

KESKO'S YEAR 2010

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Kesko is the leading provider of trading sector services and a highly valued listed company. It operates in the food, home and speciality goods, building and home improvement, and car and machinery trades. Kesko has about 2,000 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia, and Belarus.

KESKO IN BRIEF

OUR CORE COMPETENCE AREAS

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

KESKO'S DIVISIONS Food trade | page 18

Kesko Food is the leading operator in the Finnish grocery trade. K-retailers, with whom Kesko Food applies the chain business model, are responsible for customer satisfaction at the more than 1,000 K-food stores. Kesko Food manages the K-food store chains, which are K-citymarket, K-supermarket, K-market and K-extra.

Kesko Food's main functions include the centralised purchasing of products, selection management, logistics, and the development of chain concepts and the store network. Chain operations ensure the efficiency and competitiveness of business.

Kesko Food's subsidiary Kespro 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 24

The home and speciality goods trade comprises Anttila and Kodin Ykkönen, K-citymarket's home and speciality goods, Intersport Finland, Indoor's Askö and Sotka, Musta Pörssi and Kenkäkesko. The total number of home and speciality goods stores is 427, which operate in 13 chains. 190 of the stores are owned by Kesko.

Building and home improvement trade | page 32

Rautakesko is an international service provider which retails building, renovation and home improvement supplies in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. Rautakesko manages and develops the K-rauta, Rautia, K-maatalous, Byggmakker, Senukai and OMA retail chains and B2B sales in its operating area. Rautakesko's main functions include the centralised development of chain selections, centralised purchasing and logistics, and the development of chain concepts and the store network.

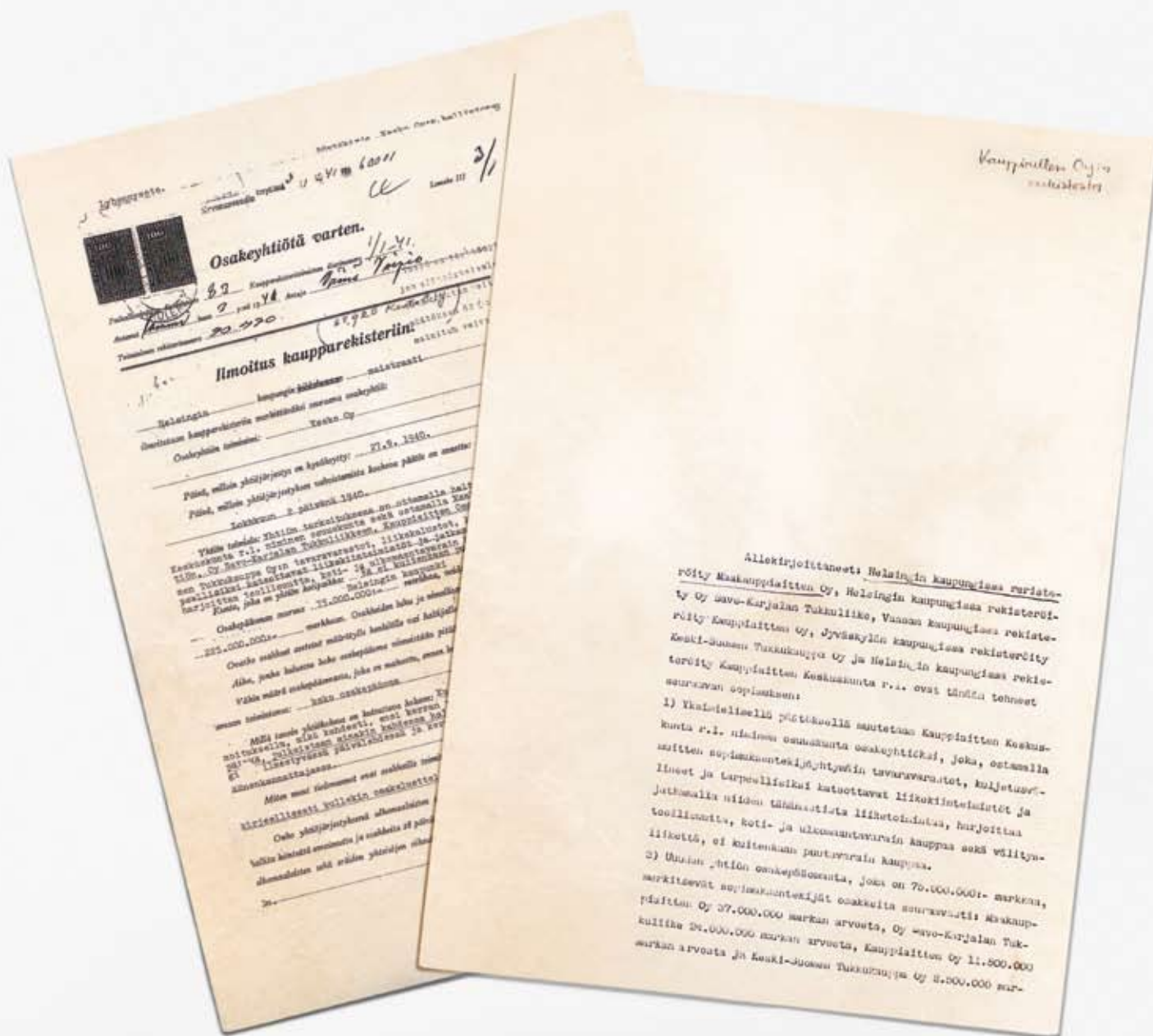
There are 331 building and home improvement stores in eight countries and 88 agricultural stores in Finland. All stores in Finland are owned by retailer entrepreneurs. There are also 96 retailer-owned stores in Norway.

Car and machinery trade | page 40

The car and machinery trade segment consists of VV-Auto and Konekesko with their subsidiaries.

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, marketing and after-sales services of recreational machinery, construction and materials handling machinery, agricultural machinery, and buses and trucks. Konekesko operates in Finland, Estonia, Latvia, Lithuania and Russia. Konekesko arranges the manufacture of and sells Yamarin boats in Finland and exports them to several European countries and Russia.



KESKO 70 YEARS

Kesko was established on 14 October 1940 by four regional wholesale companies – Oy Savo-Karjalainen Tukkuliike, Keski-Suomen Tukkukauppa Oy, Kauppiaitten Osakeyhtiö and Maakauppiaitten Osakeyhtiö – which had been founded by retailers. Kesko was entered in the Trade Register on 3 January 1941, which marked the start of business operations.

Kesko sourced and delivered goods to K-retailers on competitive terms. This function has remained and the operations have expanded to cover the management and development of store chains, retailing and store site operations.

Kesko was listed on the stock exchange in 1960. At the end of 2010, there were 38,258 shareholders, of which 26% were foreign. In 2010, Kesko's net sales totalled some €8.8 billion and the whole K-Group's sales amounted to some €11 billion. Kesko operates in eight countries and has about 22,000 employees, while the whole K-Group staff is 45,000. More than one million customers shop at K-stores every day.

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

KESKO'S PROFITABILITY IMPROVEMENT WAS EXCELLENT

Growth in business operations gained speed towards the end of 2010 and the development in profitability was excellent throughout the year. The food trade and the home and speciality goods trade achieved record performance. Kesko's solvency and liquidity continued to strengthen.

In the food trade, efficiency and performance have continued to improve and sales growth has been better than the market. The home and speciality goods sales took a moderate turn upward after the recession. K-citymarket's, Anttila's, Intersport's, Asko's and Sotka's profit improvements are significant. The turn in the building and home improvement trade boosted sales and also improved profit. Profit in the car and machinery trade increased as expected. The market share of Volkswagen and Audi increased.

WE AIM AT PROFITABLE GROWTH IN FINLAND AND NEARBY AREAS

In addition to the Finnish market, Kesko aims at profitable growth in nearby areas. The direction for growth is, above all, the large and fast growing market in Russia, where Kesko is continuing to further strengthen the network of building and home improvement stores. We are also investigating opportunities for expanding the food trade, the car and machinery trade, and the sports trade into Russia.

The core of K-food stores' competitive advantages lies in superior selections of fruit, vegetables, bakery products, meat, fish and ready-to-eat meals, as well as Pirkka products. They have a crucial impact on where customers most often choose to shop and on customer loyalty. Competitiveness will be improved by continuing the strong development of the store network.

In the home and speciality goods trade, competitiveness will be improved by enhancing the current online stores and electronic services and opening new ones. Anttila's new logistics centre will ensure efficient warehousing and distribution in e-commerce too.

The network of building and home improvement stores will be expanded in Finland and our other operating countries, particularly in Russia, over the next few years. Competitiveness will be enhanced by investing in centrally directed sourcing and selections development, as well as in the joint enterprise resource planning system and logistics network.

OUR AIM IS TO INCREASE THE COMMITMENT OF K-PLUSSA CUSTOMERS

K-Plussa is the K-Group's joint customer loyalty system, which helps K-Group retailers, stores and chains improve customer satisfaction and attention. K-Plussa is the most extensive and diverse customer loyalty programme in Finland. More than 3.6 million Finns already have the K-Plussa customer loyalty card. Customer information is used when planning selections and pricing, in marketing and when planning the store network.

CHIP&PIN TERMINALS CAME TO K-STORES

Following the European practice, Finland adopted international chip&pin payment cards at the end of 2010. Updating payment systems to the new era is a major project in the Kesko Group and the K-Group, starting from selecting a joint payment terminal for some 1,400 K-Group stores in Finland, approximately 7,000 terminals in all. Security of payments, ease of use and reliability were highlighted when selecting the terminal. All stores will have new chip&pin terminals by the summer of 2011.

PERSONNEL

Kesko and its chain stores employ some 45,000 professionals and experts. Job satisfaction among our personnel and availability of competent employees are of primary importance. The key objective of the work and productivity programme launched in 2008 is to increase labour productivity in Kesko and the chains' stores. The most important tools for improving productivity include increasing personnel competence and management, as well as the efficiency of operating practices.

Kesko has also launched a new, extensive project to improve wellbeing at work.



Next to the 'Expectation' sculpture, from left, Esa Kiiskinen, member of Kesko's Board of Directors; President and CEO Matti Halmesmäki; Board Chair Heikki Takamäki; Board members Ilpo Kokkila, Maarit Näkyvä and Rauno Törrönen; Board Deputy Chair Seppo Paatelainen; and Board member Mikko Kosonen.

RESPONSIBILITY

Kesko has been working for sustainability on a long-term basis and has an established position in comparisons measuring sustainability.

Kesko was included in the Dow Jones sustainability indexes, DJSI World and DJSI Europe, for the eighth time. In the 2010 international comparison, Kesko gained the sector's best score in operational eco-efficiency, environmental reporting, risk management, and anti-corruption and anti-bribery practices.

Kesko's Corporate Responsibility Report was selected as the second best in the 'Corporate Responsibility Reporting 2010' competition in Finland.

Kesko's responsibility programme covers the period 2008–2012 and the updating will start during 2011. The Corporate Responsibility Report provides information on the objectives and performance of the programme with various indicators and case examples.

KESKO 70 YEARS

In January 2011 we celebrated Kesko's 70th anniversary by working towards continued success. Kesko was established on 14 October 1940 by four regional wholesale companies – Oy Savo-Karjalan Tukkuoliike, Keski-Suomen Tukkukauppa Oy, Kauppiaitten Osakeyhtiö and Maakauppiaitten Osakeyhtiö – which had been founded by retailers. Kesko was entered in the Trade Register on 3 January 1941, which marked the start of business operations.

On Mother's Day, Kesko and K-retailers donated sculptor Pekka Jylhä's 'Expectation', depicting an expectant mother, to the City of Helsinki. The bronze sculpture is located in Kaivopuisto Park in Helsinki. The sculpture project is part of Kesko's corporate responsibility.

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 2010.

Matti Halmesmäki
President and CEO

YEAR 2010 IN BRIEF

- The Kesko Group's net sales in January-December 2010 totalled €8,777 million (€8,447 million)
- Operating profit excluding non-recurring items was €268.1 million (€155.4 million)
- Profitability improved in all divisions
- Earnings per share excluding non-recurring items were €1.78 (€0.71)
- The Board of Directors proposes to the Annual General Meeting that €1.30 per share (€0.90) be distributed as a dividend for 2010

NET SALES AND SALES INCREASED

In 2010, Kesko's net sales were back on growth path, representing an increase of 3.9% from the previous year. Net sales increased in all divisions. In Finland, net sales increased by 4.3% and in other countries by 2.2%.

The K-Group's (Kesko's and chain stores') retail and B2B sales (VAT 0%) totalled €10,977 million and increased by 4.2% from the previous year.

In the food trade, net sales were €3,896 million, up 2.6% from the previous year. The grocery sales of K-food stores increased by 4.2% (VAT 0%). Good sales performance was achieved especially by K-citymarkets and K-supermarkets. The sales of Pirikka products increased by 11.2%. K-food stores' market share increased in 2010. The operating profit excluding non-recurring items of the food trade was €160.1 million, an increase of €27.0 million.

In the home and speciality goods trade, net sales were €1,569 million, up 0.7% from the previous year. K-citymarket's home and speciality goods, Intersport's and Budget Sport's sales developed best. The operating profit excluding non-recurring items of the home and speciality goods trade was €66.0 million, an increase of €36.5 million.

In the building and home improvement trade, net sales were €2,519 million, up 9.0%. The building and home improvement market in all operating countries turned up during the latter half of the year. The operating profit excluding non-recurring items of the building and home improvement trade was €24.0 million, an increase of €12.1 million.

In the car and machinery trade, net sales were €955 million, up 0.8%. The comparable net sales grew by 15.1%. The impact of the car tax change (effective 1 April 2009) and the discontinued Baltic grain and agricultural inputs trade have been eliminated from the comparable net sales. VV-Auto's sales increased and the year-end volume of orders was higher than in the previous year. The combined market share of Audi, Volkswagen and Seat rose to 19%. Konekesko's comparable net sales increased by 6.2%. The operating profit excluding non-recurring items of the car and machinery trade was €33.1 million, an increase of €32.7 million.

PROFITABILITY IMPROVED IN ALL DIVISIONS

Kesko's operating profit excluding non-recurring items was €268.1 million, up €112.8 million from the previous year. Operating profit excluding non-recurring items exceeded the level of the previous year in all divisions. Solvency and liquidity remained at an excellent level.

STORE NETWORK IS STRENGTHENED

In 2010, the Group's capital expenditure totalled €325.3 million (€198.0 million). Capital expenditure in store sites was €212.2 million.

The food trade segment invests strongly in the expansion and renovation of the store network. A new K-citymarket in Iisalmi and seven K-supermarkets and eight K-markets were opened in 2010. In addition, one K-supermarket was extended and turned into a K-citymarket, while renovations and extensions were made in several stores.

In the home and speciality goods trade, a new Kodin Ykkönen department store was opened in Lappeenranta.

The network of building and home improvement stores will be expanded in Finland and other operating countries, particularly in Russia, in the next few years. In 2010, one new K-rauta store was opened in Jyväskylä, Finland, one in Stockholm, Sweden, and two stores in nearby areas of Moscow, Russia.

STATUTORY PENSION LIABILITY IS TRANSFERRED TO ILMARINEN

On 1 September 2010, the management of the statutory pension liability and the related insurance portfolio of some 3,100 people employed by the Kesko Group were transferred from the Kesko Pension Fund to Ilmarinen Mutual Pension Insurance Company. The insurance portfolio is transferred in two phases; the second phase will not be implemented until the beginning of 2012 at the earliest.

NUMBER OF FOREIGN SHAREHOLDERS INCREASED

The number of shareholders totalled 38,258 at the end of 2010, a decrease of 630 from the previous year. Foreign shareholders owned 38% of the B shares at the end of the year, compared with 30% the previous year.

Performance indicators for 2010

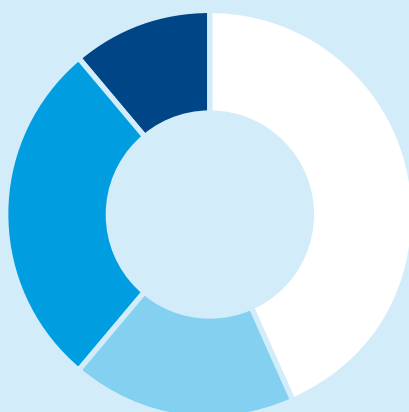
KEY FIGURES

		2010	2009	Change
Net sales	€ million	8,777	8,447	3.9%
Operating profit	€ million	306.7	232.3	€74.4 million
Operating profit excl. non-recurring items	€ million	268.1	155.4	€112.8 million
Profit before tax	€ million	312.4	216.6	€95.8 million
Return on capital employed	%	15.9	11.0	4.9 pp
Return on equity	%	10.1	6.6	3.5 pp
Cash flow from operating activities	€ million	438	379	15.7%
Capital expenditure	€ million	325	198	64.3%
Equity ratio	%	53.4	54.1	-0.7 pp
Gearing	%	-16.8	-12.5	-4.3 pp
Dividend per share	€	1.30*	0.90	44.4%
Earnings per share, diluted	€	2.06	1.27	62.1%
Equity per share, adjusted	€	21.81	20.39	7.0%
Personnel, average		18,215	19,200	-5.1%

*proposal to the AGM

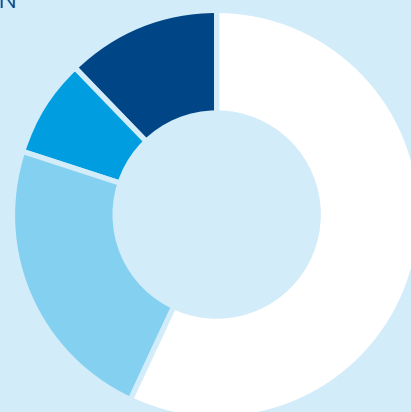
NET SALES IN 2010, BREAKDOWN

- Food trade 44%
- Home and speciality goods trade 18%
- Building and home improvement trade 28%
- Car and machinery trade 11%



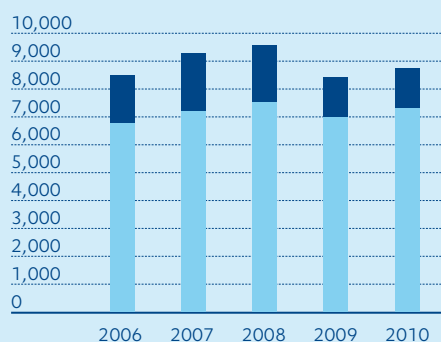
OPERATING PROFIT EXCL. NON-RECURRING ITEMS IN 2010, BREAKDOWN

- Food trade 57%
- Home and speciality goods trade 23%
- Building and home improvement trade 8%
- Car and machinery trade 12%



GROUP'S NET SALES*

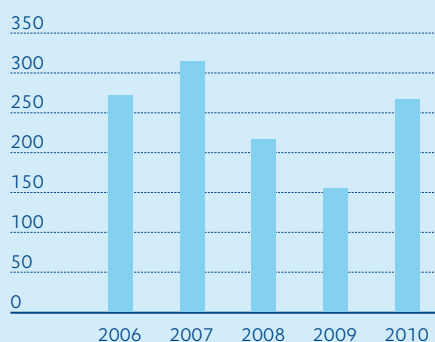
€ million



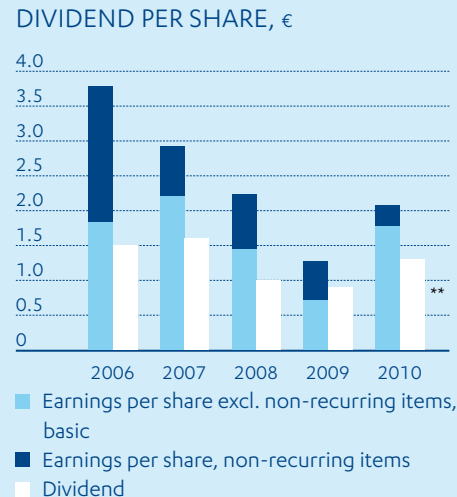
- Finland
- Other countries

GROUP'S OPERATING PROFIT*

excl. non-recurring items, € million



EARNINGS PER SHARE AND DIVIDEND PER SHARE, €



*continuing operations

**proposal to the AGM



Illustrative picture of the Veturi shopping centre in Tervaskangas.

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 the food, home and speciality goods, building and home improvement, and car and machinery trades. Its division parent companies and chains act in close cooperation with retailer entrepreneurs and other partners. Kesko operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia, and Belarus.



