ.)  
President of Anttila Oy.  
**Domicile:** Espoo, Finland.

**Other major duties:** Textile and Fashion Industries TMA: member of the Board of Directors.

**Employment history:** employed by Kesko Ltd since 1982: Director of the Vaatehuone chain 1990–1991, Director of the Leisure Goods Department 1992–1995, Director of Kesko Sports 1995–1998, Executive Vice President of Keswell Ltd 2005–2006. President of Anttila Oy since 10 June 1998.

**Kesko shares and stock options held on 1 January 2009:** 20,000 2007A stock options, 20,000 2007B stock options, 7,000 2003E stock options and 12,000 2003F stock options.

**On 31 December 2009:** 20,000 2007A stock options, 20,000 2007B stock options, 20,000 2007C stock options and 3,000 2003F stock options.

**Retirement age and benefits:** 60 years. Full pension is 66% of pensionable salary.



**Notice period and severance pay:** 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.

**Corporate Management Board member since:** 1 January 2007.

### Pekka Lahti

b. 1955, M.Sc. (Agr.)  
President of VV-Auto Group Oy.  
**Domicile:** Vantaa, Finland.

**Other major duties:** the Association of Automobile Importers in Finland: Deputy Chair of the Board of Directors, Finnish Car Recycling Ltd: member of the Board of Directors.

**Employment history:** employed by Kesko Ltd since 1981: Vice President, Kesko Machinery 2000, Managing Director of Konekesko Ltd since 2001 and President of Kesko Agro Ltd 2005–2008. Chair of the Board of Konekesko Ltd since 1 November 2005. President of VV-Auto Group Oy since 1 February 2006.

**Kesko shares and stock options held on 1 January 2009:** 20,000 2007A stock options, 20,000 2007B stock options and 23,500 2003F stock options.

**On 31 December 2009:** 20,000 2007A stock options, 20,000 2007B stock options, 20,000 2007C stock options and 17,200 2003F stock options.

**Retirement age and benefits:** 62 years. Full pension is 66% of pensionable salary.

**Notice period and severance pay:** 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.

**Corporate Management Board member since:** 1 March 2005.



### Riitta Laitasalo

b. 1955, M.Sc. (Econ.)  
Senior Vice President, Human Resources.  
**Domicile:** Espoo, Finland.

**Other major duties:** Edita Plc: member of the Board of Directors, JTO School of Management: member of the Board of Directors, the Finnish Institute for International Trade Fintra: member of the Board of Directors.

**Employment history:** employed by Kesko Ltd since 1979: Personnel Director 1995–1997, Vice President, Accounting and Finance Division 1997–1998, Vice President, Finance and Administration Division 1998–1999, Senior Vice President, Administration 2000–2005. Senior Vice President, Human Resources since 30 March 2005.

**Kesko shares and stock options held on 1 January 2009:** 5,000 B shares, 15,000 2007A stock options, 15,000 2007B stock options and 21,000 2003F stock options.

**On 31 December 2009:** 10,000 B shares, 15,000 2007A stock options, 15,000 2007B stock options, 15,000 2007C stock options and 16,000 2003F stock options.

**Retirement age and benefits:** 60 years. Full pension is 66% of the pensionable salary.

**Notice period and severance pay:** 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.

**Corporate Management Board member since:** 1 January 2001.



### Arja Talma

b. 1962, M.Sc. (Econ.), eMBA  
Senior Vice President, CFO.  
**Domicile:** Helsinki, Finland.

**Other major duties:** Sponda Plc: member of the Board of Directors and Chair of the Audit Committee, VR-Group Ltd: member of the Board of Directors and Chair of the Audit Committee, Luottokunta: member of the Board of Directors.

**Employment history:** KPMG Wideri Oy Ab: APA 1992–2001, partner 2000–2001. Oy Radiolinja Ab: Executive Vice President, Finance and Administration 2001–2003. Employed by Kesko Corporation since 2004: Vice President, Corporate Controller 2004–2005. Senior Vice President, CFO since 17 March 2005.

**Kesko shares and stock options held on 1 January 2009:** 1,000 B shares, 25,000 2007A stock options and 25,000 2007B stock options.

**On 31 December 2009:** 2,000 B shares, 25,000 2007A stock options, 25,000 2007B stock options and 25,000 2007C stock options.

**Retirement age and benefits:** General retirement age and pensionable salary based on the Employees' Pensions Act (TyEL).

**Notice period and severance pay:** 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.

**Corporate Management Board member since:** 17 March 2005.



### Paavo Moilanen

b. 1951, Business College Graduate.  
Senior Vice President, Corporate Communications and Responsibility.  
**Domicile:** Espoo, Finland.

**Other major duties:** Kaleva Mutual Insurance Company: Supervisory Board member, the Association for Finnish Work: member of the Communications and Research Committee, the Federation of Finnish Commerce: Chair of the Communications Committee

**Employment history:** employed by Kesko Ltd since 1974: Kajaani District Director 1986–1989; Jyväskylä District Director 1989–1991; Seinäjoki District Director 1991–1995; Director of the Neighbourhood Store Chain Unit 1995–1996; Director of the Speciality Goods Division 1996–1997, Vice President, Builders' and Agricultural Supplies Division 1998–2000, Managing Director of the K-Retailers' Association 2000–2005. Kesko Group's Senior Vice President, Corporate Communications and Responsibility since 13 October 2005.

**Kesko shares and stock options held on 1 January 2009:** 500 A shares, 1,312 B shares, 15,000 2007A stock options and 15,000 2007B stock options.

**On 31 December 2009:** 500 A shares, 1,500 B shares, 15,000 2007A stock options, 15,000 2007B stock options and 15,000 2007C stock options.

**Retirement age and benefits:** Retirement age 60 years. Full pension is 66% of the pensionable salary.

**Notice period and severance pay:** 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.

**Corporate Management Board member since:** 13 October 2005.



# Report by the Board of Directors and Financial Statements

## Report by the Board of Directors

- 71** Report by the Board of Directors
- 77** Proposal for profit distribution
- 78** Group performance indicators

## Financial statements

- 85** Consolidated financial statements (IFRS)
  - 85** Consolidated income statement
  - 86** Consolidated statement of financial position
  - 87** Consolidated statement of cash flows
  - 88** Consolidated statement of changes in equity
  - 89** Notes to the consolidated financial statements
    - 89** Note 1, Accounting policies for the consolidated financial statements
    - 96** Note 2, Segment information
    - 100** Note 3, Acquisitions
    - 100** Note 4, Discontinued operations and disposals of assets
    - 101** Note 5, Other operating income
    - 101** Note 6, Other operating expenses
    - 102** Note 7, Non-recurring items
    - 102** Note 8, Staff cost, number of employees and management's salaries
    - 102** Note 9, Financial income and expenses
    - 103** Note 10, Income tax expense
    - 103** Note 11, Components of other comprehensive income
    - 103** Note 12, Earnings per share
    - 104** Note 13, Intangible assets
    - 106** Note 14, Property, plant and equipment
    - 107** Note 15, Interests in associates
    - 108** Note 16, Non-current available-for-sale financial assets
    - 108** Note 17, Non-current receivables
    - 109** Note 18, Finance lease receivables
    - 109** Note 19, Deferred income tax
    - 111** Note 20, Pension assets
    - 112** Note 21, Inventories
    - 112** Note 22, Trade receivables and other current receivables
    - 113** Note 23, Financial assets at fair value through profit or loss
    - 113** Note 24, Available-for-sale financial assets
    - 113** Note 25, Cash and cash equivalents
    - 113** Note 26, Non-current assets classified as held for sale and related liabilities
    - 114** Note 27, Notes to shareholders' equity
    - 115** Note 28, Carrying amounts of financial assets and liabilities by measurement group
    - 117** Note 29, Finance lease liabilities
    - 117** Note 30, Provisions
    - 118** Note 31, Trade payables and other current non-interest-bearing liabilities
    - 118** Note 32, Jointly controlled assets
    - 118** Note 33, Contingent liabilities
    - 118** Note 34, Operating leases
    - 119** Note 35, Share-based payment
    - 122** Note 36, Non-cash flow related investments
    - 122** Note 37, Adjustments to cash flows from operating activities
    - 122** Note 38, Subsidiary disposals
    - 122** Note 39, Proceeds from available-for-sale financial assets
    - 122** Note 40, Cash and cash equivalents within the statement of cash flows
    - 123** Note 41, Financial risk management
    - 129** Note 42, Risk management
    - 132** Note 43, Related-party transactions
    - 133** Note 44, Other notes
    - 134** Note 45, Subsidiaries and associates at 31.12.2009
- 136** Parent's financial statements (FAS)
  - 136** Parent's income statement
  - 137** Parent's balance sheet
  - 138** Parent's cash flow statement
  - 139** Notes to the parent's financial statements
- 145** Signatures
- 145** Auditor's Report

# Report by the Board of Directors

## January–December 2009

### Continuing operations

#### NET SALES AND PROFIT

The Group's net sales in January–December 2009 were €8,447 million, which is 11.9% down on the corresponding period of the previous year (€9,591 million). The net sales decreased by 7.5% in Finland and by 28.1% abroad. Exports and foreign operations accounted for 17.5% (21.5%) of net sales. The deterioration of the general economic situation especially affected the sales performance of the Group's car and machinery trade and building and home improvement trade. The sales performance of the food trade remained steady during the reporting period.

In January–December, the K-Group's (i.e. Kesko's and the chain stores') retail and B2B sales, including VAT, were €12,614 million, a decrease of 9.1% compared with the previous year. The K-Group chains' sales entitling to K-Plussa loyalty award credits were €6,181 million, up 3.8% compared with the previous year. In 2009, the K-Plussa customer loyalty programme gained 101,608 new households. At the end of the year, there were 2,033,884 K-Plussa households.

The Group's profit before tax for January–December was €216.6 million (€288.5 million). The operating profit was €232.3 million (€285.6 million). Non-recurring items excluded, the operating profit was €155.4 million (€217.0 million), representing 1.8% (2.3%) of net sales. The non-recurring income includes a €91.4 million amount of gains on the disposals of real estate to Varma Mutual Pension Insurance Company and the Kesko Pension Fund. The non-recurring expenses include a €14.4 million amount of real estate impairment charges. The non-recurring gains on disposals and impairment charges for the comparable period totalled €68.7 million.

The smaller year-on-year operating profit excluding non-recurring items was due to a decreased demand especially in the building and home improvement trade and the car and machinery trade. Due to cost adjustments, the Group's fixed costs decreased by some €69 million compared with the previous year, regardless of new store site openings.

The Group's earnings per share from continuing operations were €1.27 (€1.81). The Group's equity per share was €20.39 (€20.09).

#### INVESTMENTS

In January–December, the Group's investments totalled €198.0 million (€338.4 million), which is 2.3% (3.5%) of net sales. Investments in store sites were €161.2 million (€279.0 million) and other investments €36.7 million (€59.5 million). Investments in foreign operations represented 35.5% (29.0%) of total investments.

#### FINANCE

In January–December, the cash flow from operating activities increased by €247.4 million on the comparative year to €378.8 million (€131.4 million). The increase is especially attributable to capital released from inventories. The net cash from investing activities was €31.0 million positive (€–45.8 million). The cash flow from investing activities included a €252.0 million (€281.4 million) amount of proceeds from the sale of fixed assets.

Throughout the reporting period, the Group's liquidity and solvency remained at an excellent level. At the end of the period, liquid assets totalled €715 million (€443 million). Interest-bearing liabilities were €456 million (€491 million) and interest-bearing net liabilities €–259 million (€47 million) at the end of the reporting period. Equity ratio was 54.1% (52.4%) at the end of the period.

In January–December, the Group's net financial expenses were €16.0 million (net financial income €1.0 million). Net financial expenses were increased by €17.9 million for hedging the Baltic and Russian currency exposures resulting from increased interest rate differences between currencies. Interest income on liquid assets decreased following a decline in the market interest rate level.

#### TAXES

In January–December, the Group's tax expense was €82.4 million (€89.4 million). The effective tax rate was 38.0% (30.9%), affected by loss-making foreign operations.

#### PERSONNEL

In January–December, the average number of employees in the Kesko Group was 19,184 (21,327) converted into full-time employees. In Finland, the average decrease was 530 employees, while outside Finland, it was 1,613.

At the end of December 2009, the total number of employees was 22,200 (24,668), of whom 12,959 (13,651) worked in Finland and 9,241 (11,017) outside Finland. Compared with the end of 2008, there was a decrease of 692 employees in Finland and 1,776 outside Finland.

As a result of the decline in consumer demand, measures aimed at adjusting the number and cost of staff were continued. During the reporting period, the Group's staff cost decreased by €43.0 million, or 7.4%, compared with the previous year.

#### SEASONAL NATURE OF OPERATIONS

The Group's operating activities are affected by seasonal fluctuations. The net sales and operating profits of the reportable segments are not earned evenly throughout the year. Instead they vary by quarter depending on the characteristics of each segment.

#### SEGMENT PERFORMANCES IN JANUARY–DECEMBER

##### *Food trade*

The food trade comprises the food business based on the K-retailer business model and Kespro Ltd's grocery wholesaling in Finland.

In the food trade, the net sales in January–December were €3,798 million (€3,707 million), up 2.4%. During the same period, the grocery sales of K-food stores increased by 5.6%, adjusted for the change in VAT (4.7% incl. VAT). K-food stores' total retail sales in January–December were €4,891 million (€4,685 million), representing a 5.3% year-on-year growth, adjusted for the change in VAT (4.4% incl. VAT). Good sales performance was achieved especially by Pirkka products and K-city-market, the retail food sales of which grew by 14.3%, adjusted for the change in VAT. The growth rate of the total grocery trade market in Finland in January–December is estimated at some 3–4% up on the previous year. In January–December, prices

increased at an average monthly rate of 3.3%, compared with the previous year (Statistics Finland).

In January–December, the operating profit excluding non-recurring items of the food trade was €133.1 million (€122.5 million), which is about €10.5 million up on the previous year. The operating profit excluding non-recurring items in relation to net sales was 3.5% (3.3%), or 0.2 percentage points higher than in the previous year. The operating profit was €170.6 million (€185.5 million). The non-recurring gains on property sales were €46.4 million in January–December. The comparative year's operating profit was increased by €68.5 million of non-recurring gains on property sale and lease arrangements.

In January–December, investments in the food trade were €69.4 million (€139.7 million), of which investments in store sites were €56.2 million (€116.0 million).

In 2009, five new K-citymarkets, four K-supermarkets and 15 K-markets were opened. In addition, renovations and extensions were carried out.

#### *Home and speciality goods trade*

The home and speciality goods trade comprises Anttila, K-city-market's home and speciality goods trade, Intersport Finland, Indoor Group, Musta Pörssi and Kenkäkesko.

In the home and speciality goods trade, the net sales in January–December were €1,558 million (€1,606 million), down 3.0%. Owing to the deteriorated economic situation and a rise of the unemployment rate, consumer demand in the home and speciality goods trade declined especially for home electronics and interior decoration products.

The operating profit of the home and speciality goods trade excluding non-recurring items in January–December was €29.5 million (1.9% of net sales), a €1.7 million year-on-year decrease due to the fall in sales. In January–December, the operating profit was €66.5 million (€63.6 million). Non-recurring gains on property sales and impairment charges were €37.0 million in January–December and €32.4 million in the comparative period.

Investments in the home and speciality goods trade in January–December were €29.6 million (€60.5 million).

In January–December, Anttila's net sales were €513 million (€558 million), down 8.0%. The sales of the Anttila department stores were €303 million, down 5.7%. The sales of the Kodin Ykkönen department stores for home goods and interior decoration were €132 million, down 10.7%. NetAnttila's sales were €80 million, a decrease of 12.5%, mainly due to the weakened economic conditions in Estonia and Latvia.

The net sales of K-citymarket's home and speciality goods trade in January–December were €595 million (€566 million), up 5.1%. The net sales performance was affected by the store site network expansion and especially the good year-end sales performance.

Intersport Finland's net sales in January–December were €165 million (€158 million), up 4.3%, which is especially attributable to the increased sales of winter sports equipment. Indoor's net sales in January–December were €155 million (€177 million), down 12.4%. The performance was affected by the discontinuation of Indoor's business activities in Sweden during the first quarter of 2008, and the weakened economic conditions in Estonia and Latvia. Musta Pörssi Ltd's net sales in January–December were €107 million (€123 million), down 12.5%.

Kenkäkesko Ltd's net sales in January–December were €24 million (€26 million), down 7.9%.

#### *Building and home improvement trade*

The building and home improvement trade comprises Rautakesko and the agricultural supplies trade in Finland.

In the building and home improvement trade, the net sales in January–December were €2,312 million (€2,978 million), down 22.4%.

In January–December, the net sales in Finland were €1,041 million, a decrease of 21.1%. The building and home improvement trade contributed €744 million, and the agricultural supplies trade €297 million to the net sales in Finland. The net sales of the building and home improvement trade in Finland were down 15.4%, especially due to a fall in the sales to professional customers. The net sales of the agricultural supplies trade decreased by 32.6%. The net sales from foreign operations in the building and home improvement trade were €1,271 million (€1,659 million), a decrease of 23.4%. In addition to a decline in demand, the sales performance of foreign operations was affected by the weakening of the Swedish krona, the Norwegian krone and the Russian ruble. The net sales from foreign operations dropped by 17.2% in terms of the local currencies. Foreign operations contributed 55.0% to the net sales of the building and home improvement trade.

In Sweden, the net sales of K-rauta AB increased by 0.6% to €187 million in January–December. In terms of the local currency, K-rauta AB's net sales grew by 11.1%. In Norway, Bygghuset's net sales decreased by 16.4% to €477 million. In terms of the local currency, Bygghuset's net sales dropped by 11.2%. In Estonia, Rautakesko's net sales were down 22.1% to €63 million. In Latvia, Rautakesko's net sales decreased by 32.9% to €48 million. In Lithuania, Senukai's net sales fell by 42.1% to €260 million. In Russia, the net sales of the building and home improvement trade decreased by 16.8% to €169 million. In terms of the local currency, the net sales increased by 0.8%. The net sales of the Belarusian OMA were down by 25.5% to €53 million. In terms of the local currency, OMA's net sales decreased by 7.8%.

In January–December, the operating profit excluding non-recurring items of the building and home improvement trade was €11.9 million (0.5% of net sales), which was €44.4 million, or 1.4 percentage points, lower than in the previous year. The profit performance was affected by a substantial contraction in the Nordic, Baltic and Russian construction markets. In Finland, the building and home improvement trade market declined in January–December by some 15%, in Sweden by some 5%, in Norway by some 10%, and in the Baltic countries by some 30–40% (Rautakesko's estimate). The staff cost was down €42.1 million, or 21.9%, on the comparative period. The operating profit of the building and home improvement trade was €19.6 million (€19.4 million) in January–December. The operating profit includes a €7.7 million non-recurring gain on a property sale. The comparative period's operating profit includes a non-recurring €47.0 million impairment charge on Bygghuset Norge's intangible assets, and a €5.4 million non-recurring gain on a property sale.

In January–December, investments in the building and home improvement trade were €84.7 million (€122.7 million), of which 82.8% (79.1%) abroad.



In January–December, two new K-rauta stores were opened in Sweden and one in Russia, Estonia and Latvia. In addition, the store site network was strengthened by other new and replacement stores.

The retail sales of the K-rauta and Rautia chains in January–December decreased by 5.5% to €1,158 million, including VAT, in Finland. The sales of Rautakesko B2B Service decreased by 29.5%. The retail sales of the K-maatalous chain were €448 million, including VAT, down 28.8%.

#### *Car and machinery trade*

The car and machinery trade comprises VV-Auto and Konekesko. Konekesko includes, in addition to the machinery trade, the tractor and combine harvester trade in Finland and the agricultural and machinery trade companies in the Baltic countries.

In January–December, the net sales of the car and machinery trade were €947 million (€1,480 million), down 36.0%.

VV-Auto's net sales in January–December were €598 million (€884 million), a decrease of 32.3%. The net sales performance was affected by a decline in demand in the car trade, coupled with the car tax change effective at the beginning of April, causing the car tax levied on cars after 1 April 2009 to be excluded from the net sales. Adjusted for the tax change, the net sales fell by 24.3%. In January–December, the combined market share of passenger cars and vans imported by VV-Auto rose to 18.5% (17.1%).

Konekesko's net sales in January–December were €350 million (€597 million), down 41.3% on the previous year, as a result of the weakened machinery market and the discontinuation of the Baltic grain and agricultural supplies trade. The net sales in Finland were €185 million, a decrease of 31.9%. The net sales from Konekesko's foreign operations were €165 million, down 49.3%. In line with its strategy, Konekesko concentrates on the machinery trade also in the Baltic countries and disposes of its grain and agricultural inputs trade.

In January–December, the operating profit excluding non-recurring items of the car and machinery trade was €0.3 million (0.0% of net sales), which was €30.1 million lower than in the previous year. The profit performance was especially affected by the decline of Konekesko's profitability as a result of the decline in the machinery market and the discontinuation of the Baltic grain and agricultural supplies trade.

Investments in the car and machinery trade were €13.4 million (€15.6 million) in January–December.

#### **DISCONTINUED OPERATIONS**

In the comparative year 2008, the Group's profit from discontinued operations was €41.5 million. Discontinued operations included Kauko-Telko Ltd and the €31 million gain on its disposal, and TähtiOptikko Group Oy, with the about €8.5 million gain on its disposal.

### **October–December 2009**

#### **Continuing operations**

##### **NET SALES AND PROFIT**

The Group's net sales in October–December 2009 were €2,153 million, which is 7.7% down on the corresponding period of the previous year (€2,333 million). Net sales decreased by 4.4% in Finland and by 21.4% abroad. Exports and foreign operations

accounted for 16.6% (19.5%) of net sales. The net sales performance of the food trade was steady. The net sales of the home and speciality goods trade took an upward turn during the reporting period. As a result of the weak market situation, the sales in the building and home improvement trade and in the car and machinery trade decreased compared with the comparative year.

In October–December, the K-Group's (i.e. Kesko's and the chain stores') retail and B2B sales, including VAT, were €3,226 million, a decrease of 5.4% on the corresponding period of the previous year.

The Group's profit before tax for October–December was €116.3 million (€7.7 million). The operating profit was €118.1 million (€6.9 million). The operating profit excluding non-recurring items was €68.0 million (€27.3 million), representing 3.2% of net sales (1.2%). The non-recurring items include a €63.5 million gain on the sale of properties to Varma Mutual Pension Insurance Company. The non-recurring expenses include a €14.4 million amount of impairments on real estate.

The higher year-on-year operating profit excluding non-recurring items was due to increased operational efficiency, cost savings and the fact that the profitability of the comparative year was negatively affected by impairments on trade receivables and inventories. Successful Christmas trading also contributed to the higher operating profit.

The Group's earnings per share from continuing operations were €0.73 (€-0.05). The Group's equity per share was €20.39 (€20.09).

#### **INVESTMENTS**

The Group's investments in October–December totalled €41.5 million (€105.2 million), which is 1.9% (4.5%) of net sales. Investments in store sites were €30.0 million (€84.1 million), and other investments €11.5 million (€21.1 million). Investments in foreign operations represented 40.1% (37.8%) of total investments.

#### **FINANCE**

In October–December, the cash flow from operating activities was €123.1 million (€15.1 million), improved by adjustments in costs and inventories. The net cash flow from investing activities was €96.4 million (€-95.7 million). The cash flow from investing activities included a €157.8 million (€3.7 million) amount of proceeds received from the disposal of fixed assets. This amount was increased by a property sale at a debt-free price of €156 million completed in December.

In October–December, the Group's net financial expenses were €1.8 million (net financial income €0.8 million). They were increased by the costs of currency exposure hedging and the income from liquid assets reduced by lowered Euribor rates.

#### **TAXES**

In October–December, the Group's tax expense was €41.8 million (€5.5 million). The effective tax rate was 35.9% (71.2%), affected by foreign companies' loss-making performances.

#### **PERSONNEL**

In October–December, the average number of personnel in the Kesko Group was 18,126 (20,920) converted into full-time

employees. In Finland, the average decrease was 626 employees, while outside Finland, it was 2,168 employees.

## SEGMENT PERFORMANCES IN OCTOBER–DECEMBER

### *Food trade*

In the food trade, the net sales in October–December were €970 million (€982 million), down 1.2%. During the same period, the grocery sales of K-food stores increased by 3.6%, adjusted for the change in VAT (0.7% incl. VAT). Good sales performance was achieved especially by the K-citymarket chain and the Pirkka products. There were 1,030 K-food stores at the end of December.

In October–December, the operating profit excluding non-recurring items of the food trade was €33.7 million (€31.6 million), which is €2.1 million up on the previous year. The operating profit excluding non-recurring items in relation to net sales was 3.5% (3.2%), or 0.3 percentage points higher than in the previous year. The operating profit of the food trade was €58.7 million (€27.4 million). The non-recurring gains on property sales were €33.1 million.

In October–December, investments in the food trade were €9.9 million (€31.8 million), of which investments in store sites were €6.4 million (€21.9 million).

Kesko Food continued to develop the K-food store network. In October, a K-citymarket was opened in Kirkkonummi and a K-supermarket in Eurajoki and Porvoo. In November, a K-citymarket was opened in Linnainmaa, Tampere, and in Koivukylä, Vantaa. In addition, several new K-markets were opened.

The most significant store sites being built are the K-supermarkets in Kotka, in Koivuhaka, Vantaa, in Kangasala, Rovaniemi, Kouvola and in Paloheinä, Helsinki. K-citymarket Keljo in Jyväskylä is being extended.

### *Home and speciality goods trade*

In the home and speciality goods trade, the net sales in October–December were €500 million (€490 million), up 2.0%. The growth is attributable to the good sales performance of clothing and sports goods, coupled with successful Christmas trading.

The operating profit of the home and speciality goods trade excluding non-recurring items in October–December was €39.7 million (7.9% of net sales), a €12.0 million year-on-year increase due to increased operational efficiency, cost savings and successful Christmas trading (€27.7 million, or 5.7%, of net sales). In October–December, the operating profit was €66.5 million (€10.6 million). Non-recurring gains on property sales and impairment charges were €26.8 million (€–17.1 million).

Investments in the home and speciality goods trade in October–December were €6.8 million (€20.6 million).

In October–December, Anttila's net sales were €179 million (€183 million), down 2.0%. The sales of the Anttila department stores were €110 million, down 2.5%. The sales of the Kodin Ykkönen department stores for home goods and interior decoration were €46 million, up 0.9%. NetAnttila's sales were €24 million, a decrease of 4.7%. The decline was sharp in Estonia and Latvia. In October, a new Kodin Ykkönen store was opened in Lielaiti, Tampere. Kodin Ykkönen in Kaisaniemi, Helsinki will be closed down in early 2010, due to the termination of the lease. The Anttila department store in Jyväskylä will relocate to a new site in spring 2010.

The net sales of K-citymarket's home and speciality goods trade in October–December were €198 million (€187 million), up

5.5%. The net sales performance was affected by store site network expansions and an increased number of customers. In October, a K-citymarket was opened in Kirkkonummi and an extended K-citymarket in Mikkeli. In November, K-citymarkets were opened in Koivukylä, Vantaa, and in Linnainmaa, Tampere.

Intersport Finland's net sales in October–December were €46 million (€40 million), up 14.8% owing to the good sales performance of winter sports equipment. Indoor's net sales in October–December were €39 million (€42 million), down 7.0%. Indoor's net sales in Finland matched the level of the comparative period. Musta Pörssi Ltd's net sales in October–December were €35 million (€35 million), up 0.7%. Kenkäkesko Ltd's net sales in October–December were €4 million (€4 million), down 7.5%.

### *Building and home improvement trade*

In the building and home improvement trade, the net sales in October–December were €525 million (€617 million), down 14.9%.

In October–December, the net sales in Finland were €223 million, a decrease of 14.9%. The building and home improvement trade contributed €159 million and the agricultural supplies trade €63 million to the net sales in Finland. The net sales of the building and home improvement trade in Finland were down 3.6%, and the net sales of the agricultural supplies trade decreased by 34.7%.

The net sales from foreign operations in the building and home improvement trade were €302 million (€356 million), a decrease of 15.0%. In addition to a decline in demand, the sales performance of foreign operations was affected by the weakening of the Russian ruble. The net sales from foreign operations dropped by 14.9% in terms of the local currencies. Foreign operations contributed 57.6% to the net sales of the building and home improvement trade.

In Sweden, the net sales of K-rauta AB increased by 16.3% to €43 million in October–December. In terms of the local currency, K-rauta AB's net sales grew by 14.7%. In Norway, Bygghuset's net sales increased by 11.9% to €120 million. In terms of the local currency, Bygghuset's net sales grew by 1.5%. In Estonia, Rautakesko's net sales were down 22.4% to €14 million. In Latvia, Rautakesko's net sales decreased by 31.6% to €10 million. In Lithuania, Senukai's net sales fell by 45.2% to €57 million. In Russia, the net sales of the building and home improvement trade decreased by 22.7% to €42 million. In terms of the local currency, the net sales decreased by 6.5%. The net sales of the Belarusian OMA were down by 32.4% to €13 million. In terms of the local currency, OMA's net sales decreased by 2.9%.

In October–December, the operating loss excluding non-recurring items of the building and home improvement trade was €2.1 million, or –0.4% of net sales, compared to €7.5 million (–1.2% of net sales) in the previous year. Regardless of net sales decrease, profitability improved as a result of cost adjustments, and the impairments on inventories and trade receivables negatively affecting the profit of the comparative year. The operating profit of the building and home improvement trade was €1.6 million (€–6.5 million) in October–December.

In October–December, investments in the building and home improvement trade were €19.4 million (€44.9 million), of which 85.6% (87.5%) abroad.

The retail sales of the K-rauta and Rautia chains in October–December increased by 0.2% to €266 million, including VAT, in Finland. The sales of Rautakesko B2B Service decreased by 14.1%. The retail sales of the K-maatalous chain were €96 million, including VAT, down 37.3%.

In October–December, a new Rautia store was opened in Kiiminki, and a replacement K-rauta store in Vaasa.

Rautakesko is building a new K-rauta store in Jyväskylä, Finland, another in Stockholm, Sweden, and two new K-rauta stores in Russia, one in Tula and the other in Kaluga. OMA is building a new store in Minsk, Belarus.

### *Car and machinery trade*

In October–December, the net sales of the car and machinery trade were €205 million (€295 million), down 30.5%.

VW-Auto's net sales in October–December were €125 million (€161 million), a decrease of 22.2%. The net sales performance was affected by a decline in demand in the car trade, coupled with the car tax change effective at the beginning of April, causing the car tax levied on cars after 1 April 2009 to be excluded from the net sales. The comparable net sales, adjusted for the tax change, decreased by 7.4% in October–December. However, the number of new customer orders in October–December was clearly up on the previous year. The combined market share of passenger cars and vans imported by VW-Auto rose to 18.8% (18.4%) in October–December.

Konekesko's net sales in October–December were €80 million (€134 million), down 40.5% on the corresponding period of the previous year, as a result of the weakened machinery market and the discontinuation of the Baltic grain and agricultural supplies trade. The net sales in Finland were €36 million, a decrease of 29.5%. The net sales from Konekesko's foreign operations were €44 million, down 47.2%.

In October–December, the operating profit excluding non-recurring items of the car and machinery trade was €2.7 million (1.3% of net sales), which was €19.8 million, or 7.1 percentage points, higher than in the corresponding period of the previous year. The profit performance was affected by substantial cost adjustments and the impairments on the inventories and trade receivables of the machinery and agricultural trade negatively affecting the profitability of the comparative year.

### *Changes in the Group composition*

Effective 1 January 2009, the Kesko Group's segments are the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade (stock exchange release on 12 December 2008).

### *Resolutions of the Annual General Meeting 2009 and decisions of the Board's organisational meeting*

Kesko Corporation's Annual General Meeting held on 30 March 2009 adopted the financial statements for 2008 and discharged the Board of Directors' members and the Managing Director from liability. The Annual General Meeting also resolved to distribute a dividend of €1.00 per share, or a total amount of €97,851,050, as proposed by the Board. The dividend pay date was 9 April 2009. The Annual General Meeting elected PricewaterhouseCoopers Oy as the company's auditor, with APA Johan Kronberg as the auditor with principal responsibility, and approved the Board's

proposal to amend the article of the Articles of Association providing for the convocation period so that the notice of the General Meeting shall be given at the latest 21 days before the General Meeting, and the Board's proposal to authorise the Board to decide on the issuance of a maximum of 20,000,000 new B shares. The share issue authorisation is valid until 30 March 2012.

The Annual General Meeting resolved to leave the number of members of the Board of Directors unchanged at seven, and elected Heikki Takamäki, Seppo Paatelainen, Maarit Näkyvä, Ilpo Kokkila, Esa Kiiskinen (new member), Mikko Kosonen (new member) and Rauno Törrönen (new member) as members of the company's Board of Directors for a three-year term defined in the Articles of Association, which will expire at the close of the 2012 Annual General Meeting.

The resolutions of the Annual General Meeting were announced in more detail in a stock exchange release on 30 March 2009.

The organisational meeting of Kesko Corporation's Board of Directors, held after the Annual General Meeting on 30 March 2009, elected Heikki Takamäki as its Chair and Seppo Paatelainen as its Deputy Chair. Maarit Näkyvä (Ch.), Seppo Paatelainen and Mikko Kosonen were appointed to the Board of Directors' Audit Committee. Heikki Takamäki (Ch.), Seppo Paatelainen and Ilpo Kokkila were appointed to the Board of Directors' Remuneration Committee. The terms of the Committees expire at the close of the next Annual General Meeting. The decisions of the Board's organisational meeting were announced in a stock exchange release on 30 March 2009.

### *Shares, securities market and Board authorisations*

At the end of December 2009, Kesko Corporation's share capital totalled €196,643,058. Of all shares 31,737,007, or 32.3%, were A shares and 66,584,522, or 67.7%, were B shares. The aggregate number of shares was 98,321,529. Each A share entitles to ten (10) votes and each B share to one (1) vote. During the reporting period, the share capital was increased four times corresponding to share subscriptions with the stock options of the year 2003 option scheme. The increases were made on 11 February 2009 (€52,392), 5 May 2009 (€51,250), 5 June 2009 (€673,146) and 17 December 2009 (€216,562), and announced in stock exchange notifications on the same days. The subscribed shares were included on the main list of the Helsinki stock exchange for public trading with the old B shares on 12 February 2009, 6 May 2009, 8 June 2009 and 18 December 2009.

The price of a Kesko A share quoted on NASDAQ OMX Helsinki (the Helsinki stock exchange) was €22.00 at the end of 2008, and €23.60 at the end of 2009, representing an increase of 7.3%. The price of a B share was €17.80 at the end of 2008, and €23.08 at the end of 2009, representing an increase of 29.7%. In January–December, the highest A share quotation was €25.00 and the lowest was €18.73. For B shares, they were €24.00 and €14.99 respectively. In January–December, the OMX Helsinki All Share index of the Helsinki stock exchange rose by 19.5%, the weighted OMX Helsinki CAP index by 36.2%, while the Consumer Staples Index was up 30.8% during the same period.

At the end of 2009, the market capitalisation of A shares was €749 million, while that of B shares was €1,537 million. Their combined market capitalisation was €2,286 million, an increase



of €411 million compared with the end of 2008. In 2009, 993,444 A shares were traded on the Helsinki stock exchange at a total value of €22 million, while 78.2 million B shares were traded at a total value of €1,501 million.

The 2003E stock options of the year 2003 option scheme were available for trading until the end of April 2009, and a total of some 116,000 options were traded at a total value of €981,000. A total of some 153,000 2003F stock options were traded during the reporting period at a total value of €1,122,000.

The Board of Directors was authorised by the Annual General Meeting of 30 March 2009 to issue a maximum of 20,000,000 new B shares against payment or other consideration. The authorisation also includes a rights issue. The authorisation has not been used. In addition to the 2003 stock option scheme, the company operates the 2007 scheme of stock options 2007A, 2007B and 2007C. Their exercise period has not started. Further information on the Board's authorisations is available at [www.kesko.fi](http://www.kesko.fi).

At the end of the reporting period, the number of shareholders was 38,888. In 2009, it increased by 808 shareholders. At the end of 2009, foreign ownership of all shares was 20%, and foreign ownership of B shares was 30%.

### Flagging notifications

Kesko Corporation did not receive flagging notifications during the reporting period.

### Main events during the reporting period

Kesko Corporation's Board of Directors approved the Group's revised financial objectives. The objective for return on investment has been replaced by the objective for return on capital employed. The new objective for return on equity has been set at 12% (previously 14%) and the objective for return on capital employed has been set at 14%. The objective range of the equity ratio has been broadened to 40–50% (previously 40–45%). The Board of Directors also revised Kesko's dividend policy, published on 6 April 2005. In accordance with the new dividend policy, Kesko Corporation distributes at least 50% of its earnings per share excluding non-recurring items as dividends, taking however the company's financial position and operating strategy into account (stock exchange release on 5 February 2009).

On 31 March 2009, Kesko sold four store properties to the Kesko Pension Fund. The debt-free selling price was about €50 million. The Kesko Group's gain on the sale was €19.7 million, which was treated as a non-recurring item in the operating profit for the first quarter (stock exchange release on 31 March 2009).

The Annual General Meeting was held on 30 March 2009 (stock exchange releases on 30 March 2009).

The Supreme Administrative Court decided not to grant leave to appeal against the Helsinki Administrative Court's prior decision not to accept the €22.5 million write-down made by Rautakesko Ltd on the shares of its Swedish subsidiary, K-rauta AB, in its taxation for the year 2001. The Supreme Administrative Court also decided not to grant leave to appeal against the Helsinki Administrative Court's prior decision to dismiss Kesko Corporation's appeal concerning the deductibility of expenses added to its taxable income for the years 1997–1999 (stock exchange release on 11 June 2009).

Kesko sold 13 retail store properties in different parts of Finland to Varma Mutual Pension Insurance Company. The debt-free

selling price of the properties was €156 million. The Kesko Group's gain on the sale was €63 million, which was treated as a non-recurring item in Kesko's fourth quarter operating profit (stock exchange release on 22 December 2009).

Kesko decided to transfer the management of the statutory pension provision and the insurance portfolio to Ilmarinen Mutual Pension Insurance Company in two phases, starting from 1 June 2010. The Kesko Pension Fund's statutory employee pension insurance (department B) covers about 8,700 people. The first phase of the transfer will concern some 3,600 people. The transfer is estimated to have a positive effect on Kesko's cash flow. The transfer is subject to the approval of the Financial Supervisory Authority and the Finnish Competition Authority. The second phase will be implemented at the beginning of 2012 at the earliest.

An agreement has also been made to sell store sites and shares owned by the Kesko Pension Fund and Kesko, in a total value of some €440 million, partly to Ilmarinen and partly to a joint venture owned by Kesko, the Kesko Pension Fund and Ilmarinen, in connection with the transfer of pension liabilities. The completion of the arrangements will have a positive non-recurring income statement impact for Kesko and the Kesko Pension Fund. The implementation of the arrangements under the letter of intent is subject to the approval of the bodies of the contracting parties (stock exchange release on 30 December 2009).

### Information contained in the notes to the financial statements

Information on the Group's personnel is disclosed in note 8.

Information on options, shares under options and voting rights is disclosed in note 35.

Related party transactions are disclosed in note 43. The Kesko Group is not engaged in significant research and development activities.

In May 2010, Kesko will publish a separate corporate responsibility report which analyses the Group's performance in economic, social and environmental responsibility. An assurance statement will be provided by an independent external party.

### Risk management

The Kesko Group has established a risk management process, based on the risk management policy confirmed by the Board. The divisions have made risk assessments and updated them in accordance with the strategy process and the rolling planning framework. The divisions' risks and their management responses have been discussed by the division parent companies' and the Group's management. In their respective responsibility areas, the Group units have assessed the risks threatening the Group's objectives and the management of such risks.

On the basis of the divisions' and Group units' risk analyses, the Corporate Risk Management Unit has prepared summaries of major risks and their management on a quarterly basis. The resulting risk report has been handled by Kesko Corporation's Board of Directors' Audit Committee. The main risks and uncertainties have been reported in the interim financial reports. The following is a description of the risks and uncertainties assessed to be significant.

## SIGNIFICANT RISKS AND UNCERTAINTIES

The general economic development continues to involve significant uncertainties. Developments in the employment situation, tax increases resulting from the debt burden of the public sector, and consumers' confidence in the future have an essential impact on consumers' purchasing power, consumer demand and businesses' investment readiness. The biggest uncertainty relates to the building and home improvement trade, and the car and machinery trade, as well as the consumer demand trends in Kesko's operating countries, especially in Latvia, Lithuania, Estonia and Russia.

