
# KESKO

KESKO'S YEAR
**2011**

# KESKO GROUP




# DIVISIONS



# COMMON OPERATIONS




# CORPORATE GOVERNANCE



# FINANCIAL STATEMENTS

# DIVISIONS

| | DIVISION | SHARE OF KESKO GROUP'S NET SALES | SHARE OF KESKO GROUP'S OPERATING PROFIT excl. non-recurring items |
|---|---|---|---|
|  | **FOOD** TRADE | 43% | 60% |
|  | **HOME AND SPECIALITY GOODS** TRADE | 16% | 13% |
|  | **BUILDING AND HOME IMPROVE-MENT** TRADE | 28% | 9% |
|  | **CAR AND MACHINERY** TRADE | 12% | 18% |

| DIVISION'S NET SALES | DIVISION'S OPERATING PROFIT excl. non-recurring items | DIVISION'S BRANDS |
|---|---|---|
| €4,182m<br>+7% | €172m<br>+€12m | K CITYMARKET, K SUPERMARKET, K MARKET, K EXTRA, PIRKKA, KESPRO |
| €1,564m<br>0% | €37m<br>-€29m | K CITYMARKET, ANTTILA, KODINYKKÖNEN, NETANTTILA.COM, INTERSPORT, budget sport, kesport, KOOKENKÄ, ASKO, SOTKA, MUSTA PÖRSSI, ANDIAMO, KONEBOX |
| €2,716m<br>+8% | €27m<br>+€3m | K-RAUTA, RAUTIA, K-MAATALOUS, K-PAYTA, BM BYGGMAKKER, Rautakesko Yrityspalvelu, SENUKAI, OMA |
| €1,174m<br>+23% | €52m<br>+€19m | VW, VW Hyötyautot, Audi, SEAT, KONEKESKO, YAMAHA, YAMARIN, MAN, MASSEY FERGUSON, CASE CONSTRUCTION, Kubota, CLAAS, muuli, NEW HOLLAND CONSTRUCTION, MANITOU |

# KESKO IN BRIEF

Kesko is a highly valued listed trading sector company. It manages retail store chains that are valued by customers, and efficiently produces services for retail store chains' purchasing, logistics, network development and data management. Kesko's operations include the food, home and speciality goods, building and home improvement, and car and machinery trades. Its division parent companies and chains act in close cooperation with retailer entrepreneurs and other partners. Kesko has about 2,000 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus.

Kesko and K-retailers form the K-Group, whose retail sales totalled €12 billion (VAT 0%) in 2011. The K-Group employs around 45,000 people.

## OUR CORE COMPETENCE AREAS

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

## KESKO GROUP'S NET SALES

€9,460m +7.8%

## KESKO GROUP'S OPERATING PROFIT EXCL. NON-RECURRING ITEMS

€279m +€10.8m

## KESKO OPERATES IN EIGHT COUNTRIES

- **Finland:** all divisions
  Number of stores: 1,643
- **Sweden and Norway:** building and home improvement trade
  Number of stores: 131
- **Baltic countries:** building and home improvement trade, machinery trade, furniture trade and distance sales
  Number of stores: 43
- **Russia, St Petersburg and Moscow areas:** building and home improvement trade, sports trade, machinery trade
  Number of stores: 50
- **Belarus:** building and home improvement trade
  Number of stores: 6

# THE YEAR IN FIGURES

- The Kesko Group's net sales totalled €9,460 million, up 7.8% in January-December.
- Operating profit excluding non-recurring items was €278.9 million (€268.1 million), 2.9% of net sales (3.1%).
- Earnings per share excluding non-recurring items were €1.84 (€1.78).
- The Board of Directors proposes a dividend of €1.20 per share, which is 65% of the earnings per share excluding non-recurring items.

## NET SALES AND OPERATING PROFIT EXCLUDING NON-RECURRING ITEMS INCREASED

In 2011, net sales continued to grow in the food trade, the building and home improvement trade and the car and machinery trade. 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.

Profitability improved in the car and machinery trade, the food trade and the building and home improvement trade.

In the food trade, net sales were €4,182 million, up 7.3% in 2011. The sales growth of Pirkka products to K-food stores was excellent: 32%. Good sales performance was achieved especially by K-citymarkets and K-supermarkets. Operating profit excluding non-recurring items of the food trade was €172.2 million (€160.1 million).

In the home and speciality goods trade, net sales were €1,564 million, at the level of the previous year. K-citymarket's home and speciality goods as well as Asko and Sotka increased their sales. The sales of Anttila decreased. The operating profit excluding non-recurring items was €36.6 million (€66.0 million). In addition to the decrease in Anttila's sales, profitability of the home and speciality goods trade was adversely affected by the launch of Anttila's new logistics centre, the reform of K-citymarket's and Anttila's purchasing operations, and the expansion of the store network.

In the building and home improvement trade, net sales were €2,716 million, up 7.8%. Sales performance and structure varied between countries and customer groups. Foreign operations contributed 54.6% to the net sales of the building and home improvement trade. Operating profit excluding non-recurring items of the building and home improvement trade was €26.6 million (€24.0 million). Profit performance was affected by the sales growth mainly deriving from basic building materials with low margins, the expansion of the store network and by the costs related to the introduction and development of the international enterprise resource planning system.

Net sales of the car and machinery trade were €1,174 million, up 23.0%. Operating profit excluding non-recurring items of the car and machinery trade was €51.8 million (€33.1 million). The strong profit was attributable to excellent sales performance.

The K-Group's (Kesko's and K-retailers') retail and B2B sales (VAT 0%) totalled €11,767 million and increased by 7.2% from the previous year.

## CAPITAL EXPENDITURE IN STORE SITES

In 2011, the Kesko Group's capital expenditure totalled €425.4 million (€325.3 million), or 4.5% (3.7%) of net sales. Capital expenditure in store sites was €361.8 million (€209.2 million). Capital expenditure in foreign operations represented 31.7% (13.1%) of the total capital expenditure.

Store openings in 2011 included six new K-citymarkets, 17 K-supermarkets, one Kodin Ykkönen department store and four new K-rauta stores.

**READ MORE**

Kesko's financial performance is presented in the financial statements, starting on page 62.

## Kesko **had a year of profitable growth**

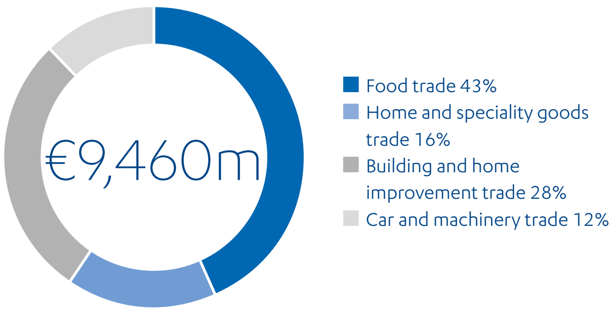
- In the food trade, market share and profit improved.
- In the home and speciality goods trade, Asko's and Sotka's sales and profits were excellent.
- In the building and home improvement trade, sales increased markedly, profit performance remained slow.
- Volkswagen and Audi achieved record level profits and market shares.

# PERFORMANCE INDICATORS FOR 2011

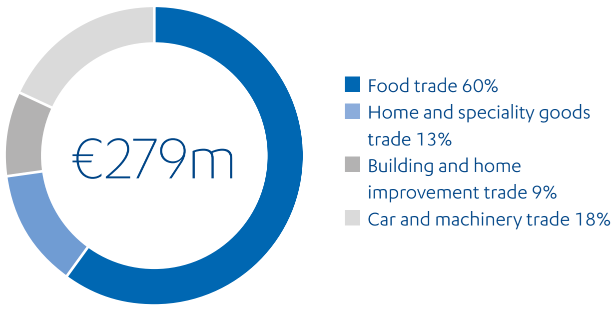
| KEY FIGURES | | 2011 | 2010 | Change |
|---|---|---|---|---|
| Net sales | € million | 9,460 | 8,777 | 7.8% |
| Operating profit | € million | 280.6 | 306.7 | -€26.1million |
| Operating profit excl. non-recurring items | € million | 278.9 | 268.1 | €10.8million |
| Profit before tax | € million | 282.1 | 312.4 | -€30.3million |
| Return on capital employed | % | 13.2 | 16.0 | -2.8 pp |
| Return on equity | % | 8.9 | 10.1 | -1.2 pp |
| Cash flow from operating activities | € million | 216 | 438 | -50.8% |
| Capital expenditure | € million | 425.4 | 325.3 | 30.8% |
| Equity ratio | % | 53.9 | 53.5 | 0.4 pp |
| Gearing | % | 1.5 | -16.8 | 18.2 pp |
| Dividend per share | € | 1.20* | 1.30 | -7.7% |
| Earnings per share, diluted | € | 1.84 | 2.06 | -11.1% |
| Equity per share | € | 22.20 | 21.81 | 1.8% |
| Personnel, average | | 18,960 | 18,215 | 4.1% |

**proposal to the AGM*

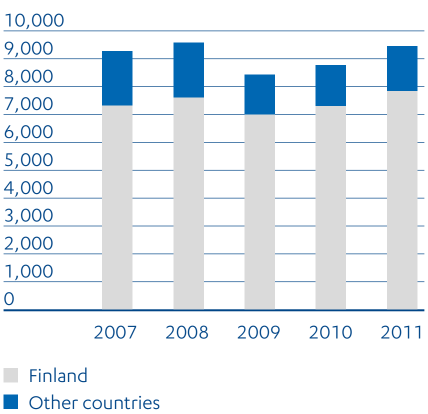
## NET SALES IN 2011, BREAKDOWN



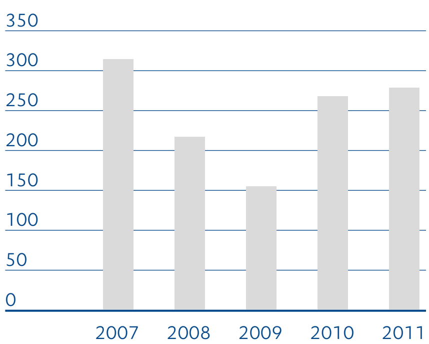

## OPERATING PROFIT EXCL. NON-RECURRING ITEMS IN 2011, BREAKDOWN




## GROUP'S NET SALES*
€ million

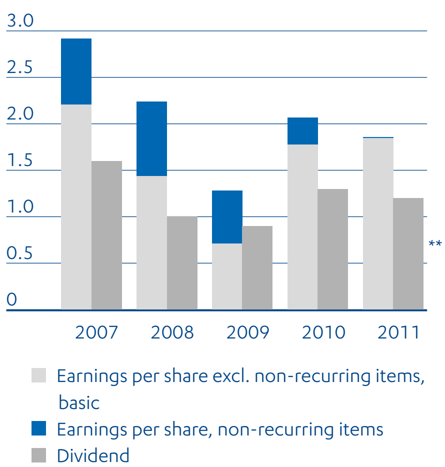



## GROUP'S OPERATING PROFIT*
excl. non-recurring items, € million




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

## EARNINGS PER SHARE AND DIVIDEND PER SHARE, €



# EVENTS IN 2011

## JANUARY-JUNE

### 1 February

Kesko was included for the seventh time on

THE GLOBAL 100 MOST SUSTAINABLE CORPORATIONS

list.

In the SAM (Sustainable Asset Management) assessment, Kesko's responsibility work qualified in the silver class in the food & drug retailers sector.

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 example.

### 31 March

K-food stores'

CUSTOMER SATISFACTION IMPROVED.

Market share data for 2010 was released and K-food stores' market share growth was greater than in the previous year.


### 4 April

Kesko's Annual General Meeting was held. In his review, President and CEO Matti Halmesmäki said that Kesko will vigorously expand its

OPERATIONS IN RUSSIA.


### 8 May

Kesko celebrated Mother's Day at the 'Expectation' sculpture in Kaivopuisto Park in Helsinki. At the event, mothers and grandmothers were given

10,000 PIRKKA FAIRTRADE ROSES.

### 16 May

Kesko's Board of Directors granted

SCHOLARSHIPS TO TALENTED YOUNG

athletes and art students. Scholarships were awarded to 24 promising young athletes and 16 art students across Finland. The total amount of scholarships was €40,000.

### 25 May

THE TERM OF PRESIDENT AND CEO WAS EXTENDED.

The term of Matti Halmesmäki was extended until the end of May 2015, when he will be 63. According to the previous agreement, Halmesmäki's term would have expired in May 2012.

### 27 May to 6 June

Kesko was the main partner in the 2011

THE 'YOUR MOVE' SPORTS EVENT.

The extensive six-day event, organised by the Young Finland Association and targeted at 13–19-year olds, attracted more than 42,000 participants.

# JULY-DECEMBER

## 24 August

Kesko's acquisition of

### INTERSPORT OPERATIONS IN RUSSIA

was concluded. At the end of 2011, there were 36 Intersport stores in Russia. The aim is to double the store network by the end of 2015.

## 31 August

### ANTTILA'S NEW LOGISTICS CENTRE

in Kerava was inaugurated. The logistics centre improves the efficiency of operations significantly while taking the environment into account. The new logistics centre handles deliveries to all Anttila and Kodin Ykkönen department stores and to NetAnttila customers.

## 1 September

### THE PIRKKA PRODUCT RANGE

celebrated its 25th anniversary. The year culminated in the campaign titled 'Let's eat together', in which Pirkka invited all Finns to set the world record in eating together in Heureka, the Finnish Science Centre, in Vantaa.  The sales of Pirkka products increased by 32% in 2011.

## 14 October

### K-CITY-MARKET 40 YEARS

The 40th anniversary of K-citymarket was celebrated visibly in stores and on K-citymarket's Facebook site, which soon attracted tens of thousands of fans after having been published.

## 26 October

Kesko's

### CORPORATE MANAGEMENT BOARD WAS RESTRUCTURED.

Arja Talma was appointed President of Rautakesko Ltd and Kesko's Corporate Management Board member responsible for the building and home improvement trade. Minna Kurunsaari was appointed Corporate Management Board member and Senior Vice President responsible for the home and speciality goods trade and electronic marketing and services projects. Jukka Erlund was appointed Kesko Corporation's Chief Financial Officer (CFO) and Corporate Management Board member. Merja Haverinen was appointed Kesko's Senior Vice President, Corporate Communications and Responsibility, and Corporate Management Board member with effect from 1 April 2011.


## 3 November

The largest shopping centre in the Lahti region,

### KARISMA, WAS OPENED.

There are nearly 80 stores in the shopping centre, of which K-citymarket, Intersport and Kookenkä represent the K-Group chains. The shopping centre is one of Kesko's largest retail projects of all time. In 2011, Kesko's capital expenditure totalled €425 million, of which store sites accounted for €362 million.

## 10 November

Kesko's 2010 Corporate Responsibility Report was chosen as

### FINLAND'S BEST CORPORATE RESPONSIBILITY REPORT.

According to the jury, Kesko's reporting is comprehensive, impartial and reader-friendly. Kesko has ranked among the best on 12 occasions in the responsibility reporting competition, which has been organised since 1996.

## 23 November

The topping out ceremony of the

### VETURI SHOPPING CENTRE

took place in Tervaskangas, Kouvola. The shopping centre will be opened in autumn 2012.

## 9 December

In Russia, Rautakesko opened its 14th and, at the same time, Russia's largest

### K-RAUTA IN MOSCOW.

It is the first K-rauta in the city. The second department store for building and home improvement will be opened in Moscow in spring 2012.

## 31 December

### VOLKSWAGEN WAS NUMBER ONE

in the registration statistics  of passenger cars and vans in Finland in 2011. VV-Auto's market share exceeded 20% for the first time.

# REVIEW BY THE PRESIDENT AND CEO

## A YEAR OF PROFITABLE GROWTH FOR KESKO

The growth of Kesko's business operations strengthened in 2011. Among the four divisions, sales in the food trade and the building and home improvement trade developed well, and growth was particularly strong in the car and machinery trade. Profitability improved in the food trade and in the car and machinery trade. Kesko's solvency and liquidity remained, as in previous years, at an excellent level.

In the food trade, the growth rate of sales exceeded market growth and the efficiency of operations was further improved. Good sales growth of Pirkka products and Kespro strengthened the profitability of the food trade. Major reforms were carried out in the home and speciality goods trade, which adversely affected the profit for 2011. Anttila launched the new logistics centre and the purchasing operations of K-citymarket's home and speciality goods and Anttila were combined. These changes create the basis for profitable growth in the years to come. Asko's and Sotka's development was excellent and the sales level of Intersport Russia's business operations, acquired in August, increased considerably thanks to the reforms and the expansion of selections. In the building and home improvement trade, sales growth was good but profit performance remained weak. Growth was particularly strong in Russia. In the car and machinery trade, the market share of Audi, Volkswagen and Seat reached an all-time high and the profit was excellent.

## STRONG PROGRAMME OF CAPITAL EXPENDITURE CONTINUED

Kesko's capital expenditure in growth totalled €425 million in 2011. Store openings included six new K-citymarkets and 17 new K-supermarkets in the food trade, four new K-rauta stores in the building and home improvement trade, and a Kodin Ykkönen department store in the home and speciality goods trade. The Karisma shopping centre, one of Kesko's biggest store site projects, was opened in Lahti in November. The Veturi shopping centre, to be opened in Kouvola in autumn 2012, reached the topping out stage in late 2011.

In 2011, Kesko also made a decision to expand business operations in the Russian building and home improvement trade, food trade and sports trade, which offer significant growth potential in the future. Both in the building and home improvement trade and in the food trade, the aim is to open around 10 new stores in Russia by the end of 2015. The total capital expenditure of the building and home improvement trade and the food trade in Russia will amount to approximately €600 million in 2011–2015. Kesko acquired Interport Russia's business operations in August 2011 and at year-end there were 36 Intersport stores in Russia. The aim is to double the network of Intersport stores by 2015.