STRATEGIC OBJECTIVES

PROFITABLE GROWTH

- Our objective is to grow faster than market
- We seek growth in nearby areas, particularly in Russia
- We invest in our store network
- We develop e-commerce solutions
- We increase our shareholder value

SALES AND SERVICES FOR CONSUMER-CUSTOMERS

- We increase the value of our brands
- Our customer satisfaction exceeds that of our competitors
- Our competitive asset is the K-retailers who know the local customers and their needs
- We use loyal customer information efficiently and commit our customers

RESPONSIBLE AND EFFICIENT OPERATING PRACTICES

- Our operating practices are responsible
- We efficiently combine retailer entrepreneurship and chain operations
- We leverage our economies of scale and competence for the benefit of customers
- We automate our routines and processes

THE OBJECTIVE IS PROFITABLE GROWTH

PROFITABLE GROWTH

Our objective is to have better sales growth than market and to increase our shareholder value

Kesko's key strategic objective is healthy, profitable growth. In the home market, the objective is to grow faster than market. Growth is also sought in nearby areas, particularly in the fast developing Russian market.

The target return on equity is 12%, while the target return on capital employed is 14%. Our objective is to maintain good solvency in all market conditions.

Capital expenditure in the store network and in strengthening competitive advantages

Kesko seeks growth by strengthening its store network, by implementing projects that give competitive advantage and synergy benefits, and by developing electronic customer communications, including e-commerce.

Capital expenditure in the food trade is directed at expanding and refurbishing the store network in Finland. In addition, the target is to expand business to Russia. The most important project giving competitive advantage in the food trade involves strengthening the selections, service and displays of fruit, vegetable and bakery departments and service counters offering meat, fish and ready-to-eat meals.

In the home and speciality goods trade, synergy benefits are sought by combining purchasing and logistics operations, and chain management. The most important project giving competitive advantage is that designed to increase e-commerce.

In the building and home improvement trade, the store network will be expanded over the next few years in Finland and other operating countries, mainly in Russia. Synergy benefits are achieved by investing in centrally directed sourcing and selections development, and in a joint enterprise resource planning system and logistics network.

In the car and machinery trade, the market shares of the brands represented, such as Volkswagen and Audi, will be increased by developing the retail sales network.





SALES AND SERVICES FOR CONSUMER-CUSTOMERS

Kesko is a house of brands

Kesko has dozens of successful chain and product brands. Strategic objectives and a target image have been defined for each brand. The brands are built and managed according to customer needs, taking the K-Group's structure and business models into account. The objective is to increase the value of the brands and to improve the efficiency of marketing. This is systematically measured by customer satisfaction and employer profile surveys, as well as by financial indicators.

The main target group of the chain and product brands owned by Kesko is consumers, whose shopping experiences at the K-stores determine our success in the market.

K-Plussa is the joint customer loyalty system of the K-Group. It is the most extensive and diverse customer loyalty system in Finland, providing K-Plussa customers with benefits at over 3,000 outlets and from more than 40 business partners. Chains and stores utilise customer information in their selection planning, pricing, marketing and store network planning, for example. A key objective is to increase the commitment of K-Plussa customers.

Kesko is primarily the group brand of a listed company. The target groups of the Kesko brand are investors, shareholders, suppliers of goods and services, employees, society in general and all who are in our operating environment. The objective is to increase shareholder value.

BREAKDOWN OF KESKO'S NET SALES BY BUSINESS MODEL, %



- Kesko's sales to retailer entrepreneurs 52%
- Kesko's own retailing 27%
- Kesko's B2B sales 21%

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, for example, 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 implements the chain concept and is responsible for store management, customer satisfaction, the personnel and business profitability. The K-Group's competitive edge derives from its best selections, excellent service and knowledge of customer needs.

At the end of 2010, Kesko had 1,270 K-retailer entrepreneurs as well as about 170 other retailer entrepreneurs in the Asko, Sotka, Byggmakker and Senukai chains as partners. Kesko's sales to the retailer entrepreneurs accounted for 52% of Kesko's net sales in 2010.

2) Kesko's own retailing

Kesko acts as a retailer in business operations where the competitive advantage derives from having a 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 the model mainly used in expanding business operations outside Finland. In 2010, Kesko's own retailing accounted for 27% of net sales.

3) B2B sales

Kesko is also engaged in B2B sales. Typical B2B customers include construction companies, agricultural entrepreneurs, the manufacturing industry, institutional kitchens and the public sector. In 2010, Kesko's B2B sales accounted for 21% of net sales.

Online communications and e-commerce

New online services, wireless solutions and different terminal devices have increased the diversity of customers' needs and purchasing habits. Electronic marketing and interactive customer business models will be a key competitive factor in the near future.

The development of online communications and e-commerce are strategic focal points in all divisions. The objective is that customers will be able, if they wish, to use the K-Group's online services from planning their purchases to using the product.

Kesko is developing its current online stores and services and opening new ones. The objective is to improve customer satisfaction and increase sales. Kesko has gained a strong position in online sales of home and speciality goods through the NetAnttila, Kodini.com, Konebox.fi, CM-store and Budget Sport online stores.

CUSTOMER-DRIVEN BUSINESS MODELS



RESPONSIBLE AND EFFICIENT OPERATING PRACTICES

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. The trading sector is required to take responsibility for product safety and healthiness, 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

A strategic objective is to efficiently combine K-retailer entrepreneurship and chain operations. The K-retailer entrepreneur implements the chain concept and is responsible for store management, customer satisfaction, the personnel and business profitability.

Kesko's efficient chain operations and joint processes provide support to retailers. Chain operations offer the retailer a joint business concept which includes 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.

The function of Kesko's purchasing and logistics is to source and deliver products efficiently and at competitive prices. Purchasing is always target-oriented and based on plans. The aim is selections which serve customers best and at affordable prices, while responsible practices are applied. Logistics operations manage the whole supply chain efficiently and provide customers with an optimum on-shelf availability at the lowest possible costs.

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.

The key objective of the work and productivity programme launched is to increase labour productivity in Kesko and the chain stores. The most important tools for improving productivity include enhancing personnel competence and management, and increasing the efficiency of operating practices.

Promoting the wellbeing of employees has become an increasingly important factor. A management model will be built and results measured to improve wellbeing at work. Several projects on work health promotion are underway, aimed at improving the working capacity and motivation of employees, reducing sickness and increasing the retirement age.

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 forecasting 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 18.

FINANCIAL OBJECTIVES AND THEIR REALISATION

Objectives announced on 5 Feb. 2009	Target level	Realised in 2010	Realised in 2009
Net sales growth	Growth faster than market	Realised*: Food trade, K-citymarket's home and speciality goods trade, car and machinery trade	Realised*: Food trade, sports trade, building and home improvement trade (Finland), car and machinery trade
Return on equity	12%	10.1%, excl. non-recurring items 8.7%	6.6%, excl. non-recurring items 3.8%
Return on capital employed	14%	15.9%, excl. non-recurring items 13.9%	11.0%, excl. non-recurring items 7.3%
Interest-bearing net debt/EBITDA	< 3	-0.9	-0.7
Equity ratio	40–50%	53%	54%
Economic value added	Growing positive EVA as internal indicator	Realised in all divisions, except for building and home improvement trade	Not realised

*Kesko's own estimate

K-PLUSA IS THE MOST EXTENSIVE CUSTOMER LOYALTY PRO- GRAMME IN FINLAND

The most extensive and diverse customer loyalty programme in Finland provides K-Plussa customers with benefits from more than 3,000 outlets and over 40 business partners. Local K-retailers and the K-Group chains also offer special benefits and services to their K-Plussa customers.



All K-Group stores will have similar, easy-to-use and secure chip & pin terminals.

In 2010, the K-Plussa customer loyalty programme gained over 170,000 new customers. Approximately 2.1 million households are in the sphere of customer loyalty benefits.

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 in electronic channels in particular were further increased in 2010.

RETAILERS CATER FOR CUSTOMERS

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 carried out by the retailers both in electronic and traditional media is cost-efficient and attracts much attention. Results obtained from special benefits and events targeted to customers are extremely good.

K-GROUP CHAINS' OPERATIONS ARE BASED ON CUSTOMER INFORMATION

At the chain level, customer information obtained via K-Plussa is leveraged in store network planning, concept development, and in building the chains' selections and services. Many chains have loyalty schemes targeted for their important customer groups, such as Kodin Ykkönen's Ykkösasiakas programme.



BENEFITS FOR ALL K-PLUSA CUSTOMERS

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

The importance of targeted electronic communications continues to grow. Customers can choose which chains or areas of interest they want to have electronic communications from. K-Group chains and stores also approach their customers with personal e-mail offers. Customers can deposit their K-Plussa points in their bank account with any bank. Since spring 2010, K-Plussa customers have also been able to order their K-Plussa points notice direct to their electronic mail service instead of receiving a paper copy.

The K-Group's customer magazine Pirkka, the most widely read magazine in Finland, is distributed to every home. The magazine contains articles on cooking, fashion and interior decoration, for example, as well as benefits and special offers to K-Plussa customers.

NEW PARTNERS TO THE K-PLUSA NETWORK

K-Plussa benefits are available from more than 3,000 outlets and over 40 business partners. In May 2010, the Restel hotel and restaurant network became a new K-Plussa partner. The network consists of some 200 restaurants and nearly 50 hotels and spas throughout Finland.

MORE THAN 170,000 NEW K-PLUSA CUSTOMERS

In 2010, the K-Plussa customer loyalty programme gained more than 170,000 new customers. There are over 3.6 million K-Plussa customers.

Customers can attach the K-Plussa feature to their OP-Pohjola debit cards, credit cards and Visa Electron cards, as well as to Nordea and Sampo Bank Visa Electron cards. There are nearly 900,000 co-branding cards.

Customer information and programmes play a key role in business planning. In the K-Group, customer information is collected and analysed by K-Plus Oy.

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.

Napero Club is also on Facebook

The Napero Club is meant for all K-Plussa customers of the K-Group who have children aged under seven. The club has over 140,000 members from over 130,000 households. In 2010, the club was extended to Facebook. On the Facebook pages of the Napero Club, families with children can discuss subjects they find interesting and at the same time have access to information about new products, special offers, contests and entertainment.

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

€3,896m

Food trade segment's net sales

€160.1m

Food trade segment's operating profit excluding non-recurring items

2.6%

Development in 2010

€27.0m

Growth in 2010





K-food stores focus on food and service

MARKET

The Finnish grocery market totalled some €14.6 billion (incl. VAT) in 2010, representing a growth of 0.3% from 2009. Excluding the impact of VAT, the total Finnish grocery market is estimated to have grown by some 2.5% in 2010 compared with the previous year (statistics by the Finnish Grocery Trade Association and own estimate).

SATISFIED CUSTOMERS ARE A PREREQUISITE OF SUCCESS

K-food stores are visited by 900,000 customers every day. Meeting different customer needs and successful encounters with every customer are a prerequisite of K-food stores' success. Customers' requirements have become increasingly individual. Quality and gourmandise, favourable prices, ease of cooking, responsibility, special diets and healthy eating are emphasised in customers' needs and wishes.

The aim of K-food stores is to take customers' different needs and expectations increasingly into account and consequently strengthen customer relationships.

K-food stores' customer-driven competitive advantages include:

- **By far the best** fruit and vegetable department, bakery department and service counters offering fresh meat, fish and ready-to-eat meals in the area.
- **The widest selections** which, in addition to a comprehensive basic selection, include products from local producers, valued by customers of the particular store.
- **Nearly 2,000 Pirkka products** which combine high quality and permanently low prices. The Pirkka range is undergoing a continuous development. Based on increased customer demand, new Pirkka Organic and Pirkka Fairtrade products are also constantly sought for the range.
- **Exiting stores** with displays and changing new products, combined with good service. The best food expertise, a versatile supply of recipes, and cooking advice.
- **E-commerce and online communications** are being actively developed to serve customer needs and make shopping easier.

K-RETAILERS SERVE CUSTOMERS TAKING LOCAL NEEDS INTO ACCOUNT

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 meet 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 a quality enhancement and measuring 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 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, and the attainment of competitive advantages.

STRONG CHAIN CONCEPTS

Chain concepts are K-food stores' strength and chain operations are systematically promoted. Kesko Food's chain operations provide K-retailers with a strong basis for sourcing, building selections, marketing and price competition. The aim is to improve the efficiency of the whole supply chain.

K-citymarkets offer their customers the widest selections of groceries and home and speciality goods, a low-priced shopping basket and the best special offers – every day. Their special strengths include fresh bread, meat and fish, fruit and vegetables, diversified food expertise, and eye-catching displays.

There are 69 K-citymarkets in Finland in 51 towns.

K-supermarkets are better than the average food stores, the strength of which is excellent service and wide selections of food items. 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. The chain consists of 181 stores.

K-markets are reliable, service-oriented and local neighbourhood stores located near customers. In addition to good basic selections, K-markets offer customers fresh bread straight from the store oven, fresh, high-quality fruit and vegetables, and the best local services. The chain comprises 489 stores.

K-extras are neighbourhood stores which focus on personal service and provide customers with daily essentials. Many K-extra stores also offer additional services, such as the sale of agricultural and builders' supplies, fuel distribution, lottery and postal services. The chain comprises 163 stores.



There are 1,007 K-food stores in Finland. The K-food store network is the most comprehensive in Finland and 51% of Finns live less than a kilometre away from a K-food store. The neighbourhood store network of K-market and K-extra stores is the most comprehensive in Finland.

K-FOOD STORE CHAINS HAVE A STRONG COMMON CORE

K-food stores' joint basis lies on the common operating systems concerning selections management, chain marketing and displays, the selections of essential products common to all chains, and Pirkka products.

Competitive prices are also a prerequisite for good customer satisfaction. Affordable prices are based on the maximum pricing of joint selections and low-priced Pirkka products as well as the chains' campaigns and store-specific special offers. K-Plussa offers are always at least 10% less than the original price. In addition, the benefit received in the form of K-Plussa points is up to 5%.

In the chain management of K-food stores, customer information is, above all, leveraged in the building of selections, pricing management, chain marketing and planning a store network that meets customer needs.

Competitiveness is reinforced by efficient practices, 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), whose other major members include Ahold, Dansk SG, ICA, Micros and Système U.

PIRKK – HIGH QUALITY, PERMANENTLY LOW PRICES AND RESPONSIBILITY

The Pirkka range of nearly 2,000 products plays an important role in the K-food stores' total selection. Pirkka products combine high quality and low prices. Finnish consumers find the Pirkka brand positive and Pirkka is a highly-rated brand among young people, too. In a nationwide youth survey, respondents considered Pirkka as the friendliest brand of all. Responsibility has also been highlighted in image surveys. According to the sustainability survey commissioned by Helsingin Sanomat, Finnish consumers consider Pirkka as the third most responsible brand. The success of the brand in many consumer surveys is a result of long-term work.

At the end of 2010, there were 1,966 Pirkka products. The range also includes Pirkka Organic and Pirkka Fairtrade products. There are now about 50 Pirkka Organic and nearly 40 Pirkka Fairtrade products.



Pirkka recycled plastic bag receives a recovery award

The Pirkka recycled plastic bag is a pioneer in recycling: the protective plastic wrappings used in Kesko Food's goods transport are recycled into plastic bags. The recovery award is an acknowledgement for this outstanding innovative solution related to the reuse of waste and secondary raw materials. A new way to reuse plastic instead of incineration, the large volumes and domestic production were seen as the assets of the Pirkka recycled plastic bag.

K-supermarket Torpparinmäki has LED lighting

K-supermarket Torpparinmäki that was opened in Helsinki is the first store in the world in which the general lighting is implemented with the LED lighting system designed for stores. The LED lighting of a retail store consumes over 35 percent less energy than traditional energy-efficient fluorescent tubes. K-food stores are working continuously to achieve energy savings. The K-Group has signed the trading sector energy agreement and made a commitment to save over 65 million kilowatt hours (kWh) by the end of 2016.

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 research unit. Diverse recipes are published in the Pirkka magazine, on the Pirkka.fi web site, on the K-RuokaPirkka leaflet that is available at all K-food stores, on the TV programme "What are we having today?", and on Pirkka product packaging.

KESPRO

Kesko Food's subsidiary Kespro is the leading wholesaler in the Finnish hotel, restaurant and catering (HoReCa) business and acts as a partner for its customer companies and municipalities in Finland. Kespro provides delivery and cash&carry services for its customers in Finland. In 2010, the total HoReCa market in Finland was some €2.5 billion (own estimate).

High customer satisfaction requires continuous development of operations. Kespro helps its customers succeed in their business by offering them the best sourcing solutions in the HoReCa sector.

Kespro's aim is to be the most wanted business partner in the HoReCa sector. The wide, customer-driven product selection comprises food items, alcohol, cookware, tableware and cutlery. Kespro's own Menu range is versatile, high-quality and favourably-priced.

Kespro operates throughout Finland in six sales areas, with six delivery sales units, 16 cash&carry outlets and 520 employees.

YEAR 2010

The food trade segment's net sales totalled €3,896 million in 2010, up 2.6%. The K-food stores' grocery sales increased by 4.2% (VAT 0%). K-food stores increased their market share in 2010. Sales of Pirkka products grew by 11.2% (VAT 0%).

The operating profit excluding non-recurring items amounted to €160.1 million, an increase of €27.0 million. The improvement in profitability can be attributed to the good development of retail sales and the improved efficiency of sourcing, logistics, and store site and chain operations.

During the year, a new K-citymarket in Iisalmi, seven K-supermarkets, and eight K-markets were opened. The K-supermarket in Kankaanpää was extended and turned into a K-citymarket. Other refurbishments and extensions were also completed.

OBJECTIVES AND STRATEGIC EMPHASES

Kesko Food's key objective is to increase market share in Finland. Essential issues in the strategy are increasing customer satisfaction and profitable growth.

K-food stores cater for customers' various needs and expectations. The aim is to strengthen customer relationships and that way increase the average purchase. Our objectives also include increasing the number of customer relationships. K-food stores' largest customer target group is families with children.

K-food stores offer their customers the best fruit and vegetable department, bakery department and service counters with fresh meat, fish and meals in the area. Kesko Food has started competitive advantage projects in order to strengthen the selections, service and displays of these departments. Key competitive advantages of K-food stores also include the widest selections, Pirkka products, eye-catching displays, and good service.

Affordable selections and the profitability of business are based on the continuous improvement of operational efficiency, efficient chain management, and the active development of the store network.

In the next few years, Kesko Food's key strategic focuses include the strong building and enhancement of the store network. The maintenance of the stores' quality level, the expansion of selections, new service needs and migration require constant development of the network. In the future, considerable capital expenditure will be made in new K-supermarket and K-citymarket stores in particular. Kesko Food aims to open six new K-citymarkets and 35 K-supermarkets in 2011.

Kesko Food will also vigorously enhance its electronic services and explore opportunities for food retailing online. The premise is that the retailing sector and electronic communications should serve customer needs and make shopping easier.

Opportunities for internationalisation are also being actively investigated, with the aim of expanding business to Russia.

COMPETITORS

- Kesko Food trade, Finland, market share 35% (own estimate)
- Competitors: Prisma, S-market and Alepa/Sale (S Group), Valintatalo, Siwa and Euromarket (Suomen Lähikauppa Oy) and Lidl
- HoReCa, Finland, Kespro
- Competitors: Meiranova Oy, Metro-tukku, Heimon Tukku Oy

K-Group's food trade, store numbers, and retail and B2B sales	Number		Sales, (VAT 0%) € million	
	2010	2009	2010	2009
K-citymarket, food	69	69	1,295	1,215
K-supermarket	181	170	1,488	1,398
K-market (incl. service station stores)	489	487	1,293	1,279
Others	268	304	268	292
K-food stores, retail sales			4,343	4,185
Kespro			682	673
Food trade, total	1,007	1,030	5,025	4,857

Food trade segment's key figures		2010	2009
Net sales	€ million	3,896	3,798
Operating profit	€ million	158.4	170.6
Operating profit excl. non-recurring items	€ million	160.1	133.1
Operating profit as % of net sales excl. non-recurring items	%	4.1	3.5
Capital expenditure	€ million	117.2	69.4
Return on capital employed* excl. non-recurring items	%	27.0	20.9
Personnel average		2,881	3,035

* cumulative average

Food trade segment's net sales in 2010	€ million	Change, %
K-citymarket, food	907	5.5
K-supermarket	1,061	5.7
K-market and K-extra	1,028	0.2
Kespro	688	1.7
Others	212	-8.2
Net sales, total	3,896	2.6

Food trade segment's capital employed at 31 December, € million	2010	2009
Non-current assets	603	632
Inventories	108	90
Short-term receivables	400	371
./. Non-interest-bearing debt	-557	-489
./. Provisions	-13	-8
Capital employed**	541	596

** capital employed at the end of month

Home and speciality goods trade

THE HOME AND SPECIALITY GOODS TRADE comprises Anttila and Kodin Ykkönen, K-citymarket's home and speciality goods, Intersport Finland, Indoor's Asko and Sotka, Musta Pörssi and Kenkäkesko. The total number of home and speciality goods stores is 427, which operate in 13 chains. 190 of the stores are owned by Kesko.