Kesko aims to achieve growth also through international expansion in selected business areas. Failures in these projects may put growth and profitability at risk. On the other hand, business and stores site acquisitions may be easier to complete and with better terms. Expansion and operations in Russia involve both opportunities and risks. The unpredictability of officials and sudden changes in the interpretation and application of laws may complicate operating activities or delay expansion in Russia.

Changes in consumer behaviour, technological developments and an increasing supply of electronic services are significantly changing the operating systems of trade. Kesko's challenge is to combine the possibilities of online trading, electronic customer communication and the retailer business model into an efficient system.

The automation of financial administration routines may be delayed by suppliers' and retailers' technical facilities and abilities to adopt new operating systems. Kesko is carrying out several significant information system projects. There is a risk that the expected benefits are delayed or that the project costs are exceeded.

The trading sector is characterised by increasingly complicated and long supply chains and a dependency on information systems, telecommunications and external service providers. Disturbances in the supply chain can cause major losses in sales and profit.

Failure in the protection of personal information and card payments could cause losses, claims for damages and the degrading of reputation.

Shrinkage causes significant financial losses for the retail trade. Shrinkage results, for example, from spoiled or damaged goods, theft or other malpractice, and unsuccessful purchasing. Recession entails a growing risk of financial malpractice.

In business divisions that are strongly dependent on individual principals and suppliers, such as the car and machinery trade, ownership arrangements, changes in a principal's or supplier's strategy concerning the product selection, pricing and distribution channel solutions can mean a reduction in competitiveness or sales or loss of business.

Considerable amounts of capital or lease liabilities are tied up in store properties for years. As a result of the recession or changes in local competitive situations, the operations in a store site can run risk of becoming unprofitable and the operation ends while non-current liabilities remain.

A failure in product control or in the quality assurance of the supply chain may result in financial losses, the loss of customer confidence or, in the worst case, a health hazard.

Compliance with legislation, agreements and Kesko's responsibility guidelines or ethical principles is an important basic

value. Non-compliance may result in fines, compensation for damages and other financial losses, and a loss of confidence or reputation.

Further information about the risks, uncertainties and management responses relating to Kesko's operating activities, and about Kesko's risk management system and principles is available in note 42 to the financial statements and on the company's website at [www.kesko.fi](http://www.kesko.fi).

Other risks and uncertainties relating to profit performance are described in the Group's future outlook.

## Future outlook

Estimates of the future outlook for the Kesko Group's net sales and operating profit excluding non-recurring items are given for the 12 months following the reporting period (1/2010–12/2010) in comparison with the 12 months preceding the reporting period (1/2009–12/2009). The performance of the Group's operating activities is affected by the economic outlook in its different market areas and especially by the growth rate of private consumption. Substantial uncertainties are related to the economic outlook and developments in the real economy in the near future. In Finland, the unemployment rate is expected to rise further, which is why private consumer demand is not expected to return to growth during the next twelve months.

The steady development of the grocery trade is expected to continue, although grocery prices are expected to turn down. The market situation is expected to remain difficult in the building sector and in the car and machinery trade.

Making any statement about the Group's future outlook continues to be impacted by the economic outlook and the increasing unemployment. In 2010, the Kesko Group's net sales and operating profit excluding non-recurring items from continuing operations are expected to match the level of 2009. The Group's liquidity and solvency are expected to remain excellent.

## Proposal for profit distribution

The parent's distributable profits are €1,051,861,023.07, of which the profit for the period is €138,776,973.11.

The Board of Directors proposes to the Annual General Meeting to be held on 29 March 2010 that the distributable profits be used as follows:

€0.90 per share, or a total of €88,547,166.90, be distributed as dividends.

€1,300,000.00 are reserved for charitable donations at the discretion of the Board of Directors.

€962,013,856.17 are carried forward in equity.

## Annual General Meeting

The Board of Directors decided to convene the Annual General Meeting at the Helsinki Fair Centre on 29 March 2010 at 13.00. Kesko Corporation will publish a notice of the Annual General Meeting at a later date.

## Annual Report 2009 and Corporate Governance Statement

Kesko will publish the 2009 Annual Report, which contains the report by Kesko's Board of Directors and the financial statements for 2009, and a separate Corporate Governance Statement on week 9 on its website at [www.kesko.fi](http://www.kesko.fi).

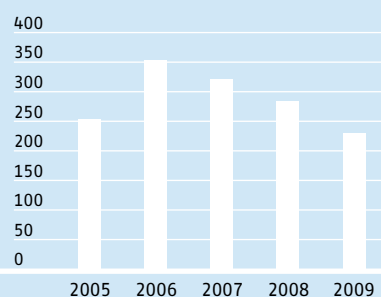
# Group performance indicators

## Key indicators

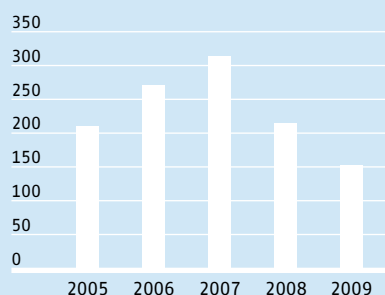
Net sales\*, € million



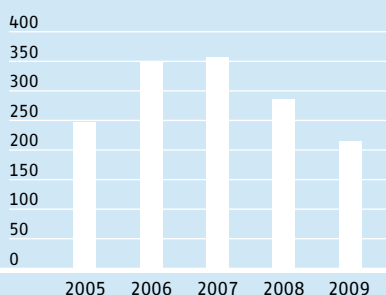
Operating profit\*, € million



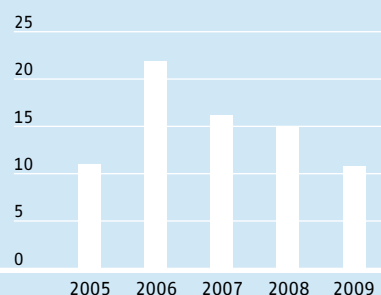
Operating profit excl. non-recurring items\*, € million



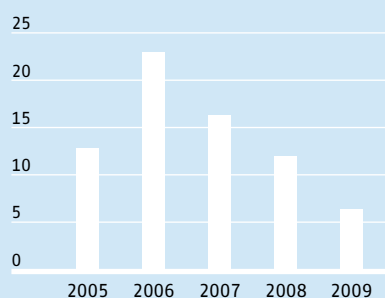
Profit before tax\*, € million



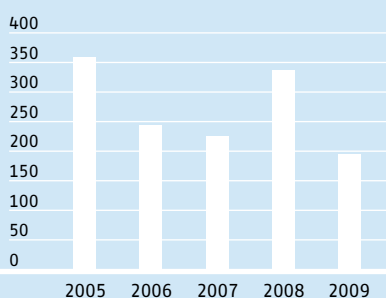
Return on capital employed, %



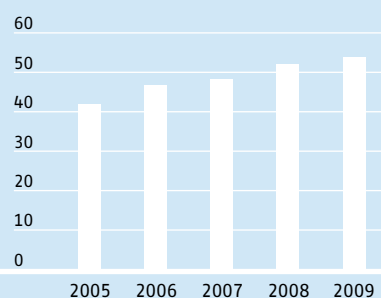
Return on equity, %



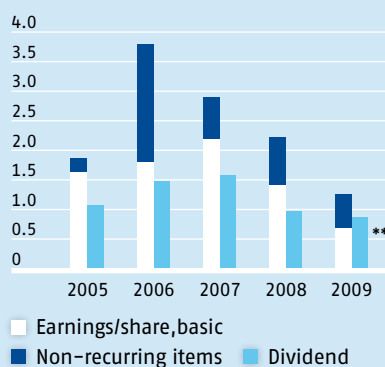
Investments\*, € million



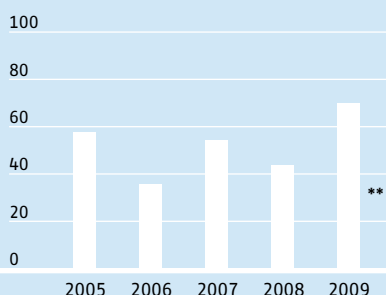
Equity ratio, %



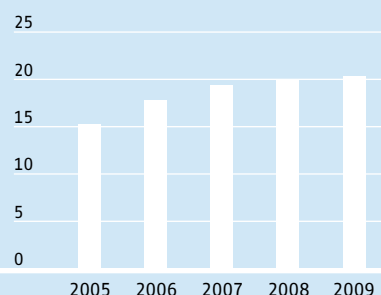
Earnings per share and dividend per share, €



Payout ratio, %



Equity per share, €, 31.12., adjusted



\* continuing operations \*\* proposal to the AGM



## Group performance indicators

Continuing operations		2006	2007	2008	2009
<b>Income statement</b>					
Net sales	€ million	8,493	9,287	9,591	8,447
Change in net sales	%	11.1	9.4	3.4	-11.9
Staff cost	€ million	515	547	578	535
Staff cost as percentage of net sales	%	6.1	5.9	6.0	6.3
Depreciation and impairment charges	€ million	129	116	178	131
Operating profit	€ million	355	322	286	232
Operating profit as percentage of net sales	%	4.2	3.5	3.0	2.8
Operating profit excl. non-recurring items	€ million	273	315	217	155
Operating profit excl. non-recurring items as percentage of net sales	%	3.2	3.4	2.3	1.8
Financial income and expenses	€ million	-5	36	1	-16
Income from associates	€ million	1	0	2	0
Profit before tax	€ million	351	358	289	217
Profit before tax	%	4.1	3.9	3.0	2.6
Income tax	€ million	105	87	89	82
Profit for the year from continuing operations	€ million	235	248	178	125
Profit for the year from discontinued operations	€ million	133	37	42	-
Investments	€ million	246	228	338	198
Investments as percentage of net sales	%	2.9	2.5	3.5	2.3
Personnel, average number for the year		18,937	20,520	21,327	19,184
Personnel at 31 Dec.		23,052	25,208	24,668	22,200
Earnings/share, diluted	€	2.39	2.52	1.81	1.27
Earnings/share, basic	€	2.41	2.54	1.82	1.28

Whole Group		2006	2007	2008	2009
Profit for the year (incl. minority interest)	€ million	379	307	241	134
Profit for the year as percentage of net sales	%	4.2	3.2	2.5	1.6
Attributable to owners of the parent	€ million	369	285	220	125
Attributable to minority interest	€ million	10	22	21	9
Cash flow from operating activities	€ million	328	248	131	379
Cash flow from investing activities	€ million	203	-85	-46	31
<b>Profitability</b>					
Return on equity	%	23.1	16.4	12.1	6.6
Return on equity excl. non-recurring items	%	11.4	12.7	8.1	3.8
Return on capital employed	%	22.0	16.3	15.2	11.0
Return on capital employed excl. non-recurring items	%	12.3	14.7	10.3	7.3
Interest-bearing net debt/EBITDA		0.3	0.6	0.1	-0.7
<b>Finance and financial position</b>					
Gearing	%	11.9	14.0	2.3	-12.5
Equity ratio	%	47.0	48.5	52.4	54.1
<b>Other indicators</b>					
Investments	€ million	282	228	340	198
Investments as percentage of net sales	%	3.1	2.5	3.5	2.3
Personnel, average number for the year		23,756	20,520	21,327	19,184
Personnel at 31 Dec.		23,755	25,890	24,668	22,200
<b>Share performance indicators</b>					
Whole Group					
Earnings/share, diluted	€	3.76	2.90	2.24	1.27
Earnings/share, basic	€	3.80	2.92	2.25	1.28
Earnings/share, excl. non-recurring items, basic	€	1.83	2.21	1.44	0.71
Equity/share, adjusted	€	17.94	19.53	20.09	20.39
Dividend/share	€	1.50	1.60	1.00	0.90*
Payout ratio	%	39.5	54.8	44.5	70.5*
Payout ratio excl. non-recurring items	%	82.0	72.4	69.4	126.8*
Cash flow from operating activities/share, adjusted	€	3.35	2.52	1.37	3.86
Price/earnings ratio, (P/E), A share, adjusted		10.22	13.07	9.84	18.54
Price/earnings ratio, (P/E), B share, adjusted		10.64	13.02	7.96	18.13
Effective dividend yield, A share	%	3.9	4.2	4.6	3.8*
Effective dividend yield, B share	%	3.8	4.2	5.6	3.9*
Share price at 31 Dec.					
A share	€	38.43	37.85	22.00	23.60
B share	€	40.02	37.72	17.80	23.08
Average share price					
A share	€	30.10	43.85	28.30	21.92
B share	€	31.34	43.36	23.51	19.18
Market capitalisation, A share	€ million	1,220	1,201	698	749
Market capitalisation, B share	€ million	2,632	2,491	1,176	1,537
Turnover					
A share	million pcs	2	4	1	1
B share	million pcs	77	122	121	78
Turnover rate					
A share	%	6.4	11.5	4.5	3.1
B share	%	117.1	185.3	183.3	117.4
Adjusted number of shares at 31 Dec.	thousand	98,027	98,395	98,256	98,382
Yield of A share for the last five periods	%	29.3	26.6	10.9	9.2
Yield of B share					
For the last five periods	%	42.8	36.1	12.9	10.3
For the last ten periods	%	22.7	18.7	11.7	14.9

\* proposal to the Annual General Meeting

Net sales by segment, continuing operations (€ million)				Operating profit by segment, continuing operations (€ million)			
	1-12/2009	1-12/2008	Change, %		1-12/2009	1-12/2008	Change
Food trade, Finland	3,790	3,696	2.6	Food trade <sup>1</sup>	170.6	185.5	-14.9
Food trade, other countries*	7	11	-33.1	Home and speciality goods trade <sup>2</sup>	66.5	63.6	3.0
<b>Food trade total</b>	<b>3,798</b>	<b>3,707</b>	<b>2.4</b>	Building and home improvement trade <sup>3</sup>	19.6	19.4	0.2
Home and speciality goods trade, Finland	1,530	1,560	-1.9	Car and machinery trade	-5.1	30.5	-35.6
Home and speciality goods trade, other countries*	28	46	-39.6	Common operations and eliminations	-19.3	-13.3	-6.0
<b>Home and speciality goods trade total</b>	<b>1,558</b>	<b>1,606</b>	<b>-3.0</b>	<b>Total</b>	<b>232.3</b>	<b>285.6</b>	<b>-53.3</b>
Building and home improvement trade, Finland	1,041	1,319	-21.1	<b>Segments' operating profits excl. non-recurring items, continuing operations (€ million)</b>			
Building and home improvement trade, other countries*	1,271	1,659	-23.4		1-12/2009	1-12/2008	Change
<b>Building and home improvement trade total</b>	<b>2,312</b>	<b>2,978</b>	<b>-22.4</b>	Food trade	133.1	122.5	10.5
Car and machinery trade, Finland	773	1,137	-32.0	Home and speciality goods trade	29.5	31.2	-1.7
Car and machinery trade, other countries*	175	343	-49.1	Building and home improvement trade	11.9	56.4	-44.4
<b>Car and machinery trade total</b>	<b>947</b>	<b>1,480</b>	<b>-36.0</b>	Car and machinery trade	0.3	30.4	-30.1
Common operations and eliminations	-168	-178	-5.7	Common operations and eliminations	-19.4	-23.6	4.1
<b>Finland total</b>	<b>6,966</b>	<b>7,533</b>	<b>-7.5</b>	<b>Total</b>	<b>155.4</b>	<b>217.0</b>	<b>-61.6</b>
<b>Other countries total*</b>	<b>1,481</b>	<b>2,059</b>	<b>-28.1</b>				
<b>Group total</b>	<b>8,447</b>	<b>9,591</b>	<b>-11.9</b>				

\* exports and net sales in countries other than Finland.

- 1) Includes €46.4 million in non-recurring gains on real estate disposals. The operating profit of the comparative year included €68.5 million in non-recurring gains on real estate disposals and lease arrangements.
- 2) Includes €37.0 million (€32.4 million) in non-recurring gains on real estate disposals and impairments.
- 3) Includes a €7.7 million non-recurring gain on real estate disposal. The comparative period included a €47.0 million non-recurring impairment charge on Bygghuset Norge's intangible assets, and a €5.4 million non-recurring gain on real estate disposal.



## Group performance indicators by quarter

	1-3/ 2008	4-6/ 2008	7-9/ 2008	10-12/ 2008	1-3/ 2009	4-6/ 2009	7-9/ 2009	10-12/ 2009
Net sales, € million	2,277	2,547	2,435	2,333	2,018	2,143	2,133	2,153
Change in net sales, %	6.8	6.1	3.0	-2.4	-11.4	-15.9	-12.4	-7.7
Operating profit, € million	150.1	84.8	43.8	6.9	23.2	42.7	48.3	118.1
Operating margin, %	6.6	3.3	1.8	0.3	1.1	2.0	2.3	5.5
Operating profit excl. non-recurring items, € million	36.6	81.1	72.0	27.3	3.4	36.4	47.5	68.0
Operating margin excl. non-recurring items, %	1.6	3.2	3.0	1.2	0.2	1.7	2.2	3.2
Financial income/expenses, € million	-1.4	-0.2	1.8	0.8	-5.1	-4.4	-4.7	-1.8
Profit before tax, € million	148.6	84.3	48.0	7.7	18.2	38.2	43.8	116.3
Profit before tax, %	6.5	3.3	2.0	0.3	0.9	1.8	2.1	5.4
Return on capital employed, %	30.1	22.2	8.2	1.4	4.2	8.0	9.4	22.9
Return on capital employed excl. non-recurring items, %	7.3	15.6	13.6	4.9	0.6	6.8	9.2	13.2
Return on equity, %	25.1	19.1	4.2	0.6	2.4	4.6	5.2	14.7
Return on equity excl. non-recurring items, %	5.6	12.3	10.4	4.3	-0.6	3.7	5.0	7.7
Equity ratio, %	46.3	49.0	50.2	52.4	49.8	51.0	52.3	54.1
Investments, € million*	60.3	83.0	89.9	105.2	51.5	55.8	49.2	41.5
Earnings per share, diluted, €*	1.11	0.58	0.17	-0.05	0.12	0.19	0.24	0.73
Equity per share, €	19.13	20.17	20.29	20.09	19.16	19.36	19.60	20.39

\* Continuing operations

## Net sales by segment, continuing operations

€ million	1-3/ 2008	4-6/ 2008	7-9/ 2008	10-12/ 2008	1-3/ 2009	4-6/ 2009	7-9/ 2009	10-12/ 2009
Food trade	853	939	933	982	888	974	966	970
Home and speciality goods trade	364	355	396	490	346	331	381	500
Building and home improvement trade	695	870	795	617	529	643	614	525
Car and machinery trade	402	426	357	295	296	233	213	205
Common operations and eliminations	-37	-44	-46	-51	-41	-39	-41	-47
Group total	2,277	2,547	2,435	2,333	2,018	2,143	2,133	2,153

## Segments' operating profits, continuing operations

€ million	1-3/ 2008	4-6/ 2008	7-9/ 2008	10-12/ 2008	1-3/ 2009	4-6/ 2009	7-9/ 2009	10-12/ 2009
Food trade	81.3	31.5	45.3	27.4	42.3	33.8	35.8	58.7
Home and speciality goods trade	40.1	3.7	9.2	10.6	-3.3	-3.6	7.0	66.5
Building and home improvement trade	7.3	34.6	-16.1	-6.5	-5.2	14.8	8.5	1.6
Car and machinery trade	15.8	21.3	10.4	-17.0	-6.0	1.9	1.7	-2.7
Common operations and eliminations	5.6	-6.3	-4.9	-7.6	-4.6	-4.3	-4.5	-5.9
Group total	150.1	84.8	43.8	6.9	23.2	42.7	48.3	118.1

## Segments' operating profits excl. non-recurring items, continuing operations

€ million	1-3/ 2008	4-6/ 2008	7-9/ 2008	10-12/ 2008	1-3/ 2009	4-6/ 2009	7-9/ 2009	10-12/ 2009
Food trade	25.0	31.5	34.4	31.6	33.8	30.1	35.5	33.7
Home and speciality goods trade	-6.8	3.5	6.8	27.7	-10.7	-6.0	6.5	39.7
Building and home improvement trade	7.3	31.0	25.5	-7.5	-9.1	14.8	8.4	-2.1
Car and machinery trade	15.8	21.3	10.4	-17.1	-6.0	1.9	1.7	2.7
Common operations and eliminations	-4.8	-6.2	-5.1	-7.5	-4.6	-4.4	-4.5	-6.0
Group total	36.6	81.1	72.0	27.3	3.4	36.4	47.5	68.0

## Calculation of performance indicators

### Profitability

$$\text{Return on equity, \%} = \frac{(\text{Profit / loss before tax} - \text{income tax})}{\text{Shareholders' equity}} \times 100$$

$$\text{Return on equity excl. non-recurring items, \%} = \frac{(\text{Profit/loss adjusted for non-recurring items before tax} - \text{income tax adjusted for the tax effect of non-recurring items})}{\text{Shareholders' equity}} \times 100$$

$$\text{Return on capital employed, \%} = \frac{\text{Operating profit}}{(\text{Non-current assets} + \text{inventories} + \text{receivables} + \text{other current assets} - \text{non-interest-bearing liabilities}) \text{ for a 12 month average}} \times 100$$

$$\text{Return on capital employed excluding non-recurring items, \%} = \frac{\text{Operating profit excluding non-recurring items}}{(\text{Non-current assets} + \text{inventories} + \text{receivables} + \text{other current assets} - \text{non-interest-bearing liabilities}) \text{ for a 12 month average}} \times 100$$

$$\text{EBITDA} = \text{Operating profit} + \text{depreciation} + \text{impairments}$$

### Funding and financial position

$$\text{Equity ratio, \%} = \frac{\text{Shareholders' equity}}{(\text{Balance sheet total} - \text{prepayments received})} \times 100$$

$$\text{Gearing, \%} = \frac{\text{Interest-bearing net debt}}{\text{Shareholders' equity}} \times 100$$

$$\text{Interest-bearing net debt/EBITDA} = \frac{\text{Interest-bearing net debt}}{\text{EBITDA}}$$

### Share performance indicators

$$\text{Earnings/share, diluted} = \frac{\text{Profit/loss} - \text{minority interest}}{\text{Average number of shares adjusted for the dilutive effect of options}}$$

$$\text{Earnings/share, basic} = \frac{\text{Profit/loss} - \text{minority interest}}{\text{Average number of shares}}$$

$$\text{Earnings/share excl. non-recurring items, basic} = \frac{\text{Profit/loss adjusted for non-recurring items} - \text{minority interest}}{\text{Average number of shares}}$$

$$\text{Equity/share} = \frac{\text{Equity attributable to equity holders of the parent}}{\text{Basic number of shares at balance sheet date}}$$

$$\text{Payout ratio, \%} = \frac{(\text{Dividend/share})}{\text{Earnings/share}} \times 100$$

$$\text{Price/earnings ratio, (P/E)} = \frac{\text{Share price at balance sheet date}}{(\text{Earnings/share})}$$

$$\text{Effective dividend yield, \%} = \frac{(\text{Dividend/share})}{\text{Share price at balance sheet date}} \times 100$$

$$\text{Market capitalisation} = \text{Share price at balance sheet date} \times \text{number of shares}$$

$$\text{Cash flow from operating activities/share} = \frac{\text{Cash flow from operating activities}}{\text{Average number of shares}}$$

$$\text{Yields of A share and B share} = \text{Change in share price} + \text{annual dividend yield}$$

## Analysis of shareholding

### Ownership structure at 31.12.2009

All shares	Number of shares, pcs	% of all shares
Non-financial corporations and housing corporations	25,624,351	26.06
Financial and insurance corporations	6,101,976	6.21
General Government	11,342,495	11.54
Households	28,889,275	29.38
Non-profit institutions serving households	6,238,327	6.34
Rest of the world	772,696	0.79
Nominee registered	19,352,409	19.68
Total	98,321,529	100.00

### 10 largest shareholders by number of shares at 31.12.2009

	Number of shares, pcs	% of shares	Number of votes	% of votes
1. Kesko Pension Fund	4,438,885	4.51	35,388,850	9.22
2. The K-Retailers' Association	3,400,724	3.46	33,639,590	8.76
3. Vähittäiskaupan Takaos Oy	2,991,771	3.04	26,648,568	6.94
4. Ilmarinen Mutual Pension Insurance Company	1,938,980	1.97	3,916,838	1.02
5. Valluga-sijoitus Oy	1,340,439	1.36	13,404,390	3.49
6. Varma Mutual Pension Insurance Company	1,210,986	1.23	1,210,986	0.32
7. Tapiola Mutual Pension Insurance Company	1,019,858	1.04	1,019,858	0.27
8. Oy The English Tearoom Ab	1,008,400	1.03	1,008,400	0.26
9. Foundation for Vocational Training in the Retail Trade	936,085	0.95	7,989,898	2.08
10. The State Pension Fund	850,000	0.86	850,000	0.22

### 10 largest shareholders by number of votes at 31.12.2009

	Number of shares, pcs	% of shares	Number of votes	% of votes
1. Kesko Pension Fund	4,438,885	4.51	35,388,850	9.22
2. The K-Retailers' Association	3,400,724	3.46	33,639,590	8.76
3. Vähittäiskaupan Takaos Oy	2,991,771	3.04	26,648,568	6.94
4. Valluga-sijoitus Oy	1,340,439	1.36	13,404,390	3.49
5. Foundation for Vocational Training in the Retail Trade	936,085	0.95	7,989,898	2.08
6. Ilmarinen Mutual Pension Insurance Company	1,938,980	1.97	3,916,838	1.02
7. Ruokacity Myyrmäki Oy	389,541	0.40	3,895,410	1.01
8. The K-Food Retailers' Club	351,822	0.36	3,518,220	0.92
9. Heimo Välinen Oy	313,707	0.32	2,961,570	0.77
10. Svenska litteratursällskapet i Finland r.f.	350,000	0.36	2,150,000	0.56

### MANAGEMENT'S SHAREHOLDINGS

At the end of December 2009, the members of Kesko Corporation's Board of Directors, the President and CEO and the corporations under their control held 224,720 Kesko Corporation A shares and 100,820 Kesko Corporation B shares, i.e. a total of 325,540 shares which represent 0.33% of the company's share capital and 0.61% of voting rights.

At 31 December 2009, the President and CEO held 2,000 Kesko Corporation A shares and 7,000 Kesko Corporation B shares, which represent 0.01% of the company's share capital and 0.01% of its voting rights. In addition, the President and CEO holds 150,000 share options, which comprise 50,000 2007C options granted in 2009. If shares were subscribed for with the President and CEO's options, the options would represent 0.15% of all shares and 0.04% of all voting rights.



# Consolidated Financial Statements

## Consolidated income statement, IFRS

€ million	Note	1.1.–31.12.2009	%	1.1.–31.12.2008	%
<b>Continuing operations</b>					
Net sales	2	8,446.8	100.0	9,591.5	100.0
Cost of sales		-7,297.6	-86.4	-8,292.7	-86.5
<b>Gross profit</b>		<b>1,149.2</b>	<b>13.6</b>	<b>1,298.7</b>	<b>13.5</b>
Other operating income	5, 7	710.4	8.4	730.3	7.6
Staff cost	8, 35	-535.2	-6.3	-578.2	-6.0
Depreciation and impairment	13, 14	-131.2	-1.6	-178.1	-1.9
Other operating expenses	6, 7	-960.8	-11.4	-987.1	-10.3
<b>Operating profit</b>		<b>232.3</b>	<b>2.8</b>	<b>285.6</b>	<b>3.0</b>
Interest income and expenses	9	0.7	0.0	4.7	0.0
Exchange differences and other financial income and expenses	9	-16.7	-0.2	-3.8	0.0
Total financial income and expenses	9	-16.0	-0.2	1.0	0.0
Income from associates		0.2	0.0	1.9	0.0
<b>Profit before tax</b>		<b>216.6</b>	<b>2.6</b>	<b>288.5</b>	<b>3.0</b>
Income tax	10	-82.4	-0.9	-89.4	-0.9
<b>Profit for the year from continuing operations</b>		<b>134.2</b>	<b>1.6</b>	<b>199.1</b>	<b>2.1</b>
<b>Profit for the year from discontinued operations</b>	4	<b>-</b>	<b>-</b>	<b>41.5</b>	<b>0.4</b>
<b>Profit for the year</b>		<b>134.2</b>	<b>1.6</b>	<b>240.6</b>	<b>2.5</b>
Profit for the year attributable to					
Owners of the parent		125.2		219.7	
Minority interest		9.0		20.9	
<b>Earnings per share for profit attributable to owners of the parent</b>					
<b>Continuing operations</b>					
Basic, €	12	1.28		1.82	
Diluted, €	12	1.27		1.81	
<b>Discontinued operations</b>					
Basic, €	12	-		0.43	
Diluted, €	12	-		0.43	
<b>Kesko total</b>					
Basic, €	12	1.28		2.25	
Diluted, €	12	1.27		2.24	

## Consolidated statement of comprehensive income

<b>Profit for the year</b>		134.2	240.6
<b>Other comprehensive income:</b>			
Currency translation differences related to a foreign operation	11	-2.5	-6.3
Cash flow hedge revaluation	11	-3.9	-12.8
Revaluation of available-for-sale financial assets	11	-1.9	2.2
Other comprehensive income	11	-0.3	-0.3
Tax related to components of other comprehensive income	11	1.5	2.8
<b>Total other comprehensive income for the year, net of tax</b>		<b>-7.1</b>	<b>-14.5</b>
<b>Comprehensive income for the year</b>		<b>127.1</b>	<b>226.1</b>
<b>Comprehensive income for the year attributable to</b>			
Owners of the parent		123.0	204.8
Minority interest		4.1	21.3

## Consolidated statement of financial position, IFRS

€ million	Note	31.12.2009	%	31.12.2008	%
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	13	184.8		169.6	
Tangible assets	14	1,110.6		1,209.5	
Investments in associates	15, 45	33.0		31.2	
Available-for-sale financial assets	16	3.0		3.0	
Non-current receivables	17, 18	67.5		69.2	
Deferred tax assets	19	3.2		6.5	
Pension assets	20	315.2		300.3	
<b>Total non-current assets</b>		<b>1,717.4</b>	<b>44.7</b>	<b>1,789.3</b>	<b>46.0</b>
<b>Current assets</b>					
Inventories	21	665.5		871.0	
Interest-bearing receivables	22	32.1		14.9	
Trade receivables	22, 41	593.6		633.1	
Other non-interest-bearing receivables	22	117.6		137.4	
Financial assets at fair value through profit or loss	23	213.1		94.4	
Available-for-sale financial assets	24	427.7		291.0	
Cash and cash equivalents	25	73.9		57.8	
<b>Total current assets</b>		<b>2,123.5</b>	<b>55.3</b>	<b>2,099.6</b>	<b>53.9</b>
Non-current assets held for sale	4, 26	0.9	0.0	3.0	0.1
<b>Total assets</b>		<b>3,841.8</b>	<b>100.0</b>	<b>3,891.9</b>	<b>100.0</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to owners of the parent</b>					
Share capital	27	196.6		195.6	
Share issue	27	-		0.1	
Share premium	27	194.2		190.6	
Other reserves	27	242.8		242.9	
Currency translation differences	27	-7.1		-9.5	
Revaluation surplus	27	-2.7		1.6	
Retained earnings		1,381.0		1,344.4	
		<b>2,004.9</b>	<b>52.2</b>	<b>1,965.7</b>	<b>50.5</b>
<b>Minority interest</b>		<b>64.5</b>	<b>1.7</b>	<b>60.7</b>	<b>1.6</b>
<b>Total equity</b>		<b>2,069.4</b>	<b>53.9</b>	<b>2,026.4</b>	<b>52.1</b>
<b>Non-current liabilities</b>					
Interest-bearing non-current liabilities	28, 29, 41	262.0		196.9	
Non-interest-bearing non-current liabilities		5.7		11.8	
Deferred tax liabilities	19	127.7		132.0	
Retirement benefit obligations	20	1.8		1.8	
Provisions	30	14.5		20.1	
<b>Total non-current liabilities</b>		<b>411.6</b>	<b>10.7</b>	<b>362.7</b>	<b>9.3</b>
<b>Current liabilities</b>					
Interest-bearing current liabilities		194.2		293.6	
Trade payables	31	703.5		755.6	
Other non-interest-bearing liabilities	31	179.9		181.6	
Tax liabilities	31	37.0		2.9	
Accrued liabilities	31	217.1		245.5	
Provisions	30	29.2		23.5	
<b>Total current liabilities</b>		<b>1,360.9</b>	<b>35.4</b>	<b>1,502.9</b>	<b>38.6</b>
<b>Total liabilities</b>		<b>1,772.5</b>	<b>46.1</b>	<b>1,865.5</b>	<b>47.9</b>
<b>Total equity and liabilities</b>		<b>3,841.8</b>	<b>100.0</b>	<b>3,891.9</b>	<b>100.0</b>

## Consolidated statement of cash flows, IFRS

€ million	Note	2009	2008
<b>Cash flows from operating activities</b>			
Profit before tax		216.6	330.8
Adjustments:			
Depreciation according to plan		116.9	118.1
Financial income and expenses		16.0	-1.1
Other adjustments	37	-74.0	-130.1
		58.9	-13.2
Change in working capital			
Current non-interest-bearing receivables, increase (-) / decrease (+)		39.4	-10.3
Inventories increase (-) / decrease (+)		206.6	2.3
Current non-interest-bearing liabilities, increase (+) / decrease (-)		-83.9	-78.4
		162.2	-86.4
Interest paid and other financial expenses		-37.5	-32.6
Interest received		23.0	31.6
Dividends received		0.1	0.1
Income tax paid		-44.5	-99.0
<b>Net cash generated from operating activities</b>		<b>378.8</b>	<b>131.4</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired		-16.4	-35.0
Acquisition of associate		-0.2	0.0
Purchases of tangible and intangible assets		-205.2	-284.7
Purchases of available-for-sale financial assets		-0.8	-0.3
Disposal of subsidiary, net of cash disposed of	4, 38	52.3	121.3
Disposal of associate		0.1	1.5
Proceeds from sale of available-for-sale financial assets	39	1.2	0.2
Proceeds from sale of tangible and intangible assets		198.3	158.4
Increase in non-current loan receivables		0.0	-7.3
Decrease in non-current loan receivables		1.6	0.0
<b>Net cash used in investing activities</b>		<b>31.0</b>	<b>-45.8</b>
<b>Cash flows from financing activities</b>			
Increase (+) / decrease (-) in interest-bearing liabilities		-33.1	-47.1
Repayments of finance lease liabilities		0.2	-5.6
Increase (+) / decrease (-) in current interest-bearing receivables		-13.7	216.5
Dividends paid		-98.4	-172.5
Proceeds from issuance of shares		4.6	0.4
Increase (-) / decrease (+) in short-term money market investments		-97.6	-17.3
Other items		3.6	11.3
<b>Net cash used in financing activities</b>		<b>-234.4</b>	<b>-14.3</b>
<b>Change in cash and cash equivalents and current available-for-sale financial assets</b>			
		<b>175.4</b>	<b>71.4</b>
Cash and cash equivalents and current available-for-sale financial assets at 1 Jan.	40	319.3	245.3
Currency translation difference adjustment and value adjustment		-3.2	-0.7
Cash and cash equivalents related to available-for-sale assets		0.0	-1.8
Cash and cash equivalents and current available-for-sale financial assets at 31 Dec.	40	491.4	319.3



## Consolidated statement of changes in equity, IFRS

€ million	Attributable to owners of the parent								Minority interest	Total equity
	Share capital	Share issuance	Share premium	Other reserves	Currency translation differences	Revaluation surplus	Retained earnings	Total		
<b>Balance at 1 Jan. 2009</b>	<b>195.6</b>	<b>0.1</b>	<b>190.6</b>	<b>242.9</b>	<b>-9.5</b>	<b>1.6</b>	<b>1,344.4</b>	<b>1,965.7</b>	<b>60.7</b>	<b>2,026.4</b>
Shares resulting from the exercise of options	1.0	-0.1	3.7					4.6		4.6
Cost of share option schemes							8.1	8.1		8.1
Subsidiary disposals								0.0		0.0
Dividend distribution							-97.9	-97.9	-0.5	-98.4
Other changes				-0.2			1.5	1.3	0.2	1.6
Total comprehensive income for the period					2.4	-4.3	124.9	123.0	4.1	127.1
<b>Balance at 31 Dec. 2009</b>	<b>196.6</b>	<b>0.0</b>	<b>194.2</b>	<b>242.8</b>	<b>-7.1</b>	<b>-2.7</b>	<b>1,381.1</b>	<b>2,004.9</b>	<b>64.4</b>	<b>2,069.4</b>
<b>Balance at 1 Jan. 2008</b>	<b>195.5</b>	<b>0.0</b>	<b>190.4</b>	<b>247.1</b>	<b>-2.7</b>	<b>9.5</b>	<b>1,269.2</b>	<b>1,909.1</b>	<b>55.3</b>	<b>1,964.4</b>
Shares resulting from the exercise of options	0.1	0.1	0.2					0.4		0.4
Cost of share option schemes							5.6	5.6		5.6
Subsidiary disposals				-4.2			4.2	0.0	0.1	0.1
Dividend distribution							-156.4	-156.4	-16.1	-172.5
Other changes							2.3	2.3		2.3
Total comprehensive income for the period					-6.8	-7.9	219.6	204.8	21.3	226.1
<b>Balance at 31 Dec. 2008</b>	<b>195.6</b>	<b>0.1</b>	<b>190.6</b>	<b>242.9</b>	<b>-9.5</b>	<b>1.6</b>	<b>1,344.4</b>	<b>1,965.7</b>	<b>60.7</b>	<b>2,026.4</b>

Further information about share capital and reserves is given in note 27.

# Notes to the consolidated financial statements

## NOTE 1

### Accounting policies for the consolidated financial statements

#### BASIC INFORMATION ABOUT THE COMPANY

Kesko is the leading provider of trading sector services and a highly valued listed company. Kesko has about 2,000 stores engaged in chain operations in the Nordic and Baltic countries, Russia and Belarus.

Kesko's operations are divided into four reportable segments. The Group's business divisions, namely the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade, have been identified as the Kesko Group's reportable segments.

The Group's parent company, Kesko Corporation, is a Finnish public limited company constituted in accordance with the laws of Finland. The company's business ID is 0109862-8, it is domiciled in Helsinki, and its registered address is Satamakatu 3, FI-00016 Kesko. Copies of Kesko Corporation's financial statements and the consolidated financial statements are available from Kesko Corporation, Satamakatu 3, FI-00016 Kesko, and from the Internet, at [www.kesko.fi](http://www.kesko.fi).

Kesko's Board of Directors has approved these financial statements for disclosure on 4 February 2010.

#### GENERAL INFORMATION

Kesko's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved for adoption by the European Union, and they comply with the IAS and IFRS standards, and respective IFRIC and SIC Interpretations valid at 31 December 2009. The International Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with the procedure enacted in EC regulation 1606/2002, included in the Finnish Accounting Standards and regulations based on them. Accounting standards not yet effective have not been adopted voluntarily for the consolidated financial statements. The notes to the consolidated financial statements also include compliance with the Finnish accounting and corporate legislation.

All amounts in the consolidated financial statements are in millions of euros and are based on original cost, with the exception of items identified separately, which have been measured at fair value in compliance with the standards.

With effect from 1 January 2009, the Group has adopted the following new and revised standards:

- IFRS 8, 'Operating Segments': The adoption of IFRS 8 has not changed the Group's reportable segments, because the Group's segment information was also previously based on internal management reporting, with the measurement principles of assets and liabilities complying with IFRS regulations. The Group's business divisions, identified as the Kesko Group's reportable segments effective 1 January 2009, are the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade. The change in reportable segments was due to changes in the Group composition. The segment

information for the 2008 financial year has been restated accordingly.

- IAS 1 'Presentation of Financial Statements': In consequence of the adoption of the revised IAS 1 standard, the financial statements present a statement of comprehensive income specifying non-owner changes in equity. The statement of changes in equity has also been modified to comply with the requirements of the amended standard.
- IAS 23 'Borrowing Costs, capitalisation of borrowing costs attributable to a qualifying asset': The amended standard removes the option of immediately expensing borrowing costs attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. These borrowing costs are eligible for capitalisation as part of the cost of the asset. The Group previously expensed borrowing costs in the accounting period in which they incurred. Interest costs have not been capitalised as part of the cost of the asset during the accounting period.
- IFRIC 13 'Customer Loyalty Programmes': At the beginning of 2009, the Kesko Group adopted a new IFRIC interpretation, IFRIC 13 'Customer Loyalty Programmes'. According to the interpretation, the loyalty award credits relating to the K-Plussa customer loyalty programme are recognised at fair values in sales adjustment items, as part of the sales transactions. Loyal award credits have been accounted for in the net sales of those Group retail companies which grant K-Plussa loyal award credits. The comparative figures for 2008 have also been restated to comply with the new interpretation. The adoption of the interpretation does not impact the Group's operating profit, because loyalty award credits arising from the K-Plussa customer loyalty programme have been recorded at fair value in the income statement as incurred even before the adoption of the interpretation.