Kesko's solvency is excellent, which contributes to the implementation of the significant capital expenditure programme. Consumers value easy shopping and inspiring shopping experiences and a competitive store network plays a key role here. At the same time, it is important that the uncertainties related to the development in consumer demand are taken into account when decisions on capital expenditure and their timing are made.

## ONLINE SERVICES AND E-COMMERCE

In accordance with Kesko's strategy, the divisions focus strongly on the development of online transactions and e-commerce services. The increase in electronic information, faster data transfer rates and new terminal devices have changed customer behaviour decisively – customers are increasingly often making purchasing decisions independent of time and place, on the basis of electronic transactions. The trading sector has to respond to these needs by offering interesting and competitive electronic services. At the same time, the trading sector market is changing and competition is becoming tougher as new service providers emerge at home and abroad. Kesko's competitive asset is providing its customers with genuinely multi-channel and reliable services that combine the services of the chains' store network with electronic customer communications and online store services.

Kesko already delivers more than one million online customer orders per year. Orders by NetAnttila online customers and deliveries to Anttila and Kodin Ykkönen department stores are supplied from the new logistics centre in Kerava, launched in 2011. This centre, the most modern in Europe and fitted with the latest warehousing technology, significantly improves Kesko's multichannel service offering. During the next year, Kesko's capital expenditure in information systems will be considerable, which will enable us to provide the most customer-driven electronic services possible.

## SUCCESSFUL WORK FOR RESPONSIBILITY

In Kesko and K-stores, responsibility is part of our daily activities. Customers can rely on the fact that their responsible choices start when they enter a K-Group store. Responsible activities are concrete actions that, for example, improve energy efficiency, reduce the amount of waste, offer a safe product range and improve wellbeing at work and working conditions. Kesko's and K-stores' duties include helping customers make choices that are good for their wellbeing and for the environment.

Kesko's work for responsibility has also been recognised in many ways internationally. Kesko has been on 'The Global 100 Most Sustainable Corporations in the World' list, published by World Economic Forum, since it was established. Kesko is also included in several sustainability indexes, such as the Dow Jones sustainability indexes DJSI World and DJSI Europe. Competition for sustainability is becoming tougher year by year and being ranked among the most sustainable companies in the world requires that practices are constantly improved. Kesko's Corporate Responsibility Report was chosen as the best in Finland and the favourite among students in the 'Responsibility Reporting 2011' contest.

## THE TRADING SECTOR IS AN IMPORTANT PART OF FINLAND'S WELLBEING

In spite of the uncertainties related to economic development, consumer demand and customers' purchasing power developed relatively well in 2011. The low interest rate and the high rate of employment contributed to demand.

This year, development in the trading sector will also depend on the trends in employment and consumers' disposable income. The sector's ability to employ and produce services directly or indirectly is significant for the Finnish national economy and the welfare society. If implemented, equal taxes and a rise in the tax rate will cut households' consumption, resulting in a decline in sales in the trading sector, and lowering employment in Finland. An increase in the number of regulations that erode the competitive basis of the trading sector in Finland and the European Union also limits the opportunities to serve customers and operate efficiently.

## CORPORATE MANAGEMENT BOARD RESTRUCTURED

Merja Haverinen was appointed Senior Vice President, Corporate Communications and Responsibility, starting from the beginning of April. At the beginning of November, Arja Talma transferred from the post of Senior Vice President, CFO to that of Rautakesko's President, and Jukka Erlund was appointed Senior Vice President, CFO. At the beginning of December, Minna Kurunsaari started as Senior Vice President responsible for the home and speciality goods trade and Kesko's electronic marketing and services projects.

## FOCUS ON WELLBEING AT WORK

Kesko and K-retailers employ around 45,000 trading sector professionals and experts. From the perspective of the availability of labour, there is a major structural change underway in Finland as the post-war generation retires.

This necessitates higher labour productivity and longer careers, which call for high working capacity and wellbeing at work. At the same time, competition for competent and committed employees is becoming increasingly tough. Kesko promotes wellbeing at work in many ways, which means the performance of immediate supervisors and a good working environment play major roles. On the other hand, all of us are responsible for contributing to the good working atmosphere and working capacity.

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

I wish to extend my warmest thanks to all of Kesko's employees for their diligence and for a job well done. I would also like to thank all our shareholders, K-retailers and their staff, and all our business partners for good cooperation in 2011.

**Matti Halmesmäki**
President and CEO

# VISION

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

# VALUES

guide our operations

### WE EXCEED OUR CUSTOMERS' EXPECTATIONS

We recognise our customers' needs and expectations. We strive to offer them positive experiences through the continual reform of our operations and emphasis on entrepreneurial activity.

### WE ARE THE BEST OPERATOR IN THE TRADING SECTOR

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

### WE CREATE A GOOD WORKING COMMUNITY

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

### WE BEAR OUR CORPORATE RESPONSIBILITY

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

# **STRATEGIC** OBJECTIVES

## 1. PROFITABLE GROWTH

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

Kesko's key strategic objective is healthy, profitable growth. Growth is sought by actively developing store selections and services to meet customer needs, by implementing capital expenditure in a competitive store network and by developing online services and e-commerce.

Capital expenditure in Kesko's business operations in Russia offer significant growth potential for a long time to come.

Kesko's target return on equity is 12%, while the target return on capital employed is 14%. Our objective is to maintain good solvency in all market conditions and to increase our shareholder value.

### GROWTH IN RUSSIA

In Finland, growth is sought by increasing market shares and by more customer-driven services than those provided by our competitors. In addition, growth is also sought in the Russian market, in particular, which is growing faster than the Nordic or Baltic markets.

The objective is to make capital expenditures of over €600 million in the food trade, building and home improvement trade, and Intersport operations in Russia by 2015. In all divisions, the focus is on the Moscow and St. Petersburg regions. In the food trade, the longer-term objective is to open clusters of 10 stores both in St. Petersburg and Moscow. In the building and home improvement trade, the objective is to open 11 new K-rauta stores by 2015. At the end of 2011, there were 14 K-rauta stores in Russia. Intersport has 36 stores and the aim is to double the network by 2015.

### CAPITAL EXPENDITURE IN THE STORE SITE NETWORK AND IN STRENGTHENING COMPETITIVE ADVANTAGES

In the food trade, major capital expenditure is directed at enhancing the store network in Finland and starting business in Russia. The most important project providing competitive advantage in the food trade involves strengthening the selections, the service and the displays of fruit, vegetable and bakery departments and service counters offering meat, fish and ready-to-eat meals.

In the home and speciality goods trade, the strategic emphasis is on increasing retail sales, strengthening the competitive advantages of K-citymarket's and Anttila's concepts and continuing the integration of purchasing and logistics operations. An important project providing competitive advantage is increasing online services and e-commerce.

In the building and home improvement trade, the store network will be considerably expanded over the next few years, particularly in Russia, where the focus is on the Moscow region. Synergy benefits are achieved by investing in centrally directed sourcing and selections development, and in a joint enterprise resource planning system and logistics network.

In the car and machinery trade, the market shares of the brands represented – Volkswagen and Audi, for example – will be increased by developing the retail sales and service network with the focus on a customer-driven approach.

### ONLINE SERVICES AND E-COMMERCE

New online services, wireless solutions and different terminal devices have increased the diversity of customers' needs and purchasing habits. Online shopping and interactive channels will be a key competitive factor in the near future.

The development of online transactions and e-commerce are strategic focal points in all divisions. The projects are coordinated by the electronic marketing and services unit. The objective is to be well present throughout customers' purchase transactions, so that customers will be able, if they wish, to use web services from planning their purchases to using the products.

The development of online services and stores requires significant capital expenditure in various projects related to electronic business models. Kesko has gained a strong position in online sales of home and speciality goods through the netanttila.com, kodin1.com, konebox.fi, cmstore.fi and budgetsport.fi online stores. Electronic services and e-commerce are also actively developed in the building and home improvement trade and the food trade.

### FINANCIAL OBJECTIVES AND THEIR REALISATION

| Objectives announced on 5 Feb. 2009 | Target level | Realised in 2011 | Realised in 2010 |
|---|---|---|---|
| Net sales growth | Growth faster than market | Realised*: Food trade, building and home improvement trade in Finland, furniture trade, car and machinery trade | Realised*: Food trade, K-citymarket's home and speciality goods trade, car and machinery trade |
| Return on equity | 12% | 8.9%, excl. non-recurring items 8.8% | 10.1%, excl. non-recurring items 8.7% |
| Return on capital employed | 14% | 13.2%, excl. non-recurring items 13.1% | 16.0%, excl. non-recurring items 14.0% |
| Interest-bearing net debt/EBITDA | < 3 | 0.1 | -0.9 |
| Equity ratio | 40–50% | 53.9% | 53.5% |
| Economic value added | Growing positive EVA as internal indicator | Realised in food trade and car and machinery trade | Realised in all divisions except for building and home improvement trade |

**Kesko's own estimate*

## 2. SALES AND SERVICES FOR CONSUMER-CUSTOMERS

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

### KESKO HAS STRONG BRANDS

Kesko has dozens of successful chain and product brands. Strategic objectives and target images that are based on customer needs have been defined for each brand. The objective is to strengthen the value of these brands and to improve the efficiency of marketing. This is measured by customer satisfaction and employer profile surveys, as well as by financial indicators.

Consumers' shopping experiences at K-stores determine our success in the market.

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

Kesko is primarily the group brand of a listed company. The target groups of the Kesko brand are investors, shareholders, suppliers of goods and services, employees, society in general and all other actors in our operating environment.

### CUSTOMER-DRIVEN BUSINESS MODELS

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

#### 1) Retailer entrepreneurs' retailing

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

At the end of 2011, Kesko had 1,102 independent K-retailer entrepreneurs and about 130 other retailer entrepreneurs in the Asko, Sotka, Byggmakker and Senukai chains as partners. Kesko's sales to the retailer entrepreneurs accounted for 52% of Kesko's total sales in 2011.

#### 2) Kesko's own retailing

Kesko acts as a retailer in business operations where its competitive advantage is based on having a centrally managed chain concept and large units. Kesko's own retail stores in Finland include the Anttila and Kodin Ykkönen department stores. Kesko is also responsible for retailing home and speciality goods in the K-citymarket chain. Kesko's own retailing is the model mainly used in business operations outside Finland. In 2011, Kesko's own retailing accounted for 26% of total sales.

#### 3) B2B sales

Kesko is also engaged in B2B sales. Typical B2B customers include construction companies, agricultural entrepreneurs, the manufacturing industry, retail dealers, institutional kitchens and the public sector. In 2011, Kesko's B2B sales accounted for 22% of total sales.

## CUSTOMER-DRIVEN BUSINESS MODELS

# 3. RESPONSIBLE AND EFFICIENT OPERATING PRACTICES

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

## SUSTAINABLE DEVELOPMENT AND RESPONSIBLE OPERATING PRACTICES

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

## EFFICIENT COMBINATION OF RETAILER ENTREPRENEURSHIP AND CHAIN OPERATIONS

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

Kesko's efficient chain operations and joint processes provide support to retailers. Chain operations offer the retailer a joint business concept which includes chain control related to chain selection, pricing and marketing, and business management support. Joint chain operations carried out by retailers and Kesko are further enhanced by developing increasingly better tools and business models for the stores. The most important of these are regional and store-specific selections and pricing guidance as well as tools for customer relationship and store personnel management.

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

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

## WORK AND PRODUCTIVITY

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

The most important tools for improving productivity include enhancing personnel competence and management, and increasing the efficiency of operating practices.

Promoting the wellbeing of employees has become an increasingly important factor. There are projects on promoting wellbeing at work underway, with the aim of improving the working capacity, motivation and health of employees and increasing the retirement age.

## AUTOMATION OF PROCESSES

In order to improve cost-efficiency, projects related to the automation of processes are underway at Kesko. Key areas in process automation include logistics automation projects, the forecasting systems and automated orders that improve the availability of products in stores, the adoption of electronic purchase and sales invoices, and the automation of financial management routines in the shared services centre of the Kesko Group.

**READ MORE**

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


K CITYMAR


# DIVISIONS

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

# KARISMA SHOPPING CENTRE FOR THE WHOLE FAMILY

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

# FOOD TRADE

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

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

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

## SATISFIED CUSTOMERS ARE A PREREQUISITE OF SUCCESS

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

K-food stores' competitive advantages include:

- By far the best fruit and vegetable department in the area, the bakery department and service counters with fresh meat and fish products and meals.
- The widest selections which, in addition to a comprehensive basic selection, include products from local producers, valued by customers of the particular store.
- More than 2,000 Pirkka products which combine high quality and permanently low prices.
- Exciting stores with displays and changing new products, combined with good service. The best food expertise, a diverse supply of recipes and cooking advice.
- E-commerce and online communications are being actively developed to serve customer needs and make shopping easier.
- Responsibility, which means, for example, that responsible alternatives are offered to customers.

## K-RETAILERS SERVE BY TAKING LOCAL NEEDS INTO ACCOUNT

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

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

### CHAIN CONCEPTS VALUED BY CUSTOMERS

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

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

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

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

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


## Delicious **fruit, a variety of bread and abundant service counters**

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

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

### K-FOOD STORE CHAINS HAVE A STRONG COMMON CORE

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

K-food stores' good customer satisfaction is based on competitive prices, reached by the maximum pricing of common selections and low-priced Pirkka products as well as the chains' campaigns and store-specific special offers. K-Plussa offers are always at least 10% below the normal price. In addition, the benefit received in the form of K-Plussa points is up to 5%.

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

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

## Interaction **with Pirkka fans**

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

**READ MORE**
www.facebook.com/Pirkka
www.pirkka.fi

## Events **in 2011**

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

### PIRKKA – HIGH QUALITY, PERMANENTLY LOW PRICES AND RESPONSIBILITY

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

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

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

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

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

### KESPRO OFFERS THE BEST SOURCING SOLUTIONS IN THE SECTOR

Kesko Food's subsidiary Kespro is the leading wholesaler in the Finnish hotel, restaurant and catering (HoReCa) business and acts as a partner for its customer companies and municipalities in Finland. Kespro provides delivery and cash&carry services to its customers. In 2011, the total HoReCa market in Finland was approximately €2.6 billion (own estimate).

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

### PROFITABLE GROWTH AS A TARGET

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

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

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

Over next few years, Kesko Food's key strategic focuses include the strong building and enhancement of the store network. The maintenance of the store sites' quality level, the expansion of selections, new service needs and migration require constant development of the network. Major capital expenditure will be made in new K-supermarket and K-citymarket stores in particular in the years to come. The aim is to open 23 new K-supermarkets and seven new K-citymarkets in 2012.

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

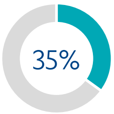
Kesko Food will also vigorously enhance its electronic services. In the development of services, the focus is on increasing electronic customer interaction. Examples of this include Pirkka.fi web service, revised in May 2011, and the Pirkka Facebook page. There is a good basis for developing the electronic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

**READ MORE**

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

## Operating environment

### K-FOOD STORES, FINLAND




**Market share in Finland**
(own estimate)

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

### HORECA, FINLAND, KESPRO

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

## Food trade market

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

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

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

** cumulative average*

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

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

*** capital employed at the end of financial year*


# HOME AND SPECIALITY GOODS TRADE

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

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

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

## ENTERTAINMENT, FASHION AND HOME GOODS FROM ANTTILA

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

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

Anttila's new logistics centre in Kerava, which started operations in August 2011, greatly enhances the chain's online and department store logistics while also improving space and energy efficiency. The new centre handles deliveries to all Anttila and Kodin Ykkönen department stores and to NetAnttila customers.

### DIVERSE SELECTIONS OF HOME AND SPECIALITY GOODS IN K-CITYMARKETS

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

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

### INTERSPORT ENCOURAGES PHYSICAL ACTIVITIES

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

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

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

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

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

### STORE NETWORK FOR ASKO AND SOTKA WAS REVISED

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

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

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

### MUSTA PÖRSSI CHAIN IN CHANGE

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

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

There are 32 Musta Pörssi stores, of which 31 are owned by retailer entrepreneurs. For reorganisation purposes, in 2011, the store network was reduced by 14 sites from the previous year. The Konebox chain consists of two stores and an online store.

## Intersport **in Russia**

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

### NEW KOOKENKÄ CHAIN STARTED IN AUTUMN 2011

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


## First **Kookenkä stores opened**

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

## Events **in 2011**

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

## Home and speciality goods market

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

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

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

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

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

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

### INTERNET SUPPORTS CUSTOMERS

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

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

The emphasis in marketing will shift from traditional to electronic channels. Kesko has been among the first in Finland to introduce new operating models, for example, by testing Facebook Deals in K-citymarkets and starting cooperation with fashion bloggers.

### STRATEGIC EMPHASIS ON EXPANDING E-SERVICES

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

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

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

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

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

**READ MORE**

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

## Operating environment

### HYPERMARKET AND DEPARTMENT STORE TRADE

**K-citymarket home and speciality goods, Anttila, Kodin Ykkönen and NetAnttila**, the market share cannot be reliably calculated
Competitors: department stores, hypermarkets, speciality store chains and online stores

### SPORTS TRADE

**Intersport, Budget Sport and Kesport**
**Market share in Finland 34%***
Competitors: Sportia, Top Sport, Stadium, department stores and hypermarkets and other speciality sports stores

### FURNITURE TRADE

**Asko and Sotka**
**Market share in Finland 22%***
Competitors: furniture and interior decoration stores

### HOME TECHNOLOGY TRADE

**Musta Pörssi and Konebox**
**Market share in Finland 6%***
Competitors: stores specialised in home technology, hypermarkets and online stores

*(own estimate)

### SHOE TRADE

**K-kenkä, Andiamo, Kookenkä, Kenkäexpertti**
**Market share in Finland 10%** (Association of Textile and Footwear Importers and Wholesalers, own estimate)
Competitors: other speciality stores, department stores, hypermarkets, sports stores and online stores

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

** incl. online sales*

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

** cumulative average*

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

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

*** capital employed at the end of financial year*

# BUILDING AND HOME IMPROVEMENT TRADE

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

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

## RAUTAKESKO'S STRONG CHAIN CONCEPTS

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

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

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

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

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

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


provide the basis for good customer satisfaction.

