





DIVISIONS

FOOD TRADE, HOME AND SPECIALITY GOODS TRADE,
BUILDING AND HOME IMPROVEMENT TRADE,
CAR AND MACHINERY TRADE

KARISMA SHOPPING CENTRE FOR THE WHOLE FAMILY

The Karisma Shopping Centre in Lahti was opened in November 2011. Customers are served by 76 businesses selling, for example, clothing, leisure products and interior decoration items. The K-Group chains are represented in Karisma by K-citymarket, Intersport and Kookenkä. Karisma is the first shopping centre that Kesko has planned and has had built from the very beginning. The capital expenditure in the shopping centre amounted to around €90 million and it is one of Kesko's largest retail projects of all time.



FOOD TRADE

Kesko Food is one of the leading operators in the Finnish grocery trade. K-retailers, with whom Kesko Food applies the chain business model, are responsible for customer satisfaction at the nearly 1,000 K-food stores. Kesko Food's chains are K-citymarket, K-supermarket, K-market and K-extra. Chain operations ensure the efficiency of operations and the achievement of competitive advantages. Kesko is the leading wholesaler in the Finnish hotel, restaurant and catering business. It offers the best sourcing solutions in the sector to its customers.

Kesko Food's main functions include the centralised purchasing of products, selection management, logistics, and the development of chain concepts and the store site network.

Cooperation between Kesko Food and K-food retailers is based on the chain operations defined in the chain agreement, which ensure the customer-orientation of operations, efficiency and the achievement of competitive advantages.

SATISFIED CUSTOMERS ARE A PREREQUISITE OF SUCCESS

K-food stores are visited by 900,000 customers every day. Meeting increasingly individual customer needs and expectations is the objective of K-food retailers and a prerequisite of success. Quality, gourmandise, favourable prices, ease of cooking, responsibility, special diets and healthy eating are now emphasised in customers' needs and wishes.

K-food stores' competitive advantages include:

- By far the best fruit and vegetable department in the area, the bakery department and service counters with fresh meat and fish products and meals.
- The widest selections which, in addition to a comprehensive basic selection, include products from local producers,

valued by customers of the particular store.

- More than 2,000 Pirkka products which combine high quality and permanently low prices.
- Exciting stores with displays and changing new products, combined with good service. The best food expertise, a diverse supply of recipes and cooking advice.
- E-commerce and online communications are being actively developed to serve customer needs and make shopping easier.
- Responsibility, which means, for example, that responsible alternatives are offered to customers.

K-RETAILERS SERVE BY TAKING LOCAL NEEDS INTO ACCOUNT

Local K-retailers are responsible for the customer service, competence of personnel, product quality and profitability of business in their own stores. Making use of customer data, the retailers put together a selection and services that meet customer needs. The common selection of the chain is complemented, for example, with local food from local producers.

K-food stores have a quality enhancement and measuring system. Its objective is to ensure the continuous development of the operations of the store and the whole chain

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

CHAIN CONCEPTS VALUED BY CUSTOMERS

According to the customer satisfaction survey carried out by EPSI Rating in November 2011, K-food stores have the most satisfied customers. It is an independent, nationwide survey on grocery store customers, which was now carried out in Finland for the first time.

K-citymarkets offer their customers the widest selections of groceries and home and speciality goods, a low-price shopping basket and the best special offers – every day. Their special strengths include fresh bread, meat and fish, fruit and vegetables, diversified food expertise, and eye-catching displays. There are 75 K-citymarkets in Finland.

K-supermarkets are better than the average food stores, the strength of which is excellent service and wide selections of food items. Abundant service counters provide meat, fish and meal solutions for everyday and more festive needs, and store selections are always complemented with local products. The growing chain consists of 205 stores.

K-markets are reliable, service-oriented and local neighbourhood stores located near customers. In addition to good basic selections, K-markets offer customers fresh bread straight from the store oven, fresh, high-quality fruit and vegetables, and the best local services. The chain comprises 453 stores.

K-extras are neighbourhood stores which focus on personal service and provide customers with daily essentials. The chain comprises 138 stores.



Delicious fruit, a variety of bread and abundant service counters

K-food stores offer their customers the best fruit and vegetable department in the area, bakery departments and service counters with fresh meat and fish products and meals. Kesko Food will continue the implementation of competitive advantage projects in order to strengthen the selections, service and displays of these departments.

The K-food store network, which consists of nearly 1,000 K-food stores, is the most comprehensive in Finland. About half of Finns live less than a kilometre away from a K-food store.

K-FOOD STORE CHAINS HAVE A STRONG COMMON CORE

K-food stores' common foundation rests in the common operating systems concerning selections management, chain marketing and displays, the selections of essential products common to all chains, and Pirkka products.

K-food stores' good customer satisfaction is based on competitive prices, reached by the maximum pricing of common selections and low-priced Pirkka products as well as the chains' campaigns and store-specific special offers. K-Plussa offers are always at

least 10% below the normal price. In addition, the benefit received in the form of K-Plussa points is up to 5%.

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

In addition to chain operations, competitiveness is reinforced by efficient practices and long-term cooperation models with selected partners. Considerable benefits are obtained both in Finland and internationally by combining purchasing volumes. Kesko Food is a member of AMS, an international sourcing alliance, whose other major members include Ahold, Dansk SG, ICA, Micros and Système U.

Interaction with Pirkka fans

The Pirkka brand opened a Facebook site of its own to enable interaction with Pirkka fans. Pirkka.fi, the best food site in Finland, was revised and complemented with interactive services, such as an electronic recipe book 'Own kitchen' and the 'Pirkka idea corner' service for ideas and wishes.