€1,569m

Home and speciality goods trade segment's net sales

€66.0m

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

0.7%

Development in 2010

€36.5m

Growth in 2010

ANTTILA

K CITYMARKET

KODINYKKÖNEN 1

NETANTTILA.COM

INTERSPORT

budget sport

kesport

ASKO

SOTKA

MUSTA PÖRSSI

KONEBOX

KKENKA

ANDIAMO



Well-known and reliable store chains in many product lines

MARKET

Kesko's home and speciality goods trade operates in the clothing, home, sports, leisure, home technology, entertainment and furniture product lines. The Finnish total market of home and speciality goods is estimated to be approximately €9.2 billion (VAT 0%).

Consumer confidence in the economy has improved after the recession, but the market growth has remained very moderate. Market development in the home and speciality goods sector varies depending on the product line. In 2010, market development was positive and gradual in all product lines, which can be attributed to growing consumer confidence and Sunday openings.

In Finland, the estimated market of interior decoration items and furniture is €1.5 billion (VAT 0%), representing an increase of 3.5% from the previous year.

The Finnish market for home electronics and entertainment is estimated to total some €1.6 (VAT 0%) billion, representing an increase of about 5%.

In Finland, the estimated sports trade market totalled €760 million (VAT 0%) and increased by 5%.

The shoe trade market increased by some 4.5% from the previous year in Finland.

SIX DEVELOPING ONLINE STORES

Kesko has several online stores selling home and speciality goods and their sales are increasing. Anttila's online store NetAnttila operates in Finland, Estonia and Latvia. For many years, NetAnttila has been the best-known and most popular online department store in Finland. Anttila also has the Kodini.com online store, which specialises in interior decoration goods.

In sports trade, the Budget Sport online store operates as part of Intersport Finland.

The Konebox online store sells home technology. Konebox combines the best parts of online shopping and a traditional store.

A refurbished CM-store.fi was opened in 2010. Customers can download music to their computers and mobiles on this online store, which also sells talking books.

YEAR 2010

During 2010, cooperation intensified in Kesko's home and speciality goods trade, particularly in Anttila and K-citymarket. Since late 2010, Anttila and K-citymarket have had the same management to ensure the implementation of synergy benefits in purchasing and other operations.

The aim has been to improve the companies' competitiveness with a joint strategy and centralised retail expertise and by ensuring the availability of interesting store concepts for shoppers. Synergy benefits are sought, above all, in purchasing, in the development of the store network and through uniform and efficient business processes.

Kesko's net sales of home and speciality goods totalled €1,569 million in 2010, an increase of 0.7% from the previous year. The combined retail sales of home and speciality goods stores were €1,712 million (VAT 0%), an increase of 1.6%.

The operating profit of the home and speciality goods trade excluding non-recurring items was €66.0 million, representing an increase of €36.5 million from the previous year. The improved operating profit can, above all, be attributed to the improved profitability and purchasing efficiency.

OBJECTIVES AND STRATEGIC EMPHASES

Competition in the home and speciality goods trade is becoming more international and successful chains are based on efficient business models. The proportion of online business out of the total sales in the sector continues to increase. Kesko's online stores operate under well-known and reliable chain brands. Online business relies on a multi-channel approach, which allows customers to benefit from both the web and the traditional store. Online stores are being planned for all product lines in the home and speciality goods trade.

Cooperation between Kesko's home and speciality goods companies will be intensified further.

The 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.



A new logistics centre

Anttila's new logistics centre was completed in Kerava in late 2010. The centre will handle deliveries to all Anttila and Kodin Ykkönen department stores and to NetAnttila customers. Annually, the logistics centre will deliver over one million orders to Anttila's online customers. Photo on page 29.

K-CITYMARKET

K-citymarket is a diversified and favourably-priced hypermarket chain, which provides wide selections of groceries and home and speciality goods. K-citymarket Oy is responsible for the home and speciality goods business in the stores, while K-retailer entrepreneurs are responsible for the food business. The figures presented here refer to the K-citymarket's home and speciality goods trade. There are 69 K-citymarkets in Finland.

K-citymarkets offer their customers up-to-date, frequently changing selections of everyday goods, easily and at low prices.

Year 2010

In 2010, the net sales of K-citymarket's home and speciality goods totalled €620 million, which represented an increase of 4.2%. K-citymarket's retail sales of home and speciality goods amounted to €603 million.

In 2010, a new K-citymarket was opened in Iisalmi and the K-supermarket in Kankaanpää was refurbished and turned into a K-citymarket. The K-citymarket in the city centre of Pori was turned into a K-supermarket.

ANTTILA

Anttila retails entertainment, fashion and home goods.

Anttila department stores offer their customers wide selections of home goods, casual clothing and entertainment at low prices. Anttila has 30 department stores and one smaller speciality store in Finland.

Kodin Ykkönen provides smart, up-to-date products and services for home decoration. There are nine Kodin Ykkönen department stores for interior decoration and home goods, complemented with the Kodinr.com online store.

For several years, NetAnttila has been the best-known and most popular online department store in Finland. It offers low-priced and wide selections, easily and reliably. NetAnttila operates in Finland, Estonia and Latvia.

Year 2010

Anttila's net sales were €505 million in 2010, a decrease of 1.6%. Retail sales of Anttila department stores totalled €295 million, a decrease of 2.9%. Retail sales of Kodin Ykkönen department stores for interior decoration and home goods totalled €132 million, down 0.5%. Retail

sales of NetAnttila amounted to €80 million, an increase of 0.9%.

In 2010, a new Kodin Ykkönen department store was opened in Lappeenranta, while the Kodin Ykkönen department store in Kaisaniemi, Helsinki, was closed due to the termination of lease.

In late 2010, Anttila's new logistics centre applying the latest, modern technology was completed in Kerava. It will be implemented gradually during the first months of 2011. The logistics centre will take care of deliveries to all Anttila and Kodin Ykkönen department stores and NetAnttila customers. The new logistics centre's floor area is 19,000 m² and cubic volume 350,000 m³. The total capital expenditure of the project is €50 million, divided approximately half and half between the building and the warehousing technology.

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 56 Intersport stores, five Budget Sport stores and 35 Kesport stores in Finland, of which 89 are owned by retailer entrepreneurs and seven by Intersport Finland. They are complemented by the Budget Sport online store.

Intersport is part of the international sports chain. The Intersport chain is the market leader in Finnish sports retailing. Intersport provides clothing and equipment for keen enthusiasts and less active athletes, for sports and leisure purposes. 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 products for leisure and versatile physical exercise, for sports and outdoor activities.

Kesport stores, located in smaller rural centres, are the leading sports stores in their areas and provide their customers with expert service and help.

Kesko is a partner of Intersport International Corporation.





E-commerce is expanding

In the home and speciality goods trade, the emphasis will be on the development of e-commerce and marketing. Music and talking books can be downloaded at CM-store and DigiAnttila sites, which were both refurbished in 2010. DigiAnttila also offers e-books.

Kesko's online stores in the home and speciality goods trade are:

- netanttila.com
- digianttila.com
- kodin1.com
- cmstore.fi
- konebox.fi
- budgetsport.fi

Year 2010

The net sales of Intersport Finland were €173 million in 2010, representing an increase of 5.1%. The combined retail sales of Intersport, Budget Sport and Kesport stores were €262 million, up by 4.1%.

In 2010, a new Intersport store was opened in Rauma. Two Intersport stores and two Kesport stores were closed.

INDOOR

Indoor's Asko and Sotka, well-known retail store chains selling furniture and interior decoration items, consist of 79 stores in Finland and seven stores in Estonia. In Finland, 55 of the stores are owned by Indoor, while 24 operate as a franchise.

Asko provides quality-conscious home decorators with a competitive product range combined with the most active and reliable service in the sector.

Sotka's main target group consists of customers who value low prices and easy shopping.

Year 2010

Indoor's net sales totalled €155 million in 2010, down 0.5%. The combined retail sales of the Asko and Sotka chains in Finland were €166 million, an increase of 6.3%.

In spring 2010, consumers selected Asko as the most reliable furniture store in Finland for the fourth time in succession in the 'Most Reliable Brand' survey made for the Finnish Readers' Digest.

Cooperation with the Allergy and Asthma Federation was intensified. The right to use the allergy label was granted to the Puro sofa by Asko.

In 2010, a new Asko store and a new Sotka store were opened in Raisio. They replaced the ones closed in Masku. In addition, five stores in Finland and all Asko and Sotka stores in Latvia were closed.

MUSTA PÖRSSI AND KONEBOX

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 range of product-related services and customers can choose to have the home technology installed ready to use. There are 46 Musta Pörssi stores, two Konebox stores and the Konebox online store in Finland. 44 of the stores are owned by retailer entrepreneurs and four by Musta Pörssi Ltd.

On the home technology market, the Konebox online store competes with quality products, good availability and low prices. Competitive prices are based on an efficient chain of logistics and warehousing combined with the online store's self-service.

Year 2010

The net sales of Musta Pörssi were €96 million in 2010, representing a decrease of 10.6%. The combined retail sales of the Musta Pörssi and Konebox stores were €119 million and, a decrease of 6.4% from the previous year.

In 2010, a new Konebox store was opened in Vantaa, while six Musta Pörssi stores in all were closed.

KENKÄKESKO

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

K-kenkä stores are shoe stores for the whole family, offering their customers a wide selection of branded footwear and expert service.

Andiamo stores cater for trendy and fashion-conscious consumers, for whom the store offers a fashionable selection of shoes that is constantly being updated.

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

There are 82 K-Group shoe stores, of which 80 are owned by retailers and two by Kenkäkesko.

Year 2010

The net sales of Kenkäkesko were €23 million in 2010, a decrease of 6.5%. The combined retail sales of the K-Group's shoe stores amounted to €48 million, an increase of 0.3%.

Seven shoe stores were closed during the year.

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 19% (own estimate)
- Competitors: furniture and interior decoration stores

Home technology trade

- Musta Pörssi and Konebox
- Market share 8% (own estimate)
- Competitors: stores specialised in home technology, hypermarkets and online stores

Shoe trade

- K-kenkä, Andiamo, Kenkäexpertti
- Market share 10.2% (Association of Textile and Footwear Importers and Wholesalers, own estimate)
- Competitors: other speciality stores, department stores, hypermarkets, sports stores and online stores

K-Group's home and speciality goods trade, number of stores, and retail and B2B sales	Number		Sales, (VAT 0%) € million	
	2010	2009	2010	2009
Anttila department stores	31	31	295	303
Kodin Ykkönen department stores for interior decoration and home goods*	10	10	132	132
Distance sales (mail order and NetAnttila)	1	1	72	71
K-citymarket, home and speciality goods	69	69	603	575
Asko	31	33	80	74
Sotka	48	50	86	82
Intersport	56	57	207	200
Budget Sport*	6	6	31	26
Kesport	35	37	25	25
Musta Pörssi	46	53	105	119
Konebox*	3	3	14	8
Shoe stores	82	89	48	48
Home and speciality goods stores, Finland	418	439	1,696	1,664
Anttila, Baltic countries (NetAnttila)	2	2	8	9
Indoor, Baltic countries	7	9	7	11
Home and speciality goods stores, Baltic countries	9	11	15	20
Home and speciality goods trade, total	427	450	1,712	1,684

* incl. online sales

Home and speciality goods trade segment's key figures		2010	2009
Net sales	€ million	1,569	1,558
Operating profit	€ million	103.4	66.5
Operating profit excl. non-recurring items	€ million	66.0	29.5
Operating profit as % of net sales excl. non-recurring items	%	4.2	1.9
Capital expenditure	€ million	45.3	29.6
Return on capital employed* excl. non-recurring items	%	15.3	5.8
Personnel average		5,418	5,666

* cumulative average

Home and speciality goods trade segment's net sales in 2010	€ million	Change, %
K-citymarket, home and speciality goods	620	4.2
Anttila	505	-1.6
Intersport	173	5.1
Indoor	155	-0.5
Musta Pörssi	96	-10.6
Kenkäkesko	23	-6.5
Total	1,569	0.7

Home and speciality goods trade segment's capital employed at 31 December, € million	2010	2009
Non-current assets	315	304
Inventories	231	223
Short-term receivables	162	174
./. Non-interest-bearing debt	-291	-260
./. Provisions	-9	-8
Capital employed**	408	434

** capital employed at the end of month

Building and home improvement trade

RAUTAKESKO is an international service provider which retails building, renovation and home improvement supplies in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. Rautakesko manages and develops the K-rauta, Rautia, K-maatalous, Byggnakker, Senukai and OMA retail chains and B2B sales in its operating area. Rautakesko's main functions include the centralised development of chain selections, centralised purchasing and logistics, and the development of chain concepts and the store network. There are 331 building and home improvement stores in eight countries and 88 agricultural stores in Finland. All stores in Finland are owned by retailer entrepreneurs. There are also 96 retailer-owned stores in Norway.

€2,519m

Building and home improvement trade segment's net sales

€24.0m

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

9.0%

Development in 2010

€12.1m

Growth in 2010



RAUTAKESKO
YRITYSPALVELU



The best total solutions for building, renovation and home improvement

BUILDING AND HOME IMPROVEMENT TRADE MARKET

Working in cooperation with its customers, Rautakesko enhances living. Rautakesko aims to be a leading international retail company in the building and home improvement trade, and the market leader in its operating area. Rautakesko's building and home improvement store chains K-rauta, Rautia, Byggmakker, 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 six largest companies in the European building and home improvement market. The sector's largest operators in Rautakesko's market area are DT Group, Bauhaus, OBI, Leroy Merlin and Castorama. Rautakesko is a partner in tooMax-x GmbH, which is, in terms of the purchasing power, 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 €25 billion (VAT 0%). During 2010, the market took an upward turn in Finland, Sweden and Norway, while the downward trend stopped in the Baltic countries and Russia.

Retail sales of Rautakesko's chains totalled €3,314 million (VAT 0%) in 2010, an increase of 7.2% from the previous year. Rautakesko's market share of the building and hardware trade in the whole operating area is approximately 15% (own estimate).

In Finland, the retail market in the building and home improvement sector totals some €3.4 billion (VAT 0%, Finnish Hardware Association, DIY) and increased by 11% in 2010 (Finnish Hardware Association, DIY).

The K-Group's market share in this sector is some 37% (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. In addition, Rautakesko has 32 customer contract stores.

The K-rauta chain consists of 41 stores, with some 70% of sales going to consumers. The Rautia chain consists of 106 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 retail sales of the K-rauta and Rautia chains, Rautakesko B2B Sales and K-customer contract stores in Finland were €1,259 million (VAT 0%), an increase of 7.8% from the previous year. The principal competitors in Finland are Starkki (DT Group), Kodin Terra, S-rauta, Agrimarket and Bauhaus.

In Sweden, the building and home improvement market totals some €3.1 billion (VAT 0%, own estimate). In 2010, the market grew by about 2% (own estimate).

At the end of 2010, Rautakesko had 20 K-rauta stores of its own in Sweden. Retail sales of K-rauta stores in Sweden totalled €209 million (VAT 0%), a growth of 11.2% from the previous year. Rautakesko's market share is about 7% (own estimate).

Private customers account for around 85% of K-rauta clientele. The principal competitors are Bauhaus, Byggmax, Beijer Bygg (DT Group) and local speciality stores.

In Norway, the building and home improvement market totals some €4.9 billion (VAT 0%, own estimate), up 4.5% in 2010 (own estimate).

Byggmakker Norge AS, which is owned by Rautakesko, manages the Byggmakker chain of building and home improvement stores.





Energy efficiency project

The energy efficiency project is a continuation to the Peloton project, lead by Demos Helsinki and financed by Sitra, the Finnish Innovation Fund, which sought ways to support people in their everyday energy choices. The aim of Rautakesko's energy efficiency project is to create a concept of the services available at K-rauta and Rautia stores for improving energy efficiency in housing so that each customer can easily find the solutions suitable just for them.

The chain consists of 112 stores, 16 of which are owned by Byggmakker. Other stores in the chain are owned by retailer entrepreneurs who have chain contracts with Byggmakker. Retail sales of the chain's stores totalled €864 million (VAT 0%) in 2010, an increase of 13.0%. Rautakesko's market share in Norway is about 18% (own estimate). More than half of all sales are to professional customers. Rautakesko's principal competitors are Monter/Optimera (Saint Gobain), Maxbo, Coop and Bauhaus.

In Estonia, the building and home improvement market totals some €0.3 billion (VAT 0%, own estimate) and in 2010 the market decreased by 12% (own estimate). Rautakesko has nine building and home improvement stores in Estonia. Their retail sales totalled €52 million (VAT 0%) in 2010, a decrease of 17.5% from the previous year. Professional customers account for some 60% of all sales. Rautakesko's market share in Estonia is about 18% (own estimate). Rautakesko's main competitors are Ehitus ABC (Saint Gobain), Bauhof and Espak, and Bauhaus in Tallinn.

In Latvia, the building and home improvement market totals approximately €0.3 billion (VAT 0%, own estimate), a decrease of 5% in 2010 (own estimate). Rautakesko has nine K-rauta stores of its own in Latvia. Retail sales of K-rauta stores totalled €47 million (VAT 0%) in 2010, a decrease of 3.9%. It is estimated that Rautakesko's market share in Latvia is 16% (own estimate). Rautakesko's principal competitors are Depo DIY and Kursi.

In Lithuania, the building and home improvement market totals some €0.3 billion (VAT 0%, own estimate) and it decreased by 15% in 2010 (own estimate). In Lithuania, Rautakesko has the majority shareholding in UAB Senuku 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 17 stores of its own, a logistics centre and 58 partner stores. Senukai's retail sales totalled €228 million (VAT 0%) in 2010, a decrease of 12.4% from the previous year. Its competitors include local building supplies outlets and speciality stores.

In Russia, the total market for building, home improvement, interior decoration and home goods trade is some €12 billion (VAT 0%, own estimate). In 2010, the market was at the same level as in the previous year (own estimate). There are 12 K-rauta stores in Russia and their retail sales totalled €204 million (VAT 0%) in 2010, an increase of 20.5% from the previous year. Rautakesko's market share in its operating area in northwestern and central Russia is about 5% (own estimate). Rautakesko's principal competitors are Leroy Merlin, OBI, Castorama, Maxidom and Metrika.

In Belarus, the building and home improvement market totals some €1.0 billion (VAT 0%, own estimate). In Belarus, Senukai controls OOO OMA, which has five stores and distribution outlets for professional customers. Their retail sales amounted to €72 million (VAT 0%) in 2010, representing an increase of 37.9%. OMA's market share is some 7% of the total market (own estimate).

AGRICULTURAL TRADE MARKET

The K-maatalous chain in Finland consists of 88 K-maatalous agricultural stores, 51 which are combined Rautia-K-maatalous or K-rauta-K-maatalous stores. Major customer groups are agricultural entrepreneurs and contractors.

As part of the reorganisation of Kesko's division, the agricultural trade was transferred to Rautakesko in 2009. In 2010, the net sales of the agricultural supplies trade increased by 3.2%.



STRONG CHAIN CONCEPTS

Rautakesko's operations are based on customer-oriented chain concepts, efficient sourcing, and the best practices, which are duplicated internationally. Rautakesko's international business model combines the category management, purchasing, logistics, information system control and network improvements of the company's chains which operate in different countries. The total synergy benefits 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 reliable price-quality ratio. The concept combines the total services and solutions, selections and business models for consumers, builders and professional customers.

The Rautia chain has the widest building and home improvement store network 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 supplies.

The K-maatalous chain's strengths 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. Special strengths include sales of building supplies and knowledge of professional customers. The Norwegian concept has undergone a reform with the introduction of Byggmakker stores providing full service.

The Senukai chain is the market leader in Lithuania. The Mega Store concept offers customers just about every product related to building and living at the stores of over 20,000 m². In June 2010, Senukai's subsidiary OMA opened its full-service store in Minsk, the first of its kind in Belarus.

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 2010

In 2010, the building and home improvement market took an upward turn in Finland, Sweden and Norway. In the Baltic countries and Russia, the decline in the market stopped.

Rautakesko's net sales totalled €2,519 million, representing an increase of 9.0%. Net sales in Finland amounted to €1,163 million, up 10.2%. The building and home improvement trade amounted for €842 million, while the agricultural supplies trade was €321 million. The net sales of subsidiaries in other countries totalled €1,357 million, up 8.0%. The subsidiaries outside Finland accounted for 53.9% of Rautakesko's net sales.