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

The Senukai chain is the market leader in Lithuania. The chain's Mega Store concept offers customers just about every product related to building and living at the stores of over 20,000 $m^2$.

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

## B2B CUSTOMERS' PARTNER

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

## STORE NETWORK WAS STRENGTHENED

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

The K-rauta chain's Design Center is a design and service area that helps customers' shopping, idea generation and planning. The centralised display area provides customers with design and related services and product displays – a full range from ideas to installation.

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

## FROM IDEAS TO HOUSING SOLUTIONS

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

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

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

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

Responsibility, environmental values and energy efficiency will continue to gain

## Energy **experts**

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

## Events **in 2011**

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

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

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

At the end of 2011, Rautakesko in Finland started the introduction of RAKSA, the new SAP based enterprise resource planning system. RAKSA will harmonise the business models which support the chain stores' and Rautakesko's business operations and the retail stores' information systems in most operating countries.

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

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

## Building and home improvement trade market

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

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

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

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

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

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

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

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

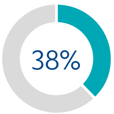
In Belarus, the total building and home improvement market is about €0.6 billion (VAT 0%) and it decreased by 50% in terms of euros, while in terms of the local currency, the size of the market remained nearly unchanged (own estimate).

## Agricultural trade market

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

## Operating environment

### BUILDING AND HOME IMPROVEMENT TRADE




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

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

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

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

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

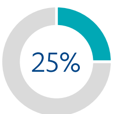
**Market share in Lithuania 30%** (own estimate). Main competitors: Bauhof, Emeritazas and speciality stores

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

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

### AGRICULTURAL SUPPLIES TRADE

**Finland, K-maatalous chain**




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

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

** In 2011, one K-rauta store and 49 Rautia stores also operated as K-maatalous stores*
** In 2010, one K-rauta stores and 50 Rautia stores also operated as K-maatalous stores*

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

** cumulative average*

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

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

*** capital employed at the end of financial year*


# CAR AND MACHINERY TRADE

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

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

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

## VV-AUTO SET ALL-TIME SALES RECORD

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

Customers with Volkswagen passenger cars are served by a network of 40 dealer shops and 58 service workshops, while there are 41 dealer shops and 59 service workshops for Volkswagen commercial vehicles. The corresponding figures for Audis are 21 and 25. Seats are sold by 22 dealers and maintained and repaired by 35 workshops in Finland and four in the Baltic countries

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

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

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

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


## Carbon dioxide **emissions decreased considerably**

The car tax in Finland was changed in 2008 and is now based on carbon dioxide emissions. Average carbon dioxide emissions of passenger cars have dropped from 177.3 g per km in 2007 to 143.9 g per km in 2011. The input on low-emission models is also reflected in average $CO_2$ emissions of Volkswagen passenger cars, for example, which were 133.7 g per km in 2011.

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

### KONEKESKO'S VERSATILE SELECTIONS

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

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

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

The main brands in Konekesko's agricultural machinery sales in Finland are Claas combines and Massey Ferguson tractors. In the Baltic countries, the selection also includes Claas tractors and a comprehensive range of agricultural implements, the most important of which are Claas, Lemken and Hardi. Konekesko and Claas have gained the position of market leader in the Baltic combine business.

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

### SERVICE TRAINING ENSURES TOP SERVICE

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

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

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

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

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


## Key flag **to Yamarin Cross boats**

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

## Events **in 2011**

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

### 10 YEARS OF KONEKESKO

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

### THE MOST SOUGHT-AFTER BRANDS AND STRONG SERVICE NETWORK

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

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

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

**READ MORE**

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

## Car and machinery trade market

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

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

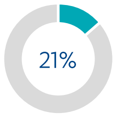
The market for recreational machinery totalled about €300 million in Finland and remained at the level of the previous year. The export market for boats declined. The market for construction machinery totalled around €800 million in the operating area and increased by approximately 60%. The combined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

## Antero **the Assistant's summer of recycling**

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

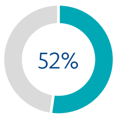
## Operating environment

### CAR TRADE MARKET SHARES IN FINLAND




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

### MACHINERY TRADE MARKET SHARES IN FINLAND




**Outboards** (Yamaha, Selva)

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

**Motorcycles, market share 16.5%** (Yamaha)

**Mopeds, market share 7.9%** (Yamaha)

**Tractors, market share 13.7%** (Massey Ferguson)

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

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

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

** cumulative average*

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

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

*** capital employed at the end of financial year*

# COMMON
OPERATIONS

# THE RESPONSIBLE
WAY TO ACT

Responsibility is part of our daily business activities. Through our operations, we actively participate in curbing climate change while also helping our business partners and customers in this.

# **RESPONSIBILITY** IS TEAM WORK

Kesko's operations affect all of society. Kesko develops and offers trading sector services, employs directly and indirectly, has products manufactured and sells them.

Our customers can count on the quality and safety of our products. Their responsible choices start when they enter a K-store. Our long-term and committed operations are guided by the general principles of Kesko's corporate responsibility, our responsibility programme and the 'Our Responsible Working Principles' guide.

## IMPACT ON SOCIETY

Kesko's operations generate economic benefits for shareholders, finance providers, personnel, suppliers of goods and services and their employees, as well as municipalities and states.

In 2011, Kesko's salaries and other employee benefits in all operating countries totalled €473 million. Kesko's income taxes were €85 million, and pensions and social security expenses €91 million.

### From small food stores to shopping centres

The network of K-food stores is the most extensive in Finland: there were 964 K-food stores in 301 municipalities in 2011. About half of the Finnish population lives within one kilometre of the nearest K-food store.

During the year, 78 new K-retailers started business.

Kesko has significant shopping centre projects underway. The Karisma shopping centre, opened in Lahti in November 2011, is one of Kesko's largest retail projects ever. It is the first shopping centre that Kesko has planned and has had built from the very beginning. The Veturi shopping centre will be opened in Kouvola and the revised Ruoholahti shopping centre in Helsinki in late 2012.

### We encourage local purchasing

Most of the economic benefit generated by Kesko – 85% of Kesko's net sales – goes to suppliers of goods.

In 2011, Kesko's purchases from Finnish suppliers totalled €5,436 million and from other countries €2,613 million. Retailers'

## Light **and energy savings**

The Kodin Ykkönen department store in Lielahti, Tampere, received an honourable mention in the 'Lighting Object of the Year 2011' competition. In the design of in-store lighting, special attention was paid to the atmosphere and highlighting of products. As general lighting was reduced, lower power spotlights were sufficient to highlight products. Electricity consumption is some 35% lower compared with previous lighting designs.

direct purchases from Finnish regions will be presented in the Corporate Responsibility Report.

### Sponsorship for children, the young and sustainable development

In 2011, Kesko and its subsidiaries gave financial support amounting to approximately one million euros to various organisations and institutions.

Kesko was the main partner in Your Move, the Sports Event of the Year, organised by the Young Finland Association in Helsinki. The six-day event, targeted at young people aged 13–19, attracted more than 42,000 participants. Kesko's event tent included an area where the young could make birdhouses to be donated to parks in Helsinki. The beanbags and sun beds available for visitors to relax on were donated to the Cancer Clinic.

The theme of Kesko's awards for sustainable development presented in 2011 was materials efficiency. The prizes went to Dodo's urban growers, Netcycler Ltd swapping service, the 'Yritetään yhdessä' (Let's make a joint effort) association, and the Small Green Workshop NY. The total amount awarded was €30,000.

## EMPLOYEE WELLBEING

Kesko's programme on wellbeing at work aims to support employee wellbeing and the implementation of Kesko's objectives.

A management model for wellbeing at work was introduced across the Kesko Group in 2011. More information of the model is available in the Human Resources section on pages 38–39.

As part of the programme on wellbeing at work, the Occupational Health Service and Human Resources published a guide on wellbeing at work for employees in all the countries where Kesko operates.

The wellbeing of the working community and the quality of management are measured with an annual personnel survey. A similar survey is conducted throughout Kesko and its chain stores. In the 2011 survey, the Kesko Group's results improved from the previous year. Supervisors' performance and equality were estimated to have improved the most; the total average given for supervisors' performance was 3.90, while the implementation of equality in Kesko's operations was rated at 4.11 (scale 1–5).

### The 'Our Responsible Working Principles' guide provides a common basis for work

Our Responsible Working Principles guide all K-Group employees to work in accordance with the joint values and the responsible operating practices.

In the 2011 personnel survey, the statement "I act in accordance with our Responsible Working Principles guide" was rated at 4.23 (scale 1–5).

An updated version of the guide will be published in 2012.

## IMPACT ON CLIMATE CHANGE

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

## Students chose **Kesko's report as their favourite**

Kesko was chosen as the best in Finland in the 'Responsibility Reporting' contest in November 2011. In their own assessment, students also rated Kesko as the best in reporting. Students described Kesko's report as a balanced, easy-to-read and practical package, in which the management's view and commitment to responsibility are strongly present.

Kesko's 12th Corporate Responsibility Report will be published in spring 2012.


## Product's **path**

Customers are increasingly interested in the origins of products. Kesko illustrates product paths, from farm or factory to stores, on the 'Product's path' pages. The map, published on the kesko.fi and pirkka.fi pages, allows consumers to follow the journey of, for example, Pirkka Fairtrade roses, from Kenya to Finland.

**READ MORE**
www.kesko.fi/productspath

### Environmentally friendly approach in construction

The planning of a new store site or shopping centre is based on sustainable development, an environmentally friendly approach and energy efficiency.

Solutions that reduce the consumption of materials and energy during the life cycle of real estate properties are adopted when building new stores and refurbishing existing ones. The energy efficiency of properties is improved by using condensation heat from store refrigeration equipment, by covering freezers with lids and using LED technology in new illuminated signs.

Kesko works for sustainable building and is a member of the Green Building Council Finland (FIGBC). For the purpose of environmental classification, Kesko has chosen BREEAM (Building Research Establishment Environmental Assessment Method), which is an international standard and best suited for retail properties. The BREEAM method will also be used to assess the environmental impact of the Veturi shopping centre being built in Kouvola.

### We increase energy efficiency

In 2011, the K-Group's combined consumption of electricity and heat energy in Finland was 1,071 GWh. Kesko bought 71% of the electricity for the K-Group's properties in Finland on a centralised basis, all of which was carbon-free electricity, produced with nuclear power and renewable energy sources.

In the trade sector energy efficiency agreement, Kesko is committed to cutting energy consumption through different saving measures by some 65 GWh by the end of 2016. This corresponds to the annual energy consumption of 15 K-citymarkets.

The biggest savings are achieved by covering freezers with lids and using LED illuminated signs as well as by adopting adjustable and spot lighting in stores.

Thanks to the recovery of condensation heat, K-food stores won't need distance heat until temperatures drop well below zero. About half of new K-food stores use carbon dioxide collected from industrial processes as coolant in in-store equipment.

### We reduce emissions from transportation

In 2011, the total distance covered by all transportation managed by Keslog was 37.9 million kilometres. Keslog's target is to decrease carbon dioxide emissions.

A two-tier trailer – the first of its kind in retail distribution – was introduced for test use in transportation to K-food stores in autumn 2011. The new kind of trailer helps us cut transportation-related carbon dioxide emissions by one third.

### Waste recovery

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

In future, Kesko Food's aim is to direct all waste generated to recycling or to the production of energy and fuel. In 2011, Kesko Food developed waste management models for K-food stores located in Kesko's Greater Helsinki Area and Uusimaa districts. In the development project, new technologies for using organic waste, for example, were introduced and the stores' waste management reporting was centralised. At the end of 2011, the waste recovery rates of the K-food stores which had adopted the new model were nearly 90%.

There are 223 recycling points for customers in connection with K-food stores. In 2011, a total of 338 million cans and 111 million recyclable bottles were returned to K-food stores.


## Slow-track **checkout won popularity**

The slow-track checkout (dubbed "Elä hättäile" in Finnish), which was piloted in K-citymarket Iso Omena in Espoo in late 2011, is aimed at customers who want their grocery shopping to be a more relaxed process. The idea of a slow-track checkout was developed to meet everyday needs of customers with disabilities. The checkout also gained much popularity among the elderly and families with children and enjoyed wide media publicity. K-citymarket is now surveying the stores to which it can implement the idea.


# Responsibility **programme supports operations**

Kesko's responsibility programme 2008–2012 sets targets for combating climate change, for energy efficiency, the wellbeing of employees as well as responsible purchasing and product selections. The responsibility programme will be updated in 2012.

Anttila's new logistics centre, located in Kerava, has the ISO 14001 environmental certificate. The centre uses only about one third of the heating energy consumed by the old warehouse in Hämeenkylä, Vantaa. The recovery rate of the new logistics centre will be further improved by increasing the recyclability of the materials used.

## RESPONSIBLE PURCHASING AND SALES

Kesko's ethical purchasing principles guide Kesko's responsible purchasing. For support, Kesko has also drawn up sustainability statements, such as a fish and shellfish statement, as well as statements on timber, jeans and palm oil.

### Special attention on working conditions in high-risk countries

In product sourcing, Kesko pays special attention to the human rights and working conditions of employees throughout the purchasing chain. Kesko focuses its monitoring on countries where the risks of violations of these rights are the greatest.

In supplier assessment, Kesko uses international auditing systems, BSCI auditing and the SA8000 certification. The aim is to trade in high-risk countries only with suppliers who have passed the audit.

### Product safety

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

The unit's laboratory has ISO 17025 certification. In 2011, the Product Research unit analysed 10,369 product samples and audited 32 suppliers. There were 87 product recalls during the year, most of which were caused by quality, taste, manufacturing or packaging defects.

During the year, information on nutrition values was added to all of more than 4,600 food recipes in the pirkka.fi recipe service. The Pirkka test kitchen produced 670 new recipes for the recipe service in 2011.

Kesko Food's Consumer Service received 20,215 customer contacts in 2011. The issues that generated considerable discussion and questions during the year included different fats, additives, organic food, Fairtrade products, domestic food and the origins of imported products.

## KESKO PARTICIPATES IN THE GLOBAL COMPACT INITIATIVE

Kesko participates in the UN Global Compact initiative and is committed, in its operations and strategy, to observe 10 generally accepted principles related to human rights, labour standards, the environment and anti-corruption.

## INTERNATIONAL RECOGNITION FOR RESPONSIBILITY

Kesko is included in the most important sustainability indexes and ranked among the best companies in the world in its compliance with the principles of sustainable development.

Kesko has been included in the Dow Jones sustainability indexes for nine years in succession. For the period 2011/12, Kesko was included in the DJSI World and DJSI Europe indexes.

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

The Carbon Disclosure Project (CDP) has selected Kesko to the Nordic Carbon Disclosure Leadership index.

Kesko is included in the STOXX Global ESG Leaders indexes, which consist of the leading companies in the world measured by the criteria of environmental responsibility, social responsibility and responsible governance.

Since 2005, Kesko has been included in 'The Global 100 Most Sustainable Corporations in the World' list. On the list published in January 2012, Kesko's ranking was 43rd, compared with 26th in the previous year.

In the SAM Group's Sustainability Yearbook 2011, Kesko's responsibility work qualified in the SAM Silver Class in the Food & Drug Retailers sector. In the Sustainability Yearbook 2012, Kesko was selected among the sector leaders in sustainable development. Only the top 15% of the companies in the world qualify in each sector for inclusion in the yearbook on the basis of assessment made by SAM.

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

THE GLOBAL COMPACT
WE SUPPORT

FTSE4Good

Dow Jones Sustainability Indexes
Member 2011/12

# **K-PLUSSA** POINTS AWARDED MORE THAN A MILLION TIMES A DAY

K-Plussa customers use the most extensive and diverse customer loyalty programme in Finland more than a million times a day. Customers receive benefits from more than 3,000 outlets and over 40 business partners. Local K-retailers and the K-Group chains also offer targeted special benefits and services to their K-Plussa customers.

In 2011, the K-Plussa customer loyalty programme gained over 150,000 new customers. Approximately 2.2 million households – about 84% of all Finnish households – enjoy K-Plussa customer loyalty benefits. Each month there are hundreds of topical K-Plussa offers available for customers, which always offer a benefit of at least 10%, provided at the checkout. By centralising their purchases within the K-Plussa network, customers also receive a benefit of up to 5% in the form of K-Plussa points.

K-Plussa benefits are available from more than 3,000 outlets and over 40 business partners. In October 2011, Helsingin Energia and K-Plussa deepened their cooperation. As a result, they launched Plussa electricity, which is produced by hydropower, generating K-Plussa points for those K-Plussa customers who use it.

## BETTER SERVICE FOR K-PLUSSA CUSTOMERS AT K-STORES

By making efficient use of the information obtained from the K-Plussa customer loyalty programme, K-retailers can serve the customers best in their specific areas, providing them with the most interesting products and services.

K-Plussa also enables targeted communications from retailer to customer and this opportunity is used actively both at the store and chain level. At the chain level, customer information is, for example, used by Kodin Ykkönen, Intersport, K-rauta, Rautia and K-food stores in their targeted activities. Mass merchandising is also targeted to meet the needs of store customers. In addition, several K-retailers approach the customers of their stores on a targeted basis, offering them interesting benefits and services in connection with seasons, for example. Results from special benefits and events targeted for customers have been good.

