

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 |

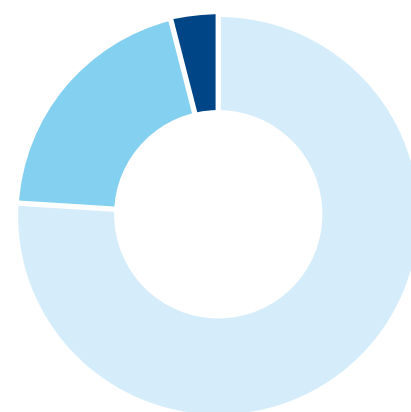
LEASED PROPERTIES

| 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 |

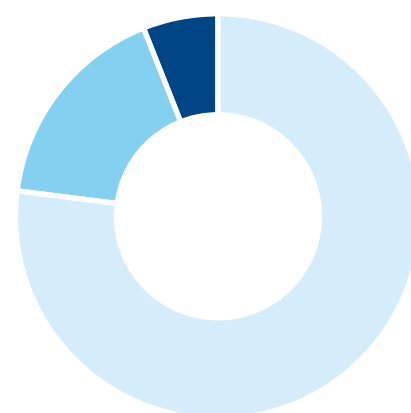
* Carrying amounts

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



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.

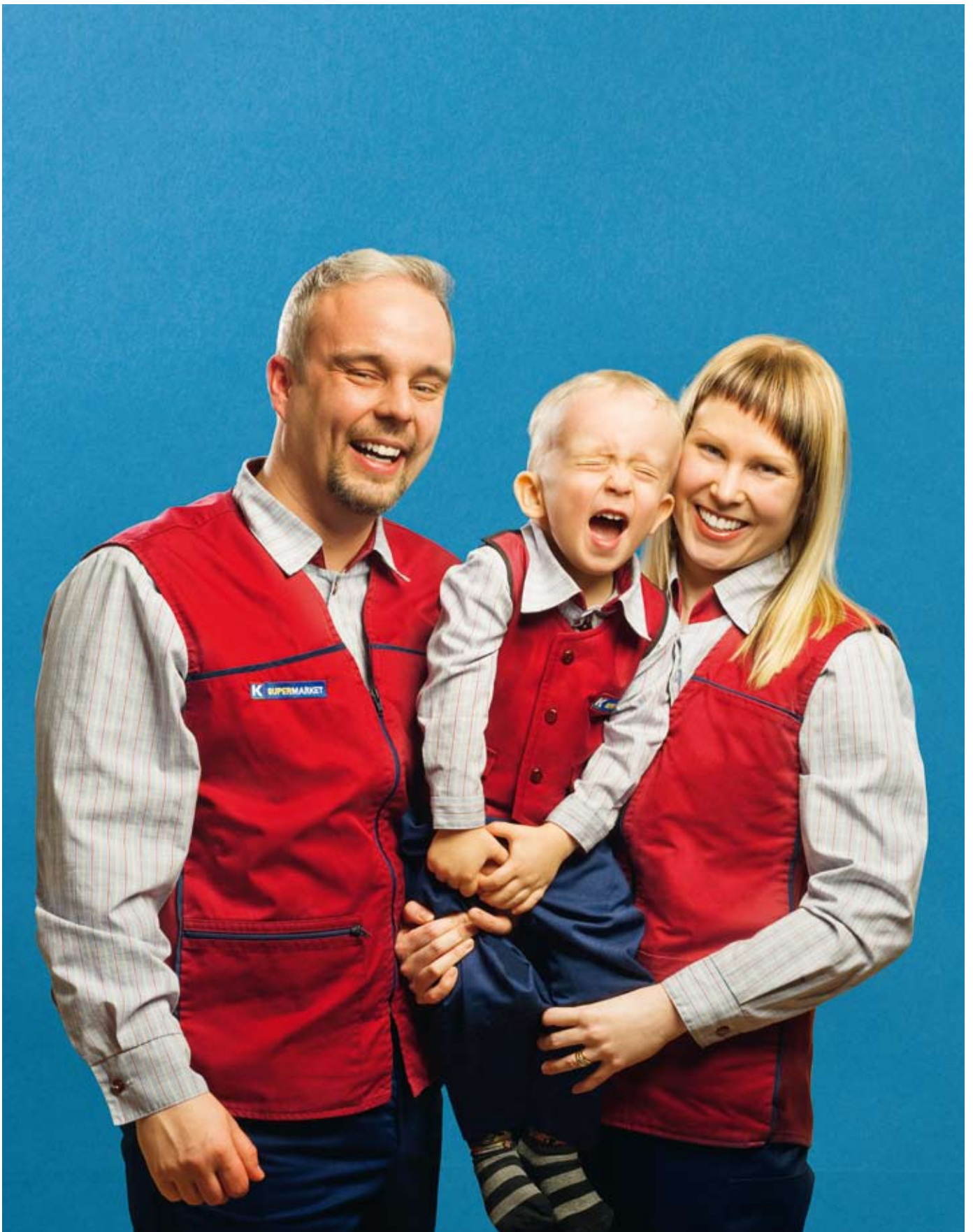
Future K-retailer entrepreneurs are trained in the K-retailer trainee programme. The training consists of online studies, on-the-job training under a mentor retailer and regional events for exchanging experiences. The content and duration of the programme can be flexibly and efficiently defined for each 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.

