FINANCIAL STATEMENTS

KESKO'S GROWTH STRENGTHENED

Financial development in brief:

- The Group's net sales for January-December increased by 7.8%.
- The operating profit excluding non-recurring items for January-December was €278.9 million, up €10.8 million on the previous year (€268.1 million).
- The Board proposes a dividend of €1.20 per share.
- The Kesko Group's net sales are expected to grow during the next twelve months. Owing to the uncertainty about economic development and consumer demand, and the costs involved in the expansion of the store site network as well as expansion of business operations in Russia, we are prepared for the 2012 operating profit excluding non-recurring items to be lower than the 2011 operating profit excluding non-recurring items.

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REPORT BY THE BOARD OF DIRECTORS

FINANCIAL PERFORMANCE

NET SALES AND PROFIT 2011

The Group's net sales were €9,460 million, which is 7.8% up on the corresponding period of the previous year (€8,777 million). In Finland, net sales increased by 7.3% and in other countries by 10.1%. International operations accounted for 17.1% (16.7%) of the net sales. Net sales continued to grow steadily in the food trade, the building and home improvement trade and the car and machinery trade.

1–12/2011	Net sales, M€	Change, %	Operating profit excl. non-recurring items, M€	Change, M€
Food trade	4,182	+7.3	172.2	+12.1
Home and speciality goods trade	1,564	-0.3	36.6	-29.4
Building and home improvement trade	2,716	+7.8	26.6	+2.6
Car and machinery trade	1,174	+23.0	51.8	+18.7
Common operations and eliminations	-176	+8.2	-8.3	+6.7
Total	**9,460**	**+7.8**	**278.9**	**+10.8**

The operating profit excluding non-recurring items was €278.9 million (€268.1 million), representing 2.9% (3.1%) of the net sales. Profitability improved in the car and machinery trade, the food trade and the building and home improvement trade. The operating profit excluding non-recurring items for 2010 was improved by an €8 million amount recognised as revenue in connection with the transfer of the pension insurance portfolio. At the beginning of the year, the principle for allocating surplus amounts related to the additional defined benefit obligation of the Kesko Pension Fund to divisions was changed to correspond to the breakdown of pension liabilities. For 2011, the change contributed €-1.7 million to the operating profit excluding non-recurring items in the food trade, and €-4.0 million in the home and speciality goods trade.

Operating profit was €280.6 million (€306.7 million). The operating profit includes a €1.7 million amount of non-recurring items. The comparative period included a net total of €38.6 million of non-recurring gains on real estate disposals and provisions related to the reorganisation of the service station grocery store business of Pikoil Oy, a Kesko Food subsidiary. The Group's profit before tax was €282.1 million (€312.4 million).

The Group's earnings per share were €1.84 (€2.06). The Group's equity per share was €22.20 (€21.81).

The K-Group's (i.e. Kesko's and the chain stores') retail and B2B sales (VAT 0%) were €11,767 million, up 7.2% compared to the previous year. K-food stores' grocery sales grew by 5.9% (VAT 0%). The K-Group chains' sales entitling to K-Plussa points were €5,699 million excluding tax, up 4.5% compared to the previous year. The K-Plussa customer loyalty programme gained 88,736 new households. At the end of 2011, there was 2,154,717 K-Plussa households and 3.7 million K-Plussa cardholders.

FINANCE

The cash flow from operating activities was €215.7 million (€438.2 million). The cash flow of the comparative period included a €151.6 million amount of returned pension assets. The cash flow from investing activities was €-441.1 million (€-239.6 million). It included a €8.2 million (€123.6 million) amount of proceeds from the sale of fixed assets.

The Group's liquidity and solvency remained at an excellent level despite a heavy capital expenditure programme. At the end of the period, liquid assets totalled €367 million (€847 million). Interest-bearing liabilities were €400 million (€477 million) and interest-bearing net debt €33 million (€-370 million) at the end of 2011. Equity ratio was 53.9% (53.5%) at the end of the period. Kesko Corporation increased the Group's financial resources by signing two €50 million five-year loan facilities in November.

The Group's net finance income was €0.8 million (€6.0 million).

TAXES

The Group's taxes were €85.2 million (€96.7 million). The effective tax rate was 30.2% (31.0%), affected by loss-making foreign operations.

CAPITAL EXPENDITURE

The Group's capital expenditure totalled €425.4 million (€325.3 million), or 4.5% (3.7%) of the net sales. Capital expenditure in store sites was €361.8 million (€209.2 million), in acquisitions €21.8 million and other capital expenditure was €41.8 million (€116.0 million). Capital expenditure in foreign operations represented 31.7% (13.1%) of total capital expenditure.

PERSONNEL

The average number of employees in the Kesko Group was 18,960 (18,215) converted into full-time employees. In Finland, the average increase was 141 people, while outside Finland, it was 604.

At the end of 2011, the total number of employees was 23,375 (22,124), of whom 13,124 (12,720) worked in Finland and 10,251 (9,404) outside Finland. Compared to the end of 2010, there was an increase of 404 people in Finland and 847 people outside Finland.

The Group's staff cost was €570.5 million, an increase of 9.6% compared to the previous year. The staff cost for the comparative period was decreased by the €8.0 million amount recognised as revenue in connection with the transfer of the pension insurance portfolio.

SEGMENTS

SEASONAL NATURE OF OPERATIONS

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

FOOD TRADE

	1–12/2011	1–12/2010
Net sales, € million	4,182	3,896
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

Net sales, € million	1–12/2011	Change, %
Sales to K-food stores	3,251	+8.4
Kespro	740	+7.5
Others	191	-8.6
Total	**4,182**	**+7.3**

In the food trade, net sales were €4,182 million (€3,896 million), up 7.3%. The sales of Pirkka products to K-food stores were excellent, with sales growth standing at 32.3% (VAT 0%). During the same period, the grocery sales of K-food stores increased by 5.9% (VAT 0%). Good sales performance was achieved especially by the K-citymarket and K-supermarket chains. The growth rate of the total grocery trade market in Finland is estimated at some 5.5% (VAT 0%) compared to the previous year (Kesko's own estimate). The price change in the grocery market is estimated to have stood at some +4% compared to the previous year (VAT 0%, Kesko's own estimate).

The operating profit excluding non-recurring items of the food trade was €172.2 million (€160.1 million), or €12.1 million up on the previous year. The profitability improvement is attributable to K-food stores' and Kespro's good sales performance and cost management. Operating profit was €173.7 million (€158.4 million). The non-recurring items of the comparative period totalled €-1.7 million including gains on real estate disposals and provisions for the reorganisation of the service station grocery store business of Pikoil Oy, a Kesko Food subsidiary, as the most significant items.

Capital expenditure in the food trade was €221.5 million (€117.2 million), of which capital expenditure in store sites was €211.3 million (€102.4 million).

The most significant store sites being built are K-citymarkets in Hyvinkää, Kauhajoki, Kokkola, Kouvola and Valkeakoski. K-supermarkets in Lieksa, Loimaa and Mäntsälä are being extended into K-citymarkets and K-citymarket Imatra is being extended. New K-supermarkets are being built in Kaisaniemi, Helsinki, in Lahti, Kiiminki, Nurmijärvi, Pihtipudas, Pori, Sotkamo and in Hämeenkylä, Louhela and Nikinmäki, Vantaa. K-market in Pälkäne is being extended into a K-supermarket.

HOME AND SPECIALITY GOODS TRADE

	1–12/2011	1–12/2010
Net sales, € million	1,564	1,569
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

Net sales, € million	1–12/2011	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**

In the home and speciality goods trade, net sales were €1,564 million (€1,569 million), down 0.3%. K-citymarket home and speciality goods, as well as Asko and Sotka increased their sales. The sales of Anttila decreased. At the beginning of February, the Anttila department store in Tikkurila was closed because its lease term expired. The Anttila department store in Hämeenlinna was converted into a K-citymarket, which was opened in September 2011. In April, a K-citymarket was opened in Tammisto, Vantaa and in Palokka, Jyväskylä. In May, a K-citymarket was opened in Päivölä, Seinäjoki. In November, a K-citymarket was opened in Karisma, Lahti and in Äänekoski. In October, a Kodin Ykkönen was opened in Kuopio. Asko and Sotka opened new stores in Porvoo in November. As a result of network restructuring, there were 14 less Musta Pörssi stores at the end of the year compared to the previous year.

The operating profit excluding non-recurring items of the home and speciality goods trade was €36.6 million (€66.0 million), showing a €29.4 million year-on-year decrease. In addition to a decrease in Anttila's sales, profitability was weakened by the launch of Anttila's new logistics centre, the reform of K-citymarket's and Anttila's purchasing operations and the expansion of store network. The operating loss from Russian Intersport operations for August-December was €6 million, partly attributable to launching costs. Operating profit was €37.0 million (€103.4 million). The operating profit for the comparative period included €37.4 million of gains on the disposal of real estate.

Capital expenditure in the home and speciality goods trade was €61.8 million (€45.3 million).

The acquisition of Intersport operations in Russia progressed according to plan. By 31 December 2011, 36 stores had transferred to the Kesko subsidiary. In the future, the objective is to double the Intersport store site network in Russia by the end of 2015.

BUILDING AND HOME IMPROVEMENT TRADE

	1–12/2011	1–12/2010
Net sales, € million	2,716	2,519
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

Net sales, € million	1–12/2011	Change, %
Rautakesko Finland	1,233	+6.0
K-rauta Sweden	215	+3.3
Byggmakker Norway	592	+8.2
Rautakesko Estonia	59	+13.6
Rautakesko Latvia	53	+11.1
Senukai Lithuania	249	+9.8
Stroymaster Russia	237	+16.4
OMA Belarus	80	+9.2
Total	**2,716**	**+7.8**

In the building and home improvement trade, net sales were €2,716 million (€2,519 million), up 7.8%. Sales performance and structure vary between countries and customer groups. There is also material variation between the sales performances of product lines, with strongest growth in building materials.

Net sales in Finland were €1,233 million (€1,163 million), an increase of 6.0%. The building and home improvement product lines contributed €892 million to the net sales in Finland, an increase of 5.9%. The agricultural supplies trade contributed €341 million to the net sales, up 6.4%.

The net sales from foreign operations in the building and home improvement trade were €1,483 million (€1,357 million), an increase of 9.3%. The net sales from foreign operations increased by 12.6% in terms of local currencies. In Sweden, net sales were down by 2.2% in terms of kronas. In Norway, net sales increased by 5.3% in terms of krones. In Russia, net sales increased by 18.2% in terms of roubles. In Belarus, net sales were up by 101.6% in terms of roubles due to high inflation. Foreign operations contributed 54.6% to the net sales of the building and home improvement trade.

The operating profit excluding non-recurring items of the building and home improvement trade was €26.6 million (€24.0 million), up €2.6 million compared to the previous year. The profit performance was impacted by the sales growth mainly deriving from basic building materials with low margins, the expansion of store network and by the costs related to the introduction and development of the international enterprise resource planning system. Operating profit was €26.3 million (€23.9 million).

Capital expenditure in the building and home improvement trade totalled €109.8 million (€78.2 million), of which 85.8% (54.4%) abroad. Capital expenditure in store sites was 89.3%.

During the year in Finland, a new K-rauta was opened in Kuopio and a K-rauta is being built in Kouvola and Ylivieska. A new Rautia was opened in Oulu and a new Rautia-K-maatalous in Turku and Suonenjoki. In Sweden, a K-rauta was opened in Haaparanta and a K-rauta is being built in Uppsala and Linköping. In Russia, a new K-rauta was opened in St. Petersburg and Moscow. One K-rauta is being built and two sites were acquired for new K-rauta stores in Moscow. In addition, several concept reforms and extensions were carried out in different countries.

The retail sales of the K-rauta and Rautia chains in Finland grew by 6.6% to €1,075 million (VAT 0%). The sales of Rautakesko B2B Service increased by 13.9%. As a whole, the growth rate of Rautakesko's building materials sales is estimated to have continued exceeding that of the market in Finland. The retail sales of the K-maatalous chain were €417 million (VAT 0%), up 10.2%.

CAR AND MACHINERY TRADE

	1–12/2011	1–12/2010
Net sales, € million	1,174	955
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

Net sales, € million	1–12/2011	Change, %
VV-Auto	849	+27.0
Konekesko	326	+13.6
Total	**1,174**	**+23.0**

The net sales of the car and machinery trade were €1,174 million (€955 million), up 23.0%. The comparable net sales of the car and machinery trade grew by 26.0%. The discontinued Baltic grain and agricultural inputs trade has been eliminated from the comparable net sales.

VV-Auto's net sales were €849 million (€668 million), an increase of 27.0%. In Finland, new registrations of passenger cars increased by 12.6% and those of vans by 31.2% compared to the previous year. The combined market share of passenger cars and vans imported by VV-Auto was 20.7% (19.3%). Volkswagen was the best selling passenger car and van brand in Finland.

Konekesko's net sales were €326 million (€287 million), up 13.6% compared to the previous year. Konekesko's comparable net sales, from which the discontinued Baltic grain and agricultural inputs trade has been eliminated, grew by 23.5%. Net sales in Finland were €219 million, up 13.3%. The net sales from Konekesko's foreign operations were €111 million, up 14.7%. Konekesko's comparable net sales growth was attributable to the good performance of the agricultural machinery trade in the Baltic countries.

The operating profit excluding non-recurring items of the car and machinery trade was €51.8 million (€33.1 million), up €18.7 million compared to the previous year. The strong profit was attributable to excellent sales performance. The operating profit was €51.9 million (€33.9 million).

Capital expenditure in the car and machinery trade was €29.9 million (€17.8 million).

CHANGES IN THE GROUP COMPOSITION

Kesko established a new subsidiary in Russia for Russian Intersport operations, in which Kesko Corporation's and Melovest Ltd's ownership interests are 80% and 20% respectively. The acquisition of Intersport operations in Russia was concluded on 24 August, 2011. By 31 December 2011, 36 stores had been transferred to the Kesko subsidiary.

RESOLUTIONS OF THE 2011 ANNUAL GENERAL MEETING AND DECISIONS OF THE BOARD'S ORGANISATIONAL MEETING

Kesko Corporation's Annual General Meeting, held on 4 April 2011, adopted the financial statements for 2010 and discharged the Board members and the Managing Director from liability. The General Meeting also resolved to distribute €1.30 per share as dividends, or a total of €128,233,679.60, as proposed by the Board of Directors. The dividend pay date was 14 April 2011. The General Meeting also resolved to leave the number of Board members unchanged at seven, elected PricewaterhouseCoopers Oy as the company's auditor, with APA Johan Kronberg as the auditor with principal responsibility, and approved the Board's proposals to authorise the Board to acquire a total maximum of 1,000,000 own B shares, and to issue a total maximum of 1,000,000 own B shares held by the company itself. The General Meeting also approved the Board's proposal to decide in 2011 on the donation of a total maximum of €300,000 for charitable or corresponding purposes.

The organisational meeting of Kesko Corporation's Board of Directors, held after the Annual General Meeting, decided to maintain the compositions of the Board's Audit Committee and Remuneration Committee unchanged.

More detailed information on the resolutions of the 2011 Annual General Meeting and on the decisions of the Board's organisational meeting was given in stock exchange releases on 4 April 2011.

SHARES, SECURITIES MARKET AND BOARD AUTHORISATIONS

At the end of 2011, the total number of Kesko Corporation shares was €98,645,042, of which 31,737,007, or 32.2%, were A shares and 66,908,035, or 67.8%, were B shares. At 31 December 2011, Kesko Corporation held 700,000 own B shares. Each A share entitles to ten (10) votes and each B share to one (1) vote. The company cannot vote with own shares held by it. At the end of 2011, Kesko Corporation's share capital was €197,282,584. During the reporting period, the number of B shares was increased twice to correspond to share subscriptions with the option rights of the 2007 option scheme. The increases were made on 31 May 2011 (2,750 B shares) and on 1 August 2011 (1,000 B shares) and announced in a stock exchange notification on the same days. The subscribed shares were listed for public trading on NASDAQ OMX Helsinki (the Helsinki stock exchange) with the old B shares on 1 June 2011 and 2 August 2011. The combined share subscription price of €87,637.50 received by the company was recorded in the reserve of invested non-restricted equity.

The price of a Kesko A share quoted on NASDAQ OMX Helsinki was €34.70 at the end of 2010, and €24.82 at the end of 2011, representing a decrease of 28.5%. Correspondingly, the price of a B share was €34.93 at the end of 2010, and €25.96 at the end of 2011, representing a decrease of 25.7%. In 2011 the highest A share price was €36.00 and the lowest was €22.35. For B share, they were €35.97 and €22.21 respectively. In 2011 the Helsinki stock exchange (OMX Helsinki) All-Share index fell by 30.1%, the weighted OMX Helsinki CAP index by 28.0%, while the Consumer Staples Index was down by 24.3%.

At the end of 2011, the market capitalisation of A shares was €788 million, while that of B shares was €1,719 million, excluding the shares held by the parent company. The combined market capitalisation of A and B shares was €2,506 million, a decrease of €932 million from the end of 2010. In 2011, a total of 2.1 million A shares were traded on the Helsinki stock exchange at a total value of €62 million, while 63.3 million B shares were traded at a total value of €1,856 million. The Helsinki stock exchange performed 79% of all Kesko share trades in 2011. In addition, Kesko shares were traded on multilateral trading facilities, the most significant of which were Chi-X, BATS and Turquoise, performing 12%, 5% and 3% of all Kesko share trades respectively (source: NASDAQ OMX).

The company operates the 2007 stock option scheme for management and other key personnel, under which the share subscription period of 2007A option rights runs from 1 April 2010 to 30 April 2012, that of 2007B option rights from 1 April 2011 to 30 April 2013, and that of 2007C option rights will begin on 1 April 2012 and end on 30 April 2014. The 2007A and 2007B option rights have also been included on the official list of the Helsinki stock exchange since the beginning of the share subscription periods. A total of 221,662 2007A option rights were traded during the reporting period at a total value of €184,113. A total of 102,410 2007B option rights were traded during the reporting period at a total value of €1,081,731.

The Board of Directors was authorised by the Annual General Meeting of 4 April 2011 to acquire a total maximum of 1,000,000 own B shares. The authorisation is valid until 30 September 2012. The Annual General Meeting also authorised the Board to decide on the issuance of a maximum of 1,000,000 own B shares held by the company itself. The authorisation is valid until 30 June 2014. The prior authorisation by the Annual General Meeting of 30 March 2009 to issue a maximum of 20,000,000 new B shares against payment or other consideration until 30 March 2012 is still valid. The authorisation has not been used. By virtue of the share acquisition authorisation, a total of 700,000 own B shares were acquired from the Helsinki stock exchange during the reporting period. The beginning of acquisition was announced on a stock exchange release on 28 April 2011. Each subsequent acquisition was announced in a stock exchange notification on the same day. No company shares have been issued by virtue of the share issue authorisations during the reporting period. Further information on the Board's authorisations is available at www.kesko.fi.

At the end of 2011, the number of shareholders was 41,215, which is 2,957 more than at the end of 2010. At the end of 2011, foreign ownership of all shares was 20%, and foreign ownership of B shares was 29%.

FLAGGING NOTIFICATIONS

Kesko Corporation did not receive flagging notifications during the reporting period.

MAIN EVENTS DURING THE REPORTING PERIOD

Merja Haverinen, M.Soc.Sc., was appointed Kesko Corporation's Senior Vice President for Corporate Communications and Responsibility starting from 1 April 2011. Paavo Moilanen, Senior Vice President for Corporate Communications and Responsibility, retired on 1 April 2011 in accordance with his service contract. (Stock exchange release on 4 February 2011)

Kesko's Annual General Meeting was held on Monday, 4 April 2011. President and CEO Matti Halmesmäki announced in his review that Kesko Food will open four large-scale grocery stores in Russia in 2012–2013. Kesko Food's objective is to achieve €500 million in net sales and a positive operating result in Russia by 2015. The capital expenditure is estimated at €300 million in 2011–2015. At the same time with new construction, Kesko Food will continue to explore business acquisition opportunities in both St. Petersburg and Moscow. (Stock exchange release on 4 April 2011)

On 4 April 2011, Kesko's Board of Directors decided to introduce a new share-based compensation plan for some 150 Kesko management personnel and other named key personnel, in which a maximum of 600,000 own B shares held by the company can be granted to people in the target group within a period of three years. The purpose of the plan is to promote Kesko's business operations and to increase the company's value by combining the objectives of the shareholders and the management personnel. The plan encourages its participants to commit to the Kesko Group and provides them with the opportunity to receive company shares, if the targets set in the share-based compensation plan are achieved. The share-based compensation plan includes three vesting periods, namely the calendar years 2011, 2012 and 2013. A commitment period of three calendar years following each vesting period is attached to the shares issued in compensation, during which shares must not be transferred. (Stock exchange release on 4 April 2011)

Kesko Corporation's Board of Directors agreed to extend the term of Kesko Corporation's Managing Director and Kesko Group's President and CEO Matti Halmesmäki until the end of May 2015, when Mr. Halmesmäki will be 63. According to the previous agreement, Mr. Halmesmäki's term would have expired in May 2012. (Stock exchange release on 25 May 2011)

Kesko signed agreements on the transfer of the Intersport licence in Russia to Kesko with Intersport International and Intersport CIS. According to the letter of intent signed on the same occasion, Kesko established a new company for Intersport operations in Russia together with Melovest, the owner of Intersport CIS. Melovest holds a 20% ownership interest in the new company. The acquisition of

Intersport operations in Russia was concluded and the subsidiary established for the purpose started operating in August 2011. (Stock exchange releases on 3 June 2011 and 24 August 2011)

Jari Lind, Rautakesko Ltd's President and a member of Kesko's Corporate Management Board, resigned on 9 June 2011. During the recruitment process of a new president, Antti Ollila, Vice President for Rautakesko Commerce, was in charge ad interim of the duties of the Rautakesko President. In consequence of Lind's resignation, his membership of Kesko's Corporate Management Board ended. (Stock exchange release on 9 June 2011)

Kesko's Corporate Management Board was revised. Arja Talma, 49, M.Sc. (Econ.), eMBA, was appointed President of Rautakesko Ltd and Corporate Management Board member responsible for Kesko's building and home improvement trade with effect from 1 November 2011. Minna Kurunsaari, 46, LL.M., was appointed Kesko's Corporate Management Board member responsible for the home and speciality goods trade with effect from 1 December 2011. Minna Kurunsaari's responsibility area will also include Kesko's electronic marketing and services projects. Jukka Erlund, 37, M.Sc. (Econ.), eMBA, was appointed Kesko Corporation's Chief Financial Officer (CFO) and Kesko's Corporate Management Board member with effect from 1 November 2011. (Stock exchange release on 26 October 2011)

RESPONSIBILITY

Kesko was chosen for the seventh time for 'The Global 100 Most Sustainable Corporations' list. In 2011, Kesko was ranked 26th compared to 33rd in 2010.

SAM (Sustainable Asset Management) assessed Kesko's performance in responsibility work and placed it in Silver Class in the Food & Drug Retailers sector of the SAM Sustainability Yearbook 2011. The assessment of companies in this sector included aspects such as health and nutrition, environmental systems, eco-efficiency of operations and standards of suppliers.

In September, Kesko was included in the Dow Jones sustainability indexes DJSI World and DJSI Europe for the ninth time. Kesko was given the highest scores in the sector for Customer Relationship Management and for Codes of Conduct/Compliance/Corruption&Bribery.

For the third time, Kesko was included as a member in the highly valued FTSE4Good index focusing on responsible investment in September. Kesko's work for curbing climate change was given 5 points on a scale 0-5.

Kesko's 2010 Corporate Responsibility Report was chosen Finland's best, and was ranked the best also by students, in the Responsibility Reporting Competition in November.

Kesko distributed a total of €30,000 in awards to pioneers in sustainable development from the assets granted by the General Meeting for the Board's donations. In addition, a €1,000 scholarship was granted to 42 talented young athletes and art students from those assets.

Kesko was the main partner of the Your Move Mega Event in Helsinki from 27 May to 1 June 2011. The event gathered over 42,000 13-19-year-olds from different parts of Finland.

In September, K-food stores' transportation started testing a new type of double-decker lorry trailer which helps reduce the carbon dioxide emissions from transportation by one third.

Anttila's new logistics centre was awarded the ISO 14001 certificate in November.

INFORMATION CONTAINED IN THE NOTES TO THE FINANCIAL STATEMENTS

Information on the Group's personnel is disclosed in note 8.
Information on options, shares under options and voting rights is disclosed in note 35.
Related party transactions are disclosed in note 40.

The Kesko Group is not engaged in significant research and development activities.
In May 2012, Kesko will publish a separate corporate responsibility report, which analyses the Group's performance in economic, social and environmental responsibility. An assurance statement will be provided by an independent external party.

RISK MANAGEMENT

Kesko's risk management is proactive and an integral part of management and day-to-day activities. The objective of risk management is to ensure the delivery of customer promises in the Kesko Group, profit performance, dividend payment capacity, shareholder value, the implementation of responsible operating practices and the continuity of operations.

Risk management in the Kesko Group is guided by the risk management policy confirmed by the Board of Directors. The policy defines the objectives and principles, organisation, responsibilities and practices of risk management in the Kesko Group. The management of financial risks is based on the Group's finance policy, confirmed by Kesko's Board of Directors. The business division and Group managements are responsible for the execution of risk management.

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 at the Group, division, company and unit levels in all operating countries.

Kesko has a uniform risk assessment and reporting system. Risk identification is based on business objectives and opportunities and the defined risk appetite. Risks are prioritised on the basis of their significance by assessing the impact and probability of their materialisation and the level of risk management. When assessing the impact of materialisation, the impacts on reputation, employees' wellbeing and the environment are considered in addition to financial impacts.

In connection with the strategy process, the divisions assess the risks and opportunities concerning each strategic period. Near-future risks are identified and assessed in accordance with the rolling planning framework. Risk assessment also covers the risks concerning each division's subsidiaries and significant projects.

A division's risk assessment, which includes risk management responses, responsible persons and schedules, is considered by the division's management team or the division Board quarterly prior to the disclosure of the interim report. The Group functions assess the risks concerning their responsibility areas at least once a year.

Risks and management responses are reported in accordance with Kesko's reporting responsibilities. The divisions report on risks and changes in risks to the Group's risk management function on a quarterly basis. Risks are discussed by the risk reporting team including representatives of the divisions and the Group functions. On that basis, the Group's risk management function prepares the Group's risk map presenting the most significant risks and uncertainties and their management.

The Group's risk map is reported to the Kesko Board's Audit Committee in connection with considering the interim reports and the financial statements. The Chair of the Audit Committee reports on risk management to the Board as part of the Audit Committee's report. The Kesko Board considers the Kesko Group's most significant risks and uncertainties and their management responses, and assesses the efficiency and performance of risk management at least once a year. The most significant risks and uncertainties are reported to the market by the Board in the financial statements, and any material changes in them in the interim reports.

The following describes the risks and uncertainties assessed as significant.

SIGNIFICANT RISKS AND UNCERTAINTIES

The financial market falling into crisis and the uncertainty prevailing in the euro zone, increased taxes and public payments resulting from the indebtedness of the public sector, coupled with increasing unemployment are weakening the purchasing power and appetite for capital expenditure, as well as negatively impacting consumer confidence and demand especially in the home and speciality goods trade, the building and home improvement trade and the car and machinery trade.

In Russia, Kesko is strongly expanding its business operations in the building and home improvement trade and the sports trade and will open its first food stores. With regard to expansion, it is critical to succeed in the acquisition and building of good store sites, in the development of store concepts, in purchasing and logistics, and in the recruitment of key personnel. The country risks in Russia, such as corruption, the unpredictability of officials and rapid changes in legislation and the application of laws, as well as sudden changes in the operating environment can delay the expansion and complicate operating activities.

E-commerce is becoming increasingly popular, international e-commerce increases consumers' alternatives and buying decisions are increasingly often made based on online information. The achievement of objectives requires both traditional and online concepts attractive to customers, a multi-channel approach and customer communications to support it.

The execution of changes in business operations requires increasingly sophisticated resource planning and information systems. Failure in the definition of changes, technology selection, change project management and implementation would delay the execution of changes in business operations.

The trading sector is characterised by increasingly complicated and long supply chains and a dependency on information systems, data communications and external service providers. Failures in information and payment systems or in other parts of the supply chain can cause significant losses in sales and weaken customer satisfaction.

For the purpose of increasing market share, good store sites are a key competitive factor. The acquisition of store sites can be delayed by zoning and permit procedures and the availability and pricing of sites. Considerable amounts of capital or lease liabilities are tied up in store properties for years. Resulting from changes in the market situation, there is a risk that a store site becomes unprofitable and that operations are discontinued while long-term liabilities remain.

Increasing regulations restricting competitive trading conditions are being imposed also by the European Union. Such a development would weaken the trading sector's possibilities to serve customers and operate efficiently.

A failure in product safety control or in the quality assurance of the supply chain can result in financial losses, the loss of customer confidence or, in the worst case, a health hazard to customers.

In divisions strongly dependent on individual principals and suppliers, such as the car and machinery trade, ownership arrangements and changes in a principal's or supplier's strategy concerning product selections, pricing and distribution channel solutions can mean weakened competitiveness, decreased sales, or loss of business.

Crimes are increasingly committed through data networks and crime is becoming more professional. Failure especially in the protection of payment transactions and personal information can cause losses, claims for damages and endanger reputation. There is a risk that controls against such crime are not sufficient.