In addition, the Group has adopted the following revised or amended IFRS standards and IFRIC interpretations endorsed by the EU as from 1 January 2009:

- IAS 32 'Financial Instruments: presentation', and IAS 1 'Presentation of Financial Statements' – Puttable financial instruments and obligations arising on liquidation (amendment)
  - IFRS 1 'First-time adoption of IFRS', and IAS 27 'Consolidated and Separate Financial Statements' – Cost of an investment in a Subsidiary, Jointly controlled Entity or Associate (amendment)
  - IFRS 2 'Share-based Payments' – Vesting conditions and cancellations (amendment)
  - Annual amendments to the IFRSs (Annual Improvements 2007)
  - IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'
- The following standards became effective on 1 January 2009, but have not yet been endorsed by the EU:
- IFRS 7 'Financial Instruments: Disclosures' (amendment)
  - IFRIC 9 'Reassessment of Embedded Derivatives' (amendment) and IAS 39 'Financial Instruments: Recognition and Measurement' (amendment)
  - IFRIC 15 'Agreements for the Construction of Real Estate'

The above amendments to standards and interpretations have not had a material impact on the reported income statement, statement of financial position or notes.

#### USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain estimates and assumptions about the future that affect the reported amounts of assets and liabilities, contingent liabilities, and income and expense. The actual results may differ from these estimates and assumptions. Furthermore, the application of accounting policies is based on the management's judgements, for example, in the classification of assets and in determining whether risks and rewards incident to ownership of financial assets and leased assets have substantially transferred to the other party. The most significant estimates relate to the following.

##### *Allocation of cost of acquisition*

Assets and liabilities acquired in business combinations are measured at their fair values at the date of acquisition. The fair values on which cost allocation is based are determined by reference to market values to the extent they are available. If market values are not available, the measurement is based on the estimated earnings-generating capacity of the asset and its future use in Kesko's operating activities. The measurement of intangible assets, in particular, is based on the present values of future cash flows and requires management estimates regarding future cash flows and the use of assets.

##### *Impairment test*

The amounts recoverable from cash generating units' operating activities are determined based on value-in-use calculations. In the calculations, forecast cash flows are based on financial plans approved by the management, covering a period of 3 years (note 13).

##### *Employee benefits*

The Group operates both defined contribution pension plans and defined benefit pension plans. The calculation of items relating to employee benefits requires the consideration of several factors. Pension calculations under defined benefit plans in compliance with IAS 19 include the following factors that rely on management estimates (note 20):

- expected return on plan assets
- discount rate used in calculating pension expenses and obligations for the period
- future salary level trend
- employee service life

Changes in these assumptions can significantly impact the amounts of pension liability and future pension expenses. In addition, a significant part of the pension plan assets is invested in real estate and shares, whose value adjustments also impact the amounts of liabilities and pension expenses.

##### *Measurement of inventories*

The Group regularly reviews inventories for obsolescence and turnover, and for below-cost market values, and recognises obsolescence as necessary. Such reviews require assessments of future demand for products. Possible changes in these estimates may cause changes in inventory measurement in future periods.

##### *Trade receivables*

The Group companies apply a uniform practice to measuring mature receivables. Possible changes in customers' solvency may cause changes in the measurement of trade receivables in future periods.

#### CONSOLIDATION PRINCIPLES

##### *Subsidiaries*

The consolidated financial statements combine the financial statements of Kesko Corporation and subsidiaries controlled by the Group. Control exists when the Group owns more than 50% of the voting rights of a subsidiary or otherwise exerts control. Control refers to the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Acquired subsidiaries are consolidated from the date on which the Group gains control until the date on which control ceases. When assessing whether an enterprise controls another enterprise, the potential voting rights that are currently exercisable have been taken into account. The subsidiaries are listed in note 45.

Internal shareholdings are eliminated by using the acquisition cost method. The cost of acquisition is determined on the basis of the fair value of the acquired assets as on the date of acquisition, the issued equity instruments and liabilities resulting from or assumed on the date of the exchange transaction, plus the direct expenses relating to the acquisition. The identifiable assets, liabilities and contingent liabilities of the acquiree are measured at the fair value on the date of acquisition, gross of minority interest.

Intra-group transactions, receivables and payables, unrealised gains and internal distribution of profits are eliminated when preparing the consolidated financial statements. Unrealised losses are not eliminated, if the loss is due to the impairment of an asset. Minority interests in the net income are disclosed in the income statement and the amount of equity attributable to minority interest is disclosed separately in the Group's equity.

##### *Associates*

Unrealised gains between the Group and associates are eliminated in proportion to the Group's ownership interest. Dividends received from associates are deducted from the Group's result and the cost of the shares. An investment in an associate includes the goodwill generated by the acquisition. Goodwill is not amortised. The associates are listed in note 45.

##### *Joint ventures*

Joint ventures are enterprises in which the Group and another party exercise joint control by virtue of contractual arrangements. The Group's interests in joint ventures are consolidated proportionally on a line-by-line basis. The consolidated financial statements disclose the Group's share of a joint venture's assets, liabilities, income and expenses. At the end of the accounting period, the Group has no joint ventures.

##### *Mutual real estate companies*

In compliance with IAS 31, mutual real estate companies are consolidated as assets under joint control on a line-by-line basis in proportion to ownership.



## FOREIGN CURRENCY ITEMS

The consolidated financial statements are presented in euros, which is both the functional currency of the Group's parent company and the reporting currency. On initial recognition, the figures relating to the result and financial position of Group entities located outside the euro zone are recorded in the functional currency of their operating environment. The operating currency of the real estate companies in St. Petersburg and Moscow in Russia has been determined to be the euro, which is why no significant exchange differences are realised from their balance sheets for the Group.

Foreign currency transactions are recorded in euros by applying the exchange rate at the date of the transaction. Foreign currency receivables and liabilities are translated into euros using the closing rate. Gains and losses from foreign currency transactions, and from receivables and liabilities are recognised in the income statement, with the exception of those loan exchange rate movements designated to provide a hedge against foreign net investments and regarded as effective. These exchange differences are recognised in equity, in compliance with the rules of hedge accounting, and their changes are presented in other comprehensive income. Foreign exchange gains and losses from operating activities are included in the respective items above operating profit. Gains and losses from forward foreign exchange contracts and options used to hedge financial transactions, and from foreign currency loans are included in financial income and expenses.

The income statements of Group entities operating outside the euro zone have been translated into euros at the average rate of the reporting period, and the balance sheets at the closing rate. The translation difference resulting from the use of different rates, and the translation differences arising from the elimination of the acquisition cost of subsidiaries outside the euro zone, and the hedging result of net investments made in them, are recognised in equity, and the changes are presented in other comprehensive income. In connection with the disposal of a subsidiary, currency translation differences are disclosed in the income statement as part of the gains or losses on the disposal.

As of 1 January 2004, the goodwill arising from the acquisition of foreign units and the fair value adjustments of assets and liabilities made upon their acquisition have been treated as assets and liabilities of these foreign units and translated into euros at the closing rate. The goodwill and fair value adjustments of acquisitions made prior to 1 January 2004 have been recorded in euros.

## FINANCIAL ASSETS

The Group classifies financial assets in the following categories:

- financial assets at fair value through profit or loss
- available-for-sale financial assets
- loans and receivables.

The category is determined at initial recognition on the basis of why they were originally acquired.

Purchases and sales of financial assets are recognised using the 'regular way' method. Financial assets are classified as non-current assets if they have a maturity date greater than twelve months after the balance sheet date. If financial assets are going to be held for less than 12 months, they are classified as current assets. Financial assets at fair value through profit or loss are classified as current assets.

Financial assets are derecognised when the contractual rights to the cash flow of the financial asset expire or have been transferred to another party, and when the risks and rewards of ownership have been transferred.

At each reporting date, the Group assesses whether there is any indication that a financial asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the fair value based on the market price or the present value of cash flows. The fair value of investment instruments is determined on the basis of a maturity-based interest rate quotation. An impairment loss is recognised if the carrying amount of a financial asset exceeds its recoverable amount. The impairment losses are recognised within the financial items of the income statement.

### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include instruments initially classified as financial assets at fair value through profit or loss (the Fair Value Option). These instruments are accounted for based on fair value and they include investments in bond funds, as defined by the Group's treasury policy, as well as investments in other interest-bearing papers with over 3-month maturities. The interest income and fair value changes of these financial assets, as well as any commissions returned by funds are presented on a net basis in the income statement in the interest income of the category in question.

In addition, financial assets at fair value through profit or loss include all derivatives that do not qualify for hedge accounting in compliance with IAS 39. Derivatives are carried at fair value using prices quoted in active markets. The results of derivatives hedging purchases and sales are recognised in other operating income or expenses. The results of derivatives used to hedge financial items are recognised in financial items, unless the derivative has been designated as a hedging instrument.

### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative assets designated as available for sale at the date of initial recognition. Available-for-sale financial assets are measured at fair value at the balance sheet date and their fair value changes are recognised in equity, and the fair value change is presented in other comprehensive income. The fair value of publicly quoted financial assets is determined based on their market value. Financial assets not quoted publicly are measured at cost if their fair values cannot be measured reliably.

The dividends from equity investments included in available-for-sale financial assets are recognised in financial items in the income statement. The interest income from available-for-sale financial assets is recognised in the financial items of the relevant class. When an available-for-sale financial asset is sold, the accumulated fair value changes recognised in equity are included in the income statement as 'Other financial income/expenses'.

### *Loans and receivables*

Loans and receivables are non-derivative assets with fixed or measurable payments, and they are not quoted in active markets. Loans and receivables also include trade receivables and other receivables. They are recognised at amortised cost using the effective interest method.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and balances with banks. The cash and cash equivalents in the consolidated balance sheet also include amounts relating to the retail operations of division parent companies, used as cash floats in stores, or amounts being transferred to the respective companies.

### FINANCIAL LIABILITIES

Financial liabilities have initially been recognised at their cost, net of transaction costs. In the financial statements, financial liabilities are measured at amortised cost using the effective interest rate method. The arrangement fees related to lines of credit are amortised over the validity period of the credit. Financial liabilities having a maturity period of over 12 months after the balance sheet date are classified as non-current liabilities. Those having a maturity period of less than 12 months after the balance sheet date are classified as current liabilities.

### DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

When acquired, derivative financial instruments are carried at fair value and subsequently they are measured at fair value. The recognition of value adjustments of derivatives depends on whether the derivative instrument qualifies for hedge accounting, and if so, on the hedged item. When entered into, derivative contracts are treated either as fair value hedges of receivables or liabilities, or in the case of interest rate risk and electricity price risk, as cash flow hedges, as hedges of net investments in a stand-alone foreign entity, or as derivative contracts that do not meet the hedge accounting criteria. If the hedge accounting criteria are not met, the results of instruments hedging a commercial currency risk are recognised in profit or loss in other operating income or expenses. The portion of derivatives hedging financial transactions to be recognised in the income statement is included in financial items.

When a hedging arrangement is entered into, the relationship between the item being hedged and the hedging instrument, as well as the objectives of the Group's risk management are documented. The effectiveness of the hedging relationship is tested regularly and the effective portion is recognised, against the change in the fair value of the hedged item, in translation differences in equity, or in the revaluation surplus. The ineffective portion is recognised in financial items or other operating income and expenses, depending on its nature. The effective portion of the value adjustments of instruments hedging cash flow, such as a long-term credit facility, is recognised in the equity hedging reserve. The value adjustment of currency derivative instruments relating to the credit facility is recognised in the loan account, and the value adjustment of interest rate derivative instruments in other non-interest-bearing receivables or debt.

Hedge accounting is discontinued when the hedging instrument expires or is sold, the contract is terminated or exercised. Any cumulative gain or loss existing in equity remains in equity until the forecast transaction has occurred.

#### Measurement principles

The fair value of forward rate agreements is determined by reference to the market prices of the balance sheet date. The fair value of interest rate swaps is calculated on the basis of the

present value of future cash flows, using the market prices at the balance sheet date. The fair value of forward exchanges is determined by measuring the forward contracts at the forward rate of the balance sheet date. Currency options are measured by using the counterparty's price quotation, but the Group verifies the price with the help of the Black-Scholes method. Electricity and grain derivatives are measured at fair value using the market quotations of the balance sheet date.

#### *Hedging a net investment in a stand-alone foreign entity*

The Group applies hedge accounting in accordance with IAS 39 to hedge foreign currency net investments in foreign entities. Forward exchanges or foreign currency loans are used as hedging instruments. Spot price changes in forward exchanges are recognised as translation differences under equity, and are disclosed in components of comprehensive income. The interest rate differentials of forward exchange agreements are recognised as income under financial items. The exchange differences of foreign currency loans are stated as translation differences under equity. When a foreign entity is disposed of or wound up, the accumulated gains or losses from hedging instruments are recognised in profit or loss.

#### *Embedded derivatives*

The Group has prepared method descriptions for identifying embedded derivatives and applies fair value measurement to them. In the Kesko Group, embedded derivatives are included in firm commercial contracts denominated in a currency which is not the functional currency of either party and not commonly used in the economic environment in which the transaction takes place. The fair value of embedded derivatives is determined using the market prices of the measurement date and the value change is recognised in the income statement.

### INTANGIBLE ASSETS

#### *Goodwill and trademarks*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets and liabilities of an enterprise at the date of the acquisition. The goodwill of companies acquired prior to 1 January 2004 corresponds to their carrying amounts reported in accordance with the previous accounting practices, and the carrying amount is used as the deemed cost. The goodwill of business combinations entered into prior to 1 January 2004 corresponds to their carrying amounts reported in accordance with the previous accounting practices used as the deemed cost, in compliance with IFRS.

Goodwill is not amortised but tested annually for impairment and whenever there is an indication of impairment. For testing purposes goodwill is allocated to the cash generating units. Goodwill is measured at original cost and the share acquired prior to 1 January 2004 at deemed cost net of impairment. Any negative goodwill is immediately recognised as income in accordance with IFRS 3.

Intangible assets with indefinite useful lives are not amortised. They are tested for impairment annually and whenever there is an indication of impairment. These intangible assets include trademarks capitalised upon acquisition.

### Other intangible assets

The cost of intangible assets with definite useful lives are stated in the balance sheet and recognised as expenses during their useful lives. Such intangible assets include software licences and customer relationships to which acquisition cost has been allocated upon acquisition, and leasehold interests that are amortised during their probable terms. The estimated useful lives are:

Computer software and licences	3–5 years
Customer and supplier relationships	10 years

### Research and development expenses

The Group has not had such development expenditures which, under certain conditions, should be recognised as assets and written off during their useful lives in accordance with IAS 38. Therefore the costs of research and development activities have been expensed as incurred.

### Computer software

The labour costs and other direct expenditure of the Group employees working on new software development projects are capitalised as part of the software cost. In the balance sheet, computer software is included in intangible assets and its cost is written off during the useful life of the software. Software maintenance expenditure is recognised as an expense as incurred.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment mainly comprise land, buildings, machinery and equipment. Property, plant and equipment are carried at original cost net of planned depreciation and any impairment. The property, plant and equipment of acquired subsidiaries are measured at fair value at the date of acquisition.

The machinery and equipment of buildings are treated as separate assets and any significant expenditure related to their replacement is capitalised. Subsequent expenditure relating to an item of property, plant and equipment is only added to the carrying amount of the asset when it is probable that future economic benefits relating to the asset will flow to the Group and that the cost of the asset can be reliably measured. The repair, service and maintenance expenditures of other items of property, plant and equipment are recognised as an expense as incurred.

Property, plant and equipment are written off on a straight-line basis during their estimated useful lives.

The most common estimated useful lives are:

Buildings	10–33 years
Components of buildings	8–10 years
Machinery and equipment	3–8 years
Cars and transport equipment	5 years

The residual values, useful lives and depreciation methods applied to property, plant and equipment are reviewed at least at the end of each accounting period. If the estimates of useful life and the expected pattern of economic benefits are different from previous estimates, the change in the estimate is accounted for in accordance with IAS 8.

The depreciation of property, plant and equipment ceases when the asset is classified as held for sale in accordance with IFRS 5. Lands are not depreciated.

Gains and losses from sales and disposals of property, plant and equipment are recognised in the income statement and presented as other operating income and expenses.

### INVESTMENT PROPERTIES

Investment properties are properties held by the enterprise mainly to earn rentals or for capital appreciation. The Group does not hold real estate classified as investment properties.

### IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of goodwill and intangible assets with indefinite useful lives is assessed every year whether or not there is an indication of impairment. In addition, an impairment test is performed whenever there is an indication of impairment.

The recoverable amount is the higher rate of an asset's fair value less the costs of disposal, and its value in use. Often it is not possible to assess the recoverable amount for an individual asset. Then, as in the case of goodwill, the recoverable amount is determined for the cash generating unit to which the goodwill or asset belongs.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The impairment loss is disclosed in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been an increase in the reassessed recoverable amount. However, the reversal of an impairment loss of an asset should not exceed the carrying amount of the asset without an impairment loss recognition. For goodwill, a recognised impairment loss is not reversed under any circumstances.

### LEASES

In accordance with IAS 17, leases that substantially transfer all the risks and rewards incident to ownership to the Group are classified as finance leases. An asset leased under a finance lease is recognised in the balance sheet at the lower rate of its fair value at the inception date and the present value of minimum lease payments. The rental obligations of finance leases are recorded in interest-bearing liabilities in the balance sheet. Lease payments are allocated between the interest expense and the liability. Finance lease assets are amortised over the shorter period of the useful life and the lease term.

Leases in which assets are leased out by the Group, and substantially all the risks and rewards incident to ownership are transferred to the lessee, are also classified as finance leases. Assets leased under such contracts are recognised as receivables in the balance sheet and are stated at present value. The financial income from finance leases is determined so as to achieve a constant periodic rate of return on the remaining net investment for the lease term.

Leases in which risks and rewards incident to ownership are not transferred to the lessee are classified as operating leases. Lease payments related to them are recognised in the income statement on a straight-line basis over the lease term.

In sale and leaseback transactions the sale price and the future lease payments are usually interdependent. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately

recognised as income. Instead it is deferred and amortised over the lease term. If a sale and leaseback transaction results in an operating lease and the transaction is established at fair value, any profit or loss is recognised immediately.

If the sale price is below fair value, any profit or loss is recognised immediately unless the loss is compensated by future lease payments at below market price, in which case the loss is deferred and amortised over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used. If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value is recognised immediately.

### INVENTORIES

Inventories are measured at the lower rate of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. The cost is primarily assigned by using the weighted average cost formula. The cost of certain classifications of inventory is assigned by using the FIFO formula. The cost of an acquired asset comprises all costs of purchase including freight. The cost of self-constructed goods comprise all costs of conversion including direct costs and allocations of variable and fixed production overheads.

### TRADE RECEIVABLES

Trade receivables are recognised at the original invoice amount. Impairment is recognised when there is objective evidence of impairment loss. The Group has established a uniform basis for the determination of impairment of trade receivables based on the time receivables have been outstanding. In addition, impairment is recognised if there is other evidence of a debtor's insolvency, bankruptcy or liquidation. Losses on loans and advances are recognised as an expense in the income statement as part of 'Other operating expenses'.

### NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets (or a disposal group) and assets and liabilities relating to discontinued operations are classified as held for sale, if their carrying amount will be recovered principally through the disposal of the assets rather than through continuing use. For this to be the case, the sale must be highly probable, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary, the management must be committed to selling and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or assets included in the disposal group) and assets and liabilities linked to a discontinuing operation are measured at the lower rate of the carrying amount and fair value net of costs to sell. After an asset has been classified as held for sale, or if it is included in the disposal group, it is not depreciated. If the classification criterion is not met, the classification is reversed and the asset is measured at the lower

rate of the carrying amount prior to the classification less depreciation and impairment, and recoverable amount. A non-current asset held for sale and assets included in the disposal group classified as held for sale are disclosed separately in the balance sheet. Liabilities included in the disposal group of assets held for sale are also disclosed separately in the balance sheet. The profit from discontinued operations is disclosed as a separate line item in the income statement.

The comparative information in the income statement are adjusted for operations classified as discontinued during the latest financial period being reported. Consequently, the profit from discontinued operations is presented as a separate line item also for the comparatives.

### PROVISIONS

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and that a reliable estimate can be made of the amount of the obligation. Provision amounts are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Changes in provisions are recorded in the income statement in the same item in which the provision was originally recognised. The most significant part of the Group's provisions relates to warranties given to products sold by the Group, and to onerous leases.

A warranty provision is recognised when a product fulfilling the terms is sold. The provision amount is based on historical experience about the level of warranty expenses. Leases become onerous if the leased premises become vacant, or if they are sub-leased at a rate lower than the original. A provision is recognised for an estimated loss from vacant lease premises over the remaining lease term, and for losses from subleased premises.

### EMPLOYEE BENEFITS

#### *Pension plans*

The Group has both defined contribution plans and defined benefit plans. The contributions payable under defined contribution plans are recognised as expenses in the income statement of the period to which the payments relate. In defined contribution plans, the Group does not have a legal or constructive obligation to make additional payments, in case the payment recipient is unable to pay the retirement benefits.

In defined benefit plans, after the Group has paid the amount for the period, an excess or deficit may result. The pension obligation represents the present value of future cash flows from payable benefits. The present value of pension obligations has been calculated using the Project Unit Credit Method. Pension costs are expensed during employees' service lives based on actuarial calculations. The discount rate assumed in calculating the present value of the pension obligations is the market yield of high-quality bonds issued by companies. Their maturity substantially corresponds to the maturity of the calculated pension liability. The assets corresponding to the pension obligation of the retirement benefit plan are carried at fair values at the balance sheet date. Actuarial gains and losses are recognised in the income statement for the average remaining service lives of the employees participating in the plan to the extent that they



exceed 10 percent of the higher rate of the present value of the defined benefit plans and the fair value of assets belonging to the plan.

Relating to the arrangements taken care of by the Kesko Pension Fund, the funded portion and the disability portion under the Finnish Employees' Pension Act are treated as defined benefit plans. In addition, the Group operates a pension plan in Norway which is treated as a defined benefit plan. The plan is not significant for the Group. Other pension plans are treated as defined contribution plans.

#### *Share-based payment*

The share options granted as part of the Group management's and other key personnels' incentive and commitment programme are measured at fair value at the grant date and expensed on a straight-line basis over the option's vesting period. The counter-item is recognised in retained earnings. The expenditure determined at the grant date is based on the Group's estimate of the number of options expected to vest at the end of the vesting period. The Group updates the estimate of the final number of options at each balance sheet date. Any movements in estimates are recorded in the income statement. The fair value of the options has been calculated using the Black-Scholes option pricing model.

When share options are exercised, the proceeds received from share subscriptions, adjusted for possible transaction costs, are recognised in shareholders' equity. Proceeds from share subscriptions based on options granted prior to the entry into force of the new Limited Liability Companies Act (1 Sept. 2006), have been recorded in shareholders' equity and share premium, in accordance with the plan rules. The proceeds from share subscriptions based on option plans implemented after the new Limited Liability Companies Act entered into force are recorded in shareholders' equity and the reserve of invested non-restricted equity, in accordance with the plan rules.

#### **REVENUE RECOGNITION POLICIES**

Net sales comprise the sale of products, services and energy. The sale of services and energy account for an insignificant portion of net sales. For net sales, sales revenue is adjusted by indirect taxes, sales adjustment items and the exchange differences of foreign currency sales. Sales adjustment items take into account customer loyalty programmes recognised in revenue in accordance with IFRIC 13 Customer Loyalty Programmes. According to the interpretation, the loyalty award credits relating to the K-Plussa customer loyalty programme are recognised in sales adjustment items at fair values as part of sales transactions. Loyalty award credits affect the net sales of those retail companies which grant K-Plussa customer loyalty credits.

The Group sells products to retailers and other retail dealers, and engages in own retailing. Revenue from the sale of goods is recognised when the significant risks, benefits and control relating to the ownership of the goods have transferred to the buyer, and it is probable that the economic benefits associated with the transaction will flow to the Group. Normally revenue from the sale of goods can be recognised at the time of delivery of the goods. Sales to retailers and other retail dealers are based on

central invoicing. Retail sales are mainly on cash and credit card basis.

The Group does not have long-term projects with revenue recognised using the percentage of completion method.

Revenue from the rendering of services is recognised after the service has been rendered and when a flow of economic benefits associated with the service is probable. Interest is recognised as revenue on a time proportion basis using the effective interest method. Dividends are recognised as revenue when the right to receive payment is established.

#### **OTHER OPERATING INCOME AND EXPENSES**

Other operating income includes income other than that associated with the sale of goods or services, such as rent income, store site and chain fees and various other service fees and commissions. Profits and losses from the sale and disposal of property, plant and equipment are disclosed in other operating income and expenses. Other operating income and expenses also include realised and unrealised profits and losses from derivatives used to hedge currency risks of trade.

#### **BORROWING COSTS**

The amendment of IAS 23 'Borrowing Costs' (effective from 1 January 2009) removed the option of expensing borrowing costs attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. These borrowing costs are eligible for capitalisation as part of the cost of the asset. The Group previously expensed borrowing costs in the accounting period in which they incurred. During the reporting period, interest costs have not been capitalised as part of the cost of the asset. The amendment of the standard has not been applied retrospectively.

Directly attributable transaction costs clearly associated with a certain borrowing are included in the original amortised cost of the borrowing and amortised to interest expense by using the effective interest method.

#### **INCOME TAXES**

The taxes disclosed in the consolidated income statement recognise the Group companies' taxes on current net profits on an accrual basis, prior period tax adjustments and changes in deferred taxes. The Group companies' taxes are calculated from the taxable profit of each company determined by local jurisdiction.

Deferred tax assets and liabilities are recognised for all temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred tax has not been calculated on goodwill insofar as goodwill is not tax deductible. Deferred tax on subsidiaries' undistributed earnings is not recognised unless a distribution of earnings is probable, causing tax consequences.

Deferred tax is calculated using tax rates enacted by the balance sheet date, and if the rates change, at the new rate expected to apply. A deferred tax asset is recognised to the extent that it is probable that it can be utilised against future taxable income. The Group's deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority.

The most significant temporary differences arise from defined benefit plans, property, plant and equipment (depreciation difference, finance lease) and measurement at fair value of asset items in connection with business acquisitions.

#### **DIVIDEND DISTRIBUTION**

The dividend proposed by the Board to the Annual General Meeting has not been deducted from equity. Instead dividends are recognised on the basis of the decision of the Annual General Meeting.

#### **NEW IFRS STANDARDS AND IFRIC INTERPRETATIONS**

In addition to the standards and interpretations presented in the 2008 financial statements, the Group will adopt the following standards, interpretations and amendments to the existing standards and interpretations issued in 2009 for application in its 2010 financial statements. The standards, interpretations and amendments to the existing standards and interpretations published in 2009 other than those listed here, are not assumed to have an impact on the consolidated financial statements.

IFRS 2 (Amendment) Share-based Payment – Group Cash-settled Share-based Payment Transactions. The amendment clarifies that an entity that receives goods or services from its supplier must apply IFRS 2 even though the entity has no obligation to make the required share-based cash payments. The Group's management assesses that the amendment will not have a material impact on the consolidated financial statements. The amendment has not yet been endorsed by the European Union.

IFRIC 9 and IAS 39 (Amendments) – Reassessment of Embedded Derivatives on Reclassification. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category all embedded derivatives have to be assessed and, if necessary, separately accounted for in financial statements. The Group's management assesses that the amendment will not have a material impact on the consolidated financial statements. The amendment has not yet been endorsed by the European Union.

In 2009, IASB issued several improvements to existing standards as part of its annual improvement project. The following is a summary of the amendments which the Group will adopt in 2010, and which the Group's management assesses will possibly have an impact on the consolidated financial statements. These amendments have been endorsed by the European Union.

IFRS 2 (Amendment) – Scope of IFRS 2 – Share-based Payment. The amendment confirms that in addition to business combinations as defined by IFRS 3 (revised) 'Business combinations', contributions of a business on formation of a joint venture and common control transactions are excluded from the scope of IFRS 2, 'Share-based payment'. The Group's management assesses that the amendment may have an impact in business acquisitions.

IFRS 5 (Amendment) Non-current Assets Held for Sale and Discontinued Operations. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation)

and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group's management assesses that the amendment may have an impact on the information disclosed in the financial statements in situations where an asset has been classified as available for sale or as a discontinued operation.

IAS 38 (Amendment) Intangible Assets. The amendment clarifies the measuring of fair value of an intangible asset acquired in a business combination that a group of intangible assets may be recognised as a single asset provided the individual assets have similar useful lives. The Group's management assesses that the amendment may have an impact in business acquisitions.

IAS 38 (Amendment) Intangible Assets. The amendment clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. The Group's management assesses that the amendment may have an impact in business acquisitions.

The following is a summary of the standards, interpretations and amendments to the existing standards published by the IASB, which will be adopted by the Group in 2011, or at a later effective date, and which, according to the Group's estimate, may have an impact on the consolidated financial statements.

IFRS 9 Financial Assets – Classification and Measurement. The standard represents the first milestone in the IASB's planned replacement of IAS 39. It addresses classification and measurement of financial assets. The next steps involve reconsideration and re-exposure of the classification and measurement requirements for financial liabilities, impairment testing methods for financial assets, and development of enhanced guidance on hedge accounting. The Group's management assesses that the new standard will have an impact on the presentation of financial instruments in the financial statements. The standard has not yet been endorsed by the European Union.

## **NOTE 2**

### **Segment information**

The Group's reportable segments are composed of the Group's business divisions, namely the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade. During the 2008 financial period, the reportable segments were Kesko Food, Rautakesko, VV-Auto, Anttila, Kesko Agro and Other operating activities. The segment information of the 2008 financial period has been restated to correspond to the new segment classification. The adoption of IFRS 8 has not changed the Group's reportable segments, because the Group's prior segment information was already based on the management's internal reporting, with the measurement principles of assets and liabilities complying with the IFRS regulations. The reportable segment classification was changed as a result of the change in the Group's organisational structure.

Segment information is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allo-

cating resources, has been identified as the Corporate Management Board. The net sales of the reportable operating segments are derived from the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade. Sales between segments are charged at prevailing market rates.

The Corporate Management Board assesses the performance of the segments based on operating profit, operating profit adjusted for non-recurring items, and return on capital employed. Incidental transactions outside ordinary course of business are treated as non-recurring items and allocated to segments. The Group identifies gains and losses on disposals of real estate, shares and operations, impairments and costs of discontinuing significant operations as non-recurring items. Gains on disposal are presented within 'other income' in the income statement, and losses on disposal within 'other operating costs'. In other respects, the Management Board's performance monitoring is in full compliance with IFRS reporting. Financial expenses are not allocated to segments, as the activity is driven by the central treasury department, which manages the Group's cash and cash equivalents. Forward foreign exchange contracts entered into inside the Group are, however, reported as part of other operating income and expenses to the extent that they hedge the segments' operational foreign currency risk. Segment information only comprises continuing operations.

The assets and liabilities included in a segment's capital employed consist of items used by the segment in its operating activities, or items justifiably allocated to segments. The assets included in capital employed comprise property, plant and equipment and intangible fixed assets, interests in associates, pension assets, inventories, trade receivables and other non-interest-bearing receivables, external interest-bearing receivables and available-for-sale assets. The liabilities included in capital employed consist of trade payables, other non-interest-bearing liabilities and provisions. The Group's real estate assets and the revenue and costs derived from them have been allocated to the segments.

Capital employed does not include deferred tax assets and liabilities, financial assets at fair value through profit or loss, available-for-sale financial assets, or interest-bearing liabilities.

**The food trade** comprises the food business based on Kesko Food's K-retailer business model and Kespro's grocery wholesaling. Kesko Food is active in the grocery trade in Finland. The operations of the more than 1,000 K-food stores are based on the K-retailer business model. These stores form Kesko Food's K-citymarket, K-supermarket, K-market and K-extra chains. Kesko Food manages the operations of the chains made up by the stores. Chain operations ensure higher competitiveness. Through chain operations, Kesko Food ensures a strong operational base for K-retailers in terms of sourcing and purchasing, formation of selections, marketing and price competition. Kesko Food's subsidiary Kespro Ltd engages in wholesaling in the Finnish HoReCa business.

**The home and speciality goods trade** comprises Anttila, K-citymarket's home and speciality goods trade, and the other home and speciality goods companies, namely Indoor, Intersport Finland, Musta Pörssi and Kenkäkesko. Anttila retails home and

speciality goods. Anttila serves its customers at Anttila department stores, Kodin Ykkönen department stores for home goods and interior decoration, and through NetAnttila focusing on distance sales. K-citymarket's home and speciality goods trade is responsible for the home and speciality goods and the household goods trade of the K-citymarket chain's department stores. Intersport Finland is active in the sports equipment trade in Finland and its retail store chains in Finland are Intersport, Budget Sport and Kesport. Indoor is a furniture and interior decoration retailer operating in Finland and the Baltic countries. Its store chains are Asko and Sotka. Musta Pörssi offers home technology products and services through the Musta Pörssi store chain and the Konebox.fi online store. Kenkäkesko is active in the shoe trade and its retail store chains are K-kenkä and Andiamo.

**The building and home improvement trade** comprises Rautakesko's building and home improvement trade and agricultural trade in Finland, Sweden, Norway, the Baltic countries, Russia and Belarus. Rautakesko's operations are based on strong chain concepts, efficient sourcing, and best practices duplicated internationally. Rautakesko is responsible for the chains' concepts, marketing, and sourcing and logistics services, store site network and retailer resources in Finland. Rautakesko is a retail operator in Sweden, the Baltic countries, Russia, Belarus and Norway. The retail store chains are K-rauta, Rautia, K-Maatalous, Bygghälsan (Norway), Senukai (Lithuania) and OMA (Belarus). Rautakesko's building and home improvement stores serve both consumer and professional customers.

**The car and machinery trade** comprises the business operations of VV-Auto and Konekesko. VV-Auto imports and markets Volkswagen, Audi and Seat passenger cars and Volkswagen commercial vehicles in Finland. VV-Auto is also engaged in car retailing and provides after-sales services at its own retail outlets. Konekesko is a service company specialising in the import and sales of construction, environmental and agricultural machinery, trucks and buses, and recreational machinery. Konekesko operates in Finland, the Baltic countries and Russia.

**Common operations** comprise Group support functions.

## Segment information 2009

## Income statement

€ million	Food trade	Home and specialty goods trade	Building and home improvement trade	Car and machinery trade	Common operations	Eliminations	Total
Segment net sales	3,797.6	1,558.0	2,311.8	947.5	133.7		8,748.6
of which inter-segment sales	-161.5	-26.1	-1.6	-0.5	-112.2		-301.8
<b>Net sales from external customers</b>	<b>3,636.1</b>	<b>1,532.0</b>	<b>2,310.2</b>	<b>947.0</b>	<b>21.5</b>		<b>8,446.8</b>
Other segment income	546.3	118.7	104.2	6.8	15.6		791.5
of which inter-segment income	-71.2	-5.4	-2.7	-0.4	-1.4		-81.1
<b>Other operating income from external customers</b>	<b>475.1</b>	<b>113.2</b>	<b>101.4</b>	<b>6.3</b>	<b>14.3</b>	<b>0.0</b>	<b>710.4</b>
Depreciation and amortisation	-42.8	-27.0	-36.6	-8.1	-2.7	0.3	-116.9
Impairments	-8.0	-1.1	-0.6	-4.6			-14.4
<b>Operating profit</b>	<b>170.6</b>	<b>66.5</b>	<b>19.6</b>	<b>-5.1</b>	<b>-19.3</b>	<b>0.0</b>	<b>232.3</b>
Non-recurring items	37.5	37.0	7.7	-5.4	0.7	-0.5	77.0
<b>Operating profit excl. non-recurring items</b>	<b>133.1</b>	<b>29.5</b>	<b>11.9</b>	<b>0.3</b>	<b>-20.0</b>	<b>0.5</b>	<b>155.4</b>
Financial income and expenses							-16.0
Share of profit/loss from associates							0.2
<b>Profit before tax and discontinued operations</b>							<b>216.6</b>
<b>Assets and liabilities</b>							
Tangible and intangible assets	480.8	252.0	450.4	67.5	19.7	25.1	1,295.4
Interests in associates and other investments	1.1	0.2	0.2	0.0	35.2	-0.6	36.0
Pension assets	150.5	52.1	43.3	28.5	40.8		315.2
Inventories	90.4	223.0	195.8	157.2		-0.8	665.5
Trade receivables	255.9	149.5	154.8	51.3	11.8	-29.7	593.7
Other non-interest-bearing receivables	35.4	24.2	54.0	13.0	9.2	-15.5	120.3
Interest-bearing receivables from external customers	79.7	0.6	13.3	2.9	3.4	-3.0	96.9
Assets held for sale					0.9		0.9
<b>Assets included in capital employed</b>	<b>1,093.8</b>	<b>701.5</b>	<b>911.8</b>	<b>320.3</b>	<b>121.1</b>	<b>-24.5</b>	<b>3,123.9</b>
<b>Unallocated items</b>							
Deferred tax assets							3.2
Financial assets at fair value through profit or loss							213.1
Available-for-sale financial assets							427.7
Cash and cash equivalents							73.9
<b>Total assets</b>	<b>1,093.8</b>	<b>701.5</b>	<b>911.8</b>	<b>320.3</b>	<b>121.1</b>	<b>-24.5</b>	<b>3,841.8</b>
Trade payables	348.7	138.3	198.9	31.4	3.1	-21.7	698.7
Other non-interest-bearing liabilities	140.6	121.3	85.4	51.9	70.4	-23.3	446.2
Provisions	8.4	8.2	3.8	14.7	8.7		43.7
<b>Liabilities included in capital employed</b>	<b>497.7</b>	<b>267.8</b>	<b>288.1</b>	<b>97.9</b>	<b>82.2</b>	<b>-45.0</b>	<b>1,188.6</b>
<b>Unallocated items</b>							
Interest-bearing liabilities							456.2
Deferred tax liabilities							127.7
<b>Total liabilities</b>	<b>497.7</b>	<b>267.8</b>	<b>288.1</b>	<b>97.9</b>	<b>82.2</b>	<b>-45.0</b>	<b>1,772.5</b>
<b>Total capital employed at 31 Dec.</b>	<b>596.1</b>	<b>433.8</b>	<b>623.7</b>	<b>222.4</b>	<b>38.8</b>	<b>20.5</b>	<b>1,935.3</b>
<b>Average capital employed</b>	<b>635.7</b>	<b>509.6</b>	<b>644.9</b>	<b>244.2</b>	<b>58.3</b>	<b>21.8</b>	<b>2,114.5</b>
<b>Return on capital employed excl. non-recurring items, %</b>	<b>20.9</b>	<b>5.8</b>	<b>1.8</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>7.3</b>
<b>Investments</b>	<b>69.4</b>	<b>29.6</b>	<b>84.7</b>	<b>13.4</b>	<b>2.5</b>	<b>-1.7</b>	<b>198.0</b>
<b>Number of employees at 31 Dec.</b>	<b>3,288</b>	<b>8,073</b>	<b>9,219</b>	<b>1,196</b>	<b>424</b>		<b>22,200</b>
<b>Average number of employees</b>	<b>3,035</b>	<b>5,666</b>	<b>8,789</b>	<b>1,291</b>	<b>403</b>		<b>19,184</b>



## Segment information 2008

## Income statement

€ million	Food trade	Home and specialty goods trade	Building and home improvement trade	Car and machinery trade	Common operations	Eliminations	Total
Segment net sales	3,706.9	1,605.6	2,977.5	1,479.7	115.8		9,885.5
of which inter-segment sales	-176.8	-24.5	-2.3	-1.0	-89.3		-294.0
<b>Net sales from external customers</b>	<b>3,530.1</b>	<b>1,581.0</b>	<b>2,975.2</b>	<b>1,478.7</b>	<b>26.5</b>		<b>9,591.5</b>
Other segment income	522.8	131.9	115.5	6.5	28.3		805.0
of which inter-segment income	-66.3	-5.2	-1.5	-1.2	-0.7		-74.7
<b>Other operating income from external customers</b>	<b>456.5</b>	<b>126.8</b>	<b>114.1</b>	<b>5.4</b>	<b>27.6</b>		<b>730.3</b>
Depreciation and amortisation	-44.7	-25.3	-35.2	-8.5	-3.5	0.3	-117.0
Impairments		-15.5	-45.6				-61.1
<b>Operating profit</b>	<b>185.5</b>	<b>63.6</b>	<b>19.4</b>	<b>30.5</b>	<b>-13.5</b>	<b>0.2</b>	<b>285.6</b>
Non-recurring items	62.9	32.4	-37.0	0.1	10.3		68.7
<b>Operating profit excl. non-recurring items</b>	<b>122.5</b>	<b>31.2</b>	<b>56.4</b>	<b>30.4</b>	<b>-23.8</b>	<b>0.2</b>	<b>217.0</b>
Finance income and costs							1.0
Share of profit/loss from associates							1.9
<b>Profit before tax and discontinued operations</b>							<b>288.5</b>
<b>Assets and liabilities</b>							
Tangible and intangible assets	543.2	299.5	417.1	71.1	23.4	24.9	1,379.2
Interests in associates	0.9	0.2	0.1	0.7	33.0	-0.6	34.2
Pension assets	159.8	45.0	42.3	27.6	25.5		300.3
Inventories	90.5	256.5	273.5	255.3	0.0	-4.8	871.0
Trade receivables	279.4	131.3	167.1	72.9	10.0	-27.5	633.1
Other non-interest-bearing receivables	34.1	23.9	50.7	13.6	41.8	-15.8	148.3
Interest-bearing receivables from external customers	66.6	0.5	0.6	2.6	4.9	-1.9	73.2
Assets held for sale			1.9		1.0		3.0
<b>Assets included in capital employed</b>	<b>1,174.6</b>	<b>756.9</b>	<b>953.3</b>	<b>443.8</b>	<b>139.5</b>	<b>-25.8</b>	<b>3,442.2</b>
<b>Unallocated items</b>							
Deferred tax assets							6.5
Financial assets at fair value through profit or loss							94.4
Available-for-sale financial assets							291.0
Cash and cash equivalents							57.8
<b>Total assets</b>	<b>1,174.6</b>	<b>756.9</b>	<b>953.3</b>	<b>443.8</b>	<b>139.5</b>	<b>-25.8</b>	<b>3,891.9</b>
Trade payables	349.0	138.9	205.5	78.9	4.6	-26.3	750.6
Other non-interest-bearing liabilities	160.9	107.2	93.5	47.6	56.2	-16.6	448.9
Provisions	8.2	7.1	4.7	15.3	8.3		43.6
<b>Liabilities included in capital employed</b>	<b>518.1</b>	<b>253.2</b>	<b>303.8</b>	<b>141.9</b>	<b>69.1</b>	<b>-43.0</b>	<b>1,243.1</b>
<b>Unallocated items</b>							
Interest-bearing liabilities							490.6
Deferred tax liabilities							132.0
<b>Total liabilities</b>	<b>518.1</b>	<b>253.2</b>	<b>303.8</b>	<b>141.9</b>	<b>69.1</b>	<b>-43.0</b>	<b>1,865.6</b>
<b>Total capital employed at 31 Dec.</b>	<b>656.5</b>	<b>503.7</b>	<b>649.5</b>	<b>301.9</b>	<b>70.4</b>	<b>17.1</b>	<b>2,199.2</b>
<b>Average capital employed</b>	<b>635.1</b>	<b>507.3</b>	<b>629.3</b>	<b>280.7</b>	<b>66.8</b>	<b>16.1</b>	<b>2,135.3</b>
<b>Return on capital employed excl. non-recurring items,%</b>	<b>19.3</b>	<b>6.2</b>	<b>9.0</b>	<b>10.8</b>	<b>0</b>	<b>0</b>	<b>10.2</b>
<b>Investments</b>	<b>139.7</b>	<b>60.5</b>	<b>122.7</b>	<b>15.6</b>	<b>4.2</b>	<b>-4.3</b>	<b>338.4</b>
<b>Number of employees at 31 Dec.</b>	<b>3,830</b>	<b>8,229</b>	<b>10,972</b>	<b>1,402</b>	<b>235</b>		<b>24,668</b>
<b>Average number of employees</b>	<b>3,440</b>	<b>5,801</b>	<b>10,400</b>	<b>1,451</b>	<b>236</b>		<b>21,327</b>

**GROUP-WIDE INFORMATION**

The Group is active in the Nordic countries, the Baltic countries, Russia and Belarus. The food trade and the home and speciality goods trade mainly take place in Finland, the car and machinery trade in Finland and the Baltic countries, and the building and home improvement trade in Finland, Norway, Sweden, the Baltic

countries, Russia and Belarus. The item 'Other countries' includes Russia and Belarus.