K **ESKO** 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 Hämeenkyli, 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.

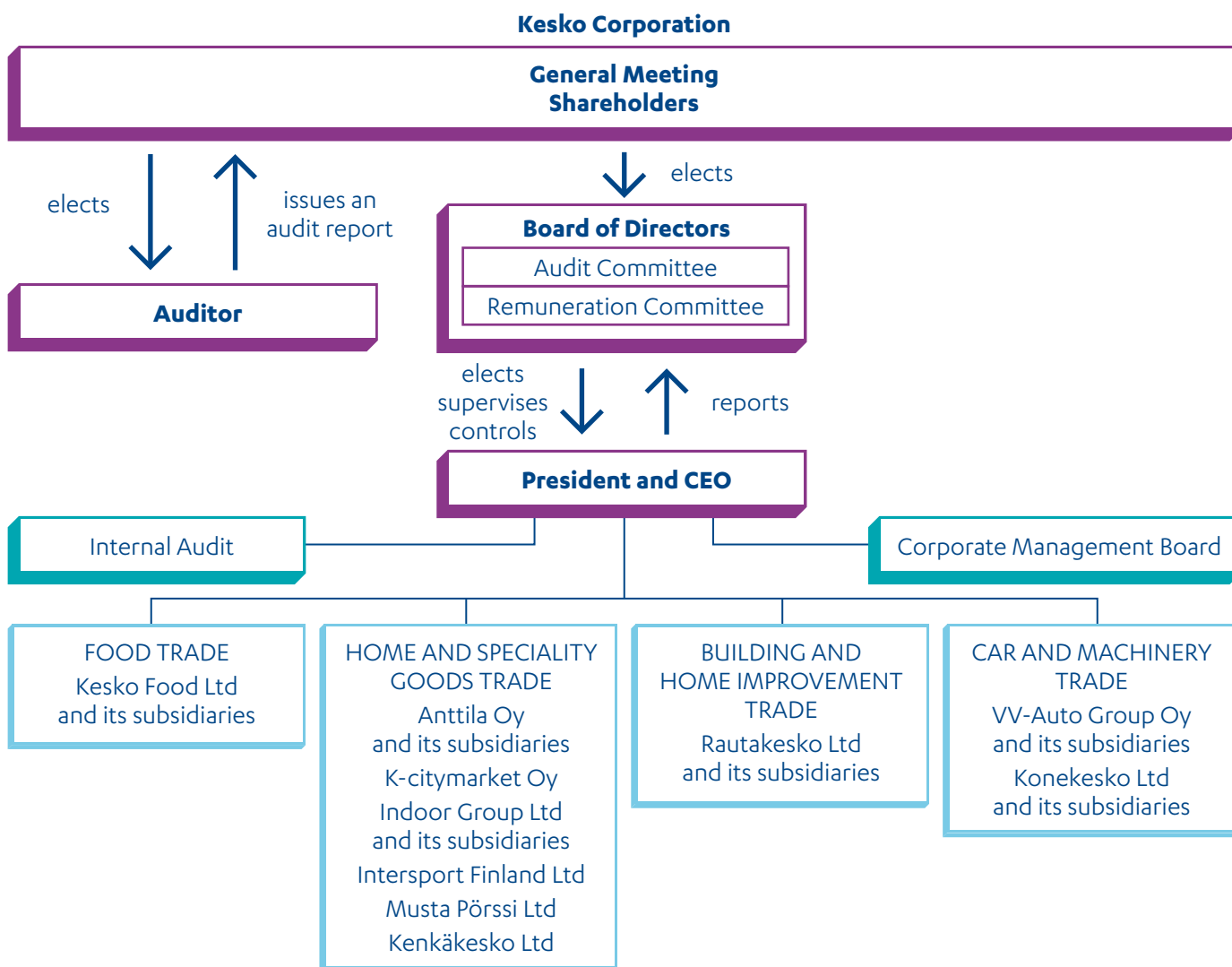
Kesko is also included in the 'The Global 100 Most Sustainable Corporations in the World' list, published annually at the meeting of World Economic Forum in Davos. Kesko has been on the list since 2005. Kesko's ranking on the list published in January 2011 was 26th, compared with 33rd a year before.