Different aspects of responsibility are increasingly important for customers. Possible failures of responsibility would weaken Kesko's reputation. Kesko's challenges in responsibility work include communicating its responsibility policies to suppliers, retailers and customers, and ensuring responsibility in the supply chain.

Non-compliance with legislation and agreements can result in fines, compensation for damages and other financial losses, and a loss of confidence and reputation.

Kesko's objective is to produce and publish reliable and timely information. If some information published by Kesko proved to be incorrect or communications failed to meet regulations, it can result in losing investor and other stakeholder confidence and in possible sanctions.

Accidents, natural phenomena and epidemics can cause damages or business interruptions which cannot be prevented.

Other risks and uncertainties relating to profit performance are described in the Group's future outlook.

FUTURE OUTLOOK

Estimates of the future outlook for the Kesko Group's net sales and operating profit excluding non-recurring items are given for the 12 months following the accounting period (1/2012–12/2012) in comparison with the 12 months preceding the accounting period (1/2011–12/2011).

Resulting from the problems of European economies and financial markets, the total production performance and consumer confidence have weakened, which is why significant uncertainties are associated with the outlook for consumer demand. In addition, cuts in public finances and tightening taxation may have a negative impact on the development of purchasing power and consumer demand.

The steady growth in the grocery trade is expected to continue. Growth in the home and speciality goods trade and the building and home improvement trade is expected to even out in line with the overall consumer demand. In the car and machinery trade, the market is expected to turn down, which is partly attributable to the Finnish car tax increase effective 1 April 2012.

The Kesko Group's net sales are expected to grow during the next twelve months. Owing to the uncertainty about economic development and consumer demand, and the costs involved in the expansion of the store site network as well as expansion of business operations in Russia, we are prepared for the 2012 operating profit excluding non-recurring items to be lower than the 2011 operating profit excluding non-recurring items.

PROPOSAL FOR PROFIT DISTRIBUTION

The parent's distributable profits are €1,101,552,277.88, of which the profit for the financial year is €100,553,189.98.

The Board of Directors proposes to the Annual General Meeting to be held on 16 April 2012 that the distributable profits be used as follows:

A dividend of €1.20 per share is paid on shares held outside the company at the date of dividend distribution. No dividend is paid on own shares held by the Company at the record date of dividend distribution.

At the date of the proposal for distributions of profits, 1 February 2012, a total of 97,945,042 shares were held outside the Company, amounting to a total dividend of €117,534,050.40.

ANNUAL GENERAL MEETING

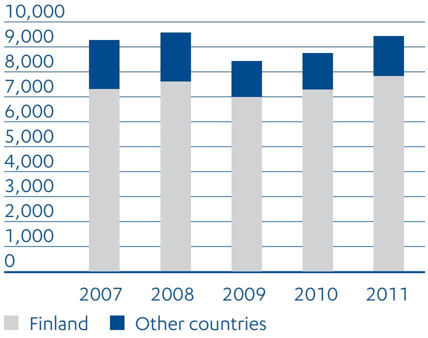
The Board of Directors decided to convene the Annual General Meeting at the Helsinki Fair Centre on 16 April 2012 at 13.00. Kesko Corporation will publish a notice of the Annual General Meeting at a later date.

CORPORATE GOVERNANCE STATEMENT

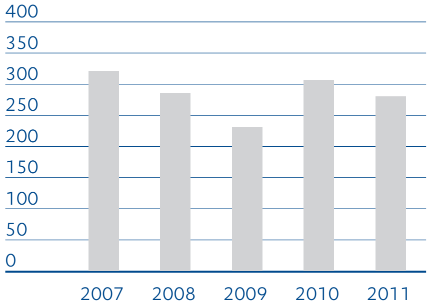
Kesko will publish a separate Corporate Governance Statement on week 12 on its website at www.kesko.fi.

THE GROUP'S KEY PERFORMANCE INDICATORS

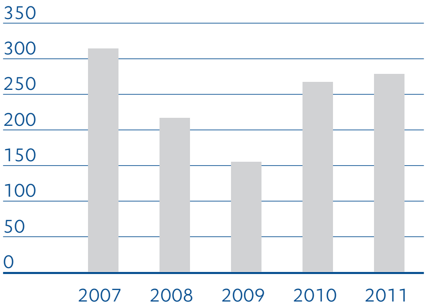
NET SALES*
€ million



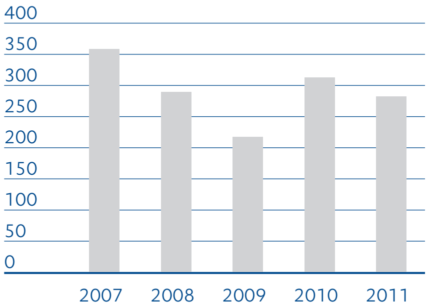
OPERATING PROFIT*
€ million



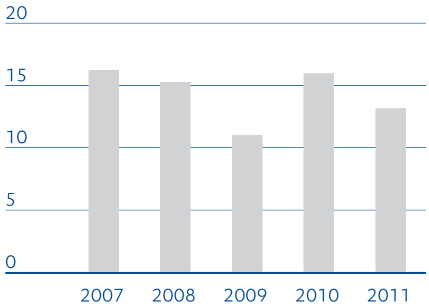
OPERATING PROFIT
excl. non-recurring items*, € milllion



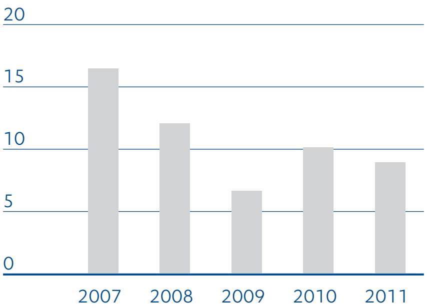
PROFIT BEFORE TAX*
€ million



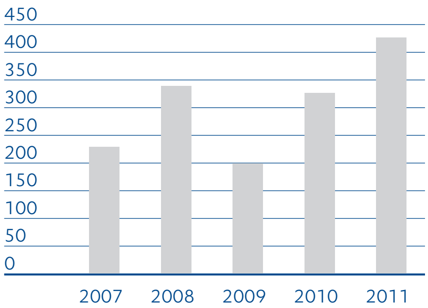
RETURN ON CAPITAL EMPLOYED
%



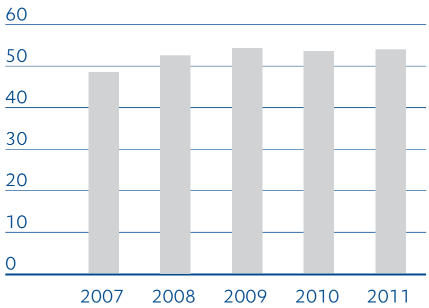
RETURN ON EQUITY
%



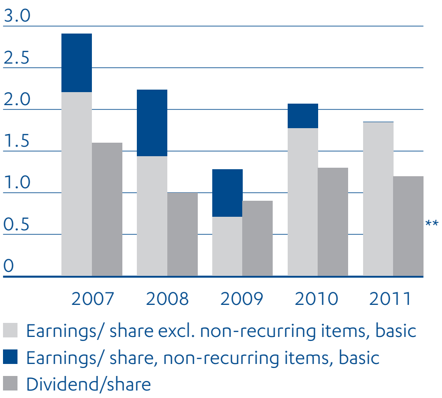
CAPITAL EXPENDITURE*
€ million



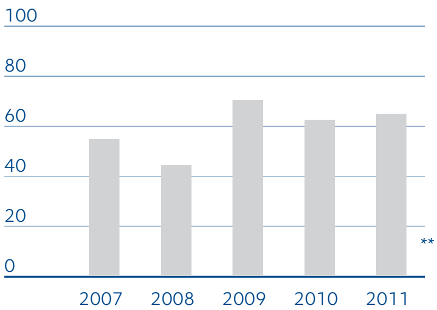
EQUITY RATIO
%



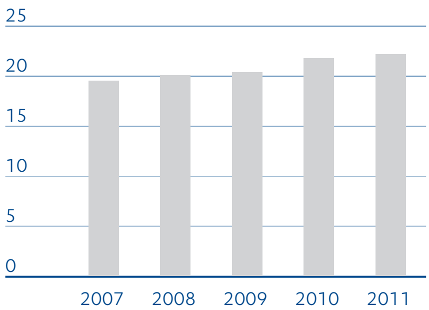
EARNINGS/SHARE AND DIVIDEND/SHARE, €



PAYOUT RATIO
%



EQUITY/SHARE
€, at 31 Dec.



** continuing operations   ** proposal to the Annual General Meeting*

GROUP'S PERFORMANCE INDICATORS

Continuing operations		2008	2009	2010	2011
Income statement					
Net sales	€ million	9,591	8,447	8,777	9,460
Change in net sales	%	3.3	-11.9	3.9	7.8
Staff cost	€ million	578	535	521	571
Staff cost as percentage of net sales	%	6.0	6.3	5.9	6.0
Depreciation, amortisation and impairment	€ million	178	131	121	125
Operating profit	€ million	286	232	307	281
Operating profit as percentage of net sales	%	3.0	2.8	3.5	3.0
Operating profit excl. non-recurring items	€ million	217	155	268	279
Operating profit excl. non-recurring items as percentage of net sales	%	2.3	1.8	3.1	2.9
Finance income and costs	€ million	1	-16	6	1
Income from associates	€ million	2	0	0	1
Profit before tax	€ million	289	217	312	282
Profit before tax as percentage of net sales	%	3.0	2.6	3.6	3.0
Income tax expense	€ million	90	82	97	85
Profit for the year from continuing operations	€ million	178	125	205	182
Profit for the year from discontinued operations	€ million	42	0	0	0
Capital expenditure	€ million	338	198	325	425
Capital expenditure as percentage of net sales	%	3.5	2.3	3.7	4.5
Personnel, average number for the year		21,327	19,200	18,215	18,960
Personnel at 31 Dec.		24,668	22,207	22,124	23,375
Earnings/share, diluted	€	1.81	1.27	2.06	1.84
Earnings/share, basic	€	1.82	1.28	2.08	1.85

Whole Group		2008	2009	2010	2011
Profit for the year (incl. non-controlling interests)	€ million	240	134	216	197
Profit for the year as percentage of net sales	%	2.5	1.6	2.5	2.1
Attributable to owners of the parent	€ million	220	125	205	182
Attributable to non-controlling interests	€ million	21	9	11	15
Cash flow from operating activities	€ million	131	379	438	216
Cash flow from investing activities	€ million	-46	31	-240	-441
Profitability					
Return on equity	%	12.0	6.6	10.1	8.9
Return on equity excl. non-recurring items	%	8.1	3.8	8.7	8.8
Return on capital employed	%	15.3	11.0	16.0	13.2
Return on capital employed excl. non-recurring items	%	10.2	7.4	14.0	13.1
Interest-bearing net debt/EBITDA		0.1	-0.7	-0.9	0.1
Funding and financial position					
Interest-bearing net debt	€ million	47.4	-258.5	-370.5	32.8
Gearing	%	2.3	-12.5	-16.8	1.5
Equity ratio	%	52.5	54.2	53.5	53.9
Other indicators					
Capital expenditure	€ million	340	198	325	425
Capital expenditure as percentage of net sales	%	3.5	2.3	3.7	4.5
Personnel, average number for the year		21,529	19,200	18,215	18,960
Personnel at 31 Dec.		24,668	22,207	22,124	23,375
Share performance indicators					
Earnings/share, diluted	€	2.23	1.27	2.06	1.84
Earnings/share, basic	€	2.24	1.28	2.08	1.85
Earnings/share, excl. non-recurring items, basic	€	1.44	0.71	1.78	1.84
Equity/share	€	20.10	20.39	21.81	22.20
Dividend/share	€	1.00	0.90	1.30	1.20*
Payout ratio	%	44.5	70.5	62.6	64.9*
Payout ratio excl. non-recurring items	%	69.3	126.9	72.9	65.3*
Cash flow from operating activities/share, adjusted	€	1.34	3.86	4.45	2.20
Price/earnings ratio, (P/E), A share, adjusted		9.85	18.55	16.82	13.55
Price/earnings ratio, (P/E), B share, adjusted		7.97	18.14	16.93	14.14
Effective dividend yield, A share	%	4.5	3.8	3.7	4.8*
Effective dividend yield, B share	%	5.6	3.9	3.7	4.6*
Share price at 31 Dec.					
A share	€	22.00	23.60	34.70	24.82
B share	€	17.80	23.08	34.93	25.96
Average share price					
A share	€	28.30	21.92	30.42	29.20
B share	€	23.51	19.18	29.83	29.36
Market capitalisation at 31 Dec., A share	€ million	698	749	1,101	788
Market capitalisation at 31 Dec., B share	€ million	1,176	1,537	2,337	1,719
Turnover					
A share	million pcs	1	1	4	2
B share	million pcs	121	78	53	63
Relative turnover rate					
A share	%	4.5	3.1	13.8	6.6
B share	%	183.3	117.4	78.8	94.6
Diluted number of shares at 31 Dec.	thousand pcs	98,256	98,382	99,121	98,919
Yield of A share for the last five periods	%	10.9	9.2	11.9	-4.6
Yield of B share					
For the last five periods	%	12.9	10.3	12.6	-4.3
For the last ten periods	%	11.7	14.9	20.6	16.9

** proposal to the Annual General Meeting*

Net sales by segment

€ million	1–12/2011	1–12/2010	Change , %
Food trade, Finland	4,182	3,896	7.3
Food trade, other countries*	-	-	-
Food trade total	**4,182**	**3,896**	**7.3**
- of which inter-segment sales	168	162	4.1
Home and speciality goods trade, Finland	1,541	1,553	-0.8
Home and speciality goods trade, other countries*	23	15	50.3
Home and speciality goods trade total	**1,564**	**1,569**	**-0.3**
- of which inter-segment sales	20	23	-15.8
Building and home improvement trade, Finland	1,233	1,163	6.0
Building and home improvement trade, other countries*	1,483	1,357	9.3
Building and home improvement trade total	**2,716**	**2,519**	**7.8**
- of which inter-segment sales	12	0	(..)
Car and machinery trade, Finland	1,064	859	23.8
Car and machinery trade, other countries*	110	96	15.4
Car and machinery trade total	**1,174**	**955**	**23.0**
- of which inter-segment sales	1	0	(..)
Common operations and eliminations	-176	-162	8.2
Finland total	**7,844**	**7,309**	**7.3**
Other countries total*	**1,616**	**1,468**	**10.1**
Group total	**9,460**	**8,777**	**7.8**

** Net sales in countries other than Finland*
(..) Change over 100 %

Operating profit by segment

€ million	1–12/2011	1–12/2010	Change
Food trade	173.7	158.4	15.4
Home and speciality goods trade	37.0	103.4	-66.4
Building and home improvement trade	26.3	23.9	2.4
Car and machinery trade	51.9	33.9	18.0
Common operations and eliminations	-8.3	-12.8	4.4
Group total	**280.6**	**306.7**	**-26.1**

Operating profit excl. non-recurring items by segment

€ million	1–12/2011	1–12/2010	Change
Food trade	172.2	160.1	12.1
Home and speciality goods trade	36.6	66.0	-29.4
Building and home improvement trade	26.6	24.0	2.6
Car and machinery trade	51.8	33.1	18.7
Common operations and eliminations	-8.3	-15.0	6.7
Group total	**278.9**	**268.1**	**10.8**

Group's performance indicators by quarter

	1–3/ 2010	4–6/ 2010	7–9/ 2010	10–12/ 2010	1–3/ 2011	4–6/ 2011	7–9/ 2011	10–12/ 2011
Net sales, € million	1,958	2,279	2,231	2,310	2,103	2,472	2,404	2,481
Change in net sales, %	-3.0	6.4	4.6	7.3	7.4	8.5	7.8	7.4
Operating profit, € million	20.9	79.0	123.9	82.8	35.7	83.9	88.2	72.8
Operating margin, %	1.1	3.5	5.6	3.6	1.7	3.4	3.7	2.9
Operating profit excl. non-recurring items, € million	20.9	78.1	88.7	80.5	34.9	83.3	89.2	71.5
Operating margin excl. non-recurring items, %	1.1	3.4	4.0	3.5	1.7	3.4	3.7	2.9
Finance income/costs, € million	0.8	-0.2	0.8	4.6	-0.6	0.3	0.3	0.8
Profit before tax, € million	21.9	78.7	124.5	87.3	36.1	84.0	88.0	74.0
Profit before tax, %	1.1	3.5	5.6	3.8	1.7	3.4	3.7	3.0
Return on capital employed, %	4.4	16.1	26.4	17.5	7.2	16.0	16.4	12.8
Return on capital employed excl. non-recurring items, %	4.4	15.9	18.9	17.0	7.0	15.9	16.6	12.5
Return on equity, %	2.9	10.6	16.1	11.5	4.5	10.6	10.9	10.0
Return on equity excl. non-recurring items, %	2.9	10.5	11.1	11.2	4.4	10.6	11.1	9.8
Equity ratio, %	51.3	51.4	53.4	53.5	54.4	52.1	54.0	53.9
Capital expenditure, € million	42.0	45.7	35.9	201.6	64.1	130.5	126.3	104.5
Earnings/share, diluted, €	0.15	0.51	0.81	0.59	0.25	0.55	0.53	0.51
Equity/share, €	19.69	20.30	21.11	21.81	22.04	21.21	21.66	22.20

Net sales by segment

€ million	1–3/ 2010	4–6/ 2010	7–9/ 2010	10–12/ 2010	1–3/ 2011	4–6/ 2011	7–9/ 2011	10–12/ 2011
Food trade	912	976	986	1,022	948	1,077	1,049	1,108
Home and speciality goods trade	355	334	378	501	348	339	376	501
Building and home improvement trade	495	712	687	625	570	757	731	657
Car and machinery trade	236	298	218	203	279	342	290	263
Common operations and eliminations	-40	-41	-39	-42	-42	-43	-42	-48
Group total	**1,958**	**2,279**	**2,231**	**2,310**	**2,103**	**2,472**	**2,404**	**2,481**

Operating profit by segment

€ million	1–3/ 2010	4–6/ 2010	7–9/ 2010	10–12/ 2010	1–3/ 2011	4–6/ 2011	7–9/ 2011	10–12/ 2011
Food trade	31.7	42.2	47.3	37.2	42.1	45.9	45.7	40.0
Home and speciality goods trade	0.1	7.0	50.6	45.6	-7.4	2.8	8.7	32.9
Building and home improvement trade	-13.8	17.9	19.9	-0.2	-9.1	18.8	21.0	-4.5
Car and machinery trade	6.4	15.0	8.6	3.9	12.2	19.7	13.0	7.0
Common operations and eliminations	-3.4	-3.2	-2.5	-3.7	-2.2	-3.3	-0.2	-2.6
Group total	**20.9**	**79.0**	**123.9**	**82.8**	**35.7**	**83.9**	**88.2**	**72.8**

Operating profit by segment excl. non-recurring items

€ million	1–3/ 2010	4–6/ 2010	7–9/ 2010	10–12/ 2010	1–3/ 2011	4–6/ 2011	7–9/ 2011	10–12/ 2011
Food trade	31.7	42.1	49.5	36.8	41.4	45.8	46.4	38.6
Home and speciality goods trade	0.1	7.0	13.2	45.7	-7.4	2.4	8.7	32.9
Building and home improvement trade	-13.8	17.9	20.0	-0.2	-9.1	18.8	21.3	-4.4
Car and machinery trade	6.4	14.1	8.7	3.9	12.2	19.6	13.0	7.0
Common operations and eliminations	-3.4	-3.1	-2.8	-5.7	-2.2	-3.3	-0.2	-2.6
Group total	**20.9**	**78.1**	**88.7**	**80.5**	**34.9**	**83.3**	**89.2**	**71.5**

CALCULATION OF PERFORMANCE INDICATORS

Profitability

Return on equity, % = $\frac{\text{(Profit / loss before tax – income tax)}}{\text{Shareholders' equity}} \times 100$

Return on equity excl. non-recurring items, % = $\frac{\text{(Profit/loss adjusted for non-recurring items before tax – income tax adjusted for the tax effect of non-recurring items)}}{\text{Shareholders' equity}} \times 100$

Return on capital employed, % = $\frac{\text{Operating profit}}{\text{(Non-current assets + inventories + receivables + other current assets – non-interest-bearing liabilities) for a 12 month average}} \times 100$

Return on capital employed excluding non-recurring items, % = $\frac{\text{Operating profit excluding non-recurring items}}{\text{(Non-current assets + inventories + receivables + other current assets – non-interest-bearing liabilities) for a 12 month average}} \times 100$

EBITDA = Operating profit + depreciation and amortisation + impairments

Funding and financial position

Equity ratio, % = $\frac{\text{Shareholders' equity}}{\text{(Balance sheet total – prepayments received)}} \times 100$

Gearing, % = $\frac{\text{Interest-bearing net debt}}{\text{Shareholders' equity}} \times 100$

Interest-bearing net debt/EBITDA = $\frac{\text{Interest-bearing net debt}}{\text{EBITDA}}$

Share performance indicators

Earnings/share, diluted = $\frac{\text{Profit/loss – non-controlling interests}}{\text{Average number of shares adjusted for the dilutive effect of options}}$

Earnings/share, basic = $\frac{\text{Profit/loss – non-controlling interests}}{\text{Average number of shares}}$

Earnings/share excl. non-recurring items, basic = $\frac{\text{Profit/loss adjusted for non-recurring items – non-controlling interests}}{\text{Average number of shares}}$

Equity/share = $\frac{\text{Equity attributable to equity holders of the parent}}{\text{Basic number of shares at balance sheet date}}$

Payout ratio, % = $\frac{\text{(Dividend/share)}}{\text{(Earnings/share)}} \times 100$

Price/earnings ratio, (P/E) = $\frac{\text{Share price at balance sheet date}}{\text{(Earnings/share)}}$

Effective dividend yield, % = $\frac{\text{(Dividend/share)}}{\text{Share price at balance sheet date}} \times 100$

Market capitalisation = Share price at balance sheet date × number of shares

Cash flow from operating activities/share = $\frac{\text{Cash flow from operating activities}}{\text{Average number of shares}}$

Yields of A share and B share = Change in share price + annual dividend yield

ANALYSIS OF SHAREHOLDING

Analysis of shareholding as at 31 Dec. 2011

All shares	Number of shares	% of all shares
Non-financial corporations and housing corporations	28,785,760	29.18
Financial and insurance corporations	5,238,693	5.31
General government*	10,085,573	10.22
Households	28,439,926	28.83
Non-profit institutions**	6,478,763	6.57
Rest of the world	961,666	0.97
Nominee registered	18,654,661	18.91
Total	**98,645,042**	**100.00**

10 largest shareholders by number of shares at 31 Dec. 2011

		Number of shares	% of shares	Number of votes	% of votes
1.	Ilmarinen Mutual Pension Insurance Company	3,573,257	3.62	6,182,915	1.61
2.	K-Retailers' Association	3,514,958	3.56	34,781,930	9.05
3.	Vähittäiskaupan Takaus Oy	3,491,771	3.54	27,148,568	7.06
4.	Kruunuvuoren Satama Oy	2,635,046	2.67	26,350,460	6.86
5.	Valluga-sijoitus Oy	1,340,439	1.36	13,404,390	3.49
6.	Kesko Pension Fund	1,288,839	1.31	8,523,390	2.22
7.	Varma Mutual Pension Insurance Company	1,130,986	1.15	1,130,986	0.29
8.	Tapiola Mutual Pension Insurance Company	1,100,000	1.12	1,100,000	0.29
9.	Oy The English Tearoom Ab	1,008,400	1.02	1,008,400	0.26
10.	Foundation for Vocational Training in the Retail Trade	975,547	0.99	8,384,518	2.18

10 largest shareholders by number of votes at 31 Dec. 2011

		Number of shares	% of shares	Number of votes	% of votes
1.	K-Retailers' Association	3,514,958	3.56	34,781,930	9.05
2.	Vähittäiskaupan Takaus Oy	3,491,771	3.54	27,148,568	7.06
3.	Kruunuvuoren Satama Oy	2,635,046	2.67	26,350,460	6.86
4.	Valluga-sijoitus Oy	1,340,439	1.36	13,404,390	3.49
5.	Kesko Pension Fund	1,288,839	1.31	8,523,390	2.22
6.	Foundation for Vocational Training in the Retail Trade	975,547	0.99	8,384,518	2.18
7.	Ilmarinen Mutual Pension Insurance Company	3,573,257	3.62	6,182,915	1.61
8.	Food Paradise Oy	389,541	0.39	3,895,410	1.01
9.	K-Food Retailers' Club	384,617	0.39	3,846,170	1.00
10.	Heimo Välinen Oy	362,000	0.37	3,431,000	0.89

** General government, for example, municipalities, the provincial administration of Åland, authorised pension provider and social security funds.*

*** Non-profit institutions, for example, foundations awarding scholarships, organisations safeguarding certain interests and various charitable associations.*

MANAGEMENT'S SHAREHOLDINGS

At the end of December 2011, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 229,720 Kesko Corporation A shares and 109,420 Kesko Corporation B shares, i.e. a total of 339,140, which represent 0.34% of the company's share capital and 0.63% of voting rights.

At 31 December 2011, the President and CEO held 2,000 Kesko Corporation A shares and 10,000 Kesko Corporation B shares, which represent 0.01% of the company's share capital and 0.01% of its voting rights. In addition, the President and CEO holds 130,000 share options.