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www.facebook.com/Pirkka
www.pirkka.fi





Events in 2011

- K-food stores increased their market share
- Good retail sales development improved profitability of the food trade
- K-food stores' grocery sales increased by 5.9% (VAT 0%)
- Sales of Pirkka products increased by 32.3% (VAT 0%)
- Six new K-citymarkets, 17 new K-supermarkets and five new K-markets were opened
- The K-citymarket chain celebrated its 40th anniversary
- The Pirkka product range celebrated its 25th anniversary

PIRKKA – HIGH QUALITY, PERMANENTLY LOW PRICES AND RESPONSIBILITY

The Pirkka range of more than 2,000 products plays an important role in the K-food stores' total selection. Pirkka products combine high quality and low prices.

Finnish consumers find the Pirkka brand positive. In a nationwide youth survey, Pirkka was highly successful again in 2011, ranking at the top when young people were asked which company or brand they have recommended or could recommend. Responsibility has also been highlighted in image surveys. The success of the brand in many consumer surveys is a result of long-term work.

At the end of 2011, there were 2,072 Pirkka products. The range includes about 70 Pirkka Organic and nearly 40 Pirkka Fairtrade products, and new products are sought actively.

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

All Kesko Food's recipes have been developed and tested by the Pirkka test kitchen, which is part of the research unit. These diverse recipes are published in the Pirkka magazine, on the Pirkka.fi web site, on the K-RuokaPirkka leaflet that is available at all K-food stores, on the TV programme "What are we having today?", and on Pirkka product packaging.

KESPRO OFFERS THE BEST SOURCING SOLUTIONS IN THE SECTOR

Kesko Food's subsidiary Kespro is the leading wholesaler in the Finnish hotel, restaurant and catering (HoReCa) business and acts as a partner for its customer companies and municipalities in Finland. Kespro

provides delivery and cash&carry services to its customers. In 2011, the total HoReCa market in Finland was approximately €2.6 billion (own estimate).

Kespro offers its customer the best sourcing solutions in the HoReCa sector. Kespro's aim is to be the most desired business partner in the HoReCa sector. The wide, customer-driven product selection comprises food items, alcohol, cookware, tableware and cutlery. Kespro's own Menu range is versatile, high-quality and favourably priced. Kespro operates throughout Finland in six sales areas, with six delivery sales units, 13 cash&carry outlets and 510 employees.

PROFITABLE GROWTH AS A TARGET

Kesko Food's key objectives include increasing market share in Finland, improving customer satisfaction and achieving profitable growth.

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

K-food stores competitive advantages include the best fruit and vegetable departments, bakery departments, and service counters which offer fresh meat, fish and meals. Key competitive advantages also include the widest selections, Pirkka products, eye-catching displays, good service and responsibility, which means, for example, that responsible alternatives are offered to customers. These competitive advantages will be strengthened further.

Over next few years, Kesko Food's key strategic focuses include the strong building and enhancement of the store network. The maintenance of the store sites' quality level, the expansion of selections, new service needs and migration require constant development of the network. Major capital expenditure will be made in new

K-supermarket and K-citymarket stores in particular in the years to come. The aim is to open 23 new K-supermarkets and seven new K-citymarkets in 2012.

In 2012–2013, four large grocery stores will be opened in Russia: two in the St. Petersburg region and two in the Moscow region. Estimated capital expenditure in Russia will total €300 million in 2011–2015. The aim is to acquire sites both in St. Petersburg and Moscow for at least 10 large grocery stores. The aim is to achieve net sales of €500 million and a positive operating result in Russia by 2015. In addition to greenfielding, Kesko Food will continue to survey company acquisitions both in St. Petersburg and Moscow.

Kesko Food will also vigorously enhance its electronic services. In the development of services, the focus is on increasing electronic customer interaction. Examples of this include Pirkka.fi web service, revised in May 2011, and the Pirkka Facebook page. There is a good basis for developing the electronic order process and online sales of food in Kesko Food and K-food stores. K-food retailers can serve their customers online and the online food store of K-market Ruoholahti was introduced in Helsinki in December 2011. Kesko Food is also planning to launch a common online store with the home and speciality goods trade.

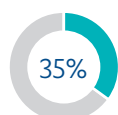


READ MORE

Financial performance of the food trade is presented in the table on the next page and in the financial statements of the Annual Report, starting on page 62.

Operating environment

K-FOOD STORES, FINLAND



Market share in Finland
(own estimate)

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

HORECA, FINLAND, KESPRO

Competitors: Meiranova Oy, Metro-tukku, Heinon Tukku Oy

Food trade market

The Finnish grocery market totalled about €15.4 billion (incl. VAT) in 2011, representing an estimated growth of 6.0% from 2010 (statistics by the Finnish Grocery Trade Association and own estimate).



K-Group's food trade, store numbers, and retail and B2B sales	Number		Sales, (VAT 0%) € million	
	2011	2010	2011	2010
K-citymarket, food	75	69	1,433	1,295
K-supermarket	205	181	1,627	1,488
K-market (incl. service station stores)	453	472	1,274	1,266
Others	231	285	247	294
K-food stores, retail sales			4,581	4,343
Kespro			732	682
Food trade, total	964	1,007	5,314	5,025

Food trade segment's key figures		2011	2010
Net sales	€ million	4,182	3,896
Operating profit	€ million	173.7	158.4
Operating profit excl. non-recurring items	€ million	172.2	160.1
Operating profit as % of net sales excl. non-recurring items	%	4.1	4.1
Capital expenditure	€ million	221.5	117.2
Return on capital employed* excl. non-recurring items	%	28.6	27.1
Personnel average		2,706	2,881

* cumulative average

Food trade segment's net sales in 2011	€ million	Change, %
K-citymarket, food	1,043	14.6
K-supermarket	1,189	11.8
K-market and K-extra	1,019	-0.7
Kespro	740	7.5
Others	191	-8.6
Net sales, total	4,182	7.3

Food trade segment's capital employed at 31 December, € million	2011	2010
Non-current assets	701	601
Inventories	105	108
Short-term receivables	429	400
./. Non-interest-bearing debt	-588	-557
./. Provisions	-9	-13
Capital employed**	637	539

** capital employed at the end of financial year



HOME AND SPECIALITY GOODS TRADE

The home and speciality goods trade comprises Anttila and Kodin Ykkönen, K-citymarket's home and speciality goods, Intersport and Budget Sport, Asko and Sotka, Musta Pörssi and Konebox, and Kookenkä and Andiamo. In addition to 450 stores, all home and speciality goods chains also serve customers online.