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 | Retirement benefits |
|----------------------|----------------|----------------|----------------|--|
| Non-variable salary | 605,100 | 569,300 | 541,100 | 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. |
| 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.

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 | Vesting period* | Ownership obligation |
|-----------------------|----------|---------------|---------------|---------------|-----------------|--|
| 2007A | - | | | 50,000 | 4/2007–4/2010 | 25% of income from option rights must be used to acquire company shares for permanent ownership. |
| 2007B | - | | 50,000 | | 4/2008–4/2011 | |
| 2007C | - | 50,000 | | | 4/2009–4/2012 | |
| Total | - | 50,000 | 50,000 | 50,000 | | |

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

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.

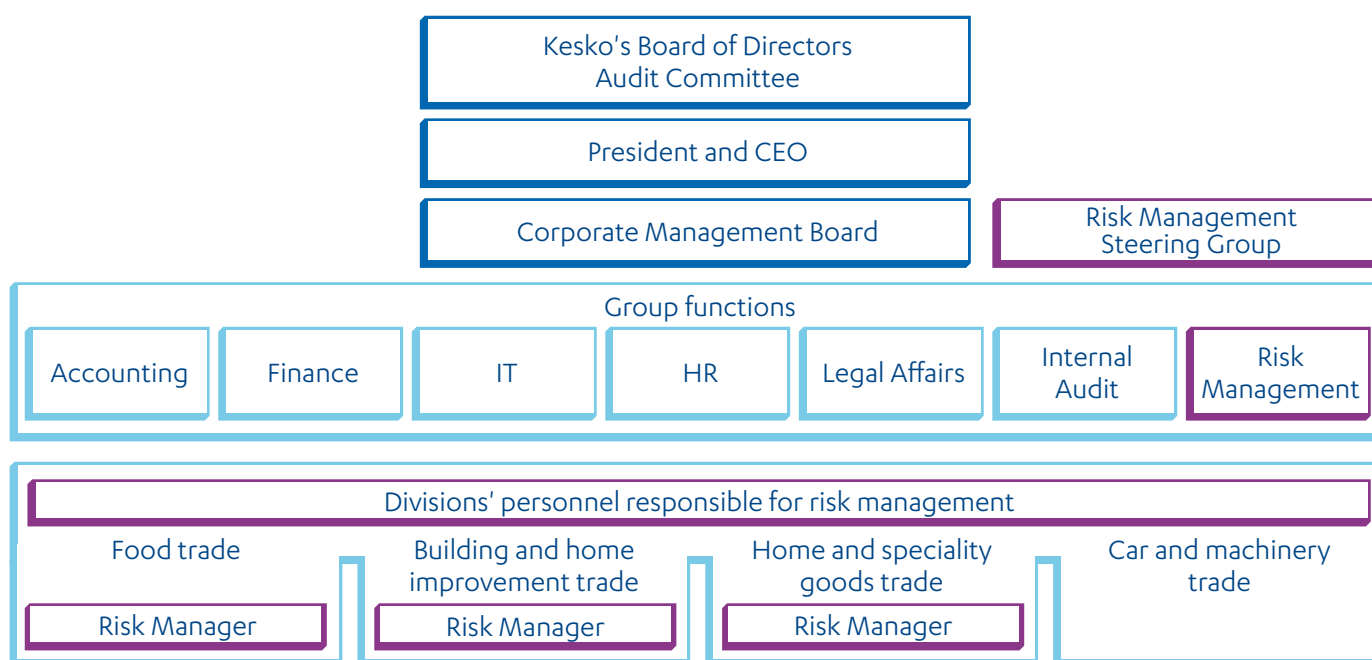
For the purpose of improving occupational safety, an extensive inquiry for the assessment of the risks at work was carried out in Finland towards the end of the year. At the next stage, the identified risk factors will be assessed in more detail and location or unit specific measures will be determined. 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 purchase 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.