## EFFICIENT BUSINESS THROUGH EFFICIENT USE OF CUSTOMER INFORMATION

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

The K-Plussa customer loyalty programme operates on three levels: benefits granted to customers are either store-specific, chain-specific or provided across the entire K-Plussa network. Information provided by the K-Plussa customer loyalty programme is, for example, used in planning store-specific selections and services and in targeting the store's marketing messages. At the chain level, customer information obtained via K-Plussa is leveraged in store network planning, concept development, and in building the chains' selections and services, for example. K-Plussa customers receive benefits and services that are based on their needs and shopping behaviour.

## CUSTOMER BENEFITS FROM K-PLUSSA'S ELECTRONIC CHANNELS

K-Plussa is a pioneer in the development of new customer loyalty services. For example, thanks to the new mobile card service introduced in spring 2011, customers can also use their mobile phones to benefit from their loyal customer status. The customers can choose the subject areas they are interested in and the K-Group chains from which they want to receive special offers to their phones.

The importance of targeted electronic communications continues to grow. Customers can choose which chains or areas of interest they want to receive electronic communications from. K-Group chains and stores also approach their customers with personal offers, sent by e-mail.

Plussa.com is K-Plussa's website, which customers are invited to visit to check the nationwide K-Plussa offers, which change weekly, and their own K-Plussa points balance. The Pirkka.fi website, which was revised in spring 2011, has attracted a large number of active visitors. The website provides them with immediate information about new recipe tips and services, for example.

Customers can deposit their K-Plussa points in their bank account with any bank. Customers can attach the K-Plussa feature to their OP-Pohjola debit, credit and Visa Electron cards, as well as to Nordea and Sampo Bank Visa Electron cards. There are now 900,000 co-branding cards.

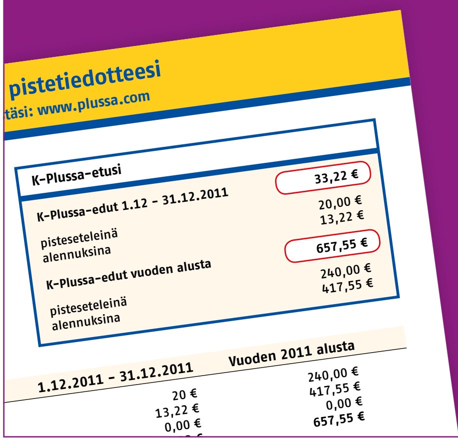
K-Plussa customers can order their K-Plussa points notice direct to their electronic mail service instead of receiving a paper copy. In late 2011, a new Traveller's K-Plussa card was launched, making it possible also for travellers visiting Finland to benefit from K-Plussa offers when shopping at K-Group stores.

The K-Group's customer magazine Pirkka further strengthened its position as the most widely read magazine in Finland in 2011. The magazine contains articles on cooking, fashion and interior decoration, for example, as well as benefits and special offers for K-Plussa customers.

## K-PLUSSA POINTS ALSO FOR THE YOUNGEST AGE GROUPS

A successful K-Plussa campaign for young people moving homes was implemented in autumn 2011. The campaign offered them an opportunity to become K-Plussa customers free of charge and provided them with many interesting benefits. The feedback received was very positive and the implementation was regarded as useful, because young people moving to a new area, for example, were not always aware of the food stores available nearby.

Every year, K-food stores organise several targeted special campaigns for young families with children. In addition, the smallest family members also benefit from K-Plussa membership. The Napero Club is meant for all K-Plussa customers of the K-Group who have children aged under seven. The club has over 140,000 members from over 116,000 households. On the Facebook pages of the Napero Club, families with children can discuss subjects they find interesting and, at the same time, they have access to information about new products, special offers, contests and entertainment. The club now has more than 10,000 Facebook fans.




## Diverse **benefits for customers**

Keeping track of K-Plussa benefits is easy for customers. Customers see the benefits received on the points notice, sent as paper copy or e-mail.

# HUMAN RESOURCES

Kesko and its chain stores offer a wide range of career options in the trading sector, varying from store duties to retailer entrepreneurship and different supervisory and specialist jobs. There are over 600 job titles at Kesko. In all, the K-Group – Kesko and the K-retailers – employ around 45,000 people.

Kesko has around 19,000 employees in eight countries: in the Nordic and Baltic countries, Russia and Belarus. 53% of employees work in Finland and 47% in other countries. HR management is guided by three aims: being the most attractive workplace in the trading sector, having the most competent and motivated people, and having the best labour productivity.

## HEALTHY EMPLOYEES AND AN ATTRACTIVE WORKPLACE

At Kesko, wellbeing at work is based on the opportunity to do meaningful work, in line with one's abilities, in a safe, pleasant and supportive working environment. The areas of wellbeing at work include control of personal life, work and competence, the working community, as well as management and leadership.

The early intervention model was adopted in all companies and 500 supervisors were trained to manage and enhance the wellbeing of the working community. Employees were given an opportunity to participate in the survey on wellbeing and personal lifestyle, and special 'wellbeing at work' events and new kinds of fitness courses were organised for employees. A guide on wellbeing at work, containing information about the basic principles, was distributed to all employees. Employees who feel happy and healthy and an efficient working community provide the basis for profitable work.

The results of the annual personnel survey were published in November, showing considerable improvement in job satisfaction, which was already at a high level. The most progress was seen in supervisory work; supervisors have been offered diverse training and good tools and instruments in support. Besides employee satisfaction, Kesko's attractiveness as an employer among young trade sector professionals increased. Kesko's ranking was 15th (27th) in the Universum survey.

## THE MOST COMPETENT AND MOTIVATED PEOPLE IN THE TRADING SECTOR – LISTENING TO CUSTOMERS

Competence development at Kesko is target-oriented, long-standing and diversified. Learning takes place on the job and employees are encouraged to develop their competencies. In addition to training programmes, job rotation in Finland and other countries is an important tool for staff development.

Supervisors are responsible for familiarising each employee with Kesko's values and responsible working principles and ensuring that employees know their duties and objectives. Supervisors carry out a performance and development review with each employee at least once a year, and they are responsible for staff competencies in their own areas. During the year, routine work was concentrated to the service centre, which left human resources professionals with more time to support management in HR issues.

Leadership skills and career progress are supported by specialist, supervisor and management training programmes targeted at Kesko employees and store superiors. Revised training programmes were adopted at the beginning of the year. K-instituutti offers nearly 20 revised training packages. The survey of key employee and management resources was enhanced during the year, and the revised model was introduced at the beginning of 2012. Annual training and seminars organised for management and key employees had more than 250 participants.

## DIVERSE TRAINING PROGRAMMES

Customers' needs, and meeting them, create the basis for the development of occupational competence at Kesko and chain stores. K-food stores aim to take customers' individual needs and expectations increasingly into account and, in doing so, strengthen customer relationships. In order to develop staff competence and customer service at K-food stores' superiority departments (fruit and vegetables, bread, fish, meat and ready-to-eat meals), training was given to more than 1,300 department managers and retailers. The annual K-Food Specialist training programme turned out 260 specialists in healthy nutrition and special diets to meet customers' individual special needs. So far, nearly 500 employees have completed the training. Long-term operations and staff development are experienced by customers in the high quality of service provided.

The training programme for sales assistants in K-citymarket hypermarkets and Anttila department stores was based on asking questions and listening to customers to find out their needs. Social media have been used as new channels, enabling customers to present their thoughts and wishes and get answers to their questions. The high number of K-citymarket fans also reflects the need for contacts between the customer and the store.

Building and home improvement store chains have been preparing for the implementation of the 'Energy expert' concept by training employees in issues related to housing and energy efficiency. So far, 112 stores have organised this training with a focus on understanding the total situation and surveying customer needs. The purpose of the concept is to make energy-wise housing easy for customers.

The car and machinery trade has started a trainee programme for new employees in customer service who have come from outside the car sector and are interested in the car trade. Service-oriented people with previous experience of customer service were chosen for the programme. 'The customer comes first' is the guiding rule in Volkswagen's sales training, the main purpose of which is to produce motoring solutions that meet customer needs.

The Master Sales Assistant training is the largest vocational training for adults in Finland, supporting on-the-job learning of retail and wholesale professionals. The training takes various perspectives on sales work and provides up-to-date product information to support customer service. The annual training had about 15,900 participants in 12 different product lines. The training was also implemented at business colleges and polytechnics, in which around 5,200 students participated. The Master Sales Assistant training has been completely revised and is now provided in an electronic form.

**READ MORE**
on HR issues
at www.kesko.fi/jobs and in the Corporate Responsibility Report at www.kesko.fi/en/responsibility reports

## 40 **years in the trading sector**

Rautakesko's Chief Shop Steward Pekka Kankaanrinta retires in March 2012 after a long career in the trading sector – 25 years with Tuko and 15 years with Kesko – and Riitta Laitasalo, Kesko's Senior Vice President, Human Resources, congratulates him.

# **COMPETITIVE STRENGTH** AND ADVANTAGE FROM CHAIN OPERATIONS AND K-RETAILER ENTERPRISE

The K-Group's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. At the end of 2011, Kesko had 1,102 K-chain retailer entrepreneurs and about 130 other retailer entrepreneurs as partners.

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

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

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

To ensure success, it is important that a new retailer's professional and other skills are at as high level as possible at the start of the retailer career. About 200 stores are affected by retailer changes annually in the K-Group. The annual need for new entrepreneurs, ready to start their K-retailer careers, is 50–100. The K-Group systematically trains new retailers to ensure a sufficient supply of people with the appropriate professional skills. New candidates interested in a K-retailer career are sought through different channels. There are about 600 contacts annually. The requirement for new retailers is estimated for 1–3 years ahead. In 2011, 78 new K-retailers started their careers.

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

### K-RETAILERS FROM ENTREPRENEUR PATH

The retailer entrepreneur path, a systematic training route for would-be K-retailers, has been developed by Kesko Food and polytechnics. It has been adapted to constitute an optional module of polytechnic studies. A related cooperation agreement has been signed with 17 polytechnics and the model is being further expanded.

Many of those starting the retailer programmes have a steady amount of retailing experience, but the number of students transferring from other fields or having just finished their general education has grown.

More than 100 people complete the programmes every year. After completion, they are ready to start as independent K-retailer entrepreneurs.

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

K-KAUPPIAAT PALVELUKSESSASI 100 VUOTTA

## K-retailers **at your service for 100 years**

The K-Retailers' Association celebrates its 100th anniversary in 2012. The origins of K-retailers' cooperation date back to the late 19th century, but the first retailer association was officially founded in 1912 when 'Suomen Maakauppiasliitto' was established by rural retailers at a meeting held in Tampere. The K-Retailers' Association looks after the interests and promotes the cooperation of K-retailers. All Finnish K-retailers are members of the association. The K-Retailers' Association's duties include enhancing and strengthening K-retailer entrepreneurship as a competitive asset of the K-Group and promoting K-retailers' joint interests in the K-Group and trading sector organisations. In K-stores, the centenary year will be seen in the form of various campaigns and print and TV advertising.


# REAL ESTATE OPERATIONS

A store site network is a strategic competitive factor for Kesko. It provides opportunities for developing business operations and increasing sales and customer satisfaction. Kesko's division parent companies are responsible for their own store sites throughout their life cycles. The companies plan their own retail networks and, on the basis of their network and business plans, make the capital expenditure in accordance with the Group's real estate strategy. Opportunities for cooperation between the division parent companies are sought and made use of in shopping centre projects.

## REAL ESTATE PROPERTY MANAGEMENT

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

Strategic properties are large retail stores which involve important business interests related to the continuity of management, the flexibility of change and the financial value of the premises. In order to protect such interests, Kesko usually prefers to own these properties.

Standard properties are premises owned by the Kesko Group. They can be sold and leased back for use in the Group's business operations.

Realisation properties are those for which Kesko has no further use.

Development properties are those in need of further development for their intended use.

## CAPITAL EXPENDITURE

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

Kesko makes capital expenditure only in properties needed in its own or supporting business operations. As a result of Kesko's internationalisation, capital expenditure outside Finland have become increasingly important.

## LIFE-CYCLE AFFORDABLE AND ECO-EFFICIENT REAL ESTATE OPERATIONS

Kesko's real estate operations are based on the life-cycle affordability and eco-efficiency of store sites. This means optimising the costs and environmental burden across the entire life cycle of a store site. The aim is the lowest life cycle costs in the trading sector.

Further improvement of the eco-efficiency of existing properties is based on the comprehensive monitoring system of energy consumption and the remote control of housing automation as part of daily maintenance.

## PROPERTY MAINTENANCE

Maintenance services production of the properties managed by Kesko has been outsourced to YIT Kiinteistötekniikka Oy, ISS Palvelut Oy and Ovenia Oy. Systematic and proactive maintenance is managed through a centralised ERP system. Comprehensive management of property data enables efficient maintenance and on-time repairs and replacements in order to secure good conditions and energy efficiency. Kestra Kiinteistöpalvelut Oy, owned by Kesko, is responsible for purchasing electricity for the K-Group.

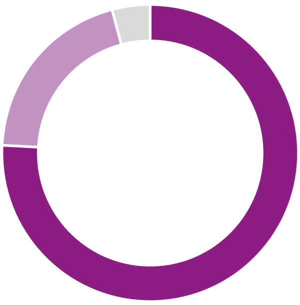
## KESKO MONITORS THE ENERGY CONSUMPTION OF PROPERTIES

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

The electricity, heat and water consumption of Kesko's properties has been monitored closely since 1995. Kesko's specific consumption of heat energy has since decreased by over 60% and, correspondingly, specific consumption of electrical energy has decreased by over 20%. Close energy monitoring helps keep the technical systems of properties in order and maintain the value of properties.

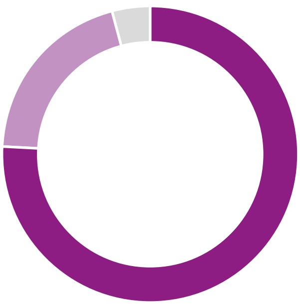
**READ MORE**
about store site projects and energy solutions in the responsibility section on pages 32–35.

### BREAKDOWN OF OWNED PROPERTIES 2011



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

### BREAKDOWN OF OWNED PROPERTIES 2010



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

## Owned properties

| Capital*, € million | 2011 | 2010 |
|---|---|---|
| Finland | 887 | 759 |
| Other Nordic countries | 96 | 84 |
| Baltic countries and Belarus | 34 | 38 |
| Russia | 202 | 125 |
| **Total** | **1,219** | **1,005** |

| Area, m² | 2011 | 2010 |
|---|---|---|
| Finland | 693,000 | 615,000 |
| Other Nordic countries | 97,000 | 90,000 |
| Baltic countries and Belarus | 117,000 | 118,000 |
| Russia | 92,000 | 61,000 |
| **Total** | **999,000** | **884,000** |

## Leased properties

| Lease liabilities, € million | 2011 | 2010 |
|---|---|---|
| Finland | 2,055 | 2 ,059 |
| Other Nordic countries | 93 | 109 |
| Baltic countries and Belarus | 125 | 147 |
| Russia | 40 | 23 |
| **Total** | **2,313** | **2,338** |

| Area, m² | 2011 | 2010 |
|---|---|---|
| Finland | 2,338,000 | 2,338,000 |
| Other Nordic countries | 185,000 | 190,000 |
| Baltic countries and Belarus | 469,000 | 471,000 |
| Russia | 41,000 | 25,000 |
| **Total** | **3,033,000** | **3,024,000** |

**Carrying amounts*


KESKO

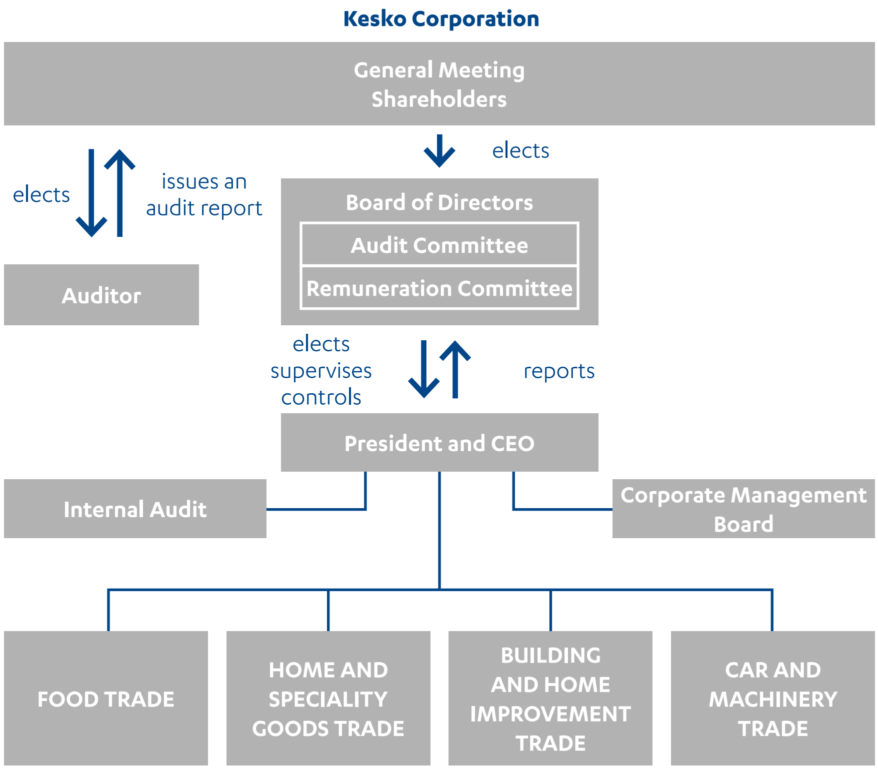
# **CORPORATE** GOVERNANCE

# **KESKO** AMONG THE BEST IN CORPORATE GOVERNANCE REPORTING

In the spring 2011, Kesko was awarded by World Finance Magazine as the best in Finland in terms of Corporate Governance development and reporting. In the competition for the best corporate governance reporting, organised in the spring 2011 in Finland, Kesko was ranked among the best three in the category of large listed companies. Kesko's remuneration statement received the best assessment from the jury of the competition. Kesko's description of risk management, internal control and internal audit was given credit for being clear, transparent, high-quality and up-to-date.