If shares were subscribed for with the President and CEO's share options, they would represent 0.13% of all shares and 0.03% of all voting rights.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED INCOME STATEMENT

€ million	Note	1.1.-31.12.2011	%	1.1.-31.12.2010	%
Net sales	2	**9,460.4**	100.0	**8,776.8**	100.0
Cost of sales		-8,163.2	-86.3	-7,546.7	-86.0
Gross profit		**1,297.2**	13.7	**1,230.1**	14.0
Other operating income	5, 7	704.9	7.5	698.8	8.0
Staff cost	8, 35	-570.5	-6.0	-520.6	-5.9
Depreciation, amortisation and impairment	13, 14	-124.7	-1.3	-120.9	-1.4
Other operating expenses	6, 7	-1,026.3	-10.8	-980.7	-11.2
Operating profit		**280.6**	3.0	**306.7**	3.5
Interest income and other finance income	9	22.2	0.2	22.7	0.3
Interest expense and other finance costs	9	-18.0	-0.2	-15.4	0.2
Foreign exchange differences	9	-3.5	0.0	-1.4	0.0
Total finance income and costs	9	0.8	0.0	6.0	0.1
Income from associates		0.7	0.0	-0.3	0.0
Profit before tax		**282.1**	3.0	**312.4**	3.6
Income tax	10	-85.2	-0.9	-96.7	-1.1
Profit for the year		**196.9**	2.1	**215.7**	2.5
Profit for the year attributable to					
Owners of the parent		181.5		204.5	
Non-controlling interests		15.4		11.2	
Earnings per share for profit attributable to owners of the parent					
Basic, €	12	1.85		2.08	
Diluted, €	12	1.84		2.06	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ million	Note	1.1.-31.12.2011	1.1.-31.12.2010
Profit for the year		**196.9**	**215.7**
Other comprehensive income			
Currency translation differences related to a foreign operation	11	-17.3	4.9
Adjustment for hyperinflation	11	6.3	-
Cash flow hedge revaluation	11	-15.0	20.8
Revaluation of available-for-sale financial assets	11	0.1	1.2
Others	11	-0.1	-0.7
Tax related to other comprehensive income	11	3.9	-5.7
Total other comprehensive income for the year, net of tax		**-22.1**	**20.4**
Comprehensive income for the year		**174.8**	**236.1**
Comprehensive income for the year attributable to			
Owners of the parent		170.4	224.4
Non-controlling interests		4.4	11.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ million	Note	31.12.2011	%	31.12.2010	%
ASSETS					
Non-current assets					
Property, plant and equipment	13	1,490.5		1,261.0	
Intangible assets	14	189.4		179.8	
Investments in associates	15, 45	58.1		53.5	
Available-for-sale financial assets	16, 28, 39	10.6		7.6	
Long-term receivables	17, 18, 28	78.0		68.9	
Deferred tax assets	19	2.0		2.9	
Pension assets	20	200.1		185.8	
Total non-current assets		**2,028.8**	48.4	**1,759.4**	42.2
Current assets					
Inventories	21	867.5		756.9	
Interest-bearing receivables	22, 28	59.7		21.0	
Trade receivables	22, 28, 39	700.0		619.6	
Current tax assets	22, 28	33.7		29.0	
Other non-interest-bearing receivables	22, 28	125.0		132.6	
Financial assets at fair value through profit or loss	23, 28, 39	97.8		242.1	
Available-for-sale financial assets	24, 28, 39	185.5		549.0	
Cash and cash equivalents	25	84.0		56.1	
Total current assets		**2,153.2**	51.4	**2,406.3**	57.7
Non-current assets held for sale	4, 26	8.0	0.0	1.3	0.0
Total assets		**4,190.0**	100.0	**4,167.1**	100.0
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	27	197.3		197.3	
Share premium	27	197.8		197.8	
Other reserves	27	242.8		242.8	
Currency translation differences	27	-3.4		-2.7	
Revaluation reserve	27	2.6		13.6	
Retained earnings		1,537.5		1,503.1	
		2,174.7	51.9	**2,151.8**	51.6
Non-controlling interests		**58.3**	1.4	**58.5**	1.4
Total equity		**2,233.0**	53.3	**2,210.3**	53.0
Non-current liabilities					
Interest-bearing non-current liabilities	28, 29, 39	210.4		235.3	
Non-interest-bearing non-current liabilities	28, 29, 39	18.4		4.6	
Deferred tax liabilities	19	91.1		87.1	
Pension obligations	20	1.7		1.7	
Provisions	30	10.4		11.7	
Total non-current liabilities		**332.0**	7.9	**340.3**	8.2
Current liabilities					
Current interest-bearing liabilities		189.7		241.5	
Trade payables	28, 31	885.8		838.3	
Other non-interest-bearing liabilities	28, 31	225.3		196.3	
Current tax liabilities	28, 31	37.5		64.2	
Accrued liabilities	28, 31	262.8		246.9	
Provisions	30	23.8		29.3	
Total current liabilities		**1,624.9**	38.8	**1,616.5**	38.8
Total liabilities		**1,956.9**	46.7	**1,956.8**	47.0
Total equity and liabilities		**4,190.0**	100.0	**4,167.1**	100.0

CONSOLIDATED STATEMENT OF CASH FLOWS

€ million	Note	2011	2010
Cash flow from operating activities			
Profit before tax		282.1	312.4
Adjustments:			
Depreciation according to plan		124.8	116.3
Finance income and costs		-0.7	-6.0
Other adjustments	37	-6.5	96.8
		117.6	207.1
Change in working capital			
Current non-interest-bearing receivables, increase (-) / decrease (+)		-89.0	-15.4
Inventories increase (-) / decrease (+)		-118.9	-82.4
Current non-interest-bearing liabilities, increase (+) / decrease (-)		126.7	152.7
		-81.2	54.8
Interest paid and other finance costs		-16.0	-19.5
Interest received		22.0	15.6
Dividends received		0.1	0.1
Income tax paid		-109.0	-132.3
Net cash generated from operating activities		**215.7**	**438.1**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		-20.7	-
Acquisition of associate			-33.9
Purchases of tangible and intangible assets		-427.1	-328.4
Purchases of available-for-sale financial assets		-1.1	-4.7
Disposal of subsidiary, net of cash disposed of		-	1.9
Proceeds from disposal of available-for-sale financial assets		0.0	0.5
Proceeds from disposal of tangible and intangible assets		8.2	121.1
Increase in non-current loan and receivables		-0.4	-
Decrease in non-current loan and receivables		-	3.9
Net cash used in investing activities		**-441.1**	**-239.6**
Cash flows from financing activities			
Increase (+) / decrease (-) in interest-bearing liabilities		-55.5	39.9
Repayments of finance lease obligations		-2.7	-0.4
Increase (-) / decrease (+) in current interest-bearing receivables		-37.3	11.0
Dividends paid		-132.9	-106.2
Proceeds from issuance of shares		0.1	4.2
Purchase of treasury shares		-22.9	-
Increase (-) / decrease (+) in short-term money market investments		199.4	-114.2
Other items		0.5	-15.3
Net cash used in financing activities		**-51.2**	**-181.0**
Change in cash and cash equivalents and current available-for-sale financial assets		**-276.6**	**17.5**
Cash and cash equivalents and current available-for-sale financial assets at 1 Jan.	38	509.4	491.4
Currency translation difference adjustment and change in fair value		-2.0	0.4
Cash and cash equivalents and current available-for-sale financial assets at 31 Dec.	38	**230.8**	**509.4**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the parent								
€ million	**Share capital**	**Share premium**	**Other reserves**	**Currency translation differences**	**Revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 Jan. 2011	**197.3**	**197.8**	**242.8**	**-2.7**	**13.6**	**1,503.1**	**2,151.8**	**58.5**	**2,210.3**
Shares subscribed for with options			0.1				0.1		0.1
Share-based payment						3.4	3.4		3.4
Treasury shares						-22.9	-22.9		-22.9
Dividend distribution						-128.2	-128.2	-4.5	-132.7
Non-controlling interests arising on acquisition						-3.7	-3.7	-0.1	-3.8
Other changes						3.9	3.9		3.9
Profit for the year						181.5	181.5	15.4	196.9
Other comprehensive income									
Currency translation differences related to a foreign operation				-0.6			-0.6	-16.7	-17.3
Adjustments for hyperinflation						0.6	0.6	5.7	6.3
Cash flow hedge revaluation					-15.0		-15.0		-15.0
Revaluation of available-for-sale financial assets					0.1		0.1		0.1
Others						-0.1	-0.1		-0.1
Tax related to other comprehensive income					3.9		3.9		3.9
Total other comprehensive income				-0.6	-11.0	0.4	-11.1	-11.0	-22.1
Total comprehensive income for the period				-0.6	-11.0	182.0	170.4	4.4	174.8
Balance at 31 Dec. 2011	**197.3**	**197.8**	**242.8**	**-3.4**	**2.6**	**1,537.5**	**2,174.7**	**58.3**	**2,233.0**
Balance at 1 Jan. 2010	**196.6**	**194.2**	**242.8**	**-7.1**	**-2.7**	**1,381.4**	**2,005.3**	**64.5**	**2,069.7**
Shares subscribed for with options	0.6	3.6					4.2		4.2
Share-based payment						5.0	5.0	0.0	5.0
Dividend distribution						-88.5	-88.5	-17.6	-106.2
Other changes						1.4	1.4		1.4
Profit for the year						204.5	204.5	11.2	215.7
Other comprehensive income									
Currency translation differences related to a foreign operation				4.4			4.4	0.5	4.9
Cash flow hedge revaluation					20.8		20.8		20.8
Revaluation of available-for-sale financial assets					1.2		1.2		1.2
Others						-0.7	-0.7		-0.7
Tax related to other comprehensive income					-5.7		-5.7		-5.7
Total other comprehensive income				4.4	16.3	-0.7	19.9	0.5	20.4
Total comprehensive income for the period				4.4	16.3	203.8	224.4	11.7	236.1
Balance at 31 Dec. 2010	**197.3**	**197.8**	**242.8**	**-2.7**	**13.6**	**1,503.1**	**2,151.8**	**58.5**	**2,210.3**

Further information on share capital and reserves is presented in note 27, and on option schemes in note 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1
ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

BASIC INFORMATION ABOUT THE COMPANY

Kesko is a leading provider of trading sector services and a highly valued listed company. Kesko has about 2,000 stores engaged in chain operations in the Nordic and Baltic countries, Russia and Belarus.

The Kesko Group's reportable segments consist of its business divisions, namely the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade.

The Group's parent company, Kesko Corporation, is a Finnish public limited company constituted in accordance with the laws of Finland. The company's business ID is 0109862-8, it is domiciled in Helsinki, and its registered address is Satamakatu 3, FI-00016 KESKO. Copies of Kesko Corporation's financial statements and the consolidated financial statements are available from Kesko Corporation, Satamakatu 3, and from the company's website: www.kesko.fi.

Kesko's Board of Directors has approved these financial statements for disclosure on 1 February 2012.

GENERAL INFORMATION

Kesko's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved for adoption by the European Union, and they comply with the IAS and IFRS standards and respective IFRIC and SIC Interpretations effective on 31 December 2011. The International Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with the procedure enacted in EU regulation (EC) 1606/2002, included in the Finnish Accounting Standards and regulations based on them. Accounting standards not yet effective have not been adopted voluntarily for the consolidated financial statements. The notes to the consolidated financial statements also include compliance with Finnish accounting and corporate legislation.

All amounts in the consolidated financial statements are in millions of euros and based on original cost, with the exception of items identified below, which have been measured at fair value in compliance with the standards.

WITH EFFECT FROM 1 JANUARY 2011, THE GROUP HAS ADOPTED THE FOLLOWING NEW AND REVISED STANDARDS:

IAS 24 RELATED PARTY DISCLOSURES (REVISED)

The revised standard clarifies and simplifies the definition of a related party and eliminates the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group has applied the revised standard to transactions with non-controlling interests from 1 January 2011. The revised standard has had no impact on the consolidated financial statements.

The following revisions, amendments and interpretations have had no impact on the consolidated financial statements:

- IAS 32 Classification of Rights Issues (amendment)
- IFRIC 19 Extinguishing financial liabilities with equity instruments
- IFRIC 14 Prepayments of a minimum funding requirement (amendment)

In addition, IASB issued improvements to seven standards in July 2010 as part of its annual improvements project (Improvements to IFRSs). These improvements had no impact on the consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain estimates and assumptions about the future that affect the reported amounts of assets and liabilities, contingent liabilities, and income and expense. The actual results may differ from these estimates and assumptions. The most significant estimates relate to the following.

ALLOCATION OF COST OF ACQUISITION

Assets and liabilities acquired in business combinations are measured at their fair values at the date of acquisition. The fair values on which cost allocation is based are determined by reference to market values to the extent they are available. If market values are not available, the measurement is based on the estimated earnings-generating capacity of the asset and its future use in Kesko's operating activities. The measurement of intangible assets, in particular, is based on the present values of future cash flows and requires management estimates regarding future cash flows and the use of assets.

IMPAIRMENT TEST

The amounts recoverable from cash generating units' operating activities are determined based on value-in-use calculations. In the calculations, forecast cash flows are based on financial plans approved by the management, covering a period of three years. (Note 14)

EMPLOYEE BENEFITS

The Group operates both defined contribution pension plans and defined benefit pension plans. The calculation of items relating to employee benefits requires the application of judgement to several factors. Pension calculations under defined benefit plans in compliance with IAS 19 include the following factors that rely on management estimates (Note 20):

- expected return on plan assets
- discount rate used in calculating pension expenses and obligations for the period
- future salary level trend
- employee service life

Changes in these assumptions can significantly impact the amounts of pension liability and future pension expenses. In addition, a significant part of the pension plan assets is invested in real estate and shares, whose value adjustments also impact the amounts of liabilities and pension expenses.

MEASUREMENT OF INVENTORIES

The Group regularly reviews inventories for obsolescence and turnover, and for below-cost market values, and recognises obsolescence as necessary. Such reviews require assessments of future demand for products. Possible changes in these estimates may cause changes in inventory measurement in future periods.

TRADE RECEIVABLES

The Group companies apply a uniform practice to measuring mature receivables. Possible changes in customers' solvency may cause changes in the measurement of trade receivables in future periods.

CRITICAL JUDGEMENTS IN THE APPLICATION OF THE ACCOUNTING POLICY

The Group's management makes judgements concerning the adoption and application of the accounting policies to the financial statements. The management has used its judgement to select the accounting policies when, for example, measuring receivables and classifying leases.

CONSOLIDATION PRINCIPLES

SUBSIDIARIES

The consolidated financial statements combine the financial statements of Kesko Corporation and subsidiaries controlled by the Group. Control exists when the Group owns more than 50% of the voting rights of a subsidiary or otherwise exerts control. Control refers to the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Acquired subsidiaries are consolidated from the date on which the Group gains control until the date on which control ceases. The existence of potential voting rights has been considered when assessing the existence of control in the case that the instruments entitling to potential control are currently exercisable. Subsidiaries are listed in note 42.

Internal shareholdings are eliminated by using the costing method. The cost of assets acquired is determined on the basis of the fair value of the acquired assets as at the acquisition date, the issued equity instruments and liabilities resulting from or assumed on the date of the exchange transaction. Direct acquisition-related costs were included in the cost of acquisition up to 1 January 2010. The identifiable assets, liabilities and contingent liabilities are measured at the fair value at the acquisition date, gross of non-controlling interest.

Intra-group transactions, receivables and payables, unrealised gains and internal distributions of profits are eliminated when preparing the consolidated financial statements. Unrealised losses are not eliminated if the loss is due to the impairment of an asset. Non-controlling interest in the profit for the period is disclosed in the income statement and the amount of equity attributable to the non-controlling interests is disclosed separately in equity.

The Group accounts for its real estate company acquisitions as acquisitions of assets.

ASSOCIATES

Associates are all entities over which the Group has significant influence but not control. In the Kesko Group, significant influence accompanies a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of post-acquisition profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Dividends received from associates are deducted from the Group's result and the cost of the shares. An investment in an associate includes the goodwill generated by the acquisition. Goodwill is not amortised. Associates are listed in note 42.

MUTUAL REAL ESTATE COMPANIES

Mutual real estate companies are consolidated as assets under joint control on a line-by-line basis in proportion to ownership. The Group's share of mutual real estate companies' loans and reserves is accounted for separately in the consolidation. The jointly controlled mutual real estate companies consolidated on a line-by-line basis are listed in note 42.

FOREIGN CURRENCY ITEMS

The consolidated financial statements are presented in euros, which is both the functional currency of the Group's parent company and the reporting currency. On initial recognition, the figures relating to the result and financial position of Group entities located outside the euro zone are recorded in the functional currency of their operating environment. The operating currency of the real estate companies in St. Petersburg and Moscow, Russia has been determined to be the euro, which is why no significant exchange differences are realised from their balance sheets for the Group.

Foreign currency transactions are recorded in euros by applying the exchange rate at the date of the transaction. Foreign currency receivables and liabilities are translated into euros using the closing rate. Gains and losses from foreign currency transactions and from receivables and liabilities are recognised in the income statement, with the exception of those loan exchange rate movements designated as hedges of foreign net investments and regarded as effective. These exchange differences are recognised in equity, in compliance with the rules of hedge accounting, and their changes are presented in other comprehensive income. Foreign exchange gains and losses from operating activities are included in the respective items above operating profit.

Currency forwards and options and foreign exchange gains and losses that relate to borrowings hedging financial transactions are included in financial income and costs.

The income statements of Group entities operating outside the euro zone have been translated into euros at the average rate of the reporting period, and the balance sheets at the closing rate. The foreign exchange difference resulting from the use of different rates, and the translation differences arising from the elimination of the acquisition cost of subsidiaries outside the euro zone, and the hedging result of net investments made in them are recognised in equity, and the changes are presented in other comprehensive income. In connection with the disposal of a subsidiary, currency translation differences are disclosed in the income statement as part of the gains or losses on the disposal.

Goodwill arising on the acquisition of foreign operations and the fair value adjustments of assets and liabilities made upon their acquisition are treated as assets and liabilities of these foreign operations and translated into euros at the closing rate.

The on-balance-sheet assets and liabilities of operations in countries that have experienced hyperinflation are restated prior to foreign currency translation based on the change in purchasing power.

FINANCIAL ASSETS

The Group classifies its financial assets into the following categories:

- at fair value through profit or loss
- available-for-sale
- loans and receivables.

The classification at initial recognition depends on the purpose for which the financial assets were acquired.

Purchases and sales of financial assets are recognised on the trade date. Financial assets are classified as non-current if they have a maturity date greater than 12 months after the balance sheet date. If financial assets are expected to be settled within 12 months, they are classified as current. Financial assets at fair value through profit or loss are classified as current.

Financial assets are derecognised when the rights to receive cash flow from the financial asset have expired or have been transferred from the Group, and when the risks and rewards of ownership have been transferred from the Group.

At each reporting date, the Group assesses whether there is evidence that a financial asset is impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the fair value based on the market price or the present value of cash flows. The fair value of financial assets is determined on the basis of a maturity-based interest rate quotation. An impairment loss is recognised if the carrying amount of a financial asset exceeds its recoverable amount. The impairment losses are recognised within the financial items of the income statement.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include instruments initially classified as financial assets at fair value through profit or loss (the fair value option). These instruments are managed based on fair value and they include investments in interest rate funds, as defined by the Group's treasury policy, as well as investments in other interest-bearing papers with maturities of over three months. The interest income and fair value changes of these financial assets, as well as any commissions returned by funds are presented on a net basis in the income statement in the interest income of the category in question.

In addition, financial assets at fair value through profit or loss include all derivatives that do not qualify for hedge accounting in compliance with IAS 39. Derivatives are carried at fair value using prices quoted in active markets. The results of derivatives hedging purchases and sales are recognised in other operating income or expenses. The result of derivatives used to hedge financial items is recognised in financial items, unless the derivative has been designated as a hedging instrument.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative assets designated as available for sale at the date of initial recognition. Available-for-sale financial assets are measured at fair value at the balance sheet date and their fair value changes are recognised in equity, and the fair value change is presented in other comprehensive income. The fair value of publicly quoted financial assets is determined based on their market value. Financial assets not quoted publicly are measured at cost if their fair values cannot be measured reliably.

The dividends from equity investments included in available-for-sale financial assets are recognised in financial items in the income statement. The interest income from available-for-sale financial assets is recognised in the financial items of the relevant class. When an available-for-sale financial asset is sold, the accumulated fair value changes recognised in equity are included in the income statement as 'Other financial income/expenses'.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative assets with fixed or measurable payments, and they are not quoted in active markets. Loans and receivables also include trade receivables and other receivables. They are recognised at amortised cost using the effective interest method.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and deposits with banks. The cash and cash equivalents in the consolidated balance sheet also include amounts relating to the retail operations of division parent companies, used as cash floats in stores, or amounts being transferred to the respective companies.

FINANCIAL LIABILITIES

Financial liabilities have initially been recognised at their cost, net of transaction costs. In the financial statements, financial liabilities are measured at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities are amortised over the period of the facility to which it relates. Financial liabilities having maturities greater than 12 months after the balance sheet date are classified as non-current liabilities. Those maturing within 12 months after the balance sheet date are classified as current liabilities.

DERIVATIVES AND HEDGE ACCOUNTING

When derivative contracts are entered into, derivatives are recognised at fair value and subsequently they are re-measured at their fair value. The recognition of changes in the fair value of derivatives depends on whether the derivative instrument qualifies for hedge accounting and, if so, on the hedged item. When entered into, derivative contracts are treated either as fair value hedges of receivables or liabilities, or in the case of interest rate risk and electricity price risk, as cash flow hedges, as hedges of net investments in a stand-alone foreign entity, or as derivative contracts that do not meet the hedge accounting criteria. If the hedge accounting criteria are not met, the results of instruments hedging a commercial currency risk are recognised in profit or loss in other operating income or expenses. The portion of derivatives hedging financial transactions to be recognised in the income statement is included in financial items.

When a hedging arrangement is entered into, the relationship between the item being hedged and the hedging instrument, as well as the objectives of the Group's risk management are documented. The effectiveness of the hedge relationship is tested regularly and the effective portion is recognised, according to the nature of the hedged item, against the change in the fair value of the hedged item, in translation differences in equity, or in the revaluation surplus. The ineffective portion is recognised, according to its nature, either in financial items or other operating income and expenses. The effective portion of changes in the fair value of instruments hedging cash flows, such as long-term credit facilities, is recognised in the revaluation reserve. A change in the fair value of foreign currency derivatives relating to the credit facility is recognised in borrowings, and a change in the fair value of interest rate derivatives in other non-interest-bearing receivables or debt.

Hedge accounting is discontinued when the hedging instrument expires or is sold, the contract is terminated or exercised. Any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction has occurred.

MEASUREMENT PRINCIPLES

The fair value of forward rate agreements is determined by reference to the market prices on the balance sheet date. The fair value of interest rate swaps is calculated on the basis of the present value of future cash flows, using the market prices at the balance sheet date.

The fair value of currency forwards is determined by measuring the forward contracts at the forward rate on the balance sheet date. Currency options are measured by using the counterparty's price quotation, but the Group verifies the price with the help of the Black & Scholes method. Electricity derivatives are measured at fair value using the market quotations on the balance sheet date.

HEDGING A NET INVESTMENT IN A STAND-ALONE FOREIGN ENTITY

The Group applies hedge accounting in accordance with IAS 39 to hedge foreign currency net investments in foreign entities. Currency forwards or foreign currency loans are used as hedging instruments. Spot price changes in currency forwards are recognised as translation differences under equity, and disclosed in components of comprehensive income. The interest rate differentials of currency forwards are recognised as income under financial items. The exchange differences of foreign currency loans are recognised in translation differences under equity. When a foreign operation is partially or wholly disposed of or wound up, gains or losses accumulated from hedging instruments are recognised in profit or loss.

EMBEDDED DERIVATIVES

The Group has prepared method descriptions for identifying embedded derivatives and applies fair value measurement to them. In the Kesko Group, embedded derivatives are included in firm commercial contracts denominated in a currency which is not the functional currency of either party and not commonly used in the economic environment in which the transaction takes place. The fair value of embedded derivatives is determined using the market prices on the measurement date and the change in fair value is recognised in the income statement.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment mainly comprise land, buildings, machinery and equipment. Property, plant and equipment are carried at original cost net of planned depreciation and possible impairment. The property, plant and equipment of acquired subsidiaries are measured at fair value at the date of acquisition.

Subsequent costs relating to items of property, plant and equipment are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced commodity is derecognised. The machinery and equipment of buildings are treated as separate commodities and any significant expenditure related to their replacement is capitalised. All other repairs, service and maintenance expenditures of items of property, plant and equipment are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method over their estimated useful lives.

The most common estimated useful lives are:

Buildings	10–33 years
Components of buildings	8–10 years
Machinery and equipment	3–8 years
Cars and transport equipment	5 years

The residual values, useful lives and depreciation methods applied to property, plant and equipment are reviewed at least at the end of each accounting period. If the estimates of useful life and the expected pattern of economic benefits are different from previous estimates, the change in the estimate is accounted for in accordance with IAS 8.

The depreciation of property, plant and equipment ceases when the asset is classified as held for sale in accordance with IFRS 5. Land is not depreciated.

Gains and losses on disposals of property, plant and equipment are recognised in the income statement and stated as other operating income and expenses.

INTANGIBLE ASSETS

GOODWILL AND TRADEMARKS

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets and liabilities of an enterprise at the date of the acquisition. The goodwill of business combinations entered into prior to 1 January 2004 corresponds to their carrying amounts reported in accordance with the previous accounting practices used as the deemed cost, in compliance with IFRS.

Goodwill is not amortised but is instead tested annually for impairment and whenever there is an indication of impairment. For testing purposes, goodwill is allocated to the cash generating units. Goodwill is measured at original cost and the share acquired prior to 1 January 2004 at deemed cost net of impairment. Any negative goodwill is immediately recognised as income in accordance with IFRS 3.

Intangible assets with indefinite useful lives are not amortised. They are tested for impairment annually and whenever there is an indication of impairment. These intangible assets include trademarks capitalised upon acquisition.

OTHER INTANGIBLE ASSETS

The cost of intangible assets with definite useful lives are stated in the balance sheet and recognised as expenses during their useful lives. Such intangible assets include software licences, customer relationships and licences to which acquisition cost has been allocated upon acquisition, and leasehold interests that are amortised during their probable terms. The estimated useful lives are:

Computer software and licences	3–5 years
Customer and supplier relationships	10 years
Licences	20 years

RESEARCH AND DEVELOPMENT EXPENSES

The costs of research and development activities have been expensed as incurred, because the Group does not have development costs eligible for capitalisation. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

COMPUTER SOFTWARE

The labour costs of the Group employees working on projects for developing new software and other directly attributable costs are capitalised as part of software cost. On the balance sheet, computer software is included in intangible assets and its costs are amortised over the useful life of the software. Costs associated with maintaining computer software are recognised as an expense as incurred.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of goodwill and intangible assets with indefinite useful lives is assessed every year whether or not there is an indication of impairment. In addition, an impairment test is performed whenever there is an indication of impairment.

The recoverable amount is the higher rate of an asset's fair value less costs to sell and value in use. Often, it is not possible to estimate the recoverable amount for an individual asset. Then, as in the case of goodwill, the recoverable amount is determined for the cash generating unit to which the goodwill or asset belongs.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been an increase in the recoverable amount after the initial recognition. However, the reversal of an impairment loss of an asset should not exceed the carrying amount of the asset without impairment loss recognition. For goodwill, a recognised impairment loss is not reversed under any circumstances.

LEASES

The Group acts as both lessor and lessee of real estate and machines. Leases in which risks and rewards incidental to ownership are not transferred to the lessee are classified as operating leases. Lease payments related to them are recognised in the income statement on a straight-line basis over the lease term.

Leases that substantially transfer all risks and rewards incidental to ownership to the Group are classified as finance leases. An asset leased under a finance lease is recognised in the balance sheet at the lower rate of its fair value at the inception date and the present value of minimum lease payments. The rental obligations of finance leases are recorded in interest-bearing liabilities in the balance sheet. Lease payments are allocated between finance charges and the liability. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which assets are leased out by the Group, and substantially all the risks and rewards incidental to ownership are transferred to the lessee, are also classified as finance leases. Assets leased under such contracts are recognised as receivables in the balance sheet and stated at present value. The financial income from finance leases is determined so as to achieve a constant periodic rate of return on the remaining net investment for the lease term.

In sale and leaseback transactions, the selling price and the future lease payments are usually interdependent. If a sale and leaseback transaction results in a finance lease, any proceeds exceeding the carrying amount are not immediately recognised as income. Instead the amount is recognised as a liability in the balance sheet and amortised over the period of the lease. If a sale and leaseback transaction results in an operating lease and the transaction is established at fair value, any profit or loss is recognised immediately.

If the selling price is less than fair value, any profit or loss is recognised immediately unless the loss is compensated by future lease payments at below market price, in which case the loss is deferred and amortised over the period for which the asset is expected to be used. If the selling price exceeds fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used. If fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value is recognised immediately.

INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. The cost is primarily assigned by using the weighted average cost formula. The cost of certain classifications of inventory is assigned by using the FIFO formula. The cost of an acquired asset comprises all costs of purchase including freight. The cost of self-constructed goods comprises all costs of conversion including direct costs and allocations of variable and fixed production overheads.

TRADE RECEIVABLES

Trade receivables are recognised initially at the original sales amounts. Impairment is recognised when there is objective evidence of impairment loss. The Group has established a uniform basis for the determination of impairment of trade receivables based on the time receivables have been outstanding. In addition, impairment is recognised if there is other evidence of a debtor's insolvency, bankruptcy or liquidation. Losses on loans and advances are recognised as an expense in the income statement as part of 'Other operating expenses'.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets (or a disposal group) and assets and liabilities relating to discontinued operations are classified as held for sale if their carrying amount will be recovered principally through the disposal of the assets rather than through continuing use. For this to be the case, the sale must be highly probable, the asset (or disposal group) must be available for immediate sale in its present condition, subject only to terms that are usual and customary, the management must be committed to selling and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or assets included in the disposal group) and assets and liabilities linked to a discontinuing operation are measured at the lower rate of the carrying amount and fair value net of costs to sell. After an asset has been classified as held for sale, or if it is included in the disposal group, it is not depreciated. If the classification criterion is not met, the classification is reversed and the asset is measured at the lower rate of the carrying amount prior to the classification less depreciation and impairment, and recoverable amount. A non-current asset held for sale and assets included in the disposal group classified as held for sale are disclosed separately in the balance sheet. Liabilities included in the disposal group of assets held for sale are also disclosed separately in the balance sheet. The profit from discontinued operations is disclosed as a separate line item in the income statement.

The comparative information in the income statement is adjusted for operations classified as discontinued during the latest financial period being reported. Consequently, the profit from discontinued operations is presented as a separate line item also for the comparatives. In the financial years 2011 and 2010, the Group had no discontinued operations.

PROVISIONS

A provision is recognised when the Group has a present legal or constructive obligation as the result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and that a reliable estimate can be made of the amount of the obligation. Provision amounts are reviewed on each balance sheet date and adjusted to reflect the current best estimate. Changes in provisions are recorded in the income statement in the same item in which the provision was originally recognised. The most significant part of the Group's provisions relates to warranties given to products sold by the Group, and to onerous leases.

A warranty provision is recognised when a product fulfilling the terms is sold. The provision amount is based on historical experience about the level of warranty expenses. Leases become onerous if the leased premises become vacant, or if they are subleased at a rate lower than the original. A provision is recognised for an estimated loss from vacant lease premises over the remaining lease term, and for losses from subleased premises.

EMPLOYEE BENEFITS

PENSION PLANS

The Group operates both defined contribution plans and defined benefit plans. The contributions payable under defined contribution plans are recognised as expenses in the income statement for the period to which the payments relate. In defined contribution plans, the Group does not have a legal or constructive obligation to make additional payments, in case the payment recipient is unable to pay the retirement benefits.

In defined benefit plans, after the Group has paid the amount for the period, an excess or deficit may result. The pension obligation represents the present value of future cash flows from payable benefits. The present value of pension obligations has been calculated using the project unit credit method. Pension costs are expensed during employees' service lives based on calculations by qualified actuaries. The discount rate assumed in calculating the present value of the pension obligations is the market yield of high-quality bonds issued by companies. Their maturity substantially corresponds to the maturity of the calculated pension liability. The assets corresponding to the pension obligation of the retirement benefit plan are carried at fair values at the balance sheet date. Actuarial gains and losses are recognised in the income statement for the average remaining service lives of the employees participating in the plan to the extent that they exceed 10 percent of the higher rate of the present value of the defined benefit plans and the fair value of assets belonging to the plan.

Relating to the arrangements taken care of by the Kesko Pension Fund, the funded portion and the disability portion under the Finnish Employees' Pension Act are treated as defined benefit plans. In addition, the Group operates a pension plan in Norway, which is treated as a defined benefit plan. The plan is not significant for the Group. The other pension plans operated by the Group are defined contribution plans.

SHARE-BASED PAYMENTS

Options

Share options are measured at fair value at the grant date and expensed on a straight-line basis over the commitment period. The counter-item is recognised in retained earnings. The expenditure determined at the option grant date is based on the Group's estimate of the number of options expected to vest at the end of the commitment period. The Group updates the estimate of the final number of options at each balance sheet date. Any movements in estimates are recorded in the income statement. The fair value of options has been calculated using the Black-Scholes option pricing model.