In the building and home improvement trade, operating profit excluding non-recurring items was €24.0 million, up €12.1 million. Rautakesko's capital expenditure totalled €78.2 million, with capital expenditure outside Finland accounting for 54.4%.

In 2010, one K-rauta store was opened in Jyväskylä, Finland; one in Stockholm, Sweden; and two stores in nearby areas of Moscow, Russia. In Belarus, OMA opened its first full-service building and home improvement store in Minsk. The network was also strengthened by opening a Rautia-K-maatalous store in Salo and by expanding K-rauta stores in Lappeenranta, Pori and Haabersti, Estonia.

In 2010, Rautakesko continued to increasingly leverage synergies across all its operating countries, particularly in product sourcing.

Major focal areas in centralised product line management included category management, sourcing and logistics, and stock management. Rautakesko's organisation was revised to support international business models and processes, with the emphasis on retail management. Product line departments are responsible for the centralised formation of joint selections in all countries. The construction of the logistics network covering the whole operating area continued with Itella, a Finnish logistics company. Rautakesko and Itella signed a new transport agreement on warehouse distribution in Finland.

The K-rauta chain's new design and service area business model was expanded. The centralised display area makes shopping easier for customers. In the Rautia chain, special emphasis was placed on the new 'home yard' concept and the sales of houses. In Finland, the online services of K-rauta and Rautia were revised.

'Master Training' in the SMS project (Sales Management System) was organised for retail store employees in Estonia, Latvia, Norway, Sweden and Russia.

Rautakesko participated in the 'Peloton' project organised by Demos Helsinki and Sitra, the Finnish Innovation Fund, the aim of which is to make it easy for Finns to save energy.



Chains' new web pages

The web services of K-rauta and Rautia were revised in 2010. The strong development of online customer services will continue in 2011. The chains' new web services will also be launched outside Finland. Their development is based on changing customer group needs.



Cultivation programmes provide solutions for plant cultivation

Cultivation programmes serve as practical tools for farmers: the basic idea is to offer suitable cultivation instructions for each plant species. The programme includes information on seed selection, fertilisation, plant protection and liming. Decisions are made based on the harvest potential of the particular field and the aim is to increase profitability of cultivation.

OBJECTIVES AND STRATEGIC FOCUSES

Rautakesko's aims for 2011 include sales growth exceeding the market rate and achieving the best customer satisfaction in the sector. As housing construction increases, the building and home improvement market is expected to strengthen in the Nordic countries as well as to experience an upward turn in other operating countries. 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 continue to increase. Customers' lack of time, their changing age structure and individual needs are anticipated to further increase the demand for services, such as design, transportation and installation.

Energy efficiency, environmental values and responsibility will gain more importance in customers' purchasing behaviour and consumption habits. More emphasis is placed on real estate's energy consumption and energy-efficient construction. Stores' duties include offering responsible options for their customers. Rautakesko aims to be the best expert and seller of energy efficiency services. K-rauta and Rautia stores provide a wide variety of services that improve the energy efficiency of housing.

The use of the internet to seek information will continue to increase. In the future, social media will have an increasing impact on customers' choices. The use of digital tools, the multi-channel approach and a better understanding of customer needs will be highlighted in business operations, complementing category management and traditional retailing. In 2011, strong development of electronic customer service will continue and the chains' new web services will also be launched in other countries.

Easy and fast shopping and active sales will be emphasised in stores. Related products will be 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 agricultural trade, the aim is to develop a customer-driven K-maatalous concept and improve market position. This can be achieved by active sales and offering the best total selection of products and services.

Rautakesko's RAKSA, the new SAP-based enterprise resource planning system, will harmonise the business models which support the chain stores' and Rautakesko's business operations and the retail stores' information systems in all the countries. In 2011, RAKSA will proceed from other operating countries to Finland.

International category management and sourcing will be intensified with the help of more efficient retail management.

The store network will be strengthened. The following new stores are under construction: a Rautia-K-maatalous store in Turku; K-rauta stores in Kuopio and Kouvola, Finland; K-rauta stores in Uppsala and Haparanda, Sweden; a K-rauta in St. Petersburg and two K-rauta stores in Moscow, Russia.

MARKET SHARES AND PRINCIPAL COMPETITORS

Building and home improvement trade

- Finland, market share 37% (Finnish Hardware Association, DIY, own estimate)
- Competitors: Starkki, Kodin Terra, S-rauta, Agrimarket, Bauhaus
- Sweden, market share 7% (HUI, own estimate)
- Competitors: Bauhaus, Byggmax, DT Group and local speciality stores
- Norway, market share 18% (TBF)
- Competitors: Monter/Optimera (Saint Gobain), Maxbo and Coop
- Estonia, market share 18% (own estimate)
- Competitors: Ehitus ABC (Saint Gobain), Bauhof and Espak
- Latvia, market share 16% (own estimate)
- Competitors: Depo DIY and Kursi
- Lithuania, market share 25% (own estimate)
- Competitors: local building supplies and speciality stores
- Northwestern and central Russia, market share 5% (own estimate)
- Competitors: Leroy Merlin, OBI, Castorama, Maxidom and Metrika
- Belarus, market share 7% (own estimate)

Agricultural supplies trade

- Finland, K-maatalous chain
- Principal competitor: Agrimarket chain

K-Group's building and home improvement trade, number of stores, and retail and B2B sales	Number		Sales, (VAT 0%) € million	
	2010	2009	2010	2009
K-rauta*	41	42	546	506
Rautia*	106	107	463	443
Rautakesko B2B Sales			199	162
K-maatalous*	88	90	378	375
K-customer contract stores	32	33	52	56
Finland, total	267	272	1,637	1,543
K-rauta, Sweden	20	20	209	188
Byggmakker, Norway	112	113	864	764
Other Nordic countries, total	132	133	1,073	953
K-rauta, Estonia	9	9	52	63
K-rauta, Latvia	9	9	47	49
Senukai, Lithuania	17	17	228	260
Baltic countries, total	35	35	328	373
K-rauta, Russia	12	10	204	170
OMA, Belarus	5	4	72	52
Russia and Belarus, total	17	14	277	222
Building and home improvement trade, outside Finland total	184	182	1,677	1,547
Building and home improvement trade, total	451	454	3,314	3,090

* In 2010, one K-rauta store and 50 Rautia stores also operated as K-maatalous stores

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

Building and home improvement trade segment's key figures	2010	2009	
Net sales	€ million	2,519	2,312
Operating profit	€ million	23.9	19.6
Operating profit excl. non-recurring items	€ million	24.0	11.9
Operating profit as % of net sales excl. non-recurring items	%	1.0	0.5
Capital expenditure	€ million	78.2	84.7
Return on capital employed* excl. non-recurring items	%	3.8	1.8
Personnel average		8,379	8,804

* cumulative average

Building and home improvement trade segment's net sales in 2010

	€ million	Change, %
Building and home improvement trade, Finland	1,163	10.2
K-rauta, Sweden	208	11.1
Byggmakker, Norway	547	14.7
Rautakesko, Estonia	52	-17.6
Rautakesko, Latvia	47	-1.1
Senukai, Lithuania	227	-12.8
Rautakesko, Russia	204	20.5
OMA, Belarus	74	38.5
Total	2,519	9.0

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

	2010	2009
Non-current assets	512	494
Inventories	254	196
Short-term receivables	246	222
./. Non-interest-bearing debt	-365	-284
./. Provisions	-2	-4
Capital employed**	645	624

** capital employed at the end of month

Car and machinery trade

THE CAR AND MACHINERY TRADE segment consists of VV-Auto and Konekesko with their subsidiaries. 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, marketing and after-sales services of recreational machinery, construction and materials handling machinery, agricultural machinery, and buses and trucks. Konekesko operates in Finland, Estonia, Latvia, Lithuania and Russia. Konekesko arranges the manufacture of and sells Yamarin boats in Finland and exports them to several European countries and Russia.

€955m

Car and machinery trade segment's net sales

€33.1m

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

0.8%

Development in 2010

€32.7m

Growth in 2010





Leading brands and comprehensive services



Volkswagen Golf was again the best-selling car range in Finland in 2010.

CAR TRADE MARKET

In 2010, 111,968 passenger cars and 11,045 vans were registered in Finland.

The passenger car market grew by 23.6% from the previous year, while the van market increased by 27.3%. Volkswagen ranked second in the registration statistics of both passenger cars and vans. Audi continued as the number one premium brand. Seat's market share increased clearly over the previous year.

MACHINERY TRADE MARKET

The market for recreational machinery totalled some €300 million in Finland. In spite of the improvement in the general economic situation, the export market for boats declined.

The market for construction machinery remained at a low level, totalling some €300 million in Finland, the Baltic countries and St. Petersburg.

The combined market for agricultural machinery in Finland and the Baltic countries was some €500 million and the outlook improved towards the end of the year as the price of grain increased.

The market for trucks (weight class of over 6 tons) was approximately €500 million.

Konekesko disposed of its grain and agricultural inputs trade in the Baltics in 2010 and concentrates on the machinery trade, in line with its strategy.

YEAR 2010

In 2010, the net sales of the trade segment were €955 million (€947 million), an increase of 0.8%. Comparable net sales increased by 15.1%. The impact of the car tax change (starting from 1 April 2009) and the disposal of the grain and agricultural inputs trade in the Baltic countries have been eliminated from comparable net sales. The operating profit excluding non-recurring items was €33.1 million, €32.7 million more than in the previous year.

VV-Auto's net sales were €668 million (€598 million), an increase of 11.7% from the previous year. During the first part of the year, the net sales performance was negatively affected by the car tax change, effective since 1 April 2009, as a result of which the car tax is no longer included in the net sales. VV-Auto's comparable net sales increased by 19.1%.

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

Audi Center Airport, the first Audi building in Finland complying with the new concept, was opened in Aviapolis, Vantaa. In addition to the Audi outlet, the building also houses the Audi service workshop and maintenance premises, a used car outlet and new premises for Volkswagen, Audi and Seat imports. The renovated Volkswagen Center Airport was opened earlier in the spring. The planning of the expansion and renovation of the new Volkswagen Center in Espoo and Volkswagen Center in Turku started in 2010.

Owners of Volkswagen passenger cars are served by a network of 40 dealer shops and 60 service workshops, while there are 41 dealer shops and 59 service workshops for Volkswagen commercial vehicles. The corresponding figures for Audis are 21 and 25. Seats are sold by 22 dealers and maintained and repaired by 40 workshops in Finland and four in the Baltic countries.

The Volkswagen range continued to expand. Launches included the revised Touareg, Touareg and Phaeton, and a completely new Sharan MPV. New Passat and Passat Variant were introduced in late 2010. Volkswagen Commercial Vehicles launched a revised Caddy range. The Audi range was complemented with new Audi A1 and A7 Sportback models. The most important new Seat arrival for the year was Ibiza ST.

Konekesko's net sales were €287 million, down by 17.9% from the previous year. The decrease can be attributed to the disposal of the grain and agricultural inputs trade in the Baltics. Konekesko's comparable net sales increased by 6.2%.





New motorcycles to Zambia by Yamaha's 'Ride for Life' event

In May 2010, Yamaha organised a Ride for Life event in cooperation with Riders for Health. The route started from Paris and culminated in Marrakech, where five new Yamaha Super Ténéré bikes were delivered to the 'Riders for Health' charity enterprise in Zambia. The Yamaha Super Ténérés will be used for transporting blood samples and for other longer trips to health clinics.

In Finland, Konekesko's range of Yamaha products includes motorcycles, mopeds, ATVs, snowmobiles, outboards and PWCs, which are sold to consumers by the network of 130 Yamaha dealers. Konekesko's own boat brands are Finnish Yamarin and Suvi, in addition to which Konekesko launched the new aluminium-frame Yamarin Cross range in October 2010. Yamaha outboard motors have been the market leader since 1977 and they accounted for 44.7% of all outboards registered in 2010. Konekesko (Yamarin, Suvi, Linder, Zodiac) accounted for 17.2% of all registrations of new boats in 2010. In 2009, Yamaha also became the market leader in two wheelers; in 2010 the brand's market share in motorcycles was 17.5% and in mopeds 8.5%.

Construction, materials handling and environmental machinery is marketed in Finland, the Baltic countries and Russia (St. Petersburg), through Konekesko's own dealer network. Konekesko expanded the Still forklift business to the Baltics and Russia, and started the representation of German Sennebogen materials handling machinery in Finland and the Baltics. Other best-known product brands represented by Konekesko are New Holland, Case, Kubota, Manitou and Grove.

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

In Finland, Konekesko sells MAN trucks, and MAN and Neoplan buses through its own dealer network. The market share of MAN trucks remained at the level of the previous in Finland.

OBJECTIVES AND STRATEGIC EMPHASES

VV-Auto and Konekesko represent the leading brands in their market area and are responsible for the sales and after-sales services of these brands either through their own or dealer network. The dealer network is complemented by a network of contract service centres.

Strengths in the car and machinery trade include well-known brands and a wide product range, high-quality products and services, strong regional dealers, efficient logistics, expert staff and an own chain of retail outlets in the car trade.

In 2011, the passenger car market is expected to increase by about 10%, mainly due to the need to replace existing vehicles, while the van market is expected to grow by some 25%. The machinery trade market is expected to grow slightly in the whole operating area of Konekesko.

The trade segment's objectives for 2011 include increasing the market share of the brands it represents, further developing the dealer and maintenance network, and improving customer satisfaction and profitability. The focuses will be strengthening the selection of products and services and increasing electronic customer communications.



CAR TRADE MARKET SHARES IN FINLAND

VV-Auto

- Volkswagen passenger cars 13%
- Audi passenger cars 4.6%
- Seat passenger cars 1.3%
- Volkswagen vans 22.3%
(Transport Safety Agency TraFi,
Vehicular and Driver Data Register)

K-Group's car and machinery trade, number of stores, and retail and B2B sales

	Number		Sales, (VAT 0%) € million	
	2010	2009	2010	2009
VV-Auto, retail outlets	9	9	334	307
VV-Auto, imports	1	1	354	307
Konekesko, Finland	2	2	193	191
Finland, total	12	12	881	805
Konekesko, Estonia			29	33
Konekesko, Latvia			40	92
Konekesko, Lithuania			28	29
Konekesko, Baltic countries, total			97	154
Car and machinery trade, total	12	12	978	959

Car and machinery trade segment's key figures

		2010	2009
Net sales	€ million	955	947
Operating profit	€ million	33.9	-5.1
Operating profit excl. non-recurring items	€ million	33.1	0.3
Operating profit as % of net sales excl. non-recurring items	%	3.5	0.0
Capital expenditure	€ million	17.8	13.4
Return on capital employed* excl. non-recurring items	%	19.6	0.1
Personnel average		1,138	1,291

* cumulative average

Car and machinery trade segment's net sales in 2010

	€ million	Change, %
VV-Auto Group	668	11.7
Konekesko, Finland	193	1.2
Konekesko, Baltic countries	96	-41.0
Total	955	0.8

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

	2010	2009
Non-current assets	85	96
Inventories	165	157
Short-term receivables	58	67
./. Non-interest-bearing debt	-130	-83
./. Provisions	-14	-15
Capital employed**	164	222

** capital employed at the end of month

A **STORE SITE NETWORK** is a strategic competitive factor for Kesko. It provides opportunities for developing business operations and increasing sales and customer satisfaction. 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 capital expenditure in accordance with the Group's real estate strategy. Opportunities for cooperation between the division parent companies are particularly sought and made use of in shopping centre projects.





Real estate operations

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.

CAPITAL EXPENDITURE

Kesko's capital expenditure in real estate aims 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 or supporting business operations. As a result of Kesko's internationalisation, capital expenditure outside Finland has 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. Kesko's specific consumption of heat energy has since decreased by over 60% and, correspondingly, the consumption of electrical energy has decreased by over 20%. Close energy monitoring helps keep the technical systems of properties in order and maintain the value of properties.

Read more about energy solutions on page 61.

Real estate operations indicators for 2010

OWNED PROPERTIES

Capital*, € million	2010	2009
Finland	759	656
Other Nordic countries	84	70
Baltic countries and Belarus	38	32
Russia	125	112
Total	1,005	870

Area m ²	2010	2009
Finland	615,000	629,000
Other Nordic countries	90,000	80,000
Baltic countries and Belarus	118,000	103,000
Russia	61,000	46,000
Total	884,000	858,000

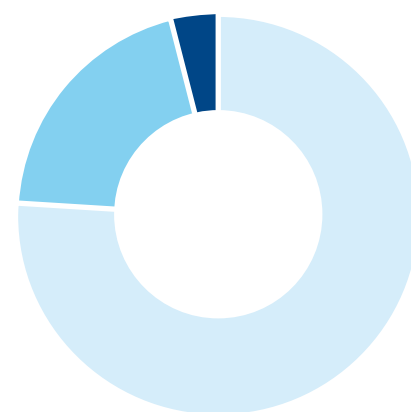
LEASED PROPERTIES

Lease liabilities, € million	2010	2009
Finland	2,059	2,036
Other Nordic countries	109	118
Baltic countries and Belarus	147	171
Russia	23	32
Total	2,338	2,357

Area m ²	2010	2009
Finland	2,338,000	2,358,000
Other Nordic countries	190,000	202,000
Baltic countries and Belarus	471,000	429,000
Russia	25,000	25,000
Total	3,024,000	3,014,000

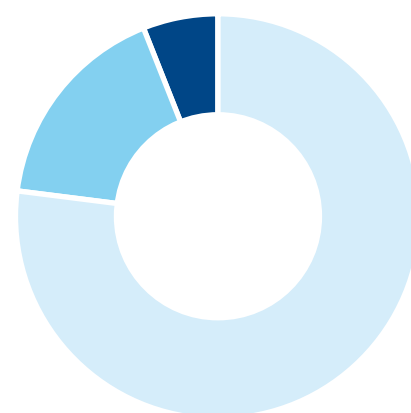
* Carrying amounts

BREAKDOWN OF OWNED PROPERTIES 2010



■ Strategic properties 76%
■ Standard properties 20%
■ Realisation properties 0%
■ Development properties 4%

BREAKDOWN OF OWNED PROPERTIES 2009



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

KESKO and its chain stores offer versatile jobs and career choices. Kesko has an average of 18,215 employees in eight countries. Kesko's most international division is Rautakesko, with 95.4% of its employees working outside Finland. In all, the K-Group – Kesko and the retailer entrepreneurs – employ some 45,000 people. In the trading sector, Kesko aims to be the most attractive workplace, to have the most competent and motivated people, and to have the best labour productivity.

12,720

Kesko Group personnel in Finland at 31 December 2010

9,404

Kesko Group personnel in other operating countries at 31 December 2010



209,-

ADIDAS
ADISTAR RISE 3 170,-

ADIDAS
GEL-KAYANO II 209,-

ALFA

143,-

135,-

149,-

189,-

179,-

140,-

135,-

Kesko is a good place to work

AIMING TO BE THE MOST ATTRACTIVE WORKPLACE IN THE TRADING SECTOR

Job satisfaction among own employees and the availability of competent people are of primary importance in the trading sector. The state of the working community and the quality of management are measured with an annual personnel survey. Office-specific development plans are prepared on the basis of the survey results. The results of the personnel survey are presented in Kesko's Corporate Responsibility Report.

The external employer image is monitored with the help of many surveys. In the 2010 Universum Young Professionals survey, Kesko was ranked 36th (18th) and in the Universum student survey the rank was 18 (18). In the survey made by T-Media among upper secondary level students, Kesko ranked 19th (17th).

Kesko carries out close cooperation with students and teachers in different sectors. In 2010, a new programme was launched to provide teachers with an opportunity to familiarise themselves with store practices and duties with a help of on-the-job training and eLearning.

THE MOST COMPETENT AND MOTIVATED PEOPLE IN THE TRADING SECTOR

Systematic and continuous development of staff competence is one of the key factors by which we want to ensure good customer service and the implementation of our stores' competitive advantages in practice. Besides being reflected in day-to-day work, staff competence and motivation also improve labour productivity at Kesko and its chain stores.

K-instituutti Oy, a Kesko subsidiary, is responsible for the centralised planning and production of training services for Kesko and its chain stores. Its duties include ensuring that personnel development solutions are practical and efficient. Annual plans and training programmes for competence development are prepared with business units. Training programmes are implemented by K-instituutti and selected training partners. In 2010, there were 24,300 participants at the training events offered by K-instituutti and the total number of training days amounted to 32,406.

The online learning environment is increasingly used in training programmes. More than 400 K-Food Specialists, for instance, have been trained for K-food stores with the help of an eLearning programme.

The year 2010 marked the 50th anniversary of the Master Sales Assistant training. During the anniversary year, the training had more than 16,500 participants in 13 different product lines. The aim is a continuous enhancement of customer service, sales skills and product knowledge in cooperation with suppliers. The training was also implemented at more than 100 business colleges and polytechnics, in which some 5,000 students participated.