The net sales, assets, investments and personnel are disclosed based on their location.

**2009**

€ million	Finland	Other Nordic countries	Baltic countries	Other countries	Eliminations	Total
Net sales	7,022.9	664.0	556.0	222.7	-18.8	8,446.8
Assets	2 489.7	248.7	197.7	144.2	43.7	3,123.9
Investments	127.1	18.6	5.8	47.2	-0.6	198.0
Number of employees at 31 Dec.	13,299	1,521	4,798	2,582		22,200

**2008**

€ million	Finland	Other Nordic countries	Baltic countries	Other countries	Eliminations	Total
Net sales	7,634.2	758.7	945.7	278.2	-25.3	9,591.5
Assets	2 737.3	232.4	317.6	116.0	39.0	3,442.2
Investments	241.5	31.1	11.5	55.5	-1.2	338.4
Number of employees at 31 Dec.	14,192	1,648	6,316	2,512		24,668

The net sales nearly completely consist of goods sales. The sales of services are immaterial.

The revenues of transactions with any single customer do not amount to 10% or more of the Kesko Group's revenues.

**NOTE 3****Acquisitions****ACQUISITIONS IN 2009**

In 2009, the Kesko Group's acquisitions mainly comprised real estate companies. The acquisition cost totalled €10.5 million and the cash outflow, additional purchase prices included, totalled €16.4 million.

In addition, the Kesko Group sold 13 of its retail store properties in different parts of Finland to Varma Mutual Pension Insurance Company in December 2009. The debt-free selling price was €156 million. The Group's €63.5 million gain has been reported as a non-recurring item in the operating profit.

**ACQUISITIONS IN 2008**

In 2008, the Kesko Group's acquisitions mainly comprised real estate companies. The cost of acquisitions totalled €30.0 million and the cash outflow, additional purchase prices included, totalled €35.0 million.

**DISCONTINUED OPERATIONS IN 2008**

In March 2008, Kesko Corporation sold the share capital of Tähti Optikko Group Oy. The debt-free selling price was about €15 million, which contributed a non-recurring gain of about €8.5 million.

In April 2008, Kesko Corporation sold the share capital of Kauko-Telko Ltd engaged in technical trade. The debt-free price was about €77 million, which contributed a non-recurring gain of about €31 million.

**NOTE 4****Discontinued operations and disposals of assets****DISCONTINUED OPERATIONS**

In 2009, no discontinued operation occurred in the Kesko Group.

**DISPOSALS OF ASSETS**

In March 2009, the Kesko Group sold four retail store properties to the Kesko Pension Fund. The debt-free selling price was about €50 million. The Kesko Group's €19.7 million gain has been reported as a non-recurring item in the operating profit.

## Net assets of discontinued operations at date of disposal

€ million	2008
Cash	21.0
Intangible assets	22.8
Tangible assets	10.0
Inventories	26.6
Receivables	31.3
Non-interest-bearing liabilities	-35.9
Interest-bearing liabilities	-13.4
Deferred tax liabilities (net)	-3.1
	59.2
Group eliminations	1.9
Gains/losses on disposal	39.4
Total consideration	100.6
Received in cash	100.6
Received in shares	
Cash and cash equivalents in disposed entity	-21.0
Cash inflow on disposal	79.6

## Income statement for discontinued operations

€ million	2008
Net sales	83.1
Expenses	-80.3
Profit before tax	2.8
Income tax	-0.8
Profit after tax	2.0
Profit before tax on disposal of operations	39.5
Net profit on the disposal of operations	41.5

## Cash flow statement for discontinued operations

€ million	2008
Operating cash flows	1.7
Investing cash flows	-3.0
Financing cash flows	-6.7
Total cash flows from discontinued operations	-8.0

The cash flows do not include the cash flows from the disposal of operating activities.

## DISPOSALS OF ASSETS

In January 2008, Kesko Corporation sold K-Rahoitus Oy, one of its wholly-owned subsidiaries. In the 2007 financial statements, K-Rahoitus Oy's assets were reported in available-for-sale assets and in liabilities relating to available-for-sale assets. The transaction contributed a non-recurring gain of about €10.3 million.

In 2008, Kesko waived the purchase option included in the lease agreements made with Nordisk Renting Oy in 2001 and 2002, for which RBS Nordisk Renting paid Kesko a €74.2 million compensation. The previous agreements had been financial lease agreements and their cancellation generated a non-recurring income item of €26.5 million.

In addition, Kesko sold properties to Aberdeen Property Fund Finland 1 Ky at a price of 44 million, which generated a €16.3 million non-recurring gain.

## Notes to the income statement

## NOTE 5

## Other operating income

€ million	2009	2008
Service fees	488.1	460.0
Rent income	39.3	37.3
Gains on disposal of tangible and intangible assets	94.4	140.0
Gains from derivatives *)	2.6	4.9
Other	86.0	88.0
Total	710.4	730.3

Service fees mainly comprise chain and store site fees paid by chain companies for the chain concepts.

## NOTE 6

## Other operating expenses

€ million	2009	2008
Rent expenses	-383.1	-349.9
Marketing costs	-239.3	-254.0
Property and store site occupancy costs	-112.0	-125.3
Data communication costs	-65.1	-65.5
Other trading expenses	-157.7	-186.1
Losses on disposal of tangible assets	-1.4	-1.3
Losses on derivatives *)	-2.2	-4.9
Total	-960.8	-987.1

\*) Includes revaluations of embedded derivatives.

## AUDIT FEES

€ million	2009	2008
<b>Authorised Public Accountants</b>		
<b>PricewaterhouseCoopers</b>		
Audit fees	0.8	0.9
Tax consultation	0.1	0.2
Other services	0.2	0.7
Total	1.1	1.7
Other auditing firms	0.2	0.4

## NOTE 7

### Non-recurring items

€ million	2009	2008
Gains on disposal of real estate and shares	93.7	139.0
Losses on disposal of real estate and shares	-1.1	-1.0
Impairment losses	-14.4	-61.1
Others	-1.3	-8.2
Total	77.0	68.7

Incidental transactions outside ordinary course of business are treated as non-recurring items and allocated to segments. The Group identifies gains and losses on disposal of real estate, shares and operations, impairments and costs of discontinuing significant operations as non-recurring items. Gains on disposal are presented within 'other income' in the income statement, and losses on disposal within 'other operating expenses'.

In addition to the above, the comparative discontinued operations include non-recurring gains on disposal in the amount of €39.5 million.

### IMPAIRMENT LOSSES

During the financial period, a total amount of €14.4 million of impairments in real estate were recognised as expenses.

The income statement of the comparative period includes a total amount of €61.1 million in impairment losses. An impairment charge of €45.6 million was made on the consolidated goodwill and trademark of Rautakesko's subsidiary, Bygghäuset Norge. In addition, the comparative non-recurring expenses include an impairment charge of €15.5 million on Anttila's logistics centre in Vantaa.

## NOTE 8

### Staff cost, number of employees and management's salaries

€ million	2009	2008
Salaries and fees	-448.4	-496.6
Social security costs	-39.0	-47.3
Pension costs	-39.6	-28.8
Defined benefit plans	8.2	20.5
Defined contribution plans	-47.8	-49.3
Share-based payments	-8.1	-5.5
Total	-535.2	-578.2

The employee benefits of the Group's management and other related party transactions are disclosed in note 43 and option plans in note 35.

### SALARIES AND FEES OF THE GROUP COMPANIES' MANAGING DIRECTORS AND BOARDS OF DIRECTORS

€ million	2009	2008
Salaries of managing directors (incl. fringe benefits)	4.9	5.8
Fees of Board members	0.3	0.3
Total	5.2	6.1

### AVERAGE NUMBER OF GROUP EMPLOYEES

	2009	2008
Food trade	3,035	3,440
Home and speciality goods trade	5,666	5,801
Building and home improvement trade	8,789	10,400
Car and machinery trade	1,291	1,451
Others	403	236
Total	19,184	21,327

## NOTE 9

### Financial income and expenses

€ million	2009	2008
<b>Interest income and expenditure</b>		
Interest income on loans and receivables	10.1	15.1
Interest income on financial assets carried at fair value through profit or loss	9.1	6.3
Interest income on available-for-sale financial assets	1.9	13.8
Interest expense on financial liabilities carried at amortised cost	-20.3	-30.5
Total interest income and expenditure	0.7	4.7

### Exchange differences and other financial income and expenses

Exchange differences and fair value changes on derivatives, foreign currency denominated loans and bank accounts not qualified for hedge accounting	-19.0	-2.4
Dividend yield on available-for-sale financial assets	0.1	0.1
Gains on disposal of available-for-sale financial assets	3.2	0.0
Losses on disposal of available-for-sale financial assets	-0.2	
Other financial expenses	-0.8	-1.5
Total exchange differences and other financial income and expenses	-16.7	-3.8
<b>Total financial income and expenses</b>	<b>-16.0</b>	<b>1.0</b>

The interest expenditure includes €4.9 million (€5.8 million) in interest on finance leases recognised as expenses for the period. The interest income includes €3.1 million (€2.5 million) in interest on finance leases reported as income for the period.

The result of the realised interest rate derivative used to hedge the USD-denominated private placement loan is recognised in net terms in interest expenses with the loan interest.



## Exchange differences recognised in the income statement

€ million	2009	2008
Other income	1.9	3.8
Purchases and other expenses	-3.1	-0.7
Finance income and expenses	-19.2	-3.0
Total	-20.4	0.1

## NOTE 10

## Income tax expense

€ million	2009	2008
Current tax	-82.7	-83.2
Tax for prior periods	-1.2	2.2
Deferred tax	1.6	-8.4
Total	-82.4	-89.4

Reconciliation between tax expense and tax calculated at domestic rate:

Profit before tax	216.6	288.5
Tax at parent's rate (26%)	-56.3	-75.0
Effect of foreign subsidiaries' different tax rates	2.0	3.4
Effect of income not subject to tax	1.4	9.8
Effect of expenses not deductible for tax purposes	-8.9	-10.0
Effect of tax losses	-17.1	-12.1
Effect of consolidation and elimination	0.0	-6.8
Taxes for prior periods	-1.2	2.2
Adjustment of prior period deferred taxes	-1.2	-3.9
Others	-1.2	3.0
Tax in the income statement	-82.4	-89.4

## NOTE 11

## Components of other comprehensive income

Components of other comprehensive income and related tax	2009		
	Before tax	Tax charge/ credit	After tax
Currency translation differences relating to a foreign operation	-2.5		-2.5
Cash flow hedge revaluation	-3.9	1.0	-2.9
Revaluation of available-for-sale financial assets	-1.9	0.5	-1.4
Other components	-0.3		-0.3
<b>Total</b>	<b>-8.6</b>	<b>1.5</b>	<b>-7.1</b>

## Components of other comprehensive income and related tax

Income and related tax			2008
	Before tax	Tax charge/ credit	After tax
Currency translation differences relating to a foreign operation	-6.3		-6.3
Cash flow hedge revaluation	-12.8	3.3	-9.5
Revaluation of available-for-sale financial assets	2.2	-0.6	1.6
Other components	-0.3		-0.3
<b>Total</b>	<b>-17.2</b>	<b>2.8</b>	<b>-14.5</b>

## NOTE 12

## Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the parent's equity holders by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of all shares to assume conversion of all potentially dilutive shares. The Group operates a share option scheme with a dilutive effect, which increases the number of shares. The share options have a dilutive effect when their exercise price is lower than the fair value of a share. The dilutive effect is the number of shares which has to be issued without consideration, because the Group could not use the assets received from the exercise of the share options to issue an equal number of shares at fair value. The fair value of a share is based on the average share price during the period.

	2009	2008
<b>Profit for the period attributable to equity holders of the parent</b>		
Continuing operations, € million	125.2	178.2
Discontinued operations, € million	-	41.5
Kesko total, € million	125.2	219.7

## Number of shares

Weighted average number of shares outstanding	98,061,761	97,795,685
Effect of options granted	320,423	460,550
Diluted weighted average number of shares outstanding	98,382,184	98,256,234

## Earnings per share from profit attributable to equity holders of the parent

Continuing operations		
Basic, €	1.28	1.82
Diluted, €	1.27	1.81
Discontinued operations		
Basic, €	-	0.43
Diluted, €	-	0.43
Kesko total		
Basic, €	1.28	2.25
Diluted, €	1.27	2.24

# Notes to the consolidated statement of financial position

## NOTE 13

### Intangible assets

			Other intangible assets		
€ million	Goodwill	Trademarks		Prepayments	Total 2009
<b>Cost</b>					
Cos at 1 Jan. 2009	115.3	71.1	142.5	10.4	339.4
Currency translation differences	6.8	5.6	4.8		17.1
Additions	2.2		28.7	6.0	36.9
Acquisition of subsidiary					0.0
Disposals	-0.9	-0.7	-15.2	-0.6	-17.5
Transfers between items			-3.3	-5.9	-9.2
Cost at 31 Dec. 2009	123.3	75.9	157.4	10.0	366.6
<b>Accumulated amortisation and impairment</b>					
Accumulated amortisation and impairment at 1 Jan. 2009	-43.3	-28.6	-97.9		-169.7
Currency translation differences	-6.7	-1.3	-1.6		-9.6
Accumulated amortisation of disposals and transfers	0.2		22.0		22.1
Amortisation for the period			-24.7		-24.7
<b>Impairments</b>					
Accumulated amortisation and impairment at 31 Dec. 2009	-49.9	-29.8	-102.2		-181.9
Carrying amount at 1 Jan. 2009	72.1	42.5	44.6	10.4	169.6
<b>Carrying amount at 31 Dec. 2009</b>	<b>73.5</b>	<b>46.1</b>	<b>55.2</b>	<b>10.0</b>	<b>184.8</b>

€ million					Total 2008
<b>Cost</b>					
Cos at 1 Jan. 2008	163.3	78.3	124.5	13.4	379.6
Currency translation differences	-7.6	-7.2	-5.3	-1.3	-21.4
Additions	6.4		36.8	7.4	50.6
Acquisition of subsidiary			0.0		0.0
Disposals	-46.7		-16.7	-1.5	-64.9
Transfers between items	-0.1		3.1	-7.6	-4.6
Cost at 31 Dec. 2008	115.3	71.1	142.5	10.4	339.4
<b>Accumulated amortisation and impairment</b>					
Accumulated amortisation and impairment at 1 Jan. 2008	-29.0	-21.3	-77.2		-127.5
Currency translation differences	5.9	1.3	1.6		8.8
Accumulated amortisation of disposals and transfers	16.9		6.0		22.9
Amortisation for the period			-28.3		-28.3
Impairments	-37.0	-8.6			-45.6
Accumulated amortisation and impairment at 31 Dec. 2008	-43.3	-28.6	-97.9		-169.7
Carrying amount at 1 Jan. 2008	134.3	57.0	47.3	13.4	252.2
<b>Carrying amount at 31 Dec. 2008</b>	<b>72.1</b>	<b>42.5</b>	<b>44.6</b>	<b>10.4</b>	<b>169.6</b>

## Goodwill and intangible rights by segment

€ million	Intangible assets *	Goodwill	Discount rate (WACC) **	Intangible assets *	Goodwill	Discount rate (WACC) **
	2009	2009	2009	2008	2008	2008
Building and home improvement trade						
Bygghuset, Norway	28.3		8.0%	24.7		8.0%
Rautakesko, Estonia		1.1	13.0%		1.1	11.0%
Senukai, Lithuania		17.2	14.0%		17.2	11.5%
Stroymaster, Russia		14.2	15.0%		14.1	12.0%
Real estate companies		7.1			5.7	
Home and speciality goods trade						
Anttila, Finland		23.4	7.0%		23.4	7.0%
Indoor, Finland	17.8	4.1	7.0%	17.8	4.1	7.0%
Car and machinery trade		4.4	8.0%		4.2	8.0%
Others		2.1			2.2	
Total	46.1	73.5		42.5	72.1	

\* intangible assets with indefinite useful lives

\*\* after tax

Cash generating units have been identified at a level lower than the reportable segments. The units have been identified by chain/country, and most of them are legal entities.

The useful lives of trademarks (brands) included in intangible assets have been classified as indefinite because it has been estimated that they will affect the generation of cash flows over an indefinite period. This is because no foreseeable limit to the period over which they are expected to generate net cash inflows for the Group can be seen. Trademarks are part of assets purchased in connection with acquisitions.

Intangible assets with indefinite useful lives are tested annually for possible impairment and whenever there is an indication of impairment.

During the 2008 financial period, Byggsenteret, part of the Norwegian Bygghuset group, was sold, and the allocated goodwill was €9.5 million.

## IMPAIRMENT TEST FOR GOODWILL AND INTANGIBLE ASSETS

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by the management covering a period of 3 years. The key assumptions used for the plans are total market development and profitability, changes in store site network, product and service selection, pricing and trends in operating costs. Cash flows beyond the period have been extrapolated mainly based on 1.5–4% (1–4%) forecast growth rates, allowing for country-specific differences.

The discount rate used is the WACC, specified for each segment and country after tax, which is adjusted by tax effects in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks. Compared with the previous year, discount rates in Russia and the Baltic countries rose as a result of higher country risks and interest rate levels.

## IMPAIRMENT LOSSES

For the 2009 accounting period, there were no impairments in goodwill or intangible rights.

For the 2008 accounting period, an impairment charge of €45.6 million was made against Bygghuset Norge's intangible assets. Of this amount €37.0 million was allocated to goodwill and €8.6 million to a trademark. The impairment charge was reported as a non-recurring item. The impairment loss was due to weaker-than-expected profitability development. In addition, it was estimated that revenue expectations concerning Bygghuset had declined. Bygghuset Norge constitutes a separate cash-generating unit and belongs to the building and home improvement trade segment.

## SENSITIVITY ANALYSIS

The key variables used in impairment testing are the EBITDA rate and the discount rate.

The most sensitive to changes in assumptions are the intangible assets relating to the operations of Bygghuset, Indoor and Rautakesko Estonia.

A one percentage point rise in the discount rate would not cause an impairment of any cash generating unit.

For Bygghuset and Rautakesko Estonia, a reduction of residual EBITDA by over 0.8 pp would cause a need for impairment. For Indoor, a reduction of residual EBITDA by over 1.2 pp would cause a need for impairment.

When the other cash generating units are estimated according to the management's assumptions, a foreseeable change in any key variable would not create a situation in which the unit's recoverable amount would be smaller than its carrying amount.

## NOTE 14

### Property, plant and equipment

€ million	Land and water	Buildings	Machinery and equipment	Other tangible assets	Prepayments and purchases in progress	Total 2009
<b>Cost</b>						
Cost at 1 Jan. 2009	271.7	1,059.9	486.5	38.3	82.4	1,938.8
Currency translation differences	1.7	2.4	3.0	0.6	0.6	8.2
Additions	23.3	55.5	47.3	9.5	26.1	161.7
Acquisition of subsidiary	3.2					3.2
Disposals	-27.2	-159.1	-26.0	-4.2	-18.3	-234.8
Transfers between items	0.0	38.3		0.3	-30.4	8.3
Cost at 31 Dec. 2009	272.8	997.1	510.8	44.5	60.3	1,885.4
<b>Accumulated depreciation and impairment</b>						
Accumulated depreciation and impairment at 1 Jan. 2009	-2.4	-389.6	-322.6	-14.8		-729.3
Currency translation differences		-0.4	-1.7	-0.1		-2.2
Accumulated depreciation of disposals and transfers		45.2	15.6	2.3		63.2
Depreciation for the period		-38.4	-49.4	-4.4		-92.1
Impairment	-0.2	-14.0		-0.1		-14.3
Accumulated depreciation and impairment at 31 Dec. 2009	-2.6	-397.2	-358.1	-17.0	0.0	-774.8
Carrying amount at 1 Jan. 2009	269.3	670.3	164.0	23.6	82.4	1,209.5
<b>Carrying amount at 31 Dec. 2009</b>	<b>270.1</b>	<b>599.9</b>	<b>152.7</b>	<b>27.5</b>	<b>60.3</b>	<b>1,110.6</b>
						<b>Total 2008</b>
<b>Cost</b>						
Cost at 1 Jan. 2008	223.2	1,140.7	481.4	36.2	29.9	1,911.3
Currency translation differences	-3.3	-4.1	-8.0	-1.1	-1.3	-17.8
Additions	54.4	69.5	97.9	7.1	70.6	299.5
Acquisition of subsidiary	2.6	9.6	0.0			12.2
Disposals	-11.1	-174.7	-90.5	-4.0	-0.2	-280.5
Transfers between items	5.9	18.9	5.7	0.1	-16.5	14.1
Cost at 31 Dec. 2008	271.7	1,059.9	486.5	38.3	82.4	1,938.8
<b>Accumulated depreciation and impairment</b>						
Accumulated depreciation and impairment at 1 Jan. 2008	-3.7	-414.1	-326.3	-14.1		-758.2
Currency translation differences	0.0	1.1	4.2	0.5		5.8
Accumulated depreciation of disposals and transfers	1.3	76.5	48.6	1.9		128.3
Depreciation for the period		-37.6	-49.1	-3.1		-89.5
Impairment		-15.5				-15.5
Accumulated depreciation and impairment at 31 Dec. 2008	-2.4	-389.6	-322.6	-14.8		-729.3
Carrying amount at 1 Jan. 2008	219.5	726.6	155.2	22.2	29.9	1,153.1
<b>Carrying amount at 31 Dec. 2008</b>	<b>269.3</b>	<b>670.3</b>	<b>164.0</b>	<b>23.6</b>	<b>82.4</b>	<b>1,209.5</b>



Property, plant and equipment include assets leased under finance leases as follows:

€ million	Buildings	Machinery and equipment	Other tangible assets	Total
<b>2009</b>				
Cost	38,7	37,0	0,1	75,7
Accumulated depreciation	-24,1	-29,8	-0,1	-54,0
Carrying amount	14,6	7,2	0,0	21,7
<b>2008</b>				
Cost	38,7	47,6	0,1	86,4
Accumulated depreciation	-23,7	-36,4	-0,1	-60,2
Carrying amount	15,0	11,2	0,0	26,2

## NOTE 15

### Interests in associates

€ million	2009	2008
Carrying amount at 1 Jan.	31.2	27.0
Share of profit/loss for the period	0.2	1.9
Additions	1.7	2.4
Disposals	-0.1	-0.1
Currency translation differences		
Carrying amount at 31 Dec.	33.0	31.2

Shares in associates are not quoted.

### Disclosures for the Group's associates and the Group's interests in their aggregate assets, liabilities, net sales and profits/losses:

€ million	Assets	Liabilities	Net sales	Profit/loss	Ownership interest, %
<b>2009</b>					
Valluga-sijoitus Oy, Helsinki	33.5	0.0	0.0	1.3	39.0
Vähittäiskaupan Takaus Oy, Helsinki	56.0	0.2	1.2	3.2	34.4
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	3.8	2.2	10.9	0.7	30.0
Others	5.3	3.7	1.9	0.0	
Total	98.5	6.1	14.0	5.1	
<b>2008</b>					
Valluga-sijoitus Oy, Helsinki	34.5	2.3	0.7	9.1	39.0
Vähittäiskaupan Takaus Oy, Helsinki	52.9	0.2	1.1	2.2	34.4
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	3.4	2.2	10.0	-0.3	30.0
Others	4.6	3.2	0.5	0.0	
Total	95.3	7.9	12.3	11.0	

## NOTE 16

### Non-current available-for-sale financial assets

€ million	2009	2008
Carrying amount at 1 Jan.	3.0	4.0
Additions	0.8	0.0
Disposals	-0.7	-1.0
Carrying amount at 31 Dec.	3.0	3.0

The available-for-sale assets include unquoted shares, mainly measured at cost, because their fair values cannot be measured reliably.

## NOTE 17

### Non-current receivables

€ million	2009	2008
Non-interest-bearing non-current receivables	2.6	10.9
Finance lease receivables	59.5	51.3
Loan receivables from associates	1.5	1.5
Other non-current receivables	3.8	5.5
Total	67.5	69.2

The non-interest-bearing non-current receivables include €1.3 million in derivative revaluations and their carrying amount equals the fair value. The fair value of finance lease receivables cannot be measured reliably.

#### Maturity analysis of non-current receivables at 31 Dec. 2009

€ million	2011	2012	2013	2014	2015–	Total
Non-interest-bearing non-current receivables	0.8	0.6	0.3	0.8	0.2	2.6
Finance lease receivables	11.2	11.2	11.2	11.2	14.7	59.5
Loan receivables from associates					1.5	1.5
Other non-current receivables	1.1	1.0	0.8	0.7	0.2	3.8
Total	13.1	12.8	12.3	12.7	16.6	67.5

## NOTE 18

### Finance lease receivables

€ million	2009	2008
Analysis of finance lease receivables:		
No later than 1 year	20.1	15.9
Later than 1 year and no later than 5 years	50.9	44.0
Later than 5 years	15.3	13.5
<b>Gross investment in finance leases</b>	<b>86.3</b>	<b>73.5</b>
Present value of minimum lease payments receivable:		
No later than 1 year	16.8	13.1
Later than 1 year and no later than 5 years	44.8	38.5
Later than 5 years	14.7	12.8
<b>Finance lease receivable</b>	<b>76.3</b>	<b>64.3</b>
<b>Unearned finance income</b>	<b>10.0</b>	<b>9.1</b>

The finance lease receivables consist of store fixtures owned by Kesko Food Ltd, and store fixtures leased by it from finance companies and subleased to chain companies. During the lease term, the leased item is held as collateral, and after the actual lease term, the lessee may extend the lease over low-cost extension periods. The lease terms are between 3 and 8 years.

## NOTE 19

### Deferred income tax

The movements in deferred tax assets and deferred tax liabilities in 2009 were as follows:

€ million	31.12.2008	Income statement charge	Tax charged/credited to equity	Exchange differences	Acquisition/sale of subsidiary	31.12.2009
<b>Deferred tax assets</b>						
Internal margin of inventories	1.0	0.0				0.9
Finance lease assets	0.2	-0.1				0.1
Provisions	9.1	-0.2				8.9
Pensions	0.9	-0.4				0.5
Confirmed losses	2.8	0.6		0.5		3.9
Others	20.7	-2.6	-1.2	0.1		17.0
<b>Total</b>	<b>34.5</b>	<b>-2.7</b>	<b>-1.2</b>	<b>0.6</b>	<b>0.0</b>	<b>31.2</b>
<b>Deferred tax liabilities</b>						
Accumulated depreciation differences	49.5	-10.2			0.0	39.3
Changes in Group composition	22.9	-0.8		1.6	1.0	24.8
Pensions	79.0	4.0				83.0
Others	8.5	2.8	-2.7	-0.1		8.6
<b>Total</b>	<b>159.9</b>	<b>-4.1</b>	<b>-2.7</b>	<b>1.5</b>	<b>0.9</b>	<b>155.7</b>
<b>Net deferred tax liabilities</b>	<b>125.5</b>					<b>124.5</b>

#### Balance sheet division:

€ million	2009	2008
Deferred tax assets	3.2	6.5
Deferred tax liabilities	127.7	132.0

The group 'Others' within deferred tax assets includes, for example, deferred tax assets on timing differences relating to depreciation, and deferred tax assets resulting from stand-alone companies applying the Group's accounting principles.

## The movements in deferred tax assets and deferred tax liabilities in 2008 were as follows:

€ million	31.12.2007	Income statement charge	Tax charged/ credited to equity	Exchange differences	Acquisition/sale of subsidiary	31.12.2008
<b>Deferred tax assets</b>						
Internal margin of inventories	2.2	-1.2		0.0	0.0	1.0
Finance lease assets	5.5	-5.3		0.0	0.0	0.2
Provisions	6.2	2.8			-0.1	9.1
Pensions	1.0	0.0		0.0	-0.1	0.9
Confirmed losses	3.9	-0.8		-0.4	0.0	2.8
Others	19.3	0.4	2.6	-0.6	-1.0	20.7
Total	38.0	-4.1	2.6	-1.0	-1.2	34.5
<b>Deferred tax liabilities</b>						
Accumulated depreciation differences	55.3	-5.0		0.0	-0.9	49.5
Changes in Group composition	21.6	-1.8		-2.4	5.5	22.9
Pensions	68.1	10.8			0.1	79.0
Others	11.0	0.1	-0.2	-0.1	-2.3	8.5
Total	156.0	4.1	-0.2	-2.5	2.4	159.9
Net deferred tax liabilities	117.9					125.5

## Balance sheet division:

€ million	2008	2007
Deferred tax assets	6.5	7.7
Deferred tax liabilities	132.0	125.5

At 31 Dec. 2009, the Group had a €63.8 million carryforward of unused confirmed tax losses not recognised for deferred tax assets, because the realisation of the related tax benefit through future taxable profits is not probable.

## The confirmed tax losses not recognised for tax loss carry-forwards expire as follows:

2010	2011	2012	2013	2014	2014–	Total
2.4	0.5	2.3	0.0	0.0	58.6	63.8

Deferred income tax liabilities have not been recognised for taxes payable on subsidiaries' unremitted earnings, because the subsidiaries' distributions are at the discretion of the Group, and a distribution with tax effect is not probable in the near future.



## NOTE 20

### Pension assets

The Group operates several retirement plans. In Finland, employees' pension insurance is partly arranged with insurance companies and partly by the Kesko Pension Fund, whose department A granting additional benefits was closed on 9 May 1998. Pension plans arranged with the Kesko Pension Fund have been treated as defined benefit plans.

As regards foreign subsidiaries, the plan adopted in the Norwegian subsidiary is the only pension plan classified as a defined benefit plan. The nature of the pension plan in Norway and Norwegian legislation changed during the 2008 accounting period to the effect that a significant number of the company's employees transferred from the defined benefit plan. At 31 December 2009, the net debt relating to the defined benefit plan in Norway was €0.4 million (€0.5 million).

The pension plans in other foreign subsidiaries are arranged in accordance with local regulations and practices. They do not contain significant defined benefit plans.

**The defined benefit liability recognised in the balance sheet in respect of the Kesko Pension Fund is determined as follows:**

€ million	2009	2008
Present value of funded obligations	-525.1	-530.4
Fair value of plan assets	871.6	819.5
<b>Deficit/surplus</b>	<b>346.5</b>	<b>289.1</b>
Unrecognised actuarial gains (-)/losses (+)	-31.4	11.1
<b>Net assets (+)/liabilities (-) recognised in the balance sheet</b>	<b>315.2</b>	<b>300.3</b>
The movements of the present value of the obligation are as follows:		
Plan obligation at 1 Jan.	530.4	560.6
Current services cost	12.7	15.1
Interest cost	28.6	28.8
Benefits paid	-27.7	-27.2
Actuarial gains (-)/losses (+)	-24.3	-47.0
Others	5.5	
<b>Plan obligation at 31 Dec.</b>	<b>525.1</b>	<b>530.4</b>
The movement in the fair value of plan assets is as follows:		
Plan assets at 1 Jan.	819.5	897.0
Expected return on plan assets	54.9	63.2
Contributions to plan	6.8	17.8
Benefits paid	-27.7	-27.2
Actuarial gains (-)/losses (+)	18.2	-131.2
Others		
<b>Plan assets at 31 Dec.</b>	<b>871.6</b>	<b>819.5</b>
The amounts recognised in the income statement were as follows:		
Current service cost	-12.7	-15.1
Interest cost	-28.6	-28.8
Expected return on plan assets	54.9	63.2
Change	-5.5	
Actuarial gains (-)/losses (+)		1.2
<b>Total amount recognised in the income statement</b>	<b>8.2</b>	<b>20.5</b>
Changes in net assets recognised in the balance sheet:		
Opening balance	300.3	262.1
Income/costs recognised in the income statement	8.2	20.5
Contributions to plan	6.8	17.8
<b>Closing balance</b>	<b>315.2</b>	<b>300.3</b>

Pensions arranged with the Kesko Pension Fund	2009	2008	2007	2006	2005
Present value of plan obligation	-525.1	-530.4	-560.6	-440.9	-426.8
Fair value of plan assets	871.6	819.5	897.0	794.8	628.7
Surplus/deficit	346.5	289.1	336.4	353.9	201.8
Experience adjustments on plan assets	18.2	-130.9	11.5	113.1	41.6
Experience adjustments on plan liabilities	4.3	-15.6	23.2	4.8	5.9

The return on plan assets was €73.0 million (€-71.6 million).

In 2010, the Group expects to pay €53.0 million in contributions to defined benefit plans.

Plan assets are comprised as follows, % of fair values of plan assets	2009	2008
Real estate	47.5%	39.7%
Shares	23.2%	19.4%
Long-term interest investments	19.3%	20.6%
Short-term interest investments	7.9%	18.5%
Other investments	2.1%	1.8%
Total	100.0%	100.0%

#### Plan assets, € million

Kesko Corporation shares included in fair value	104.3	93.5
Real estate leased and mostly subleased to retailers by the Kesko Group	456.4	359.5

Principal actuarial assumptions used:	2009	2008
Discount rate	5.25%	5.25%
Expected return on plan assets	6.60%	6.60%
Future salary increase assumption	3.50%	3.50%
Inflation	2.00%	2.00%
Expected average remaining service life	14–23	15–20

When calculating the pension obligation of the Kesko Pension Fund's department B, the supplementary coefficient has been 1.5% for years 2010–2012, 1% for years 2013–2015, and 2.7% for 2016 and subsequent years.

When calculating the Pension Fund's expected return, the invested assets are divided into five categories. The total expected returns on the investment portfolio (6.6%) is composed of the compound returns on these assets. The returns expected on different assets is based on the parameters of an investment portfolio analysis model widely used in employee pension schemes, and calculated from long-term historical data. The most significant type of assets affecting the total returns is shares, further divided into nine geographical subgroups with expected returns ranging between 8.5%–12.3%.

## NOTE 21

### Inventories

€ million	2009	2008
Goods	662.3	864.2
Prepayments	3.2	6.9
Total	665.5	871.0

At the end of the financial year, inventories have been written down to correspond to their net realisable value.

49.6 55.1

## NOTE 22

### Trade receivables and other current receivables

€ million	2009	2008
Interest-bearing receivables		
Finance lease receivables	16.8	13.1
Interest-bearing loan and other receivables	15.3	1.9
Total interest-bearing receivables	32.1	14.9
Trade receivables	593.6	633.1
Other non-interest-bearing receivables		
Non-interest-bearing loan and other receivables	33.0	27.3
Deferred revenue and other accruals	84.7	110.1
Total other non-interest-bearing receivables	117.6	137.4
Total	743.3	785.5

A total amount of €12.6 million (€13.8 million) of trade receivables has been recognised within credit losses in the income statement. Credit risk is described in more detail in note 42.

The deferred revenue and other accruals mainly include amortisations of marketing revenue, rebates and staff cost.

The fair value of current trade and loan receivables, and the fair value of current interest-bearing receivables are estimated to nearly equal the carrying amounts based on their short maturities.

## NOTE 23

### Financial assets at fair value through profit or loss

€ million	2009	2008
Financial assets at fair value through profit or loss	213.1	94.4
Total	213.1	94.4

The financial assets at fair value through profit or loss include commercial papers, certificates of bank deposits and other money market investments. An analysis of the assets is given in note 41.

## NOTE 24

### Available-for-sale financial assets

€ million	2009	2008
Carrying amount at 1 Jan.	291.0	155.6
Changes	139.0	133.2
Changes in fair value	-2.3	2.2
Carrying amount at 31 Dec.	427.7	291.0

The available-for-sale financial assets include short-term investments in commercial papers, certificates of bank deposits, other interest rate instruments and Finnish Government bonds. An analysis of the assets is given in note 41.

## NOTE 25

### Cash and cash equivalents

€ million	2009	2008
Cash on hand and in banks	73.9	57.8
Total	73.9	57.8

## NOTE 26

### Non-current assets classified as held for sale and related liabilities

#### Assets held for sale

€ million	2009	2008
Land	0.4	0.7
Buildings and real estate shares	0.5	2.3
Total	0.9	3.0

The held-for-sale disposal group did not include liabilities at 31 December 2009 (at 31 December 2008).