Kesko's home and speciality goods trade provides customers with products and services related to clothing, home, sports, leisure, home technology, entertainment, as well as interior decoration and furniture. Efficient chain operations ensure that there is a wide and price competitive selection of well-known domestic and foreign product brands available to customers.

In addition to more than 450 physical stores, customers can buy products and services with direct home delivery from six online stores. Alternatively, customers can choose to receive the products at their nearest store. In some of the chains, such as Kodin Ykkönen, a sales assistant can order a product for the customer from the chain's online store, the wide selection of which complements the selection found in the physical stores. Some of the chains are also accessible via social media.

ENTERTAINMENT, FASHION AND HOME GOODS FROM ANTILA

Anttila retails entertainment, fashion and home goods. In Anttila's business, the extensive store network and online stores provide seamless support to each other. Customers in Finland are served by 30 Anttila department stores, 10 Kodin Ykkönen department stores for interior decoration and home goods, the NetAnttila.fi and Kodin1.com online stores, and the digianttila.com download store. The NetAnttila online store also operates in Estonia and Latvia.

Anttila department stores offer wide selections of home goods, casual clothing and entertainment at low prices. Kodin Ykkönen provides smart, up-to-date products and services for home decoration.

Anttila's new logistics centre in Kerava, which started operations in August 2011, greatly enhances the chain's online and

department store logistics while also improving space and energy efficiency. The new centre handles deliveries to all Anttila and Kodin Ykkönen department stores and to NetAnttila customers.

DIVERSE SELECTIONS OF HOME AND SPECIALITY GOODS IN K-CITYMARKETS

K-citymarket is a diversified and favourably priced hypermarket chain, which provides wide selections of groceries and home and speciality goods. In addition, the cmstore.fi download store provides music and talking books. K-citymarket Oy is responsible for the home and speciality goods business in the stores, while K-retailer entrepreneurs are responsible for the food business. There are 75 K-citymarkets.

The store network expanded significantly in 2011. Six new hypermarkets were opened: in Vantaa, Jyväskylä, Seinäjoki, Hämeenlinna, Lahti and Äänekoski.

INTERSPORT ENCOURAGES PHYSICAL ACTIVITIES

Intersport Finland's retail store chains in Finland are Intersport, Budget Sport and Kesport. There are 56 Intersport stores, seven Budget Sport stores and 32 Kesport stores in Finland, of which 85 are owned by retailer entrepreneurs and 10 by Intersport Finland.

Intersport is part of the international sports trade chain, in which Kesko is a partner. The Intersport chain is the market leader in Finnish sports retailing. The stores of the chain provide customers with clothing and equipment needed for active sports, keeping fit and leisure purposes. Expert staff advise and assist customers in questions related to physical activities and keeping fit.

The Intersport licence and business operations in Russia were transferred to a Kesko subsidiary in August 2011. There are 36 Intersport stores in the country, located in shopping centres mainly in and around St. Petersburg and Moscow. There are few sports stores like Intersport which sell several brands in Russia.

Budget Sport stores offer branded products for physical activities, outdoor sports and leisure easily and at favourable prices. Customers are also served by the budget-sport.fi online store.

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

STORE NETWORK FOR ASKO AND SOTKA WAS REVISED

Asko and Sotka are Kesko-owned Indoor's retail store chains selling furniture and interior decoration items. Asko provides home decorators with a wide range of furniture and interior decoration items combined with active and reliable service. Sotka's main target group consists of customers who value low prices and easy shopping.

The Asko and Sotka chains consist of 81 stores in Finland and seven stores in Estonia. In 2011, the store network was revised actively. Nine stores were opened, two of which were new and seven replaced former stores.

New features were made available on the chains' websites, such as the 3D design programme for making shopping easier. Cooperation with the Allergy and Asthma Federation continued. There are products with an allergy label available in the Asko Bonnell mattress range and Puro sofas.

MUSTA PÖRSSI CHAIN IN CHANGE

Musta Pörssi Ltd has two retail chains: Musta Pörssi and Konebox. Musta Pörssi chain offers its customers home technology products and related services. Customers can have all home technology installed ready to use, if they so wish. Konebox online store competes with quality products and low prices.

The focus in the home technology trade is increasingly on e-commerce. It is easy to compare products online and customers are price-conscious.

There are 32 Musta Pörssi stores, of which 31 are owned by retailer entrepreneurs. For reorganisation purposes, in 2011, the store



Intersport in Russia

The Intersport licence and business operations in Russia were transferred to Kesko in August 2011. There were 36 Intersport stores in Russia at the end of 2011; 20 in St. Petersburg and five in Moscow. The Russian sports trade market is worth about €4 billion and it is expected to increase by around 10% per year.

network was reduced by 14 sites from the previous year. The Konebox chain consists of two stores and an online store.

NEW KOOKENKÄ CHAIN STARTED IN AUTUMN 2011

Kenkäkesko's retail store chains are K-kenkä, Andiamo and Kookenkä, launched in September 2011. The new Kookenkä chain is based on the best parts of the K-kenkä and Andiamo store concepts, combined with new inspiring elements and colour scheme. The stores offer a high-quality selection of shoes and service for customers who value trends and fashion, as well as comfort, practicality and branded goods. Andiamo, one of Finland's best-known shoe brands, continues as Kenkäkesko's own fashion brand.