Kesko promotes wellbeing at work

Staff Club activities create community spirit and encourage employees to enjoy physical exercise and culture. The range covers dozens of activities from weaving to gym ball exercise.



MANAGEMENT AND LEADERSHIP

Management and leadership are based on K-Group values and responsible working principles. The development of leadership and working communities is one of the focal areas and an essential part of improving wellbeing at work.

The annual personnel survey plays a key role in measuring the operations of the working community, and the quality of management. A similar survey is conducted throughout Kesko and its chain stores. In 2010, replies were received from 74% 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.

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 3.98 (scale 1–5).

Leadership skills and career progress are supported by superior, specialist and management training programmes targeted to Kesko employees and store superiors. Training programmes were revised in 2010 and the revised programmes will be started in 2011. The themes common to all management are handled at the annual training. In addition, development programmes of current interest are organised for management and other key employees, with some 200 participants annually.

LABOUR PRODUCTIVITY

The work and productivity programme launched in 2008 continues. Labour productivity improved in most divisions in 2010. The Group's staff cost decreased by 2.7% from the previous year. Productivity has been increased by improving the efficiency of operations and by introducing electronic tools. Retail stores have, above all, focused on the adoption of different working hour models and work shift planning, as well as the development of sales and customer service skills.

In autumn 2010, Kesko recruited a manager to promote projects and operations models related to wellbeing at work. Long-term company- and office-specific projects focusing on wellbeing at work were continued. The aim is to improve employees' working capacity and motivation, reduce sickness absences and raise the retirement age.

In Finland, Kesko's Occupational Health Service Unit focuses on operations that maintain work ability and promote the wellbeing of the working community. Currently 30–40% of the total occupational health costs 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 an incentive system. The management's incentive systems are described on pages 68–69 of this Annual Report.

Information about HR affairs will also be available in the Corporate Responsibility Report for 2010.

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 2010, Kesko had 1,270 K-chain retailer entrepreneurs and about 170 other K-retailers as 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 a 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 the retailer 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 more than 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 600 contacts annually. The requirement for new retailers is estimated for 1–3 years ahead.

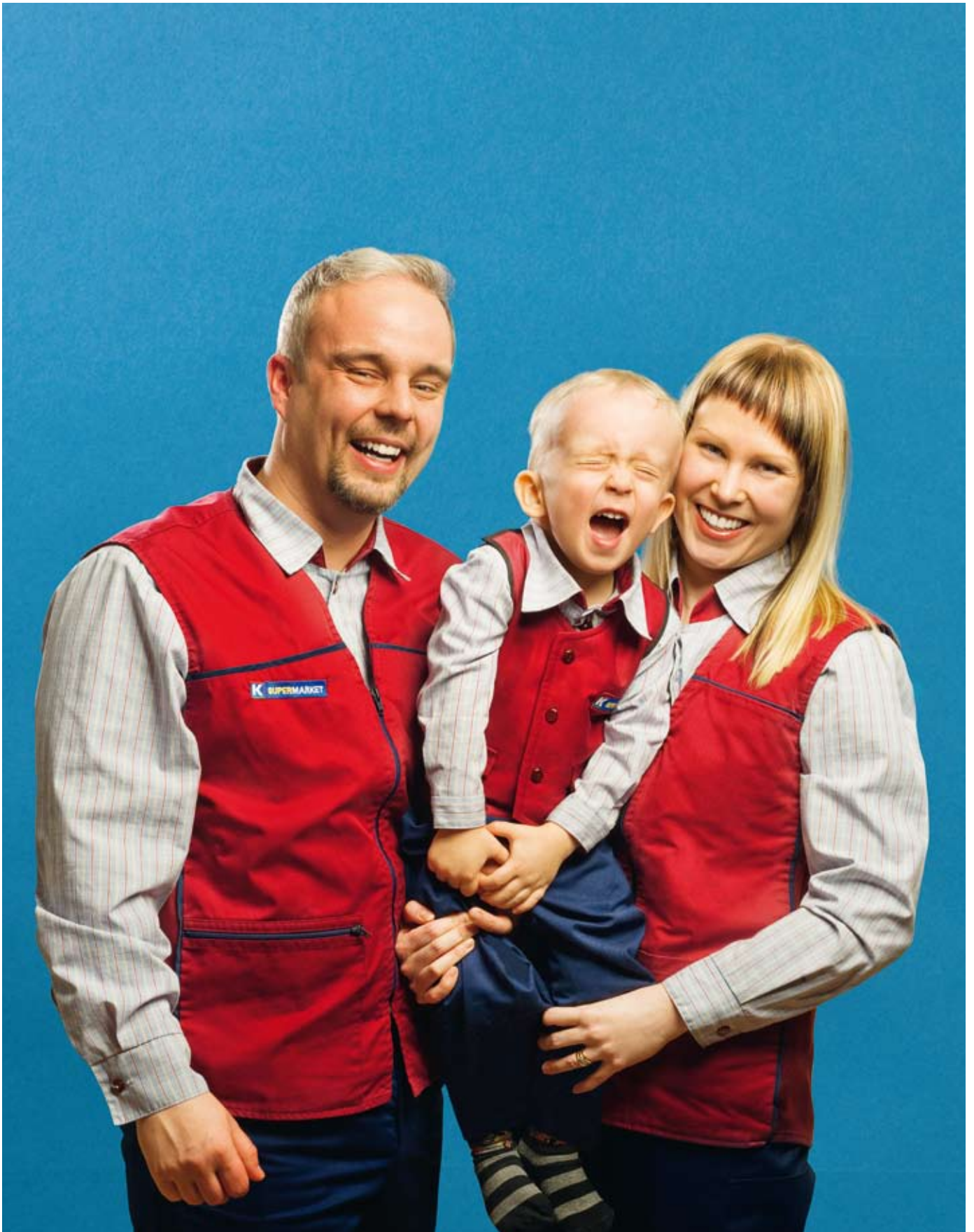
Future K-retailer entrepreneurs are trained in the K-retailer trainee programme. The training consists of online studies, on-the-job training under a mentor retailer and regional events for exchanging experiences. The content and duration of the programme can be flexibly and efficiently defined for each student on an individual basis, taking their development potential, work experience and education into account. The structure of the training model ensures the reliable monitoring of progress in competence development.

The retailer entrepreneur path (KYP), a systematic training route for would-be K-retailers, has been developed by Kesko Food and polytechnics. It is part of the K-retailer trainee programme, adapted to constitute an optional module of polytechnic studies. A related cooperation agreement has been signed with 14 polytechnics and the model is being further expanded.

Approximately 45% of those starting the K-retailer trainee programme have a steady amount of retailing experience, but the number of students transferring from other fields or having just finished their general education has grown.

More than 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.



Olli Pehkonen started his retailer career with his wife Minna in April 2010. K-supermarket Alavus is their first store. Their retailer career has had a promising start – customers have welcomed the young enterprising retailer couple and their competent staff. Also in the photo is their two-year-old son Veeti.

KESKO is working for sustainability on a long-term and committed basis. Customers have to be able to rely on our products and the fact that their responsible choices start from entering the store. Kesko's general principles of corporate responsibility and the guide 'Our Responsible Working Principles' provide guidelines for our operations.

€5,174m

Purchases from suppliers in Finland

65 GWh

Energy savings by the end of 2016

678

K-environmental stores

11,623

Respondents in the personnel survey

8,826

Number of products analysed by the Product Research

86

Factory visits by the monitoring team in China





In May and June 2010, Kesko was the principal partner of the Young Finland Association in Your Move On Tour. The young people participated in the planning, idea generation and implementation of the tour from the very beginning.

Building for a better tomorrow

Corporate responsibility is part of Kesko's values, business strategies, management and day-to-day work. Reporting and the key principles are discussed by Kesko's Board of Directors and the Corporate Management Board. The Corporate Communications and Responsibility Unit, supported by the advisory board and various steering groups, develops, coordinates and reports on the results. Communications officers of the Kesko Group and subsidiaries as well as the chains' marketing units are responsible for communicating on responsibility to consumers and other stakeholders.

KESKO'S 11TH CORPORATE RESPONSIBILITY REPORT IN SPRING 2011

Since 2000, Kesko has reported on its responsible actions in the Corporate Responsibility Report. The Corporate Responsibility Report for 2010 will be published in spring 2011. In its reporting, Kesko follows the recommendation for reporting on sustainable development drawn up by the Global Reporting Initiative (GRI) and is a GRI Organisational Stakeholder. Independent assurance has been provided to Kesko's report. Kesko's Corporate Responsibility Report for 2009 was chosen as the second best report in the 2010 Corporate Responsibility Reporting Competition in Finland.

RESPONSIBILITY PROGRAMME 2008–2012

To support its operations, Kesko has prepared a responsibility programme for 2008–2012. The programme sets targets for:

- combating climate change
- energy efficiency
- wellbeing of employees
- transportation and travel
- recovery and material efficiency
- environmental management at stores
- responsible purchasing and product assortments
- creating a strong responsibility image.

The updating of the responsibility programme will start in 2011.

We report on the progress of the responsibility programme in Kesko's Corporate Responsibility Report and at www.kesko.fi/responsibility.

THE GUIDE 'OUR RESPONSIBLE WORKING PRINCIPLES' PROVIDES A COMMON BASIS

'Our Responsible Working Principles' guides all employees of the K-Group to work in accordance with the joint values and the responsible operating practices approved by the corporate management.

In Kesko and the K-Group, seven areas are highlighted in day-to-day responsibility:

- compliance with legislation
- avoiding conflicts of interest
- not accepting or giving bribes
- creating a good working atmosphere
- safety and security
- keeping customer information confidential
- open communications.

According to the 2010 personnel survey, 69% of all employees had familiarised themselves with the guide and the principles contained.

The 'Our Responsible Working Principles' guide has been published in eight languages: Finnish, Swedish, English, Russian, Latvian, Lithuanian, Estonian and Norwegian.

Video animations on responsible practices give examples of the situations and decisions employees face at their everyday work.

The guide will be updated in 2011.

IMPACT ON SOCIETY

Economic responsibility creates the basis for all entrepreneurship. Kesko's economic responsibility refers to the good management of finances, the efficient use of resources as well as generating stable, long-term economic benefits.

We engage in open cooperation with all our stakeholders. Our internal operations are guided by good corporate governance, jointly agreed operating models and rules, and Kesko's values.

Comprehensive store network

There is a K-food store near every Finn. Kesko has the most extensive food store network in Finland: there were 1,007 K-food stores in 342 municipalities in 2010. 51% of the Finnish population lives within one kilometre of the nearest K-food store. 68 new K-retailers started business during the year.

Store numbers are specified in the tables presented at each division on pages 18–45.

Impact of Kesko's operations on society

In 2010, Kesko's salaries and other benefits to employees totalled €451 million in all the countries where it operates. The Kesko Group's income taxes were €97 million, while pensions and social security expenses amounted to €65 million.

Most of the Kesko Group's purchases come from Finland

Most of the economic benefit generated by Kesko – 85% of Kesko's net sales – goes to suppliers of goods. In 2010, Kesko's purchases from Finnish suppliers totalled €5,174 million and from other countries €2,311 million.

We encourage retailers to increase the amount of local purchasing. Retailers' direct purchases from each Finnish region are presented in the Corporate Responsibility Report.

Considerable donations to universities in 2010

Kesko primarily participates in sponsorship initiatives that benefit the everyday lives of families with children, promote the quality of living and sustainable development.

In 2010, Kesko and its subsidiaries gave financial support amounting to approximately €2.3 million to various organisations and institutions.

On Mother's Day, Kesko and K-retailers donated sculptor Pekka Jylhä's 'Expectation', depicting an expectant mother, to the City of Helsinki. The bronze sculpture is located in Kaivopuisto Park in Helsinki.

In spring 2010, Kesko participated in Your Move On Tour of the Young Finland Association in Helsinki, Oulu, Pori, Jyväskylä and Turku. The tour encouraged over 25,000 young people aged from 12 to 16 to get moving.

In spring 2010, Kesko's Board of Directors granted donations to Aalto University and the Universities of Helsinki, Tampere, Turku, Eastern Finland, Jyväskylä, Oulu and Vaasa, and to some polytechnics. The total amount donated was €1,115,000.

For the 23rd time, Kesko's Board of Directors granted scholarships to talented young athletes and art students in May 2010. The scholarships totalled €40,000.

The Good Christmas Spirit collection was organised jointly 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 14th time. The collection for the benefit of low-income Finnish families with children in difficult situations in life raised €1,034,827.

WELLBEING OF EMPLOYEES

Wellbeing at work is focused on work and competence, management and leadership of immediate superiors, quality of personal life and the working community.

The state and development of the working community and the quality of management are measured with an annual personnel survey. A similar survey is conducted throughout Kesko and its chain stores. In the 2010 survey, the implementation of equality was considered to be good: In Kesko's operations, the equality with respect to gender was rated at 4.02 (scale 1–5), with respect to age at 4.00 and with respect to ethnic origin at 4.12.

For more information about HR issues, see pages 50–55 and the Corporate Responsibility Report.

ENERGY SOLUTIONS

In the area of environmental responsibility, Kesko focuses on curbing climate change by improving the efficiency of energy consumption and increasing waste recovery.

We increase energy efficiency

In 2010, the K-Group's combined consumption of electricity and heat energy was 1,124 GWh. The previous downward trend in the specific consumption of electricity turned into an increase of 3%. This can, to a large extent, be attributed to changes in store opening hours and the exceptionally hot summer.

The K-Group has signed the trading sector energy efficiency agreement and is committed to saving over 65 million kWh by the end of 2016. It corresponds to the annual energy consumption of 15 K-citymarkets.

In 2010, Kesko bought some 75% of the K-Group's electricity on a centralised basis, all of which was carbon-free electricity, produced with nuclear power and renewable energy sources.

Energy savings with lids, doors, LED lighting and new refrigeration technology

Freezers and other refrigeration equipment consume a considerable amount of energy in K-food stores.

Since 2008, all new K-food stores' refrigeration equipment has been supplied with lids and doors. Annual energy savings achieved by covering freezers amount to 11.6 million kWh, which corresponds to the annual electricity consumption of nearly 600 one-family houses.

The total length of lids and doors on K-food stores' refrigeration equipment exceeded 4.5 kilometres. By the end of 2010, lids had been installed on the existing freezers of some 50 stores. Chest freezers fitted with lids save 30–40% energy compared with uncovered ones.

LED technology is used in the illuminated signs of all new K-food stores. The resulting savings compared with traditional neon and fluorescent tube solutions are over 60–70%.

The general lighting of K-supermarket Torpparinmäki, opened in Helsinki in October 2010, has been implemented with an energy-efficient LED system, which consumes over 35% less energy than the traditional fluorescent lighting.

The coolant used in the refrigeration equipment of K-supermarket Peltola, which was opened in Järvenpää in 2009, is carbon dioxide that has been collected from industrial processes. Thanks to the efficient recovery of the condensation heat from store refrigeration equipment, lid-covered chest freezers and the energy saving blowers installed in the equipment, the store consumes electricity and heat tens of percent less than an average K-supermarket.



Real estate managers advise in energy savings

Fitting chest freezers with lids, proper service of refrigeration equipment and timed lighting help stores save energy, the environment and money. Kesko's 40 real estate managers visit K-Group stores on a regular basis to give advice on how to reduce energy consumption.

K-environmental stores

K-retailers' environmental management is based on the K-environmental store operating model, adopted by K-citymarket, K-supermarket, K-market, Rautia, K-rauta and K-maatalous stores. At the end of 2010, there were 678 K-environmental stores, of which 459 were K-food stores. K-environmental store employees receive training in environmental issues.



Nearly 40 Pirkka Fairtrade products

Besides the working and living conditions of small farm owners as well as farm workers on larger farms, Fairtrade also improves the state of the environment in developing countries. K-food stores have some 200 Fairtrade products in their selections, of which nearly 40 are Pirkka Fairtrade products.



For auditing its suppliers in high-risk countries, Kesko uses BSCI auditing and SA8000 certification. Some 190 of Kesko's supplier factories in high-risk countries are included in the BSCI auditing system.

Energy efficiency of housing

In construction, the emphasis is moving from new buildings to repairs. In autumn 2010, Rautakesko started an initiative on energy efficiency in housing. Rautakesko's aim is to be the best expert and seller of energy efficiency services.

We reduce emissions from transportation

In 2010, the total distance by all transportation managed by Keslog was 40.7 million kilometres. Keslog's target is to decrease carbon dioxide emissions. All contract drivers are trained in economical driving, which reduces fuel consumption and this way saves the environment.

Kesko encourages its employees to favour video conferences over business travel.

When purchasing company cars, Kesko favours low-emission models and the latest engine technology. Emission levels of the Kesko Group's company cars are primarily below 160 g CO₂/km.

Waste recovery

Reducing the amount of waste and shrinkage from stores and warehouses and increasing recovery have a major impact on the environment.

The aim of Kesko Food's logistics is to direct nearly all the waste generated to recycling or to energy and fuel production. Kesko Food's aim is to increase its own and K-food stores' waste recovery rate to 90% by 2012. At the Anttila warehouse in Hämeenkylä, the waste recovery rate was 97%.

The Pirkka recycled plastic bag receives the recovery award of the year

Kesko Food launched Pirkka recycled plastic bags to K-food stores in September 2010. The bag is 90% made of recycled plastic, 30% of which comes from protective plastic wrappings used in Kesko Food's goods transportation. The rest of the bag's recycled raw material is recovered from Suominen Flexible Packaging Ltd's factories.

In November 2010, the Pirkka recycled plastic bag received the recovery award, granted by the Association of Environmental Enterprises (YYL) and Uusioutiset, the Finnish Recycling News magazine.

RESPONSIBLE PURCHASING AND SALES

Kesko's responsible purchasing is guided by Kesko's ethical purchasing principles. In product sourcing, Kesko pays special attention to the human rights and working conditions of the employees throughout the purchasing chain. Kesko focuses its monitoring on countries where the risks of violating these rights are the highest.

In supplier assessment, Kesko uses international auditing systems, the BSCI auditing and the SA8000 certification. The aim is to trade in high-risk countries only with suppliers who have passed the audit. Some 190 of Kesko's supplier factories in high-risk countries are included in the BSCI auditing system.

Kesko trains its buyers in responsible purchasing practices on a regular basis. The BSCI organised 70 supplier training events in 15 countries in 2010.

In China, Kesko's monitoring team guides, trains and oversees Chinese suppliers of Kesko's division parent companies. The monitoring team made 86 factory visits in 2010.

Product safety

Kesko Food's Pirkka Product Research analyses product samples of food and home and speciality goods, develops new foodstuffs and tastes, and is responsible for product recalls.

The Pirkka Product Research laboratory has the ISO 17025 certification. In 2010, the Product Research unit analysed 8,826 product samples and audited 43 suppliers. There were 80 product recalls during the year, most of which were caused by quality, taste, manufacturing or packaging defects.

One of Kesko Food's focal areas in responsibility is encouraging consumers to eat healthily.

The Product Research unit promotes a healthy way of life by reducing the amount of sugar, fat and salt from Pirkka products. Since 2008, the content has been reduced in about 80 Pirkka products.

Product research experts answer the questions and feedback sent to Kesko Food's Consumer Service. In 2010, there were 19,106 such customer contacts.

The Pirkka test kitchen, which has been operating for over 50 years, produced 656 recipes during 2010.



Inter-national recognition for responsibility

KESKO PARTICIPATES IN THE GLOBAL COMPACT INITIATIVE

Kesko participates in the UN Global Compact initiative launched in 2000. The participating companies commit, in their operations and strategies, to observe ten generally accepted principles related to human rights, labour standards, the environment and anti-corruption.



KESKO IN SUSTAINABILITY INDEXES

For years, Kesko has been included in the most important sustainability indexes and ranked among the best companies in the world in the compliance with the principles of sustainable development.

Kesko is included in the Dow Jones sustainability indexes DJSI World and DJSI Europe. In the 2010 assessment, Kesko ranked the best in the sector in operational eco-efficiency, environmental reporting, risk management, and anti-corruption and anti-bribery practices.

Kesko is included in the FTSE4Good Global and FTSE4Good Europe indexes focusing on responsible investment.