When share options are exercised, the proceeds received from share subscriptions, adjusted for possible transaction costs, are recognised in shareholders' equity. Proceeds from share subscriptions based on options granted prior to the entry into force of the new Limited Liability Companies Act (1 Sept. 2006), have been recorded in shareholders' equity and share premium, in accordance with the plan rules. The proceeds from share subscriptions based on option plans implemented after the new Limited Liability Companies Act entered into force are recorded in shareholders' equity and the reserve of invested non-restricted equity, in accordance with the plan rules.

Share-based compensation

The costs relating to share-based payments are recorded in the income statement and the corresponding liability for share-based payments settled in cash is deferred. The recognised liability is measured at fair value at every balance sheet date. For equity-settled share-based payment transactions, an increase corresponding to the expensed amount is recorded in equity.

REVENUE RECOGNITION POLICIES

Net sales comprise the sale of products, services and energy. The proportion of services and energy of total net sales is insignificant.

For net sales, sales revenue is adjusted for indirect taxes, sales adjustment items and the exchange differences of foreign currency sales. Sales adjustment items include loyalty award credits relating to the K-Plussa customer loyalty programme, which are recognised at fair values as part of sales transactions. Loyalty award credits affect the net sales of those segments which grant K-Plussa customer loyalty credits and are engaged in retailing.

The Group sells products to retailers and other retail dealers, and engages in own retailing. Revenue from the sale of goods is recognised when significant risks, benefits and control relating to the ownership of the goods have transferred to the buyer, and it is probable that the economic benefits associated with the transaction will flow to the Group. Normally, revenue from the sale of goods can be recognised at the time of sale. Sales to retailers and other retail dealers are based on central invoicing. Retail sales are mainly on a cash and credit card basis.

For sales of services, revenue is recognised after the service has been rendered and when a flow of economic benefits associated with the service is probable.

Interest income is recognised on a time proportionate basis using the effective interest method. Dividend income is recognised when the right to receive payment is established.

OTHER OPERATING INCOME AND EXPENSES

Other operating income includes income other than that associated with the sale of goods or services, such as lease income, store site and chain fees and various other service fees and commissions. Gains and losses from the sale and disposal of property, plant and equipment are disclosed in other operating income and expenses. Other operating income and expenses also include realised and unrealised profits and losses from derivatives used to hedge currency risks of trade.

BORROWING COSTS

The Group has not capitalised borrowing costs, because the Group does not have qualifying assets.

Directly attributable transaction costs clearly associated with a certain borrowing are included in the original amortised cost of the borrowing and amortised to interest expense by using the effective interest method.

INCOME TAXES

The taxes disclosed in the consolidated income statement recognise the Group companies' taxes on current net profits on an accrual basis, prior period tax adjustments and changes in deferred taxes. The Group companies' taxes have been calculated from the taxable profit of each company determined by local jurisdiction.

Deferred tax assets and liabilities are recognised on all temporary differences arising between the tax bases and carrying amounts of assets and liabilities. Deferred tax has not been calculated on goodwill insofar as goodwill is not tax deductible. Deferred tax on subsidiaries' undistributed earnings is not recognised unless a distribution of earnings is probable, causing tax implications.

Deferred tax has been calculated using tax rates enacted by the balance sheet date, and as the rates changed, at the new rate expected to apply. A deferred income tax asset is recognised to the extent that it is probable that it can be utilised against future taxable income. The Group's deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority.

The most significant temporary differences arise from defined benefit plans, property, plant and equipment (depreciation difference, finance lease) and measurement at fair value of asset items in connection with acquisitions.

DIVIDEND DISTRIBUTION

The dividend proposed by the Board to the General Meeting has not been deducted from equity. Instead, dividends are recognised on the basis of the resolution by the General Meeting.

NEW IFRS STANDARDS AND IFRIC INTERPRETATIONS AND AMENDMENTS TO THE EXISTING STANDARDS AND INTERPRETATIONS

In addition to the standards and interpretations presented in the 2011 financial statements, the Group will adopt the following standards, interpretations and amendments to standards and interpretations issued for application in its 2012 financial statements:

IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES (AMENDMENT)

The amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment will not have a material impact on the consolidated financial statements.

IAS 12 DEFERRED TAX (AMENDMENT)

The standard currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The amendment will not have an impact on the consolidated financial statements.

The Group will adopt the following standards, interpretations and amendments in 2013 or later:

IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard defines the principles of control, and establishes controls as the basis for consolidation. The standard sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. The standard also sets out the accounting requirements for the preparation of consolidated financial statements. The Group management assesses that the amendment will not have a material impact on the consolidated financial statements.

IFRS 11 JOINT ARRANGEMENTS

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group management assesses that the amendment will not have a material impact on the consolidated financial statements.

IFRS 12 DISCLOSURES OF INTERESTS IN OTHER ENTITIES

The standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance-sheet vehicles. The Group management assesses that the amendment will have an impact on the information contained in the notes.

IFRS 13 FAIR VALUE MEASUREMENT

The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting. The Group management assesses that the amendment will not have a material impact on the consolidated financial statements.

IAS 27 SEPARATE FINANCIAL STATEMENTS (REVISED)

The revised standard includes the provisions on separate financial statements that are left after the control provisions have been included in the new IFRS 10. The Group management assesses that the amendment will not have an impact on the consolidated financial statements.

IAS 28 ASSOCIATES AND JOINT VENTURES (REVISED)

The revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The Group management assesses that the amendment will not have an impact on the consolidated financial statements.

IAS 1 PRESENTATION OF FINANCIAL STATEMENTS (AMENDMENT)

The main change is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The management assesses that the amendment will have an impact on the presentation of other comprehensive income.

IAS 19 EMPLOYEE BENEFITS (AMENDMENT)

The amendment eliminates the corridor approach and calculates finance costs on a net funding basis (of obligation and plan assets). In addition, the number of notes will increase. The management assesses that the amendment will have an impact on the consolidated profit, equity and notes. The changes will not be material.

IFRS 9 FINANCIAL INSTRUMENTS

The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. Two parts of IFRS 9 have been issued, one in 2009 and the other in 2010, to replace the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group's management assesses that the new standard will have an impact on the accounting for consolidated available-for-sale debt instruments.

IAS 32 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (AMENDMENT)

The amendment addresses inconsistencies in current practice when applying the criteria for reporting financial assets and financial liabilities on a net basis in the balance sheet. The management assesses that the amendment will not have a material impact on the consolidated financial statements.

IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES – OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (AMENDMENT)

The amended disclosures require more extensive disclosures than are currently required on offset financial instruments reported on a net basis in the balance sheet and on instruments that are subject to master netting or similar arrangements, irrespective of being presented at their gross amounts in the balance sheet. The management assesses that the amendment will not have a material impact on the consolidated financial statements.

NOTE 2
SEGMENT INFORMATION

The Group's reportable segments are composed of the Group's divisions, namely the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade.

Segment information is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources to the operating segments, has been identified as the Corporate Management Board. The reportable operating segments derive their net sales from the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade. Sales between segments are charged at prevailing market rates.

The Corporate Management Board assesses the performance of the segments based on operating profit, operating profit adjusted for non-recurring items, and return on capital employed. Exceptional transactions outside ordinary course of business are treated as non-recurring items and allocated to segments. The Group identifies gains and losses on the disposal of real estate, shares and operating activities, impairments and costs of discontinuing significant operations as non-recurring items. Gains on disposal are presented within 'other income' in the income statement, and losses on disposal within 'other operating costs'. In other respects, the Management Board's performance monitoring is in full compliance with IFRS reporting. Finance income and costs are not allocated to segments, as the Group's cash and cash equivalents are managed by Group Treasury. Changes in the fair values of currency forwards entered into inside the Group are reported as part of other operating income and expenses to the extent that they hedge the segments' operational foreign currency risk.

The assets and liabilities of a segment's capital employed consist of items which can be justifiably allocated to segments. The assets of capital employed comprise property, plant and equipment and intangible fixed assets, investments in associates, pension assets, inventories, trade receivables and other non-interest-bearing receivables, external interest-bearing receivables and available-for-sale assets. The liabilities of capital employed consist of trade payables, other non-interest-bearing liabilities and provisions. The Group's real estate assets and the revenue and costs derived from them have been allocated to the segments.

Capital employed does not include deferred tax assets and liabilities, financial assets at fair value through profit or loss, except for fair value measurements of forward foreign exchange contracts recognised in the balance sheet, available-for-sale financial assets, cash and cash equivalents, or interest-bearing liabilities.

THE FOOD TRADE comprises the food business based on Kesko Food's K-retailer business model and Kespro's grocery wholesaling. Kesko Food is active in the grocery trade in Finland. The operations of the nearly 1,000 K-food stores are based on the K-retailer business model. These stores form the K-citymarket, K-supermarket, K-market and K-extra food retail chains. Kesko Food manages the operations of the chains made up by the stores. Chain operations ensure higher competitiveness and a strong operational base for K-retailers in terms of sourcing and purchasing, building selections, marketing and price competition. Kesko Food's subsidiary Kespro Ltd engages in wholesaling in the Finnish HoReCa business.

THE HOME AND SPECIALITY GOODS TRADE comprises Anttila, K-citymarket's home and speciality goods trade, and the other home and speciality goods companies, namely Intersport, Indoor, Musta Pörssi and Kenkäkesko. Anttila retails home and speciality goods at Anttila department stores, Kodin Ykkönen department stores for home goods and interior decoration, and through NetAnttila focusing on distance sales. K-citymarket, home and speciality goods trade is responsible for the home and speciality goods and the household goods trade of the K-citymarket chain's department stores. Intersport is active in the sports equipment trade in Finland and Russia and its retail store chains are Intersport, Budget Sport and Kesport. Indoor is a furniture and interior decoration retail company operating in Finland and the Baltic countries. Its store chains are Asko and Sotka. Musta Pörssi offers home technology products and services through the Musta Pörssi store chain and the Konebox.fi online store. Kenkäkesko is active in the shoe trade and its retail store chains are Kookenkä, K-kenkä and Andiamo.

THE BUILDING AND HOME IMPROVEMENT TRADE comprises Rautakesko's building and home improvement trade and agricultural trade in Finland, Sweden, Norway, the Baltic countries, Russia and Belarus. Rautakesko's operations are based on strong chain concepts, efficient sourcing, and best practices duplicated internationally. Rautakesko is responsible for the chains' concepts, marketing, and sourcing and logistics services, store site network and retailer resources in Finland. Rautakesko itself is a retail operator in Sweden, Norway, the Baltic countries, Russia and Belarus. The retail store chains are K-rauta, Rautia, K-Maatalous, Byggmakker (Norway), Senukai (Lithuania) and OMA (Belarus). Rautakesko's building and home improvement stores serve both consumer and professional customers.

THE CAR AND MACHINERY TRADE comprises the business operations of VV-Auto and Konekesko. VV-Auto imports and markets Volkswagen, Audi and Seat passenger cars and Volkswagen commercial vehicles in Finland. VV-Auto is also engaged in car retailing and provides after-sales services at its own retail outlets. Konekesko is a service company specialising in the import and sales of construction, environmental and agricultural machinery, trucks and buses, and recreational machinery. Konekesko operates in Finland, the Baltic countries and Russia.

COMMON OPERATIONS comprise Group support functions.

SEGMENT INFORMATION 2011

Profit

€ million	Food trade	Home and speciality goods trade	Building and home improvement trade	Car and machinery trade	Common operations	Eliminations	Total
Segment net sales	4,181.9	1,564.3	2,715.7	1,174.1	146.1		9,782.2
of which inter-segment sales	-168.3	-19.7	-11.6	-1.1	-121.0		-321.7
Net sales from external customers	**4,013.5**	**1,544.6**	**2,704.1**	**1,173.1**	**25.1**		**9,460.4**
Other segment income	587.9	77.1	112.4	3.1	10.1		790.7
of which inter-segment income	-75.2	-6.9	-3.9	-0.3	0.5		-85.8
Other operating income from external customers	**512.7**	**70.2**	**108.5**	**2.9**	**10.6**		**704.9**
Depreciation and amortisation	-44.6	-24.0	-44.0	-8.7	-3.8	0.3	-124.8
Operating profit	**173.7**	**37.0**	**26.3**	**51.9**	**-8.3**		**280.6**
Non-recurring items	1.5	0.4	-0.3	0.2			1.7
Operating profit excluding non-recurring items	**172.2**	**36.6**	**26.6**	**51.8**	**-8.3**		**278.9**
Finance income and costs							0.8
Share of profit/loss of associates							0.7
Profit before tax							**282.1**
Assets and liabilities							
Tangible and intangible assets	655.0	281.7	551.3	90.0	76.4	25.5	1,679.9
Investments in associates and other investments	2.3	0.1	0.2		60.8	5.2	68.6
Pension assets	43.4	50.7	9.6	4.5	92.0		200.1
Inventories	104.9	263.2	277.5	223.1		-1.1	867.5
Trade receivables	295.4	147.2	202.6	67.8	15.4	-28.1	700.3
Other non-interest-bearing receivables	33.4	32.9	60.8	6.1	45.0	-14.6	163.5
Interest-bearing receivables from external customers	93.2	0.2	0.5		41.6	-3.1	132.6
Assets held for sale	6.9		0.2		0.9		8.0
Assets included in capital employed	**1,234.4**	**775.9**	**1,102.7**	**391.6**	**332.2**	**-16.2**	**3,820.6**
Unallocated items							
Deferred tax assets							2.0
Financial assets at fair value through profit or loss							97.8
Available-for-sale financial assets							185.5
Cash and cash equivalents							84.0
Total assets	**1,234.4**	**775.9**	**1,102.7**	**391.6**	**332.2**	**-16.2**	**4,189.9**
Trade payables	422.2	146.8	263.0	69.4	5.5	-26.0	881.0
Other non-interest-bearing liabilities	165.7	153.0	100.1	94.0	50.8	-13.0	550.7
Provisions	9.4	3.7	1.9	18.1	1.1		34.2
Liabilities included in capital employed	**597.3**	**303.6**	**364.9**	**181.5**	**57.4**	**-39.0**	**1,465.8**
Unallocated items							
Interest-bearing liabilities							400.0
Deferred tax liabilities							91.1
Total liabilities	**597.3**	**303.6**	**364.9**	**181.5**	**57.4**	**-39.0**	**1,956.9**
Total capital employed at 31 Dec.	**637.0**	**472.3**	**737.8**	**210.1**	**274.8**	**22.8**	**2,354.8**
Average capital employed	**601.4**	**437.4**	**696.1**	**157.7**	**214.9**	**21.3**	**2,128.8**
Return on capital employed excl. non-recurring items, %	**28.6**	**8.4**	**3.8**	**32.8**			**13.1**
Capital expenditure	**221.5**	**61.8**	**109.8**	**29.9**	**3.2**	**-0.8**	**425.4**
Number of personnel at 31 Dec.	**2,984**	**8,765**	**9,895**	**1,250**	**481**		**23,375**
Average number of personnel	**2,706**	**5,754**	**8,874**	**1,206**	**420**		**18,960**

SEGMENT INFORMATION 2010

Profit

€ million	Food trade	Home and speciality goods trade	Building and home improvement trade	Car and machinery trade	Common operations	Eliminations	Total
Segment net sales	3,896.3	1,568.5	2,519.4	954.8	136.5		9,075.6
of which inter-segment sales	-161.7	-23.4	-0.5	-0.3	-112.9		-298.8
Net sales from external customers	**3,734.7**	**1,545.1**	**2,519.0**	**954.5**	**23.6**		**8,776.8**
Other segment income	544.3	116.4	101.5	2.3	16.6		781.1
of which inter-segment income	-73.7	-6.2	-1.4	-0.1	-0.8		-82.3
Other operating income from external customers	**470.6**	**110.1**	**100.1**	**2.2**	**15.8**		**698.8**
Depreciation and amortisation	-42.6	-22.9	-40.7	-8.2	-2.3	0.3	-116.3
Impairment	-4.6				0.0		-4.6
Operating profit	**158.4**	**103.4**	**23.9**	**33.9**	**-12.9**	**0.1**	**306.7**
Non-recurring items	-1.7	37.4	-0.1	0.8	2.3		38.6
Operating profit excluding non-recurring items	**160.1**	**66.0**	**24.0**	**33.1**	**-15.2**	**0.1**	**268.1**
Finance income and costs							6.0
Share of profit/loss of associates							-0.3
Profit before tax							**312.4**

Assets and liabilities

€ million	Food trade	Home and speciality goods trade	Building and home improvement trade	Car and machinery trade	Common operations	Eliminations	Total
Tangible and intangible assets	526.2	248.6	488.5	73.4	78.7	25.3	1,440.8
Investments in associates and other investments	1.3	0.1	0.2	0.0	60.1	-0.6	61.1
Pension assets	73.5	66.8	16.5	10.9	18.0		185.8
Inventories	107.6	230.7	254.4	165.0		-0.9	756.9
Trade receivables	265.0	132.6	188.3	52.3	14.1	-32.6	619.7
Other non-interest-bearing receivables	56.1	27.5	56.0	5.3	44.1	-18.7	170.3
Interest-bearing receivables from external customers	78.7	1.9	1.0	0.4	2.0	-2.8	81.1
Assets held for sale			0.4		0.9		1.3
Assets included in capital employed	**1,108.4**	**708.1**	**1,005.3**	**307.4**	**217.9**	**-30.3**	**3,317.0**
Unallocated items							
Deferred tax assets							2.9
Financial assets at fair value through profit or loss							242.1
Available-for-sale financial assets							549.0
Cash and cash equivalents							56.1
Total assets	**1,108.4**	**708.1**	**1,005.3**	**307.4**	**217.9**	**-30.3**	**4,167.1**
Trade payables	393.5	152.2	264.0	51.6	4.2	-31.8	833.5
Other non-interest-bearing liabilities	163.6	138.9	101.2	78.1	55.9	-19.3	518.4
Provisions	12.5	9.1	2.0	14.5	2.7		40.9
Liabilities included in capital employed	**569.6**	**300.2**	**367.2**	**144.2**	**62.8**	**-51.1**	**1,392.9**
Unallocated items							
Interest-bearing liabilities							476.8
Deferred tax liabilities							87.1
Total liabilities	**569.6**	**300.2**	**367.2**	**144.2**	**62.8**	**-51.1**	**1,956.8**
Total capital employed at 31 Dec.	**538.9**	**407.9**	**638.1**	**163.2**	**155.1**	**20.8**	**1,924.1**
Average capital employed	**590.2**	**431.3**	**626.9**	**168.3**	**80.4**	**20.7**	**1,917.8**
Return on capital employed excl. non-recurring items, %	**27.1**	**15.3**	**3.8**	**19.6**			**14.0**
Capital expenditure	**117.2**	**45.3**	**78.2**	**17.8**	**67.0**	**-0.2**	**325.3**
Number of personnel at 31 Dec.	**3,106**	**7,887**	**9,493**	**1,205**	**433**		**22,124**
Average number of personnel	**2,881**	**5,418**	**8,379**	**1,138**	**399**		**18,215**

GROUP-WIDE INFORMATION

The Group operates in the Nordic countries, the Baltic countries, Russia and Belarus. The food trade and the home and speciality goods trade mainly take place in Finland, the car and machinery trade in Finland and the Baltic countries, and the building and home improvement trade in Finland, Sweden, Norway the Baltic countries, Russia and Belarus.

Net sales, assets, capital expenditure and personnel are disclosed by location.

2011

€ million	Finland	Other Nordic countries	Baltic countries	Russia and Belarus	Eliminations	Total
Net sales	7,861.3	806.7	487.1	324.9	-19.6	9,460.4
Assets	3,009.4	310.3	178.7	270.8	51.5	3,820.6
Capital expenditure	290.6	22.4	2.2	110.2		425.4
Average number of personnel 1 Jan.–31 Dec.	10,056	1,602	4,174	3,128		18,960

2010

€ million	Finland	Other Nordic countries	Baltic countries	Russia and Belarus	Eliminations	Total
Net sales	7,323.0	755.1	437.8	277.7	-16.8	8,776.8
Assets	2,658.2	290.7	156.3	171.3	40.5	3,317.0
Capital expenditure	283.0	19.1	3.2	19.9	0.0	325.3
Average number of personnel 1 Jan.–31 Dec.	9,914	1,544	4,015	2,741		18,215

Net sales nearly completely consist of the sales of goods. The sales of services are immaterial.

There was no income from transactions with a single customer amounting more than 10% of the Group's total income.

NOTE 3
ACQUISITIONS

ACQUISITIONS IN 2011

On 3 June 2011, Kesko signed an agreement with Intersport International Corporation and OOO Intersport CIS on the transfer of the Intersport licence in Russia to Kesko. Kesko established OOO Johaston, a subsidiary for Intersport operations in Russia, in which Kesko Corporation's ownership interest is 80% and Melovest Ltd's 20%. The acquisition of Intersport operations in Russia was concluded on 24 August 2011. By the end of 2011, 36 sports stores had transferred to OOO Johaston. The total price of acquisition was €21.8 million.

Over a four month period, OOO Johaston contributed net sales of €7 million and an operating loss of €6 million to the Kesko Group. The impact of OOO Johaston on the Group's net sales and operating profit for the whole financial year cannot be reliably estimated, because the business component of OOO Johaston was composed only as a result of an acquisition.

Summary of consideration

€ million	
Payable in cash	21.8
Fair value of net assets acquired	21.8

Details of net assets acquired

€ million	Fair value
Intangible rights	7.2
Property, plant and equipment	11.4
Inventories	4.5
Deferred tax (net)	-1.4
Net assets acquired	21.8
Payable in cash	21.8
Outstanding price	1.2
Cash flow from acquisition	20.7

ACQUISITIONS IN 2010

In 2010, the Kesko Group did not have acquisitions to be accounted for as business combinations.

NOTE 4
DISPOSAL OF ASSETS

DISPOSAL OF ASSETS IN 2011

In 2011, the Kesko Group did not make any significant disposals of assets.

DISPOSAL OF ASSETS IN 2010

In July 2010, the Kesko Group sold ten real estate properties to Ilmarinen Mutual Pension Insurance Company and Kruunuvuoren Satama Oy, a company established by Ilmarinen, the Kesko Pension Fund and Kesko Corporation. The debt-free selling price totalled €107.5 million, and the total gain on disposal was €47.4 million. The gain on the disposal was recorded as a non-recurring item in other operating income.

NOTE 5
OTHER OPERATING INCOME

€ million	2011	2010
Service income	564.8	517.2
Lease income	39.0	36.4
Gains on disposal of tangible and intangible assets	1.2	53.8
Realised gains on derivative financial instruments and changes in fair value *)	2.4	4.5
Others	97.5	86.9
Total	704.9	698.8

** Includes changes in fair values of embedded derivatives.*

Service income mainly comprises chain and store site fees paid by chain companies.

Other operating income includes €0.4 million (€53.0 million) in non-recurring gains on disposals.

NOTE 6
OTHER OPERATING EXPENSES

€ million	2011	2010
Lease expenditure	-398.1	-405.0
Marketing costs	-267.6	-245.5
Property and store site occupancy costs	-124.5	-117.4
Data communication costs	-87.4	-80.6
Other trading expenses	-143.9	-126.4
Losses on disposal of tangible assets	-1.0	-1.4
Realised losses on derivative financial instruments and changes in fair value *)	-3.8	-4.4
Total	-1,026.3	-980.7

** Includes changes in fair values of embedded derivatives.*

Other operating expenses include €0.8 million (€1.2 million) of non-recurring losses on disposals.

Audit fees

€ million	2011	2010
Authorised Public Accountants PricewaterhouseCoopers		
Audit fees	0.8	0.9
Tax consultation	0.1	0.1
Other services	0.4	0.1
Total	1.3	1.2
Other auditing firms	0.2	0.2

NOTE 7
NON-RECURRING ITEMS

€ million	2011	2010
Gains on disposal of real estate and shares	0.4	53.0
Losses on disposal of real estate and shares	-0.8	-1.2
Impairment losses	0.1	-4.6
Others	2.0	-8.6
Total	1.7	38.6

Exceptional transactions outside ordinary course of business are treated as non-recurring items and they have been allocated to segments. The Group identifies gains and losses on disposal of real estate, shares and business operations, impairments and costs of discontinuing significant business operations as non-recurring items. Gains on disposal have been presented within 'other operating income', and losses on disposal within 'other operating expenses' in the income statement. Impairments have been presented within depreciation, amortisation and impairment in the income statement.

The item 'others' includes the net change for the period related to restructuring provisions.

IMPAIRMENT LOSSES

During the comparative period, a total amount of €4.6 million of impairments in real estate was recognised as expenses.

NOTE 8

STAFF COST, NUMBER OF PERSONNEL AND MANAGEMENT COMPENSATION

€ million	2011	2010
Wages, salaries and fees	-473.2	-451.0
Social security costs	-45.7	-41.0
Pension costs	-45.4	-23.5
Defined benefit plans	14.5	32.0
Defined contribution plans	-59.9	-55.5
Share-based payments	-6.3	-5.0
Total	-570.5	-520.6

During the financial year 2010, the management of the statutory pension provision and related insurance portfolio of the Kesko Group employees was partly transferred from the Kesko Pension Fund to an authorised pension insurance company. Pensions are disclosed in more detail in note 20.

Disclosures on compensation paid to the Group's management for employee services, and other related party transactions are disclosed in note 40, and on share-based payment in note 35.

Remuneration of the Group companies' managing directors and board members

€ million	2011	2010
Salaries of managing directors (incl. fringe benefits)	6.2	5.5
Board member remuneration	0.5	0.4
Total	6.7	5.9

Average number of the Group personnel

	2011	2010
Food trade	2,706	2,881
Home and speciality goods trade	5,754	5,418
Building and home improvement trade	8,874	8,379
Car and machinery trade	1,206	1,138
Others	420	399
Total	18,960	18,215

NOTE 9

FINANCE INCOME AND COSTS

€ million	2011	2010
Interest income and other finance income		
Interest income on loans and receivables	12.8	13.3
Interest income on financial assets carried at fair value through profit or loss	2.9	3.5
Interest income on available-for-sale financial assets	5.9	4.9
Gains on disposal of available-for-sale financial assets	0.4	0.7
Other finance income	0.1	0.3
Total interest income and other finance income	22.2	22.7
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-15.9	-14.3
Losses on disposal of available-for-sale financial assets	-0.2	-0.1
Other finance costs	-1.9	-0.9
Total interest expense and other finance costs	-18.0	-15.4
Exchange differences		
Exchange differences and changes in fair values of derivatives, foreign currency loans and cash at bank not qualified for hedge accounting	-3.5	-1.4
Total exchange differences	-3.5	-1.4
Total finance income and costs	0.8	6.0

The interest expense includes €3.4 million (€3.6 million) of interests on finance leases recognised as expenses for the period. The interest income includes €2.3 million (€2.6 million) of interests on finance leases recognised as income for the period.

The realised result of the interest-rate derivatives hedging a USD-denominated private placement loan is recognised in net terms in interest expenses with the loan interest.

Exchange differences recognised in the income statement

€ million	2011	2010
Sales	0.0	0.1
Other income	2.4	4.1
Purchases	-7.6	1.5
Other expenses	-2.6	-4.4
Finance income and costs	-3.5	-1.4
Total	-11.3	-0.2

NOTE 10
INCOME TAX EXPENSE

€ million	2011	2010
Current tax	-77.3	-133.0
Tax for prior years	-2.3	0.7
Deferred tax	-5.6	35.6
Total	-85.2	-96.7

Reconciliation between tax expense and tax calculated at domestic rate

Profit before tax	282.1	312.4
Tax at parent's rate (26%)	-73.4	-81.2
Effect of foreign subsidiaries' different tax rates	3.2	3.3
Effect of income not subject to tax	1.1	1.2
Effect of expenses not deductible for tax purposes	-9.9	-7.5
Effect of tax losses	-9.3	-11.7
Effect of consolidation	0.2	-3.5
Tax for prior years	-2.3	0.7
Adjustment of deferred tax in respect of prior years	-0.2	0.2
Effect of change in tax rate	4.7	-
Others	-0.7	1.9
Tax charge	-85.2	-96.7

The impact of the corporation tax rate change in Finland and Belarus, effective 1 January 2012, is €4.7 million.

NOTE 11
COMPONENTS OF OTHER COMPREHENSIVE INCOME

Components of other comprehensive income and related tax			2011
	Before tax	Tax charge/ credit	After tax
Currency translation differences relating to a foreign operation	-17.3		-17.3
Hyperinflation adjustments	6.3		6.3
Cash flow hedge revaluation	-15.0	3.9	-11.1
Revaluation of available-for-sale financial assets	0.1	0.0	0.1
Other components	-0.1		-0.1
Total	-26.0	3.9	-22.1

Components of other comprehensive income and related tax			2010
	Before tax	Tax charge/ credit	After tax
Currency translation differences relating to a foreign operation	4.9		4.9
Cash flow hedge revaluation	20.8	-5.4	15.4
Revaluation of available-for-sale financial assets	1.2	-0.3	0.9
Other components	-0.7		-0.7
Total	26.1	-5.7	20.4

HYPERINFLATION

Since December 2011, Belarus has been considered as a hyperinflationary economy to which accounting in accordance with IAS 29 shall be applied. The Kesko Group has applied hyperinflationary accounting to the measurement of its balance sheet as at 31 December 2011. Hyperinflationary accounting requires the presentation of financial statements in the measurement units as at the end of the reporting period irrespective of their statement at original cost or current cost. The amounts recognised in the balance sheet have been restated using the general price index. As a result of the revaluation of the assets, an amount of €6.3 million including tax was recognised in equity, of which the Group's interest is €0.6 million and the non-controlling interest is €5.7 million. The revaluation have been made using the Belarusian price index.