First Kookenkä stores opened

A new Kookenkä chain is being formed on the basis of current K-Kenkä and Andiamo store concepts. The first store was opened in Tampere in September 2011. The new Kookenkä chain, comprising 50 stores, will be launched across Finland in the spring 2012.



Events in 2011

- Intersport was expanded to Russia
- Anttila's new, automated logistics centre increases logistical and energy efficiency
- Combining background operations of K-citymarket's home and speciality goods and Anttila gave new strength to sourcing
- The first new Kookenkä stores were opened
- Home and speciality goods chains started active participation in the social media

There are 49 chain stores. The K-Group's shoe outlets also include 23 Kenkäexpertti stores, which serve customers in smaller towns. 69 of shoe stores are run by retailer entrepreneurs.

INTERNET SUPPORTS CUSTOMERS

In 2011, home and speciality goods chains reached out to consumers on the web. The chains became active in social media and had a positive reception. In their communications, home and speciality goods chains use Facebook, Twitter, YouTube, Foursquare and Google+ services. K-citymarket's Facebook site attracted more than 40,000 fans during the first month. The aim is to be present where people talk.

The service of home and speciality goods chains' online stores has been improved, for example, by introducing a package pick-up service from department stores, introducing selections to price comparison pages, adding videos and opening gift and selection engines. The chains' web site content has been complemented by adding product information and increasing other content. Visibility through search engines has also been increased.

The emphasis in marketing will shift from traditional to electronic channels. Kesko has been among the first in Finland to intro-

duce new operating models, for example, by testing Facebook Deals in K-citymarkets and starting cooperation with fashion bloggers.

STRATEGIC EMPHASIS ON EXPANDING E-SERVICES

Competition in the home and speciality goods trade is becoming more international and the proportion of online business out of total sales in the sector continues to increase. Customers' purchasing behaviour is more individual than before and there are more channels of interaction between stores and customers.

The key objective in Kesko's home and speciality goods chains is to offer customers a shopping experience that seamlessly combines the services of an online store and a traditional store. The emphasis is on expanding the store network, online stores and electronic services.

Home and speciality goods chains' competitiveness in e-commerce is strengthened with a common online store platform. This makes shopping easier and adds new opportunities to targeted marketing.

Intersport Russia aims to double its store site network by the end of 2015. The growth will be focused in the Moscow economic zone.

Home and speciality goods market

The total Finnish market for home and speciality goods is estimated to be approximately €9.5 billion (VAT 0%). Market development in the home and speciality goods sector varies according to the product line.

In Finland, the estimated sports trade market totals €740 million (VAT 0%) and decreased by 2.5%.

In Finland, the estimated market for interior decoration items and furniture is €1.6 billion (VAT 0%), representing an increase of 3% from the previous year.

The Finnish market for home electronics and entertainment is estimated to total around €1.7 billion (VAT 0%), representing an increase of about 10%.

The Finnish shoe trade market is estimated to total around €441 million (VAT 0%) and increased by about 1% from the previous year.

Responsibility is gaining importance in purchasing decisions. The operations of the home and speciality goods chains are guided by responsible operating practices, which is reflected in stores and selections, for example, in the form of environmental certificates, Swan and Key Flag symbols, and the symbols of the Allergy and Asthma Federation.



READ MORE

Financial performance of the home and speciality goods trade is presented in the table on the next page and in the financial statements of the Annual Report, starting on page 62.

Operating environment

HYPERMARKET AND DEPARTMENT STORE TRADE

K-citymarket home and speciality goods, Anttila, Kodin Ykkönen and NetAnttila, the market share cannot be reliably calculated

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

SPORTS TRADE

Intersport, Budget Sport and Kesport
Market share in Finland 34%*

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

FURNITURE TRADE

Asko and Sotka
Market share in Finland 22%*

Competitors: furniture and interior decoration stores

HOME TECHNOLOGY TRADE

Musta Pörssi and Konebox
Market share in Finland 6%*

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

*(own estimate)

SHOE TRADE

K-kenkä, Andiamo, Kookenkä, Kenkäexpertti
Market share in Finland 10% (Association of Textile and Footwear Importers and Wholesalers, own estimate)

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



ANTTILA

NETANTTILA.COM

KODINYKKÖNEN 1

INTERSPORT kesport



K-Group's home and speciality goods trade, number of stores, and retail and B2B sales	Number		Sales, (VAT 0%) € million	
	2011	2010	2011	2010
K-citymarket, home and speciality goods	75	69	629	603
Anttila department stores	30	31	269	295
Kodin Ykkönen department stores for interior decoration and home goods*	11	10	133	132
Distance sales (mail order and NetAnttila)	1	1	65	72
Intersport	56	56	193	207
Budget Sport*	8	6	32	31
Kesport	32	35	23	25
Asko	32	31	91	80
Sotka	49	48	103	86
Musta Pörssi	32	46	78	105
Konebox*	3	3	14	14
Shoe stores	72	82	44	48
Home and speciality goods stores, Finland	401	418	1,673	1,696
Anttila, Baltic countries (NetAnttila)	2	2	8	8
Indoor, Baltic countries	7	7	8	7
Intersport, Russia	36	-	7	-
Home and speciality goods stores, other countries	45	9	23	15
Home and speciality goods trade, total	446	427	1,697	1,712

*incl. online sales

Home and speciality goods trade segment's key figures	2011	2010	
Net sales	€ million	1,564	1,569
Operating profit	€ million	37.0	103.4
Operating profit excl. non-recurring items	€ million	36.6	66.0
Operating profit as % of net sales excl. non-recurring items	%	2.3	4.2
Capital expenditure	€ million	61.8	45.3
Return on capital employed* excl. non-recurring items	%	8.4	15.3
Personnel average		5,754	5,418