# KESKO'S CORPORATE GOVERNANCE

## KESKO GROUP'S CORPORATE GOVERNANCE STRUCTURE




### RULES AND CORPORATE GOVERNANCE CODE OBSERVED BY KESKO

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

Kesko's decision-making and corporate governance are guided by Kesko's values and responsible operating practices. Decision-making and corporate governance comply with the Finnish Limited Liability Companies Act, regulations concerning publicly quoted companies, Kesko's Articles of Association, the charters of Kesko's Board of Directors and its Committees and the rules and guidelines of NASDAQ OMX Helsinki Ltd. The company complies with the Finnish Corporate Governance Code for Listed Companies 2010 (available at www.cgfinland.fi).

As provided by the Comply or Explain principle of the Corporate Governance Code, the company departs from the Corporate Governance Code's recommendation concerning a Board member's terms of office. According to Kesko's Articles of Association, the term of a Board member is three years, whereas recommendation 10 of the Corporate Governance Code recommends that Board members should be elected for a term of one year. A shareholder who, together with related entities, holds over 10% of all votes carried by the Kesko shares, has informed the company's Board that it considers the term of three years good for the company's long-term development and sees no need to shorten the term of office stated in the Articles of Association.

### GENERAL MEETING

The highest decision-making power in Kesko is exercised by the company's shareholders at the company's General Meeting. The company's shareholders elect the company's Board and auditor at the Annual General Meeting (AGM). The company uses a so-called one-tier governance model.

The AGM, which is held by the end of June on a date designated by the company's Board, handles the business specified for the AGM in the Articles of Association and any other proposals that may be made to the General Meeting. If needed, the company may also hold Extraordinary General Meetings.

General Meetings are convened by the company's Board. A shareholder has the right, by virtue of the Limited Liability Companies Act, to put matters that fall within the competence of the General Meeting on the agenda of the AGM. A shareholder shall make a possible request in time for the matter to be included in the agenda of a General Meeting not later than the date given on the company's website www.kesko.fi and following the instructions. As a rule, a General Meeting handles the business proposed to it by the company's Board.

### MAJOR MATTERS WITHIN THE COMPETENCE OF THE GENERAL MEETING

The most significant matters falling within the competence of the General Meeting include: resolution on the number of Board members and the election of Board members, resolutions on the remuneration and financial benefits of the Board members and members of the Board's Committees, election of the auditor and resolution on the auditor's fee, adoption of the financial statements, resolution on discharging the Board members and the Managing Director from liability, amending the Articles of Association, resolutions on share issuances and on the distribution of the company's assets, such as profit distribution.

When votes are taken, a proposal for which more than half of the votes were given will normally be a resolution of the General Meeting, as prescribed by the Limited Liability Companies Act. However, the Act specifies several matters where a resolution requires an enhanced qualified majority prescribed by law.

### CONVENING THE GENERAL MEETING

Shareholders are invited to the General Meeting by a notice published in at least two nationwide newspapers. The notice of the meeting is delivered no earlier than two months and no later than three weeks before the General Meeting, but at least nine days before the record date of the General Meeting, referred to in the Finnish Limited Liability Companies Act. The notice of the meeting and the proposals of the company's Board to the General Meeting are published in stock exchange releases. The proposals for the number of Board members, for Board members and for Board members' remuneration made by shareholders holding at least 10% of the votes carried by the company shares are also published in a stock exchange release. The documents are also made available at www.kesko.fi.

### RIGHT TO PARTICIPATE IN THE GENERAL MEETING

All Kesko shareholders have the right to participate in Kesko's General Meetings by following the instructions given in the notice of each General Meeting. Shareholders may participate in the meeting themselves, or through proxy representatives. A shareholder or a proxy representative can have one assistant at the General Meeting

### MINUTES OF THE GENERAL MEETING

The minutes of the General Meeting are recorded and made available to shareholders at www.kesko.fi, together with appendices describing the resolutions of the meeting within two weeks from the General Meeting. The resolutions of the General Meeting are also published in a stock exchange release immediately after the meeting.

### PRESENCE OF GOVERNING BODIES AT THE GENERAL MEETING

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

### SHARE SERIES

The company has share series A and B, which differ only with respect to the votes they carry. Each A share carries the right to ten votes and each B share to one vote at the General Meeting.

## BOARD OF DIRECTORS AND ITS COMMITTEES

### TERM, COMPOSITION AND INDEPENDENCE OF THE BOARD

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

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

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

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

In accordance with the Articles of Association, their terms will expire at the close of the 2012 AGM.

All of Kesko's Board members are non-executive directors.

The Board of Directors evaluates the independence of its members annually on a regular basis. Based on the latest evaluation carried out on 4 April 2011, the Board considers that all of its members are independent of the company's significant shareholders, and that the majority of the members is also independent of the company. Board members Takamäki, Kiiskinen and Törrönen are not independent of the company, because companies controlled by them have chain agreements with a Kesko Group company.

### MAIN DUTIES

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

The Board's main duties include:

- making decisions on the Group's strategy and confirming strategies for the divisions
- confirming the Group's rolling plan, which includes the capital expenditure plan
- approving the Group's financial and investment policy
- confirming the Group's risk management policy and considering the Group's most significant risks and uncertainties
- reviewing and adopting the consolidated financial statements, interim reports and related stock exchange releases and the report by the Board of Directors
- making decisions on strategically or financially important individual capital expenditures, acquisitions, disposals or other arrangements, and commitments
- making decisions on the essential Group composition and organisation
- appointing and dismissing the company's President and CEO, approving his/her managing director's service contract and making decisions on his/her compensation and other financial benefits
- making decisions on the principles of Kesko's remuneration plans and monitoring the implementation of the plans
- making possible proposals to the General Meeting for share and share-based remuneration plans, and making decisions on granting shares or share options under share and share-based remuneration schemes, and on the terms and conditions for granting them

- establishing a dividend policy and being responsible for shareholder value performance
- confirming the company's values
- reviewing the Corporate Responsibility Report.

## DECISION-MAKING, OPERATIONS AND MEETINGS

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

In 2011, the Board held 10 meetings. The Board members' attendance rate at the Board meetings was 94.3%.

In its strategy work in 2011, the Board discussed the expansion of especially the food trade and other operations into Russia, and continued to discuss electronic customer communications and e-commerce. The Board approved and reformed the Kesko Group management's incentive plans by introducing a new share-based compensation plan. It also approved the Group's updated risk management policy. As in previous years, the Board reviewed the financial reports and monitored the Group's funding situation, approved the most significant capital expenditures, monitored the progress of Group-level projects and approved interim reports and the financial statements prior to their disclosure.

The Board meetings regularly include a review by the President and CEO on topical and important issues, as well as reports by the Chairs of the Board's Audit Committee and Remuneration Committee on preparatory committee meetings preceding Board meetings. The auditor presents his/her findings to the Board once a year in connection with the financial statements.

The Board regularly assesses its operations and working practices and carries out a related self-assessment once a year. Most recently, the Board made a self-assessment of its operations and working practices in December 2011. In the assessment, the Board noted that, for example, the two annual strategy meetings had enhanced the handling of the most significant matters for Kesko.

## BOARD COMMITTEES

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

The Board of Directors has confirmed written charters for the Committees that lay down their main duties and operating principles.

The Committees have no independent decision-making power. Instead, the Board makes decisions based on the preparatory work of the Committees.

The Committees regularly assess their operations and working practices and carry out a related self-assessment once a year.

### Audit Committee and its operations

The Audit Committee members are Maarit Näkyvä (Ch.), Seppo Paatelainen (Deputy Ch.) and Mikko Kosonen. All members of the Audit Committee are independent of the company and its significant shareholders. In the election of the Audit Committee members, the relevant qualification requirements have been taken into account.

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

- monitoring the Kesko Group's financial and funding situation and the process of the company's financial statements reporting
- supervising the company's financial reporting process
- evaluating the efficiency of the company's internal control, internal audit and risk management systems
- reviewing the Corporate Governance Statement submitted by the company
- approving the operating instructions, annual audit plan, budget and resources of the company's Internal Audit and handling the reports submitted to the Committee
- monitoring the statutory audit of the financial statements and the consolidated financial statements
- evaluating the independence of the company's audit firm

## ATTENDANCE AT MEETINGS BY MEMBERS OF THE BOARD AND ITS COMMITTEES IN 2011

| | Board member since | Committee | Attendance: Board | Attendance: Audit Committee | Attendance: Remuneration Committee |
|---|---|---|---|---|---|
| Heikki Takamäki (Ch.) | 2001 | Remuneration Committee (Ch.) | 10/10 | - | 3/3 |
| Seppo Paatelainen (Dep. Ch.) | 2006 | Audit Committee (Dep. Ch.) Remuneration Committee (Dep. Ch.) | 10/10 | 5/5 | 3/3 |
| Esa Kiiskinen | 2009 | | 10/10 | - | - |
| Ilpo Kokkila | 2006 | Remuneration Committee | 9/10 | - | 3/3 |
| Mikko Kosonen | 2009 | Audit Committee | 10/10 | 5/5 | - |
| Maarit Näkyvä | 2001 | Audit Committee (Ch.) | 7/10 | 4/5 | - |
| Rauno Törrönen | 2009 | | 10/10 | - | - |

## BOARD MEMBERS' INDEPENDENCE IN 2011*

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

** Based on the independence evaluation carried out on 4 April 2011.*
*** Each of the companies controlled by Kiiskinen, Takamäki and Törrönen has a chain agreement with a Kesko Group company.*

- preparing the draft resolution concerning the election of the company's auditor and keeping in contact with the company's auditor.

In 2011, the Audit Committee held five meetings, and its members' attendance rate at the Committee meetings was 93.3%. At the Committee meetings, the Group's CFO, the Corporate Controller, the Chief Audit Executive and the General Counsel regularly report on their areas of responsibility to the Committee. The Committee also receives reports on the Kesko Group's funding situation, risk management and insurances. The auditor is present at the Committee meetings and presents his/her audit plan and report to the Audit Committee.

During the year, the Committee reviewed reports on the Group's financial situation, including the financial statements release and interim reports and made a recommendation to the Board on handling the interim reports and the financial statements release. In addition, the Committee reviewed the Group's external and internal audit and risk management reports, the external quality evaluation report on the Group's internal audit and approved internal audit's operating instructions and audit plan, budget and resources for 2012. The Committee also evaluated the auditor's independence and consultation services to the Group. The Audit Committee has prepared and submitted a proposal to the AGM on the auditor to be elected for Kesko.

### Remuneration Committee and its operations

The Remuneration Committee members are Heikki Takamäki (Ch.), Seppo Paatelainen (Deputy Ch.) and Ilpo Kokkila. All members of the Audit Committee are independent of the company's significant shareholders and the majority is also independent of the company.

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

- preparing matters pertaining to the compensation and other financial benefits of the company's President and CEO, and preparing the managing director's service contract to the Board
- preparing matters pertaining to the compensation and other financial benefits of the Corporate Management Board members responsible for lines of business
- preparing matters pertaining to the appointment of the President and CEO and the Corporate Management Board members responsible for lines of business, and identification of their possible successors
- developing and preparing remuneration plans to the company's Board
- handling the remuneration statement.

In 2011, the Remuneration Committee held three meetings. Its members' attendance rate at the meetings was 100%. The Committee prepared proposals to the Board for a new long-term incentive plan targeted to the Group's management and key personnel, and for the principles of the management's performance bonus scheme.

More information on Kesko's Board members is available on pages 56–57 and at www.kesko.fi.

## COMPANY MANAGEMENT

### PRESIDENT AND CEO

Kesko has a managing director who is the President and CEO. Kesko's President and CEO is Matti Halmesmäki, Master of Science in Economics and Master of Laws. He has been Kesko's President and CEO since 1 March 2005.

The President and CEO's duty is to manage the company in accordance with the instructions and orders issued by the company Board and to inform the Board about the developments in the company's business operations and financial situation. He/she is also responsible for the company's day-to-day management and ensuring that financial matters are handled in a reliable manner. The President and CEO also chairs the Corporate Management Board and the Boards of the Group's major subsidiaries, Kesko Food Ltd, Rautakesko Ltd, VV-Auto Group Oy, and the Board of the home and speciality goods division.

The President and CEO is elected by the Board, which also makes the decisions on the terms of the President and CEO's service contract. A written managing director's service contract, approved by the Board, has been made between the company and the President and CEO.

More information on Kesko's President and CEO is available on page 58 and at www.kesko.fi.

### CORPORATE MANAGEMENT BOARD

The Kesko Group has a Corporate Management Board, the Chair of which is Kesko's President and CEO. The Corporate Management Board has no authority based on legislation or the Articles of Association. The Corporate Management Board's duties are to discuss Group-wide development projects and Group-level policies and practices. In addition, the Corporate Management Board discusses the Group's and the division parent companies' business plans, profit performances and matters handled by Kesko's Board, in the preparation of which it also participates. The Corporate Management Board meets 8–10 times a year.

More information on Kesko's Corporate Management Board is available on pages 58–59 and at www.kesko.fi.

## REMUNERATION

### REMUNERATION OF THE BOARD AND ITS COMMITTEES

The AGM adopts resolutions on the fees and other financial benefits of the members of the Board and its Committees annually. The remunerations of the members of the Board and its Committees are paid in cash only.

### CORPORATE MANAGEMENT BOARD MEMBERS AND RESPONSIBILITY AREAS IN 2011

| | Since | Responsibility area |
|---|---|---|
| Matti Halmesmäki, Ch. | 1 Jan. 2001 | Kesko's President and CEO |
| Terho Kalliokoski, President of Kesko Food Ltd | 17 Mar. 2005 | Food trade |
| Minna Kurunsaari, Senior Vice President, home and speciality goods trade | 1 Dec. 2011 | Home and speciality goods trade, electronic marketing and services projects |
| Arja Talma, President of Rautakesko Ltd* | 17 Mar. 2005 | Building and home improvement trade |
| Pekka Lahti, President of VV-Auto Group Oy | 1 Mar. 2005 | Car and machinery trade |
| Riitta Laitasalo, Senior Vice President, Human Resources of Kesko | 1 Jan. 2001 | Human resources, K-instituutti |
| Merja Haverinen, Senior Vice President, Corporate Communications of Kesko | 1 Apr. 2011 | Corporate communications, responsibility, brands |
| Jukka Erlund, Senior Vice President, CFO of Kesko | 1 Nov. 2011 | Finance and accounting, IT management, financial services |

** Until 1 Nov. 2011, Talma was Senior Vice President, CFO of Kesko*
*In 2011, the Corporate Management Board members also included Paavo Moilanen, Senior Vice President for Kesko's Corporate Communications until 31 Mar., Rautakesko Ltd's President Jari Lind until 9 Jun. and Matti Leminen, Senior Vice President, home and speciality goods trade, until 30 Nov.*

## ANNUAL AND MEETING FEES PAID TO BOARD MEMBERS FOR BOARD AND COMMITTEE WORK IN 2011 (€)

| | | Meeting fees | | | |
|---|---|---|---|---|---|
| | Annual fees | Board | Audit Committee | Remuneration Committee | Total |
| Heikki Takamäki (Ch.) | 80,000 | 5,000 | - | 1,500 | 86,500 |
| Seppo Paatelainen (Dep. Ch.) | 50,000 | 5,000 | 2,500 | 1,500 | 59,000 |
| Esa Kiiskinen | 37,000 | 5,000 | - | - | 42,000 |
| Ilpo Kokkila | 37,000 | 4,500 | - | 1,500 | 43,000 |
| Mikko Kosonen | 37,000 | 5,000 | 2,500 | - | 44,500 |
| Maarit Näkyvä | 37,000 | 3,500 | 4,000 | - | 44,500 |
| Rauno Törrönen | 37,000 | 5,000 | - | - | 42,000 |
| Total | 315,000 | 33,000 | 9,000 | 4,500 | 361,500 |

## BOARD'S ANNUAL AND MEETING FEES RESOLVED BY THE ANNUAL GENERAL MEETING IN 2006–2011 (€)

| | Fee/year | |
|---|---|---|
| Annual fee | 2009–2011 | 2006–2008 |
| Board Chair | 80,000 | 60,000* |
| Board Deputy Chair | 50,000 | 42,000* |
| Board member | 37,000 | 30,000* |

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

| | Fee/meeting | |
|---|---|---|
| Meeting fee | 2009–2011 | 2006–2008 |
| Fee for a Board meeting | 500 | 500 |
| Fee for a Committee meeting | 500 | 500 |
| Committee Chair's fee for a Committee meeting, if he/she is not also the Board Chair or Deputy Chair | 1,000 | 1,000 |

## PRESIDENT AND CEO MATTI HALMESMÄKI

### Salaries, performance bonuses and fringe benefits in 2009–2011 (€)

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Non-variable monetary salary | 642,900 | 605,100 | 569,300 |
| Performance bonuses* | 339,500 | 227,500 | 152,250 |
| Fringe benefits | 19,980 | 22,560 | 23,014 |
| Total | 1,002,380 | 855,160 | 744,564 |

** Paid based on previous year's performance.*

### Share options granted 2007–2011 (pcs)

| Option (symbol) | 2010–2011 | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| 2007A | - | | | 50,000 |
| 2007B | - | | 50,000 | |
| 2007C | - | 50,000 | | |
| Total | - | 50,000 | 50,000 | 50,000 |

*At 31 Dec. 2011, the President and CEO held 50,000 2007A options, 30, 000 2007B options and 50,000 2007C options.*

| Share-based payments (pcs) | 2011 | 2012 |
|---|---|---|
| Maximum | 18,000 | 21,000* |
| Granted* | 7,794 | |
| Commitment period (until) | 31.12.2014 | 31.12.2015 |

** The Board's decision in February 2012. The share award for the 2011 vesting period will be paid by the end of April 2012 in accordance with the terms of the plan. The amount of the award for the 2012 vesting period will be decided in 2013.*

### Commitment period

The share award of Kesko B shares involves a commitment period of three years, following each vesting period, during which the shares may not be transferred.