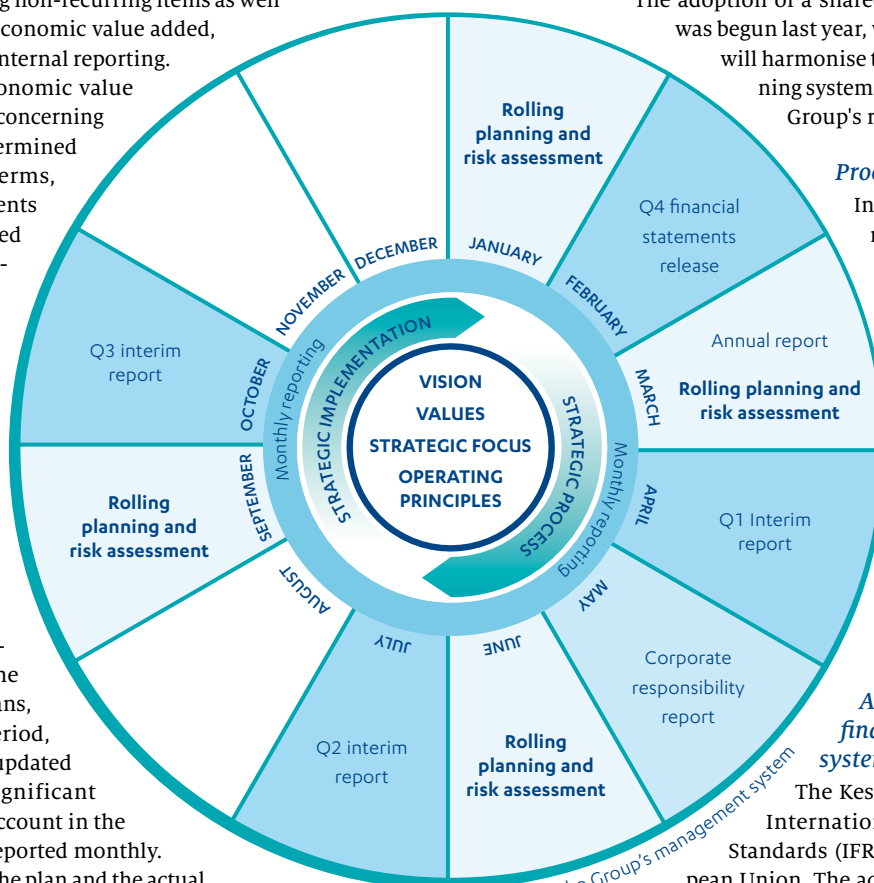


Fig 1. The Kesko Group's management system

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.