## NOTE 27

### Notes to shareholders' equity

#### CHANGES IN SHARE CAPITAL

Share capital	Number of shares		Total	Share capital € million	Share premium € million	Total € million
	A	B				
1 Jan. 2008				195.5	190.4	385.9
Exercise of share options	–	57,089	57,089	0.1	0.2	0.3
31 Dec. 2008	31,737,007	66,087,847	97,824,854	195.6	190.6	386.2
Exercise of share options	–	496,675	496,675	1.0	3.7	4.7
31 Dec. 2009	31,737,007	66,584,522	98,321,529	196.6	194.2	390.8
<b>Number of votes</b>	317,370,070	66,584,522	383,954,592			

During the reporting period, the share capital was increased four times resulting from the exercise of the 2003 scheme options. The increases were made on 11 February 2009 (€52,392), 5 May 2009 (€51,250), 5 June 2009 (€673,146), and 17 December 2009 (€216,562), and announced in stock exchange notifications on the same days. The subscribed shares were included on the main list of OMX Helsinki Exchanges for public trading with the old B shares on 12 February 2009, 6 May 2009, 6 June 2009, and 18 December 2009.

All issued shares have been fully paid. The maximum number of A shares is 250 million and the maximum number of B shares is also 250 million, provided that the total number of shares is at maximum 400 million. One A share entitles the holder to 10 votes and one B share to 1 vote.

An analysis of share-based payments is given in note 35.

#### DIVIDENDS

After the balance sheet date, the Board has proposed that €0.90 per share be distributed as dividends. A dividend of €1.00 per share was distributed on the profit for 2008.

#### EQUITY AND RESERVES

Equity consists of share capital, share premium, other reserves, revaluation reserve, exchange differences and retained earnings. In addition, the portion of accumulated depreciation difference and optional provisions net of deferred tax liabilities are included in equity.

##### Share premium

The amount exceeding the par value of shares received by the enterprise in connection with share subscriptions is recorded in share premium in cases where share options were granted under the old Limited Liability Companies Act (29 Sept. 1978/734). Previously the share premium also included the entry matching the effect of share options, but the amount has been presented retrospectively in retained earnings (€9.9 million transferred from share premium to retained earnings on 1 Jan. 2008).

##### Reserve of invested non-restricted equity

The reserve of invested non-restricted equity includes other equity-related investments and share subscription prices to the extent that they are not expressly designated to be included in share capital. The payments received from the exercise of options of schemes under the new Limited Liability Companies Act (21 Jul. 2006/624, effective 1 Sept. 2006) are recorded in full in the reserve of invested non-restricted equity.

##### Other reserves

The other reserves have mainly been created and accumulated under the resolutions of the Annual General Meeting.

##### Currency translation differences

The currency translation differences arise from the translation of foreign operations' financial statements. Also the gains and losses arising from net investment hedges in foreign entities are included in currency translation differences, provided that hedge accounting requirements are fulfilled. The change in the reserve is stated within comprehensive income. Previously, the currency translation differences of retained earnings were included in retained earnings, but the amount has been retrospectively presented within currency translation differences (transfer of €0.7 million from retained earnings to currency translation differences on 1 Jan. 2008).



### Revaluation surplus

The revaluation surplus includes the fair value change of available-for-sale financial instruments and the effective portion of fair value change based on hedge accounting applied to derivatives. The cash flow hedges include electricity derivatives and interest rate derivatives hedging the private placement bond interest. The changes in the reserve are stated within comprehensive income.

### Cash flow hedge result

Hedge accounting is applied to hedging exposure to electricity price risk. As a result, the amount of €-5.0 million (€5.4 million) has been removed from equity and included in the income statement as a purchase cost adjustment, and €0.3 million (€-12.5 million) have been recognised in equity. Their combined effect on the revaluation surplus for the financial year was €5.3 million (€-17.9 million) before accounting for deferred tax assets.

A fair value change of €-9.1 million (€5.1 million) has been recognised in equity for the USD-denominated private placement arrangement and €-0.1 million (€-0.1 million) in the financial items of the income statement.

## NOTE 28

### Carrying amounts of financial assets and liabilities by measurement group

At 31 Dec. 2009

Balance sheet item, € million	Financial assets/ liabilities at fair value through profit or loss	Loan and receivables	Available-for- sale financial assets	Financial liabilities at amortised cost	Derivatives qualified for hedge accounting	Carrying amounts of balance sheet items	Fair value
<b>Non-current financial assets</b>							
Available-for-sale financial assets			3.0			3.0	3.0
Non-current non-interest-bearing receivables		1.3				1.3	1.3
– Derivatives					1.3	1.3	1.3
Non-current interest-bearing receivables		64.9				64.9	64.9
<b>Current financial assets</b>							
Trade receivables and other non-interest-bearing receivables		709.6				709.6	709.6
– Derivatives	1.5				0.2	1.7	1.7
Interest-bearing receivables		32.1				32.1	32.1
Financial assets at fair value through profit or loss	213.1					213.1	213.1
Available-for-sale financial assets			427.7			427.7	427.7
<b>Carrying amount by measurement group</b>	<b>214.6</b>	<b>807.9</b>	<b>430.7</b>		<b>1.5</b>	<b>1,454.7</b>	<b>1,454.7</b>
<b>Non-current financial liabilities</b>							
Non-current interest-bearing liabilities				244.9		244.9	267.4
– Derivatives					17.1	17.1	17.4
Total non-current interest-bearing liabilities						262.0	284.5
Non-current non-interest-bearing liabilities				3.1		3.1	3.1
– Derivatives					2.5	2.5	2.5
Total non-current non-interest-bearing liabilities						5.7	5.7
<b>Current financial liabilities</b>							
Current interest-bearing liabilities				194.2		194.2	194.2
Trade payables				703.5		703.5	703.5
Other non-interest-bearing liabilities				176.5		176.5	176.5
– Derivatives					3.4	3.4	3.4
Accrued liabilities				245.8		245.8	245.8
– Derivatives	8.3					8.3	8.3
Total accrued liabilities						254.1	254.1
<b>Carrying amount by measurement group</b>	<b>8.3</b>			<b>1,568.0</b>	<b>23.0</b>	<b>1,599.3</b>	<b>1,621.8</b>

At 31 Dec. 2008

Balance sheet item, € million	Financial assets/ liabilities at fair value through profit or loss	Loan and receivables	Available-for- sale financial assets	Financial liabilities at amortised cost	Derivatives qualified for hedge accounting	Carrying amounts of balance sheet items	Fair value
<b>Non-current financial assets</b>							
Available-for-sale financial assets			3.0			3.0	3.0
Non-current non-interest-bearing receivables		0.9				0.9	0.9
– Derivatives		0.1			9.9	10.0	10.0
Non-current interest-bearing receivables		58.3				58.3	58.3
<b>Current financial assets</b>							
Trade receivables and other non-interest-bearing receivables		755.6				755.6	755.6
– Derivatives	10.2		2.1		2.6	14.9	14.9
Interest-bearing receivables		14.9				14.9	14.9
Financial assets at fair value through profit or loss	94.4					94.4	94.4
Available-for-sale financial assets			291.0			291.0	291.0
<b>Carrying amount by measurement group</b>	<b>104.6</b>	<b>829.8</b>	<b>296.1</b>		<b>12.5</b>	<b>1,243.0</b>	<b>1,243.0</b>
<b>Non-current financial liabilities</b>							
Non-current interest-bearing liabilities				175.2		175.2	198.2
– Derivatives					21.7	21.7	21.7
Total non-current interest-bearing liabilities						196.9	219.9
Non-current non-interest-bearing liabilities				11.8		11.8	11.8
<b>Current financial liabilities</b>							
Current interest-bearing liabilities				293.6		293.6	293.6
Trade payables				755.6		755.6	755.6
Other non-interest-bearing liabilities				181.6		181.6	181.6
Accrued liabilities				237.9		237.9	237.9
– Derivatives	4.1				3.5	7.6	7.6
Total accrued liabilities						245.5	245.5
<b>Carrying amount by measurement group</b>	<b>4.1</b>			<b>1,655.7</b>	<b>25.2</b>	<b>1,685.0</b>	<b>1,708.0</b>

The fair values of loans have been calculated based on the present value of future cash flows using the 0.5%–4.0% market rates of interest at the balance sheet date. The fair value of current interest-bearing liabilities is estimated to nearly equal their carrying amount.

The maturity schedule of non-current loans is presented in note 41.

## NOTE 29

### Finance lease liabilities

€ million	2009	2008
The maturities of finance lease payments are as follows:		
No later than 1 year	20.9	27.2
Later than 1 year and no later than 5 years	64.5	64.0
Later than 5 years	10.9	14.1
<b>Total minimum lease payments</b>	<b>96.3</b>	<b>105.3</b>
Present value of minimum lease payments:		
No later than 1 year	17.3	22.6
Later than 1 year and no later than 5 years	57.9	56.6
Later than 5 years	10.5	13.4
<b>Total finance lease liabilities</b>	<b>85.7</b>	<b>92.7</b>
<b>Accumulating financial expensess</b>	<b>10.6</b>	<b>12.6</b>
<b>Contingent rents for the financial year</b>	<b>0.1</b>	<b>1.5</b>
<b>Expected sublease rentals</b>	<b>61.5</b>	<b>64.4</b>

The finance lease receivables mainly consist of store fixtures leased by Kesko Food Ltd from finance companies and subleased to chain companies. In addition, the finance leases include real estate leases with lease payments tied to interest rate.

## NOTE 30

### Provisions

€ million	Onerous leases	Warranty provisions	Other provisions	Total
Provisions at 1 Jan. 2009	14.1	15.5	14.1	43.6
Exchange differences	0.2	0.0	0.0	0.3
Additional provisions	8.0	1.8	6.3	16.1
Unused amounts reversed	-5.1	-4.2	-1.0	-10.2
Business arrangements		-0.3		
Expensed in income statement	17.3	12.7	19.4	49.6
Used amounts	-2.6	-0.5	-2.7	-5.8
Provisions at 31 Dec. 2009	14.8	12.2	16.7	43.7
<b>Analysis of total provisions</b>				
Non-current	5.9	5.0	3.6	14.5
Current	8.8	7.3	13.1	29.2

The provisions for onerous leases mainly relate to lease liabilities of premises vacated from the Group operations, and to net losses on rent of subleased premises. Warranty provisions have been recorded for vehicles and machines sold by the Group companies. The provision amount is based on experience from realised warranty obligations in previous years.

## NOTE 31

### Trade payables and other current non-interest-bearing liabilities

€ million	2009	2008
Trade payables	703.5	755.6
Other current non-interest-bearing liabilities	179.9	181.6
Tax liabilities	37.0	2.9
Accrued liabilities	217.1	245.5
Total current non-interest-bearing liabilities	1,137.5	1,185.7

The accrued liabilities are mainly due to the timing of purchases and staff cost.

## NOTE 32

### Jointly controlled assets

#### JOINTLY CONTROLLED ASSETS (MUTUAL REAL ESTATE COMPANIES)

These figures represent the Group's share of jointly controlled assets and liabilities and income and profit included in the consolidated statement of financial position and the income statement.

€ million	2009	2008
Non-current assets	41.6	76.2
Current assets	0.3	1.5
	41.9	77.8
Non-current liabilities	7.0	9.8
Current liabilities	19.3	32.8
	26.3	42.6
Net assets	15.6	35.2
Income	4.7	6.0
Expenses	3.8	4.7
Profit	0.9	1.3

## NOTE 33

### Contingent liabilities

#### Commitments

€ million	2009	2008
Collateral given for own commitments		
Pledges	91	40
Mortgages	21	17
Guarantees	23	18
Other commitments and contingent liabilities	77	50
Collateral given for shareholders		
Guarantees	0	0
Collateral given for others		
Other commitments and contingent liabilities	7	8
Guarantees	0	0

The guarantees given do not include guarantees related to items presented within liabilities in the consolidated statement of financial position or as a lease liability in note 34.

## NOTE 34

### Operating leases

#### Group as the lessee

Minimum lease payments under non-cancellable operating lease agreements:

€ million	2009	2008
No later than 1 year	352.6	322.5
Later than 1 year and no later than 5 years	1,071.5	955.0
Later than 5 years	935.4	823.7
Total	2,359.5	2,101.1

Expected future minimum lease payments under non-cancellable sublease agreements

Lease and sublease payments recognised for the financial year:		
Minimum lease payments	335.9	305.3
Contingent rents	0.5	0.7
Sublease income	26.3	21.8

The 2009 income statement includes net rent and maintenance rent payments under operating leases, and other rents in a total amount of €383.1 million (€349.9 million). The maintenance rent payments are not included in the minimum lease payments.

Kesko leases retail and logistics premises for its operating activities. Most of the leases are index-linked and in conformity with local market practice.



**Group as the lessor**

Minimum lease payments received under non-cancellable operating lease agreements:

€ million	2009	2008
No later than 1 year	8.6	8.8
Later than 1 year and no later than 5 years	15.3	15.2
Later than 5 years	13.6	13.1
Total	37.5	37.1

Aggregate contingent rents charged to the income statement

- 0.1

Kesko leases premises to entrepreneurs other than K-retailers in order that the total service offer of a store site support its profit generation potential. Such premises typically include so-called store entrance stores at large retail outlets.

## NOTE 35

### Share-based payment

The Group operates option plans as part of the management's incentive and commitment arrangements. Each option gives its holder the right to subscribe for one Kesko Corporation B share at a price, and during the period, specified in the terms of the option scheme. The options are forfeit if the employee leaves the company before the end of the vesting period, unless, in an individual case, the Board decides that the option recipient may keep all or some of the options under offering obligation.

#### YEAR 2003 OPTION PLAN

On 31 March 2003, the Annual General Meeting resolved to grant a total of 1,800,000 options with no consideration to the management of the Kesko Group as well as to a wholly-owned subsidiary of Kesko Corporation. A deviation was made from the shareholders' pre-emptive subscription rights, since the share options form a part of the incentive and commitment programme for the management. Each option entitles its holder to subscribe for one new Kesko Corporation B share. The options are marked with the symbols 2003D (KESBVIEW103), 2003E (KESBVIEW203) and 2003F (KESBVIEW303) in units of 600,000 options each. The share subscription periods of the options are:

- 2003D 1 April 2005–30 April 2008 (subscription period has expired)
- 2003E 1 April 2006–30 April 2009 (subscription period has expired) and
- 2003F 1 April 2007–30 April 2010.

The original exercise price per share of option 2003D was equal to the volume weighted average price of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April–30 April 2003 (€9.63), that of option 2003E between 1 April–30 April 2004 (€15.19) and that of option 2003F between 1 April–30 April 2005 (€19.08). From the share subscription price of share options shall, as per the dividend record date, be deducted the amount of the dividend decided after the beginning of the

period for determination of the subscription price but before share subscription.

After the distribution of dividends for the year 2007, the price of a B share subscribed for with option 2003D was €2.00. The subscription period expired on 30 April 2008, and a total of 574,088 Kesko B shares were subscribed. 25,912 options remained ungranted and they expired. After the distribution of dividends for the year 2008, the price of a B share subscribed for with option 2003E was €7.99. The subscription period expired on 30 April 2009, and a total of 576,000 Kesko B shares were subscribed. 24,000 options remained ungranted and they expired. After the distribution of dividends for the year 2008, the price of a B share subscribed for with option 2003F is €13.88, and the subscription period began on 1 April 2007.

The option plan covers approximately 50 people. A total of 1,800,000 new B shares can be subscribed for under this option plan, which can increase the company's share capital by a maximum of €3,600,000.

#### YEAR 2007 OPTION PLAN

On 26 March 2007, the Annual General Meeting decided to grant a total of 3,000,000 stock options for no consideration to the management of the Kesko Group, other key personnel, and a subsidiary wholly owned by Kesko Corporation. The Company had a weighty financial reason for granting the options because they are intended to be part of Kesko's share-based incentive system. Each stock option entitles its holder to subscribe for one new Kesko Corporation B share. In addition, the option plan also includes an obligation to buy company shares for permanent ownership for the value of 25% of the proceeds from the sale of stock options. The options are marked with the symbols 2007A, 2007B and 2007C in units of 1,000,000 options each. The share subscription periods of the options are:

- 2007A 1 April 2010–30 April 2012
- 2007B 1 April 2011–30 April 2013
- 2007C 1 April 2012–30 April 2014.

The original subscription price for stock option 2007A shall be the trade volume weighted average quotation of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April and 30 April 2007 (€45.82), for stock option 2007B, between 1 April and 30 April 2008 (€26.57), and for stock option 2007C, between 1 April and 30 April 2009 (€16.84). The subscription prices of shares subscribed for with stock options shall be reduced by the amount decided after the beginning of the period for the determination of the subscription price but before the subscription, as at the record date for each distribution of profits or other assets.

After the distribution of dividends for the year 2008, the price of a B share subscribed for with option 2007A was €43.22, with option 2007B €25.57, and with option 2007C €16.84. The subscription periods have not yet begun. The option plan covers approximately 130 people.

#### PERCENTAGE OF ISSUED STOCK OPTIONS OUT OF ALL SHARES AND VOTES

If shares were subscribed for with all exercisable options, the shares subscribed for with all of the 2003 and 2007 plan options

would account for 4.67% of shares and 1.23% of all votes. The subscriptions made with stock options could raise the number of the company's shares to 101,688,793. As a result of the subscriptions, the voting rights carried by all shares could increase to 387,321,856 votes.

The shares subscribed for with stock options entitle to dividends and carry other shareholder rights after the corresponding share capital increase has been entered in the Trade Register.

The company has not granted other options or special rights entitling to shares.

#### STOCK OPTIONS DURING THE FINANCIAL YEAR 1 JANUARY–31 DECEMBER 2009

Main terms and conditions of the plans	2003 STOCK OPTIONS			2007 STOCK OPTIONS		
Grant date	31 March 2003			26 March 2007		
Instrument	stock option			stock option		
Target group	management			management, other key personnel		
	2003D	2003E	2003F	2007A	2007B	2007C
Original number of options	600,000	600,000	600,000	1,000,000	1,000,000	1,000,000
Number of shares per option	1	1	1	1	1	1
Original exercise price per share	9.63 €	15.19 €	19.08 €	45.82 €	26.57 €	16.84 €
Dividend adjustment	Yes	Yes	Yes	Yes	Yes	Yes
Exercise price 31 Dec. 2006	4.53 €	12.09 €	17.98 €	–	–	–
Exercise price 31 Dec. 2007	3.03 €	10.59 €	16.48 €	45.82 €	–	–
Exercise price 31 Dec. 2008	2.00 €	8.99 €	14.88 €	44.22 €	26.57 €	–
Exercise price 31 Dec. 2009	–	7.99 €	13.88 €	43.22 €	25.57 €	16.84 €
Fair value at grant date						
17 Jul. 2007:2007A				50.25 €		
19 Sep. 2007: 2007A				45.02 €		
12 Dec. 2007:2007A				39.42 €		
29 May 2008:2007B					26.47 €	
27 May 2009:2007C						20.12 €
First allocation, date	1 Apr. 2005	1 Apr. 2006	1 Apr. 2007	1 Apr. 2010	1 Apr. 2011	1 Apr. 2012
Expiry, date	30 Apr. 2008	30 Apr. 2009	30 Apr. 2010	30 Apr. 2012	30 Apr. 2013	30 Apr. 2014
Remaining vesting period, years	expired	expired	0.3	2.3	3.3	4.3
Plan participants at end of financial year	–	–	32	116	124	128

#### Movements in quantities and exercise prices 2009

	2003 STOCK OPTIONS				2007 STOCK OPTIONS			
	2003D	2003E	2003F	Weighted average exercise price	2007A	2007B	2007C	Weighted average exercise price
2009								
Options outstanding at beginning of period		383,394	433,045	12.11 €	756,500	767,500		35.33 €
Options available for grant at beginning of period		24,000	47,500	12.90 €	243,500	232,500	1,000,000	35.60 €
Options granted during period							785,500	16.84 €
Options forfeited during period					19,000	22,000	3,000	32.60 €
Options exercised during period		383,394	113,281	9.33 €				
Options lapsed during period		24,000		7.99 €				
Options outstanding at end of period			319,764	13.88 €	737,500	745,500	782,500	28.30 €
Options exercisable at end of period			367,264	13.88 €	1,000,000	1,000,000	1,000,000	28.54 €
Average price weighted by grant date trading volume*		17.05 €	19.19 €					
Kesko B share price at end of grant year								
2007					37.72 €			
2008						17.80 €		
2009							23.08 €	

\* for 2003E: trade volume weighted average price of a B share in January–April 2009, for 2003F: trade volume weighted average price of a B share in 2009

## Movements in quantities and exercise prices 2008

2008	2003 STOCK OPTIONS				2007 STOCK OPTIONS			
	2003D	2003E	2003F	Weighted average exercise price	2007A	2007B	2007C	Weighted average exercise price
Options outstanding at beginning of period	33,150	406,133	434,245	13.23 €	786,000			45.82 €
Options available for grant at beginning of period	25,912	24,000	47,500	11.45 €	214,000	1,000,000	1,000,000	45.82 €
Options granted during period						776,000		26.57 €
Options forfeited during period					29,500	8,500		40.27 €
Options exercised during period	33,150	22,739	1,200	5.05 €				
Options lapsed during period	25,912			2.00 €				
Options outstanding at end of period		383,394	433,045	12.11 €	756,500	767,500		35.33 €
Options exercisable at end of period		407,394	480,545	12.18 €	1,000,000	1,000,000	1,000,000	35.40 €
Average price weighted by grant date trading volume*	30.87 €	23.61 €	23.61 €					

\* for 2003D: trade volume weighted average price of a B share in January–April 2008, for 2003E and 2003F: trade volume weighted average price of a B share in 2008

## FAIR VALUE MEASUREMENT

For fair value measurement Kesko Corporation has consulted Alexander Corporate Finance Oy. The fair value of options has been calculated using the Black–Scholes share pricing model. The fair value of options determined on the date of the grant has been expensed over their vesting period.

During the financial year 1 January–31 December 2009, the options contributed €8.1 million (€5.5 million) to the Group's profit.

## Black–Scholes model assumptions

€ million	Granted in 2009	Granted in 2008	Granted in 2007	All options
Number of options granted, pcs	785,500	776,000	789,000	2,350,500
B share average (weighted) price	20.12 €	26.47 €	49.37 €	32.03 €
Average (weighted) exercise price	16.84 €	26.57 €	45.82 €	29.78 €
Expected average (weighted) volatility	32.0%	27.4%	21.7%	27.0%
Average (weighted) vesting period	4.9 yrs	4.9 yrs	4.8 yrs	4.9 yrs
Average (weighted) risk-free interest rate	3.0%	4.4%	4.5%	4.0%
Returned options (weighted average)	0.4%	3.9%	6.1%	4.09%
Total fair value, €	6,320,122	6,406,920	11,697,744	24,424,787

The expected volatility of a Kesko B share has been estimated based on historic volatility using weekly changes over a period of time corresponding to the option's vesting period. The risk-free interest rate is the government zero coupon bond interest rate at the measurement date with a maturity equalling the option vesting period.

# Notes to the cash flow statement

## NOTE 36

### Non-cash flow related investments

€ million	2009	2008
Total purchases of fixed assets,	198.0	339.6
of which settlement in cash	222.6	319.9
Settlement of prior period investments	-16.6	-13.8
Investments leased to customers	-17.5	0.0
Investments financed by finance lease or other borrowing	9.4	33.4

## NOTE 37

### Adjustments to cash flows from operating activities

€ million	2009	2008
Adjustment of non-cash transactions in the income statement or items presented elsewhere in the cash flow statement:		
Change in provisions	-0.8	6.9
Income from associates	-0.2	-1.9
Impairment	14.4	61.1
Credit losses	12.6	13.8
Non-recurring gains on disposal of fixed assets	-94.9	-181.9
Non-recurring losses on disposal of fixed assets	1.4	1.5
Option expenses	8.1	5.6
Defined benefit pensions	-16.0	-43.4
Others	1.4	8.2
Total	-74.0	-130.1

## NOTE 38

### Subsidiary disposals

#### 2009

- Real estate sold to a pension insurance company and the Kesko Pension Fund. Their aggregate contribution to the cash flow was €52.3 million.

#### 2008

The aggregate cash flow contribution from subsidiary disposals was €121.3 million and it consisted of the following subsidiary disposals:

- K-Rahoitus Oy, transaction completed on 31 January 2008
- Tähti Optikko Group Oy, transaction completed on 31 March 2008
- Kauko-Telko Ltd, transaction completed on 30 April 2008
- In addition the Kesko Group, the Kesko Pension Fund and Valluga-Sijoitus Oy sold 23 of their retail store properties in different parts of Finland to Aberdeen Property Fund Finland 1 Ky on 30 September 2008.

## NOTE 39

### Proceeds from available-for-sale financial assets

#### 2009

In 2009, the proceeds from available-for-sale financial assets totalled €1.2 million.

#### 2008

In 2009, the proceeds from available-for-sale financial assets totalled €0.2 million.

## NOTE 40

### Cash and cash equivalents within the statement of cash flows

Components of cash and cash equivalents in the statement of cash flows:

€ million	2009	2008
Available-for-sale financial assets (maturing in less than 3 months)	417.5	261.5
Cash and cash equivalents	73.9	57.8
Total	491.4	319.3

In the statement of cash flows, the components of cash and cash equivalents include those stated in the statement of financial position, assets and the portion of available-for-sale financial assets that mature in less than three months from acquisition. The available-for-sale financial assets in the statement of financial position (€427.7 million) also include bonds with longer maturities in the amount of €10.2 million.



## NOTE 41

### Financial risk management

With respect to financial risks, the Group observes a uniform funding policy that has been approved by the company Board of Directors. Compliance with this policy and developments in the Group's financial situation are monitored by the Board of Directors' Audit Committee. The Group's Treasury is centrally responsible for the Group funding, liquidity management, relations with providers of finance, and the management of financial risks. In the main, the Group's funding is arranged through the parent company, and the Group's Treasury arranges funding for subsidiaries in their functional currencies. For companies with significant external ownership, the Group has not guaranteed financial liabilities in excess of its ownership interest.

### FOREIGN EXCHANGE RISKS

The Kesko Group operates in eight countries and makes purchases from numerous countries. As a result, the Group is exposed to various foreign exchange risks arising from net investments in foreign operations (translation-related risks), foreign currency assets, liabilities and forecast transactions (transaction risk).

The Group companies' funding is arranged in their functional currencies. The parent company bears the ensuing foreign currency risk and hedges it by using derivatives or foreign currency-denominated loans. In the 2009 financial year, the hedging cost arising from subsidiary funding, in other words the interest rate differences between the euro and the hedged currencies, was €17.9 million (€4.6 million). These interest rate differences were 5% p.a. on average in 2009.

### TRANSLATION RISKS

The Group's balance sheet is exposed to currency translation risks relating to net investments in subsidiaries outside the euro area. This balance sheet exposure has been hedged by borrowings denominated in the relevant foreign currencies and forward exchange contracts. The most significant translation positions are in the Estonian kroon, Norwegian krone, Swedish krona, Russian ruble, Lithuanian litas and Latvian lat. The position does not include the non-controlling interest in equity. In proportion to the volume of operations and the balance sheet total, the foreign currency translation risk is small. The hedging percentage of the foreign currency translation exposure has been reduced further in 2010.

The functional currency of the real estate companies in St. Petersburg and Moscow in Russia has been determined to be the euro, which is why net investments in these companies are not exposed to foreign currency translation risk, and they are not included in the currency translation position.

### TRANSACTION RISKS

International purchasing activities and foreign currency denominated funding provided by the parent to subsidiaries expose the Group to transaction risks relating to several foreign currencies. The currency-specific transaction risk consists of receivables and liabilities denominated in foreign currencies in the balance sheet, forecast foreign currency cash flows, and foreign subsidiaries' liabilities and receivables with respect to the parent. The exposure is commercially managed by, e.g., transferring exchange rate changes to selling prices, or by replacing suppliers. The remaining positions are hedged by currency derivative

#### Group's currency translation position at 31 Dec. 2009

€ million	LVL	NOK	EEK	SEK	RUB	LTL	BYR
Net investment	2.7	32.4	63.8	24.3	28.3	45.8	1.6
Hedging derivatives	0.0	0.0	-44.7	-10.5	-19.2	-26.6	0.0
Hedging loans	-2.8	-18.8	0.0	0.0	0.0	0.0	0.0
Open position	-0.1	13.6	19.1	13.8	9.1	19.1	1.6

#### Group's currency translation position at 31 Dec. 2008

€ million	LVL	NOK	EEK	SEK	RUB	LTL	BYR
Net investment	2.0	38.6	62.9	2.0	25.1	37.5	1.9
Hedging derivatives	0.0	0.0	-40.6	-1.4	-17.0	-31.9	0.0
Hedging loans	-4.9	-17.4	-15.7	0.0	0.0	0.0	0.0
Open position	-2.9	21.2	6.7	0.6	8.1	5.6	1.9

The next table shows how a 10% change in the Group companies' functional currencies would affect the Group's equity. Sensitivity has been calculated from the net position, in other words, the effects of hedging derivative instruments or loans have been calculated in addition to the hedged exposure.

#### Sensitivity analysis, effect on equity, at 31 Dec. 2009

€ million	LVL	NOK	EEK	SEK	RUB	LTL	BYR
Change +/-10%	0.0	1.4	1.9	1.4	0.9	1.9	0.2

#### Sensitivity analysis, effect on equity, at 31 Dec. 2008

€ million	LVL	NOK	EEK	SEK	RUB	LTL	BYR
Change +/-10%	-0.3	2.1	0.7	0.1	0.8	0.6	0.2

instruments. The percentage of hedging in commercial transactions is decided by each relevant subsidiary within the limits of documented hedging policies. The subsidiaries report their currency exposures to the Group Treasury on a monthly basis.

In the main, the subsidiaries carry out their hedging operations together with the Group Treasury, which hedges risk positions by using market transactions within the limits confirmed for each currency. Intra-Group derivatives are allocated to the segments in segment reporting.

The Group does not apply hedge accounting in accordance with IAS 39 to the hedging of currency risks relating to purchases and sales. In initial measurement, derivative instruments are recognised at cost and at subsequent measurement they are recognised at fair value. The value changes of currency derivatives used to hedge purchases and sales are recognised in 'Other operating income or expenses'.

Kesko Corporation's USD-denominated private placement loan has been hedged against currency risk and interest rate risk by applying hedge accounting. Currency and interest rate swaps to the same amount and with the same maturity as the loan have been designated as the hedging instruments. Consequently, the loan is entirely hedged against currency and interest rate risk. During the period, no amount of ineffectiveness has been recognised in the income statement relating to this credit facility.

#### LOAN INTEREST RATE RISK AND SENSITIVITY ANALYSIS

Interest rate movements affect the Group's interest expense. The interest rate hedging policy is aimed at equalising the effects of interest rate movements on the profits for different accounting periods.

Interest rate risks are centrally managed by the Group Treasury, which adjusts loan duration by interest rate derivative instruments. The target duration is three years which is allowed to vary between one and a half and four years. The realised duration during the period was 3.5 (3.2) years on average.

A sensitivity analysis for commercial paper liabilities realised during the period used average balance values. At the balance sheet date of 31 December 2009, the effect of interest-bearing variable rate liabilities on pre-tax profit would have been €-/+3.3 million, if the interest rate level had risen or fallen by 1 percentage point (€-/+3.8 million).

Liabilities to K-retailers consist of two types of interest-bearing receivables payable by the Kesko Group companies to K-retailers; retailers' prepayments to Kesko, and retailers' chain rebates. Chain rebates are subsequent discounts granted to retailers and their terms vary from one store chain to another.

Private placement bonds and the aggregate amount of €170.6 million in loans from financial institutions have fixed rates, and the effective interest cost was 4.8%. At the end of the year, the average rate of variable-interest-rate loans from financial institutions, liabilities to retailers and other interest-bearing liabilities was 7.7%. Some of the loans are euro-denominated, private placement bonds are USD-denominated, and loans from financial institutions and commercial paper liabilities include NOK-denominated loans corresponding to €24.1 million (€20.5 million) and LVL-denominated loans corresponding to €21.1 million (€29.8 million).

#### Group's transaction position at 31 Dec. 2009

€ million	USD	SEK	NOK	EEK	LVL	LTL	RUB	BYR
Group's transaction risk	-4.5	69.7	43.5	-23.9	39.8	-20.4	32.1	-2.3
Hedging derivatives	10.1	-68.9	-37.8	25.8	-13.5	-3.8	-38.8	0.0
Hedging loans	0.0	0.0	-5.3	0.0	-18.3	0.0	0.0	0.0
Open position	5.6	0.8	0.4	1.9	7.9	-24.2	-6.7	-2.3

A sensitivity analysis of the transaction position shows how a 10% exchange rate change in receivables and liabilities denominated in foreign currencies would affect the Group's profit. The calculation does not include forecast future currency-denominated cash flows, but the currency derivatives used to hedge these exposures are included in the analysis.

#### Sensitivity analysis, effect on pre-tax profit at 31 Dec. 2009

€ million	USD	SEK	NOK	EEK	LVL	LTL	RUB	BYR
Change +/-10%	0.6	0.1	0.0	0.2	0.8	-2.4	-0.7	-0.2

### LIQUIDITY RISK AND SENSITIVITY ANALYSIS FOR INTEREST-BEARING RECEIVABLES

Liquidity risk management aims at maintaining sufficient liquid assets and credit lines in order to guarantee the availability of sufficient funding for the Group's business activities at all times.

The aim is to invest liquidity consisting of financial assets in the money market by using efficient combinations of return and risk. At regular intervals, the Group's management approves the instruments and limits for each investment among those ana-

lysed by the Group Treasury. The risks and actual returns of investments are monitored regularly.

A sensitivity analysis for variable-rate receivables uses average annual balance values of invested assets. The receivables include customer financing receivables, finance lease receivables, other interest-bearing receivables, and within investments, commercial papers and bond funds. The sensitivity of bond funds has been determined based on duration. At the balance sheet date, the effect of these items on the pre-tax profit would have been €+/-4.0 million (€+/-4.4 million), and +/-€1.5 million on

#### Undiscounted cash flows from financial liabilities and related financial expenses at 31 Dec. 2009

€ million	2010	2011	2012	2013	2014	2015-
<b>Loans from financial institutions</b>	<b>8.2</b>	<b>1.2</b>	<b>17.8</b>	<b>0.9</b>	<b>0.7</b>	<b>26.7</b>
Financial expenses	4.6	3.4	2.2	1.1	1.1	1.3
<b>Private placement bonds (USD)</b>					<b>41.6</b>	<b>41.6</b>
Financial expenses	5.2	5.2	5.2	5.2	3.9	7.2
<b>Pension loans</b>		<b>2.9</b>	<b>5.8</b>	<b>5.8</b>	<b>5.8</b>	<b>26.3</b>
Financial expenses	1.9	1.9	1.7	1.4	1.2	2.6
<b>Finance lease liabilities</b>	<b>17.3</b>	<b>23.4</b>	<b>10.8</b>	<b>10.5</b>	<b>13.3</b>	<b>10.5</b>
Financial expenses	3.6	1.9	1.6	1.5	1.5	0.4
<b>Liabilities to K-retailers</b>	<b>109.7</b>					
Financial expenses	0.5					
<b>Other interest-bearing liabilities</b>	<b>56.6</b>					
Financial expenses	0.1					
<b>Commercial papers</b>						
Financial expenses						
<b>Non-current non-interest-bearing liabilities</b>		<b>0.0</b>		<b>0.0</b>	<b>0.0</b>	
<b>Current non-interest-bearing liabilities</b>						
Trade payables	<b>703.5</b>					
Accruals and deferred income	<b>245.0</b>					
<b>Other non-interest-bearing liabilities</b>	<b>161.6</b>					

#### Undiscounted cash flows from financial liabilities and related financial expenses at 31 Dec. 2008

€ million	2009	2010	2011	2012	2013	2014-
<b>Loans from financial institutions</b>	<b>20.0</b>	<b>0.8</b>	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>	<b>23.6</b>
Financial expenses	2.6	1.2	1.2	1.1	1.1	2.4
<b>Private placement bonds (USD)</b>			<b>0.0</b>	<b>0.0</b>		<b>86.2</b>
Financial expenses	5.4	5.4	5.4	5.4	5.4	11.5
<b>Pension loans</b>						
Financial expenses						
<b>Finance lease liabilities</b>	<b>22.7</b>	<b>11.8</b>	<b>23.4</b>	<b>10.8</b>	<b>10.6</b>	<b>13.4</b>
Financial expenses	4.5	2.5	1.8	1.5	1.5	0.7
<b>Liabilities to K-retailers</b>	<b>114.1</b>					
Financial expenses	4.9					
<b>Other interest-bearing liabilities</b>	<b>83.4</b>					
Financial expenses	0.6					
<b>Commercial papers</b>	<b>47.7</b>					
Financial expenses	4.0					
<b>Non-current non-interest-bearing liabilities</b>	<b>0.1</b>	<b>0.0</b>				
<b>Current non-interest-bearing liabilities</b>						
Trade payables	<b>755.6</b>					
Accruals and deferred income	<b>241.5</b>					
<b>Other non-interest-bearing liabilities</b>	<b>165.7</b>					

equity, if the interest rate level had changed by +/-1 percentage point.

At the balance sheet date, the counter value of undrawn committed long-term credit facilities was €227 million (€225 million). The committed credit limits mature at the end of 2010, 2011 and 2012. In addition, the Group's uncommitted credit lines available contain commercial paper programmes denominated in euros to a total counter value of €329 million (€449 million).

The terms and conditions of the private placement credit facility and the committed limit include ordinary financial cov-

enants. The requirements of these covenants have been met. The loan terms included a financial covenant concerning the relation between the net debt and the amount of EBITDA, which remained well under the limit throughout the accounting period.

The debt to K-retailers consist of two types of interest-bearing receivables payable by the Kesko Group companies to K-retailers: retailers' prepayments to Kesko and retailers' chain rebates. Chain rebates are subsequent discounts given to retailers and the terms vary from one chain to another. The private placement bonds include the fair value change of currency derivative instruments.

#### Undiscounted cash flows from derivative instruments at 31 Dec. 2009

€ million	2010	2011	2012	2013	2014	2015-
<b>Payables</b>						
Foreign currency hedge forward contracts of net investment	141.8					
Foreign currency forward contracts outside hedge accounting	296.4					
<b>Net settlement of payables</b>						
Interest rate derivatives	0.3	0.2	0.1	0.0	0.0	
Electricity derivatives	3.1	2.1	0.6	0.2	0.0	
Grain derivatives						
Derivatives relating to private placement bonds*						
Foreign currency derivatives	1.1	1.1	1.1	1.1	9.4	10.0
<b>Receivables</b>						
Net investment hedging instruments	138.0					
Foreign currency forward contracts outside hedge accounting	293.4					
<b>Net settlement of receivables</b>						
Interest rate derivatives						
Electricity derivatives	0.2	0.4	0.3	0.0	0.0	
Grain derivatives						
Derivatives relating to private placement bonds*						
Interest rate derivatives	0.9	0.9	0.9	0.9	0.7	1.2

#### Undiscounted cash flows from derivative instruments at 31 Dec. 2008

€ million	2009	2010	2011	2012	2013	2014-
<b>Payables</b>						
Foreign currency hedge forward contracts of net investment	89.6					
Foreign currency forward contracts outside hedge accounting	239.8					
<b>Net settlement of payables</b>						
Interest rate derivatives						
Electricity derivatives	3.0	4.4	3.0	0.8	0.1	0.0
Grain derivatives	0.0					
Derivatives relating to private placement bonds*						
Foreign currency derivatives	0.9	0.9	0.9	0.9	0.9	16.1
<b>Receivables</b>						
Net investment hedging instruments	91.3					
Foreign currency forward contracts outside hedge accounting	244.7					
<b>Net settlement of receivables</b>						
Interest rate derivatives	0.0	0.0	0.0	0.0		
Electricity derivatives	0.0					
Grain derivatives	0.0					
Derivatives relating to private placement bonds*	0.0					
Interest rate derivatives	0.9	0.9	0.9	0.9	0.9	1.9

\* The cash flows of private placement bonds and related foreign currency and interest rate derivatives are settled on a net basis.