*cumulative average

Home and speciality goods trade segment's net sales in 2011	€ million	Change, %
K-citymarket, home and speciality goods	642	3.5
Anttila	474	-6.0
Intersport, Finland	170	-2.0
Intersport, Russia	7	-
Indoor	178	15.3
Musta Pörssi	74	-23.2
Kenkäkesko	23	-0.1
Total	1,564	-0.3

Home and speciality goods trade segment's capital employed at 31 December, € million	2011	2010
Non-current assets	332	315
Inventories	263	231
Short-term receivables	180	162
./. Non-interest-bearing debt	-300	-291
./. Provisions	-4	-9
Capital employed**	472	408

** capital employed at the end of financial year



BUILDING AND HOME IMPROVEMENT TRADE

Rautakesko is the leading retailer of building, renovation and home improvement supplies and services, operating in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. Rautakesko develops the K-rauta, Rautia, K-maatalous, Byggmakker, Senukai and OMA retail chains and B2B sales in its operating area, with an emphasis on customer orientation.

Rautakesko's core functions include the centralised development of chain selections and services, purchasing and logistics, and the development of chain concepts and the store network. There are 363 building and home improvement stores in eight countries and 88 agricultural stores in Finland. All stores in Finland are run by retailer entrepreneurs. There are also retailer-run stores in Norway.

RAUTAKESKO'S STRONG CHAIN CONCEPTS

Rautakesko's operations are based on strong chain concepts founded on proven customer needs, the retail company's best practices, which have been replicated internationally, and on efficient sourcing. Rautakesko's international business model combines the category management, purchasing, logistics, information system control and network improvements of the company's chains which operate in different countries. These synergy benefits enable the company to offer interesting products and services to customers at competitive prices.

K-rauta is Rautakesko's international concept, the key elements of which are wide selections, total solutions and services making customers' lives easier and a reliable price-quality ratio. The concept combines the total services and selections for consumers, builders and professional customers. The K-rauta chain operates in Finland, Sweden, Estonia, Latvia and Russia.

The Rautia chain has the widest building and home improvement store network in Finland. Its selections are targeted at builders, renovators and building professionals in particular. Key competitive advantages include comprehensive customer service, knowledge of local customers and the cooperation network. In many localities, Rautia and K-maatalous stores operate as combination stores.

K-maatalous operates in Finland. The chain's strengths include the K-maatalous retailers, who know the local conditions, the wide product range and the comprehensive services and network. Active contacts with agricultural entrepreneurs and the utilisation of data and information technology

The first K-rauta in Moscow – the largest in Russia – was opened

The new store in Moscow is a modern and diverse, service-oriented hypermarket for builders, renovators and interior decorators, with a special emphasis on design services. The store's display area provides plenty of interior decoration solutions and displays that help customers in idea generation, planning and decision-making.



provide the basis for good customer satisfaction.

Bygghakker is the largest building and home improvement store chain in Norway. Its special strengths include sales of building supplies and knowledge of professional customers.

The Senukai chain is the market leader in Lithuania. The chain's Mega Store concept offers customers just about every product related to building and living at the stores of over 20,000 m².

OMA is the largest building and home improvement store chain in Belarus.

B2B CUSTOMERS' PARTNER

Rautakesko B2B Sales operates in Finland and serves building professionals in cooperation with K-rauta and Rautia chains. Its customers include nationwide construction companies, the manufacturing industry, municipalities and other professional customers. In its customer service, Rautakesko B2B Sales benefits from the K-rauta and Rautia networks, through which a significant part of the deliveries are made.

STORE NETWORK WAS STRENGTHENED

In 2011, a new K-rauta was opened in Kuopio, a Rautia store in Oulu and a K-maatalous store in Vieremä, Finland. In addition, all Rautakesko's chains in Finland carried out several significant concept and store type reforms in 2011. In Russia, a new K-rauta was opened in St. Petersburg and the first K-rauta store in Moscow. In Sweden, a new K-rauta was opened in Haparanda. In Norway, three renovated Bygghakker stores were opened: in Stiltre, Sogne and Hallingdal.

The K-rauta chain's Design Center is a design and service area that helps customers' shopping, idea generation and planning. The centralised display area provides cus-

tomers with design and related services and product displays – a full range from ideas to installation.

K-rauta's revised k-rauta.com web service was introduced in all of the countries where the company operates and the content of the rautia.fi web service was developed in the Rautia chain. Instructional videos related to building, home improvement and energy efficiency, demand calculators, and pages with interior decoration trends and tips were added to the web sites of both chains.

FROM IDEAS TO HOUSING SOLUTIONS

Rautakesko's aims for 2012 include sales growth that exceeds the market growth. The building and home improvement market development is expected to vary by operating country. There will also be country-specific differences between consumer and professional customer groups.

Rautakesko's capital expenditure on the expansion of Russian business operations will be significant. The plan is to open 11 new K-rauta stores in Russia in 2012–2015. The total capital expenditure will be around €300 million. The aim is to achieve net sales of €800 million in Russia by the end of 2015.

Rautakesko will also strengthen and revise the store site network in other countries. K-rauta stores are under construction in Kouvola, Turku and Ylivieska, Finland, in Uppsala and Linköping, Sweden, and in Moscow, Russia. Rautia-K-maatalous stores are under construction in Turku and Keuruu, and a Rautia store in Muhos.

The development of the web services and the design and installation services available for customers will continue in 2012. Social media will also be used in dialogue with customers.

Responsibility, environmental values and energy efficiency will continue to gain

Energy experts

The 'Energy Expert' service provided by K-rauta and Rautia stores aims to make it easy for customers to improve energy efficiency in their homes. Services and products available for customers include energy savings surveys, thermal camera inspections, air and ground heat pumps, solar water heaters and solar panels, installations included.