NOTE 12
EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to the parent's equity holders by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by adjusting the weighted average number of all shares to assume conversion of all potentially dilutive shares. The Group operates a share option scheme with a dilutive effect, which increases the number of shares. The share options have a dilutive effect when their exercise price is lower than the fair value of a share. The dilutive effect is the number of shares which has to be issued without consideration, because the Group could not use the assets received from the exercise of the share options to issue an equal number of shares at fair value. The fair value of a share is based on the average share price during the period.

	2011	2010
Profit for the period attributable to equity holders of the parent	181.5	204.5
Number of shares		
Weighted average number or shares outstanding	98,233,241	98,525,906
Effect of options granted	685,732	595,548
Diluted weighted average number of shares outstanding	98,918,972	99,121,454
Earnings per share from profit attributable to equity holders of the parent		
Basic, €	1.85	2.08
Diluted, €	1.84	2.06

NOTE 13
PROPERTY, PLANT AND EQUIPMENT

€ million	Land and waters	Buildings	Machinery and equipment	Other property, plant and equipment	Prepayments and purchases in progress	Total 2011
Cost						
Cost at 1 Jan. 2011	312.4	1,112.8	537.7	57.9	62.6	2,083.5
Currency translation differences		-5.1	-2.3	-0.6	-0.7	-8.7
Additions	46.8	144.0	70.2	7.9	131.2	400.1
Disposals	-0.4	-31.2	-42.4	-0.8	-42.1	-116.9
Transfers between items	-6.5	35.0	2.9	1.0	-43.6	-11.1
Cost at 31 Dec. 2011	352.3	1,255.7	566.1	65.5	107.5	2,347.0
Accumulated depreciation, amortisation and impairment charges						
Accumulated depreciation, amortisation and impairment charges at 1 Jan. 2011	-3.5	-421.6	-373.4	-24.0		-822.5
Currency translation differences		0.5	1.3	0.1		1.9
Accumulated depreciation of disposals and transfers	-1.2	32.8	37.0	0.7		69.3
Depreciation charge for the year		-49.3	-51.3	-4.6		-105.3
Impairments			0.1			0.1
Accumulated depreciation, amortisation and impairment charges at 31 Dec. 2011	-4.8	-437.6	-386.4	-27.8		-856.6
Carrying amount at 1 Jan. 2011	308.9	691.3	164.3	34.0	62.6	1,261.0
Carrying amount at 31 Dec. 2011	**347.6**	**818.0**	**179.7**	**37.7**	**107.5**	**1,490.5**

€ million	Land and waters	Buildings	Machinery and equipment	Other property, plant and equipment	Prepayments and purchases in progress	Total 2010
Cost						
Cost at 1 Jan. 2010	272.8	997.1	510.8	44.5	60.3	1,885.4
Currency translation differences	3.3	6.5	5.5	1.3	2.6	19.2
Additions	55.3	141.4	63.1	7.2	51.6	318.6
Disposals	-19.2	-74.0	-44.8	-1.8	-1.0	-140.8
Transfers between items	0.2	41.7	3.2	6.7	-50.9	0.9
Cost at 31 Dec. 2010	312.4	1,112.8	537.7	57.9	62.6	2,083.3
Accumulated depreciation, amortisation and impairment charges						
Accumulated depreciation, amortisation and impairment charges at 1 Jan. 2010	-2.7	-397.2	-358.1	-17.0		-774.8
Currency translation differences		-1.5	-3.3	-0.6		-5.4
Accumulated depreciation of disposals and transfers	-0.1	16.1	37.0	-2.3		50.7
Depreciation charge for the year		-37.2	-48.9	-4.1		-90.2
Impairments	-0.7	-1.8	-0.1			-2.6
Accumulated depreciation, amortisation and impairment charges at 31 Dec. 2010	-3.5	-421.6	-373.4	-24.0		-822.3
Carrying amount at 1 Jan. 2010	270.1	599.9	152.7	27.5	60.3	1,110.5
Carrying amount at 31 Dec. 2010	**308.9**	**691.3**	**164.3**	**33.9**	**62.6**	**1,261.0**

Property, plant and equipment include the following amounts where the Group is a lessee under a finance lease:

€ million	Land	Buildings	Machinery and equipment	Other PPE	Total
2011					
Cost	2.7	38.7	38.2	0.1	79.6
Accumulated depreciation		-25.5	-33.0	-0.1	-58.6
Carrying amount	2.7	13.1	5.1	0.0	21.0
2010					
Cost	2.7	38.7	38.1	0.1	79.5
Accumulated depreciation		-25.0	-32.2	-0.1	-57.3
Carrying amount	2.7	13.6	5.9	0.0	22.2

NOTE 14
INTANGIBLE ASSETS

€ million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2011
Cost					
Cost at 1 Jan. 2011	151.9	78.3	170.6	2.7	403.5
Currency translation differences	0.3	0.2	0.0		0.5
Additions			27.0	2.4	29.4
Disposals			-17.4	-0.5	-17.8
Transfers between items			4.5	-1.1	3.3
Cost at 31 Dec. 2011	152.2	78.5	184.7	3.5	419.0
Accumulated depreciation, amortisation and impairment charges					
Accumulated depreciation, amortisation and impairment charges at 1 Jan. 2011	-88.0	-30.3	-105.4		-223.7
Currency translation differences	-0.3	-0.1	-0.1		-0.5
Accumulated depreciation of disposals and transfers			14.2		14.2
Depreciation charge for the year			-19.5		-19.5
Impairments					
Accumulated depreciation, amortisation and impairment charges at 31 Dec. 2011	-88.3	-30.4	-110.9		-229.5
Carrying amount at 1 Jan. 2011	63.9	48.0	65.2	2.7	179.8
Carrying amount at 31 Dec. 2011	**63.9**	**48.1**	**73.8**	**3.5**	**189.4**

Other intangible assets include other long-term costs, of which €32.5 million (€43.7 million) is generated by software and licences.

€ million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2010
Cost					
Cost at 1 Jan. 2010	149.1	75.9	157.4	10.0	392.4
Currency translation differences	2.9	2.4	3.1		8.3
Additions			29.3	-0.4	28.9
Disposals			-19.9		-19.9
Transfers between items			0.6	-6.8	-6.2
Cost at 31 Dec. 2010	151.9	78.3	170.6	2.7	403.5
Accumulated depreciation, amortisation and impairment charges					
Accumulated depreciation, amortisation and impairment charges at 1 Jan. 2010	-85.0	-29.8	-102.2		-217.0
Currency translation differences	-2.9	-0.5	-1.2		-4.7
Accumulated depreciation of disposals and transfers	-0.1		26.2		26.1
Depreciation charge for the year			-26.1		-26.1
Impairments			-2.0		-2.0
Accumulated depreciation, amortisation and impairment charges at 31 Dec. 2010	-88.0	-30.3	-105.4		-223.6
Carrying amount at 1 Jan. 2010	64.1	46.1	55.2	10.0	175.4
Carrying amount at 31 Dec. 2010	**63.9**	**48.0**	**65.2**	**2.7**	**179.8**

Goodwill and intangible rights by segment

€ million	Trademarks* 2011	Goodwill 2011	Discount rate (WACC)** 2011	Trademarks* 2010	Goodwill 2010	Discount rate (WACC)** 2010
Building and home improvement trade						
Byggmakker, Norway	30.3		7.0%	30.2		7.5%
Rautakesko, Estonia		1.1	9.0%		1.1	10.4%
Senukai, Lithuania		17.2	11.5%		17.2	13.0%
Stroymaster, Russia		14.1	13.0%		14.1	15.0%
Home and speciality goods trade						
Anttila, Finland		23.4	6.0%		23.4	6.0%
Indoor, Finland	17.8	4.1	6.0%	17.8	4.1	6.0%
Car and machinery trade						
Machinery trade		3.8	7.0%		3.8	7.5%
Others		0.2			0.2	
Total	48.1	63.9		48.0	63.9	

** Intangible assets with indefinite useful lives*
***After tax, used in impairment testing*

Cash generating units have been identified at a level lower than the reportable segments. The units have been identified by chain/country, and most of them are legal entities.

The useful lives of trademarks (brands) included in intangible assets have been classified as indefinite, because it has been estimated that the period over which they generate cash inflows is indefinite. This is because no foreseeable limit to the period over which they are expected to generate net cash inflows for the Group can be seen. Trademarks are part of assets purchased in connection with acquisitions.

Intangible assets with indefinite useful lives are tested annually for possible impairment and whenever there is an indication of impairment.

IMPAIRMENT TEST FOR GOODWILL AND INTANGIBLE ASSETS

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by management, covering a period of 3 years. The key assumptions used for the plans are total market growth and profitability trends, changes in store site network, product and service selection, pricing and movements in operating costs. Cash flows beyond this period have been extrapolated mainly based on 2.0–4.0% (1.5–4.0%) forecast growth rates, allowing for country-specific differences.

The discount rate used is the WACC, specified for each segment and country after tax, which is adjusted by tax effects in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks. Compared to the previous year, discount rates fell in the Nordic countries, Russia, the Baltic countries and Finland, as a result of general lowering of interest rates.

IMPAIRMENT LOSSES

In the financial years 2011 and 2010, there were no impairments in goodwill or intangible rights.

SENSITIVITY ANALYSIS

The key variables used in impairment testing are the EBITDA rate and the discount rate.

A one percentage point rise in the discount rate would not cause an impairment of any cash generating unit.

The most sensitive to changes in assumptions is goodwill relating to the operations of Rautakesko Estonia. A reduction of the remaining EBITDA by over 0.6 pp would cause an impairment. When other cash generating units are estimated according to management's assumptions, a foreseeable change in any key variable would not create a situation in which the unit's recoverable amount would be smaller than its carrying amount.

NOTE 15
INVESTMENTS IN ASSOCIATES

€ million	2011	2010
Carrying amount at 1 Jan.	53.5	33.0
Share of profit for the period	0.7	-0.3
Additions	3.9	34.1
Restatement of gain on disposal	-	-13.3
Carrying amount at 31 Dec.	58.1	53.5

In 2010, Kesko Corporation made an equity investment of approximately €33 million in Kruunuvuoren Satama Oy. The ownership interest and voting rights of the Kesko Group in Kruunuvuoren Satama Oy is 49%. The company has been included in the Kesko Group's financial reporting as an associate from 1 July 2010. The Kesko Group sold real estate properties to Kruunuvuoren Satama Oy. The carrying amount of Kruunuvuoren Satama Oy is less the Kesko Group's gain on disposal in proportion to the ownership interest.

Shares in associates are not quoted publicly.

Disclosures on the Group's associates and the Group's ownership interest in their aggregated assets, liabilities, net sales and profits/losses:

€ million	Assets	Liabilities	Net sales	Profit/Loss	Ownership interest, %
2011					
Kruunuvuoren Satama Oy	261.7	192.3	12.1	0.0	49.0
Valluga-sijoitus Oy, Helsinki	36.3	0.1	0.0	-1.6	39.0
Vähittäiskaupan Takaus Oy, Helsinki	62.9	0.2	1.2	4.1	34.4
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	5.8	1.9	10.8	0.3	30.0
Others	5.3	3.7	2.0	0.0	
Total	372.0	198.2	26.1	2.8	
2010					
Kruunuvuoren Satama OyValluga-sijoitus Oy, Helsinki	265.6	199.1	5.9	-8.6	49.0
Vähittäiskaupan Takaus Oy, Helsinki	34.6	0.0	0.0	1.1	39.0
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	58.8	0.3	1.2	2.7	34.4
Others	6.1	2.5	10.9	2.3	30.0
Total	5.3	3.7	2.0	0.0	
Total	370.5	205.6	20.0	-2.5	

NOTE 16
NON-CURRENT AVAILABLE-FOR-SALE FINANCIAL ASSETS

€ million	2011	2010
Carrying amount at 1 Jan.	7.6	3.0
Additions	2.2	4.7
Disposals	0.2	-0.1
Changes in fair value	-0.9	-
Carrying amount at 31 Dec.	10.6	7.6

The non-current available-for-sale financial assets include private equity funds and unquoted shares. The measurement of private equity funds is disclosed in more detail in note 39. The unquoted shares have mainly been measured at cost, because their fair values cannot be measured reliably.

NOTE 17
NON-CURRENT RECEIVABLES

€ million	2011	2010
Non-interest-bearing non-current receivables	5.0	8.8
Finance lease receivables	71.1	58.5
Loans to associates	1.5	1.5
Other non-current receivables	0.4	0.0
Total	78.0	68.9

The non-interest-bearing non-current receivables include €4.1 million (€8.0 million) of derivative revaluations and their balance sheet value equals the fair value. The carrying amount of finance lease receivables equals their fair value.

Maturity analysis of non-current receivables at 31 Dec. 2011

€ million	2013	2014	2015	2016	2017-	Total
Non-interest-bearing non-current receivables	0.2	1.3	0.1	1.4	2.0	5.0
Finance lease receivables	14.0	14.0	14.0	14.0	15.1	71.1
Loans to associates					1.5	1.5
Other non-current receivables	0.4					0.4
Total	14.6	15.3	14.1	15.4	18.6	78.0

Maturity analysis of non-current receivables at 31 Dec. 2010

€ million	2012	2013	2014	2015	2016-	Total
Non-interest-bearing non-current receivables	3.2	1.1	1.8	0.0	2.6	8.8
Finance lease receivables	11.6	11.6	11.6	11.6	12.0	58.5
Loans to associates					1.5	1.5
Total	14.9	12.7	13.4	11.7	16.2	68.9

NOTE 18
FINANCE LEASE RECEIVABLES

€ million	2011	2010
Finance lease receivables are due as follows:		
No later than 1 year	21.5	19.6
Later than 1 year and no later than 5 years	62.0	51.9
Later than 5 years	15.7	12.4
Gross investment in finance leases	**99.2**	**83.8**
Present value of minimum lease payments receivable:		
No later than 1 year	17.9	16.6
Later than 1 year and no later than 5 years	56.0	46.5
Later than 5 years	15.1	12.0
Finance lease receivable	**89.0**	**75.1**
Unearned finance income	**10.3**	**8.7**

The finance lease receivables consist of store fixtures owned by Kesko Food Ltd and leased to chain companies. During the lease term, the leased item is held as collateral, and after the actual lease term, the lessee may extend the lease over low-cost extension periods. The lease terms are between 3 and 8 years.

NOTE 19
DEFERRED INCOME TAX

Movements in deferred tax in 2011

€ million	31 Dec. 2010	Income statement charge	Tax charged/ credited to equity	Exchange differences	Acquisition/ disposal of subsidiary	31 Dec.2011
Deferred tax assets						
Margin included in inventories	1.1	0.1				1.1
Finance lease assets	0.2	-0.1				0.1
Provisions	9.2	-1.4				7.8
Pensions	0.5	-0.1				0.4
Confirmed losses	3.2	0.3				3.6
Others	13.7	0.3	0.2	-0.9		13.3
Total	27.9	-1.0	0.2	-0.9		26.2
Deferred tax liabilities						
Cumulative depreciation differences	36.3	1.6				37.9
Consolidation allocation difference	13.9	-0.4		0.1	1.3	14.9
Pensions	47.2	1.9				49.1
Others	14.8	1.6	-3.7	-0.5		13.4
Total	112.2	4.7	-3.7	-0.4	1.3	115.3
Net deferred tax liability	84.3					89.0

Balance sheet division of net tax liability

€ million	2011	2010
Deferred tax assets	2.0	2.9
Deferred tax liabilities	91.1	87.1
Total	89.0	84.3

The group ‘others’ within deferred tax assets includes €0.8 million of deferred tax assets arising from compliance with the Group’s accounting principles and €6.1 million of deferred tax assets resulting from timing differences between local accounting policies and tax treatment.

Movement on the deferred income tax in 2010

€ million	31 Dec. 2009	Income statement charge	Tax charged/ credited to equity	Exchange differences	Acquisition/sale of subsidiary	31 Dec.2010
Deferred tax assets						
Margin included in inventories	0.9	0.1				1.1
Finance lease assets	0.1	0.1				0.2
Provisions	8.9	0.4				9.2
Pensions	0.5	-0.1				0.5
Confirmed losses	3.8	-0.9		0.3		3.2
Others	17.0	-2.1	-1.4	0.2		13.7
Total	31.2	-2.4	-1.4	0.5		27.9
Deferred tax liabilities						
Cumulative depreciation differences	39.3	-2.4			-0.6	36.3
Change in Group composition	15.0	-1.7		0.7	-0.1	13.9
Pensions	83.0	-35.8				47.2
Others	8.6	1.9	4.3			14.8
Total	145.9	-38.0	4.3	0.7	-0.7	112.2
Net deferred tax liability	114.6					84.3

CONFIRMED LOSSES

At 31 December 2011, the Group’s unused confirmed losses were €158.8 million, for which deferred tax assets have not been recognised, because the realisation of the related tax benefit through future taxable profits is not probable.

Confirmed losses for which tax assets have not been recognised expire as follows

€ million	2012	2013	2014	2015	2016	2017-	Total
	2.3	0.0	0.0	0.5	7.2	148.8	158.8

Deferred income tax liabilities have not been recognised for taxes that would be payable on subsidiaries’ unremitted earnings, because the subsidiaries’ distributions are at the discretion of the Group and a distribution of profits with tax effect is not probable in the near future.

NOTE 20
PENSION ASSETS

The Group operates several pension plans. In Finland, employees' pension provision is partly arranged with pension insurance companies and partly with the Kesko Pension Fund. The Pension Fund's department B manages the statutory pension insurance and department A manages supplementary coverage. Department A was closed on 9 May 1998. The pension plans managed by the Kesko Pension Fund are classified as defined benefit plans.

During the 2010 financial year, the management of the statutory pension provision and related insurance portfolio of some 3,100 Kesko Group employees were transferred from the Kesko Pension Fund to Ilmarinen Mutual Pension Insurance Company. The transfer was part of the plan to transfer the management of Kesko's statutory pension provision and the related insurance portfolio in two phases from the Kesko Pension Fund to Ilmarinen announced on 30 December 2009. The second phase is expected to be carried out in 2012.

A total revenue of €8 million was recognised on the transfer of the pension insurance portfolio in 2010. The fair value of the Kesko Pension Fund's investment assets has exceeded the amount of pension liabilities and their difference is shown within the assets in the consolidated statement of financial position. Relating to the transfer of the pension insurance portfolio, the Pension Fund returned pension assets to employer companies. The returned assets and interest contributed a €151.6 million cash inflow to the Kesko Group.

As regards foreign subsidiaries, the plan operated by the Norwegian subsidiary is classified as a defined benefit plan. At 31 December 2011, the net liability relating to the defined benefit plan in Norway was €0.4million (€0.3 million).

Pension plans in other foreign subsidiaries are arranged in accordance with local regulations and practices.

The defined benefit asset recognised in the balance sheet in respect of the Kesko Pension Fund is determined as follows

€ million	2011	2010
Present value of funded obligations	-292.4	-285.8
Fair value of plan assets	502.7	528.7
Deficit/surplus	**210.3**	**242.9**
Unrecognised actuarial gains (-)/losses (+)	-10.3	-57.1
Net assets (+)/liabilities (-) recognised in the balance sheet	**200.1**	**185.8**
The movement in the present value of the obligation is as follows:		
Plan obligation at 1 Jan.	285.8	525.1
Current service cost	7.2	10.5
Interest cost	14.8	23.1
Benefits paid	-16.4	-23.9
Actuarial gains(-) / losses (+)	-5.4	3.8
Transfer of insurance portfolio		-252.8
Others	6.4	
Plan obligation at 31 Dec.	**292.4**	**285.8**
The movement in the fair value of plan assets is as follows:		
Plan assets at 1 Jan.	528.7	871.6
Expected return on plan assets	32.7	53.4
Contributions to plan	-0.9	-38.0
Benefits paid	-16.4	-23.9
Actuarial gains(+) / losses (-)	-53.2	58.6
Transfer of insurance portfolio		-269.5
Pension assets returned		-123.5
Others	11.8	
Plan assets at 31 Dec.	**502.7**	**528.7**
The amounts recognised in the income statement are as follows:		
Current service cost	-7.2	-10.5
Interest cost	-14.8	-23.1
Expected return on plan assets	32.7	53.4
Others	3.8	4.0
Impact of insurance portfolio transfer		8.3
Total recognised in the income statement	**14.5**	**32.0**
The change in net assets recognised in the balance sheet is as follows:		
At 1 January	185.8	315.2
Income/cost recognised in the income statement	14.5	32.0
Contributions to plan	-0.9	-38.0
Pension assets returned		-123.5
Others	0.7	
At 31 December	**200.1**	**185.8**

Pensions managed by the Kesko Pension Fund	**2011**	**2010**	**2009**	**2008**	**2007**
Present value of plan obligation	-292.4	-285.8	-525.1	-530.4	-560.6
Fair value of plan assets	502.7	528.7	871.6	819.5	897.0
Surplus/deficit	210.3	242.9	346.5	289.1	336.4
Experience adjustments on plan assets	-83.6	58.5	18.2	-130.9	11.5
Experience adjustments on plan liabilities	-5.4	-2.7	4.3	-15.6	23.2

The actual return on plan assets was €-20.6 million (€112.0 million).
In 2012, the Group expects to pay €0.0 million in contributions to defined benefit plans.

Classes of plan assets, % of fair values of plan assets	**2011**	**2010**
Real estate	39.0%	45.2%
Shares	31.2%	31.8%
Long-term interest investments	6.1%	5.6%
Short-term interest investments	20.6%	14.8%
Other investments	3.1%	2.6%
Total	100.0%	100.0%

Plan assets, € million		
Kesko Corporation shares included in fair value	32.5	45.3
Real estate leased by the Kesko Group included in fair value	210.6	209.2

Principal actuarial assumptions:	**2011**	**2010**
Discount rate	5.00–5.25%	5.00–5.25%
Expected return on plan assets	6.30%	6.30%
Expected salary increases	3.50%	3.50%
Inflation	2.00%	2.00%
Expected average remaining service life	14–26	14–26

When calculating the pension obligation of the Kesko Pension Fund's department B, the supplementary coefficient has been 1.5% for years 2012–2013, 2.1% for years 2014–2016, and 2.7% for subsequent years.

When calculating the Pension Fund's expected return, investment assets have been divided into five classes. The 6.3% total expected return on the investment portfolio is composed of the compound returns on these asset classes. The returns expected on different asset classes are based on the parameters of an investment portfolio analysis model widely used in employee pension plans, and calculated based on long-term historical data. The most significant class of assets affecting the total returns is shares.

NOTE 21
INVENTORIES

€ million	2011	2010
Goods	863.2	752.6
Prepayments	4.3	4.2
Total	867.5	756.9
At the end of the financial year, inventories have been written down to correspond to their net realisable value	38.6	35.5

NOTE 22
TRADE AND OTHER CURRENT RECEIVABLES

€ million	2011	2010
Interest-bearing receivables		
Finance lease receivables	17.9	16.6
Interest-bearing loans and receivables	41.9	4.4
Total interest-bearing receivables	59.7	21.0
Trade receivables	700.0	619.6
Tax assets	33.7	29.0
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	29.7	30.4
Deferred receivables	95.3	102.1
Total other non-interest-bearing receivables	125.0	132.6
Total	918.4	802.3

A total amount of €4.8 million (€3.6 million) of trade receivables has been recognised within credit losses in the income statement. Credit risk is described in more detail in note 39.

Deferred receivables mainly comprise amortised marketing revenue, discounts and staff costs.

The fair values of current trade and loan receivables, and those of current interest-bearing receivables are estimated to nearly equal the carrying amounts based on their short maturities.

NOTE 23
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

€ million	2011	2010
Financial assets at fair value through profit or loss	97.8	242.1
Total	97.8	242.1

The financial assets at fair value through profit or loss include commercial papers, certificates of bank deposits and other money market investments. An analysis of the assets is given in note 39.

NOTE 24
CURRENT AVAILABLE-FOR-SALE FINANCIAL ASSETS

€ million	2011	2010
Carrying amount at 1 Jan.	549.0	427.7
Changes	-362.7	120.1
Changes in fair value	-0.8	1.2
Carrying amount at 31 Dec.	185.5	549.0

The available-for-sale financial assets include short-term investments in commercial papers, certificates of bank deposits, other interest rate instruments and Finnish Government bonds. An analysis of the assets is given in note 39.

NOTE 25
CASH AND CASH EQUIVALENTS

€ million	2011	2010
Cash on hand and at bank	84.0	56.1
Total	84.0	56.1

NOTE 26
NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND RELATED LIABILITIES

Assets held for sale

€ million	2011	2010
Land	7.2	0.5
Buildings and real estate shares	0.7	0.8
Total	8.0	1.3

The assets classified as held for sale did not include liabilities at 31 December 2011 (at 31 December 2010).

NOTE 27
NOTES TO SHAREHOLDERS' EQUITY

Changes in share capital

Share capital	Number of shares A	B	Total	Share capital € million	Reserve of invested non-restrictive equity	Share premium € million	Total € million
1 Jan. 2010	31,737,007	66,584,522	98,321,529			194.2	390.8
Exercise of share options	-	319,763	319,763	0.6		3.6	4.2
31 Dec. 2010	31,737,007	66,904,285	98,641,292	197.3		197.8	395.1
Exercise of share options		3,750	3,750		0.1		0.1
Purchase of treasury shares		-700,000	-700,000		-		
31 Dec. 2011	31,737,007	66,208,035	97,945,042	197.3	0.1	197.8	395.1
Number of votes	**317,370,070**	**66,208,035**	**383,578,105**				

During the reporting period, the number of shares was increased twice corresponding to share subscriptions made with the options of the 2007 option scheme. The increases were made on 31 May 2011 (2,750 B shares, €64,267) and 1 August 2011 (1,000 B shares, €23,370) and announced in stock exchange notifications on the same days. The subscribed shares were included on the main list of NASDAQ OMX Helsinki for public trading with the old B shares on 1 June 2011 and 2 August 2011. The combined share subscription price of €87,638 received by the company was recorded in the reserve of invested non-restricted equity.

All issued shares have been fully paid. The maximum number of A shares is 250 million and the maximum number of B shares is also 250 million, provided that the total number of shares is at maximum 400 million. One A share carries 10 votes and one B share one vote.

An analysis of share-based payments is given in note 35.

TREASURY SHARES
Kesko Corporation's Annual General Meeting held on 4 April 2011, authorised the company's Board to purchase own B shares. Based on the Board's decision, the company purchased a total of 700,000 own B shares which represent 0.7% of all shares. The total amount of €23.7 million paid for the shares was deducted from earnings retained in equity. The shares are held by the company as treasury shares and the company's Board has been authorised to use them.

DIVIDENDS
After the balance sheet date, the Board has proposed that €1.20 per share be distributed as dividends. A dividend of €1.30 per share was distributed on the profit for 2010.

EQUITY AND RESERVES
Equity consists of share capital, share premium, other reserves, revaluation reserve, currency translation differences and retained earnings. In addition, the portion of accumulated depreciation difference and optional provisions net of deferred tax liabilities are included in equity.

SHARE PREMIUM
The amount exceeding the par value of shares received by the enterprise in connection with share subscriptions is recorded in share premium in cases where options have been granted under the old Limited Liability Companies Act (29 Sept. 1978/734).

RESERVE OF INVESTED NON-RESTRICTED EQUITY
The reserve of invested non-restricted equity includes the other equity-related investments and share subscription prices to the extent not designated to be included in share capital. The payments received from the exercise of options granted under schemes governed by the new Limited Liability Companies Act (21 Jul. 2006/624, effective 1 Sept. 2006) are recorded in full in the reserve of invested non-restricted equity.

OTHER RESERVES
Other reserves have mainly been created and increased as a result of resolutions by the General Meeting. Other reserves mainly comprise contingency reserves.

CURRENCY TRANSLATION DIFFERENCES
Currency translation differences arise from the translation of foreign operations' financial statements. Also gains and losses arising from net investment hedges in foreign operations are included in currency translation differences, provided they qualify for hedge accounting. The change in the reserve is stated within comprehensive income.

REVALUATION RESERVE
The revaluation reserve includes the change in the fair value of available-for-sale financial instruments and the effective portion of the change in the fair value based on hedge accounting applied to derivatives. Cash flow hedges include electricity derivatives and interest rate derivatives hedging the private placement note interest. The change in the reserve is stated within comprehensive income.

RESULT OF CASH FLOW HEDGING
Hedge accounting is applied for hedging electricity price risk. As a result, an amount of €2.4 million (€1.3 million) has been removed from equity and included in income statement as purchase cost adjustment, and €-13.0 million (€19.1 million) has been recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €-15.4 million (€17.8 million) before accounting for deferred tax assets.

A fair value change of €0.4 million (€3.0 million) has been recognised in equity for the USD-denominated private placement arrangement before accounting for deferred taxes. In addition, a €0.8 million (€0.8 million) interest expense adjustment for interest rate derivatives has been recognised in the income statement.