## Breakdown of liability maturities 2009

€ million	31 Dec 2009	Available	Total	2010	2011	2012	2013	2014 and later
Loans from financial institutions	55.3		55.3	8.2	1.2	17.8	0.9	27.3
Private placement bonds	100.0		100.0					100.0
Pension loans	46.4		46.4		2.9	5.8	5.8	31.8
Finance lease liabilities	85.7		85.7	17.3	23.4	10.8	10.5	23.8
Liabilities to K-retailers	109.7		109.7	109.7				
Other interest-bearing liabilities	56.6		56.6	56.6				
Trade payables	703.6		703.6	703.5	0.0			
Accrued liabilities	254.1		254.1	254.1				
Other non-interest-bearing liabilities	185.5		185.5	179.9	3.0	1.5	1.1	0.0
Binding credit limits	*	225.0	227.0	76.0	0.9	150.0		
Commercial papers	0.0	329.0	329.0					
Guarantees	23.3		23.3	0.2	1.5	0.0	0.0	21.6
Total	1,620.3	554.0	2,176.2	1,405.5	33.0	185.9	18.3	204.6

\* The amount withdrawn from binding credit limits is included in loans from financial institutions.

The financial guarantees given do not include guarantees relating to an item presented as a liability in the consolidated statement of financial position, or as a lease liability in note 34.

## Breakdown of liability maturities 2008

€ million	31 Dec 2008	Available	Total	2009	2010	2011	2012	2013 and later
Loans from financial institutions	47.1		47.1	20.2	0.8	1.0	0.8	24.3
Private placement bonds	100.0		100.0					100.0
Pension loans	0.0		0.0					
Finance lease liabilities	92.7		92.7	22.7	11.8	23.4	10.8	24.0
Liabilities to K-retailers	114.1		114.1	114.1				
Other interest-bearing liabilities	88.9		88.9	88.9				
Trade payables	755.6		755.6	755.6				
Accrued liabilities	245.5		245.5	245.5				
Other non-interest-bearing liabilities	196.3		196.3	184.5	11.8			
Binding credit limits	*	246.5	247.7		75.0	21.5	150.0	
Commercial papers	47.7	401.3	449.0	47.7				
Total	1,687.9	647.8	2,336.9	723.6	99.4	45.9	161.6	148.3

\* The amount withdrawn from binding credit limits is included in loans from financial institutions.

## Fair value measurement levels for financial assets and liabilities

€ million	Fair value at 31 Dec. 2009			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss</b>				
Bank certificates of deposit and deposits		202.9		202.9
Bond funds	10.1			10.1
Total	10.1	202.9		213.1
<b>Derivative instruments at fair value</b>				
Derivative receivables		3.5		3.5
Derivative liabilities		31.9		31.9
<b>Available-for-sale financial assets</b>				
Commercial papers (maturing in less than 3 months)		214.1		214.1
Bank certificates of deposit and deposits (maturing in less than 3 months)	3.8	199.6		203.4
Bonds	10.2			10.2
Total	14.0	413.7		427.7

## FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's liquid assets have mainly been invested in the debt instruments of major Finnish companies, in certificates of deposit and in deposits in banks operating in Kesko's market area, in Finnish and Swedish government bonds, and in the bonds of selected companies. The return on these investments for 2009 was 2.2% (4.9%). The maximum credit risk is the fair value of these investments in the balance sheet at the balance sheet date as presented below. The classification is based on the measurement hierarchy required by IFRS 7: level 1 instruments are traded in active markets and their fair values are the quoted prices. The fair values of level 2 instruments are derived from market data, but these instruments are not so actively traded. The fair values of level 3 instruments are partly based on measurement parameters that require management's judgement.

## CREDIT AND COUNTERPARTY RISK

The business companies of the Group's divisions are responsible for the management of the credit risk associated with trade receivables. The company has a credit policy and compliance with it is monitored. The aim is to secure the payment of receivables by carefully assessing customers' creditworthiness, by reviewing customer credit terms and collateral requirements, by effective credit control and credit insurances as applicable. In Finland, the main part of the Group's business activities is carried out in cooperation with retailers. According to the retailer agreements, retailers lodge bank overdrafts as collateral against their trade payables to the relevant Kesko subsidiaries.

Group companies apply a uniform practice to measuring past due receivables. A receivable is written down when there is objective evidence of impairment. The ageing analysis of trade receivables at 31 December is as follows:

### Ageing analysis of trade receivables

€ million	2009	2008
Trade receivables fully performing	550.0	567.7
1–7 days past due	14.5	18.4
8–30 days past due	9.2	20.0
31–60 days past due	4.8	6.8
Over 60 days past due	15.1	20.2
Total	593.6	633.1

Of trade receivables, €319.5 million (€298.1 million) were from chain retailers and €38.0 million (€21.4 million) were credit card receivables. The collateral for chain retailer receivables is an overdraft facility granted by a Kesko associate, Vähittäiskaupan Takaos Oy, with the maximum always limited to the realisation value of the counter collateral given by the K-retail company and entrepreneur to Vähittäiskaupan Takaos. At the end of the year, the aggregate value of the counterparty collateral was €164.1 million. In addition, the collateral for receivables includes other collateral, such as business mortgages and other pledged assets.

The trade receivable impairments were €19.9 million. An amount of €12.6 million in credit losses and impairments has been recognised in the net profit for the period.

The amount of receivables with renegotiated terms amounted to €13.0 million at 31 December 2009.

## FINANCIAL CREDIT RISK

Financial instruments involve the risk of counterparties failing to settle their obligations. Kesko only makes currency and other derivative contracts with banks that have good creditworthiness. Liquid funds are invested annually, within the limits confirmed for each counterparty, in instruments with good creditworthiness. Company and bank-specific limits in terms of euros and time are set for interest investments. These limits are reviewed during the year depending on the market situation.

## BORROWING AGREEMENTS AT CHANGE OF CONTROL (OVER 50% INTEREST)

According to the terms of Kesko Corporation's USD-denominated private placement loan, in a situation involving a change of control, Kesko is obligated to offer a repayment of the whole loan capital to all noteholders. The noteholders have the right to accept or refuse the repayment.

According to the terms of Kesko Corporation's syndicated loan, the syndicate has the right to call in the loan and any withdrawn loan amounts.

According to the terms of either loan agreement, a transfer of ownership to retailers or a retailers' association shall not be considered a change of control.

## CREDIT RATINGS

For the present, Kesko Corporation has not applied for a credit rating, because it has not been considered necessary in the company's present financial situation.

## COMMODITY RISKS AND THEIR SENSITIVITY ANALYSIS

The Group uses electricity derivatives to level out energy costs. The electricity price risk is evaluated for five-year periods. The value changes of derivatives hedging the price of electricity supplied during the period are recognised within the adjustment items of purchases. Hedge accounting is applied to contracts hedging future purchases. The effective portion of derivatives that meet hedge accounting criteria are recognised in the revaluation reserve of equity and the ineffective portion in the income statement within other operating income or expenses. The change in the revaluation reserve recognised in equity is presented in the statement of comprehensive income under 'Revaluation of cash flow hedge'.

At the end of the year, the ineffective portion of hedge accounting was €–0.4 million (€–0.9 million).

At the balance sheet date, a total quantity of 955,344 MWH (1,174,056 MWH) of electricity had been purchased with electricity derivatives, and the 1–12 month hedging rate was 70.2% (75.4%), the 13–24 month rate was 47.3% (62.3%), the 25–36 month rate was 29.6% (34.1%), the 37–48 month rate was 9.6% (12.6%) and the 49–60 month rate was 0.0% (9.6%).

A sensitivity analysis for electricity derivatives assumes that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity derivatives changed by +/-20 percentage points from the balance sheet date 31 December 2009, it would contribute €+/-3.4 million (€+/-3.5 million) to the 2010 profit and €+/-4.4 million (€+/-5.3 million) to equity. The impact has been calculated before tax.

**Fair values of derivative financial instruments**

	31 Dec. 2009	31 Dec. 2009	31 Dec. 2009	31 Dec. 2008
€ million	Positive fair value (balance sheet value)	Negative fair value (balance sheet value)	Net fair value	Net fair value
Interest rate derivatives	0.7**	-0.1	0.6	9.9
Currency forwards	1.9*/**	-25.9*/**	-24.0	-7.6
Electricity derivatives	0.9	-5.9	-5.0	-10.8
Grain derivatives	0.0	0.0	0.0	0.0

**Nominal values of derivative financial instruments**

	31.12.2009	31.12.2008
€ million	Nominal amount	Nominal amount
Interest rate derivatives	206.7**	204.9
Currency forwards	541.7*/**	433.0
Electricity derivatives	40.1	45.9
Grain derivatives	0.0	0.7

\*) Derivative financial instruments also include currency forwards used to hedge net investments in stand-alone foreign entities, with a fair value of €0.0 million (€1.6 million) and a nominal value of €101.2 million (€90.8 million).

\*\*) Derivative financial instruments include interest rate swaps relating to a currency-denominated loan arrangement with a nominal gross value of €200.8 million and a fair value of €0.6 million (€9.9 million), and currency swaps with a nominal value of €100.4 million and a fair value of €-17.2 million (€-14.2 million).

The maximum credit risk of derivatives is the fair value of the balance sheet at the reporting date.

The Group's agricultural trade operations use a minor amount of grain derivatives to hedge against grain price risk. At the balance sheet date, there were no open grain derivatives.

**CAPITAL STRUCTURE MANAGEMENT**

Due to the global financial crisis and the consequent weakening of the real economy, the importance of capital structure management was increasingly emphasized in 2008, and the situation was not completely restored to normal during 2009. The Kesko Group's capital management objectives include targets set for the Group's solvency and liquidity, as well as its capital productivity.

The objectives for the Group's solvency and liquidity are set with the purpose of securing the Group's liquidity in all market situations, enabling the implementation of investment programmes based on the Group's strategy, and maintaining the shareholder value. Objectives have been set for the financial indicators 'equity ratio' and 'interest-bearing net debt/EBITDA'. The calculation formulas for these indicators are presented in the report by the Board. Some of the Group's interest-bearing liabilities include covenants, whose terms and conditions have been taken into account in the above target levels. The Group does not have a credit rating given by any external credit rating institution.

The purpose of setting objectives for the Group's capital productivity is to steer the operating activities in increasing shareholder value on a long-term basis. The objectives for capital productivity have been set for the Group's equity and capital employed. The calculation formulas for the indicators 'return on equity' and 'return on capital employed' are presented in the report by the Board of Directors. The Group's capital structure (equity-to-debt ratio) is only optimised at the Group level, which is why at the lower levels of the organisation, i.e. in the divisions and companies, the targets relating to capital productivity have been set for the indicators 'economic value added' and 'return on capital employed'.

**Economic value added formula:**

Operating profit excluding non-recurring items  
 – operational taxes  
 – return requirement for average capital employed  
 +/- other adjustment items

The above target levels set for the Group's financial indicators are approved by the Board of Directors. On 4 February 2009, the Board approved the following values for the Group's medium term objective.

Target level	
Return on equity	12%
Return on capital employed	14%
Equity ratio	40–50%
Interest-bearing net debt / EBITDA	< 3

**Dividend policy**

Kesko Corporation distributes at least 50% of its earnings per share excluding non-recurring items as dividends, taking however the company's financial position and operating strategy into account.

**NOTE 42****Risk management**

The Kesko Group has established a risk management process, based on the risk management policy confirmed by the Board. The divisions have made risk assessments and updated them in accordance with the strategy process and the rolling planning framework. The divisions' risks and their management responses have been discussed by the division parent companies' and the Group's management. In their respective responsibility areas, the

Group units have assessed the risks threatening the Group's objectives and the management of such risks.

On the basis of the divisions' and Group units' risk analyses, the corporate risk management function has prepared summaries of major risks and their management on a quarterly basis. The resulting risk report has been handled by Kesko Corporation's Board of Directors' Audit Committee. The main risks and uncertainties, and changes in the risk situation compared with the previous financial statements have been reported in the interim financial reports. The following is a description of the risks and uncertainties assessed to be significant.

## Strategic risks

### DEVELOPMENTS IN THE ECONOMIC SITUATION

The general economic development continues to involve significant uncertainties. Developments in the employment situation, tax increases resulting from the debt burden of the public sector, and consumers' confidence in the future have an essential impact on consumers' purchasing power, consumer demand and businesses' investment readiness.

Kesko has adjusted its operations to meet the lower demand by a more efficient use of capital, and by adjusting the number of employees and costs. A prolonged or deeper economic recession would necessitate further adjustments.

### COMPETITIVENESS OF STORE CONCEPTS

The achievement of objectives requires efficient store concepts which are attractive to customers. In the chain business model, a competitive edge is gained by store concepts and brands that are based on customer needs and differentiated from the competition, coupled with efficient, high-quality concept implementations. Customer satisfaction and brand surveys, and competitor monitoring are used to find out customer needs and market changes. Changing customer needs are satisfied and competitiveness is reinforced by developing concepts and operating systems, and by reforming brands. High-quality concept implementation is ensured throughout the chain by strict chain control and regular concept measurements.

### INTERNATIONAL GROWTH

Kesko aims to achieve growth also through international expansion in selected business areas. Failures in these projects may put growth and profitability at risk. In the present economic situation, all risks involved in investments are thoroughly assessed. On the other hand, it may be possible to complete acquisitions of businesses and store sites more easily and on better terms.

In international operations, uniform operating practices and processes are a prerequisite for improved efficiencies and synergy benefits. In Kesko's international operations, category management and purchasing and sourcing are steered in a centralised manner, and a supporting shared information system is being implemented.

Expansion and operations in Russia involve both opportunities and risks. The unpredictability of officials and sudden changes in the interpretation and application of laws may complicate operating activities or delay expansion in Russia. This risk is managed by training personnel, and by developing operating systems and controls, and by providing guidelines.

## LEVERAGING TECHNOLOGY

Kesko's challenge is to combine the possibilities of online trading, electronic customer communication and the retailer business model into an efficient system. Kesko develops electronic customer communications and the chains' online store sites in order to improve customer satisfaction and increase sales.

The automation of financial administration routines may be delayed by suppliers' and retailers' technical facilities and abilities to adopt new operating systems. Kesko is implementing a shared service centre project for the purpose of improving cost-efficiency and the uniformity of financial administration practices.

Kesko is carrying out several significant information system projects. Insufficient resources and poor project management involve a risk that the expected benefits will be delayed or that the project costs will be exceeded. Strict control by the division's management, skilled project management and competent people are necessary for the success of these projects.

## Financial risks

### CREDIT LOSS RISK

As a result of the recession, B2B customers and retailers increasingly experience economic and financial difficulties, which involve a risk of growing credit losses. Division parent companies are responsible for managing credit risks related to receivables from customers. The companies have established a credit policy, whose implementation is monitored. The aim is to ensure the payment of receivables by carefully assessing customers' creditworthiness, by specifying the terms of customer credits and collateral requirements, and by efficient credit control and credit insurances where applicable.

### RISK OF DEVALUATION IN THE BALTIC COUNTRIES

Finland is Kesko's only operating country that belongs to the euro area. International expansion has increased currency risks, and the Baltic currencies, the Latvian lats in particular, are at risk of being devalued. Hedging against currency exchange fluctuations is made more difficult by hedging costs that, in some cases, have become excessively high. The management of the Group's currency risks is centralised in the Group Treasury.

### OTHER FINANCIAL RISKS

These and other financial risks (incl. counterparty risk, liquidity risk, exchange rate risk in purchasing operations, interest rate risk and commodity risk related to electricity forward exchanges) are described in more detail in note 41 to Kesko Corporations' 2009 financial statements.

## Operational risks

### BUSINESS INTERRUPTIONS AND INFORMATION SYSTEM FAILURES

The trading sector is characterised by increasingly complicated and long supply chains and an increasing dependency on information systems, telecommunications and external service providers. Disturbances in the supply chain can cause major losses in sales and returns. These problems may affect the customer in that there are no products available in the store or the store is closed. Kesko has prioritised the most critical information systems



with regard to business operations, and the continuity management projects underway are aimed at securing undisturbed critical operations and a sufficiently fast recovery after a serious disturbance. The plans are tested regularly to ensure their efficiency and updatedness and to maintain readiness for crisis situations.

#### **SUPPLIERS AND DISTRIBUTION CHANNELS**

In divisions that are strongly dependent on individual principals and suppliers, such as the car and machinery trade, changes in ownership, or in a principal's or supplier's strategy concerning the product selection, pricing and distribution channel solutions can mean a reduction in competitiveness or sales, or a loss of business. Good market shares, growing sales and development of operations create a basis for long-term cooperation.

Suppliers may have increasing difficulties in deliveries, as a result of the recession. There is also a growing risk of bankruptcies. The financial situation and delivery accuracy of the major suppliers are monitored and substitute suppliers are examined.

#### **STORE SITES**

Store sites are a significant competitive factor. Considerable amounts of capital or lease liabilities are tied up in store properties for years. As a result of the recession or changes in the competitive situation, there is a risk that store sites may become unprofitable and that operations will end while the long-term liabilities remain. The acquisition of good store sites can be slowed by scarcity of plots, zoning and permit procedures and trends in plot prices. Each operating country has its special characteristics arising from, for example, legislation and the authorities. Foreign real estate owners' readiness to make repair or extension investments has weakened in some cases as a result of the recession.

These risks are managed by long-term store network planning, careful preparation of each store site investment decision and the sale-leaseback system. In cases where Kesko manages the construction, the aim is to design a store site that can be modified for different uses as necessary. In the case of leased premises, the flexibility and continuity requirement is taken into account by extension options included in the leases.

#### **RESPONSIBILITY**

Different aspects of responsibility are increasingly important for customers, and possible responsibility failures would weaken Kesko's reputation. Kesko's challenges in responsibility work include communicating its responsibility policies to customers, retailers and suppliers, and ensuring the ethicality of production. In monitoring the social compliance of its suppliers, Kesko primarily concentrates on suppliers operating in the so-called 'high risk' countries. China is Kesko's most important non-EU import country, and our own local monitoring team has been established in Shanghai. Their duty is to guide, train and supervise the suppliers of Kesko's division parent companies, focusing on the terms of employment and working conditions, as well as on matters relating to compliance with environmental and chemical legislation.

#### **MALPRACTICE AND WASTAGE**

Recession entails a growing risk of financial malpractice. Preventive measures have included more effective communications,

training and guidelines as well as tightened controls. Information technology is increasingly used to trace incidental transactions, and prevent and reveal malpractices.

Retail stores incur significant financial losses arising from wastage. Wastage can result, for example, from spoilage or breakage of goods, theft or other malpractice, and unsuccessful purchasing. The Group continuously develops methods and tools for more efficient wastage management and reduction. Wastage prevention training is arranged for retailers, supervisors and sales staff in different contexts, and it is a key area in training new store personnel. Wastage teams have been established in stores to find out the reasons for the store's wastage and to establish efficient wastage management measures. Best practices are adopted for wider use.

#### **SAFETY OF PAYMENT AND ONLINE TRANSACTIONS**

The requirements of stakeholders and the law for safe information handling to prevent damages and malpractice have increased, especially with respect to credit card payment and personal information. Kesko is carrying out a project to introduce chip card payment terminals. Audits and up-to-date information security solutions are used to ensure the confidentiality of customer and personal information. Appropriate guidelines are central in ensuring the confidentiality of business secrets. Critical transactions, such as payments, are protected with job descriptions, acceptance limits, access rights and system controls.

#### **EMPLOYEE COMPETENCE AND WORKING CAPACITY**

The implementation of strategies and the achievement of goals require competent and motivated people. There is a risk that the trading sector will not attract the most competent people. The increased need for specialised expertise increases dependence on the competences of individuals and the risk of losing key people. In connection with strategy work, the competencies required for strategy implementation are identified, and personnel plans are drawn up. Personnel surveys play a central role in the development of HR management and the promotion of working capacity. Kesko's employer image is developed by systematic stakeholder cooperation and internal and external communications.

#### **PRODUCT SAFETY AND SUPPLY CHAIN QUALITY**

Kesko's objective is to provide safe products for its customers. A failure in the quality assurance of the supply chain, or in product control may result in financial losses, the loss of customer confidence or, in the worst case, a health hazard. In order to manage this risk, the Product Research Unit controls the quality of products sold by Kesko Food, Citymarket Oy and Anttila, and supervises companies manufacturing products for Kesko Food. The trading sector's self-control practices ensure that the regulations and rules concerning foodstuffs are observed. The practice of recalling products ensures that defective products are withdrawn from sale quickly.

#### **PANDEMICS**

A pandemic, or an epidemic of widely spread disease, would have extensive effects on business operations. At least temporarily, it could impact demand and the availability and quality of goods and services. Kesko's continuity management principles concerning the safeguarding of critical functions require that the

unavailability of a major part of the personnel or the key people because of an epidemic or some other reason must be prepared for. Up-to-date continuity plans and their testing maintain the abilities to control exceptional situations. Substitute arrangements are made to ensure that the resources for functions will be maintained. Ensuring efficient internal and external communications plays an important part in continuity planning.

#### LEGISLATION, AGREEMENTS AND ETHICAL PRINCIPLES

Compliance with legislation, agreements and Kesko's ethical principles is an important basic value in all of Kesko's operations. Non-compliance may result in fines, compensation for damages and other financial losses, and a loss of confidence or reputation. The Group has specific training programmes, especially in competition legislation, to avoid this. Self-assessments are made in matters concerning competition legislation.

Contractual risks are managed by harmonising agreements and the processes of entering into agreements, and by electronic archiving of contracts. An essential issue in the chain agreements between Kesko and the retailers is finding solutions for the high-quality delivery of customer promises and commitment to the chain business operation.

In international operations, problems also arise from different interpretations and procedures concerning, among other things, taxation and official regulations.

#### REPORTING TO THE MARKETS

The objective of Kesko's corporate communications is to produce and publish reliable information at the right time. If some information published by Kesko proved to be incorrect or a release failed to meet regulations, it might result in investors and other stakeholder groups losing confidence, and possible sanctions. The accuracy of financial information is challenged by tight schedules and dependence on information systems. This risk is managed through careful scheduling and ensuring the right resources and sufficient competencies.

#### Damage risks

Damages, accidents and crimes are prevented through uniform practices and cost-efficient safety precautions. The financial consequences of damage are covered with insurance, in accordance with the policy defined by the Kesko Board of Directors. The Kesko Group uses international insurance programmes to cover, among others, property, business interruption and liability risks. The Group's risk management function steers the implementation of insurance programmes in a centralised manner.

## NOTE 43

#### Related-party transactions

The Group's related parties include its key management personnel (the Board of Directors, the Managing Director and the Corporate Management Board), subsidiaries, associates and the Kesko Pension Fund. The subsidiaries and associates are listed in a separate note (note 45).

The following transactions were carried out with related parties:

#### Sales of goods and services

€ million	2009	2008
<b>Sales of goods</b>		
Board of Directors and management	37.2	24.3
Kesko Pension Fund	0.2	1.3
<b>Total</b>	<b>37.4</b>	<b>25.5</b>

#### Sales of services

Associates	0.9	1.0
Board of Directors and management	4.8	1.9
Kesko Pension Fund	1.5	1.3
<b>Total</b>	<b>7.1</b>	<b>4.2</b>

The related party transactions disclosed include those transactions with related parties that are not eliminated in the consolidated financial statements.

Among associates consolidated using the equity method, a property owned by Valluga-Sijoitus Oy has been leased for the Group's use. Vähittäiskaupan Takaos Oy and Vähittäiskaupan Tili-palvelu Oy sell their services to Kesko's and K-retailers' retail companies. The other associates mainly include business property companies which have leased their premises and real estate to the Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interest.

Some members of Kesko's Board of Directors act as K-retailers. The Group companies sell goods and services to enterprises controlled by them.

The Kesko Pension Fund is a separate legal entity which manages and holds in trust part of the pension assets of the Group's employees in Finland. Pension assets include Kesko Corporation shares in the amount of €104.3 million. Real estate and premises owned by the Pension Fund have been leased to the Kesko Group, which has subleased most of them to retailers. In 2009, the Kesko Group paid a total amount of €52.5 million (€62.7 million) in contributions to the Pension Fund.

Goods and services are sold to related parties on normal market terms and conditions and at market prices.

In March 2009, the Kesko Group sold four store properties to the Kesko Pension Fund. The debt-free selling price was about €50 million. The Group's €19.7 million gain on the disposal is included in the non-recurring items within the operating profit.

#### Purchases of goods and services

€ million	2009	2008
<b>Purchases of goods</b>		
Associates	0.0	0.0
Board of Directors and management	1.4	2.2
<b>Total</b>	<b>1.4</b>	<b>2.2</b>

#### Purchases of services

Associates	2.6	2.5
Board of Directors and management	0.1	0.1
Pension Fund	0.0	0.2
<b>Total</b>	<b>2.7</b>	<b>2.8</b>

In addition, the other operating expenses include rents paid by the Kesko Group to the Kesko Pension Fund in a total amount of €34.7 million (€22.4 million).

#### Financial expenses

€ million	2009	2008
Associates	0.5	1.6
Pension Fund	0.0	0.2
	0.5	1.8

#### Trade receivables

€ million	2009	2008
Associates	0.1	0.0
Board of Directors and management	2.1	1.7
Pension Fund	0.3	0.2
	2.5	1.9

Members of Kesko's Board of Directors act as K-retailers. At the balance sheet date, the receivables resulting from sales by Kesko to enterprises controlled by them totalled €2.1 million (€1.7 million). The receivables are covered by the commercial credit collateral granted by Vähittäiskaupan Takaus Oy, a Kesko associate. The maximum amount of the collateral is always limited to the realisable value of the counter-guarantee granted by the K-retailer's enterprise and the K-retailer entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the value of the counter-guarantee was €3.2 million (€3.5 million).

#### Other current liabilities

€ million	2009	2008
Associates	38.6	37.4
Board of Directors and management	0.8	0.6
Pension Fund	3.4	2.6
	42.8	40.6

The other current liabilities include, among other things, chain rebate liabilities payable to enterprises controlled by the three Kesko Board members acting as K-retailers. Chain rebates are paid in arrears on criteria related to the amount of actual annual sales and the quality of operations.

In addition, Kesko's non-current receivables from a real estate associate total €1.5 million.

#### Board of Directors' compensation

€ thousand	2009	2008
<b>Members of the Board of Directors</b>		
Heikki Takamäki, Chair	81.5	67.5
Seppo Paatelainen, Deputy Chair	53.0	38.5
Esa Kiiskinen (from 30 March 2009)	31.8	
Ilpo Kokkila	41.8	35.5
Mikko Kosonen (from 30 March 2009)	33.8	
Maarit Näkyvä	45.3	41.0
Rauno Törrönen (from 30 March 2009)	31.8	
Pentti Kalliala (until 30 March 2009)	8.5	37.5
Keijo Suila (until 30 March 2009)	12.0	50.0
Jukka Säilä (until 30 March 2009)	8.5	35.5

#### Salaries and fees of the President and CEO, and the Corporate Management Board members

€ thousand	2009	2008
Matti Halmesmäki, President and CEO	744.6	838.6
Corporate Management Board (the other members)	1,621.4	1,807.6

#### Other top management employee benefits

##### Share-based payments

At 31 December 2009, the President and CEO held 150,000 stock options, 50,000 of which were 2007C options granted in 2009. Presuming that shares were subscribed for with the President and CEO's options, the options would represent 0.15% of shares and 0.04% of all voting rights. At 31 December 2009, the other Corporate Management Board members held an aggregate number of 476,000 stock options. In 2009, the other Corporate Management Board members were granted a total of 150,000 2007C options. The options held by the Corporate Management Board have equal rules and vesting periods with the other options included in the management's option plans.

##### Retirement benefits

The retirement age of the President and CEO is 60 years and his full retirement benefit is 66% of his pensionable salary. The retirement ages of the other Corporate Management Board members mainly vary between 60 and 62, and the full retirement benefit is 66% of the pensionable salary. The retirement benefits of the CFO are determined on the basis of the Employees' Pensions Act (TyEL).

##### Termination benefits

The notice period of the President and CEO is 6 months. Severance compensation paid in addition to the salaries for the notice period corresponds to 12 months' salary. The notice period of the other Corporate Management Board members is 6 months and severance compensation paid in addition to the salaries for the notice period corresponds to 6–12 months' salary.

## NOTE 44

### Other notes

#### EVENTS AFTER THE BALANCE SHEET DATE

No significant events took place in the Group after the balance sheet date.

## NOTE 45

## Subsidiaries and associates at 31 December 2009

INTERESTS IN GROUP COMPANIES		Group's	Parent's			Group's	Parent's
Owned by the parent	Domicile	ownership interest %	ownership interest %	Owned by other Group companies	Domicile	ownership interest %	ownership interest %
Anttila Oy	Helsinki	100.00	100.00	Agro Trade Latvija SIA	Riga, Latvia	100.00	
Asunto Oy Kirkkonummen				Antti SIA	Riga, Latvia	100.00	
Västeruddintie 33	Kirkkonummi	100.00	100.00	Anttila AS	Viljandi, Estonia	100.00	
Indoor Group Ltd	Lahti	100.00	100.00	AP Real Estate SIA	Riga, Latvia	100.00	
Intersport Finland Ltd	Helsinki	100.00	100.00	Asko Möbler Ab	Huddinge, Sweden	100.00	
K-instituutti Oy	Helsinki	72.00	72.00	Auto-Span Oy	Helsinki	100.00	
K-Plus Oy	Helsinki	100.00	100.00	Bansemko OOO	Moscow, Russia	100.00	
Kenkäkesko Ltd	Helsinki	100.00	100.00	Barker-Littoinen Oy	Espoo	100.00	
Keslog Ltd	Helsinki	100.00	54.95	Bruland Bygg AS	Förde, Norway	66.26	
Kestra Kiinteistöpalvelut Oy	Helsinki	100.00	100.00	Byggmakker Distribution AS	Ski, Norway	99.92	
Kiinteistö Oy Kangasalan				Byggmakker Norge AS	Oslo, Norway	99.92	
Palvelukeskus	Kangasala	82.50	82.50	Cassa Oy	Helsinki	100.00	
Kiinteistö Oy Kemin Asemakatu 4	Kemi	66.50	66.50	Daugavkrasts M SIA	Riga, Latvia	100.00	
Kiinteistö Oy Lahden Lyhytkatu 1	Lahti	50.00	50.00	Fiesta Real Estate AS	Tallinn, Estonia	100.00	
Kiinteistö Oy Pontsonkulma	Helsinki	94.57	94.57	Hauhon Kiinteistö- ja			
Kiinteistö Oy Sunan Hallitalo	Espoo	100.00	100.00	Kauppakeskus Oy	Hauho	100.00	
Kiinteistö Oy Voisalmen Liiketalo	Lappeenranta	100.00	100.00	Hasti-Ari AS	Ski, Norway	100.00	
Kiinteistö Oy Välivainion				Ikosen OÜ	Tallinn, Estonia	100.00	
Ostokeskus	Oulu	65.97	65.97	Indoor Group AS	Tallinn, Estonia	100.00	
Klintcenter Ab	Maarianhamina	100.00	100.00	Indoor Group SIA	Riga, Latvia	100.00	
Konekesko Ltd	Helsinki	100.00	100.00	Indoor Group UAB	Vilnius, Lithuania	100.00	
K-Talouspalvelukeskus Oy	Helsinki	100.00	51.02	Insofa Oy	Lahti	100.00	
Musta Pörssi Ltd	Helsinki	100.00	100.00	Interstroy OOO	Russia	100.00	
Plussa OÜ	Tallinn, Estonia	100.00	100.00	Ka Jelgava SIA	Jelgava, Latvia	100.00	
Rautakesko Ltd	Helsinki	100.00	100.00	K-citymarket Oy	Helsinki	100.00	
Kesko Food Ltd	Helsinki	100.00	100.00	Keru Kiinteistöt Oy	Helsinki	100.00	
Sincera Oy	Helsinki	100.00	100.00	Kesko Real Estate Latvia SIA	Riga, Latvia	100.00	
VV-Auto Group Oy	Helsinki	100.00	100.00		St. Petersburg,		
				Kesko Real Estate OOO	Russia	100.00	
					St. Petersburg,		
				Kesko Real Estate Services OOO	Russia	100.00	
				Kespro LTD	Helsinki	100.00	
				Kestroy 1 ZAO	Moscow, Russia	100.00	
				Kiinteistö Oy Arolan Risteys	Elimäki	100.00	
				Kiinteistö Oy Hannunhelmi	Kirkkonummi	100.00	
				Kiinteistö Oy Liike-Jaako	Rovaniemi	67.88	
				Kiinteistö Mesta Oy	Helsinki	100.00	
				Kiinteistö Oy Piispansilta	Espoo	100.00	
				Kiinteistö Oy Pälkäneen			
				Liikekeskus	Kangasala	79.98	
				Kiinteistö Oy Saarijärven			
				Postitalo	Saarijärvi	100.00	
				Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00	
				Kiinteistö Oy Tampuri	Helsinki	100.00	
				Kiinteistö Oy Tarkkaiikka	Oulu	100.00	
				Kiinteistö Oy Vantaan			
				Kiitoradantie 2	Vantaa	100.00	



Owned by other Group companies	Domicile	Group's ownership interest %	Parent's ownership interest %
K-Maatalouskaupat Oy	Helsinki	100.00	
Knuto AS	Ski, Norway	100.00	
Konekesko Eesti AS	Tallinn, Estonia	100.00	
Konekesko Holding Oy	Helsinki	100.00	
Konekesko Latvija SIA	Riga, Latvia	100.00	
Konekesko Lietuva UAB	Vilnius, Lithuania	100.00	
	St. Petersburg,		
Konekesko OOO	Russia	100.00	
Konsoma JLLC	Minsk, Belarus	8.94	
K Prof SIA	Riga, Latvia	100.00	
K Rauta SIA	Riga, Latvia	100.00	
K-Rauta AB	Stockholm, Sweden	100.00	
KR Fastigheter AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Eskilstuna AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Järfälla AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Halmstad AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Umeå AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00	
KR Fastigheter Servicekontor AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Sundsvall AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Uppland AB	Sollentuna, Sweden	100.00	
K-Rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00	
Limingan Portti 1 Oy	Liminka	100.00	
Loimaan Maatalous- ja Rautakauppa Oy	Helsinki	100.00	
Match-Point OOO	Kaluga, Russia	100.00	
	St. Petersburg,		
Masterstroyprof ZAO	Russia	100.00	
Mezciems Real Estate SIA	Riga, Latvia	100.00	
Norgros Handel AS	Lilleström, Norway	99.92	
OMA OOO	Minsk, Belarus	8.94	
Polo LS SIA	Riga, Latvia	100.00	
Pikoil Oy	Espoo	100.00	
Rake Bergen AS	Oslo, Norway	100.00	
Rake Eiendom AS	Oslo, Norway	100.00	
Rautakesko AS	Tallinn, Estonia	100.00	
Rautakesko A/S	Riga, Latvia	100.00	
Romos Holdingas UAB	Kaunas, Lithuania	8.94	
Senukai UAB	Kaunas, Lithuania	49.60	
Senuku Prekybos Centras UAB	Vilnius, Lithuania	50.00	
Senuku Tirdzniecibas Centras SIA	Riga, Latvia	50.00	
SPC Holding UAB	Kaunas, Lithuania	50.00	
Stroymaster Holding Finland Oy	Helsinki	100.00	
	St. Petersburg,		
Stroymaster ZAO	Russia	100.00	
Sunretail ZAO	Moscow, Russia	100.00	

Owned by other Group companies	Domicile	Group's ownership interest %	Parent's ownership interest %
Tampereen Länsikeskus Oy	Tampere	94.43	
Teploschit OOO	Yaroslavi, Russia	100.00	
TP Real Estate SIA	Riga, Latvia	100.00	
Trögstadveien 13 AS	Ski, Norway	99.92	
Turun VV-Auto Oy	Turku	100.00	
Verdal Eiendom AS	Ski, Norway	99.92	
VV-Autotalot Oy	Helsinki	100.00	

**ASSOCIATES**

Owned by the parent	Domicile	Group's ownership interest %	Parent's ownership interest %
Graanin Liikekeskus Oy	Mikkeli	50.00	50.00
Itäkeskuksen Pysäköintitalo Oy	Helsinki	36.16	36.16
Kiinteistö Oy Janakkalan Linnatuuli	Janakkala	29.86	29.86
Kiinteistö Oy Itäaukio	Lahti	26.20	26.20
Kiinteistö Oy Joensuun Kaupunginportti	Joensuu	22.77	22.77
Kiinteistö Oy Mellunmäen Liike- ja Toimintakeskus	Helsinki	23.42	23.42
Kiinteistö Oy Ulvilan Hansa	Ulvila	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa	27.81	27.81
Raksilan Paikointus Oy	Oulu	33.33	33.33
Valluga-Sijoitus Oy	Helsinki	39.00	39.00
Vähittäiskaupan Takaos Oy	Helsinki	34.35	34.35
Vähittäiskaupan Tilipalvelu VTP Oy	Helsinki	30.00	30.00

**Owned by other  
Group companies**

Owned by other Group companies	Domicile	Group's ownership interest %	Parent's ownership interest %
Kiinteistö Oy Meri-Pietari	Helsinki	23.12	
Kiinteistö Oy Lahden			
Teollisuuskeskus	Lahti	48.32	
Toomaxx Handels GmbH	Germany	25.00	
Toomax Asia Ltd.	Hong Kong	25.00	

# Parent's financial statements 2009

## Parent's income statement (FAS)

€	1 Jan.–31 Dec. 2009	1 Jan.–31 Dec. 2008
<b>Net sales</b>	<b>19,555,415.66</b>	<b>18,193,914.32</b>
Other operating income	261,003,344.25	299,019,437.07
Materials and services	419.20	-454.51
Staff expenses	-10,348,598.91	-12,971,150.41
Depreciation and reduction in value	-31,569,693.98	-37,541,067.49
Other operating expenses	-122,545,157.91	-129,245,796.46
<b>Operating profit</b>	<b>116,095,728.31</b>	<b>137,454,882.52</b>
Financial income and expenses	11,208,558.82	37,555,785.57
<b>Profit before extraordinary items</b>	<b>127,304,287.13</b>	<b>175,010,668.09</b>
Extraordinary items	21,584,005.65	99,866,000.00
<b>Profit before appropriations and taxes</b>	<b>148,888,292.78</b>	<b>274,876,668.09</b>
Appropriations	39,559,034.61	26,513,831.22
<b>Profit before taxes</b>	<b>188,447,327.39</b>	<b>301,390,499.31</b>
Income taxes	-49,670,354.28	-64,679,900.23
<b>Profit for the financial year</b>	<b>138,776,973.11</b>	<b>236,710,599.08</b>

## Parent's balance sheet (FAS)

€	31 Dec. 2009	31 Dec. 2008	€	31 Dec. 2009	31 Dec. 2008
<b>ASSETS</b>			<b>LIABILITIES</b>		
<b>NON-CURRENT ASSETS</b>			<b>CAPITAL AND RESERVES</b>		
<b>INTANGIBLE ASSETS</b>			Share capital	196,643,058.00	195,649,708.00
Other capitalised long-term expenditure	6,173,722.48	6,455,877.43	Share issue	–	89,900.00
Advance payments and construction in progress	1,472,260.89	1,641,853.61	Share premium account	193,929,222.36	190,255,218.02
	7,645,983.37	8,097,731.04	Other reserves	243,415,795.55	243,415,795.55
<b>TANGIBLE ASSETS</b>			Retained earnings	669,668,254.41	531,108,065.33
Land and waters	97,192,920.76	111,379,744.40	Profit for the financial year	138,776,973.11	236,710,599.08
Buildings	233,179,097.13	309,366,678.87		1,442,433,303.43	1,397,229,285.98
Machinery and equipment	3,867,441.64	4,980,270.93	<b>APPROPRIATIONS</b>		
Other tangible assets	6,639,197.75	8,158,495.25	Depreciation reserve	91,612,421.32	131,171,455.93
Advance payments and construction in progress	4,639,483.95	7,094,125.24	<b>PROVISIONS</b>		
	345,518,141.23	440,979,314.69	Other provisions	7,833,178.72	8,266,027.48
<b>INVESTMENTS</b>			<b>CREDITORS</b>		
Holdings in Group companies	264,122,468.86	273,535,019.71	Non-current		
Participating interests	17,767,798.60	18,657,266.58	Private placement bonds	100,418,410.04	100,418,410.04
Other shares and similar rights of ownership	7,285,332.58	7,295,881.70	Loans from credit institutions	38,194,792.42	20,512,820.51
	289,175,600.04	299,488,167.99	Trade creditors	–	279.45
<b>CURRENT ASSETS</b>				138,613,202.46	120,931,510.00
<b>DEBTORS</b>			<b>Current</b>		
Long-term			Loans from credit institutions	7,049,203.44	–
Amounts owed by Group companies	410,731,848.84	399,439,059.07	Advances received	9,922.97	90,883.83
Amounts owed by participating interests	1,546,010.01	1,546,010.01	Trade creditors	2,333,672.26	3,068,581.11
Other long-term loan receivables	1,454,664.32	3,310,137.35	Amounts owed to Group companies	238,966,256.30	352,147,751.01
	413,732,523.17	404,295,206.43	Amounts owed to participating interests	38,387,884.71	37,212,846.36
Short-term			Other debt	13,102,883.11	69,526,049.14
Trade debtors	146,040.27	184,033.61	Accruals and deferred income	25,866,476.14	14,712,230.18
Amounts owed by Group companies	296,808,568.37	546,643,021.41		325,716,298.93	476,758,341.63
Amounts owed by participating interests	2,072,193.08	3,104,920.53	<b>TOTAL LIABILITIES</b>		
Other receivables	197,328.26	243,510.35		2,006,208,404.86	2,134,356,621.02
Prepayments and accrued income	3,454,499.07	25,382,155.33			
	302,678,629.05	575,557,641.23			
<b>INVESTMENTS</b>					
Other investments	635,648,380.60	383,152,895.82			
<b>CASH IN HAND AND AT BANKS</b>					
	11,809,147.40	22,785,663.82			
<b>TOTAL ASSETS</b>					
	2,006,208,404.86	2,134,356,621.02			

## Parent's cash flow statement (FAS)

€	1 Jan.–31 Dec. 2009	1 Jan.–31 Dec. 2008
<b>Cash flow from operating activities</b>		
Profit before extraordinary items	127,304,287.13	175,010,668.09
Adjustments:		
Depreciation according to plan	22,431,800.30	22,542,266.17
Financial income and expenses	-11,208,558.82	-37,555,785.57
Other adjustments	-86,901,943.53	-115,916,129.96
	51,625,585.08	44,081,018.73
Change in working capital		
Interest-free short-term trade receivables, increase/decrease (-/+)	5,013,184.12	4,314,998.23
Interest-free short-term debt, increase/decrease (+/-)	-7,364,940.23	3,239,414.65
	-2,351,756.11	7,554,412.88
Interests paid	-24,886,896.53	-39,864,151.14
Interests received	50,091,388.56	72,980,921.01
Dividends received	15,919.30	6,220,481.75
Taxes paid	-31,500,126.37	-62,090,706.16
	-6,279,715.04	-22,753,454.54
<b>Cash flow from operating activities</b>	<b>42,994,113.93</b>	<b>28,881,977.07</b>
<b>Cash flow from investing activities</b>		
Purchases of other investments	-	-50,000.00
Investments in tangible and intangible assets	-25,407,912.38	-28,940,941.87
Increase in long-term receivables	-	-61,937,039.62
Decrease in long-term receivables	14,727,559.87	-
Subsidiary disposed	30,401,356.84	149,729,156.38
Associated company disposed	140,000.00	1,388,000.00
Proceeds from other investments	-	223,047.00
Proceeds from sale of tangible and intangible assets	164,968,531.04	141,294,028.63
<b>Cash flow from investing activities</b>	<b>184,829,535.37</b>	<b>201,706,250.52</b>
<b>Cash flow from financing activities</b>		
Decrease in current creditors	-165,768,732.94	-106,807,060.53
Increase in non-current creditors	17,681,692.46	-
Decrease in non-current creditors	-	-4,618,842.74
Increase/decrease (-/+) in short-term interest-bearing receivables	248,003,649.29	45,784,249.44
Short-term money market investments	-98,162,726.19	-18,400,959.74
Dividends paid	-97,850,410.00	-156,428,592.00
Group contributions received and paid	21,584,005.65	99,866,000.00
Increase in share capital	4,577,454.34	379,018.16
Others	-14,532,339.74	10,549,067.77
<b>Cash flow from financing activities</b>	<b>-84,467,407.13</b>	<b>-129,677,119.64</b>
<b>Change in liquid assets</b>	<b>143,356,242.17</b>	<b>100,911,107.95</b>
<b>Liquid assets at 1 January</b>	<b>282,031,553.81</b>	<b>181,120,445.86</b>
<b>Liquid assets at 31 December</b>	<b>425,387,795.98</b>	<b>282,031,553.81</b>



# Notes to the parent's financial statements

## Principles used for preparing the parent's financial statements

Kesko Corporation's financial statements have been prepared in compliance with the Finnish Accounting Standards (FAS).