Events in 2011

- Rautakesko's sales growth was faster than the market growth rate.
- The first K-rauta in Moscow, Russia was opened.
- New and comprehensive web services were expanded to all operating countries.
- The new 'Energy Expert' service offers energy-efficient solutions and higher living comfort.
- The selection of own brands was expanded.
- Kone-Forum, the major event of K-maatalous, attracted 26,700 visitors, setting a new record.

more importance in customers' purchasing behaviour. Rautakesko's chains aim to help customers with questions and projects related to energy efficiency. For chain store employees, there are two training programmes available: 'the Energy Expert' and 'the Energy Master', the latter of which provides a vocational qualification. A single service desk provides the customer with all the surveys, reports and plans they may need for energy-efficient construction and renovation, including related products and installations.

International category management and sourcing will be further intensified with the help of more efficient retail management. Rautakesko's own brands (Cello, Prof and FXA) will be developed on a long-term basis and their proportion of total sales will grow.

At the end of 2011, Rautakesko in Finland started the introduction of RAKSA, the new

SAP based enterprise resource planning system. RAKSA will harmonise the business models which support the chain stores' and Rautakesko's business operations and the retail stores' information systems in most operating countries.

In the agricultural trade, the focus will be on the development of the cultivation programme and the machinery sales network.



READ MORE

Financial performance of the building and home improvement trade is presented in the table on the next page and in the financial statements of the Annual Report, starting on page 62.

Building and home improvement trade market

The total retail market in Rautakesko's operating area is around €25 billion (own estimate).

In Finland, the retail market in the building and home improvement sector totals over €3.5 billion (VAT 0%) and increased by about 4.5% in 2011 (Finnish Hardware Association, DIY).

In Sweden, the building and home improvement market totals around €3.1 billion (VAT 0%) and increased by about 1% (own estimate).

In Norway, the building and home improvement market totals about €5.3 billion (VAT 0%), up about 6% (own estimate).

In Estonia, the building and home improvement market totals about €0.3 billion (VAT 0%), up about 8% (own estimate).

In Latvia, the total building and home improvement market is about €0.3 billion (VAT 0%), up about 5% (own estimate).

In Lithuania, the total building and home improvement market is about €0.5 billion (VAT 0%) and increased by about 10% (own estimate).

In Russia, the total market for building, home improvement and interior decoration products is around €12 billion (VAT 0%) and increased by about 15% (own estimate).

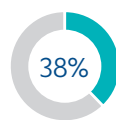
In Belarus, the total building and home improvement market is about €0.6 billion (VAT 0%) and it decreased by 50% in terms of euros, while in terms of the local currency, the size of the market remained nearly unchanged (own estimate).

Agricultural trade market

The Finnish agricultural trade market totals about €1.7 billion, up around 10% in 2011 (own estimate). Price increases of products and agricultural inputs contributed to the growth of the market.

Operating environment

BUILDING AND HOME IMPROVEMENT TRADE



Market share in Finland (Finnish Hardware Association, DIY, own estimate)
Main competitors: Starkki, Kodin Terra, S-rauta, Agrimarket, Bauhaus

Market share in Sweden 7% (HUI, own estimate). Main competitors: Bauhaus, Bygghuset, Beijer Bygg and Hornbach

Market share in Norway 18% (TBF). Main competitors: Monter/Optimera (Saint Gobain), Maxbo and Coop

Market share in Estonia 18% (own estimate). Main competitors: Ehitus ABC (Saint Gobain), Bauhof, Espak and Bauhaus

Market share in Latvia 16% (own estimate). Main competitors: Depo DIY and Kursi

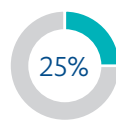
Market share in Lithuania 30% (own estimate). Main competitors: Bauhof, Emeritazas and speciality stores

Market share in Northwestern and central Russia 5% (St. Petersburg and Moscow, own estimate). Main competitors: Leroy Merlin, OBI, Castorama, Maxidom, Metrika

Market share in Belarus 9% (own estimate). Main competitors: Novoselkin, Materik

AGRICULTURAL SUPPLIES TRADE

Finland, K-maatalous chain



Market share for Agricultural supplies trade (own estimate) Main competitors: Agrimarket and Yrittäjien Maatalous (YRMA)

K-RAUTA

RAUTIA K-MAATALOUS

K-PAVITA Rautakesko
Yrityspalvelu

BM
BYGGMAKKER

CSSS
SENUKAI

OMA
СТРОИТЕЛЬНЫЕ МАТЕРИАЛЫ
ИНСТРУМЕНТЫ
www.oms.by

K-Group's building and home improvement trade, number of stores, and retail and B2B sales	Number		Sales, (VAT 0%) € million	
	2011	2010	2011	2010
K-rauta*	41	41	586	546
Rautia*	106	106	489	463
Rautakesko B2B Sales			226	199
K-maatalous*	88	88	417	378
K-customer contract stores	31	32	49	52
Finland, total	266	267	1,767	1,637
K-rauta, Sweden	21	20	216	209
Bygghuset, Norway	110	112	942	864
Other Nordic countries, total	131	132	1,159	1,073
K-rauta, Estonia	9	9	60	52
K-rauta, Latvia	8	9	53	47
Senukai, Lithuania	17	17	251	228
Baltic countries, total	34	35	363	328
K-rauta, Russia	14	12	237	204
OMA, Belarus	6	5	80	72
Russia and Belarus, total	20	17	317	277
Building and home improvement trade, outside Finland total	185	184	1,839	1,677
Building and home improvement trade, total	451	451	3,605	3,314

* In 2011, one K-rauta store and 49 Rautia stores also operated as K-maatalous stores

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

Building and home improvement trade segment's key figures		2011	2010
Net sales	€ million	2,716	2,519
Operating profit	€ million	26.3	23.9
Operating profit excl. non-recurring items	€ million	26.6	24.0
Operating profit as % of net sales excl. non-recurring items	%	1.0	1.0
Capital expenditure	€ million	109.8	78.2
Return on capital employed* excl. non-recurring items	%	3.8	3.8
Personnel average		8,874	8,379