### Period of notice and termination benefit

If the President and CEO's service contract is terminated by the company, he is paid a 12-months' salary and a separate lump sum termination benefit, which corresponds to his 12-months' salary and fringe benefits (a total of 24 x termination month's salary + fringe benefits). If the President and CEO resigns, he is entitled to a 6-months' salary for the notice period.

| Commitment period* |
|---|
| 4/2007–4/2010 |
| 4/2008–4/2011 |
| 4/2009–4/2012 |

** During which share options may not be assigned or exercised .*

### Ownership obligation

25% of proceeds from share option sales shall be used to purchase company shares for permanent ownership.

The share award is based on the fulfilment of the vesting criteria set by the Board for each vesting period. The Board annually decides on the vesting criteria and the maximum share awards at the beginning of the vesting period. At the beginning of the year following the vesting period, the Board decides the final amounts of Kesko B shares to be granted based on the fulfilment of the vesting criteria. The criteria for the 2011–2013 vesting periods with equal weightings are Kesko's basic earnings per share (EPS) excl. non-recurring items, the performance of the Kesko Group's sales exclusive of tax during the vesting period, and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap index.

In addition, a cash component is paid to cover the taxes and tax-like charges incurred by the award.

### Retirement benefits

The President and CEO is a member of the Kesko Pension Fund's department A and his retirement benefits are determined based on the department's rules and his managing director's service contract. In 2011, his term of office, based on his managing director's service contract, was extended until his retirement on old age pension at the age of 63. His retirement benefit is based on a defined benefit plan. At retirement, his pension will be 66% of his pensionable salary, which is determined based on his non-variable monetary salary, performance bonuses and fringe benefits for the last 10 years.

## SALARIES, PERFORMANCE BONUSES AND FRINGE BENEFITS OF CORPORATE MANAGEMENT BOARD MEMBERS IN 2010–2011 (€)*

| | Non-variable monetary salary | | Performance bonuses | | Fringe benefits | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Matti Halmesmäki (Ch.) | 642,900 | 605,100 | 339,500 | 227,500 | 19,980 | 22,560 | 1,002,380 | 855,160 |
| Corporate Management Board** | 1,537,924 | 1,515,860 | 438,500 | 244,250 | 97,127 | 112,080 | 2,073,550 | 1,872,190 |
| **Total** | **2,180,824** | **2,120,960** | **778,000** | **471,750** | **117,107** | **134,640** | **3,075,930** | **2,727,350** |

** Salaries, performance bonuses and fringe benefits are reported on cash basis. The 2010 accrual is calculated by adding the amount of performance bonus paid in 2011 to the salaries and fringe benefits in 2010. The performance bonus accrued for 2011 will be decided in spring 2012.*
*** Excluding President and CEO Halmesmäki. The amounts reported for the Corporate Management Board reflect the changes in its composition in 2011 and they include each member's salaries, performance bonuses and fringe benefits for their terms of office.*

## SHARE OPTIONS GRANTED TO CORPORATE MANAGEMENT BOARD MEMBERS IN 2007–2011 (PCS)

| Grant year | 2010–2011 | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| **Share option (symbol)** | | **(2007C)** | **(2007B)** | **(2007A)** |
| Matti Halmesmäki, Ch. | - | 50,000 | 50,000 | 50,000 |
| Corporate Management Board* | - | 115,000 | 100,000 | 99,500 |
| **Total** | **-** | **165,000** | **150,000** | **149,500** |

** Excluding President and CEO Halmesmäki. The amounts reported for the Corporate Management Board reflect the changes in its composition in 2011 and include the share option amounts of Kurunsaari, Erlund and Haverinen as they joined the Corporate Management Board in 2011.*

*At 31 Dec. 2011, Corporate Management Board member, President and CEO Halmesmäki held 50,000 2007A, 30,000 2007B and 50,000 2007C share options and the other Corporate Management Board members held a total of 95,000 2007A, 84,750 2007B and 115,000 2007C share options, or all Corporate Management Board members held a total of 145,000 2007A, 114,750 2007B and 165,000 2007C share options.*

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

## SHARE-BASED PAYMENTS TO CORPORATE MANAGEMENT BOARD MEMBERS (PCS)

| | 2011 | | 2012 |
|---|---|---|---|
| | Maximum | To be granted** | Maximum** |
| Matti Halmesmäki, Ch. | 18,000 | 7,794 | 21,000 |
| Corporate Management Board* | 33,300 | 14,419 | 40,500 |
| **Total** | **51,300** | **22,213** | **61,500** |

** Excluding President and CEO Halmesmäki. The amounts reported for the Corporate Management Board reflect the changes in its composition in 2011 and are reported as at the end of 2011.*
*** The Board's decision in February 2012. The share award for the 2011 vesting period will be paid by the end of April 2012 in accordance with the terms of the plan. The amount of the award for the 2012 vesting period will be decided in 2013. The share award is based on the fulfilment of the vesting criteria set by the Board for each vesting period. The Board annually decides on the vesting criteria and the maximum share awards at the beginning of the vesting period.*
*At the beginning of the year following the vesting period, the Board decides the final amounts of Kesko B shares to be granted based on the fulfilment of the vesting criteria. The criteria for the 2011–2012 vesting periods with equal weightings are Kesko's basic earnings per share (EPS) excl. non-recurring items, the performance of the Kesko Group's sales exclusive of tax during the vesting period, and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap index. In addition, a cash component is paid to cover the taxes and tax-like charges incurred by the award.*
*Each vesting period attached to the Kesko B share awards is followed by a commitment period of three calendar years, during which shares may not be transferred. The commitment period for shares granted for the 2011 vesting period will expire on 31 Dec. 2014.*

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

| | Retirement pension age (yrs) | Pension as percentage of pensionable salary (%) | Period of notice | Termination benefit |
|---|---|---|---|---|
| Matti Halmesmäki, Ch. | 63 | 66 | 6*/12 mo | 12 mo salary |
| Terho Kalliokoski | 62 | 66 | 6 mo | 6 mo salary |
| Minna Kurunsaari | 62 | 66 | 6 mo | 6 mo salary |
| Arja Talma | based on TyEL** | based onTyEL** | 6 mo | 6 mo slary |
| Pekka Lahti | 62 | 66 | 6 mo | 12 mo salary |
| Riitta Laitasalo | 60 | 66 | 6 mo | 12 mo salary |
| Merja Haverinen | based on TyEL** | based on TyEL** | 6 mo | 6 mo salary |
| Jukka Erlund | based on TyEL** | based on TyEL** | 6 mo | 6 mo salary |

If the company terminates the executive's service contract, he/she is paid a 6–12 months' salary for the period of notice and a separate lump sum termination benefit representing his/her 6–12 months' non-variable monetary salary and fringe benefits (a total of 12–24 x salary for the month of termination + fringe benefits). If the executive resigns, he/she is entitled to a salary for the period of notice.

*Except for Erlund, Haverinen and Talma, the executives are members of the Kesko Pension Fund's department A. Their retirement ages and pensions are determined based on the department's rules and each of their service contracts. Their retirement benefits are based on defined benefit plans.*
**If the President and CEO resigns, he is entitled to a 6-months' salary for the notice period.*
***TyEL = the Employees' Pensions Act.*

## REMUNERATION OF THE PRESIDENT AND CEO AND OTHER MANAGEMENT

The remuneration plan for the President and CEO and the other members of the Corporate Management Board consists of a non-variable monetary salary (monthly salary), fringe benefits (free car and mobile phone benefit), a performance bonus based on criteria set annually (the maximum performance bonus of President and CEO corresponds to his monetary salary for a maximum of eight months, and that of the other members of the Corporate Management, for a maximum of 4–5 months), share-based payment and share option plans and management's retirement benefits.

Based on the Remuneration Committee's preparatory work, Kesko's Board makes decisions on the individual compensation, other financial benefits, the performance bonus system criteria and the performance bonuses paid to the President and CEO and the Corporate Management Board members responsible for lines of business. The President and CEO makes decisions on the compensation and other financial benefits of the other Corporate Management Board members within the limits set by the Chair of the Board's Remuneration Committee.

More information on the Kesko management's remuneration and the company's share-based compensation and share option plans is available on pages 50–51 and 58–59, and at www.kesko.fi.

## RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

### RISK MANAGEMENT

#### Risk management is an integral part of management in Kesko

Kesko's risk management is proactive and an integral part of its 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. Efficient risk management is a competitive advantage for Kesko.

The risk management policy confirmed by the Board of Directors guides risk management in the Kesko Group. The policy is based on the COSO ERM Framework and the SFS-ISO risk management standard. The policy defines the objectives, principles, practices, organisation and responsibilities of risk management. Kesko divides risks into strategic, operational and financial risks.

In Kesko, a risk is defined as an event or circumstance

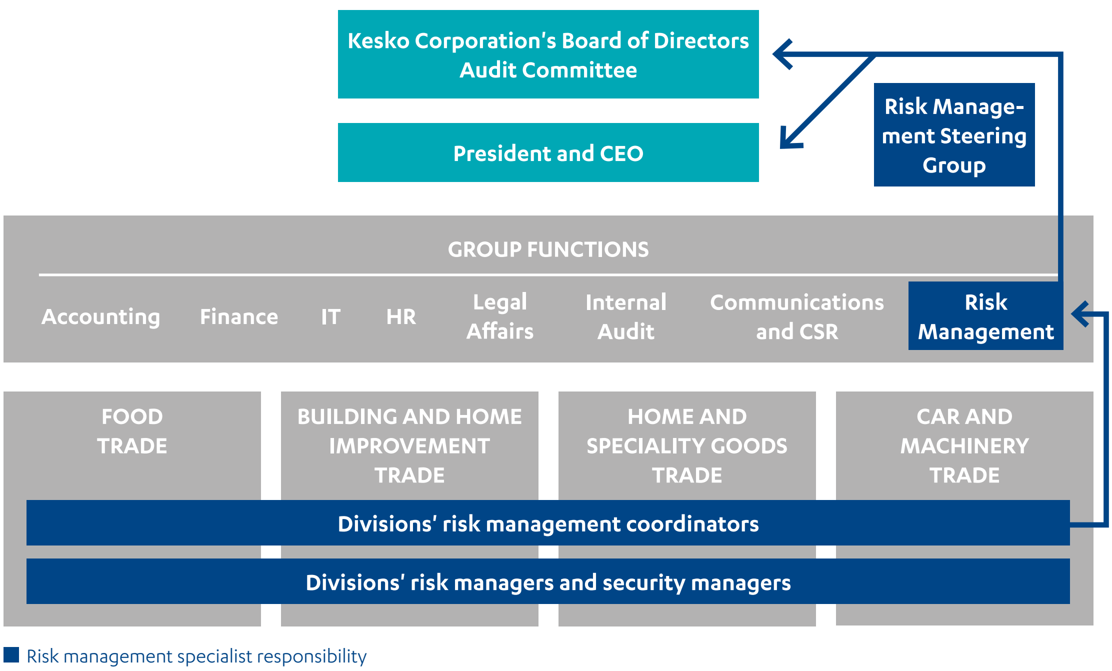
- that can hinder or prevent the attainment of Kesko's objectives, or
- that can lead to a failure to exploit business opportunities.

#### The Group has a uniform risk assessment and reporting system

The Kesko Group applies a business-oriented and comprehensive approach to risk assessment and management. This means that key risks are systematically identified, assessed, managed, monitored and reported as part of business operations at the Group, division, company and unit levels in all operating countries. Risk identification and assessment play a key role in Kesko's strategy work and rolling planning. In addition, risk assessments are made of significant projects related to capital expenditures or changes in operations.

Kesko has a uniform risk assessment and reporting system. 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 realisation and the level of risk management. All risks cannot or need not be managed. When assessing the impact of realisation, the impacts on reputation, employees' wellbeing and the environment are considered in addition financial impacts. Responsible persons are assigned to the planning, execution and monitoring of risk management responses. The defined responses are included in operating plans and monitoring.

## KESKO GROUP'S RISK MANAGEMENT ORGANISATION



### Providing insurance cover is part of Kesko's risk management

Providing insurance cover is part of Kesko's risk management, and the policy confirmed by Kesko's Board of Directors defines the principles of providing insurance. The objective of insurance is to ensure that the Group's personnel, assets, business operations and liabilities have appropriate and economical insurance cover, while taking account of legislative requirements and the Group's risks and risk tolerance at any time. The Group's risk management function is responsible for the Group-level insurance programmes, their competitive tendering and brokerage services as part of the Group's damage/loss risk management.

### Responsibilities and roles in risk management

The business division and Group function managements are responsible for risk management implementation. Each division has appointed a management board member, usually the finance director, to be responsible for coordinating risk management and security and providing guidelines in each respective division and reporting on risk management responses. In addition, divisions have risk managers and security managers, who are responsible for the development and control of risk management and security in the division, in cooperation with the business management and support functions.

Kesko has a Group-level Risk Management Steering Group, which is chaired by the Group's President and CEO, and composed of the representatives of the management of the various divisions and Group functions. The Group's risk management function controls and coordinates the development of joint risk management and security procedures, the adoption of best practices in the Group, and is responsible for risk reporting to the Group's management. Based on the divisions' and Group functions' risk analyses, the Group's risk management function prepares the Group's risk map, presenting the most significant risks and their management.

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

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

### Risk management responses in 2011

Kesko's risk management policy was updated in late 2011 to take account of the SFS-ISO 31000 'Risk management – Principles and guidelines' standard. Kesko has an established risk management process and no significant changes took place in it in 2011.

The risk management function was closely involved in the project for the introduction of the new chip&pin payment terminals. This included the assessment of the introduction project and the risks of use, and the definition of new operating systems.

For the purpose of improving occupational safety, leveraging the results of the extensive inquiry for assessing risks at work carried out in 2009 was continued by assessing the identified risk factors in more detail and by determining location- or unit-specific responses to them.

With regard to damage/loss insurances, new forms of cooperation were sought and adopted jointly with business partners for the purpose of supporting proactive risk management work in Kesko. Competitive tendering of insurance broker services and the statutory workers' compensation insurance cover relating to Kesko's personnel in Finland was arranged.

### Focus areas of risk management in 2012

As Kesko is strongly expanding its operating activities in Russia, local risk management resources will be increased and cooperation between the divisions as well as Group control will be added. Kesko's risk management will continue to prevent damages and malpractice, to maintain and test continuity plans, and to provide cost-efficient insurance services. Competitive tendering for the Kesko Group's non-life insurances will be arranged early in the year.

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

### The most significant risks and their management responses

Risks and uncertainties impacting Kesko's business operations and their management responses, as well as the organisation and principles of Kesko's risk management are described at www.kesko.fi/Investors and in the Report by the Board of Directors on page 62.

Financial risks (such as counterparty risk, liquidity risk, foreign exchange risk related to purchasing operations, interest rate risk and commodity risk relating to electricity derivatives) are described in accordance with the IFRS in note 39 to Kesko's financial statements for 2011.

## INTERNAL CONTROL

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

Internal control refers to all proactive operations, daily and subsequent control, aimed at ensuring the achievement of business objectives. Kesko's values, operating principles and the company's strategy and objectives form the basis of internal control as a whole. Kesko's operating principles have been communicated to the Kesko employees in the guide 'Our Responsible Working Principles' and the related Group-wide training programme.

Daily controls include working instructions and system and manual controls, as well as the definition and differentiation of responsibilities and powers, job specifications, approval authorisations and substitute procedures as well as financial and other reporting. The Kesko Group's internal audit function evaluates and verifies the efficiency of internal control and assists management and the companies in the development of an internal control system.

The objective of internal control in the Kesko Group is to ensure profitable and effective operations, to secure the continuity of operations, reliability of financial and operational reporting, compliance with laws and agreements and Kesko's values and operating principles as well as the security of assets and information.

## INTERNAL AUDIT

Kesko's internal audit function is responsible for the Group's independent evaluation and assurance function required of a listed company, which systematically examines and verifies the efficiency of risk management, control, management and governance. The Audit Committee of Kesko's Board has approved the internal audit function's operating instructions.

## Organisation and operations of the internal audit function

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

Auditing is based on risk analyses and risk management and control discussions with the Group's and divisions' managements. Meetings with the auditor are also arranged on a regular basis. An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The annual plan is modified on a risk basis, if necessary.

As necessary, the internal audit function purchases external services for added resources or for the purpose of conducting audit operations which require special competences. Audits can also make use of the competence and work contribution of the Kesko Group's other specialists.

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

## Internal audit operations in 2011

In 2011, the areas of emphasis of the internal audit function included foreign operations and information system audits. The audits of foreign operations concentrated on the implementation of changes in business operations, selections management, and the other basic controls of purchasing. In information system audits, special attention was paid to systems projects in progress, continuity and information security. Compliance with Kesko's accounting policies and reporting guidelines was verified and assessed in various audits. The audits increasingly leveraged data extraction and analysing software. For the purpose of developing auditing, an external quality assurance evaluation on the internal audit was carried out. Close cooperation with the auditor was strengthened.

## Focus areas of internal audit in 2012

The emphasis in the audit operations of the internal audit function in 2012 will be on the expansion of business operations in Russia and the related risks, as well as on significant business and IT projects. Other focus areas include purchasing controls, risks of malpractice, HR governance, IT governance, data security, continuity of operations and electronification of processes.