NOTE 28
CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

31 December 2011

Assets as per balance sheet, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives qualified for hedge accounting	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial assets							
Available-for-sale financial assets			10.6			10.6	10.6
Non-current non-interest-bearing receivables		0.9					
- Derivatives					4.1	5.0	5.0
Non-current interest-bearing receivables		73.0				73.0	73.0
Current financial assets							
Trade and other non-interest-bearing receivables		856.9					
- Derivatives	1.8					858.7	858.7
Interest-bearing receivables		59.7				59.7	59.7
Financial assets at fair value through profit or loss	97.8					97.8	97.8
Available-for-sale financial assets			185.5			185.5	185.5
Carrying amount by category	**99.6**	**990.5**	**196.1**		**4.1**	**1,290.3**	**1,290.3**
Non-current financial liabilities							
Non-current interest-bearing liabilities				202.7		202.7	222.2
- Derivatives					7.7	7.7	7.7
Total non-current interest-bearing liabilities						210.4	229.9
Non-current non-interest-bearing liabilities				17.4		17.4	17.4
- Derivatives					1.0	1.0	1.0
Total non-current non-interest-bearing liabilities						18.4	18.4
Current financial liabilities							
Current interest-bearing liabilities				189.7		189.7	189.6
Trade payables				885.8		885.8	885.8
Other non-interest-bearing liabilities				222.6		222.6	222.6
- Derivatives					2.4	2.4	2.4
Total non-interest-bearing liabilities						225.0	225.0
Accrued liabilities				295.0		295.0	295.0
- Derivatives	5.3					5.3	5.3
Total accrued liabilities						300.3	300.3
Carrying amount by category	**5.3**			**1,813.2**	**11.1**	**1,829.6**	**1,849.0**

31 December 2010

Assets as per balance sheet, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives qualified for hedge accounting	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial assets							
Available-for-sale financial assets			7.6			7.6	7.6
Non-current non-interest-bearing receivables		0.8					
- Derivatives					8.0	8.8	8.8
Non-current interest-bearing receivables		60.1				60.1	60.1
Current financial assets							
Trade and other non-interest-bearing receivables		770.9					
- Derivatives	1.4				9.0	781.2	781.2
Interest-bearing receivables		21.0				21.0	21.0
Financial assets at fair value through profit or loss	242.1					242.1	242.1
Available-for-sale financial assets			549.0			549.0	549.0
Carrying amount by category	**243.5**	**852.7**	**556.6**		**17.0**	**1,669.9**	**1,669.9**
Non-current financial liabilities							
Non-current interest-bearing liabilities				224.6		224.6	232.7
- Derivatives					10.6	10.6	10.6
Total non-current interest-bearing liabilities						235.3	243.3
Non-current non-interest-bearing liabilities				4.5		4.5	4.5
- Derivatives					0.1	0.1	0.1
Total non-current non-interest-bearing liabilities						4.6	4.6
Current financial liabilities							
Current interest-bearing liabilities				241.5		241.5	241.5
Trade payables				838.3		838.3	838.3
Other non-interest-bearing liabilities				196.3		196.3	196.3
Accrued liabilities				305.5		305.5	305.5
- Derivatives	5.6					5.6	5.6
Total accrued liabilities						311.1	311.1
Carrying amount by category	**5.6**			**1,810.7**	**10.7**	**1,827.1**	**1,835.1**

The fair values of loans have been calculated based on the present value of future cash flows using the 0.7%–3.7% market rates of interest of the balance sheet date. The fair value of current interest-bearing liabilities has been estimated to nearly equal their balance sheet value. The maturity analysis of non-current receivables is presented in note 17, and that of non-current loans in note 39.

NOTE 29
FINANCE LEASE LIABILITIES

€ million	2011	2010
The maturities of finance lease payments are as follows:		
No later than 1 year	14.4	17.7
Later than 1 year and no later than 5 years	44.6	45.0
Later than 5 years	0.3	13.6
Total minimum lease payments	**59.4**	**76.4**
Present value of minimum lease payments:		
No later than 1 year	11.6	14.6
Later than 1 year and no later than 5 years	39.9	38.1
Later than 5 years	0.3	13.4
Total finance lease liabilities	**51.8**	**66.1**
Accumulating finance costs	**7.6**	**10.3**
Contingent rents for the period	**-0.2**	**0.3**
Expected sublease rentals	**32.1**	**44.1**

The finance lease liabilities mainly consist of store fixtures leased by Kesko Food Ltd from finance companies and subleased to chain companies. In addition, finance leases include real estate leases with lease payments tied to interest rate.

NOTE 30
PROVISIONS

€ million	Onerous leases	Warranty provisions	Other provisions	Total
At 1 Jan. 2011	21.6	12.5	6.8	40.9
Exchange differences	0.0	0.0	0.0	0.0
Additional provisions	1.9	5.1	3.3	10.3
Unused amounts reversed	-9.4	-0.7	-2.3	-12.4
Expensed in income statement	14.1	16.9	7.8	38.8
Used during year	-3.3	-0.9	-0.5	-4.7
At 31 Dec. 2011	10.7	16.1	7.3	34.2
Analysis of total provisions				
Non-current				10.4
Current				23.8

Provisions for onerous leases relate to lease liabilities for premises vacated from the Group's operating activities, and to net losses on rent of subleased premises. Warranty provisions have been recorded for vehicles and machines sold by the Group companies. The provision amount is based on experience of realised warranty obligations in previous years.

NOTE 31
TRADE PAYABLES AND OTHER CURRENT NON-INTEREST-BEARING LIABILITIES

€ million	2011	2010
Trade payables	885.8	838.3
Other current non-interest-bearing liabilities	225.3	196.3
Current tax liabilities	37.5	64.2
Accrued liabilities	262.8	246.9
Total current non-interest-bearing liabilities	1,411.5	1,345.7

Accrued liabilities are mainly due to the timing of purchases and staff cost.

NOTE 32
JOINTLY CONTROLLED ASSETS

JOINTLY CONTROLLED ASSETS (MUTUAL REAL ESTATE COMPANIES)

These figures represent the Group's interests in jointly controlled assets and liabilities and income and profit included in the consolidated statement of financial position and income statement.

€ million	2011	2010
Non-current assets	69.1	70.9
Current assets	0.4	0.6
	69.5	71.5
Non-current liabilities	8.1	8.7
Current liabilities	15.4	17.6
	23.5	26.3
Net assets	46.0	45.2
Income	4.2	2.8
Expenses	3.5	1.9
Profit	0.7	0.9

NOTE 33
COMMITMENTS

COMMITMENTS

€ million	2011	2010
Collateral given for own commitments		
Pledges	74.4	91.3
Mortgages	20.7	85.1
Guarantees	25.8	28.6
Other commitments	61.1	70.9
Collateral given for others		
Guarantees	0.3	0.4
Other commitments and contingent liabilities	7.6	6.1

The financial guarantees given do not include guarantees related to the item presented within liabilities in the consolidated statement of financial position or as a lease liability in note 34.

NOTE 34
OPERATING LEASES

GROUP AS THE LESSEE

Minimum lease payments under non-cancellable operating lease agreements:

€ million	2011	2010
No later than 1 year	366.5	348.2
Later than 1 year and no later than 5 years	1,086.9	1,071.1
Later than 5 years	876.1	925.0
Total	2,329.5	2,344.3
Expected future minimum lease payments under non-cancellable sublease agreements	44.1	50.5
Lease and sublease payments recognised for the period:		
Minimum lease payments	360.2	360.6
Contingent rents	-0.3	0.0
Sublease income	27.4	26.7

The 2011 income statement includes capital and maintenance rentals on real estate under real estate operating leases, and other rentals in a total amount of €398.1 million (€405.0 million). Maintenance rentals are not included in minimum lease payments.

Kesko leases retail and logistics premises for its operating activities. Most of the leases are index-linked and in conformity with local market practice.

GROUP AS THE LESSOR

Minimum lease payments received under non-cancellable operating lease agreements:

€ million	2011	2010
No later than 1 year	15.6	8.5
Later than 1 year and no later than 5 years	33.7	17.0
Later than 5 years	10.3	5.8
Total	59.7	31.3
Aggregate contingent rents charged to the income statement	0.9	-

Kesko leases premises to entrepreneurs other than K-retailers in order that the total service offer of a store site support its profit generation potential. Such premises typically include so-called store entrance stores at large retail outlets.

NOTE 35
SHARE-BASED PAYMENTS

OPTIONS

The Group operates share option plans as part of management's incentive and commitment plans. Each option gives its holder the right to subscribe for one Kesko Corporation B share at the price and during the period specified in the terms and conditions of the option plan. The options are forfeited if the employee leaves the company before the end of the vesting period, unless, in an individual case, the Board decides that the option recipient can keep all or some of the options under offering obligation.

2007 OPTION SCHEME

On 26 March 2007, the Annual General Meeting decided to grant a total of 3,000,000 options for no consideration to the management of the Kesko Group, other key personnel, and a subsidiary wholly owned by Kesko Corporation. The Company had a weighty financial reason for granting the options because they are intended to be part of Kesko's share-based incentive system. Each option entitles its holder to subscribe for one new Kesko Corporation B share. In addition, the option scheme also includes an obligation to buy company shares for permanent ownership for the value of 25% of the proceeds from the sale of options. The options have been marked with the symbols 2007A, 2007B and 2007C in units of 1,000,000 options each.

The options are exercisable as follows:

- 2007A 1 April 2010–30 April 2012
- 2007B 1 April 2011–30 April 2013
- 2007C 1 April 2012–30 April 2014

The original price of a share subscribed for with option 2007A was the trade volume weighted average quotation of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April and 30 April 2007 (€45.82), with option 2007B, between 1 April and 30 April 2008 (€26.57), and with option 2007C, between 1 April and 30 April 2009 (€16.84). The prices of shares subscribed for with options are reduced by the amount decided after the beginning of the period for the determination of the subscription price but before the subscription, as at the record date for each distribution of profits or other assets.

After the distribution of dividends for 2010, the price of a B share subscribed for with option 2007A was €41.02 at the end of 2011, with option 2007B €23.37, and with option 2007C €14.64. The option scheme covers approximately 130 people.

PERCENTAGE OF ISSUED SHARE OPTIONS OUT OF ALL SHARES AND VOTES

If all of the exercisable share options were exercised, the shares subscribed for with all of the 2007 options would account for 2.95% of all shares and for 0.77% of all votes. The subscriptions made with share options can raise the number of the company's shares to 101,641,292. As a result of the subscriptions, the voting rights carried by all shares could increase to 387,274,355 votes.

Dividend rights and other shareholder rights carried by the shares will apply after the share capital increase has been entered in the Trade Register.

Share options in financial year 1 Jan. - 31 Dec. 2011

Principal terms of the plans	2007 share options		
Grant date	26 March 2007		
Instrument	share option		
Target group	management, other key personnel		
	2007A	**2007B**	**2007C**
Original number of options	1,000,000	1,000,000	1,000,000
Number of shares per option	1	1	1
Original exercise price	€45.82	€26.57	€16.84
Dividend adjustment	Yes	Yes	Yes
Exercise price at 31 Dec. 2007	€45.82	-	-
Exercise price at 31 Dec. 2008	€44.22	€26.57	-
Exercise price at 31 Dec. 2009	€43.22	€25.57	€16.84
Exercise price at 31 Dec. 2010	€42.32	€24.67	€15.94
Exercise price at 31 Dec. 2011	€41.02	€23.37	€14.64
Fair value at grant date			
17 Jul. 2007: 2007A	€50.25		
19 Sep. 2007: 2007A	€45.02		
12 Dec. 2007: 2007A	€39.42		
13 Sep. 2010: 2007A	€32.57		
29 May 2008: 2007B		€26.47	
13 Sep. 2010: 2007B		€32.57	
27 May 2009: 2007C			€20.12
13 Sep. 2010: 2007C			€32.57
Fist allocation, date	1 Apr. 2010	1 Apr. 2011	1 Apr. 2012
Expiry date	30 Apr. 2012	30 Apr. 2013	30 Apr. 2014
Remaining vesting period, years	0.3	1.3	2.3
Plan participants at end of financial year	114	115	119

Movements in the number of share options and their related exercise prices in 2011

	2007 share options			
2011	**2007A**	**2007B**	**2007C**	**Weighted average exercise price**
Options outstanding at beginning of period	728,700	700,200	752,700	€27.55
Options available for grant at beginning of period	271,300	299,800	247,300	€27.88
Options granted during period	-	-	-	-
Options forfeited during period		1,000	32,500	€14.90
Options exercised during period		3,750		€23.37
Options expired during period				
Options outstanding at end of period	728,700	695,450	720,200	€26.44
Options exercisable at end of period	1,000,000	1,000,000	1,000,000	€26.34
Average price weighted by grant date trading volume*		€32.48		
Kesko B share price at end of grant year				
2007	€37.72			
2008		€17.80		
2009			€23.08	
2010	€34.93	€34.93	€34.93	

** for 2007B: weighted average price of a B share in April -December 2011, for 2007A: shares were not subscribed for with 2007A options during the financial year*

Movements in the number of share options and their related exercise prices in 2010

	2007 share options			
2010	**2007A**	**2007B**	**2007C**	**Weighted average exercise price**
Options outstanding at beginning of period	737,500	745,500	782,500	€28.30
Options available for grant at beginning of period	262,500	254,500	217,500	€29.29
Options granted during period	1,700	1,700	1,700	€27.64
Options forfeited during period	10,500	47,000	31,500	€23.66
Options exercised during period				
Options expired during period				
Options outstanding at end of period	728,700	700,200	752,700	€27.55
Options exercisable at end of period	1,000,000	1,000,000	1,000,000	€27.64
Kesko B share price at end of grant year				
2007	€37.72			
2008		€17.80		
2009			€23.08	
2010	€34.93	€34.93	€34.93	

FAIR VALUE MEASUREMENT

For fair value measurement of options, Kesko Corporation has consulted Evli Alexander Management Oy. The fair value of options has been determined using the Black&Scholes option pricing model. The fair value determined for options at grant date has been recognised as an expense over their vesting period.

In the financial year 1 January–31 December 2011, the options contributed €2.4 million (€5.0 million) to the Group's profit.

Black&Scholes model assumptions

	Granted in 2010	Granted in 2009	Granted in 2008	Granted in 2007	All options
Number of options granted	5,100	785,500	776,000	789,000	2,355,600
B share average (weighted) price	€32.57	€20.12	€26.47	€49.37	€32.03
Average (weighted) exercise price	€29.74	€16.84	€26.57	€45.82	€29.78
Expected average (weighted) volatility	34.7%	32.0%	27.4%	21.7%	27.0%
Average (weighted) vesting period	2.6 yrs	4.9 yrs	4.9 yrs	4.8 yrs	4.9 yrs
Average (weighted) risk-free interest	1.1%	3.0%	4.4%	4.5%	4.0%
Returned options (weighted average)	0.0%	4.4%	10.0%	6.1%	6.7%
Total fair value, €	51,173	6,065,836	6,002,804	11,697,744	24,424,787

The expected volatility of a Kesko B share has been estimated based on historic volatility using weekly changes over a period of time corresponding to the option's vesting period. The risk-free interest rate is the government zero coupon bond interest rate at the measurement date with a maturity equalling the option vesting period.

SHARE-BASED COMPENSATION PLAN

Kesko's share-based compensation plan 2011–2013, decided by the Board, is targeted to the Group's management and other named key personnel, in which a maximum of 600,000 own B shares held by the company can be granted within a period of three years.

The share-based compensation plan includes three vesting periods, namely the calendar years 2011, 2012 and 2013. Kesko' Board will decide on the target group and vesting criteria for each vesting period based on the proposal by the Remuneration Committee. The award possibly payable after the end of each vesting period is based on the attainment of the vesting criteria decided on by the Board for each vesting period. The criteria for vesting period 2011 are Kesko's basic earnings per share (EPS) excluding non-recurring items, the Kesko Group's sales performance exclusive of tax in 2011 and the percentage by which the total earnings of a Kesko B share exceeds the OMX Helsinki Benchmark Cap index.

The award possibly paid for a vesting period will be partly in Kesko B shares and partly in cash. The cash component will be used entirely to pay the taxes and tax-like charges incurred by the award.

A commitment period of three calendar years following each vesting period is attached to the shares issued in compensation, during which shares may not be assigned. If a person's employment or service relationship ends prior to the expiry of a commitment period, he/she must return the shares under the assignment restriction for no consideration to Kesko or its designate.

By 31 December 2011, shares had not been assigned.

The assumptions in accounting for the share-based compensation plan are presented below.

Share award grant dates and fair values for financial year 2011			**2011**
Grant dates	16 Feb.	27 Apr.	16 May
Grant date fair value of share award, €	31.70	32.25	35.20
Share price at grant date, €	32.40	32.25	35.20
Share-based compensation plan date			
Vesting period start date			1 Jan. 2011
Vesting period end date			31 Dec. 2011
Commitment period end date			31 Dec. 2014
Assumptions in the measurement of fair value of share award			
Number of share awards granted at beginning of period, maximum			-
Amount of share awards granted during period, maximum			239,000
Changes in number of share awards granted at end of period, maximum			-11,900
Number of share awards granted at end of period, maximum			227,100
Number of plan participants at end of period			129
Share price at balance sheet date, €			25.96
Assumed fulfilment of vesting criteria			53.3%
Estimated number of share awards returned prior to the end of restriction period, %			5%
Amount recognised as expense, € million			3.9

The liability recognised in the balance sheet in respect of share-based compensation plan was €3.0 million. At 31 December 2011, the write-down expected to realise in financial years 2012–2014 is €2.7 million. The actual amount may be different from the estimate.

NOTE 36
NON-CASH FLOW INVESTING ACTIVITIES

€ million	2011	2010
Total purchases of fixed assets,	425.4	325.3
of which settlement in cash	441.9	310.7
Settlement of prior period purchases of fixed assets	-9.8	-5.2
Purchases of shares in associates		-32.7
Purchases of assets leased to customers	-29.6	-17.2
Purchases financed by finance lease or other liability	22.9	69.7

NOTE 37
ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

€ million	2011	2010
Adjustment of non-cash transactions in the income statement, and items presented elsewhere in the cash flow statement:		
Change in provisions	-6.8	3.8
Income from associates	-0.7	0.3
Impairments	0.3	4.6
Credit losses	4.8	3.6
Non-recurring gains on disposal of fixed assets	-1.4	-52.9
Non-recurring losses on disposal of fixed assets	1.0	1.4
Option expenses	2.4	5.0
Defined benefit pensions	-18.9	137.5
Others	12.9	-6.6
Total	-6.5	96.8

The group 'others' within the adjustments to cash flows from operating activities includes the adjustment of unrealised foreign exchange gains and losses on purchases and sales, and the adjustment of non-cash entries in respect of the IFRS.

NOTE 38
CASH AND CASH EQUIVALENTS WITHIN THE STATEMENT OF CASH FLOWS

Components of cash and cash equivalents in the statement of cash flows:

€ million	2011	2010
Available-for-sale financial assets (maturing in less than 3 months)	146.8	453.3
Cash and cash equivalents	84.0	56.1
Total	230.8	509.4

In the statement of cash flows, the components of cash and cash equivalents include those stated in the statement of financial position, the portion of available-for-sale financial assets that mature in less than three months from acquisition. The available-for-sale financial assets in the statement of financial position (€185.5 million) also include bonds with longer maturities in the amount of €38.8 million.

NOTE 39
FINANCIAL RISK MANAGEMENT

With respect to financial risks, the Group observes a uniform financing policy that has been approved by the company's Board of Directors. Compliance with this policy and developments in the Group's financial situation are monitored by the Board's Audit Committee. Group Treasury is centrally responsible for obtaining financial resources for the Group, for liquidity management, relations with providers of finance, and the management of financial risks. In the main, the Group's financial resources are obtained through the parent company, and Group Treasury arranges financial resources for subsidiaries in their functional currencies. For companies with significant external ownership, the Group has not guaranteed financial liabilities in excess of its ownership interest.

CURRENCY RISKS

The Kesko Group operates in eight countries in addition to which it makes purchases from numerous other countries. In consequence, the Group is exposed to various foreign exchange risks arising from net investments in foreign operations (translation-related risks), foreign currency assets, liabilities and forecast transactions (transaction risks).

The Group companies' financial resources are arranged in their functional currencies. The parent company bears the ensuing currency risk and hedges it by using derivatives or foreign currency loans. The Belarusian currency BYR is not a freely convertible currency and hedging against the associated currency risk is not possible.

TRANSLATION RISKS

The Group's assets are exposed to foreign currency translation risks relating to net investments in subsidiaries outside the euro zone. This balance sheet exposure has not been hedged. The hedge is activated if equity is repatriated, or if a currency is expected to be exposed to a significant devaluation risk. The most significant translation exposures are in the Russian ruble, Lithuanian litas, Norwegian krone, Swedish krona and Latvian lat. The exposure does not include the non-controlling interest in equity. In proportion to the Group's volume of operations and the balance sheet total, the translation risk is small.

The functional currency of the real estate companies operating in St. Petersburg and Moscow in Russia has been determined to be the euro, which is why net investments in these companies are not exposed to translation risk, and consequently are not included in the translation exposure.

TRANSACTION RISKS

International purchasing activities and foreign currency denominated financial resources arranged by the parent to subsidiaries expose the Group to transaction risks relating to several currencies. The currency-specific transaction risk consists of receivables and liabilities denominated in foreign currencies in the balance sheet,

Group's translation exposure at 31 Dec. 2011

€ million	LVL	NOK	SEK	RUB	LTL	BYR
Net investment	15.5	26.2	22.8	50.5	39.7	1.3

Group's translation exposure at 31 Dec. 2010

€ million	EEK	LVL	NOK	SEK	RUB	LTL	BYR
Net investment	61.4	7.3	24.9	17.7	29.2	37.2	2.0

The following table shows how a 10% change in the Group companies' functional currencies would affect the Group's equity.

Sensitivity analysis, effect on equity, at 31 Dec. 2011

€ million	LVL	NOK	SEK	RUB	LTL	BYR
Change + / -10%	1.6	2.6	2.3	5.1	4.0	0.1

Sensitivity analysis, effect on equity, at 31 Dec. 2010

€ million	EEK	LVL	NOK	SEK	RUB	LTL	BYR
Change + / -10%	6.1	0.7	2.5	1.8	2.9	3.7	0.2

forecasted cash flows in foreign currencies, and foreign subsidiaries' liabilities and receivables with respect to the parent. The risk is commercially managed by, for example, transferring exchange rate changes to selling prices, or by replacing suppliers. The remaining exposures are hedged by foreign currency derivatives. The level of hedging in commercial transactions is decided by each relevant subsidiary within the limits of documented hedging policies. The subsidiaries report their currency exposures to Group Treasury on a monthly basis.

In the main, the subsidiaries carry out their hedging operations with Group Treasury, which hedges risk exposures by using market transactions within the limits confirmed for each currency. Intra-Group derivatives are allocated to the segments in segment reporting.

The Group does not apply hedge accounting in accordance with IAS 39 to the hedging of transaction risks relating to purchases and sales. In initial measurement, derivative instruments are recognised at cost and at subsequent measurement they are recognised at fair value. The changes in fair value of currency derivatives used to hedge purchases and sales are recognised in other operating income or expenses.

The Group monitors transaction risk in respect of the existing and projected cash flows. The accompanying table analyses the transaction exposure excluding future cash flows. The presentation does not illustrate the Group's actual currency risk after hedgings. With projected amounts included in the transaction exposure, the most significant differences from the table below are in the USD and LTL exposures. At 31 December 2011, the exposure to USD risk was €6.3 million, and the exposure to LTL risk was €6.9 million.

INTEREST RATE RISK OF LOANS AND SENSITIVITY ANALYSIS

Changes in interest rates have an impact on the Group's interest expense. The interest rate risk hedging policy is aimed at equalising the effects of interest rate movements on the profits for different accounting periods.

The interest rate risk is centrally managed by Group Treasury, which adjusts interest rate duration by using interest rate derivatives. The target duration is three years, which is allowed to vary between one and a half and four years. The realised duration during the period was 2.9 (3.5) years on average.

On 10 June 2004 in the United States, Kesko Corporation issued USD private placement notes in three tranches at a total value of USD 120 million; split USD 60 million for a ten-year term, USD 36 million for a 12-year term and USD 24 million for a 15-year term. The credit facility qualifies for hedge accounting against both foreign exchange and interest rate risk and it has been hedged by using currency swaps and interest rate swaps with the same maturities as the loan. As a result, the loan is fully hedged against foreign exchange and interest rate risk. During the financial year, there was no ineffectiveness to be recorded in the income statement from this credit facility.

A sensitivity analysis for commercial paper liabilities realised during the financial year used average balance values. At the balance sheet date of 31 December 2011, the effect of variable rate borrowings on the pre-tax profit would have been €-/+2.2 million (€-/+2.6 million), if the interest rate level had risen or fallen by 1 percentage point.

Group's transaction exposure at 31 Dec. 2011

€ million	USD	SEK	NOK	LVL	LTL	RUB	BYR
Group's transaction risk	-4.7	130.2	60.5	11.8	0.3	53.2	0.0
Hedging derivatives	33.2	-127.5	-19.3	-2.6	-8.7	-52.4	0.0
Hedging loans	0.0	0.0	-25.8	-7.1	0.0	0.0	0.0
Exposure	28.5	2.7	15.4	2.1	-8.4	0.8	0.0

Group's transaction exposure at 31 Dec. 2010

€ million	EEK	USD	SEK	NOK	LVL	LTL	RUB	BYR
Group's transaction risk	-32.9	-0.7	104.9	59.8	21.8	-4.6	38.5	0.1
Hedging derivatives	0.0	26.2	-87.7	-25.6	-11.4	-8.7	-31.7	0.0
Hedging loans	0.0	0.0	0.0	-25.6	-7.0	0.0	0.0	0.0
Exposure	-32.9	25.5	17.2	8.5	3.4	-13.3	6.8	0.1

A sensitivity analysis of the transaction exposure shows the profit impact of a +/-10% exchange rate change in intra-Group receivables and liabilities denominated in foreign currencies and hedging foreign currency derivatives and loans.

Sensitivity analysis, pre-tax profit impact at 31 Dec. 2011

€ million	USD	SEK	NOK	LVL	LTL	RUB	BYR
Change +/-10%	2.9	0.3	1.5	0.2	-0.8	0.1	0.0

Sensitivity analysis, pre-tax profit impact at 31 Dec. 2010

€ million	EEK	USD	SEK	NOK	LVL	LTL	RUB	BYR
Change +/-10%	3.3	2.6	1.7	0.9	0.3	1.3	0.7	0.0

LIQUIDITY RISK AND SENSITIVITY ANALYSIS FOR INTEREST-BEARING RECEIVABLES

Liquidity risk management aims to maintain sufficient liquid assets and credit facilities in order to ensure the availability of sufficient financial resources for the Group's operating activities at all times.

The objective is to invest liquidity consisting of financial assets in the money market by using efficient combinations of return and risk. At regular intervals, the Group's management approves the investment instruments and limits for each counterparty among those analysed by Group Treasury. The risks and actual returns of investments are monitored regularly.

A sensitivity analysis for variable-rate receivables uses average annual balance values of invested assets. The receivables include customer financing receivables, finance lease receivables, other interest-bearing receivables, and within investments, commercial papers and money market funds. The sensitivity of money market funds has been determined based on duration. At the balance sheet date, the effect of these items on the pre-tax profit would have been €+/-5.5 million (€+/-6.5 million), and €+/-1.5 million (€+/-2.2 million) on equity, if the interest rate level had changed by +/-1 percentage point.

At the balance sheet date, the total of undrawn committed long-term credit facilities was €100.0 million (€151.5 million) and the total of undrawn short-term credit facilities was €158.6 million. In addition, the Group's uncommitted financial resources available contain commercial paper programmes denominated in euros totalling an equivalent of €359 million (€359 million).

The terms and conditions of the private placement notes and the committed facilities include ordinary financial covenants. The requirements of these covenants have been met. The loan terms include a financial covenant defining the ratio between net debt and EBITDA, which remained well below the maximum throughout the financial year.

Undiscounted cash flows from financial liabilities and related finance costs at 31 Dec. 2011

€ million	2012	2013	2014	2015	2016	2017-	Total
Loans from financial institutions	**8.6**	**1.2**	**1.0**	**26.7**	**0.6**	**2.7**	**40.8**
Finance costs	1.5	1.3	1.3	1.3	0.1	0.2	5.6
Private placement notes (USD)			**46.4**		**27.8**	**18.5**	**92.7**
Finance costs	5.8	5.8	4.3	2.9	2.1	3.0	23.9
Pension loans	**5.8**	**5.8**	**5.8**	**5.8**	**5.8**	**14.6**	**43.8**
Finance costs	1.7	1.4	1.2	1.0	0.7	0.8	6.9
Finance lease liabilities	**11.6**	**7.5**	**10.1**	**6.5**	**15.7**	**0.3**	**51.8**
Finance costs	2.9	1.5	1.4	1.1	0.6	0.0	7.6
Payables to K-retailers	**117.6**						**117.6**
Finance costs	0.1						0.1
Other interest-bearing liabilities	**45.7**						**45.7**
Finance costs	0.1						0.1
Non-current non-interest-bearing liabilities	**2.5**	**4.2**	**1.2**	**0.1**	**0.0**	**0.0**	**8.0**
Current non-interest-bearing liabilities							
Trade payables	**885.8**						**885.8**
Accrued liabilities	**261.4**						**261.4**
Other non-interest-bearing liabilities	**181.7**						**181.7**

Undiscounted cash flows from financial liabilities and related finance costs at 31 Dec. 2010

€ million	2011	2012	2013	2014	2015	2016-	Total
Loans from financial institutions	**3.3**	**10.7**	**0.9**	**0.7**	**26.3**	**1.7**	**43.5**
Finance costs	1.5	1.3	1.2	1.2	1.2	0.1	6.6
Private placement notes (USD)				**44.9**		**44.9**	**89.8**
Finance costs	5.6	5.6	5.6	4.2	2.8	4.9	28.7
Pension loans	**2.9**	**5.8**	**5.8**	**5.8**	**5.8**	**20.4**	**46.7**
Finance costs	1.9	1.7	1.4	1.2	1.0	1.6	8.8
Finance lease liabilities	**14.6**	**9.3**	**9.0**	**11.7**	**8.2**	**13.4**	**66.1**
Finance costs	3.2	1.9	1.8	1.7	1.5	0.2	10.3
Payables to K-retailers	**128.9**						**128.9**
Finance costs	0.2						0.2
Other interest-bearing liabilities	**90.9**						**90.9**
Finance costs	0.6						0.6
Non-current non-interest-bearing liabilities		**2.1**	**0.3**	**0.0**	**0.0**	**0.0**	**2.5**
Current non-interest-bearing liabilities							
Trade payables	**838.3**						**838.3**
Accrued liabilities	**245.4**						**245.4**
Other non-interest-bearing liabilities	**162.2**						**162.2**

The private placement notes and some of the loans from financial institutions, €169.6 million in aggregate, have fixed rates, and their effective interest cost was 4.8%. At the end of the financial year, the average rate of variable-interest-rate loans from financial institutions, payables to retailers and other interest-bearing liabilities was 1.3%. Some of the loans are euro-denominated, the private placement notes are USD-denominated, and the loans from financial institutions include NOK-denominated loans totalling €25.8 million (€25.6 million) and LVL-denominated loans totalling €7.1 million (€7.0 million).