### NON-CURRENT ASSETS

#### Intangible assets

Intangible assets are stated in the balance sheet at cost less depreciation according to plan.

#### Depreciation plan

Other capitalised expenditure 5–14 years

#### Tangible assets

Tangible assets are stated in the balance sheet at cost less depreciation according to plan.

#### Depreciation plan

Depreciation according to plan is calculated on a straight line basis so as to write off the cost of tangible assets over their estimated useful lives.

The periods adopted for depreciation are as follows:

Buildings	15–33 years
Fixtures and fittings	8 years
Machinery and equipment	8 years
or machinery and equipment purchased since 1999	25% reducing balance method
Transportation fleet	5 years
Information technology equipment	3–5 years
Other tangible assets	5–14 years

Land has not been depreciated. The total of depreciation according to plan and the change in depreciation reserve comply with the Finnish tax legislation. The change in depreciation reserve has been treated as appropriations in the parent company.

### VALUATION OF FINANCIAL ASSETS

Marketable securities have been valued at lower of cost or net realisable value.

### FOREIGN CURRENCIES

Items denominated in foreign currencies have been translated into Finnish currency at the average exchange rate of the European Central Bank at the balance sheet date. If a receivable or a debt is tied to a fixed rate of exchange, it has been used for translation. Exchange rate differences have been recognised in profit or loss.

### DERIVATIVE FINANCIAL INSTRUMENTS

#### Interest rate derivative contracts

Interest rate derivatives are used to modify loan durations. The target duration is three years and it is allowed to vary between one and a half and four years. Cash flows arising from interest rate derivative contracts are recognised during the financial year as interest income or expenses, according to the maturity date. In the financial statements, open forward agreements, futures, options and swaps are stated at market values. Unrealised

revaluation is not stated as income. Any valuation losses are included in interest expenses.

#### Currency derivative contracts

Currency derivative instruments are used for hedging against translation and transaction risks. Forward exchange contracts are valued at the exchange rate of the balance sheet date. The rate differences arising from open derivative contracts are reported in financial items. If a derivative instrument has been used to hedge a foreign-currency-denominated asset, the value change has been recognised against that of the asset item. The premiums of option contracts are included in the balance sheet accruals until they expire, or if a value change at the balance sheet date so requires, recognition in profit or loss.

#### Commodity derivatives

Kestra Kiinteistöpalvelut Oy, a Kesko Corporation subsidiary, uses electricity derivatives to balance the energy costs of the Group and its retailers. Kesko's subsidiaries engaged in the agricultural trade use grain derivatives to hedge against the grain price risk. Kesko Corporation is an external counterparty in electricity and grain derivative contracts made with the bank, and internally hedges the corresponding price with the subsidiary. At no stage does Kesko Corporation have derivative positions, and thus there are no effects on profit or loss. The electricity price risk is reviewed on a 3-year time span. With respect to derivative contracts hedging the price of electricity supplied during the financial year, changes in value are recognised in Kesko under interest income and expenses. The unrealised gains and losses of contracts hedging future purchases are not recognised through profit or loss. With respect to grain derivative contracts, the open contracts in the income statement are recognised at market prices. Valuation differences related to open contracts are recognised in Kesko under financial items.

### PENSION PLANS

The pension insurances of Kesko Corporation's personnel are arranged through the Kesko Pension Fund. The Fund's A department, which provides supplementary pension benefits, was closed on 9 May 1998. The job-based retirement age agreed for some of the personnel is 60 or 62 years. Pensions are expensed in the income statement.

### PROVISIONS

Provisions stated in the balance sheet include items bound to by agreements or otherwise, but remain unrealised. Changes in provisions are included in the income statement. Rent liabilities for vacant rented premises no longer used for the Group business operations, as well as the losses resulting from renting the premises to outsiders, are included in provisions.

### INCOME TAX

Income tax includes the income tax payments for the period based on the profit for the period, and taxes payable for prior periods, or tax refunds. Deferred taxes are not included in the parent's income statement and balance sheet.

## Notes to the income statement

€ million	2009	2008
<b>1. Other operating income</b>		
Profits on sales of real estate and shares	95.7	128.1
Rent income	164.4	169.8
Merger profit	0.0	0.8
Others	0.9	0.3
Total	261.0	299.0
<b>2. Average number of personnel</b>		
Kesko Corporation	147	160
Total	147	160
<b>3. Personnel expenses</b>		
Salaries and fees	9.1	10.0
Social security expenses		
Pension expenses	0.5	2.1
Other social security expenses	0.7	0.9
Total	10.3	13.0
<b>Salaries and fees to the management</b>		
Managing Director and his deputy	0.8	0.8
Board of Directors' members	0.3	0.3
Total	1.1	1.1
An analysis of the management's salaries and fees is included in the notes to the consolidated financial statements.		
<b>4. Depreciation and reduction in value</b>		
Depreciation according to plan	22.5	22.5
Reduction in value, non-current assets	9.1	15.0
Total	31.6	37.5
<b>5. Other operating expenses</b>		
Rent expenses	90.0	87.6
Marketing expenses	1.0	2.2
Maintenance of real estate and store sites	11.7	15.6
Data communications expenses	12.2	12.2
Losses on sales of real estate and shares	0.7	1.0
Merger losses	0.0	2.7
Other operating expenses	7.0	8.6
Total	122.6	129.9
<b>PricewaterhouseCoopers, Authorised Public Accountants</b>		
Auditor's fees	0.1	0.1
Tax consultation	0.0	0.1
Other fees	0.1	0.1
Total	0.2	0.3

€ million	2009	2008
<b>6. Financial income and expenses</b>		
Dividend income		
From Group companies	0.0	6.2
Dividend income, total	0.0	6.2
Other interest and financial income		
From Group companies	37.0	50.7
From others	12.8	67.2
Interest income, total	49.8	117.9
Interest and other financial expenses		
To Group companies	-5.5	-27.8
To others	-33.1	-58.8
Interest expenses, total	-38.6	-86.6
Total	11.2	37.6
<b>7. Items included in extraordinary income and expenses</b>		
Contributions from Group companies	49.7	153.7
Contributions to Group companies	-28.1	-53.9
Total	21.6	99.8
<b>8. Appropriations</b>		
Difference between depreciation according to plan and depreciation in taxation	39.6	26.5
Total	39.6	26.5
<b>9. Changes in provisions</b>		
Future rent expenses for vacant business premises	0.5	-2.0
Other changes	-1.0	3.1
Total	-0.5	1.1
<b>10. Income taxes</b>		
Income taxes on extraordinary items	-5.6	-26.0
Income taxes on operating activities	-44.1	-38.6
Total	-49.7	-64.7

## DEFERRED TAXES

Deferred tax liabilities and assets have not been included in the balance sheet. The amounts are not significant.

## Notes to the balance sheet

€ million	2009	2008
<b>11. Intangible assets</b>		
<b>Other capitalised long-term expenditure</b>		
Acquisition cost at 1 January	39.1	38.3
Increases	1.5	0.7
Decreases	-1.1	-0.9
Transfers between items	0.7	1.0
Acquisition cost at 31 December	40.2	39.1

€ million	2009	2008	€ million	2009	2008
Accumulated depreciation at 1 January	32.6	30.6	Accumulated depreciation at 1 January	7.0	6.5
Accumulated depreciation on decreases and transfers	-0.4	-0.4	Accumulated depreciation on decreases and transfers	-1.3	-0.7
Depreciation for the financial year	1.8	2.4	Depreciation for the financial year	1.4	1.2
Accumulated depreciation at 31 December	34.0	32.6	Accumulated depreciation at 31 December	7.1	7.0
Book value at 31 December	6.2	6.5	Book value at 31 December	6.6	8.2
<b>Advance payments</b>			<b>Advance payments and construction in progress</b>		
Acquisition cost at 1 January	1.7	2.5	Acquisition cost at 1 January	7.1	5.4
Increases	0.8	0.6	Increases	9.2	6.3
Decreases	-0.6	-0.4	Transfers between items	-11.7	-4.6
Transfers between items	-0.4	-1.0	Acquisition cost at 31 December	4.6	7.1
Acquisition cost at 31 December	1.5	1.7	Book value at 31 December	4.6	7.1
Book value at 31 December	1.5	1.7			
<b>12. Tangible assets</b>			<b>Revaluation of non-current assets</b>		
<b>Land and waters</b>			At the end of the financial year, Kesko Corporation's balance sheet did not contain revaluations.		
Acquisition cost at 1 January	111.4	112.2	<b>13. Investments</b>		
Increases	1.8	8.3	<b>Holdings in Group companies</b>		
Decreases	-16.0	-9.1	Acquisition cost at 1 January	273.6	404.0
Acquisition cost at 31 December	97.2	111.4	Increases	28.5	3.2
Book value at 31 December	97.2	111.4	Decreases	-38.0	-133.6
<b>Buildings</b>			Acquisition cost at 31 December	264.1	273.6
Acquisition cost at 1 January	514.9	513.2	Accumulated depreciation at 1 January	0.0	1.7
Increases	9.6	24.2	Value adjustments	0.0	-1.7
Decreases	-99.6	-26.9	Accumulated depreciation at 31 December	0.0	0.0
Transfers between items	3.1	4.4	Book value at 31 December	264.1	273.6
Acquisition cost at 31 December	428.0	514.9	<b>Participating interests</b>		
Accumulated depreciation at 1 January	205.5	181.8	Acquisition cost at 1 January	18.7	19.8
Accumulated depreciation on decreases and transfers	-35.4	-8.6	Increases	0.0	0.1
Value adjustment	9.1	15.0	Decreases	-0.9	-1.2
Depreciation for the financial year	15.6	17.3	Acquisition cost at 31 December	17.8	18.7
Accumulated depreciation at 31 December	194.8	205.5	Book value at 31 December	17.8	18.7
Book value at 31 December	233.2	309.4	<b>Other shares and similar rights of ownership</b>		
<b>Machinery and equipment</b>			Acquisition cost at 1 January	7.3	7.3
Acquisition cost at 1 January	24.7	25.5	Acquisition cost at 31 December	7.3	7.3
Increases	0.8	1.0	Book value at 31 December	7.3	7.3
Decreases	-3.6	-1.9			
Transfers between items	0.2	0.1	Kesko Corporation's ownership interests in other companies as at 31 December 2009 are presented in the notes to the consolidated financial statements.		
Acquisition cost at 31 December	22.1	24.7	During the financial year, Kesko Corporation sold some of its real estate companies.		
Accumulated depreciation at 1 January	19.7	19.6	During the 2008 financial year, Kesko Corporation sold its wholly-owned subsidiaries Kauko-Telko Ltd, Tähti Optikko Group Oy and K-Rahoitus Oy. In addition, the company founded a new subsidiary, K-talousspalvelukeskus Oy. Among subsidiaries directly owned by Kesko Corporation, other changes took place in real estate companies only.		
Accumulated depreciation on decreases and transfers	-2.8	-1.3			
Depreciation for the financial year	1.3	1.5			
Accumulated depreciation at 31 December	18.2	19.7			
Book value at 31 December	3.9	5.0			
<b>Other tangible assets</b>					
Acquisition cost at 1 January	15.2	13.7			
Increases	1.1	2.8			
Decreases	-2.6	-1.4			
Transfers between items	0.0	0.1			
Acquisition cost at 31 December	13.7	15.2			

€ million 2009 2008

#### 14. Debtors

##### Amounts owed by Group companies

Long-term		
Loan receivables	360.7	389.4
Subordinated loans	50.0	10.0
Long-term receivables, total	410.7	399.4

##### Short-term

Trade debtors	1.1	1.0
Loan receivables	294.2	541.2
Prepayments and accrued income	1.5	4.4
Short-term receivables, total	296.8	546.6
Total	707.5	946.0

##### Amounts owed by participating interests

Long-term		
Loan receivables	1.5	1.5

##### Short-term

Loan receivables	2.1	3.1
Short-term receivables, total	2.1	3.1
Total	3.6	4.6

##### Prepayments and accrued income

Taxes	0.0	7.3
Others	3.5	18.1
Total	3.5	25.4

Kesko Corporation has issued capital loans of €30 million, €10 million and €10 million respectively to its subsidiaries Konekesko Ltd, Indoor Group Ltd and Kiinteistö Mesta Oy.

The loan issued to Konekesko Ltd will mature on 31.12.2024. The capital will be repaid in fifteen equally large instalments of €2 million payable each year on 31.12., provided that the provisions of chapter 12, section 1, paragraph 1 of the Limited Liability Companies Act are fulfilled. Interest will be payable only if the amount of the company's unrestricted equity plus all capital loans at the time of repayment exceeds the amount of loss shown in the balance sheet of the financial statements to be adopted for the company's last concluded financial year or of any more recent financial statements. The annual interest payable on the loan will comprise the reference rate and a margin to be added to it. The reference rate will be the 3-month Euribor and the margin will be 0.5% p.a. The interest will be paid in arrears on 31.12. Any unpaid interest will be treated as the borrower's debt and a sum of interest will be payable annually on it, whose rate will be the same as for the interest to be paid on the capital of the loan.

The loan issued to Indoor Group Ltd will mature on 31.3.2014. The capital will be repaid in five equally large instalments with the first one due on 31.3.2010. The capital will be repaid only if the provisions of chapter 12, section 1, paragraph 1 of the Limited Liability Companies Act are fulfilled. Interest will be payable only if the amount of the company's unrestricted equity plus all capital loans at the time of repayment exceeds the amount of loss shown in the balance sheet of the financial statements to be adopted for the company's last concluded financial year or of any more recent financial statements. If the repayment criteria are met, 10% interest will be paid on the loan.

The loan issued to Kiinteistö Mesta Oy will be repaid only if, after repayment of the loan, the restricted equity shown in the balance sheet to be adopted for the borrower's last concluded financial year and all other non-distributable items are fully funded.

€ million 2009 2008

#### 15. Capital and reserves

Share capital at 1 January	195.6	195.5
Subscriptions with options	1.0	0.1
Share capital at 31 December	196.6	195.6

Share issue, exercise of options at 1 January	0.1	-
Increase	4.6	0.4
Transfer to share capital	-1.0	-0.1
Transfer to share premium account	-3.6	-0.2
Share issue, exercise of options at 31 December	0.0	0.1

Share premium account at 1 January	190.3	190.1
Subscriptions with options	3.6	0.2
Share premium account at 31 December	193.9	190.3

Other reserves at 1 January	243.4	243.4
Other reserves at 31 December	243.4	243.4

Retained earnings at 1 January	767.8	687.8
Distribution of dividends	-97.8	-156.4
Transfer to donations	-0.3	-0.3
Retained earnings at 31 December	669.7	531.1

Profit for the financial year	138.8	236.7
Capital and reserves, total	1,442.4	1,397.2



### INCREASE IN SHARE CAPITAL

During the reporting period, the share capital was increased four times corresponding to share subscriptions with the stock options of the 2003 option scheme. The increases were made on 11 February 2009 (€52,392), 5 May 2009 (€51,250), 5 June 2009 (€673,146) and 17 December 2009 (€216,562), and announced in stock exchange notifications on the same days. The subscribed shares were included on the main list of the Helsinki stock exchange for public trading with the old B shares on 12 February 2009, 6 May 2009, 8 June 2009 and 18 December 2009.

#### Distributable reserves

Other reserves	243.4	243.4
Retained earnings	669.7	531.1
Profit for the financial year	138.8	236.7
Total	1,051.9	1,011.2

#### Breakdown of the parent company's share capital

	pcs	counter value, €	€ million
A shares	31,737,007	2	63.5
B shares	66,584,522	2	133.2
Total	98,321,529		196.6

Voting rights carried by shares	number of votes
A share	10
B share	1

### 2003 AND 2007 STOCK OPTION PLANS

On 31 March 2003, the Annual General Meeting resolved to gratuitously issue a total of 1,800,000 share options to the management of the Kesko Group as well as to a wholly-owned subsidiary of Kesko Corporation. A deviation was made from the shareholders' pre-emptive right to subscription since the options form a part of the incentive and commitment programme for the management. Each option entitles the holder to subscribe for one new Kesko Corporation B share. The options are marked with symbols 2003D (KESBVEW103), 2003E (KESBVEW203) and 2003F (KESBVEW303) in units of 600,000 options each.

The Annual General Meeting of 26 March 2007 decided to grant a total of 3,000,000 stock options for no consideration to the Kesko Group management and the management of the other Group companies, to the rest of the key Kesko personnel, and to Sincera Oy, a subsidiary wholly owned by Kesko Corporation. A deviation was made from the shareholders' pre-emptive right to subscription since the options form a part of the incentive and commitment programme for the management. Each stock option entitles its holder to subscribe for one new Kesko Corporation B share. The stock options shall be marked with symbols 2007A, 2007B and 2007C in units of 1,000,000 options each.

### PERCENTAGE OF ISSUED STOCK OPTIONS OUT OF ALL SHARES AND VOTES

If shares were subscribed for with all exercisable options, the shares subscribed for with all the 2003 and 2007 plan options would account for 4.67% of shares and 1.23% of all votes. The

subscriptions made with stock options could raise the number of the company's shares to 101,688,793. As a result of the subscriptions, the voting rights carried by all shares could increase to 387,321,856 votes.

The company has not granted other options or special rights entitling to shares.

### AUTHORISATIONS OF THE BOARD OF DIRECTORS

Kesko's Annual General Meeting of 30 March 2009 authorised the Board to decide about the issuance of new B shares.

B shares can be issued against payment to the company's existing shareholders in proportion to their existing shareholdings regardless of whether they consist of A or B shares, or, deviating from shareholders' pre-emptive rights in order for the issued shares to be used as consideration in possible company acquisitions, other company business arrangements, or to finance investments. The maximum number of new shares issued is 20,000,000.

The Board of Directors was also authorised to decide about the subscription price of the shares, to issue shares against non-cash consideration, and to make decisions concerning any other matters relating to share issues.

The authorisation is valid until 30 March 2012.

The Board of Directors has no other authorisation concerning an issue of rights, convertible bonds or options valid at the moment.

€ million	2009	2008
-----------	------	------

#### 16. Appropriations

Depreciation reserve	91.6	131.2
Total	91.6	131.2

#### 17. Provisions

Future rent expenses for vacant business premises	5.7	5.2
Other provisions	2.1	3.1
Total	7.8	8.3

#### 18. Non-current creditors

Debt falling due later than within five years		
Private placement bonds	100.4	100.4
Loans from credit institutions	38.2	20.5
Total	138.6	120.9

On 10 June 2004, Kesko Corporation issued a private placement of USD 120 million in the US. The arrangement consists of three bullet loans: a 10-year loan (USD 60 million), a 12-year loan (USD 36 million) and a 15-year loan (USD 24 million). Kesko has hedged the loan by using currency and interest rate swaps, as a result of which the loan capital totals €100.4 million and the fixed capital-weighted average interest rate is 5.4%.

€ million	2009	2008
<b>19. Current creditors</b>		
<b>Debt to Group companies</b>		
Trade creditors	0.1	0.6
Other creditors	237.1	349.8
Accruals and deferred income	1.8	1.7
Total	239.0	352.1

<b>Amounts owed to participating interests</b>		
Other creditors	38.4	37.2
Total	38.4	37.2

<b>Accruals and deferred income</b>		
Staff expenses	2.5	2.6
Taxes	12.1	0.0
Others	11.3	12.1
Total	25.9	14.7

<b>20. Interest-free debt</b>		
Current creditors	32.0	21.3
Total	32.0	21.3

## Other notes

€ million	2009	2008
<b>21. Guarantees and contingent liabilities</b>		
<b>Real estate mortgages</b>		
For own debt	7	6
For Group companies	10	10
<b>Pledged shares</b>	39	14
<b>Guarantees</b>		
For own debt	3	1
For Group companies	36	58
For others	0	1
<b>Other contingent liabilities</b>		
For own debt	15	10
<b>Rent liabilities on machinery and fixtures</b>		
Falling due within a year	0	1
Falling due later	0	0
<b>Rent liabilities on real estate</b>		
Falling due within a year	81	82
Falling due later	463	422

€ million	2009	Fair value	2008	Fair value
<b>Liabilities arising from derivative instruments</b>				
Value of underlying instruments at 31 Dec.				
Interest rate derivatives				
Forward and future contracts	12	-0.1	-	
Interest rate swaps	201	0.7	201	9.9
Currency derivatives				
Forward and future contracts				
Outside the Group	437	-6.6	333	6.6
Inside the Group	9	0.1	20	1
Option agreements				
Bought	-	-	-	-
Written	5	0	5	-0.1
Currency swaps	100	-17.2	100	-14.2
Commodity derivatives				
Electricity derivatives				
Outside the Group	40	-5.0	46	-10.8
Inside the Group	40	5.0	46	10.8
Grain derivatives	0	0.0	1	0.0

# Signatures

## Signatures

Helsinki, 4 February 2010

Heikki Takamäki      Seppo Paatelainen

Esa Kiiskinen      Ilpo Kokkila      Mikko Kosonen

Maarit Näkyvä      Rauno Törrönen      Matti Halmesmäki  
Managing Director

## The Auditor's Note

Our auditors' report has been issued today.

Helsinki, 9 February 2010

PricewaterhouseCoopers Oy  
Authorised Public Accountants

Johan Kronberg  
APA

# Auditor's Report (Translation from the Finnish Original)

## To the Annual General Meeting of Kesko Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Kesko Corporation for the year ended on 31 December, 2009. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the consolidated financial statements, as well as the parent company's statement of financial position, income statement, statement of cash flows and notes to the financial statements.

## Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

## Auditor's Responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated

financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors of the parent company and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and of the report of the Board of Directors, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements and the report of the Board of Directors in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

## Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

### Other Opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of distribut-

able funds shown in the statement of financial position is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director should be discharged from liability for the financial period audited by us.

Helsinki, 9 February 2010  
PricewaterhouseCoopers Oy  
Authorised Public Accountants

Johan Kronberg  
Authorised Public Accountant

# Shares and shareholders

## Dividend policy

On 4 February 2009, Kesko's Board of Directors decided to revise Kesko's dividend policy published on 6 April 2005. In addition to the financial position and the operating strategy, the new policy takes account of the nature of non-recurring items. According to Kesko Corporation's revised dividend policy, Kesko Corporation distributes at least 50% of its earnings per share excluding non-recurring items as dividends, taking however the company's financial position and operating strategy into account (stock exchange release 5 February 2009).

The financial objectives are presented on page 10.

## Proposed dividends for the year 2009

Kesko Corporation's Board of Directors proposes to the Annual General Meeting that €88,547,166.90 or €0.90 per share, be distributed as dividends from the net profit for the year 2009, representing 70.5% of earnings per share and 126.8% of earnings per share excluding non-recurring items. During the past five years 83.4% of earnings per share excluding non-recurring items, on the average, has been distributed as dividends.

## Basic information on the shares at 31 December 2009

### A share

- shortname: KESAV (OMX)
- ISIN code: FI0009007900
- voting rights per share: 10 votes
- number of shares: 31,737,007
- market capitalisation: €749 million

### B share

- shortname: KESBV (OMX)
- ISIN code: FI0009000202
- voting rights per share: 1 vote
- number of shares: 66,584,522
- market capitalisation: €1,537 million

Trading unit of both share series: 1 share

Total share capital: €196,643,058

Total number of shares: 98,321,529

Voting rights carried by all shares: 383,954,592

Market capitalisation: €2,286 million

## Share series and share capital

Kesko Corporation's share capital is divided into A share series and B share series. The company's share capital was €196,643,058.

The minimum number of A shares is one (1) and the maximum number two hundred and fifty million (250,000,000) and 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 98,321,529, of which 31,737,007 (32.3%) are A shares and 66,584,522 (67.7%) are B shares.

Each A share entitles the holder to 10 votes and each B share to 1 vote. Both shares give the same dividend rights. The number of votes entitled by A shares is 83% and the number of votes entitled by B shares 17% of the total voting rights.

The shares are included in the book-entry securities system held by Euroclear Finland Ltd.

The right to receive distributions from the company and the right to subscribe for 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, and
- 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 the Board of Directors and treasury shares

Kesko's Annual General Meeting held on 30 March 2009 authorised the company's Board of Directors to decide about the issuance of new B shares. The new shares can be issued against payment either in a directed issue to the company's existing shareholders in proportion to their existing shareholdings regardless of whether they consist of A or B shares; or in a directed issue deviating from the shareholders' pre-emptive rights in order for the issued shares to be used as consideration in possible company acquisitions, other company business arrangements, or to finance investments. The company must have a weighty financial reason for deviating from the shareholders' pre-emptive rights. The authorisation is for the issuance of up to 20,000,000 new shares. The subscription price is recognised in the reserve of invested non-restricted equity.

The Board of Directors was also given the authority to decide about the subscription price of the shares, to issue shares against non-cash consideration, and to make decisions concerning any other matters relating to share issues. The share issue authorisation will be valid until 30 March 2012. The authorisation has not been used.

In addition, the company operates the 2003 and 2007 option plans. The exercise periods of the 2003 plan options have expired except for the 2003F options, whose exercise period will expire on 30 April 2010.

The Board of Directors has no other valid authorisations to issue shares, to increase share capital, or to acquire or assign the company's shares.

Kesko Corporation or its subsidiaries held no Kesko Corporation shares.

## Shareholders

According to the register of Kesko's shareholders kept by the Euroclear Finland Ltd, there were 38,888 shareholders at the end of 2009 (38,080 at the end of 2008). The total number of shares registered in a nominee name was 19,352,409, accounting for 19.68% of the shares (18,909,587 and 19.33% respectively at the end of 2008). The number of votes entitled by these shares was 19,875,903 or 5.18% of the total voting rights (19,535,132 or 5.09% respectively at the end of 2008). A list of Kesko's largest shareholders, updated monthly, is available at [www.kesko.fi/investors](http://www.kesko.fi/investors).

## The 2003 stock option scheme

On 31 March 2003, the Annual General Meeting resolved to gratuitously issue a total of 1,800,000 stock options to the management of the Kesko Group as well as to a wholly-owned subsidiary of Kesko Corporation. A deviation was made from the shareholders' pre-emptive right to subscription since the stock options form a part of the incentive and commitment programme for the management. The scheme comprises approximately 60 persons.

Each stock option entitles its owner to subscribe for one Kesko Corporation B share. The stock options have been marked with shortnames 2003D (KESBVEW103, ISIN code FI0009609317), 2003E (KESBVEW203, ISIN code FI0009609325), and 2003F (KESBVEW303, ISIN code FI0009609333), in units of 600,000 stock options each.

The share subscription periods are:

- for stock option 2003D 1 April 2005 – 30 April 2008,
- for stock option 2003E 1 April 2006 – 30 April 2009, and
- for stock option 2003F 1 April 2007 – 30 April 2010.

The original share subscription price for stock option 2003D was the trade volume weighted average price of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 to 30 April 2003 (€9.63), for stock option 2003E, the corresponding price between 1 to 30 April 2004 (€15.19) and for stock option 2003F, the corresponding price between 1 to 30 April 2005 (€19.08). From the prices of shares subscribed for with stock options shall be deducted the amount of the dividend per share distributed after the above period for the determination of the subscription price has ended but before the date of subscription for shares.

At the end of 2009, the subscription price of a B share subscribed for with stock option 2003F was €13.88. The subscription period for stock option 2003D ended on 30 April 2008, and for 2003E on 30 April 2009. Dividend rights and other shareholder rights of the share subscribed for with options take effect when the share capital increase has been entered in the Trade Register.

## The 2007 stock option scheme

The Annual General Meeting of 26 March 2007 decided to grant a total of 3,000,000 stock options for no consideration to the Kesko Group management and other key Kesko personnel, and to a subsidiary wholly owned by Kesko Corporation. The company had a weighty financial reason for granting stock options because they are intended to be part of Kesko's share-based incentive system.

Each stock option entitles its holder to subscribe for one new Kesko Corporation B share. The stock options shall be marked with symbols 2007A, 2007B and 2007C in units of 1,000,000 options each.

The exercise periods of the options shall be:

- for stock option 2007A, from 1 April 2010 until 30 April 2012,
- for stock option 2007B, from 1 April 2011 until 30 April 2013 and
- for stock option 2007C, from 1 April 2012 until 30 April 2014.

The original subscription price for stock option 2007A was the trade volume weighted average quotation of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April and 30 April 2007 (€45.82), for stock option 2007B between 1 April and 30 April 2008 (€26.57), and for stock option 2007C between 1 April and 30 April 2009 (€16.84). The subscription prices of shares subscribed for with stock options shall be reduced by the amount decided after the beginning of the period for the determination of the subscription price but before the subscription as

at the record date for each dividend distribution or other distribution of funds.

If shares were subscribed for with all exercisable options, the shares subscribed for with all the 2003 and 2007 plan options would account for 4.67% of shares and 1.23% of all votes. The subscriptions made with stock options could raise the number of the company's shares to 101,688,793. As a result of the subscriptions, the voting rights carried by all shares could increase to 387,321,856 votes.

### Share subscriptions made with stock options

In 2009, the share capital was increased four times corresponding to share subscriptions with the stock options of the 2003 option scheme. The increases were made on 11 February 2009 (€52,392), 5 May 2009 (€51,250), 5 June 2009 (€673,146) and 17 December 2009 (€216,562). In 2009, the share capital was increased by a total of €993,350 (496,675 shares).

By the end of 2009, 574,088 B shares had been subscribed for with the 2003D options (subscription period has ended), 576,000 with the 2003E options (subscription period has ended), and 232,736 with the 2003F options, or 1,382,824 B shares in aggregate. The subscribed shares have been included in the main list of the NASDAQ OMX Helsinki stock exchange for public trading.

### Other special shareholding rights

The company has not issued other stock options, convertible bonds, bonds with warrants or other special rights to company shares.

### Shares and options held by the management

At the end of 2009, the members of Kesko Corporation's Board of Directors, the President and CEO and the corporations under their control held 224,720 Kesko Corporation A shares (202,910 at the end of 2008) and 100,820 Kesko Corporation B shares (210,370), i.e. a total of 325,540 shares (413,280), which represented

0.33% (0.42%) of the company's total share capital and 0.61% (0.58%) of its voting rights.

At the end of 2009, the company's President and CEO held a total of 150,000 Kesko Corporation options (100,000 at the end of 2008), which represented 0.15% (0.10%) of the company's total share capital and 0.04% (0.03%) of voting rights, presuming that shares have been subscribed for with all of these options. No Board members held stock options at the end of 2009 (nor at the end of 2008).

Detailed information on shares and options held by the management at the beginning and at the end of 2009 is given on pages 66–69.

### Trading in Kesko's shares and stock options in 2009

Kesko Corporation's shares are listed on the NASDAQ OMX Helsinki Ltd Helsinki stock exchange. Key information about share trading in 2009 is given in the tables and graphs on this double page spread. The price trends of both shares followed the general share price trend. The prices of liquid B shares rose by 30 percent and those of less liquid A shares by 7 percent, while the NASDAQ OMX Helsinki All Share Index was up 19 percent. The trading in B shares dropped by over one third, and the value traded almost halved. The number of A shares traded also decreased by about 30% compared with the previous year, and the value traded represented only about one half of last year's level. At the end of the year, the market capitalisation of A shares was €749 million and that of B shares €1,537 million. The total market capitalisation of the company was €2,286 million, an increase of €411 million, or 22% during the year.

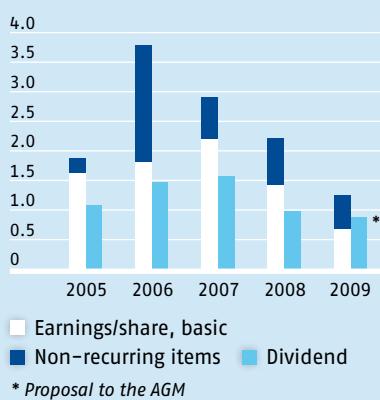
### Flagging notifications

Kesko Corporation did not receive any flagging notification during 2009.

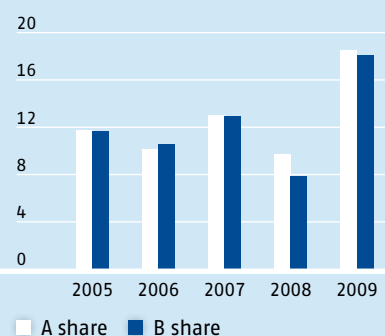
The company has not been informed of any agreements relating to its share ownership or the exercise of its voting rights.

## Share performance indicators

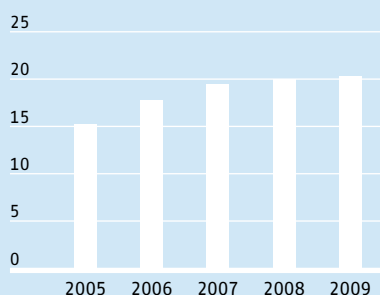
### Earnings per share and dividend per share, €



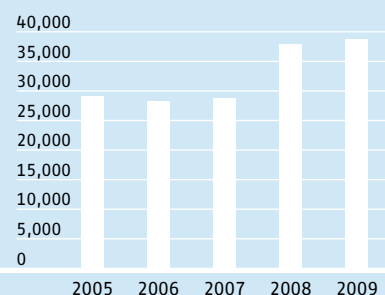
### Share price per earnings, P/E ratio, at 31 Dec., adjusted



### Equity per share, €, at 31 Dec., adjusted



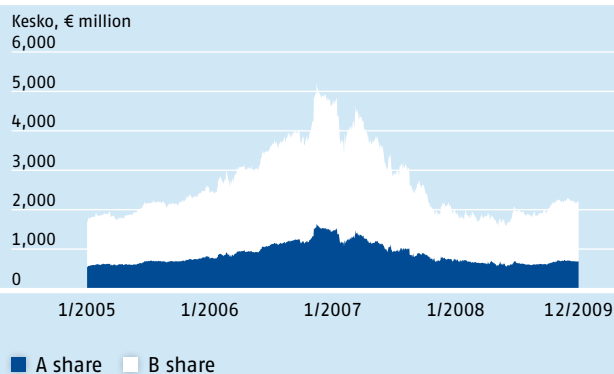
### Number of shareholders, at 31 Dec.