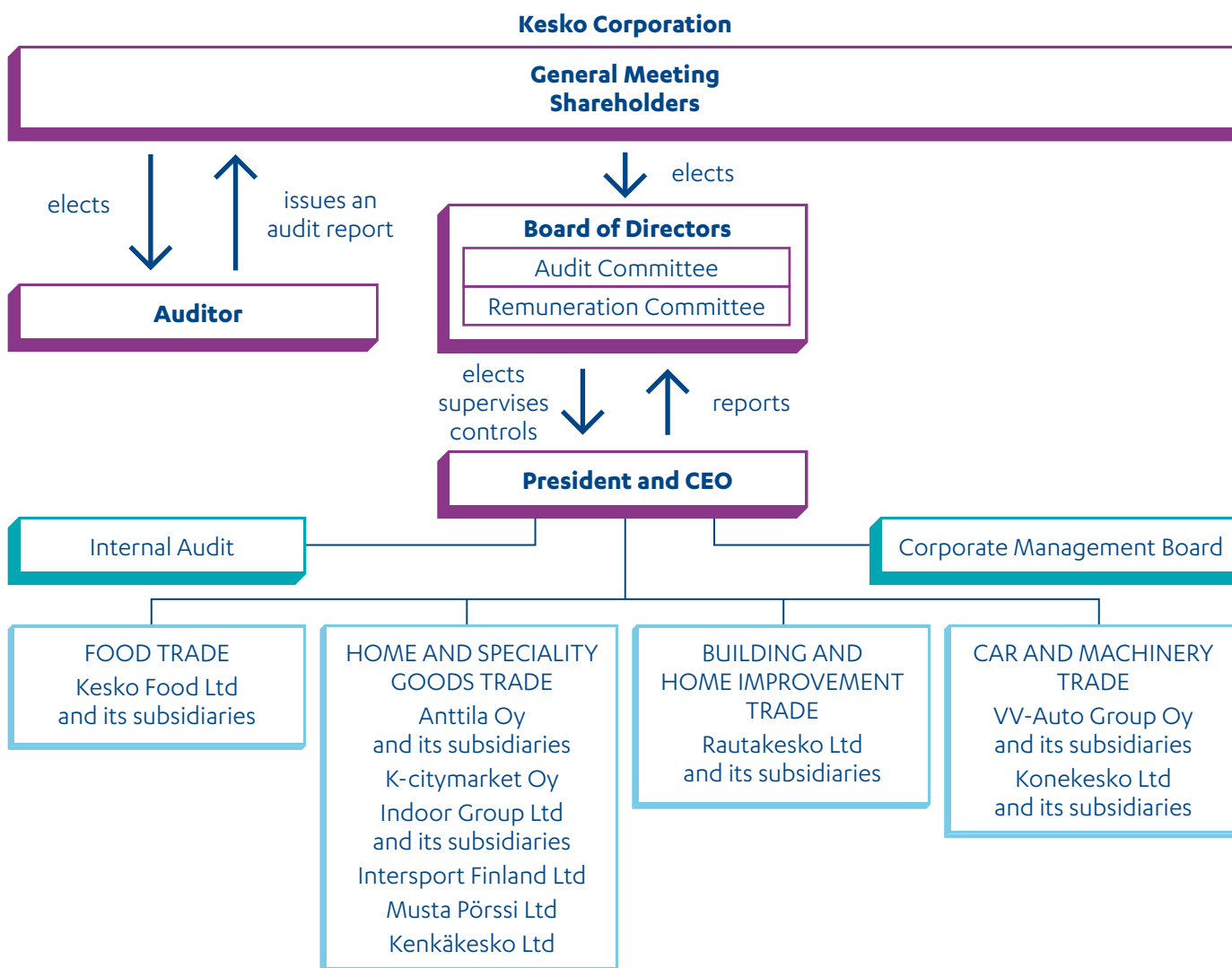
Kesko is also included in the 'The Global 100 Most Sustainable Corporations in the World' list, published annually at the meeting of World Economic Forum in Davos. Kesko has been on the list since 2005. Kesko's ranking on the list published in January 2011 was 26th, compared with 33rd a year before.

In the Sustainability Yearbook 2010, published by the SAM Group in January 2010, Kesko's sustainability work qualified in the SAM Silver Class in the Food & Drug Retailers sector. Kesko was also recognised as the 'Sector Mover', a qualification given to the company that has achieved the biggest proportional improvement in its sustainability performance.

Kesko's ranking in other indexes is presented at www.kesko.fi/investors.

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 laws. 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 the company's General Meeting. The company's shareholders elect the company's Board of Directors and auditor at the General Meeting. The Kesko Group is managed by the Board of Directors and the Managing Director, who is the President and CEO. The company uses a so-called one-tier governance model.

Kesko's decision-making and corporate governance comply with the Finnish Limited Liability Companies Act, regulations concerning publicly quoted companies, Kesko's Articles of Association, and the rules and guidelines of NASDAQ OMX Helsinki Ltd. The company complies with the Finnish Corporate Governance Code for listed companies (the Corporate Governance Code). The Corporate Governance Code can be read in full at 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 Board members' terms of office.

Departure from Corporate Governance Code recommendation

The terms of office of the members of Kesko's Board of Directors depart from the term of one year stated 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 each Board member is three years, with the term starting at the close of the General Meeting electing the member and expiring at the close of the third Annual General Meeting after the election.

A shareholder which, together with related entities, holds over 10% of all votes carried by the Kesko shares, has informed the company's Board of Directors that it considers the term of three years good for the company's long-term development and sees no need to shorten the term of office stated in the Articles of Association.

Corporate Governance Statement

Kesko's Corporate Governance Statement, referred to in the Corporate Governance Code, was addressed by the Audit Committee of Kesko's Board of Directors on 2 February 2011 and is available at www.kesko.fi/investors.

GENERAL MEETING

The Annual General meeting, which is held before the end of every June on a date 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 General 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.

The 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 certain matter. As a rule, the General Meeting handles items proposed by the company's Board of Directors.

A shareholder has the right, by virtue of the Limited Liability Companies Act, to put matters that fall within the competence of the General Meeting on the agenda of the General Meeting, provided the shareholder makes a written request to the Board of Directors in time for the matter to be included in the notice of the meeting. Possible requests from shareholders to put matters on the agenda of Kesko's Annual General Meeting shall be sent to Kesko's Board of Directors not later than the date given on the company's website www.kesko.fi. The written request, together with an explanation or a draft resolution, shall be sent to Kesko Corporation, Kesko Group's Legal Affairs, FI-00016 KESKO, or by e-mail to cg@kesko.fi.

Major matters within the competence of the General Meeting

The most significant matters falling within the competence of the General Meeting include:

- resolution on the number of Board members
- election of Board members
- resolutions on the remuneration and financial benefits of Board members and members of the Board Committees
- election of the auditor and resolution on the auditor's fee
- adoption of the financial statements
- resolution on discharging the Board members and the Managing Director from liability
- amending the Articles of Association
- resolution to increase share capital
- resolution on the distribution of the company's assets, such as profit distribution.

Convening the General Meeting

Shareholders are invited to the General Meeting by a notice published in at least two nationwide newspapers specifying, among other things:

- the name of the company, the time and place of the General Meeting
- the proposed agenda for the General Meeting
- the proposals for the number and fees of Board members and, when necessary, proposals for Board members with biographical information
- the proposal for the auditor
- other proposals to the General Meeting
- a mention of the procedures that a shareholder must comply with in order to participate in and cast votes at the General Meeting
- a mention of the procedures that a shareholder must comply with in order to participate in the General Meeting by proxy
- a mention of a shareholder's right to ask questions related to items on the agenda of the General Meeting

- the date on which a person must be listed as a shareholder in the company's shareholder register in order to have the right to participate in the General Meeting and to cast votes at it (so-called record date of the General Meeting)
- the place where the General Meeting documents and draft resolutions are available
- the total number of shares and voting rights by share class at the date of convocation
- the address of the company website.

The notice of the meeting is delivered no earlier than two months and no later than three weeks before the General Meeting, but at least nine days before the record date of the General Meeting, referred to in the Finnish Limited Liability Companies Act. The notice of the meeting and the proposals of the company's Board to the General Meeting are announced in a stock exchange release. The proposals for the number of Board members, for Board members and for Board members' fees made by shareholders holding at least 10% of the votes carried by the company shares are also announced in a stock exchange release. The above documents are also posted on the company's website.

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

- the documents to be submitted to the General Meeting
- draft resolutions of the Board or other competent body.

Right to participate in the General Meeting

Shareholders have the right to participate in the General Meeting if they are registered as shareholders in the company's register of shareholders kept by Euroclear Finland Ltd at the record date of the General Meeting separately announced by the company. Shareholders must register for the General Meeting in advance by the date given in the notice of the General Meeting, which date cannot be earlier than ten days before the meeting. Shareholders may participate in the meeting themselves, or through proxy representatives. If a shareholder has more than one securities accounts, he or she can appoint different proxy representatives to represent his or her shares held in different securities accounts. The proxy representative shall produce a proxy document or otherwise provide reliable evidence of the right to represent the shareholder. A shareholder or proxy representative can have one assistant at the General Meeting.

Minutes of the General Meeting

The minutes of the General Meeting are recorded and made available to shareholders on the company website, together with voting results and appendixes relating to the resolutions of the General Meeting within two weeks from the General Meeting. Appendixes to the resolutions of the General Meeting are available on the company website only insofar they describe the actual content of the resolution. The resolutions of the General Meeting are also published in a stock exchange release immediately after the meeting.

Presence of governing bodies at the General Meeting

The company aims for all members of Kesko's Board of Directors, the President and CEO, and the auditor to be present at the Annual General Meeting. An Extraordinary General Meeting is attended by the Chair of the company's Board of Directors, a sufficient number of members of the Board and its committees, and the President and CEO. A first-time candidate for the Board of Directors is present at the General Meeting deciding on the election, unless there is a weighty reason for his or her absence.

SHARE SERIES

The company has share series A and B, which differ only with respect to the votes they carry. Each A share carries the right to ten (10) votes and each B share to one (1) vote at the General Meeting. When votes are taken, the proposal supported by more than half of the votes will normally be the resolution 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 resolutions on directed share issues, where a resolution requires an enhanced qualified majority in relation to the number of shares and the votes they carry by law.

Kesko's Articles of Association do not include redemption clauses or voting restrictions. The company is not aware of shareholder agreements on the use of voting rights in the company, or agreements restricting the disposal of company shares.

BOARD OF DIRECTORS AND ITS COMMITTEES

Term, composition and independence of the Board

According to the Articles of Association, the term of office of a Board member is three years, starting at the close of the General Meeting electing the member and expiring at the close of the third Annual General meeting after the election.

According to the Articles of Association, Kesko's Board of Directors consists of a minimum of five and a maximum of eight members. All members of the Board of Directors are elected by the General Meeting. The Board elects the Chair and the Deputy Chair from among its members for the whole term of the Board.

The Board of Directors elected by Kesko's Annual General meeting of 30 March 2009 consists of seven members:

- Heikki Takamäki (Chair)
- Seppo Paatelainen (Deputy Chair)
- Maarit Näkyvä
- Ilpo Kokkila
- Esa Kiiskinen
- Mikko Kosonen
- Rauno Törrönen.

In accordance with the Articles of Association, their terms 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 annually on a regular basis in accordance with recommendation 15 of the Corporate Governance Code. In the latest evaluation carried out on 22 September 2010, the Board found all members independent of the company's significant shareholders, and the majority of the members also independent of the company. A Board member is obliged to provide the Board with sufficient information to allow the Board to evaluate his or her independence, and to notify any changes in the information. A company controlled by Board members Takamäki, Kiiskinen and Törrönen each has a chain agreement with a Kesko Group company.

Principal functions

Kesko's Board of Directors ensures that the company's administration, operations and accounting as well as financial management controls are in place. The Board of Directors has confirmed the written charter for its duties, matters to be considered, meeting practice and the decision-making process. The Board of Directors considers and decides on all matters that are financially, commercially or fundamentally significant for the Group.

The Board of Directors' principal functions include:

- making decisions on the Group's strategy and confirming strategies for the divisions
- confirming the Group's rolling plan, which includes the capital expenditure plan
- approving the Group's financial and capital expenditure policy
- confirming the Group's risk management policy and considering the Group's most significant risks and uncertainties
- confirming the Group's insurance policy
- reviewing and adopting the 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 expenditures, acquisitions, disposals or other arrangements, and contingent liabilities
- making decisions on management authorisation rules
- making decisions on the essential Group structure and organisation
- appointing and dismissing the company's President and CEO, approving his or her managing director's service contract and making decisions on his or her compensation and other financial benefits
- making decisions on the nomination, compensation and financial benefits of the Corporate Management Board members responsible for business divisions
- making decisions on Kesko's remuneration plans and monitoring the implementation of the plans
- preparing possible proposals to the General Meeting for share and share-based remuneration plans, and making decisions on granting shares or option rights under possible share and share-based remuneration schemes, and on the terms and conditions for granting them
- establishing a dividend policy and being responsible for the development of shareholder value
- confirming the company's values
- reviewing the Corporate Responsibility Report
- being responsible for other statutory duties prescribed to the Board of Directors by the Limited Liability Companies' Act or some other, and for duties prescribed by the Governance Code.

Decision-making, operations and meetings

The duty of Kesko's Board is to promote the best interests of Kesko and all of its shareholders. The Board members do not represent the interests of the parties who have proposed their election as Board members. A Board member is disqualified from participating in the handling of any matter between him or 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 of a person end in a tie, the results will be decided by drawing lots.

The Board met 10 times in 2010, and the average attendance at meetings was 100%.

In strategy work, one of its key areas of emphasis, the Board of Directors has especially considered electronic operating models and services during the year. As in the previous years, the Board has reviewed the financial reports and actively monitored the Group's financial situation, approved the most significant capital expenditures, such as those made on store sites, monitored the progress of Group-level projects, and reviewed and approved interim reports and the financial statements based on the Audit Committee's recommendation prior to their disclosure.

The Board meetings regularly include a review by the President and CEO on topical and important issues concerning Kesko, as well as reports by the Chairs of the Board's Audit Committee and Remuneration Committee on preparatory committee meetings preceding the Board meeting. 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 2010. This was based on a questionnaire, followed by the Board's discussion on the results and further actions. On the basis of the assessment, the Board decided to continue to focus especially on strategy work.

Board Committees

Kesko has a Board's Audit Committee and a Remuneration Committee, both of which consist of three Board members. At the close of the Annual General meeting, the Board elects the Chairs, Deputy Chairs and the members of the Committees from among its members for one year at a time.

All members of the Audit Committee are independent of the company and its significant shareholders. In the election of the Audit Committee members, the relevant qualification requirements have been taken into account.

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. In the election of the Remuneration Committee members, the relevant qualification requirements have been taken into account.

The Committees regularly evaluate their operations and working practices and carry out a related self-evaluation once a year. The Board of Directors has confirmed written charters for the Committees that lay down their key duties and operating principles.

The Committees have no independent decision-making power. Instead, the Board makes decisions based on the preparation by the Committees. The Chair of the Committee reports on the work of the Committee at the Board meeting following the Committee meeting. The minutes of Committee meetings are delivered to the Board members for information.

Kesko's Board of Directors has not established any other committees in addition to the Audit and Remuneration Committees. Nor has the General Meeting established any committees or commissions.

Audit Committee and its operations

The Audit Committee members are:

- Maarit Näkyvä (Ch.)
- Seppo Paatelainen (Deputy Ch.)
- Mikko Kosonen.

According to its charter, the functions of the Audit Committee are:

- monitoring the financial situation of the Kesko Group
- monitoring the reporting process of the company's financial statements
- supervising the company's financial reporting process
- evaluating the efficiency of the company's internal control, internal audit and risk management systems
- reviewing the Corporate Governance Statement submitted by the company

- reviewing the plans and reports of the company's internal audit function
- monitoring the statutory audit of the financial statements and the consolidated financial statements
- evaluating the independence of the company's audit firm
- evaluating the non-audit services provided to Kesko by the company's audit firm and audit companies belonging to the same chain
- preparing the draft resolution concerning the election of the company's auditor
- taking care of contacts with the company's auditor.

The Audit Committee met five times in 2010, and its members' average attendance at meetings was 100%. At the Committee meetings, the Group's CFO, the Corporate Controller, the Chief Audit Executive and the General Counsel regularly report on their areas of responsibility to the Committee. The Committee also receives reports on the Kesko Group's financial situation, risk management and insurances. The auditor is present at the committee meetings and presents his audit plan and report to the Audit Committee.

During the year, the Committee reviewed reports on the Group's financial position, including the financial statements release and interim reports before they were released, and made a recommendation to the Board of Directors on the interim reports and the financial statements release. It reviewed the Group's external and internal audit and risk management reports, and approved the internal audit function's plan for 2011. In addition, it evaluated the auditor's independence and the offering of non-audit services to the Group, and made a proposal to the Annual General meeting on the auditor to be elected for Kesko.

Remuneration Committee and its operations

The Remuneration Committee members are:

- Heikki Takamäki (Ch.)
- Seppo Paatelainen (Deputy ch.)
- Ilpo Kokkila.

ATTENDANCE AT MEETINGS BY THE MEMBERS OF KESKO'S BOARD AND ITS COMMITTEES IN 2010

	Committee	Attendance		
		Board	Audit Committee	Remuneration Committee
Heikki Takamäki (Ch.)	Remuneration Committee (Ch.)	10/10	-	4/4
Esa Kiiskinen		10/10	-	-
Ilpo Kokkila	Remuneration Committee	10/10	-	4/4
Mikko Kosonen	Audit Committee	10/10	5/5	-
Maarit Näkyvä	Audit Committee (Ch.)	10/10	5/5	-
Seppo Paatelainen (Dep. Ch.)	Audit Committee (Deputy Ch.) Remuneration Committee (Deputy Ch.)	10/10	5/5	4/4
Rauno Törrönen		10/10	-	-

INDEPENDENCE OF THE BOARD MEMBERS IN 2010*

	Independence of the company	Independence of a significant shareholder
Heikki Takamäki (Ch.)	No**	Yes
Esa Kiiskinen	No**	Yes
Ilpo Kokkila	Yes	Yes
Mikko Kosonen	Yes	Yes
Maarit Näkyvä	Yes	Yes
Seppo Paatelainen (Deputy Ch.)	Yes	Yes
Rauno Törrönen	No**	Yes

* Based on independence evaluation of 22 Sept. 2010.

** Entities controlled by each of Kiiskinen, Takamäki and Törrönen have a chain agreement with a Kesko Group company.

According to its charter, the duties of the Remuneration Committee are:

- preparing matters pertaining to the compensation and other financial benefits of the company's President and CEO, as well as the managing director's service contract for the company's Board of Directors
- preparing matters pertaining to the compensation and other financial benefits of the Corporate Management Board members responsible for business divisions
- preparing matters pertaining to the appointment of the President and CEO and the Corporate Management Board members responsible for business divisions, and identification of their possible successors
- developing and preparing remuneration schemes for the company's Board of Directors, including:
 - evaluating the remuneration of the President and CEO and other executives, and taking care of the appropriateness of the company's remuneration schemes
 - preparing possible share or share-based remuneration schemes
 - preparing the granting of shares or option rights under share or share-based remuneration schemes, and preparing their terms and conditions
 - reviewing the remuneration statement in connection with the financial statements
 - answering questions concerning the remuneration statement at the General Meeting. Questions are primarily answered by the Committee Chair.
 - preparing the principles for the performance and result criteria of the remuneration schemes, and monitoring their implementation and evaluating their impact on Kesko's long-term financial success.

The Remuneration Committee met four times in 2010, and the members' average attendance at meetings was 100%. The committee prepared a proposal to the Board of Directors for a new longer term incentive plan targeted to the Group's management and other key personnel, and the principles of the management's performance bonus scheme. It also monitored the development of Kesko's management resources among other things.

More information on Kesko's Board members is available on pages 76–77 or at www.kesko.fi.

COMPANY MANAGEMENT President and CEO

Kesko has a managing director who is the 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 the management of the company in accordance with the instructions and orders issued by the company Board, and for informing the Board about the developments in the company's business operations and financial situation.

He is also responsible for the company's day-to-day management and that the financial matters are handled in a reliable manner. The President and CEO also chairs the Corporate Management Board and the Boards of the Group's major subsidiaries, such as Kesko Food and Rautakesko.

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, approved by the Board, has been made between the company and the President and CEO.

More information on Kesko's President and CEO is available on page 78 or at 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 considering Group-wide development projects and Group-level policies and practices. In addition, the Corporate Management Board discusses 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.

More information on Kesko's Corporate Management Board is available on pages 78–79 or at www.kesko.fi.

Subsidiary management

The Board members of Kesko's most significant subsidiaries are chosen from among the Kesko Group executives. They are not paid separate fees for acting as subsidiary Board members. The most important functions of subsidiary Boards include the preparation of the companies' and their sub-groups' strategies, operating plans and budgets, as well as making decisions on capital expenditures, company acquisitions and contingent liabilities within the authorisations granted by Kesko's Board of Directors.