* cumulative average

Building and home improvement trade segment's net sales in 2011	€ million	Change, %
Building and home improvement trade, Finland	1,233	6.0
K-rauta, Sweden	215	3.3
Bygghuset, Norway	592	8.2
Rautakesko, Estonia	59	13.6
Rautakesko, Latvia	53	11.1
Senukai, Lithuania	249	9.8
Rautakesko, Russia	237	16.4
OMA, Belarus	80	9.2
Total	2,716	7.8

Building and home improvement trade segment's capital employed at 31 December, € million	2011	2010
Non-current assets	561	505
Inventories	277	254
Short-term receivables	264	246
./. Non-interest-bearing debt	-363	-365
./. Provisions	-2	-2
Capital employed**	738	638

** capital employed at the end of financial year



CAR AND MACHINERY TRADE

The car and machinery trade consists of VV-Auto and Konekesko with their subsidiaries. VV-Auto and Konekesko represent the leading brands in the sector and are responsible for their sales and after-sales services.

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

Konekesko is a service company specialising in the import and sale of construction, materials handling, environmental and agricultural machinery, trucks and buses, and recreational machinery. Konekesko operates in Finland, Estonia, Latvia, Lithuania and Russia.

VV-AUTO SET ALL-TIME SALES RECORD

The combined market share of VV-Auto's new passenger cars and vans reached a new record: 20.7%. The number of registrations of vehicles imported by VV-Auto was about 29,000, which was an all-time high also in terms of number.

Customers with Volkswagen passenger cars are served by a network of 40 dealer

shops and 58 service workshops, while there are 41 dealer shops and 59 service workshops for Volkswagen commercial vehicles. The corresponding figures for Audis are 21 and 25. Seats are sold by 22 dealers and maintained and repaired by 35 workshops in Finland and four in the Baltic countries.

Volkswagen's new repair workshop concept, Direct Express, was launched in late 2011. The workshop specialises in fast repairs and exchange of wear parts in vehicles older than five years. The first workshop was opened in Otaniemi, Espoo. The next repair workshops will be opened in Jyväskylä and Oulu.

Audi opened a new type of showroom in the Kluuvi shopping centre in Helsinki for three months, which enabled new car models to be displayed in the city centre.

The openings of the construction projects initiated in 2010 – the new Volkswagen Center in Espoo and the expanded and renovated Volkswagen Center in Turku – will take place in spring 2012.

The Volkswagen range was well complemented over the year. New models on the



Carbon dioxide emissions decreased considerably

The car tax in Finland was changed in 2008 and is now based on carbon dioxide emissions. Average carbon dioxide emissions of passenger cars have dropped from 177.3 g per km in 2007 to 143.9 g per km in 2011. The input on low-emission models is also reflected in average CO₂ emissions of Volkswagen passenger cars, for example, which were 133.7 g per km in 2011.

market included the new Jetta, the revised Tiguan and the Golf GTI celebration model. The Volkswagen DemoTour offered motorists a chance to test drive a new Golf Cabriolet convertible and Beetle. Volkswagen Commercial Vehicles launched a new Amarok pick-up and a revised Crafter. Audi launches included the revised Audi A5 and Audi A6 range, and Audi Q3. Towards the end of the year, Audi also transferred to the hybrid era by introducing Audi Q5 Hybrid. Seat's offering of the year was the Seat Alhambra family car.

KONEKESKO'S VERSATILE SELECTIONS

Konekesko's sale of recreational machinery is based on close, long-term cooperation with Yamaha Motor Co. Ltd. Konekesko imports and sells Yamaha motorcycles, mopeds, ATVs, snowmobiles, outboards, generators and PWCs through its network of Yamaha dealers. Konekesko's own boat brands are Yamarin, Yamarin Cross and Suvi. In addition, Konekesko sells Linder and Zodiac boats and, since summer 2011, also TG boats. Yamarin and Suvi boats are made in Finland and imported to several European countries and Russia. During the 2011 season, Konekesko launched eight new boat models of its own.

Konekesko's range of Muuli trailers is complemented with Saris trailers for professional use, the sales of which was transferred to Konekesko in October 2011.

Construction, materials handling and environmental machinery is marketed in

Finland, the Baltic countries and St. Petersburg through Konekesko's own dealer network. The best-known product brands represented by Konekesko are New Holland, Case, Kubota, Manitou, Sennebogen, Grove and Still. Sales of Weidemann wheel loaders started during the 2011 season. In the Baltic countries, Konekesko also represents Ponsse forestry machinery and Dynapac asphalt rollers and pavers.

The main brands in Konekesko's agricultural machinery sales in Finland are Claas combines and Massey Ferguson tractors.



In the Baltic countries, the selection also includes Claas tractors and a comprehensive range of agricultural implements, the most important of which are Claas, Lemken and Hardi. Konekesko and Claas have gained the position of market leader in the Baltic combine business.

Konekesko is also responsible for the sales and after-sales services of MAN trucks, and MAN and Neoplan buses in Finland.

SERVICE TRAINING ENSURES TOP SERVICE

Konekesko's special focus in 2011 was on the comprehensive service network and the training of service personnel.

In 2011, Konekesko organised, in cooperation with the TTS Work Efficiency Institute, a six-month trainee programme, which produced agricultural machinery mechanics for Konekesko's own service outlets and service entrepreneur network.

Konekesko's Marine service unit has been training mechanics in accordance with the worldwide YTA (Yamaha Technical Academy) programme for four years now. There are currently about 160 mechanics in Finland who have completed the programme.

Konekesko has expanded its spare part and on-call service during the agricultural season in all its business areas. The spare part network consists of 17 full-service K-spare part stores complemented with 30 K-maatalous outlets, which have service and wear parts available. Spare parts for environmental and construction machinery are now also available from all K-spare part stores, while warehousing was previously centralised in Vantaa premises.