Undiscounted cash flows from derivative instruments at 31 Dec. 2011

€ million	2012	2013	2014	2015	2016	2017-	Total
Payables							
Currency forwards outside hedge accounting	354.1						354.1
Net settlement of payables							
Interest rate derivatives	0.1	0.1	0.1	0.1	0.0		0.4
Electricity derivatives	2.2	0.8	0.3	0.1	0.0		3.4
Derivatives relating to private placement notes*							
Foreign currency derivatives	0.5	0.5	4.2	0.2	2.5	1.8	9.7
Receivables							
Currency forwards outside hedge accounting	350.7						350.7
Net settlement of receivables							
Derivatives relating to private placement notes*							
Interest rate derivatives	0.9	0.9	0.7	0.4	0.3	0.5	3.7

* The cash flows from private placement notes and related foreign currency derivatives and interest rate derivatives are settled on a net basis.

Undiscounted cash flows from derivative instruments at 31 Dec. 2010

€ million	2011	2012	2013	2014	2015	2016-	Total
Payables							
Currency forwards outside hedge accounting	222.9						222.9
Net settlement of payables							
Interest rate derivatives	0.2	0.1	0.0	0.0			0.2
Electricity derivatives	0.0	0.1	0.0	0.0	0.0		0.1
Derivatives relating to private placement notes*							
Foreign currency derivatives	0.7	0.7	0.7	5.8	0.3	5.9	14.0
Receivables							
Currency forwards outside hedge accounting	218.7						218.7
Net settlement of receivables							
Interest rate derivatives							
Electricity derivatives	9.0	3.2	1.1	0.2	0.0		13.5
Derivatives relating to private placement notes*							
Interest rate derivatives	0.9	0.9	0.9	0.7	0.4	0.8	4.5

** The cash flows from private placement notes and related foreign currency derivatives and interest rate derivatives are settled on a net basis.*

Maturity analysis for liabilities 2011

€ million	31 Dec. 2011	Available	Total	2012	2013	2014	2015	2016 and later
Loans from financial institutions	40.8		40.8	8.6	1.2	1.0	26.7	3.3
Private placement notes	100.2		100.2			50.1		50.1
Pension loans	43.5		43.5	5.8	5.8	5.8	5.8	20.3
Finance lease liabilities	51.8		51.8	11.6	7.5	10.1	6.5	16.1
Payables to K-retailers	117.6		117.6	117.6				
Other interest-bearing liabilities	45.7		45.7	45.7				
Trade payables	885.8		885.8	885.8				
Accrued liabilities	261.4		261.4	261.4				
Other non-interest-bearing liabilities	181.7		181.7	181.7				
Committed credit facilities	*	258.6	265.9	165.9				100.0
Commercial paper programmes		359.0	0.0					
Financial guarantees	25.8		25.8	20.4		4.5		0.9
Total	1,754.4	617.6	2,020.3	1,704.5	14.5	71.5	39.0	190.7

** The amount withdrawn from committed borrowing facilities is included in loans from financial institutions.*

Maturity analysis for liabilities 2010

€ million	31 Dec. 2010	Available	Total	2011	2012	2013	2014	2015 and later
Loans from financial institutions	43.4		43.4	3.3	10.7	0.9	0.7	27.8
Private placement notes	100.1		100.1				50.1	50.1
Pension loans	46.4		46.4	2.9	5.8	5.8	5.8	26.0
Finance lease liabilities	66.1		66.1	14.6	9.3	9.0	11.7	21.6
Payables to K-retailers	128.9		128.9	128.9				
Other interest-bearing liabilities	91.8		91.8	91.8				
Trade payables	838.4		838.4	838.3	0.1			
Accrued liabilities	311.1		311.1	311.1				
Other non-interest-bearing liabilities	200.8		200.8	196.3	3.1	1.4	0.0	
Committed credit facilities	*	151.5	153.6		151.5			
Commercial paper programmes		359.0	359.0					
Financial guarantees	28.6		28.6	17.2	1.5			9.8
Total	1,855.6	510.5	2,368.2	1,604.4	182.0	17.1	68.3	135.2

** The amount withdrawn from committed borrowing facilities is included in loans from financial institutions.*

The financial guarantees given do not include guarantees relating to an item presented as a liability in the consolidated balance sheet or as a lease liability in note 34.

Payables to K-retailers consist of two types of interest-bearing liabilities by Kesko to K-retailers: retailers' prepayments to Kesko and Kesko's chain rebate liabilities to retailers. Chain rebates are subsequent discounts given to retailers and the terms vary from one chain to another. The private placement notes include the change in fair value of foreign currency derivatives.

FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's liquid assets have mainly been invested in the debt instruments of major Finnish companies, in certificates of deposit and in deposits with banks operating in Kesko's market area, in Finnish government bonds, and in the bonds of selected companies. The return on these investments for 2011 was 1.6% (1.5%). The maximum credit risk is the fair value of these investments in the balance sheet at the balance sheet date as presented below.

CREDIT AND COUNTERPARTY RISK

The division companies are responsible for the management of credit risk associated with customer receivables. The Group has a credit policy and its implementation is controlled. The aim is to ensure the payment of receivables by carefully assessing customers' creditworthiness, by specifying customer credit terms and collateral requirements, by effective credit control and credit insurances, as applicable. In Finland, the main part of the Group's business activities is carried out in cooperation with retailers. According to retailer agreements, retailers shall arrange overdraft facilities to be held as collateral for their trade payables by the relevant Kesko subsidiary.

The Group companies apply a uniform practice to measuring past due receivables. A receivable is written down when there is objective evidence of impairment. The ageing analysis of trade receivables at 31 December was as follows:

Ageing analysis of trade receivables

€ million	2011	2010
Trade receivables fully performing	655.5	579.1
1–7 days past due	12.1	12.3
8–30 days past due	15.4	12.3
31–60 days past due	4.6	3.6
Over 60 days past due	12.4	12.4
Total	700.0	619.6

The above analysis includes impaired receivables in a total amount of €24.3 million (€27.0 million).

Within trade receivables, €376.2 million (€346.5 million) were from chain retailers and €37.5 million (€24.3 million) were credit card receivables. The collateral for chain retailer receivables is an overdraft facility granted by a Kesko associate, Vähittäiskaupan Takaus Oy, with the maximum always limited to the realisable value of the counter security from the K-retail company and entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the aggregate value of counter securities was €157.4 million (€224.3 million).

In addition, the collateral for receivables includes other collaterals, such as business mortgages and other pledged assets.

The provision for impairment of trade receivables totalled €13.5 million (€14.2 million). An aggregate amount of €4.8 million (€3.6 million) in credit losses and impairments has been recognised in the net profit for the period.

At 31 December 2010, the amount of receivables with renegotiated terms amounted to €3.1 million (€4.6 million).

The table below analyses financial instruments carried at fair value, by valuation technique.

Fair value hierarchy of financial assets and liabilities

€ million	Fair value at 31 Dec. 2011 Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Commercial papers		77.8		77.8
Bank certificates of deposit and deposits		19.9		19.9
Total		97.7		97.7
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		5.9		5.9
Derivative financial liabilities		8.7		8.7
Available-for-sale financial assets				
Private equity funds			5.9	5.9
Commercial papers (maturing in less than 3 months)		59.3		59.3
Bank certificates of deposit and deposits (maturing in less than 3 months)		87.5		87.5
Bonds	38.8			38.8
Total	38.8	146.8	5.9	191.5

Fair value hierarchy of financial assets and liabilities

€ million	Fair value at 31 Dec. 2010 Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Commercial papers		15.8		15.8
Bank certificates of deposit and deposits		215.9		215.9
Equity funds	10.4			10.4
Total	10.4	231.7		242.1
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		18.4		18.4
Derivative financial liabilities		16.4		16.4
Available-for-sale financial assets				
Equity funds			4.4	4.4
Commercial papers (maturing in less than 3 months)		172.0		172.0
Bank certificates of deposit and deposits (maturing in less than 3 months)		281.3		281.3
Bonds	95.7			95.7
Total	95.7	453.3	4.4	553.4

Level 1 instruments are traded in active markets and their fair values are directly based on the market price. The fair values of level 2 instruments are derived from market data.The fair values of level 3 instruments are not based on observable market data (unobservable input).

The table below presents movements in level 3 instruments for 1 Jan.–31 Dec. 2011

€ million	Equity funds
Opening balance at 1 Jan. 2011	4.4
Purchases	0.6
Gains and losses recognised in profit or loss	-
Fair value adjustments	0.9
Total	5.9

The table below presents movements in level 3 instruments for 1 Jan.–31 Dec. 2010

€ million	Equity funds
Opening balance at 1 Jan. 2010	0.0
Purchases	4.4
Gains and losses recognised in profit or loss	-
Total	4.4

Private equity funds have been classified as non-current available-for-sale financial assets. Private equity funds are measured based on valuation calculations obtained from fund management companies. Gains or losses from private equity funds have not been recorded for the 2011 financial year.

FINANCIAL CREDIT RISK

Financial instruments involve the risk of non-performance by counterparties. Kesko only enters into foreign currency and other derivatives with creditworthy banks. Liquid funds are invested, in accordance with limits set annually for each counterparty, in instruments with good credit quality. Company and bank-specific euro and time limits are set for interest investments. The utilisation of these limits is reviewed during the year depending on the market situation.

LOAN AGREEMENTS AT CHANGE OF CONTROL (INTEREST OVER 50%)

According to the terms of Kesko Corporation's USD-denominated private placement notes, in a situation involving a change of control, Kesko is obligated to offer a repayment of the whole loan capital to all noteholders. The noteholders have the right to accept or refuse the repayment.

According to the terms of Kesko Corporation's syndicated loan facility and other loan facilities, the lenders have the right to cancel the loan facility and any amounts drawn down.

According to the terms of both loan agreements, a transfer of ownership to retailers or a retailers' association shall not be considered a change of control.

CREDIT RATINGS

For the present, Kesko Corporation has not applied for a credit rating, because it has not been considered necessary in the company's present financial situation.

COMMODITY RISKS AND THEIR SENSITIVITY ANALYSIS

The Group uses electricity derivatives to level out energy costs. The electricity price risk is evaluated for five-year periods. The fair value changes of derivatives hedging the price of electricity supplied during the financial year are recognised within adjustments to purchases. Hedge accounting is applied to contracts hedging future purchases. The effective portion of derivatives that qualify for hedge accounting are recognised in the revaluation reserve of equity and the ineffective portion in the income statement within other operating income or expenses. The change in the revaluation reserve recognised in equity is presented in the statement of comprehensive income under 'Revaluation of cash flow hedge'.

At the end of the year, the ineffective portion of hedge accounting was €-1.1 million (€0.0 million).

At the balance sheet date, a total quantity of 798,000 MWH (1,131,120 MWH) of electricity had been purchased with electricity derivatives, and the 1–12 month hedging rate was 78% (79.5%), the 13–24 month rate was 46% (67.0%), the 25–36 month rate was 14% (39.7%), the 37–48 month rate was 3% (5.8%) and the 49–60 month rate was 0% (0.0%).

A sensitivity analysis for electricity derivatives assumes that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity derivatives changed by +/-20% from the balance sheet date 31 December 2011, it would contribute €-/+3.3 million (€-/+6.0 million) to the 2012 profit and €-/+2.9 million (€-/+6.4 million) to equity. The impact has been calculated before tax.

CAPITAL STRUCTURE MANAGEMENT

The Kesko Group's objectives in capital management include targets set for the Group's solvency and liquidity. The Group's capital structure (equity-to-debt ratio) is optimised at the Group level. The objectives for the Group's solvency and liquidity are set with the purpose of securing the Group's liquidity in all market situations, enabling the implementation of capital expenditure programmes based on the Group's strategy, and maintaining the shareholder value. Objectives have been set for the indicators 'equity ratio' and 'interest-bearing net debt/EBITDA'. Some of the Group's interest-bearing liabilities include covenants, whose terms and conditions have been taken into account in the above target levels. The Group does not have a credit rating from any external credit rating institution.

Fair values of derivative contracts

€ million	31 Dec. 2011 Positive fair value (balance sheet value)	31 Dec. 2011 Negative fair value (balance sheet value)	31 Dec. 2010 Positive fair value (balance sheet value)	31 Dec. 2010 Negative fair value (balance sheet value)
Interest rate derivatives	4.1 *	0.0	3.7	-0.1
Foreign currency derivatives	1.8	-12.9 *	1.4	-16.2
Electricity derivatives	0.0	-3.4	13.3	-0.1

Notional principal amounts of derivative contracts

€ million	31 Dec. 2011 Notional principal amount	31 Dec. 2010 Notional principal amount
Interest rate derivatives	207.7 *	205.4
Foreign currency derivatives	458.1 *	324.8
Electricity derivatives	31.5	63.2

** Derivative contracts include interest rate swaps relating to a foreign currency borrowing facility with a gross notional principal amount of €200.8 million and a fair value of €4.1 million (€3.7 million), and currency swaps with a notional principal amount of €100.4 million and a fair value of €-7.7 million (€-10.6 million).*

The maximum credit risk of derivatives is the fair value of the balance sheet at the reporting date.

The target levels for the Group's financial indicators are approved by the Board of Directors. On 4 February 2009, the Board approved the following values for the indicators 'equity ratio' and 'interest-bearing net debt/EBITDA'.

	Target level	Level achieved in 2011	Level achieved in 2010
Equity ratio	40–50%	53.9%	53.5%
Interest-bearing net debt /EBITDA	< 3	0.1	-0.9

€ million	2011	2010
Shareholders' equity	2,233.0	2,209.9
Balance sheet total	4,190.0	4,176.5
- Prepayments received	44.0	35.0
Total	4,146.0	4,141.5
Equity ratio	**53.9%**	**53.5%**
Interest-bearing liabilities	400.0	476.8
Financial assets	367.3	847.2
Interest-bearing net debt	32.8	-370.5
EBITDA	405.4	427.6
Interest-bearing net debt /EBITDA	**0.1**	**-0.9**

NOTE 40
RELATED-PARTY TRANSACTIONS

The Group's related parties include its key management (the Board of Directors, the President and CEO and the Corporate Management Board), subsidiaries, associates and the Kesko Pension Fund. The subsidiaries and associates are listed in a separate note (note 42).

The related party transactions disclosed consist of transactions carried out with related parties that are not eliminated in the consolidated financial statements.

Among associates consolidated using the equity method, properties owned by Kruunuvuoren Satama Oy have been leased for the Group's use. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies. The other associates mainly include business property companies which have leased their premises and real estate for use by the Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

The Kesko Pension Fund is a stand-alone legal entity which manages part of the pension assets of the Group's employees in Finland. The pension assets include Kesko Corporation shares in the amount of €32.5 million (€45.3 million). Real estate and premises owned by the Pension Fund have been leased to the Kesko Group.

During the 2011 financial year, the total amount paid by the Kesko Group in contributions to the Pension Fund was €26.0 million (€0.0 million).

During the 2010 financial year, the management of the statutory pension provision and the related Kesko Group employees' insurance portfolio was transferred from the Kesko Pension Fund to a pension insurance company. Relating to the transfer of the pension insurance portfolio, the Pension Fund returned pension assets to employer companies. The returned assets, with interest, resulted in a €151.6 million cash inflow to the Kesko Group.

The following transactions were carried out with related parties:

Sales of goods and services

€ million	2011	2010
Sales of goods		
Board of Directors and management	37.3	35.9
Total	37.3	35.9

€ million	2011	2010
Sales of services		
Associates	2.2	1.5
Board of Directors and management	4.6	4.4
Kesko Pension Fund	0.5	1.1
Total	7.3	7.0

Some members of Kesko's Board of Directors act as K-retailers. The Group companies sell goods and services to enterprises controlled by them.

During the financial year, the Kesko Group sold one real estate company to the Pension Fund. The Kesko Group's loan and receivable from a real estate company is €39.7 million. The loan interest rate is the 3-months Euribor rate plus a 0.5% margin and the loan will be repaid in 2012. The loan is secured by a mortgage.

In 2010, the Kesko Group sold eight properties to Kruunuvuoren Satama Oy, one of the Group's associates. Their total selling price was €59.9 million. Companies belonging to the Kesko Group leased the properties for use by the Kesko Group companies, mainly under 15-year leases with extension options. The Group's €13.8 million gain on the disposal was recorded as a non-recurring item within other operating income.

Goods and services are sold to related parties on normal market terms and conditions and at market prices.

Purchases of goods and services

€ million	2011	2010
Purchases of goods		
Board of Directors and management	2.5	2.1
Pension Fund	-	1.6
Total	2.5	3.7

€ million	2011	2010
Purchases of services		
Associates	4.7	2.9
Board of Directors and management	0.1	0.1
Total	4.8	3.0

Items included in other operating expenses include lease rentals paid by the Kesko Group to the Kesko Pension Fund in a total amount of €16.2 million (€32.2 million), and to associates in a total amount of €9.9 million (€4.4 million).

In 2010, the Kesko Group acquired the share capital of three real estate companies and one real estate property from the Kesko Pension Fund. The debt-free price was €125.5 million, as the Kesko Group assumed responsibility for the real estate companies' liabilities to the Kesko Pension Fund.

Other operating income

€ million	2011	2010
Associates	0.0	0.1
Board of Directors and management	1.3	0.9
Pension Fund	0.1	0.0
Total	1.5	0.9

Other operating expenses

€ million	2011	2010
Associates	9.9	4.4
Pension Fund	16.2	32.2
Other related party	1.1	0.9
Total	27.2	37.5

Finance costs

€ million	2011	2010
Associates	0.4	0.3
Pension Fund	0.6	0.0
Total	1.0	0.3

Current receivables

€ million	2011	2010
Associates	0.1	0.0
Board of Directors and management	3.7	2.6
Pension Fund	-	0.1
Total	3.9	2.7

Some Kesko Board members act as K-retailers. At the balance sheet date, the receivables resulting from sales by Kesko to enterprises controlled by them totalled €3.7 million (€2.6 million). The receivables are secured by the commercial credit collateral granted by Vähittäiskaupan Takaus Oy, a Kesko associate. The maximum amount of the collateral is always limited to the realisable value of the counter-security from the K-retailer's enterprise and the K-retailer entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the value of the counter-security was €3.4 million (€4.8 million).

Other current liabilities

€ million	2011	2010
Associates	35.5	34.4
Board of Directors and management	1.2	0.9
Pension Fund	8.2	49.3
Total	44.9	84.6

Other current liabilities include, among other things, chain rebate payables to enterprises controlled by three Kesko Board members acting as K-retailers. Chain rebates are paid retrospectively based on criteria related to the amount of actual annual purchases and the quality of operations.

In addition, Kesko has a €1.5 million non-current receivable from a real estate associate.

MANAGEMENT'S EMPLOYEE BENEFITS

Board remuneration

€ thousand	2011	2010
Heikki Takamäki, Chair	86.5	87.0
Seppo Paatelainen, Deputy Chair	59.0	59.0
Esa Kiiskinen	42.0	42.0
Ilpo Kokkila	43.0	44.0
Mikko Kosonen	44.5	44.0
Maarit Näkyvä	44.5	46.0
Rauno Törrönen	42.0	42.0

Remuneration of the President and CEO, and the Corporate Management Board members

€ thousand	2011	2010
Matti Halmesmäki, President and CEO	1,002.4	855.2
Corporate Management Board (the other members)	2,073.6	1,872.2

SHARE-BASED PAYMENTS

At 31 December 2011, the President and CEO held 130,000 share options. If shares were subscribed for with the President and CEO's share options, the share options would represent 0.13% of shares and 0.03% of all votes. At 31 December 2011, the other Corporate Management Board members held an aggregate of 294,750 share options. The share options held by the Corporate Management Board members have equal terms and conditions and vesting periods with the other share options included in the management's option plans.

RETIREMENT BENEFITS

The President and CEO and the other Corporate Management Board members, except for three (3), belong to the Kesko Pension Fund's department A which was closed in 1998, and their pensions are determined based on its rules and their personal service contracts. They have defined retirement benefit plans. Three of the members joined Kesko after 1998, and their pensions are determined based on the Employees' Pensions Act (TyEL) applied in Finland.

TERMINATION BENEFITS

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 nonrecurring 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 share options, 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/she is only entitled to a salary for the period of notice and fringe benefits. When a service relationship terminates due to retirement, the executive is paid a pension based on the service contract without other benefits.

NOTE 41
OTHER NOTES

EVENTS AFTER THE REPORTING PERIOD

After the balance sheet date, no significant events have taken place within the Group.

NOTE 42
SUBSIDIARIES AND ASSOCIATES AS AT 31 DEC. 2011

INTERESTS IN GROUP COMPANIES

Owned by the parent	Domicile	Group's ownership interest %	Parent's ownership interest %
Anttila Oy	Helsinki	100.00	100.00
Asunto Oy Kirkkonummen Västeruddintie 33	Kirkkonummi	100.00	100.00
Indoor Group Ltd	Helsinki	100.00	100.00
Intersport Finland Ltd	Helsinki	100.00	100.00
Johaston Oy	Helsinki	80.00	80.00
Kenkäkesko Ltd	Helsinki	100.00	100.00
Keslog Ltd	Helsinki	100.00	54.95
Kestra Kiinteistöpalvelut Oy	Helsinki	100.00	100.00
Kiinteistö Oy Helsingin Satamakatu 3	Helsinki	100.00	100.00
Kiinteistö Oy Kemin Asemakatu 4	Kemi	66.50	66.50
Kiinteistö Oy Lahden Lyhytkatu 1*	Lahti	50.00	50.00
Kiinteistö Oy Sunan Hallitalo	Helsinki	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki	100.00	100.00
Kiinteistö Oy Välivainion Ostoskeskus	Oulu	65.97	65.97
K-instituutti Oy	Helsinki	72.00	72.00
Klintcenter Ab	Maarianhamina	100.00	100.00
Konekesko Ltd	Helsinki	100.00	100.00
K-Plus Oy	Helsinki	100.00	100.00
K-talouspalvelukeskus Oy	Helsinki	100.00	51.02
Musta Pörssi Ltd	Helsinki	100.00	100.00
Plussa OÜ	Tallinn, Estonia	100.00	100.00
Rautakesko Ltd	Helsinki	100.00	100.00
Kesko Food Ltd	Helsinki	100.00	100.00
Sincera Oy	Helsinki	100.00	100.00
VV-Auto Group Oy	Helsinki	100.00	100.00

Owned by other Group companies	Domicile	Group's ownership interest %	Parent's ownership interest %
Ansami OOO	St. Petersburg, Russia	100.00	
Antti SIA	Riga, Latvia	100.00	
Anttila AS	Viljandi, Estonia	100.00	
Asko Möbler AB	Huddinge, Sweden	100.00	
Auto-Span Oy	Helsinki	100.00	
Bansemko OOO	Moscow, Russia	100.00	
Barker-Littoinen Oy	Espoo	100.00	
Bruland Bygg AS	Förde, Norway	66.31	
Byggmakker Distribusjon AS	Ski, Norway	100.00	
Byggmakker Norge AS	Oslo, Norway	100.00	
Cassa Oy	Helsinki	100.00	
Daugavkrasts M SIA	Riga, Latvia	100.00	
Fiesta Real Estate AS	Tallinn, Estonia	100.00	
Hasti-Ari AS	Ski, Norway	100.00	
Hauhon Kiinteistö- ja Kauppakeskus Oy	Hämeenlinna	100.00	
Ikosen OÜ	Tallinn, Estonia	100.00	
Indoor Group AS	Tallinn, Estonia	100.00	
Indoor Group SIA	Riga, Latvia	100.00	
Insofa Oy	Lahti	100.00	
Johaston OOO	Moscow, Russia	80.00	
Kamenka OOO	St. Petersburg, Russia	100.00	
K-citymarket Oy	Helsinki	100.00	
Keru Kiinteistöt Oy	Helsinki	100.00	
Kesko Food Russia Holding Oy	Helsinki	100.00	
Kesko Food Rus OOO	St. Petersburg, Russia	100.00	
Kesko Real Estate Latvia SIA	Riga, Latvia	100.00	
Kesko Real Estate OOO	St. Petersburg, Russia	100.00	
Kespro Ltd	Helsinki	100.00	
Kestroy 1 ZAO	Moscow, Russia	100.00	
KFR Real Estate 1 OOO	St. Petersburg, Russia	100.00	
Kiinteistö Oy Arolan Risteys	Kouvola	100.00	
Kiinteistö Oy Furupuro	Vantaa	100.00	
Kiinteistö Oy Hannunhelmi	Helsinki	100.00	
Kiinteistö Oy Keravan Alikeravantie 77	Helsinki	100.00	
Kiinteistö Oy Lahden Karisma	Helsinki	100.00	
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki	100.00	
Kiinteistö Oy Liike-Jaako	Rovaniemi	67.88	
Kiinteistö Mesta Oy	Helsinki	100.00	
Kiinteistö Oy Mäntyharjun Liiketori	Mäntyharju	100.00	
Kiinteistö Oy Pajalantie 19	Järvenpää	100.00	
Kiinteistö Oy Piispansilta	Espoo	100.00	
Kiinteistö Oy Pälkäneen Liikekeskus	Pälkäne	79.98	
Kiinteistö Oy Saarijärven Postitalo	Saarijärvi	100.00	
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00	
Kiinteistö Oy Tampuri	Helsinki	100.00	
Kiinteistö Oy Tarkkaiikka	Oulu	100.00	
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00	
K-maatalouskaupat Oy	Helsinki	100.00	

Owned by other Group companies	Domicile	Group's ownership interest %	Parent's ownership interest %
Knuto AS	Ski, Norway	100.00	
Konekesko Eesti AS	Tallinn, Estonia	100.00	
Konekesko Holding Oy	Helsinki	100.00	
Konekesko Latvija SIA	Riga, Latvia	100.00	
Konekesko Lietuva UAB	Vilnius, Lithuania	100.00	
Konekesko OOO	St. Petersburg, Russia	100.00	
Konsoma JLLC	Minsk, Belarus	8.94	
K Prof SIA	Riga, Latvia	100.00	
K rauta SIA	Riga, Latvia	100.00	
K-rauta AB	Stockholm, Sweden	100.00	
K-rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00	
KR Fastigheter AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Eskilstuna AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Halmstad AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Järfälla AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Linköping AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Norrbotten AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Sundsvall AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Umeå AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Uppland AB	Sollentuna, Sweden	100.00	
KR Fastigheter Servicekontor AB	Sollentuna, Sweden	100.00	
KR Group OOO	St. Petersburg, Russia	100.00	
Krona OOO	St. Petersburg, Russia	100.00	
Limingan Portti 1 Oy	Liminka	100.00	
Loimaan maatalous- ja rautakauppa Oy	Helsinki	100.00	
Malmintorin Pysäköintitalo Oy*	Helsinki	99.91	
Match-Point OOO	St. Petersburg, Russia	100.00	
Mežciems Real Estate SIA	Riga, Latvia	100.00	
Midgard OOO	St. Petersburg, Russia	100.00	
Norgros Handel AS	Lilleström, Norway	100.00	
OMA OOO	Minsk, Belarus	8.94	
Pikoil Oy	Helsinki	100.00	
Polo LS SIA	Riga, Latvia	100.00	
Rake Bergen AS	Oslo, Norway	100.00	
Rake Eiendom AS	Oslo, Norway	100.00	
Rautakesko AS	Tallinn, Estonia	100.00	
Rautakesko A/S	Riga, Latvia	100.00	
Romos Holdingas UAB	Kaunas, Lithuania	8.94	
Senukai UAB	Kaunas, Lithuania	49.61	
Senuku Prekybos Centras UAB	Vilnius, Lithuania	50.00	
Senuku Tirdzniecibas Centrs SIA	Riga, Latvia	50.00	
SPC Holding UAB	Kaunas, Lithuania	50.00	
Stroymaster Holding Finland Oy	Helsinki	100.00	
Stroymaster ZAO	St. Petersburg, Russia	100.00	
SunRetail ZAO	Moscow, Russia	100.00	
Suomenojan Kauppakeskus Oy	Espoo	100.00	
Tampereen Länsikeskus Oy	Tampere	100.00	
Tarondi Estate OOO	Moscow, Russia	100.00	
TP Real Estate SIA	Riga, Latvia	100.00	
Trøgstadveien 13 AS	Ski, Norway	100.00	
Turun VV-Auto Oy	Helsinki	100.00	
Ural OOO	St. Petersburg, Russia	100.00	
Verdal Eiendom AS	Ski, Norway	100.00	
VV-Autotalot Oy	Helsinki	100.00	