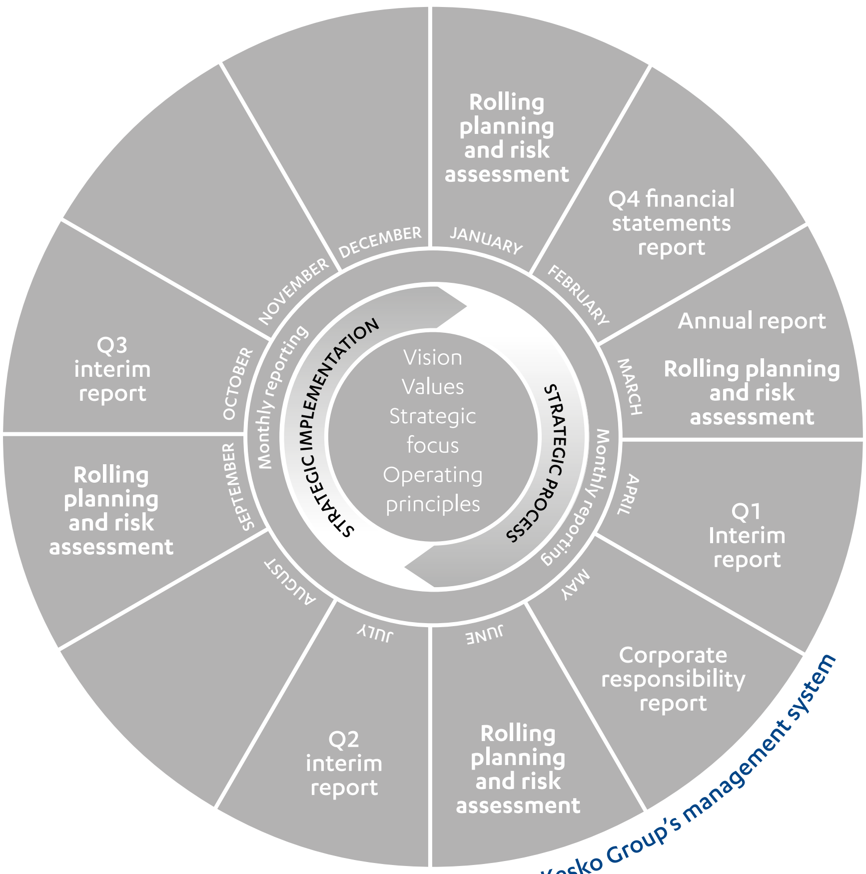



Fig 1. The Kesko Group's management system

## OUTLINE OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO THE GROUP'S FINANCIAL REPORTING

### KESKO'S MANAGEMENT SYSTEM

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

### ROLES AND RESPONSIBILITIES

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

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

### PLANNING AND PERFORMANCE REPORTING

The Group's financial performance and the achievement of financial objectives are monitored via Group-wide financial reporting. Monthly performance reporting includes Group, division and subsidiary specific results, changes compared to the previous year, comparison with financial plans, and forecasts for the next 12 months. The Group's short-term financial planning is based on plans drawn up by the quarter, extending for the following 15 months. The financial indicator for growth is sales performance, while that for profitability is the accumulation of economic value added, monitored via monthly internal reporting. In the calculation of economic value added, the requirements concerning return on capital are determined annually on market terms, and the return requirements take account of risk-related division and country specific differences. Information on the Group's financial situation is communicated

## AUDITORS' FEES IN 2010–2011 (€, THOUSAND)

| | 2011 | | | | | 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | PwC | | Other audit firms | | Total | PwC | | Other audit firms | | Total |
| | Kesko Corporation | Other Group companies | Kesko Corporation | Other Group companies | | Kesko Corporation | Other Group companies | Kesko Corporation | Other Group companies | |
| Auditing | 76 | 758 | - | 59 | 892 | 106 | 828 | - | 59 | 993 |
| Tax consultation | 54 | 68 | 4 | 13 | 139 | 84 | 31 | - | 17 | 132 |
| IFRS consultation | 11 | - | 4 | - | 15 | 3 | - | 2 | - | 5 |
| Other services | 96 | 269 | 30 | 57 | 452 | 59 | 64 | 54 | 28 | 205 |
| Total | 237 | 1,095 | 38 | 129 | 1,498 | 252 | 923 | 56 | 104 | 1,336 |

in interim reports and the financial statements release. The Group's sales figures are published in a stock exchange release each month.

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

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

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

### KEY ACTIONS IN 2011

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

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

### KEY ACTIONS IN 2012

In 2012, the financial management function will continue the information system project serving the K-Group and its adoption.

### ACCOUNTING POLICIES AND FINANCIAL MANAGEMENT IT SYSTEMS

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

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

## AUDIT

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

The 2011 General Meeting elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the company's auditor, with APA Johan Kronberg as the auditor with principal responsibility. The General Meeting resolved that the auditor's fee is paid and expenses are reimbursed according to invoice approved by the company.

### OTHER INFORMATION

More comprehensive information on Kesko's Corporate Governance and the separate statements referred to in the Corporate Governance Code, Kesko's Corporate Governance Statement and the Remuneration Statement are available in the Investor section at www.kesko.fi.

# BOARD OF DIRECTORS ON 31 DECEMBER 2011

## HEIKKI TAKAMÄKI

b. 1947
**Domicile:** Tampere, Finland.

**Chair**
(Chair of the Remuneration Committee).

**Principal occupation:** Retailer, K-rauta Rauta-Otra Nekala.
**Main employment history:** K-rauta retailer since 1979. Kesport-Intersport retailer 1995–1999.
**Main positions of trust:** -
**Board member since:** 1 January 2001.
**Fees in 2011:** €86,500.
**Kesko shares and share options held on 1 January 2011:** 104,470 A shares and 68,120 B shares held by him or his company. No share options.
**On 31 December 2011:** 104,470 A shares and 68,120 B shares held by him or his company. No share options.

## SEPPO PAATELAINEN

b. 1944, M.Sc. (Agr. & For.)
**Domicile:** Seinäjoki, Finland.

**Deputy Chair**
(Deputy Chair of the Audit Committee and the Remuneration Committee).

**Principal occupation:** -
**Main employment history:** Atria Group plc: CEO 1991–2006, Itikka Co-operative and Itikka Lihabotnia Oy: CEO 1988–1991, Luja-Yhtiöt: Director 1973–1987, Itikka Co-operative: Director 1970–1973.
**Main positions of trust:** Seinäjoki Region Business Service Center: Board Chair 2009–, Alma Media Corporation: Deputy Board Chair 2009–2010, Board Chair 2011–, Ilkka-Yhtymä Oyj: Board Chair 2007–, Board member 1994–2007, Finavia Corporation: Board Chair 2010–6/2011.
**Board member since:** 27 March 2006.
**Fees in 2011:** €59,000.
**Kesko shares and share options held on 1 January 2011:** No shares. No share options.
**On 31 December 2011:** No shares. No share options.

## ESA KIISKINEN

b. 1963, Business College Graduate
**Domicile:** Helsinki, Finland.

**Principal occupation:** Retailer, K-supermarket Kontumarket, Helsinki.
**Main employment history:** K-food retailer since 1990.
**Main positions of trust:** K-Retailers' Association: Board Chair 2008–, the Foundation for Vocational Training in the Retail Trade: Board Chair 2008–, Vähittäiskaupan Tilipalvelu VTP Oy: Board member 2008–, the Federation of Finnish Commerce: Board member 2008–, Saija ja Esa Kiiskinen Oy: Board Chair 1995–.
**Board member since:** 30 March 2009.
**Fees in 2011:** €42,000.
**Kesko shares and share options held on 1 January 2011:** 102,350 A shares held by him or his company. No share options.
**On 31 December 2011:** 107,350 A shares held by him or his company. No share options.

## ILPO KOKKILA

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

**Principal occupation:** SRV Group Plc: Board Chair.
**Main employment history:** SRV Group Plc: Board Chair 1987–, Pontos Ltd: Board Chair 2002–, Perusyhtymä Oy: Director 1974–1987, A-Betoni Oy: Constructor 1972–1974.
**Main positions of trust:** Finnish-Russian Chamber of Commerce (FRCC): Board Deputy Chair 2006–2011, Board Chair 2012–, JTO School of Management: Board Chair 1999–.
**Board member since:** 27 March 2006.
**Fees in 2011:** €43,000.
**Kesko shares and share options held on 1 January 2011:** 16,100 B shares held by him. No share options.
**On 31 December 2011:** 16,100 B shares held by him. No share options.

## MIKKO KOSONEN

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

**Principal occupation:** President of Finnish Innovation Fund Sitra.
**Main employment history:** Finnish Innovation Fund Sitra: President 2008–, Special Advisor 2007–2008, Nokia plc: Executive Advisor 2005–2007, Senior Vice President for Strategic Planning and Information Management 1997–2005.
**Main positions of trust:** Foundation for Economic Education: Board member 2011–, Kuntien Tiera Oy: Board Chair 2010–, Idexia Oy: Board Chair 2009–, Technology Academy Finland Foundation: Board member 2009–, Fifth Element Ltd: Board member 2008–.
**Board member since:** 30 March 2009.
**Fees in 2011:** €44,500.
**Kesko shares and share options held on 1 January 2011:** No shares. No share options.
**On 31 December 2011:** 600 B shares held by him. No share options.

## MAARIT NÄKYVÄ

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

**Principal occupation:** -
**Main employment history:** Sampo Fund Management Ltd: Board member 2007–2008, Sampo Bank plc: Board member 2001–2008, Executive Vice President 2007–2008, Sampo plc: Executive Vice President 2001–2006, Leonia Bank plc: Board member 1998–2000, Merita Fund Management Ltd: President 1996–1997, Merita Bank Ltd.: Director 1995–1996, Unitas Bank Ltd.: Director 1990–1995.
**Main positions of trust:** -
**Board member since:** 1 January 2001.
**Fees in 2011:** €44,500.
**Kesko shares and share options held on 1 January 2011:** No shares. No share options.
**On 31 December 2011:** No shares. No share options.

## RAUNO TÖRRÖNEN

b. 1958, Hospitality Management Training.
**Domicile:** Joensuu, Finland.

**Principal occupation:** Retailer, K-citymarket Kauppakatu, Joensuu.
**Main employment history:** K-food retailer since 1998. Pohjois-Karjalan Osuuskauppa: member of the management team 1986–1998.
**Main positions of trust:** Alepro Oy: Board member 2009–, Joensuun kauppaopetuksen tukisäätiö: Board member 2009–, Kiihtelysvaaran Osuuspankki: Supervisory Board member 2004–.
**Board member since:** 30 March 2009.
**Fees in 2011:** €42,000.
**Kesko shares and share options held on 1 January 2011:** 15,900 A shares and 14,600 B shares held by him or his company. No share options.
**On 31 December 2011:** 15,900 A shares and 14,600 B shares held by him or his company. No share options.

**READ MORE:**
Up-to-date information about the main positions of trust as well as information about terminated positions of trust is available at www.kesko.fi. The term of each Board member will expire at the close of the 2012 Annual General Meeting.

# CORPORATE MANAGEMENT BOARD ON 31 DECEMBER 2011

## MATTI HALMESMÄKI

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

**Other major duties:** Confederation of Finnish Industries EK: Board member 2005– and Deputy Chair 2005–2011, the Finnish Fair Corporation: Board member 2005–, the Federation of Finnish Commerce: Board member 2005- and Board Chair 2012–, Ilmarinen Mutual Pension Insurance Company: Board member 2010-, Luottokunta: Supervisory Board member 2005– and Chair 2007–2010, Foundation for Economic Education: Board member 2005–, Finnish Business and Policy Forum EVA: member 2005–, the Association for Promoting Voluntary National Defence of Finland: Delegation member 2005–, Savonlinna Opera Festival Patrons' Association, member of the Board of Trustees 2006–, East Office of Finnish Industries Oy: Board member 2008–.
**Employment history:** employed by Kesko Ltd since 1980. Kesko Corporation's Managing Director and the Kesko Group's President and CEO since 1 March 2005.
**Corporate Management Board member since:** 1 January 2001.
**Kesko shares and share options held on 1 January 2011:** 2,000 A shares, 7,000 B shares, 50,000 A share options, 50,000 B share options and 50,000 C share options.
**On 31 December 2011:** 2,000 A shares, 10,000 B shares, 50,000 A share options, 30,000 B share options and 50,000 C share options.

## TERHO KALLIOKOSKI

b. 1961, M.Sc. (Econ.). President of Kesko Food Ltd and responsible for Kesko's store site operations in Russia.
**Domicile:** Kirkkonummi, Finland.

**Other major duties:** the Finnish Grocery Trade Association: Board member 2006–, Deputy Chair 2006–2007 and Chair 2008–2009, the Association of Finnish Advertisers: Board member 2005–, Helsinki Region Chamber of Commerce: Board member 2009– and Deputy Chair 2012–, the Finnish 4H Federation: Supervisory Board member 2009–.
**Employment history:** employed by Kesko Ltd since 1985. President of Kesko Food Ltd since 1 May 2005.
**Corporate Management Board member since:** 17 March 2005.
**Kesko shares and share options held on 1 January 2011:** 3,250 B shares, 25,000 A share options, 25,000 B share options and 30,000 C share options.
**On 31 December 2011:** 6,000 B shares, 25,000 A share options, 9,750 B share options and 30,000 C share options.

## MINNA KURUNSAARI

b. 1965, LL.M. Senior Vice President, home and speciality goods trade and Director responsible for Kesko's electronic marketing and services projects.
**Domicile:** Espoo, Finland.

**Other major duties:** Pro Luomu: Vice Chair 2011–, Finfood – Finnish Food Information: Board member 2008–2011, the Finnish Grocery Trade Association: Purchasing and Logistics Group member 2008–2011.
**Employment history:** employed by Kesko Ltd since 1995. Senior Vice President for the home and speciality goods trade and Director responsible for Kesko's electronic marketing and services projects since 1 December 2011. Vice President for Kesko Food's Commerce 2008–2011.
**Corporate Management Board member since:** 1 December 2005.
**Kesko shares and share options held on 1 December 2011:**10,800 B shares, 10,000 A share options, 10,000 B share options and 12,500 C share options.
**On 31 December 2011:** 10,800 B shares, 10,000 A share options, 10,000 B share options and 12,500 C share options.

## ARJA TALMA

b. 1962, M.Sc. (Econ.), eMBA. President of Rautakesko Ltd.
**Domicile:** Helsinki, Finland.

**Other major duties:** VR-Group Ltd: Board member 2006– and Chair of the Audit Committee 2006–, Sponda Plc: Board member 2007– and Chair of the Audit Committee 2007–, Luottokunta: Board member 2008–, Finnish Scout Foundation: Supervisory Board member 2010–.
**Employment history:** Employed by Kesko Corporation since 2004. President of Rautakesko Ltd since 1 November 2011. Kesko Corporation's Senior Vice President, CFO 2005–2011. Oy Radiolinja Ab: Executive Vice President, Finance and Administration 2001–2003. KPMG Wideri Oy Ab: APA 1992–2001, partner 2000–2001.
**Corporate Management Board member since:** 17 March 2005.
**Kesko shares and share options held on 1 January 2011:** 2,000 B shares, 25,000 A share options, 25,000 B share options and 25,000 C share options.
**On 31 December 2011:** 2,000 B shares, 25,000 A share options, 25,000 B share options and 25,000 C share options.

**READ MORE:**
Up-to-date information about the main positions of trust and terminated positions of trust as well as more detailed information about employment histories is available at www.kesko.fi.

More information about Kesko's management available at www.kesko.fi/en/Company/Administration-and-management.

## PEKKA LAHTI

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

**Other major duties:** The Association of Automobile Importers in Finland: Board member 2007– and Board Chair 2010–, Finnish Car Recycling Ltd: Board member 2007–, Tieliikenteen tietokeskus TT Oy: Board member 2009– and Board Chair 2010–, the Federation of Finnish Commerce: Board member 2010–.
**Employment history:** employed by Kesko Ltd since 1981. President of VV-Auto Group Oy since 1 February 2006.
**Corporate Management Board member since:** 1 March 2005.
**Kesko shares and share options held on 1 January 2011:** 20,000 A share options, 20,000 B share options and 20,000 C share options.
**On 31 December 2011:** 20,000 A share options, 20,000 B share options and 20,000 C share options.

## RIITTA LAITASALO

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

**Other major duties:** Senate Properties: Board member 2012–, The Unemployment Insurance Fund of the Ministry of Social Affairs and Health: Supervisory Board member 2010–, Fintra: Board member 2005–, JTO School of Management: Board member 2005–, Edita plc: Board member 2005–, Chair of the Audit Committee 2005–, the Foundation for Vocational Training in the Retail Trade: Board member 1998–, Kesko Sickness Fund: Board Chair 1995–1997, 2005–, Kesko Pension Fund: Board member 1996–1997, Board Chair 1998-.
**Employment history:** employed by Kesko Ltd since 1979. Senior Vice President, Human Resources since 30 March 2005.
**Corporate Management Board member since:** 1 January 2001.
**Kesko shares and share options held on 1 January 2011:** 11,000 B shares, 15,000 A share options, 15,000 B share options and 15,000 C share options.
**On 31 December 2011:** 11,000 B shares, 15,000 A share options, 15,000 B share options and 15,000 C share options.

## JUKKA ERLUND

b. 1974, M.Sc. (Econ.), eMBA. Senior Vice President, CFO.
**Domicile:** Helsinki, Finland.