Konekesko expanded its contract service model to the Baltic countries, where the first contract service providers started operations under Konekesko's guidance in 2011.

Key flag to Yamarin Cross boats

In January 2011, the Key Flag symbol of the Association for Finnish Work was awarded to the aluminium-hull Yamarin Cross boat models launched on the market in 2010. The symbol indicates that the product has been manufactured or the service produced in Finland.



Events in 2011

- Volkswagen passenger cars and vans ranked as the number one brand in registration statistics and Audi continued as the number one premium brand.
- For the first time, the Palvelu 1 (Service 1) survey also included electronic services. According to the survey by the Auto Bild Suomi magazine, Volkswagen outlets offered the best online service.
- VV-Auto's training centre provides more than 5,000 employee training days annually. Thanks to the training, Jouni Gustafsson became world champion among Volkswagen service engineers.
- Seat started cooperation with the Finnish Snowboard Association.
- Yamaha celebrated its 50th anniversary in competitive activities. Under the Yamaha brand, Konekesko supported the operations of the Sami Seliö Junior team.

10 YEARS OF KONEKESKO

Konekesko Ltd celebrated its 10th anniversary as an independent company in autumn 2011, but Kesko has been in the machinery business since 1945. Konekesko's most long-standing representations include Allison gears and Yamaha outboards.

THE MOST SOUGHT-AFTER BRANDS AND STRONG SERVICE NETWORK

Strengths in the car and machinery trade include internationally known brands, a wide and high-quality product range, and expert staff. Strengths also include versatile services, a strong sales and after-sales services network, efficient logistics, and an own chain of retail outlets in the car trade.

The objectives of the car and machinery trade for 2012 include increasing the market share of the brands it represents, further developing the dealer and maintenance network, and strengthening customer satisfaction and loyalty. The main areas of improvement will be expanding the selec-

tion of products and services and increasing electronic customer communications.

The car and machinery market is expected to start to decline in 2012; a contributing factor will be the upcoming car tax increase in Finland on 1 April 2012.



READ MORE

Financial performance of the car and machinery trade is presented in the table on the next page and in the financial statements of the Annual Report, starting on page 62.

Car and machinery trade market

In 2011, 126,123 passenger cars and 14,491 vans were registered in Finland.

The passenger car market grew by 12.6% and the van market by 31.2% from the previous year. Volkswagen became the number one brand in the registration statistics of both passenger cars and vans. Audi continued as the number one premium brand. Seat's market share increased from the previous year.

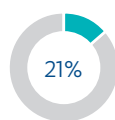
The market for recreational machinery totalled about €300 million in Finland and remained at the level of the previous year. The export market for boats declined. The market for construction machinery totalled around €800 million in the operating area and increased by approximately 60%. The combined market for agricultural machinery in Finland and the Baltic countries was about €630 million, representing an increase of 20%. The market for trucks (weight class of over 6 tons) was approximately €590 million and grew by 17% from the previous year.

Antero the Assistant's summer of recycling

The 'summer job beyond compare' campaign was organised by Volkswagen Commercial Vehicles for the second time in the summer 2011. The idea of the campaign is to offer a commercial vehicle and a young employee for two Finnish companies for the summer. There were nearly 800 applications from young people and 235 applications from companies. During the summer, 18-year-old Markus Uusitalo took small waste electronic equipment for recycling in a Volkswagen Transporter, in the service of the Vantaa-based Stena Technoworld Oy. The company offers free-of-charge collection of electronic equipment to firms and households in the Greater Helsinki area.

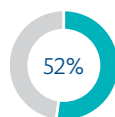
Operating environment

CAR TRADE MARKET SHARES IN FINLAND



VV-Auto (Volkswagen, Audi and Seat passenger cars, Volkswagen vans, total)

MACHINERY TRADE MARKET SHARES IN FINLAND



Outboards
(Yamaha, Selva)

Boats, market share 18.9% (Yamarin, Suvi, Linder, TG, Zodiac, Palta and Capelli)

Motorcycles, market share 16.5%
(Yamaha)

Mopeds, market share 7.9% (Yamaha)

Tractors, market share 13.7% (Massey Ferguson)

Trucks, over 6 tons, market share 5.8%
(MAN)



K-Group's car and machinery trade, number of stores, and retail and B2B sales	Number		Sales, (VAT 0%) € million	
	2011	2010	2011	2010
VV-Auto, retail outlets	9	9	422	339
VV-Auto, imports	1	1	447	349
Konekesko, Finland	2	2	217	193
Finland, total	12	12	1,086	881
Konekesko, Estonia			32	29
Konekesko, Latvia			42	40
Konekesko, Lithuania			41	28
Konekesko, Baltic countries, total			114	97
Car and machinery trade, total	12	12	1,200	978

Car and machinery trade segment's key figures	2011	2010	
Net sales	€ million	1,174	955
Operating profit	€ million	51.9	33.9
Operating profit excl. non-recurring items	€ million	51.8	33.1
Operating profit as % of net sales excl. non-recurring items	%	4.4	3.5
Capital expenditure	€ million	29.9	17.8
Return on capital employed* excl. non-recurring items	%	32.8	19.6
Personnel average		1,206	1,138

* cumulative average

Car and machinery trade segment's net sales in 2011	€ million	Change, %
VV-Auto	849	27.0
Konekesko, Finland	219	13.3
Konekesko, Baltic countries	111	14.7
Total	1,174	23.0

Car and machinery trade segment's capital employed at 31 December, € million	2011	2010
Non-current assets	94	84
Inventories	223	165
Short-term receivables	74	58
./. Non-interest-bearing debt	-163	-130
./. Provisions	-18	-14
Capital employed**	210	163

** capital employed at the end of financial year