REMUNERATION STATEMENT Remuneration of the Board of Directors and its Committees

The Annual General Meeting adopts resolutions on the fees and other financial benefits of the members of the Board and its Committees annually. The remunerations of the members of the Board and its Committees are paid in cash. The Board members have no share or share-based compensation plans. Nor are they included in other remuneration schemes or pension plans.

Remuneration of the President and CEO and other executives

Remuneration principles and the decision-making process

The remuneration scheme of the President and CEO and other members of the Corporate Management Board consists of a non-variable

CORPORATE MANAGEMENT BOARD MEMBERS AND RESPONSIBILITY AREAS IN 2010

	Since	Responsibility area
Matti Halmesmäki, Ch.	1.1.2001	Kesko's President and CEO
Terho Kalliokoski, President of Kesko Food Ltd	17.3.2005	Food trade
Jari Lind, President of Rautakesko Ltd	1.3.2005	Building and home improvement trade
Matti Leminen, Senior Vice President, Home and Speciality Goods Division	1.1.2007	Home and speciality goods trade
Pekka Lahti, President of VV-Auto Group Oy	1.3.2005	Car and machinery trade
Arja Talma, Senior Vice President, CFO of Kesko	17.3.2005	Finance and accounting
Riitta Laitasalo, Senior Vice President, Human Resources of Kesko	1.1.2001	Human Resources
Paavo Moilanen, Senior Vice President, Corporate Communications of Kesko	13.10.2005	Corporate communications and responsibility

monetary salary (monthly salary), fringe benefits (free car and mobile phone benefit), a performance bonus based on criteria set annually (short-term compensation scheme), the 2007 option scheme (long-term compensation scheme) and the executives' retirement benefits. In 2010, the company did not operate any share-based compensation plans.

Based on the Remuneration Committee's preparation, Kesko's Board of Directors makes decisions on the individual compensation, other financial benefits, the performance bonus system criteria and the bonuses paid to the President and CEO and the Corporate Management Board members responsible for business divisions. As for the other Corporate Management Board members, Kesko's Board of Directors makes decisions on the performance bonus principles. The Board also monitors the implementation of the compensation plan.

The President and CEO makes decisions on the compensation and other financial benefits of Corporate Management Board members other than those responsible for business divisions within the limits set by the Chair of the Remuneration Committee.

In 2010, the President and CEO and the members of the Corporate Management Board did not have share-based compensation plans.

Performance bonus scheme (short-term compensation plan)

Kesko operates a management performance bonus scheme. In addition to the Corporate Management Board, it covers about 90 people in the Kesko Group management. The performance bonuses determined annually are paid after the completion of the annual financial statements, at the end of March following the year of determination. Kesko's Board of Directors makes decisions on the performance bonus criteria annually. The criteria basically comprise the Group's profit before non-recurring items and tax (weight 20–40%), the economic value added of the director's responsibility area, operating profit excluding non-recurring items, net sales performance, customer and personnel indicators (weight 20–40%), reaching personal targets, and

a component based on superior's overall evaluation (40%). The bonus criteria and their weights vary depending on duties.

The maximum performance bonus of Kesko's President and CEO corresponds to his monetary salary for eight months excluding fringe benefits, and that of the other members of the Corporate Management Board, the salary of 4–5 months, depending on the profit impact of each position. The performance bonus of a Corporate Management Board member is determined based on the monetary salary of the last month of the calendar year the result of which is the basis of the bonus.

The implementation of performance and result criteria and their impact on long-term financial success are monitored and assessed by Kesko's Board of Directors and the Remuneration Committee.

According to the rules of the performance bonus scheme, service or an equal period of time in the Group company serving as the present employer, must have lasted at least six calendar months during the calendar year for which the bonus is paid. A performance bonus is not paid to a person whose employment terminates before the date of payment.

Option scheme (long-term compensation plan)

In addition to the performance bonus scheme, Kesko operates the 2007 option scheme for the Group management and other key people. 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 acquire company shares for permanent ownership. Kesko's Board of Directors makes decisions on the granting of option rights on the basis of proposals made by the Remuneration Committee and within the terms and conditions of the option scheme resolved by the company's General meeting. The option scheme does not contain terms or conditions that would limit the option recipients' income from option rights.

Read more about Kesko's 2007 option scheme terms and conditions on pages 153 or at www.kesko.fi.

ANNUAL AND MEETING FEES PAID TO BOARD MEMBERS FOR BOARD AND COMMITTEE WORK IN 2010 (€)

	Annual fees	Meeting fees			Total
		Board	Audit Committee	Remuneration Committee	
Heikki Takamäki (Ch.)	80,000	5,000	-	2,000	87,000
Esa Kiiskinen	37,000	5,000	-	-	42,000
Ilpo Kokkila	37,000	5,000	-	2,000	44,000
Mikko Kosonen*	37,000	5,000	2,000	-	44,000
Maarit Näkyvä	37,000	5,000	4,000	-	46,000
Seppo Paatelainen	50,000	5,000	2,000	2,000	59,000
Rauno Törrönen	37,000	5,000	-	-	42,000
Total	315,000	35,000	8,000	6,000	364,000

*In addition, Idexia Oy, a company controlled by Mikko Kosonen, was paid €5,000 for consultation services in 2010.

BOARD'S ANNUAL AND MEETING FEES IN 2006–2010 RESOLVED BY THE ANNUAL GENERAL MEETING (€)

Annual fee	Fee/year	
	2009–2010	2006–2008
Chair of the Board	80,000	60,000*
Deputy Chair of the Board	50,000	42,000*
Member of the Board	37,000	30,000*

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

Meeting fees	Fee/meeting	
	2009–2010	2006–2008
Fee for a Board meeting	500	500
Fee for a Committee meeting	500	500
Chair's fee for a Committee meeting if he/she is not also the Chair or the Deputy Chair of the Board	1,000	1,000

PRESIDENT AND CEO MATTI HALMESMÄKI

Salaries, performance bonuses and fringe benefits in 2008–2010 (€)

	2010	2009	2008
Non-variable salary	605,100	569,300	541,100
Performance bonuses*	227,500	152,250	280,000
Fringe benefits	22,560	23,014	17,460
Total	855,160	744,564	838,560

* Based on the previous year's performance.

Retirement benefits

The President and CEO is a member of the Kesko Pension Fund's department A and his retirement benefits are determined based on the department's rules and his managing director's service contract. His retirement age is 60 and his retirement benefit is based on a defined benefit plan. At retirement, his pension is 66% of his pensionable salary. The pensionable salary is determined based on his non-variable salary, performance bonuses and fringe benefits for the last 10 years.

Notice period and termination payment

If the President and CEO's service contract is terminated by the company, he is paid a 6-months' salary and a separate lump sum termination payment, which represents his 12-months' salary and fringe benefits (a total of 18 x termination month's salary + fringe benefits). If the President and CEO resigns, he is entitled to a salary for the notice period.

Option rights granted in 2007–2010 (pcs)

Option right (symbol)	2010	2009	2008	2007
2007A	-	-	-	50,000
2007B	-	-	50,000	-
2007C	-	50,000	-	-
Total	-	50,000	50,000	50,000

Vesting period*

4/2007–4/2010

4/2008–4/2011

4/2009–4/2012

*Period during which option rights cannot be transferred or used for share subscription.

Ownership obligation

25% of income from option rights must be used to acquire company shares for permanent ownership.

SALARIES, PERFORMANCE BONUSES AND FRINGE BENEFITS OF CORPORATE MANAGEMENT BOARD MEMBERS IN 2009–2010 (€)

Cash basis	Non-variable salary		Performance bonuses		Fringe benefits		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Matti Halmesmäki	605,100	569,300	227,500	152,250	22,560	23,014	855,160	744,564
Corporate Management Board*	1,515,860	1,415,291	244,250	93,650	112,080	112,441	1,872,190	1,621,382
Total	2,120,960	1,984,591	471,750	245,900	134,640	135,455	2,727,350	2,365,946

* Excl. President and CEO Halmesmäki

Accrual basis	Non-variable salary		Performance bonuses		Fringe benefits		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Matti Halmesmäki	605,100	569,300	339,500	227,500	22,560	23,014	967,160	819,814
Corporate Management Board*	1,515,860	1,415,291	438,500	229,250	112,080	112,441	2,066,440	1,756,982
Total	2,120,960	1,984,591	778,000	456,750	134,640	135,455	3,033,600	2,576,796

* Excl. President and CEO Halmesmäki

The tables provide an analysis of performance bonuses according to cash basis (performance bonus paid in the year in question) and accrual basis (performance bonus accrued in the year in question). The accrual based performance bonuses have been paid or will be payable the next year.

OPTION RIGHTS GRANTED TO CORPORATE MANAGEMENT BOARD MEMBERS IN 2007–2010 (pcs)*

Year of grant	2010	2009	2008	2007
Option right (symbol)		(2007C)	(2007B)	(2007A)
Matti Halmesmäki, Ch.	-	50,000	50,000	50,000
Terho Kalliokoski	-	30,000	25,000	25,000
Jari Lind	-	25,000	25,000	25,000
Matti Leminen	-	20,000	20,000	20,000
Pekka Lahti	-	20,000	20,000	20,000
Arja Talma	-	25,000	25,000	25,000
Riitta Laitasalo	-	15,000	15,000	15,000
Paavo Moilanen	-	15,000	15,000	15,000
Total	-	200,000	195,000	195,000

* The option rights 2007A-2007C include an obligation set by Kesko's Board to option recipients to use 25% of the proceeds from their option rights to buy company shares for permanent ownership. The vesting periods (during which option rights cannot be transferred or used for share subscription) are as follows: 2007A: 4/2007–4/2010; 2007B: 4/2008–4/2011; 2007C: 4/2009–4/2012.

RETIREMENT BENEFITS, NOTICE PERIODS AND TERMINATION PAYMENTS OF CORPORATE MANAGEMENT BOARD MEMBERS

	Retirement pension age	Pension as percentage of pensionable salary (%)	Period of notice	Termination payment	
Matti Halmesmäki, Ch.	60	66	6 mo	12 mo salary	If the company terminates the director's service contract, he/she is paid a 6 months' salary for the period of notice and a separate lump sum termination payment representing his/her 6–12 months' non-variable salary and fringe benefits (a total of 12–18 x salary for the month of termination + fringe benefits). If the director resigns, he/she is entitled to a salary for the period of notice.
Terho Kalliokoski	62	66	6 mo	6 mo salary	
Jari Lind	62	66	6 mo	6 mo salary	
Matti Leminen	60	66	6 mo	12 mo salary	
Pekka Lahti	62	66	6 mo	12 mo salary	
Arja Talma	based on TyEL*	based on TyEL*	6 mo	6 mo salary	
Riitta Laitasalo	60	66	6 mo	12 mo salary	
Paavo Moilanen	60	66	6 mo	12 mo salary	

Except for Arja Talma, the executives are members of the Kesko Pension Fund. Their retirement ages and pensions are determined based on the department's rules and each of their service contracts. Their retirement benefits are based on a defined benefit plan.

*TyEL = the Employees' Pensions Act

Notice period and termination compensation

If given notice by the company, the President and CEO and the other Corporate Management Board members are entitled to a monetary salary for the period of notice, fringe benefits and a separate non-recurring termination payment determined on the basis of the executive's monetary salary and fringe benefits for the month of notice. The termination payment and granted option rights, or income from them are not part of the executive's salary and they are not included in the determination of the salary for the period of notice, termination payment or, in case of retirement, pensionable salary. If an executive resigns, he is only entitled to a salary for the period of notice and fringe benefits. When a service terminates due to retirement, the executive is paid a pension based on the service contract without other benefits.

Retirement benefits

The President and CEO and the other members of the Corporate Management Board, except for one, belong to the Kesko Pension Fund's department A, which was closed in 1998. Their retirement benefits are determined in accordance with its rules, and their service contracts. They have defined retirement benefit plans. One of the members has joined Kesko after 1998, and her pension is determined based on the Employees' Pensions Act (TyEL).

RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

Risk management

Risk management is an integral part of management in Kesko

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 the Group strategy, the delivery of customer promises, shareholder value, and the continuity of business. Efficient risk management is a competitive advantage for Kesko.

The risk management policy confirmed by the Board of Directors guides risk management in the Kesko Group. The policy, based on the COSO ERM Framework, 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 harmful consequences.

Risk management principles in the Kesko Group:

- We set objectives relating to risks and opportunities for the divisions and functions.
- We take calculated risks within the limits set in strategy selections, e.g. in expanding business operations, in

strengthening market position and power, and in creating new business. Risk appetite is aligned with determined risk tolerance.

- We avoid or reduce financial, operational and damage/loss risks.
- We ensure a safe shopping environment and product safety for our customers.
- We create a safe working environment for our employees.
- We minimise opportunities for unhealthy phenomena, crime or malpractice through operating principles and controls.
- The continuity of operations is ensured by safeguarding critical functions and the resources they require.
- Crisis management and continuity plans are prepared in case any risks are realised.
- Risk management costs and resources are proportionate to the obtainable benefits.
- Information on risks and risk management is provided to stakeholders in accordance with Kesko's corporate governance principles.

The Group has a uniform risk assessment and reporting system

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 operations at the Group, division, company and unit levels in all of Kesko's operating countries. Risk identification and assessment play a key role in Kesko's strategy work and rolling planning. In addition, risk assessments are made of significant projects related to capital expenditures or changes in operations.

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. The most significant risks are analysed in more detail to find out causes and effects. Risk responses, schedules and responsible persons are determined in order to manage the risks. The risks classified as critical and responses to them are quarterly considered by the management boards. The development of a risk situation is assessed on the basis of the progress made through these actions and changes in external factors. In risk assessment, the time span is one year, except for strategic risks where the span is three years. The outcome of risk assessments is a clear picture of the scope, mutual relations and expected trends of the risks.

Responsibilities and roles in risk management

The business division and Group unit managements are responsible for risk management implementation. Each division has appointed a management 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 responses. In addition, each of the food trade, the building and home improvement trade, and the home and speciality goods trade

divisions has 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.

Kesko has a Group-level Risk Management Steering Group, which is chaired by the Group's President and CEO, and composed of the representatives of the management of the various divisions and Group functions. The Steering Group considers the operating principles and key policy definitions concerning risk management and safety and security, and assesses and monitors the Group's risks and safety situation, and the efficiency of risk management responses.

The Group's risk management function controls and coordinates the development of joint risk management and security procedures, the adoption of best practices in the Group, and is responsible for risk reporting to the Group's management.

The divisions report on risks and changes in risks to the Group's risk management function on a quarterly basis. On the basis of the reports, the Group's risk management function prepares the Group's risk map presenting the most significant risks and their management.

The Group's risk map, the most significant risks and uncertainties, as well as changes in and responses to them are reported to the Kesko Board's Audit Committee in connection with considering the interim reports and the financial statements. The Audit Committee's report includes a report on risk management by the Chair of the Audit Committee to the Board of Directors. Kesko's Board of Directors considers the most significant risks and the responses required to control them, and assesses the efficiency of risk management. The most significant risks and uncertainties are reported to the market by the Board of Directors in the financial statements, and changes in them in interim reports.

The management of financial risks is based on the Group's finance 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.

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

Providing insurance cover is part of Kesko's risk management

Providing insurance cover is part of Kesko's risk management, and the policy confirmed by Kesko's Board of Directors defines the principles

of providing insurance. The objective is to ensure that the Group's personnel, assets, business operations and liabilities have appropriate and economical insurance cover, while taking account of legislative requirements and the Group's risks and risk tolerance at any time. The Group's risk management function is 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.

Risk management responses in 2010

The Group's risk management function and internal audit function have been cooperating increasingly, which improves the risk orientation of the internal audit function. The risk assessment of the strategy process has been developed to include missed business opportunities in risks. A more concrete approach has been adopted in risk reporting. The number of project specific risk assessments increased. In autumn 2010, the Group's risk management function held, jointly with the Group's legal affairs and internal audit functions, training sessions focusing on Kesko's responsible operating principles in foreign subsidiaries. The participants totalled 60 people representing subsidiary managements.

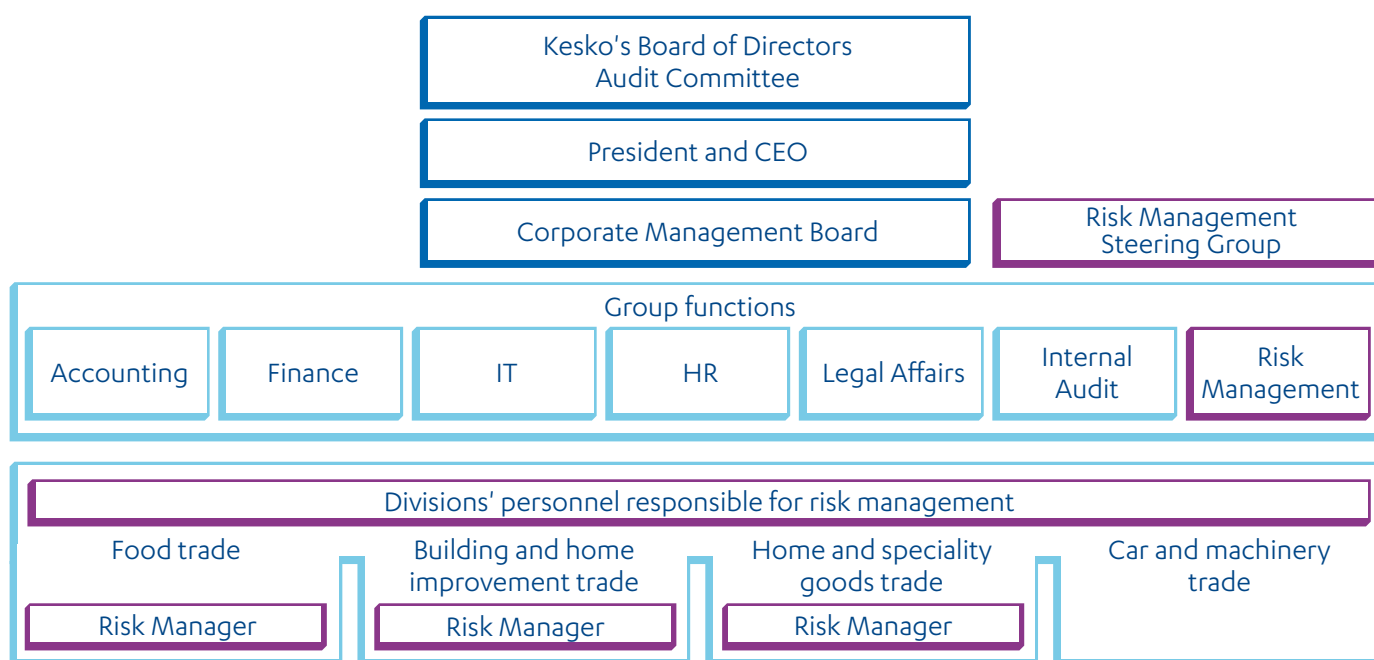
For the purpose of improving occupational safety, an extensive inquiry for the assessment of the risks at work was carried out in Finland towards the end of the year. At the next stage, the identified risk factors will be assessed in more detail and location or unit specific measures will be determined. Kesko participated in a research project promoting the safety of shopping centres. The research results will be used in the development of safety in stores. A model for the safety audits of Kesko's business premises has been established.

In the spring, competitive tendering of the Group's non-life insurances was arranged. As a result, the total amount of premiums decreased without compromising the insurance cover. New forms of cooperation have been sought and adopted jointly with insurance partners, aimed to support Kesko's proactive risk management work.

Focal areas of risk management in 2011

Kesko's risk management will continue to prevent damages and malpractice, to maintain and test continuity plans, and to provide cost-efficient insurance services. Management's crisis exercises will continue to be arranged.

KESKO GROUP'S RISK MANAGEMENT ORGANISATION



■ Risk management specialist responsibility

The risk management function will continue working in close cooperation with other Group units, especially with the internal audit, legal affairs, human resources, accounting, treasury and IT functions in order to ensure the adoption of, for example, responsible operating practices, and to improve personnel safety and to develop risk management related to information security and data protection.

The most significant risks and their management responses

Risks and uncertainties impacting Kesko's business operations, uncertainties and their management responses, as well as the organisation and principles of Kesko's risk management are described on Kesko's website at www.kesko.fi and in the Report by the Board of Directors on pages 85–86.

Financial risks are described in accordance with the IFRS in note 41 to Kesko's financial statements for 2010.

Internal control

Internal control is an active part of Kesko's management, administration and day-to-day operations. The President and CEO and the Board of Directors are ultimately responsible for the organisation of internal control. The Audit Committee of Kesko's Board of Directors has confirmed Kesko's internal control policies, which are based on good control principles, widely accepted internationally (COSO).