### Trading volume of Kesko B share



### Market capitalisation of Kesko shares



## The latest changes is share capital

Year	Subscription period	Subscription ratio and price per option type	Change	New share capital, €
2005	15.2.2005	1:1 à 8.87 € B stock option	€ 2,656,500	€ 190,337,584
		1:1 à 7.11 € C stock option		
2005	4.5.2005	1:1 à 7.87 € B stock option	€ 912,390	€ 191,249,974
		1:1 à 6.11 € C stock option		
		1:1 à 5.63 € D stock option	€ 536,600	€ 191,786,574
2005	8.6.2005	1:1 à 7.87 € B stock option		
		1:1 à 6.11 € C stock option		
		1:1 à 5.63 € D stock option	€ 172,676	€ 191,959,250
2005	3.8.2005	1:1 à 7.87 € B stock option		
		1:1 à 6.11 € C stock option		
		1:1 à 5.63 € D stock option	€ 588,700	€ 192,547,950
2005	28.9.2005	1:1 à 7.87 € B stock option		
		1:1 à 6.11 € C stock option		
		1:1 à 5.63 € D stock option	€ 97,960	€ 192,645,910
2005	2.11.2005	1:1 à 7.87 € B stock option		
		1:1 à 6.11 € C stock option		
		1:1 à 5.63 € D stock option	€ 321,942	€ 192,967,852
2005	20.12.2005	1:1 à 7.87 € B stock option		
		1:1 à 6.11 € C stock option		
		1:1 à 5.63 € D stock option	€ 640,500	€ 193,608,352
2006	13.2.2006	1:1 à 7.87 € B stock option		
		1:1 à 6.11 € C stock option		
		1:1 à 5.63 € D stock option	€ 938,058	€ 194,546,410
2006	4.5.2006	1:1 à 7.87 € B stock option		
		1:1 à 6.77 € B stock option		
		1:1 à 6.11 € C stock option	€ 59,200	€ 194,605,610
		1:1 à 5.01 € C stock option		
		1:1 à 4.53 € D stock option		
2006	9.6.2006	1:1 à 4.53 € D stock option	€ 118,000	€ 194,723,610
		1:1 à 12.09 € E stock option		
		1:1 à 12.09 € E stock option		
2006	7.8.2006	1:1 à 4.53 € D stock option	€ 94,800	€ 194,818,410
		1:1 à 12.09 € E stock option		
		1:1 à 12.09 € E stock option		
2006	3.10.2006	1:1 à 4.53 € D stock option	€ 157,200 €	€ 194,975,610
		1:1 à 12.09 € E stock option		
		1:1 à 12.09 € E stock option		
2006	1.11.2006	1:1 à 4.53 € D stock option	€ 64,240	€ 195,039,850
		1:1 à 12.09 € E stock option		
		1:1 à 12.09 € E stock option		
2006	21.12.2006	1:1 à 4.53 € D stock option	€ 46,376	€ 195,086,226
		1:1 à 12.09 € E stock option		
		1:1 à 12.09 € E stock option		
2007	12.2.2007	1:1 à 4.53 € D stock option	€ 86,800	€ 195,173,026
		1:1 à 12.09 € E stock option		
		1:1 à 12.09 € E stock option		
2007	26.4.2007	1:1 à 3.03 € D stock option	€ 298,572	€ 195,471,598
		1:1 à 10.59 € E stock option		
		1:1 à 10.59 € E stock option		
2007	29.5.2007	1:1 à 3.03 € D stock option	€ 9,000	€ 195,480,598
		1:1 à 10.59 € E stock option		
		1:1 à 16.48 € F stock option		
2007	24.7.2007	1:1 à 3.03 € D stock option	€ 39,032	€ 195,519,630
		1:1 à 10.59 € E stock option		
		1:1 à 10.59 € E stock option		
2007	26.9.2007	1:1 à 3.03 € D stock option	€ 15,900	€ 195,535,530
		1:1 à 16.48 € F stock option		
		1:1 à 16.48 € F stock option		
2007	19.12.2007	1:1 à 3.03 € D stock option	€ 210	€ 195,535,740
		1:1 à 10.59 € E stock option		
		1:1 à 10.59 € E stock option		
2008	11.2.2008	1:1 à 3.03 € D stock option	€ 38,168	€ 195,573,908
		1:1 à 10.59 € E stock option		
		1:1 à 10.59 € E stock option		
2008	28.4.2008	1:1 à 3.03 € D stock option	€ 42,200	€ 195,616,108
		1:1 à 2.00 € D stock option		
		1:1 à 8.99 € E stock option		
2008	9.6.2008	1:1 à 2.00 € D stock option	€ 8,600	€ 195,624,708
		1:1 à 14.88 € F stock option		
		1:1 à 14.88 € F stock option		
2008	28.7.2008	1:1 à 8.99 € E stock option	€ 4,000	€ 195,628,708
		1:1 à 8.99 € E stock option		
		1:1 à 8.99 € E stock option		
2008	1.10.2008	1:1 à 8.99 € E stock option	€ 6,000	€ 195,634,708
		1:1 à 8.99 € E stock option		
		1:1 à 8.99 € E stock option		
2008	27.10.2008	1:1 à 8.99 € E stock option	€ 7,500	€ 195,649,708
		1:1 à 8.99 € E stock option		
		1:1 à 8.99 € E stock option		
2008	18.12.2008	1:1 à 8.99 € E stock option	€ 52,392	€ 195,702,100
2009	11.2.2009	1:1 à 8.99 € E stock option		
		1:1 à 8.99 € E stock option		
2009	5.5.2009	1:1 à 8.99 € E stock option	€ 51,250	€ 195,753,350
		1:1 à 7.99 € E stock option		
		1:1 à 7.99 € E stock option		
2009	5.6.2009	1:1 à 7.99 € E stock option	€ 673,146	€ 196,426,496
		1:1 à 7.99 € E stock option		
		1:1 à 13.88 € F stock option		
2009	17.12.2009	1:1 à 13.88 € F stock option	€ 216,562	€ 196,643,058

### Prices and trading of Kesko A and B shares on the Helsinki Stock Exchange in 2009

Share	Share price, € 31 Dec. 2008	Share price, € 31 Dec. 2009	Change, %	Lowest price, €	Highest price, €	Trading volume, 1,000 pcs	Total value traded, € million
A share	22.00	23.60	+7.3	18.73	25.00	993	21,955
B share	17.80	23.08	+29.7	14.99	24.00	78,189	1,500,605

During the year, the NASDAQ OMXHelsinki All Share Index rose by 19.5% and the NASDAQ OMXHelsinkiCAP Index by 36.2%, and the Helsinki Stock Exchange Consumer Staples Index by 30.8%. Up-to-date information on shares and shareholders is available at [www.kesko.fi](http://www.kesko.fi)

### 10 largest shareholders by number of shares (A- and B-series) at 31.12.2009

	Number of shares, pcs	% of shares	Number of votes	% of votes
1 Kesko Pension Fund	4,438,885	4.51	35,388,850	9.22
2 The K-Retailers' Association	3,400,724	3.46	33,639,590	8.76
3 Vähittäiskaupan Takaus Oy	2,991,771	3.04	26,648,568	6.94
4 Ilmarinen Mutual Pension Insurance Company	1,938,980	1.97	3,916,838	1.02
5 Valluga-sijoitus Oy	1,340,439	1.36	13,404,390	3.49
6 Varma Mutual Pension Insurance Company	1,210,986	1.23	1,210,986	0.32
7 Tapiola Mutual Pension Insurance Company	1,019,858	1.04	1,019,858	0.27
8 Oy The English Tearoom Ab	1,008,400	1.03	1,008,400	0.26
9 Foundation for Vocational Training in the Retail Trade	936,085	0.95	7,989,898	2.08
10 The State Pension Fund	850,000	0.86	850,000	0.22
<b>10 largest, total</b>	<b>19,136,128</b>	<b>19.45</b>	<b>125,077,378</b>	<b>32.58</b>

### Ownership structure 31.12.2009

All shares	Number of shares	% of all shares
Non-financial corporations and housing corporations	25,624,351	26.06
Financial and insurance corporations	6,101,976	6.21
General Government*	11,342,495	11.54
Households	28,889,275	29.38
Non-profit institutions serving households**	6,238,327	6.34
Rest of the world	772,696	0.79
Nominee registered	19,352,409	19.68
<b>Total</b>	<b>98,321,529</b>	<b>100.00</b>

A shares	Number of shares	% of A shares	% of all shares
Non-financial corporations and housing corporations	18,335,606	57.77	18.65
Financial and insurance corporations	1,384,377	4.36	1.41
General Government*	3,662,847	11.54	3.73
Households	6,677,770	21.04	6.79
Non-profit institutions serving households**	1,613,405	5.08	1.64
Rest of the world	4,836	0.02	0.00
Nominee registered	58,166	0.18	0.06
<b>Total</b>	<b>31,737,007</b>	<b>100.00</b>	<b>32.28</b>

B shares	Number of shares	% of B shares	% of all shares
Non-financial corporations and housing corporations	7,288,745	10.95	7.41
Financial and insurance corporations	4,717,599	7.09	4.80
General Government*	7,679,648	11.53	7.81
Households	22,211,505	33.36	22.59
Non-profit institutions serving households**	4,624,922	6.95	4.70
Rest of the world	767,860	1.15	0.78
Nominee registered	19,294,243	28.98	19.62
<b>Total</b>	<b>66,584,522</b>	<b>100.00</b>	<b>67.72</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, charitable associations.



## 10 largest shareholders by number of votes at 31.12.2009

	Number of shares	% of shares	Number of votes	% of votes
1 Kesko Pension Fund	4,438,885	4.51	35,388,850	9.22
2 K-Retailers' Association	3,400,724	3.46	33,639,590	8.76
3 Vähittäiskaupan Takaos Oy	2,991,771	3.04	26,648,568	6.94
4 Valluga-sijoitus Oy	1,340,439	1.36	13,404,390	3.49
5 Foundation for Vocational Training in the Retail Trade	936,085	0.95	7,989,898	2.08
6 Ilmarinen Mutual Pension Insurance Company	1,938,980	1.97	3,916,838	1.02
7 Ruokacity Myyrmäki Oy	389,541	0.40	3,895,410	1.01
8 K-Food Retailers' Club	351,822	0.36	3,518,220	0.92
9 Heimo Välinen Oy	313,707	0.32	2,961,570	0.77
10 Svenska litteratursällskapet i Finland r.f.	350,000	0.36	2,150,000	0.56
<b>10 largest, total</b>	<b>16,451,954</b>	<b>16.73</b>	<b>133,513,334</b>	<b>34.77</b>

## Distribution of share ownership at 31.12.2009

All shares	Number of			
Number of shares	shareholders	% of shareholders	Shares total	% of shares
1-100	11,057	28.43	649,923	0.66
101-500	14,363	36.93	3,994,056	4.06
501-1 000	5,689	14.63	4,466,636	4.54
1 001-5 000	5,992	15.41	13,313,691	13.54
5 001-10 000	955	2.46	6,812,170	6.93
10 001-50 000	688	1.77	14,227,131	14.47
50 001-100 000	80	0.21	5,661,411	5.76
100 001-500 000	49	0.13	9,906,666	10.08
500 001-	15	0.04	39,289,845	39.96
<b>Total</b>	<b>38,888</b>	<b>100.00</b>	<b>98,321,529</b>	<b>100.00</b>

A shares	Number of	% of holders of A		
Number of shares	shareholders	shares	A shares total	% of A shares
1-100	1,707	26.41	86,919	0.27
101-500	1,378	21.32	365,747	1.15
501-1 000	977	15.11	841,461	2.65
1 001-5 000	1,610	24.91	3,973,792	12.52
5 001-10 000	405	6.27	2,856,168	9.00
10 001-50 000	334	5.17	7,030,846	22.15
50 001-100 000	35	0.54	2,471,378	7.79
100 001-500 000	13	0.20	2,559,208	8.06
500 001-	5	0.08	11,551,488	36.40
<b>Total</b>	<b>6,464</b>	<b>100.00</b>	<b>31,737,007</b>	<b>100.00</b>

B shares	Number of	% of holders of B		
Number of shares	shareholders	shares	B shares total	% of B shares
1-100	10,270	29.49	612,459	0.92
101-500	13,819	39.68	3,846,514	5.78
501-1 000	5,000	14.36	3,864,363	5.80
1 001-5 000	4,719	13.55	10,123,854	15.20
5 001-10 000	554	1.59	4,032,498	6.06
10 001-50 000	379	1.09	7,589,624	11.40
50 001-100 000	38	0.11	2,683,974	4.03
100 001-500 000	32	0.09	6,925,951	10.40
500 001-	11	0.03	26,905,285	40.41
<b>Total</b>	<b>34,822</b>	<b>100.00</b>	<b>66,584,522</b>	<b>100.00</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, charitable associations.

## Share capital and shares

		2005	2006	2007	2008	2009
Share capital	€ million	193	195	196	196	197
Number of shares at 31 Dec.	1,000 pcs	96,483.9	97,519.9	97,767.8	97,824.9	98,321.5
Adjusted number of shares at 31 Dec	1,000 pcs	96,483.9	97,519.9	97,767.8	97,824.9	98,321.5
Adjusted average number of shares during the year	1,000 pcs	97,215.5	98,027.0	98,395.3	98,256.2	98,382.2
of which A shares	%	33	32	32	32	32
of which B shares	%	67	68	68	68	68
Market capitalisation, A share	€ million	768	1,220	1,201	698	749
Market capitalisation, B share	€ million	1,551	2,632	2,491	1,176	1,537
Number of shareholders at 31 Dec.	pcs	29,339	28,414	28,925	38,080	38,888
Share turnover						
A share	€ million	29	61	161	41	22
B share	€ million	1,383	2,410	5,294	2,859	1,501
Share turnover						
A share	million pcs	1	2	4	1	1
B share	million pcs	66	77	122	121	78
Turnover rate						
A share	%	4.1	6.4	11.5	4.5	3.1
B share	%	101.5	117.1	185.3	183.3	117.4
Change in turnover						
A share	%	7.6	57.2	78.8	-61.0	-30.4
B share	%	-24.0	15.4	58.8	-1.0	-35.4
Share price at 31 Dec.						
A share	€	24.19	38.43	37.85	22.00	23.60
B share	€	23.95	40.02	37.72	17.80	23.08
Average share price						
A share	€	21.93	30.10	43.85	28.30	21.92
B share	€	21.04	31.34	43.36	23.51	19.18
Highest share price during the year						
A share	€	24.60	38.99	53.44	38.20	25.00
B share	€	24.44	40.48	54.85	38.12	24.00
Lowest share price over the year						
A share	€	18.61	23.72	34.52	21.33	18.73
B share	€	17.80	23.80	34.40	15.31	14.99
Earnings per share, diluted	€	1.87	3.76	2.90	2.24	1.27
Earnings per share, basic	€	1.89	3.80	2.92	2.25	1.28
Equity per share, adjusted	€	15.35	17.94	19.53	20.09	20.39
Dividend per share	€	1.10	1.50	1.60	1.00	0.90*
Payout ratio	%	58.1	39.5	54.8	44.5	70.5*
Dividend as percentage of profit excl. non-recurring items	%	66.7	82.0	72.4	69.4	126.8*
Cash flow from operating activities per share, adjusted	€	3.07	3.35	2.52	1.37	3.86
Price per earnings ratio (P/E), A share, adjusted		11.86	10.22	13.07	9.84	18.54
Price per earnings ratio (P/E), B share, adjusted		11.74	10.64	13.02	7.96	18.13
Dividend yield, A share	%	4.6	3.9	4.2	4.6	3.8*
Dividend yield, B share	%	4.6	3.8	4.2	5.6	3.9*
Effective dividend yield of A share for the last five periods	%	15.4	29.3	26.6	10.9	9.2
Effective dividend yield of B share for the last five periods	%	29.2	42.8	36.1	12.9	10.3
for the last ten periods	%	18.6	22.7	18.7	11.7	14.9

\*proposal to the Annual General Meeting

# Information for shareholders

## Financial reporting calendar and key dates in 2010

Year 2009 financial statements release	5 February 2010
Year 2009 Annual Report and audited financial statements	Week 9
Year 2010 Annual General Meeting	29 March 2010
Interim report for the first three months of 2010	27 April 2010
Interim report for the first six months of 2010	23 July 2010
Interim report for the first nine months of 2010	26 October 2010

In addition, the Kesko Group's sales figures are published monthly and the K-Group's retail sales figures are published in connection with the interim reports.

## Annual General Meeting

The Annual General Meeting of Kesko Corporation will be held in the Helsinki Fair Centre's congress wing, Messuaukio 1 (congress wing entrance), Helsinki, on 29 March 2010 at 13.00.

All shareholders entered in the register of Kesko Corporation shareholders kept by Euroclear Finland Ltd on 17 March 2010 (Annual General Meeting record date) are entitled to attend the Annual General Meeting.

Shareholders wishing to attend the meeting should notify, not later than 24 March 2009 at 16.00, to Kesko Corporation/Legal Affairs, FI-00016 Kesko, by fax to +358 1053 23421, by telephone to +358 1053 23211, by e-mail to [taina.hohtari@kesko.fi](mailto:taina.hohtari@kesko.fi), or through the Internet at [www.kesko.fi/investors](http://www.kesko.fi/investors). The notifications must be received by the end of the registration period. Any proxies authorising the holders to attend the Annual General Meeting shall be sent to the above mailing address by the end of the registration period. Holders of nominee registered shares are advised to request necessary instructions for registering in the shareholder register, submitting proxies and registering for the Annual General Meeting from their custodian banks.

More information about the Annual General Meeting, attendance and decision-making is given under the heading 'Corporate Governance' on pages 54–65.

The resolutions of the Annual General Meeting are published without delay after the meeting in a stock exchange release.

## Payment of dividends

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of €0.90 per share be paid for 2009. The dividend will be paid to all shareholders entered in the register of Kesko Corporation shareholders kept by Euroclear Finland Ltd on 1 April 2010 (record date for the payment of dividend). Registration practice takes three banking days, so the dividends are paid to those who hold the shares at the close of the date of the Annual General Meeting on 29 March 2010. Dividends of the shares traded on the date of the Annual General Meeting are paid to buyers.

According to the Board of Directors' proposal, the payment of dividends starts on 12 April 2010.

## Financial publications

Kesko publishes a printed Annual Report in Finnish and English. The company maintains an Annual Report mailing list. Those who wish to be included on the mailing list may fill in the form at [www.kesko.fi/material](http://www.kesko.fi/material).

The financial statements release, three interim reports, monthly sales figures and other key releases are available on the company's website at [www.kesko.fi/media](http://www.kesko.fi/media).

Kesko publishes a printed Corporate Responsibility Report in Finnish and English.

## Publications may be ordered from

Kesko Corporation/Corporate Communications and Responsibility  
Satamakatu 3  
FI-00016 Kesko  
Tel. +358 1053 22404  
[www.kesko.fi/material](http://www.kesko.fi/material)

## Changes of address

Shareholders should notify changes of address to the bank, brokerage firms or other account operator with which they have a book-entry securities account.

# Information about Kesko for investors

## Communications policy and principles

The purpose of Kesko's communications is to promote the business of the Group and its business partners by taking the initiative in providing stakeholders with correct information on Group objectives and operations. The general principles followed in providing communications also include openness, topicality and truthfulness. No comments are made on confidential or unfinished business, nor on competitors' affairs.

The primary objective of communications is to describe what added value Kesko and its cooperation partners generate to consumers and other customers, whose impressions and behaviour ultimately decide Kesko's success.

## Investor relations

In line with its IR strategy, Kesko continually produces correct and up-to-date information for the markets as a basis for the formation of Kesko Corporation's share price. The aim is to make Kesko's activities better known and to increase the transparency of investor information and, therefore, the attraction of Kesko as an investment target.

In its investor communications, Kesko follows the principle of impartiality and publishes all investor information on its web pages in Finnish and English.

Kesko publishes the printed Annual Report in Finnish and English. The financial statements release and three interim reports are available on Kesko's web pages. The company maintains the Annual Report mailing list. Those who wish to be included on the mailing list may fill in the form at [www.kesko.fi/material](http://www.kesko.fi/material). Kesko's stock exchange and press releases sent by e-mail can also be ordered at [www.kesko.fi/material](http://www.kesko.fi/material).

Kesko arranges press conferences for analysts and the media at the time of publishing financial statements or other significant news, and holds Capital Market Days for analysts and institutional investors on various themes 1–2 times a year.

Kesko observes a two-week period of silence before publishing its results releases. At other times, we are happy to answer the enquiries of analysts and investors by phone or e-mail, or at the investor meetings arranged.

## IR contacts

### Riikka Toivonen, Investor Relations Manager

Tel. +358 1053 23495

Mobile +358 500 708 337

### Arja Talma, Senior Vice President, CFO

Tel. +358 1053 22113

E-mail: [IR@kesko.fi](mailto:IR@kesko.fi)

## Corporate communications and responsibility

### Paavo Moilanen, Senior Vice President

Tel. +358 1053 22764

E-mail: [firstname.lastname@kesko.fi](mailto:firstname.lastname@kesko.fi)

## Brokerage firms analysing Kesko:

### ABG SUNDAL COLLIER, STOCKHOLM

Christian Anderson  
Tel. +46 8 5662 8651  
[firstname.lastname@abgsc.se](mailto:firstname.lastname@abgsc.se)

### BANK OF ÅLAND PLC, HELSINKI

Martin Sundman  
Tel. +358 204 293 777  
[firstname.lastname@alandsbanken.fi](mailto:firstname.lastname@alandsbanken.fi)

### CARNEGIE INVESTMENT BANK AB, FINLAND BRANCH, HELSINKI

Tia Lehto  
Tel. +358 9 6187 1236  
[firstname.lastname@carnegie.fi](mailto:firstname.lastname@carnegie.fi)

### CHEUVREUX, STOCKHOLM

Daniel Ovin  
Tel. +46 8 723 5175  
[dovin@cheuvreux.com](mailto:dovin@cheuvreux.com)

### DANSKE MARKETS EQUITIES, HELSINKI

Kalle Karppinen  
Tel. +358 10 236 4794  
[firstname.lastname@danskebank.com](mailto:firstname.lastname@danskebank.com)

### DEUTSCHE BANK, HELSINKI

Manu Rimpelä  
Tel. +358 9 2525 2550  
[firstname.lastname@db.com](mailto:firstname.lastname@db.com)

### EVLI PANKKI OYJ, HELSINKI

Mika Karppinen  
Tel. +358 9 476 690  
[firstname.lastname@evli.com](mailto:firstname.lastname@evli.com)

### FIM PANKKI OY, HELSINKI

Jonas Spohr  
Tel. +358 9 6134 6508  
[firstname.lastname@fim.com](mailto:firstname.lastname@fim.com)

### HANDELSBANKEN

#### CAPITAL MARKETS, HELSINKI

Maria Wikström  
Tel. +358 1044 42425  
[mawi05@handelsbanken.se](mailto:mawi05@handelsbanken.se)

### ICECAPITAL SECURITIES OY, HELSINKI

Robin Santavirta  
Tel. +358 9 6220 5092  
[firstname.lastname@icecapital.fi](mailto:firstname.lastname@icecapital.fi)

### NORDEA MARKETS, HELSINKI

Hanna-Maria Heikkinen  
Tel. +358 9 1655 9926  
[firstname.lastname@nordea.com](mailto:firstname.lastname@nordea.com)

### POHJOLA BANK PLC., HELSINKI

Jari Räisänen  
Tel. +358 1025 24504  
[firstname.lastname@pohjola.fi](mailto:firstname.lastname@pohjola.fi)

### SEB ENSKILDA, HELSINKI

Jutta Rahikainen  
Tel. +358 9 6162 8713  
[firstname.lastname@seb.fi](mailto:firstname.lastname@seb.fi)

### SOFIA BANK PLC, HELSINKI

Paavo Ahonen  
Tel. +358 10 241 5192  
[firstname.lastname@sofia.fi](mailto:firstname.lastname@sofia.fi)

### STANDARD & POOR'S EQUITY RESEARCH, LONDON

James Monro  
Tel. +44 20 7176 7798  
[firstname\\_lastname@sandp.com](mailto:firstname_lastname@sandp.com)

### SWEDBANK MARKETS, HELSINKI

Jarkko Soikkeli  
Tel. +358 20 746 9152  
[firstname.lastname@swedbank.fi](mailto:firstname.lastname@swedbank.fi)

### E. ÖHMAN J:OR SECURITIES FINLAND LTD, HELSINKI

Elina Pennala  
Tel. +358 9 8866 6043  
[firstname.lastname@ohmangroup.fi](mailto:firstname.lastname@ohmangroup.fi)

# Organisation, management and contact information

Kesko Corporation's Board of Directors and Corporate Management Board are presented on pages 66–67 and 68–69.

## Kesko Corporation

Satamakatu 3, Helsinki, FI-00016 Kesko  
Tel. +358 10 5311, fax +358 9 174 398  
E-mail (unless otherwise stated):  
firstname.lastname@kesko.fi

**President and CEO** Matti Halmesmäki

### Finance:

Senior Vice President, CFO Arja Talma  
Corporate Accounting: Vice President,  
Corporate Controller Jukka Erlund  
Treasury: Vice President, Group Treasurer  
Heikki Ala-Seppälä  
Finance and Accounting Services:  
Vice President Eija Jantunen  
Corporate IT:  
Vice President, CIO Arto Hiltunen

### Human Resources:

Senior Vice President Riitta Laitasalo

### Legal Affairs, Risk Management and Internal Audit:

Vice President, General Counsel  
Anne Leppälä-Nilsson  
Chief Audit Executive Pasi Mäkinen

### Corporate Communications and Responsibility:

Senior Vice President Paavo Moilanen

## SUBSIDIARIES

### K-instituutti Oy

Siikajärventie 88–90, FI-02860 Espoo  
Tel. customer service +358 1053 37370,  
reception +358 1053 37271  
www.k-instituutti.fi  
Managing Director Juha Dahlman

### K-Plus Oy

Satamakatu 3, Helsinki, FI-00016 Kesko  
Tel. +358 10 53020  
www.plusa.com  
Managing Director Niina Ryyänen

### K-talouspalvelukeskus Oy

P.O.B. 330, FI-33101 Tampere  
Tel. +358 10 5311  
Managing Director Eija Jantunen

## District operations

### THE GREATER HELSINKI AREA, HELSINKI

Satamakatu 3, Helsinki, FI-00016 Kesko  
Tel. +358 10 5311  
District Director Antti Palomäki

### UUSIMAA, HELSINKI

Satamakatu 3, Helsinki, FI-00016 Kesko  
Tel. +358 10 5311  
District Director Timo Huurtola

### EASTERN FINLAND, KUOPIO

Siunauskappelintie 2, P.O.B. 46,  
FI-70701 Kuopio  
Tel. +358 10 5311

### THE FINNISH LAKELAND, JYVÄSKYLÄ

c/o K-citymarket Seppälä  
Vasarakatu 29, FI-40320 Jyväskylä  
Tel. +358 10 5311  
District Director Merja Haverinen

### SOUTHEASTERN FINLAND, LAHTI

c/o K-citymarket Lahti Laune  
Ajokatu 53, FI-15500 Lahti  
Tel. +358 10 5311

District Director Timo Heikkilä

### SOUTHWESTERN FINLAND, TURKU

Lemminkäisenkatu 50, P.O.B. 116,  
FI-20101 Turku  
Tel. +358 10 5311

District Director Olli Setänen

### PIRKANMAA, TAMPERE

Jokipohjantie 28, P.O.B. 330, FI-33101  
Tampere  
Tel. +358 10 5311

District Director Jari Alanen

### OSTROBOTHNIA, SEINÄJOKI

c/o K-maatalous Seinäjoki  
Hautomonkatu 2, FI-60100 Seinäjoki  
Tel. +358 10 5311

District Director Heikki Tynjälä

### NORTHERN FINLAND, OULU

Äimäkuja 6, P.O.B. 16, FI-90401 Oulu  
Tel. +358 10 5311  
District Director Jari Saarinen

(e-mail: jari.k.saarinen@kesko.fi)

## Kesko Food Ltd

Satamakatu 3, Helsinki, FI-00016 Kesko  
Tel. +358 10 53030

President Terho Kalliokoski

K-citymarket, Food:

Vice President Mika Rautiainen

K-supermarket:

Vice President Jaana Hertsberg

K-market (K-market, K-extra):

Vice President Ari Svensk

Commerce: Vice President Minna Kurunsaari

Customer Relationship:

Vice President Niina Ryyänen

Retail Services: Vice President Kari Heiskanen

(e-mail: kari.j.heiskanen@kesko.fi)

Logistics and Finance:

Vice President Petteri Niemi

## SUBSIDIARIES

### Kespro Ltd

Sähkötie 1, Vantaa, P.O.B. 15,  
FI-00016 Kesko  
Tel. +358 10 53040  
www.kespro.com

Managing Director Jorma Rauhala

### Pikoil Oy

Satamakatu 3, Helsinki, FI-00016 Kesko  
Tel. +358 20 742 2000  
Managing Director Harri Ojala

### Keslog Ltd

Jokiniementie 31, P.O.B. 47,  
FI-01301 Vantaa  
Tel. +358 10 53050  
www.keslog.fi  
Managing Director Mika Salmijärvi

## Anttila Oy

Valimotie 17, Helsinki, P.O.B. 1060,  
FI-00016 Kesko  
Tel. +358 10 5343  
www.anttila.fi  
President Matti Leminen

## SUBSIDIARIES

### Estonia

#### Anttila AS

Uus 33, EE-71033 Viljandi, Estonia  
Tel. +372 43 53 360  
E-mail: anttila@anttila.ee  
www.anttila.ee  
Managing Director Tauno Tuula

### Latvia

#### SIA Antti

Jersikas iela 12/14, LV-1003 Riga, Latvia  
Tel. +371 703 3301  
E-mail: anttila@anttila.lv  
www.anttila.lv  
Director Kalle Lill

## K-citymarket Oy

Kutojantie 4, FI-02630 Espoo  
Tel. +358 10 5311  
www.k-citymarket.fi  
President Ari Akseli

## Indoor Group Ltd

Tikkurilantie 10, FI-01380 Vantaa  
Tel. +358 1053 46600  
www.indoorgroup.fi  
President Seppo Hämäläinen

## Intersport Finland Ltd

Kutojantie 4, FI-02630 Espoo  
Tel. +358 10 5311  
www.intersport.fi  
President Juha Nurminen

## Musta Pörssi Ltd

Kutojantie 4, FI-02630 Espoo  
Tel. +358 10 5311  
www.mustaporssi.fi  
President Jussi Mikkola



## Kenkäkesko Ltd

Kutojantie 4, FI-02630 Espoo  
Tel. +358 10 5311  
www.andiamo.fi, www.k-kenka.fi  
President Martti Toivanen

## Rautakesko Ltd

Tikkurilantie 10, P.O.B. 75, FI-01301 Vantaa  
Tel. +358 10 53032  
E-mail: rautakesko.info@kesko.fi  
www.rautakesko.com  
President Jari Lind  
Human Resources: HR Director Anu Wiikeri  
Concepts:  
Concept Director Jaakko-Pekka Vehmas  
Subsidiaries and Finance:  
Vice President Jouko Björkman  
Store Sites, Risk Management and Legal  
Affairs: Director Juhani Järvi  
Global Process Development & IT:  
Development Director Johannes Milén  
Commerce (Hardware and Agricultural  
Trade): Vice President Antti Ollila  
K-rauta chain: Vice President Jani Karotie  
Rautia chain, K-maatalous chain and  
K-customer contract stores:  
Vice President Kimmo Vilppula  
B2B Sales: Vice President Olli Honkasaari  
Norway and Sweden:  
Region Director Jarmo Turunen  
Baltics and Russia:  
Region Director Raul Kadaru  
Country Director, Russia: Mikko Pasanen

## K-MAATALOUS EXPERIMENTAL FARM

Hahkialantie 57, FI-14700 Hauho  
Tel. +358 10 53032  
www.k-koetila.fi

## SUBSIDIARIES

### Norway

#### Byggmakker Norge AS

Snipetjernveien 7, Postboks 650,  
N0-1401 Ski, Norway  
Tel. +47 6491 4000  
E-mail: firmapost@byggmakker.no  
www.byggmakker.no  
Managing Director Espen Hoff

### Sweden

#### K-rauta AB

Bagarbyvägen 61,  
SE-19134 Sollentuna, Sweden  
Tel. +46 8 588 18 900  
E-mail: info@k-rauta.se  
www.k-rauta.se  
Managing Director Jani Jylhä

## Estonia

### Rautakesko AS

Tähetorni 100a, EE-11625 Tallinn, Estonia  
Tel. +372 6 257 501  
E-mail: info@rautakesko.ee  
www.rautakesko.ee  
Managing Director Alo Ivask

### Latvia

#### AS Rautakesko

Tiraines st. 15, LV-1058 Riga, Latvia  
Tel. +371 7 810 090  
E-mail: rautakesko@rautakesko.lv  
www.k-rauta.lv  
Managing Director Peteris Stupans

### Lithuania

#### UAB Senuku prekybos centras

Pramones pr. 6,  
LT-51500, Kaunas-31, Lithuania  
Tel. +370 37 304 999  
E-mail: marketing@senukai.lt  
www.senukai.lt  
President Arturas Rakauskas

### Russia

#### ZAO Stroymaster

Bolshoi Sampsonievskij Prospekt 68,  
lit N, RU-194100 St. Petersburg, Russia  
Tel. +7 812 326 9231  
E-mail: info@kesko.ru  
www.k-rauta.ru  
Managing Director Aleksandr Rudenko

### Belarus

#### OOO OMA

Office 36, Per. Promyshlenny 12a  
Minsk 220075, Belarus  
Tel. +375 17 244 9303  
E-mail: mh@oma.by  
Managing Director Mikhail Khamichonak

## VV-Auto Group Oy

Hitsaajankatu 7 B, P.O.B. 80,  
FI-00811 Helsinki  
Tel. +358 9 75 831  
www.audi.fi, www.volkswagen.fi  
President Pekka Lahti  
Audi: Director Eljas Saastamoinen (since 1  
April 2010)  
Volkswagen passenger cars:  
Brand Manager Lauri Haapala  
Volkswagen commercial vehicles:  
Brand Manager Carl-Gustaf Sergejeff (until  
1 June 2010)  
Brand Manager Heikki Leskinen (since 1  
May 2010)  
After-sales services: Director Jarmo Toivanen  
Business support:  
Financial Director Arto Manninen  
Dealer network and business development:  
Director Mia Miettinen

## SUBSIDIARIES

### Auto-Span Oy

Hitsaajankatu 7 C, P.O.B. 80,  
FI-00811 Helsinki  
Tel. +358 9 75 831  
www.seat.fi  
Managing Director Kimmo Vainio

### VV-Autotalot Oy

Mekaanikonkatu 10, FI-00880 Helsinki  
Tel. +358 1053 33200  
www.vv-auto.fi  
Managing Director Timo Virtanen  
**Turun VV-Auto Oy**  
Rieskalähteentie 89, FI-20300 Turku  
Tel. +358 2 338 881  
www.vv-auto.fi  
Managing Director Timo Virtanen

## Konekesko Ltd

Vanha Porvoontie 245, P.O.B. 145,  
FI-01301 Vantaa  
Tel. +358 10 53034  
www.konekesko.com  
Managing Director Aatos Kivelä

## SUBSIDIARIES

### Konekesko Eesti AS

Põrguvälja tee 3 a, Pildiküla, Rae vald,  
EE-75301 Harju mk, Estonia  
Tel. +372 605 9100  
www.konekesko.com/ee/  
Managing Director Tõnu Kelder

### Konekesko Latvija SIA

Tiraines iela 15, LV-1058 Riga, Latvia  
Tel. +371 6706 4304  
www.konekesko.com/lv/  
Managing Director Antra Spickus

### UAB Konekesko Lietuva

Savanoriu pr. 191, LT-02300 Vilnius,  
Lithuania  
Tel. +370 5 247 7400  
www.konekesko.com/lt/  
Managing Director Lina Morkunaite

### OOO Konekesko

Urhov pereulok, 7 A,  
198095 St. Petersburg, Russia  
Tel. +7 812 326 4653  
Area Director Pekka Mankinen

## Service numbers

### K-PLUSSA CUSTOMER SERVICE

Mon-Fri 8.00-18.00  
Tel. +358 100 86044  
E-mail: plussa@kesko.fi

### KESKO FOOD'S CONSUMER SERVICE

Mon-Fri 9.00-13.00  
Tel. +358 800 0 1000  
E-mail: ruokakesko.kuluttajapalvelu@kesko.fi

# Glossary

In this glossary we have compiled a list of some key terms used in the Annual Report.

**After-sales marketing** refers in the car and machinery trade in particular to after-sales activities, such as maintenance, repairs, sales of spare parts, accessories and equipment.

**AMS** is an abbreviation of AMS Sourcing BV. Kesko Food works in cooperation with the leading European food chains in AMS, and is a partner in the World- Wide Retail Exchange. The WWRE is a business-to-business web marketplace.

**Brand** is a trademark, logo or branded product. It is an embodiment of all information relating to the company product or service. A brand is an image, created by the way of doing things, by quality and the willingness to reach the set destination.

**Certification of goods sold by stores** is an audit carried out by an independent third to verify the compliance of operating systems with certain criteria (e.g. with an ISO standard).

**Chain agreement** is a contract between the retailer and Kesko that enables the retailer join one of Kesko's retail store chains. Under the terms of the chain agreement, the retailer and Kesko agree on their rights and responsibilities regarding chain operations.

**Chain concept** is a comprehensive description of retail business operations and guidelines for their similar implementation in all stores of the chain.

**Chain selection** in the K-Group is that part of a selection which is the same in all stores of the chain. The chain unit makes decisions concerning the selection.

**Chain unit** is the Kesko unit responsible for store chain operations and chain concept development in the K-Group. It has decision-making power in matters concerning the chain.

**Corporate responsibility** refers to voluntary responsibility towards key stakeholders. It is measurable, based on the company's values and objectives, and is divided into economic, social and environmental responsibility.

**Dealer**, for instance in the car trade, is a company authorised by the importer to sell and service branded products. The dealer meets the quality standards set by the manufacturer and the importer.

**Department store** is a retail store that sells a wide variety of goods. Its sales area is at least 2,500 m<sup>2</sup>. In a department store, no product category accounts for over half of the total sales area.

**Distance sales** refers to trading activities where customers do not visit store premises, but instead trade through the Internet, other electronic media or mail order.

**Fair trade** is a form of international trade, illustrated by a formalised parrot logo. The logo indicates that business is carried out directly with small producers of the third world without intermediaries. Producers receive a guaranteed price for their products that is usually significantly higher than the world market price. They are also given guarantees of long contracts and opportunities for advance financing.

**Groceries** refer to food and other everyday products that people are used to buying when they shop for food. Groceries include food, beverages, tobacco, home chemical products, household papers, magazines and cosmetics.

**Grocery store** is, in most cases, a self-service food store that sells the full range of the above groceries. Food accounts for about 80% of grocery stores' total sales.

**Home and speciality** goods stores include clothing, shoe, sports, home technology, home goods, furniture and interior decoration stores.

**HoReCa** is a category consisting of large customers in the food trade, including hotels, restaurants and other catering companies.

**Hypermarket** is a retail store selling a wide variety of goods mainly on the self-service principle. Its sales area exceeds 2,500 m<sup>2</sup>. In a hypermarket, food accounts for about half of the total area, but sales focus on groceries (food and other everyday items).

**K-Group** consists of the K-retailers, the K-Retailers' Association and the Kesko Group.

**K-retailer** is an independent chain entrepreneur who, through good service, competence and local expertise, provides additional strength for chain operations. The K-retailer entrepreneurs are responsible for their stores' customer satisfaction, personnel and profitable business operations.

**K-Retailers' Association** is a body that looks after the interests of the K-retailers. Its key function is to promote and strengthen the conditions for the entrepreneurial activities of K-retailers. All the K-retailers – about 1,302 – are members of the K-Retailers' Association.

**Logistics** is a process in which information management is used to direct the goods flow and related services throughout the entire supply chain. Logistics help optimise the quality and cost-efficiency of operations.

**Neighbourhood store** is usually a small grocery store, located close to consumers and easily accessible by foot. It is usually a self-service store of less than 400 m<sup>2</sup>. In Finland they have unrestricted opening hours even in town plan areas.

**New establishment** (greenfielding) refers to new store sites or business premises.

**Operations control system** (ERP Enterprise Resource Planning system) is an information system that supports the planning and control of business operations. It includes the information systems supporting the core processes of the company, such as category management and purchasing logistics in the trading sector, e.g. SAP R3.

**Organic product** is, according to the EU regulation on organic production, a product in which at least 95% of the raw materials of agricultural origin have been organically produced.

**Private label** (own brand, house brand) product is a branded product made for the trading company by a manufacturer and marketed as part of a larger product family under one brand name. A company markets its private label products through its own network.

**Retail trade** refers to sales to consumer customers.

**Sales area** refers to the store area reserved for sales, such as goods areas, aisles, service counters, checkout areas and air lock entrances.

**Selection** is the range of products sold for the same purpose, for instance a selection of bread. Speciality stores carry a deep selection in the category.

**Self-control** is an entrepreneur's own control system, the purpose of which is to prevent problems arising in food hygiene. In compliance with legislation, self-control is based on HACCP (Hazard Analysis and Critical Control Points) principles. The hazards related to products are assessed, the critical control points needed for hazard monitoring are identified and then controlled. The system is applied to the hygiene of manufacturing plants' machinery and equipment, the quality of raw materials and products, the effectiveness of manufacturing processes, and transportation and warehousing conditions.

**Service company** is an enterprise that offers all the products and services wanted or expected by customers at the same time. The service company provides customers with a combination of products and related services, taking care of product assemblies and other user functions that may be required.

**Shopping centre** houses many trading companies, but has joint management and marketing. A shopping centre has one or more main companies, but no individual store accounts for over 50% of the total business premises. A shopping centre has a minimum of 10 stores, in most cases joined by a common mall.

**Store-specific** selection in the K-Group is that part of the selection of a store that is adapted for the special needs of the local market.

**Store site** is a business property or premises where the chain concept and related auxiliary services are carried out.

**Store site fee** is the term used for the payment made by the retailer to Kesko as a compensation for the use of the store site under the chain agreement and the related services offered by Kesko. The store site fee is, as a rule, calculated as a percentage of the retailer's gross profit or net sales.

**Strategy** is a comprehensive plan of the means the organisation intends to use in order to achieve its visions and goals.

**Supermarket** is a grocery store that focuses on food sales and works on a self-service principle. Its sales area is at least 400 m<sup>2</sup>, with food accounting for over half of the total sales area.

**Wholesale trade** is purchasing from suppliers in large quantities and then selling to enterprises engaged in the retail trade.

**Photos:**

Numi Nummelin,  
Rami Hanafi,  
Mats Vuorenjuuri,  
Antti Vettenranta and  
Kesko's image banks

**Printed by:**

Libris Oy



441

014

Printed matter