ASSOCIATES

Owned by the parent	Domicile	Group's ownership interest %	Parent's ownership interest %
Graanin Liikekeskus Oy	Mikkeli	50.00	50.00
Itäkeskuksen Pysäköintitalo Oy*	Helsinki	36.16	36.16
Kiinteistö Oy Itäaukio	Lahti	26.20	26.20
Kiinteistö Oy Janakkalan Linnatuuli	Janakkala	29.86	29.86
Kiinteistö Oy Joensuun Kaupunginportti	Joensuu	22.77	22.77
Kiinteistö Oy Mellunmäen Liike- ja toimintakeskus	Helsinki	23.42	23.42
Kiinteistö Oy Ulvilan Hansa*	Ulvila	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus*	Vantaa	27.81	27.81
Kruunuvuoren Satama Oy	Helsinki	49.00	49.00
Valluga-sijoitus Oy	Helsinki	39.00	39.00
Vähittäiskaupan Takaus Oy	Helsinki	34.35	34.35
Vähittäiskaupan Tilipalvelu VTP Oy	Helsinki	30.00	30.00

Owned by other Group companies			
Kiinteistö Oy Lahden Teollisuuskeskus*	Lahti	48.32	
Talo Oy Kalevanpuisto*	Kuopio	47.60	
Toomax Asia Ltd.	Hong Kong	25.00	
TOOMAXX Handels GmbH	Germany	25.00	

** Jointly controlled mutual real estate companies consolidated on a line-by-line basis.*

PARENT COMPANY'S FINANCIAL STATEMENTS

PARENT'S INCOME STATEMENT (FAS)

€	1 Jan.-31 Dec. 2011	1 Jan.-31 Dec. 2010
Net sales	**25,621,748.61**	**22,902,406.32**
Other operating income	123,529,699.73	203,915,958.89
Materials and services	189.39	-251.91
Staff expenses	-14,739,739.34	84,202,193.58
Depreciation and reduction in value	-15,912,629.43	-18,950,307.10
Other operating expenses	-99,201,860.46	-112,216,261.62
Operating profit	**19,297,408.50**	**179,853,738.16**
Financial income and expenses	13,569,860.15	11,316,516.87
Profit before extraordinary items	**32,867,268.65**	**191,170,255.03**
Extraordinary items	103,123,780.45	51,637,711.18
Profit before appropriations and taxes	**135,991,049.10**	**242,807,966.21**
Appropriations	222,906.59	11,578,899.13
Profit before taxes	**136,213,955.69**	**254,386,865.34**
Income taxes	-35,660,765.71	-64,854,150.69
Profit for the financial year	**100,553,189.98**	**189,532,714.65**

PARENT'S BALANCE SHEET (FAS)

€	31 Dec. 2011	31 Dec. 2010
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	124,834.67	199,906.39
Other capitalised long-term expenses	9,893,042.86	4,313,388.19
Advance payments	1,976,928.89	1,736,613.77
	11,994,806.42	6,249,908.35
TANGIBLE ASSETS		
Land and waters	81,256,474.49	80,873,372.49
Buildings	207,339,953.84	205,180,300.54
Machinery and equipment	3,554,390.98	2,863,976.71
Other tangible assets	5,213,897.51	5,293,574.24
Advance payments and construction in progress	4,307,434.52	2,840,181.75
	301,672,151.34	297,051,405.73
INVESTMENTS		
Holdings in Group undertakings	290,885,444.71	290,883,006.31
Participating interests	50,428,962.48	50,428,962.48
Other investments	12,367,622.37	11,269,659.86
	353,682,029.56	352,581,628.65
CURRENT ASSETS		
DEBTORS		
Long-term		
Amounts owed by Group undertakings	354,779,677.39	301,952,665.95
Amounts owed by participating interest undertakings	1,546,010.01	1,546,010.01
	356,325,687.40	303,498,675.96
Short-term		
Trade debtors	120,317.26	133,107.69
Amounts owed by Group companies	704,423,650.80	419,278,113.48
Amounts owed by participating interest undertakings	80,421.63	1,031,965.85
Loan receivables	39,654,941.99	-
Other receivables	247,336.90	529,725.06
Prepayments and accrued income	36,354,322.90	34,266,780.47
	780,880,991.48	455,239,692.55
INVESTMENTS		
Other investments	240,812,775.14	762,309,168.71
CASH IN HAND AND AT BANKS	44,094,169.82	11,311,650.71
TOTAL ASSETS	**2,089,462,611.16**	**2,188,242,130.66**

€	31 Dec. 2011	31 Dec. 2010
LIABILITIES		
CAPITAL AND RESERVES		
Share capital	197,282,584.00	197,282,584.00
Share premium account	197,498,010.90	197,498,010.90
Other reserves	243,503,433.05	243,415,795.55
Retained earnings	757,495,654.85	719,178,076.45
Profit for the financial year	100,553,189.98	189,532,714.65
	1,496,332,872.78	1,546,907,181.55
APPROPRIATIONS		
Depreciation reserve	79,810,615.60	80,033,522.19
PROVISIONS		
Other provisions	308,363.01	2,004,418.01
CREDITORS		
Non-current		
Private placement bonds	100,418,410.04	100,418,410.04
Loans from credit institutions	25,793,139.03	32,689,235.40
Other creditors	12,651.73	13,200.00
	126,224,200.80	133,120,845.44
Current		
Loans from credit institutions	7,147,962.83	-
Advances received	37,165.30	1,109.73
Trade creditors	4,068,791.84	2,745,213.39
Amounts owed to Group companies	319,714,249.62	373,586,139.84
Amounts owed to participating interest undertakings	35,543,101.97	34,211,919.86
Other creditors	6,741,000.02	4,934,194.55
Accruals and deferred income	13,534,287.39	10,697,586.10
	386,786,558.97	426,176,163.47
TOTAL LIABILITIES	**2,089,462,611.16**	**2,188,242,130.66**

PARENT'S CASH FLOW STATEMENT (FAS)

€	1 Jan.-31 Dec. 2011	1 Jan.-31 Dec. 2010
Cash flow from operating activities		
Profit before extraordinary items	32,867,268.65	191,170,255.03
Adjustments:		
Depreciation according to plan	15,912,629.43	17,434,923.06
Financial income and expenses	-13,569,860.15	-13,813,089.93
Other adjustments	-1,726,000.62	-69,584,215.55
	33,484,037.31	125,207,872.61
Change in working capital		
Interest-free short-term trade receivables, increase/decrease (-/+)	3,320,954.86	-1,088,925.27
Interest-free short-term debt, increase/decrease (+/-)	-571,717.25	11,765,141.48
	2,749,237.61	10,676,216.21
Interests paid	-18,981,566.75	-16,082,754.25
Interests received	35,143,055.26	25,698,497.53
Dividends received	105,961.20	21,851.99
Taxes paid	-40,676,089.59	-103,242,413.51
	-24,408,639.88	-93,604,818.24
Cash flow from operating activities	**11,824,635.04**	**42,279,270.58**
Cash flow from investing activities		
Purchases of other investments	-427,410.59	-4,494,826.00
Investments in tangible and intangible assets	-22,247,633.99	-7,342,155.49
Increase in long-term receivables	-52,827,011.44	0.00
Decrease in long-term receivables	0.00	107,916,292.15
Subsidiary acquired	-5,651,403.87	-27,381,743.56
Subsidiary disposed	3,800.00	1,934,425.00
Associated company acquired	0.00	-32,669,166.40
Associated company disposed	0.00	6,727.52
Proceeds from other investments	0.00	411,370.00
Proceeds from sale of tangible and intangible assets	1,696,049.13	103,295,518.59
Cash flow from investing activities	**-79,453,610.76**	**141,676,441.81**
Cash flow from financing activities		
Increase/decrease (+/-) in current creditors	-42,791,255.48	114,638,294.24
Increase/decrease (+/-) in non-current creditors	-6,896,644.64	-5,492,357.02
Increase/decrease (-/+) in short-term interest-bearing receivables	-323,916,887.35	-120,104,979.56
Short-term money market investments	199,649,938.45	-112,971,602.17
Dividends paid	-128,233,679.60	-88,547,166.90
Group contributions received and paid	103,123,780.45	51,637,711.18
Increase in reserve for invested non-restrictive equity	87,637.50	4,208,314.54
Increase in reserve for own shares	-22,863,905.23	0.00
Others	302,338.55	-14,132,237.45
Cash flow from financing activities	**-221,538,677.35**	**-170,764,023.14**
Change in liquid assets	**-289,167,653.07**	**13,191,689.25**
Liquid assets at 1 January	**438,579,485.23**	**425,387,795.98**
Liquid assets at 31 December	**149,411,832.16**	**438,579,485.23**

NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

PRINCIPLES USED FOR PREPARING THE PARENT'S FINANCIAL STATEMENTS

Kesko Corporation's financial statements have been prepared in compliance with the Finnish Accounting Standards (FAS).

NON-CURRENT ASSETS

INTANGIBLE ASSETS

Intangible assets are stated in the balance sheet at cost less depreciation according to plan.

Depreciation plan

Other capitalised expenditure	5–20 years
Computer software and licences	3–5 years

TANGIBLE ASSETS

Tangible assets are stated in the balance sheet at cost less depreciation according to plan.

Depreciation plan

Depreciation according to plan is calculated on a straight line basis so as to write off the cost of tangible assets over their estimated useful lives.

The periods adopted for depreciation are as follows:

Buildings	10–33 years
Fixtures and fittings	8 years
Machinery and equipment	25% reducing balance method
Transportation fleet	5 years
Information technology equipment	3–5 years
Other tangible assets	5–14 years

Land has not been depreciated. The total of depreciation according to plan and the change in depreciation reserve comply with the Finnish Business Tax Act. The change in depreciation reserve has been treated as appropriations.

VALUATION OF FINANCIAL ASSETS

Marketable securities have been valued at the lower of cost and net realisable value.

FOREIGN CURRENCIES

Items denominated in foreign currencies have been translated into Finnish currency at the average exchange rate of the European Central Bank at the balance sheet date. If a receivable or a debt is tied to a fixed rate of exchange, it has been used for translation.

Exchange rate differences have been recognised in profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate derivatives

Interest rate derivatives are used to modify loan durations. The target duration is three years and it is allowed to vary between one and a half and four years. Cash flows arising from interest rate derivatives are recognised during the financial year as interest income or expenses, according to the maturity date. In the financial statements, open forward agreements, futures, options and swaps are stated at market values but unrealised revaluation is not stated as income. Any valuation losses are included in interest expenses.

Foreign exchange derivatives

Foreign exchange derivatives are used for hedging against translation and transaction risks. Foreign exchange forwards are valued at the exchange rate of the balance sheet date. The rate differences arising from open derivative contracts are reported in financial items. If a derivative has been used to hedge a foreign-currency-denominated asset, value change has been recognised against that of the asset item. The premiums of option contracts are included in the balance sheet accruals until they expire, or if a value change at the balance sheet date so requires, recognition in profit or loss.

Commodity derivatives

Kestra Kiinteistöpalvelut Oy, a Kesko Corporation subsidiary, uses electricity derivatives to balance the energy costs of the Group and its retailers. Kesko Corporation is an external counterparty in electricity derivatives made with a bank, and internally hedges the corresponding price with the subsidiary. At no stage does Kesko Corporation have derivative positions, and thus there are no effects on profit or loss. The electricity price risk is reviewed on a 5-year time span. With respect to derivatives hedging the price of electricity supplied during the financial year, value changes are recognised at Kesko under interest income and expenses. Unrealised gains and losses of contracts hedging future purchases are not recognised through profit or loss.

PENSION PLANS

Pension costs are recognised as expenses in the income statement for the whole financial year and the personnel's statutory pension coverage is managed by a pension company.

PROVISIONS

Provisions stated in the balance sheet include items bound to by agreements or otherwise, but remain unrealised. Changes in provisions are included in the income statement. Rent liabilities for vacant rented premises no longer used for the Group business operations, as well as the losses resulting from renting the premises to outsiders, are included in provisions.

INCOME TAX

Income tax includes the income tax payments for the period based on the profit for the period, and taxes payable for prior periods, or tax refunds. Deferred taxes are not included in the parent's income statement and balance sheet.

NOTES TO THE INCOME STATEMENT

€ million	2011	2010
1. Other operating income		
Profits on sales of real estate and shares	0.0	66.3
Rent income	123.1	137.3
Others	0.4	0.3
Total	123.5	203.9

During financial year 2010, Kesko Corporation sold some of its real estate properties to one of its associates, Kruunuvuoren Satama Oy and to Ilmarinen Mutual Pension Insurance Company.

2. Average number of personnel		
Kesko Corporation	162	150
Total	162	150

3. Personnel expenses		
Salaries and fees	-12.3	-9.9
Social security expenses		
Pension expenses	-1.8	94.6
Other social security expenses	-0.6	-0.5
Total	-14.7	84.2

During financial year 2010, a surplus amount of €94.9 million was returned to Kesko Corporation by the Kesko Pension Fund.

Salaries and fees to the management		
Managing Director	1.0	0.9
Board of Directors' members	0.4	0.4
Total	1.4	1.2

An analysis of the management's salaries and fees is included in the notes to the consolidated financial statements.

4. Depreciation and value adjustments		
Depreciation according to plan	-15.9	-17.4
Value adjustments, non-current assets	-	-1.5
Total	-15.9	-19.0

5. Other operating expenses		
Rent expenses	-67.8	-80.5
Marketing expenses	-1.5	-1.6
Maintenance of real estate and store sites	-7.2	-8.0
Data communications expenses	-15.8	-14.5
Losses on sales of real estate and shares	-	-1.0
Other operating expenses	-6.9	-6.5
Total	-99.2	-112.2

Auditor's fees		
PricewaterhouseCoopers, Authorised Public Accountants		
Auditor's fees	0.1	0.1
Tax consultation	0.1	0.1
Other fees	0.1	0.1
Total	0.3	0.3

€ million	2011	2010
6. Financial income and expenses		
Income from long-term investments		
Dividend income from Group companies	0.1	-
Profit from sales of shares	-	0.3
Income from long-term investments, total	0.1	0.3
Other interest and financial income		
From Group companies	23.9	15.7
From others	18.2	27.1
Interest and financial income, total	42.1	42.8
Interest and other financial expenses		
To Group companies	-6.7	-3.0
To others	-21.9	-28.8
Interest and other financial expenses, total	-28.7	-31.7
Total	13.6	11.3

7. Items included in extraordinary income and expenses		
Contributions from Group companies	130.9	100.7
Contributions to Group companies	-27.8	-49.1
Total	103.1	51.6

8. Appropriations		
Difference between depreciation according to plan and depreciation in taxation	0.2	11.6
Total	0.2	11.6

9. Changes in provisions		
Future rent expenses for vacant business premises	1.4	3.7
Other changes	0.3	2.2
Total	1.7	5.8

10. Income taxes		
Income taxes on extraordinary items	-26.8	-13.4
Income taxes on ordinary activities	-8.9	-51.4
Total	-35.7	-64.9

DEFERRED TAXES

Deferred tax liabilities and assets have not been included in the balance sheet. The amounts are not significant.

NOTES TO THE BALANCE SHEET

€ million	2011	2010
11. Intangible assets		
Intangible assets		
Acquisition cost at 1 January	38.9	39.5
Increases	6.7	0.3
Decreases	-10.4	-1.1
Transfers between items	1.1	0.2
Acquisition cost at 31 December	36.3	38.9
Accumulated depreciation at 1 January	-35.1	-34.0
Accumulated depreciation on decreases and transfers	10.4	0.5
Depreciation for the financial year	-1.6	-1.5
Accumulated depreciation at 31 December	-26.3	-35.1
Book value at 31 December	10.0	3.8
Advance payments		
Acquisition cost at 1 January	1.7	1.5
Increases	1.8	0.5
Decreases	-0.5	0.0
Transfers between items	-1.1	-0.2
Acquisition cost at 31 December	1.9	1.7
Book value at 31 December	2.0	1.7

€ million	2011	2010
12. Tangible assets		
Land and waters		
Acquisition cost at 1 January	80.9	97.2
Increases	0.4	0.3
Decreases	-	-16.2
Value adjustment	-	-0.5
Acquisition cost at 31 December	81.3	80.9
Book value at 31 December	81.3	80.9
Buildings		
Acquisition cost at 1 January	377.9	428.0
Increases	14.5	4.1
Decreases	-16.4	-56.3
Transfers between items	0.1	2.0
Acquisition cost at 31 December	376.0	377.9
Accumulated depreciation at 1 January	-172.7	-194.8
Accumulated depreciation on decreases and transfers	16.4	36.8
Value adjustment	-	-1.0
Depreciation for the financial year	-12.4	-13.6
Accumulated depreciation at 31 December	-168.7	-172.7
Book value at 31 December	207.3	205.2
Machinery and equipment		
Acquisition cost at 1 January	19.7	22.1
Increases	1.0	0.4
Decreases	-3.4	-2.9
Transfers between items	0.6	0.2
Acquisition cost at 31 December	17.9	19.7
Accumulated depreciation at 1 January	-16.8	-18.2
Accumulated depreciation on decreases and transfers	3.4	2.3
Depreciation for the financial year	-0.9	-1.0
Accumulated depreciation at 31 December	-14.3	-16.8
Book value at 31 December	3.6	2.9

€ million	2011	2010
Other tangible assets		
Acquisition cost at 1 January	12.8	13.7
Increases	0.8	0.3
Decreases	-0.8	-1.3
Transfers between items	0.1	0.1
Acquisition cost at 31 December	12.9	12.8
Accumulated depreciation at 1 January	-7.5	-7.1
Accumulated depreciation on decreases and transfers	0.8	0.6
Depreciation for the financial year	-1.0	-1.1
Accumulated depreciation at 31 December	-7.7	-7.5
Book value at 31 December	5.2	5.3
Advance payments and construction in progress		
Acquisition cost at 1 January	2.8	4.6
Increases	3.5	1.4
Decreases	-1.2	-0.9
Transfers between items	-0.8	-2.3
Acquisition cost at 31 December	4.3	2.8
Book value at 31 December	4.3	2.8

Revaluation of non-current assets
At the end of the financial year, Kesko Corporation's balance sheet did not contain revaluations.

€ million	2011	2010
13. Investments		
Holdings in Group undertakings		
Acquisition cost at 1 January	290.9	264.1
Increases	-	27.4
Decreases	-	-0.6
Acquisition cost at 31 December	290.9	290.9
Book value at 31 December	290.9	290.9
Participating interests		
Acquisition cost at 1 January	50.4	17.8
Increases	-	32.7
Acquisition cost at 31 December	50.4	50.4
Book value at 31 December	50.4	50.4
Other investments		
Acquisition cost at 1 January	12.0	8.0
Increases	0.4	4.5
Decreases	-	-0.5
Acquisition cost at 31 December	12.4	12.0
Book value at 31 December	12.4	12.0

Kesko Corporation's ownership interests in other companies as at 31 December 2011 are presented in the notes to the consolidated financial statements.

€ million	2011	2010
14. Debtors		
Amounts owed by Group companies		
Long-term		
Loan receivables	316.8	251.6
Subordinated loans	38.0	50.4
Long-term, total	354.8	302.0
Short-term		
Trade receivables	2.5	1.6
Loan receivables	701.0	415.4
Prepayments and accrued income	0.9	2.3
Short-term, total	704.4	419.3
Total	1,059.2	721.2

Kesko Corporation has provided subordinated loans to Indoor Group Ltd, Kiinteistö Mesta Oy and Johaston Oy, companies owned by it, in the amounts of €10.0 million, €10.0 million and €24.0 million respectively.

The loan provided to Indoor Group Ltd will mature on 31 March 2014. The loan capital will be repaid in five equal repayments, provided that the provisions of chapter 12, section 1, paragraph 1 of the Limited Liability Companies Act are fulfilled. The loan interest will be payable only if the amount of the company's unrestricted equity plus all subordinated loans at the time of repayment exceeds the amount of loss shown in the balance sheet of the financial statements to be adopted for the company's financial year last ended or of more recent financial statements. If the repayment criteria are met, a 10% interest will be paid on the loan.

The loan provided to Kiinteistö Mesta Oy will be repaid only if the restricted shareholders' equity and other non-distributable items in the balance sheet confirmed for the debtor's financial year last ended are fully funded after loan repayment.

The loan provided to Johaston Oy will mature on 31 December 2016. The loan capital will be repaid in a single instalment. The loan capital will be repaid provided that the legal requirements regarding the repayment of a subordinated loan are met. The loan is interest free.

€ million	2011	2010
Amounts owed by participating interest undertakings		
Long-term		
Loan receivables	1.5	1.5
Short-term		
Loan receivables	0.1	1.0
Short-term, total	0.1	1.0
Total	1.6	2.6
Prepayments and accrued income		
Taxes	31.6	26.3
Others	4.8	8.0
Total	36.4	34.3

€ million	2011	2010
15. Capital and reserves		
Share capital at 1 January	197.3	196.6
Subscriptions with options	0.0	0.6
Share capital at 31 December	197.3	197.3
Share issue, exercise of options at 1 January	-	-
Increase	0.1	4.2
Transfer to share capital	-	-0.6
Transfer to other reserves	-0.1	-3.6
Share issue, exercise of options at 31 December	-	-
Share premium account at 1 January	197.5	193.9
Subscriptions with options	-	3.6
Share premium account at 31 December	197.5	197.5
Other reserves		
Contingency fund at 1 January	243.4	243.4
Contingency fund at 31 December	243.4	243.4
Invested unrestricted equity fund at 1 January	-	-
Increase	0.1	-
Invested unrestricted equity fund at 31 December	0.1	-
Other reserves	243.5	243.4
Retained earnings at 1 January	908.7	808.4
Distribution of dividends	-128.2	-88.5
Own shares	-22.9	-
Transfer to donations	-0.1	-0.7
Retained earnings at 31 December	757.5	719.2
Profit for the financial year	100.6	189.5
Capital and reserves, total	1,496.4	1,546.9

During the reporting period, the number of B shares was increased twice corresponding to share subscriptions with the share options of the 2007 option plan. The increases were made on 31 May 2011 (€64,267) and 1 August 2011 (€23,370) and announced in stock exchange notifications on the same days. The subscribed shares were included on the main list of the Helsinki stock exchange for public trading with the old B shares on 1 June 2011 and 2 August 2011. The combined share subscription price of €87,638 received by the company was recorded in the reserve of invested non-restricted equity.

Calculation of distributable profits	2011	2010
Other reserves	243.5	243.4
Retained earnings	757.5	719.2
Profit for the financial year	100.6	189.5
Total	1,101.6	1,152.1

Breakdown of the parent's share capital

	pcs	equivalent, €	€ million
A shares	31,737,007	2.00	63.5
B shares	66,908,035	2.00	133.8
Total	98,645,042		197.3

Voting rights carried by shares	number of votes
A share	10
B share	1

BOARD'S AUTHORISATIONS TO ACQUIRE AND ISSUE OWN SHARES

The Board of Directors was authorised by the Annual General Meeting of 4 April 2011 to acquire a total maximum of 1,000,000 own B shares. The authorisation is valid until 30 September 2012. The Annual General Meeting also authorised the Board to decide on the issuance of a maximum of 1,000,000 own B shares held by the company itself. The authorisation is valid until 30 June 2014. The prior authorisation by the Annual General Meeting of 30 March 2009 to issue a maximum of 20,000,000 new B shares against payment or other consideration until 30 March 2012 is still valid. By virtue of the share acquisition authorisation, a total of 700,000 own B shares were acquired from the Helsinki stock exchange during the financial year. The beginning of acquisition was announced on a stock exchange release on 28 April 2011. Each subsequent acquisition was announced in a stock exchange notification on the same day. The total price paid for the shares was €23.7 million. No company shares have been issued by virtue of the share issue authorisations.

OPTIONS

The Group operates share option plans as part of management's incentive and commitment plans. Each option gives its holder the right to subscribe for one Kesko Corporation B share at the price and during the period specified in the terms and conditions of the option plan. The options are forfeited if the employee leaves the company before the end of the vesting period, unless, in an individual case, the Board decides that the option recipient can keep all or some of the options under offering obligation.

2007 OPTION SCHEME

On 26 March 2007, the Annual General Meeting decided to grant a total of 3,000,000 options for no consideration to the management of the Kesko Group, other key personnel, and a subsidiary wholly owned by Kesko Corporation. The Company had a weighty financial reason for granting the options because they are intended to be part of Kesko's share-based incentive system. Each option entitles its holder to subscribe for one new Kesko Corporation B share. In addition, the option scheme also includes an obligation to buy company shares for permanent ownership for the value of 25% of the proceeds from the sale of options. The options are marked with the symbols 2007A, 2007B and 2007C in units of 1,000,000 options each.

The options are exercisable as follows:

- 2007A 1 April 2010–30 April 2012
- 2007B 1 April 2011–30 April 2013
- 2007C 1 April 2012–30 April 2014

The original price of a share subscribed for with option 2007A was the trade volume weighted average quotation of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April and 30 April 2007 (€45.82), with option 2007B, between 1 April and 30 April 2008 (€26.57), and with option 2007C, between 1 April and 30 April 2009 (€16.84). The prices of shares subscribed for with options are reduced by the amount decided after the beginning of the period for the determination of the subscription price but before the subscription, as at the record date for each distribution of profits or other assets.

After the distribution of dividends for 2010, the price of a B share subscribed for with option 2007A was €41.02 at the end of 2011, with option 2007B €23.37, and with option 2007C €14.64. The option scheme covers approximately 130 people.

PERCENTAGE OF ISSUED SHARE OPTIONS OUT OF ALL SHARES AND VOTES

If all of the exercisable share options were exercised, the shares subscribed for with all of the 2007 options would account for 2.95% of all shares and for 0.77% of all votes. The subscriptions made with share options can raise the number of the company's shares to 101,641,292. As a result of the subscriptions, the voting rights carried by all shares could increase to 387,274,355 votes.

Dividend rights and other shareholder rights carried by the shares will apply after the share capital increase has been entered in the Trade Register.

€ million	2011	2010
16. Appropriations		
Depreciation difference	79.8	80.0
Total	79.8	80.0
17. Provisions		
Future rent expenses for vacant business premises	0.3	2.0
Total	0.3	2.0
18. Non-current creditors		
Debt falling due later than within five years		
Private placement bonds	20.1	50.2
Loans from credit institutions	-	-
Total	20.1	50.2

On 10 June 2004, Kesko Corporation issued a private placement of USD 120 million in the US. The arrangement consists of three bullet loans: a 10-year loan (USD 60 million), a 12-year loan (USD 36 million) and a 15-year loan (USD 24 million). Kesko has hedged the loan by using currency and interest rate swaps, as a result of which the loan capital totals €100.4 million and the fixed capital-weighted average interest rate is 5.4%.

€ million	2011	2010
19. Current creditors		
Amounts owed to Group undertakings		
Trade creditors	0.1	0.1
Other creditors	317.7	370.4
Accruals and deferred income	1.9	3.0
Total	319.7	373.6
Amounts owed to participating interest undertakings		
Other creditors	35.5	34.2
Total	35.5	34.2
Accruals and deferred income		
Staff expenses	3.4	3.0
Taxes	0.3	-
Others	9.8	7.7
Total	13.5	10.7
20. Interest-free debt		
Current creditors	21.3	17.8
Total	21.3	17.8

OTHER NOTES

€ million	2011	2010
21. Guarantees, liability engagements and other liabilities		
Real estate mortgages		
For own debt	6	6
For Group companies	10	10
Pledged shares	44	39
Guarantees		
For own debt	1	2
For Group companies	50	42
For others	0	0
Other liabilities and liability engagements		
For own debt	9	7
Rent liabilities on machinery and fixtures		
Falling due within a year	0	0
Falling due later	1	0
Rent liabilities on real estate		
Falling due within a year	55	62
Falling due later	305	330

€ million	2011	Fair value	2010	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments at 31 Dec.				
Interest rate derivatives				
Forward and future contracts			-	-
Interest rate swaps	201	4.1	201	3.7
Currency derivatives				
Forward and future contracts				
Outside the Group	351	-3.4	223	-4.2
Inside the Group	24	-1.0	27	0.0
Option agreements				
Bought			-	-
Written			4	0.0
Currency swaps	100	-7.7	100	-10.6
Commodity derivatives				
Electricity derivatives				
Outside the Group	32	-3.4	63	13.2
Inside the Group	32	3.4	63	-13.2

SIGNATURES

SIGNATURES

Helsinki, 1 February 2012

Heikki Takamäki

Seppo Paatelainen

Esa Kiiskinen

Ilpo Kokkila

Mikko Kosonen

Maarit Näkyvä

Rauno Törrönen

Matti Halmesmäki
President and CEO

THE AUDITOR'S NOTE

Our auditors' report has been issued today.

Helsinki, 10 February 2012

PricewaterhouseCoopers Oy
Authorised Public Accountants

Johan Kronberg
APA

AUDITOR'S REPORT

(TRANSLATION FROM THE FINNISH ORIGINAL)

TO THE ANNUAL GENERAL MEETING OF KESKO CORPORATION

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Kesko Corporation for the year ended 31 December, 2011. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

OTHER OPINIONS

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki, 10 February 2012
PricewaterhouseCoopers Oy
Authorised Public Accountants

Johan Kronberg
Authorised Public Accountant