Internal control refers to all proactive operations, daily and subsequent control, aimed to ensure the achievement of business objectives. Kesko's values, operating principles and the company strategy and objectives form the basis of internal control as a whole. Kesko's operating principles have been communicated to the Kesko employees in the guide 'Our Responsible Working Principles'. Daily controls include working instructions and system controls, as well as the definition and differentiation of responsibilities and powers, job specifications, approval authorisations and substitute procedures and financial reporting. Internal audit and auditors are part of subsequent control.

The objective of internal control is to ensure profitable and effective operations, reliable financial and operational reporting, compliance with laws, regulations and agreements, and security of assets and information.

Internal audit

Kesko's internal audit function is responsible for the Group's independent evaluation and assurance function required of a listed company, which systematically examines and verifies the efficiency of risk management, control, management and administration. The management and the organisation are supported to ensure that Kesko's objectives are achieved, and to develop the control system. The Audit Committee of Kesko's Board of Directors has approved the internal audit function's operating instructions.

Organisation of the audit function

The internal audit function is organised under Kesko's President and CEO and the Audit Committee, and it reports on its findings and recommendations to the Audit Committee, the President and CEO, the management of the audited operation, and the auditor. The function covers all of Kesko's divisions, companies and functions.

The internal audit function is organised in the foreign audit, the Group audit and the IT audit units and has a staff of 10. Auditing is based on risk analyses and control discussions with the Group's and divisions' managements. An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The annual plan is modified on a risk basis, if necessary.

The internal audit function cooperates with the Group's risk management functions and participates in the work of the Risk Management Steering Group. The internal audit function assesses the efficiency of Kesko's risk management system annually.

Internal audit operations in 2010

In 2010, the areas of emphasis of the internal audit function included foreign operations and information system audits. The audits of for-

eign operations concentrated on the implementation of changes in business operations, stocks and selections management, and basic controls. In information system audits special attention was paid to new systems projects, continuity and information security. Compliance with Kesko's accounting policies and reporting guidelines was verified and assessed in audits conducted in Finland and abroad. The audits increasingly leveraged data extraction and analysing software. Especially in information system audits, the focus was increasingly placed on service providers.

Focal areas of internal audit in 2011

The emphasis in the audit operations of the internal audit function in 2011 will be placed on changes in business operations, purchasing controls, malpractice risks, new IT systems, information security and continuity, as well as the adoption of electronic processes. An external quality assurance evaluation will be conducted in 2011 for the purpose of developing the audit function further.

Ensuring professional competence

According to its operating instructions, the internal audit function must have sufficient resources, the required knowledge, skills and other competencies for performing its duties. The auditors' competencies are maintained by internal and external professional education and examinations. Kesko's internal audit function currently has five employees with the international qualification of Certified Internal Auditor. In addition, three auditors have the qualification of Certified Information Systems Auditor, and one auditor has the qualification of a Certified Information Systems Security Professional.

The extent and expertise of auditing is ensured and coordinated by regular contacts and exchange of information with the Group's other assurance functions and auditors. In addition, the internal audit functions purchases external services to perform assessments requiring special expertise, as necessary. The Group's own specialists are also used in audit-specific additional resourcing.

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. The Group units' financial results are reported and analysed inside the Group on a monthly basis, and disclosed in interim reports released 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, changes compared to the previous year, comparison 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 the following 15 months. The financial indicator for growth is sales performance, while that for profitability is

operating profit excluding non-recurring items as well as the accumulation of economic value added, monitored via monthly internal reporting. In the calculation of economic value added, the requirements concerning return on capital are determined annually on market terms, and the return requirements take account of risk-related division and country specific differences. Information on the Group's financial situation is communicated in interim reports and the financial statements release. The Group's sales figures are published in a stock exchange release each month.

Financial planning takes place at the subsidiary, division and the Group level as 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 performance forecasts reported monthly. 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 controlling function of each division analyses the figures for the whole division for which the division's financial management is responsible. The Group is responsible for the figures for the whole Group. 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 release 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 on their approval to the Board of Directors. The Board of Directors approves each interim report and the financial statements before they are published.

Key procedures in 2010

Early in the year, the Kesko Group launched a project for harmonising the financial management information systems, which serves both the Group companies and the K-Group's retailers. The resulting financial management system will be part of the Group's financial reporting system. In addition, the K-Group's financial management processes and the control environment will become uniform.

During the year, the chip & pin card payment project was continued in order to introduce new payment terminals in all K-Group stores. A centralised card payment solution is reliable, secure and meets the requirements of standards related to card payment.

The adoption of a shared planning system, which was begun last year, was continued. The project will harmonise the Group companies' planning systems and integrates them in the Group's reporting system.

Procedures in 2011

In 2011, the financial management function will concentrate on the development of the operations of the Kesko Group's shared service centre, the information system project serving the K-Group and its adoption. In addition, the chip & pin card payment project will be continued as well as the adoption of an electronic invoicing system and planning system.

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.

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.

AUDIT

According to the Articles of Association, Kesko has one auditor, which shall be an audit firm authorised by the Central Chamber of Commerce. The Audit Committee prepares a proposal for the company's auditor to the General Meeting. The Audit Committee also evaluates the auditors' operations and services annually. 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. As a rule, a network firm of the audit firm represented by the auditor elected by Kesko's General Meeting acts as the auditor of the Group's foreign subsidiaries.

The auditor presents the audit report required by law to Kesko's shareholders in connection with the company's financial statements and regularly reports its findings to the Audit Committee of Kesko's Board of Directors.

The 2010 Annual General Meeting elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the company's auditor, with APA Johan Kronberg as the auditor with principal responsibility. The Annual General Meeting resolved that the auditor's fee is paid and expenses are reimbursed according to invoice approved by the company.

According to the applicable law, a person can act as the auditor with principal responsibility for a maximum of seven (7) successive years. The law does not limit the term of an auditing firm.

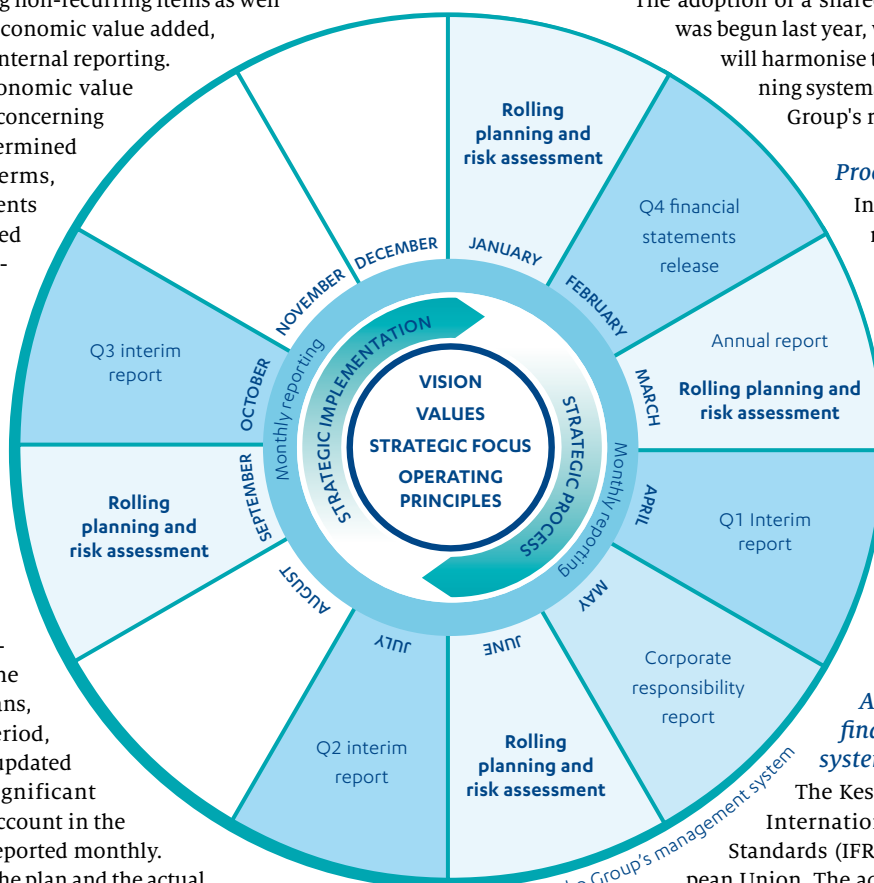


Fig 1. The Kesko Group's management system

AUDITORS' FEES IN 2009–2010 (€ thousand)

	2010				2009			
	PwC		Other audit firms	Total	PwC		Other audit firms	Total
	Kesko Corporation	Other Group companies	Kesko Corporation		Other Group companies			
Auditing	106	828	59	993	129	717	63	909
Tax consultation	84	31	17	132	16	48	50	114
IFRS consultation	3	-	2	5	6	-	2	8
Other services	59	64	82	205	82	74	101	257
Total	252	923	160	1,336	233	839	216	1,288

INSIDER ADMINISTRATION

Kesko's insider regulations

Kesko complies with the insider guidelines of NASDAQ OMX Helsinki Ltd. 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, the 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 parties and the corporations that are controlled by related parties, 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 sub-registers that consist of permanent insiders and of possible insider projects and persons participating in their preparation.

Monitoring

The Group's legal affairs function monitors the compliance with insider guidelines and maintains the company's insider registers in cooperation with Euroclear Finland Ltd. At regular intervals, the legal affairs function delivers 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 are not allowed to acquire or dispose of securities issued by the company, including securities or derivative financial instruments entitling to them, during 21 days prior to the disclosure of interim reports and during 28 days prior to the disclosure of the annual financial statements. These disclosure 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 76–79 and at 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, and for investor communications. The Corporate Communications and Responsibility Unit produces the Group level communications material and is responsible for stock exchange and financial communications. The Vice President, General Counsel is responsible for ensuring that the rules related to stock exchange communications are observed by Kesko.

In its investor communications, Kesko follows the principle of impartiality and publishes all investor information on its website at www.kesko.fi in Finnish and English. Kesko observes a three (3) week period of silence before disclosing information on its financial results.

Board of Directors



Heikki Takamäki

b. 1947
Domicile: Tampere, Finland.

Chair (Chair of the Remuneration Committee).

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

Main employment history: K-rauta retailer since 1979. Kesport-Intersport retailer 1995–1999.

Main positions of trust: -

Board member since: 1 January 2001.

Fees in 2010: €87,000.

Kesko shares and stock options held on 1 January 2010: 104,470 A shares and 68,120 B shares held by him or his company. No stock options.

On 31 December 2010: 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 (Deputy Chair of the Audit Committee and the Remuneration Committee).

Principal occupation: -

Main employment history: Itikka Co-operative: Director 1970–1973, Luja-Yhtiöt: Director 1973–1987, Itikka Co-operative and Itikka Lihabotnia Oy: CEO 1988–1991, Atria Group plc: CEO 1991–2006.

Main positions of trust: Ilkka-Yhtymä Oyj: Board member 1994–2007, Board Chair 2007–, Alma Media Corporation: Deputy Chair of Board 2008–, Finavia Corporation: Board Chair 2010–, Seinäjoki Region Business Service Center: Board Chair 2009–.

Board member since: 27 March 2006.

Fees in 2010: €59,000.

Kesko shares and stock options held on 1 January 2010: No shares. No stock options.

On 31 December 2010: 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.

Main positions of trust: K-Retailers' Association: Board Chair 2008–, the Foundation for Vocational Training in the Retail Trade: Board Chair 2008–, Vähittäiskaupan Tilipalvelu VTP Oy: Board member 2008–, the Federation of Finnish Commerce: Board member 2008–, Saija ja Esa Kiiskinen Oy: Board Chair 1995–.

Board member since: 30 March 2009.

Fees in 2010: €42,000.

Kesko shares and stock options held on 1 January 2010: 102,350 A shares held by him or his company. No stock options.

On 31 December 2010: 102,350 A shares held by him or his company. No stock options.



Ilpo Kokkila

b. 1947, M.Sc. (Techn.)
(Member of the Remuneration Committee).
Domicile: Helsinki, Finland.

Principal occupation: SRV Group Plc: Board Chair.

Main employment history:

A-Betoni Oy: Constructor 1972–1974, Perusyhtymä Oy: Director 1974–1987, SRV Group Plc: Board Chair 1987–, Pontos Ltd: Board Chair 2002–.

Main positions of trust: Central Chamber of Commerce: Board member 2002–2006, Council member 2001–, JTO School of Management: Board Chair 1999–, Finnish-Russian Chamber of Commerce (FRCC): Deputy Chair of Board 2006–.

Board member since: 27 March 2006.

Fees in 2010: €44,000.

Kesko shares and stock options held on 1 January 2010: 16,100 B shares held by him. No stock options.

On 31 December 2010: 16,100 B shares held by him. No stock options.

on 31 December 2010



Mikko Kosonen

b. 1957, D.Sc. (Econ.)
(Member of the Audit Committee).
Domicile: Espoo, Finland.

Principal occupation: President of Finnish Innovation Fund Sitra.

Main employment history:

Nokia plc: Senior Vice President for Strategic Planning and Information Management 1997–2005 and Executive Advisor 2005–2007. Finnish Innovation Fund Sitra: Special Advisor 2007–2008 and President 2008–.

Main positions of trust: Fifth Element Ltd: Board member 2008–, Kauppatieteellinen Yhdistys: Board member 1998–, Center for Knowledge and Innovation Research (CKIR): Board member 2000–, Technology Academy Finland Foundation: Board member 2009–, Kuntien Palvelukeskus KPK ICT Oy: Board Chair 2010–.

Board member since: 30 March 2009.

Fees in 2010: €44,000.

Kesko shares and stock options held on 1 January 2010:

No shares. No stock options.

On 31 December 2010: No shares. No stock options.



Maarit Näkyvä

b. 1953, M.Sc. (Econ.)
(Chair of the Audit Committee).
Domicile: Kirkkonummi, Finland.

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: Board member 1998–2000, Sampo plc: Executive Vice President 2001–2006, Sampo Bank plc: Board member 2001–2008, Executive Vice President 2007–2008, Sampo Fund Management Ltd: Board member 2007–2008.

Main positions of trust: -

Board member since: 1 January 2001.

Fees in 2010: €46,000.

Kesko shares and stock options held on 1 January 2010:

No shares. No stock options.

On 31 December 2010: 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.

Main positions of trust:

Kiihtelysvaaran Osuuspankki, Supervisory Board member 2004–, Joensuun kauppaopetuksen tukisäätiö: Board member 2009–, Alepro Oy: Board member 2009–.

Board member since: 30 March 2009.

Fees in 2010: €42,000.

Kesko shares and stock options held on 1 January 2010: 15,900

A shares and 9,600 B shares held by him or his company. No stock options.

On 31 December 2010: 15,900

A shares and 14,600 B shares held by him or his company. No stock options.

Up-to-date information about the main positions of trust as well as information about terminated positions of trust is available at www.kesko.fi. The term of each Board member, in accordance with the Articles of Association, will expire at the close of the 2012 Annual General Meeting.

Corporate Management Board



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: Board Deputy Chair 2005–, the Finnish Fair Corporation: Board member 2005–, the Federation of Finnish Commerce: Board member 2005–, Ilmarinen Mutual Pension Insurance Company: Board member 2010–, Luottokunta: Supervisory Board member 2005– and Chair 2007–, Foundation for Economic Education: Board member 2005–, Finnish Business and Policy Forum EVA: member 2005–, Helsinki Region Chamber of Commerce: Delegation member 2006–, the Association for Promoting Voluntary National Defence of Finland: Delegation member 2005–, the Central Chamber of Commerce in Finland: Board member 2006–, ICC Finland – the Finnish Section of International Chamber of Commerce: Executive Board member 2005–, Savonlinna Opera Festival Patrons' Association, member of the Board of Trustees 2006–, East Office of Finnish Industries Oy: Board member 2008–, Varma Mutual Pension Insurance Company: Supervisory Board member 2005–.

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.

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.
Kesko shares and stock options held on 1 January 2010: 2,000 A shares, 7,000 B shares, 50,000 A stock options, 50,000 B stock options and 50,000 C stock options.
On 31 December 2010: 2,000 A shares, 7,000 B shares, 50,000 A stock options, 50,000 B stock options and 50,000 C stock options.

Terho Kalliokoski

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

Other major duties: the Finnish Grocery Trade Association: Board member 2006–, the Association of Finnish Advertisers: Board member 2005–, the Association for Finnish Work: Board member 2010–, Helsinki Region Chamber of Commerce: Board member 2009–, the Finnish 4H Federation: Supervisory Board member 2009–.



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.

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.
Kesko shares and stock options held on 1 January 2010: 3,250 B shares, 25,000 A stock options, 25,000 B stock options and 30,000 C stock options.
On 31 December 2010: 3,250 B shares, 25,000 A stock options, 25,000 B stock options and 30,000 C stock options.

Jari Lind

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

Other major duties: tooMax-x Handelsgesellschaft mbH: Executive Board member 2009–, Eurogroup Far East Ltd.: Executive Board member 2009–.
Employment history: employed by Kesko Ltd since 1990: Rautakesko, Purchase Logistics Director 2000–2001, Vice President for the K-rauta chain and B2B Service



2002–2005. President of Rautakesko Ltd since 1 March 2005.

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.
Kesko shares and stock options held on 1 January 2010: 25,000 A stock options, 25,000 B stock options and 25,000 C stock options.
On 31 December 2010: 25,000 A stock options, 25,000 B stock options and 25,000 C stock options.

Matti Leminen

b. 1951, B.Sc. (Econ.). Senior Vice President, home and speciality goods trade.
Domicile: Espoo, Finland.

Other major duties: -
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 1998–13 August 2010.
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.

on 31 December 2010



Kesko shares and stock options held on 1 January 2010: 20,000 A stock options, 20,000 B stock options, 20,000 C stock options and 3,000 F stock options.

On 31 December 2010: 20,000 A stock options, 20,000 B stock options and 20,000 C stock options.

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: Board member 2007–, Board Chair 2010–, Finnish Car Recycling Ltd: Board member 2007–, Tieliikenteen tietokeskus TT Oy: Board member 2009–, Board Chair 2010–, the Federation of Finnish Commerce: Board member 2010–.

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

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 12 months' salary.

Corporate Management Board member since: 1 March 2005.

Kesko shares and stock options held on 1 January 2010: 20,000 A stock options, 20,000 B stock options, 20,000 C stock options and 17,200 F stock options.

On 31 December 2010: 20,000 A stock options, 20,000 B stock options and 20,000 C stock options.



Riitta Laitasalo

b. 1955, M.Sc. (Econ.). Senior Vice President, Human Resources.

Domicile: Espoo, Finland.

Other major duties: Kesko Pension Fund: Board Chair 1998–, Kesko Sickness Fund: Board Chair 2005–, the Foundation for Vocational Training in the Retail Trade: Board member 1998–, Editapl: Board member 2005–, Chair of the Audit Committee 2005–, JTO School of Management: Board member 2005–, Fintra: Board member 2005–, the Unemployment Insurance Fund of the Ministry of Social Affairs and Health: Supervisory Board member 2010–.

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.

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 2001.

Kesko shares and stock options held on 1 January 2010: 10,000 B shares, 15,000 A stock options, 15,000 B stock options, 15,000 C stock options and 16,000 F stock options.

On 31 December 2010: 11,000 B shares, 15,000 A stock options, 15,000 B stock options and 15,000 C stock options.



Arja Talma

b. 1962, M.Sc. (Econ.), eMBA. Senior Vice President, CFO.

Domicile: Helsinki, Finland.

Other major duties: VR-Group Ltd: Board member 2006– and Chair of the Audit Committee 2006–, Sponda Plc: Board member 2007– and Chair of the Audit Committee 2007–, Luottokunta: Board member 2008–, Finnish Scout Foundation: Supervisory Board member 2010–.

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.

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.

Kesko shares and stock options held on 1 January 2010: 2,000 B shares, 25,000 A stock options, 25,000 B stock options and 25,000 C stock options.

On 31 December 2010: 2,000 B shares, 25,000 A stock options, 25,000 B stock options and 25,000 C stock options.

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 2005–, the Association for Finnish Work: member of the Communications and Research Committee 2005–, the Federation of Finnish Commerce: Chair of the Communications Committee 2010–.

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: Senior Vice President, Corporate Communications since 13 October 2005.

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: 13 October 2005.

Kesko shares and stock options held on 1 January 2010: 500 A shares, 1,500 B shares, 15,000 A stock options, 15,000 B stock options and 15,000 C stock options.

On 31 December 2010: 500 A shares, 1,500 B shares, 15,000 A stock options, 15,000 B stock options and 15,000 C stock options.