**Other major duties:** Confederation of Finnish Industries EK: member of the Finance and Taxation Committee 2012–, the Federation of Finnish Commerce: Chair of the Tax and Economic Policy Committee 2011-.
**Employment history:** employed by Kesko Corporation since 2004. Senior Vice President, CFO since 1 November 2011. Kesko Food Ltd's Vice President for Finance 2010–2011.
**Corporate Management Board member since:** 1 November 2011.
**Kesko shares and share options held on 1 November 2011:** 580 B shares, 2,000 B share options and 8,000 C share options.
**On 31 December 2011:** 580 B shares, 2,000 B share options and 8,000 C share options.

## MERJA HAVERINEN

b. 1962, M.Soc.Sc. Senior Vice President, Corporate Communications and Responsibility.
**Domicile:** Helsinki, Finland.

**Other major duties:** The Association for Finnish Work: Board member 2011–, Keski-Suomen Osuuspankki: Deputy Chair of the Supervisory Board 2008–, University of Jyväskylä: Board Deputy Chair 2010–, South Savo Chamber of Commerce: Board member 2009–, Kuntopolku Oy: Board member 2010–, Tahko Golf Club Oy: Board member 2011–, Central Finland Chamber of Commerce: Board member 2010–2011, Confederation of Finnish Industries EK: member of the Central Finland Advisory Board 2008–2011.
**Employment history:** employed by Kesko Corporation since 2008. The Kesko Group: Senior Vice President, Corporate Communications and Responsibility since 1 April 2011. Kesko's Finnish Lakeland District Director (Jyväskylä) 2008–2011, TeliaSonera Finland Oyj: 1996–2007, Ministry for Foreign Affairs 1995–1996, Helsinki Mediat Oy 1984–1995.
**Corporate Management Board member since:** 1 April 2011.
**Kesko shares and share options held on 1 April 2011:** 4,500 A share options, 3,000 B share options and 4,500 C share options.
**On 31 December 2011:** 3,000 B share options and 4,500 C share options.

Changes in the Corporate Management Board in 2011:

- Paavo Moilanen was the Kesko Group's Senior Vice President, Corporate Communications and Responsibility until 31 March 2011.
- Jari Lind was President of Rautakesko Ltd until 9 June 2011.
- Matti Leminen was Senior Vice President responsible for the home and speciality goods trade until 30 November 2011.

# 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.

# CONTENTS OF FINANCIAL STATEMENTS

# 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

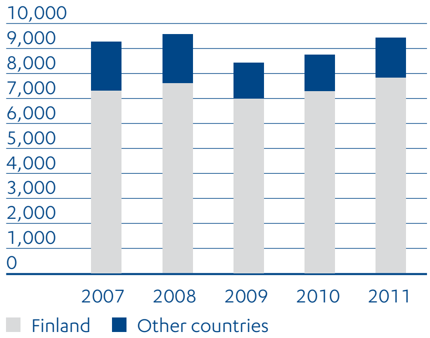
The Board of Directors decided to convene the Annual General Meeting at the Helsinki Fair Centre on 16 April 2012 at 13.00. Kesko Corporation will publish a notice of the Annual General Meeting at a later date.

## CORPORATE GOVERNANCE STATEMENT

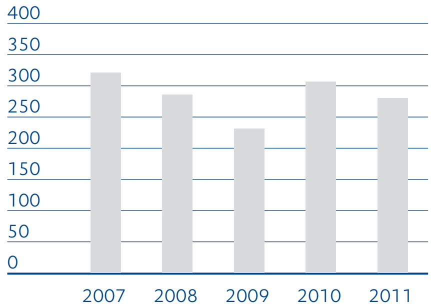
Kesko will publish a separate Corporate Governance Statement on week 12 on its website at www.kesko.fi.

# THE GROUP'S KEY PERFORMANCE INDICATORS

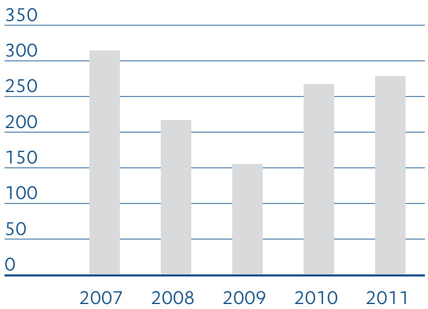
## NET SALES*
**€ million**



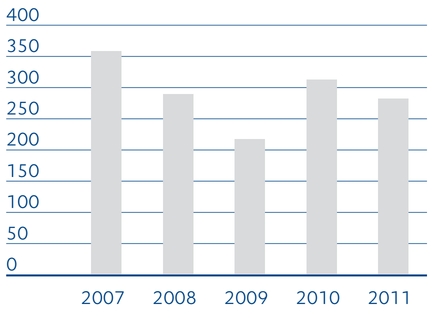

## OPERATING PROFIT*
**€ million**



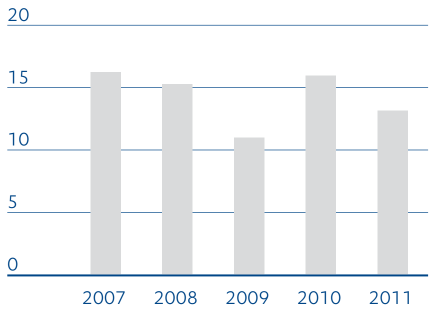

## OPERATING PROFIT
**excl. non-recurring items*, € milllion**



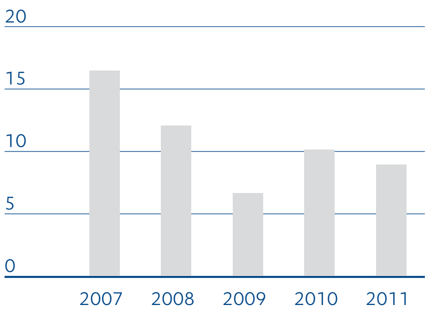

## PROFIT BEFORE TAX*
**€ million**



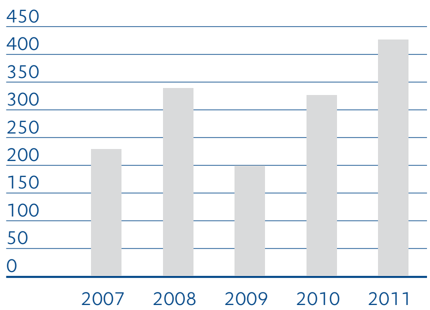

## RETURN ON CAPITAL EMPLOYED
**%**



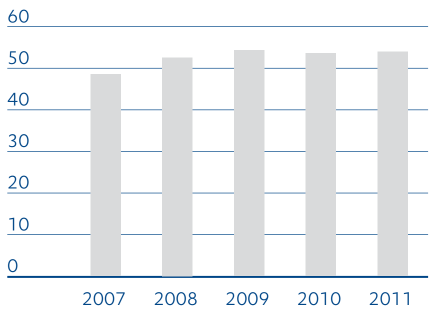

## RETURN ON EQUITY
**%**



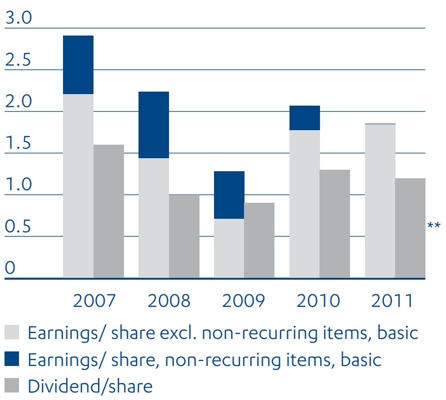

## CAPITAL EXPENDITURE*
**€ million**



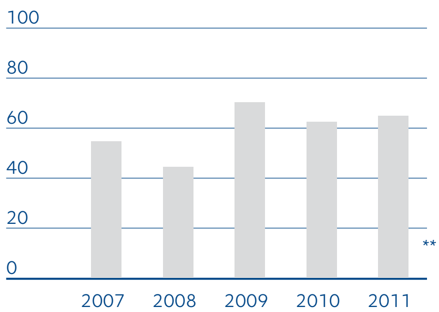

## EQUITY RATIO
**%**



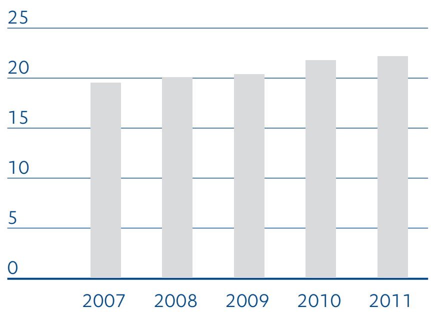

## EARNINGS/SHARE AND DIVIDEND/SHARE, €




## 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, % | = | $\frac{\text{(Profit / loss before tax – income tax)}}{\text{Shareholders' equity}}$ | x 100 |
| Return on equity excl. non-recurring items, % | = | $\frac{\text{(Profit/loss adjusted for non-recurring items before tax – income tax adjusted for the tax effect of non-recurring items)}}{\text{Shareholders' equity}}$ | x 100 |
| Return on capital employed, % | = | $\frac{\text{Operating profit}}{\text{(Non-current assets + inventories + receivables + other current assets – non-interest-bearing liabilities) for a 12 month average}}$ | x 100 |
| Return on capital employed excluding non-recurring items, % | = | $\frac{\text{Operating profit excluding non-recurring items}}{\text{(Non-current assets + inventories + receivables + other current assets – non-interest-bearing liabilities) for a 12 month average}}$ | x 100 |
| EBITDA | = | Operating profit + depreciation and amortisation + impairments | |

**Funding and financial position**

| | | | |
|---|---|---|---|
| Equity ratio, % | = | $\frac{\text{Shareholders' equity}}{\text{(Balance sheet total – prepayments received)}}$ | x 100 |
| Gearing, % | = | $\frac{\text{Interest-bearing net debt}}{\text{Shareholders' equity}}$ | x 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, % | = | $\frac{\text{(Dividend/share)}}{\text{(Earnings/share)}}$ | x 100 |
| Price/earnings ratio, (P/E) | = | $\frac{\text{Share price at balance sheet date}}{\text{(Earnings/share)}}$ | |
| Effective dividend yield, % | = | $\frac{\text{(Dividend/share)}}{\text{Share price at balance sheet date}}$ | x 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

| | 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** | | | | | | | |
| 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**

| | Fair value at 31 Dec. 2011 | | | |
|---|---|---|---|---|
| **€ million** | **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**

| | Fair value at 31 Dec. 2010 | | | |
|---|---|---|---|---|
| **€ million** | **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 |
| | | |
| **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

# SHARES AND SHAREHOLDERS

## DIVIDEND POLICY

According to Kesko Corporation's revised dividend policy, Kesko Corporation distributes at least 50% of its earnings per share excluding non-recurring items as dividends taking into account, however, the company's financial position and operating strategy.

The financial objectives are presented on page 9.

## PROPOSED DIVIDENDS FOR THE YEAR 2011

Kesko Corporation's Board of Directors proposes to the General Meeting that a dividend of €1.20 per share be distributed from the net profit for 2011, representing 65% of earnings per share and 65% of earnings per share excluding non-recurring items. In the past five years, 81.4% of earnings per share excluding non-recurring items, on average, has been distributed as dividends.

## BASIC INFORMATION ON THE SHARES AS AT 31 DECEMBER 2011

**A share**

- symbol: KESAV (OMX)
- ISIN code: FI0009007900
- voting rights per share: 10 votes
- number of shares: 31,737,007
- market capitalisation: €788 million

**B share**

- symbol: KESBV (OMX)
- ISIN code: FI0009000202
- voting rights per share: 1 vote
- number of shares: 66,908,035
- market capitalisation: €1,719 million

Trading unit of both share series: 1 share.
Total share capital: €197,282,584
Total number of shares: 98,645,042
Voting rights carried by all shares: 384,278,105.
Total market capitalisation: €2,506 million

## SHARE SERIES AND SHARE CAPITAL

Kesko Corporation's share capital is divided into A and B share series. The company's share capital was €197,282,584.

The minimum number of A shares is one (1) and the maximum number two hundred and fifty million (250,000,000), while the minimum number of B shares is one (1) and the maximum number two hundred and fifty million (250,000,000), provided however that the minimum aggregate number of shares is two (2) and the maximum aggregate number is four hundred million (400,000,000). The total number of shares is 98,645,042, of which 31,737,007 (32.2%) are A shares and 66,908,035 (67.8%) are B shares.

Each A share carries 10 votes and each B share one vote. Both shares have equal dividend rights. The number of votes carried by A shares is 83% and the number of votes carried by B shares is 17% of the total voting rights.

The shares are included in the book-entry securities register held by Euroclear Finland Ltd.

The right to receive funds distributed by the company and to subscribe for shares when shares are issued belongs only to those

- who are registered as shareholders in the shareholder register at the record date
- whose right to receive payments has been entered into the book-entry securities account of the shareholder registered in the shareholder register by the record date, and registered in the shareholder register
- and if a share is registered in a nominee name, into whose book-entry securities account the share is registered at the record date, and whose custodian is registered in the shareholder register as the custodian of the shares at the record date.

## AUTHORISATIONS OF THE BOARD AND TREASURY SHARES

### 2009 SHARE ISSUE AUTHORISATION

The Annual General Meeting held on 30 March 2009 authorised the company's Board of Directors to decide on the issuance of a maximum of 20,000,000 new B shares. The new shares can be issued against payment either in a directed issue to the company's existing shareholders in proportion to their existing shareholdings regardless of whether they consist of A or B shares; or in a directed issue deviating from the shareholders' pre-emptive rights in order for the issued shares to be used as consideration in possible company acquisitions, other company business arrangements, or to finance capital expenditures. The company must have a weighty financial reason for deviating from the shareholders' pre-emptive rights.

The Board's authorisation also included the authority to decide about the subscription price of the shares, to issue shares against non-cash consideration, and to make decisions concerning any other matters relating to share issues. The share subscription price is recorded in the reserve of invested non-restricted equity.

The share issue authorisation will remain valid until 30 March 2012. The authorisation has not been used.

### 2011 SHARE ISSUE AUTHORISATION

The Annual General Meeting held on 4 April 2011 authorised the company's Board of Directors to decide on the issuance of a maximum of 1,000,000 own B shares held by the company itself. Own B shares held by the company itself can be issued for subscription by shareholders in a directed issue in proportion to their existing holdings of the company shares, regardless of whether they own A or B shares. Shares can also be issued in a directed issue, deviating from the shareholder's pre-emptive right, for a weighty financial reason of the company, such as using the shares to develop the company's capital structure, to finance possible business acquisitions, capital expenditures or other arrangements within the scope of the company's business operations, and to implement the company's incentive plan.

Own B shares held by the company itself can be delivered either against or without consideration. According to the Finnish Limited Liability Companies' Act, a directed share issue can only be without consideration, provided that the company, taking into account the best interests of all of its shareholders, has a particularly weighty financial reason. The authorisation also included the authority to make decisions concerning any other issues related to share issuances. The amount possibly paid for the company's own shares is recorded in the reserve of unrestricted equity.

The authorisation will remain valid until 30 June 2014.

## AUTHORISATION TO ACQUIRE OWN SHARES

The Annual General Meeting held on 4 April 2011 authorised the company's Board of Directors to decide on the acquisition of a total maximum of 1,000,000 own B shares.

Own shares are acquired with the company's unrestricted equity not in proportion to shares held by shareholders but at the market price quoted in public trading organised by NASDAQ OMX Helsinki Ltd ("stock exchange") at the date of acquisition. The shares are acquired and paid in accordance with the rules of the stock exchange.

The shares can be acquired to be used in the development of the company's capital structure, to finance possible business acquisitions, capital expenditures and/or other arrangements within the scope of the company's business operations, and to implement the company's incentive plan.

The Board makes decisions concerning other issues related to the acquisition of own B shares.

The authorisation will remain valid until 30 September 2012.

Kesko Corporation holds 700,000 own B shares. Subsidiaries do not hold Kesko Corporation shares.

## SHAREHOLDERS

According to the register of Kesko Corporation's shareholders held by the Euroclear Finland Ltd, there were 41,215 shareholders at the end of 2011 (38,258 at the end of 2010). The total number of shares registered in a nominee name was 18,654,661, accounting for 18.91% of all shares (25,042,687 and 25.39% respectively at the end of 2010). These shares carried 19,305,001 votes, or 5.02% of the total voting rights (25,633,807 or 6.67% respectively at the end of 2010). A list of Kesko Corporation's largest shareholders, updated monthly, is available at www.kesko.fi/investors.

## 2011–2013 SHARE-BASED COMPENSATION PLAN

Kesko operates the 2011–2013 share-based compensation plan designed for the Group's management personnel and other named key personnel, decided by the company's Board of Directors. The plan allows a total maximum of 600,000 treasury B shares held by the company to be issued over the three-year period.

The share-based compensation plan includes three vesting periods, namely the calendar years 2011, 2012 and 2013. Kesko's Board of Directors determines the target group and vesting criteria separately for each vesting period based on the Remuneration Committee's proposal, and the compensation possibly paid after each vesting period is based on the fulfilment of the vesting criteria determined for the vesting period by the Board. The criteria for the 2011 vesting period are Kesko's basic earnings per share (EPS) excluding non-recurring items, the 2011 performance of the Kesko Group's sales exclusive of tax, and the percentage by which the total shareholder return (TSR) of a Kesko B share exceeds the OMX Helsinki Benchmark Cap index.

The compensation possibly paid for a vesting period is paid partly in Kesko B shares and partly in cash. The cash compensation is paid to cover the taxes and tax related charges payable on the compensation.

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. If a person's employment or service relationship terminates prior to the end of the commitment period, he or she must return the shares subject to transfer restriction to Kesko or its designate without consideration.

So far, shares have not been issued under this plan.

## 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. The options were marked with symbols 2007A (KESBVEW107, ISIN code FI0009637201), 2007B (KESBVEW207, ISIN code FI0009637219) and 2007C (KESBVEW307, ISIN code FI0009637227) in units of 1,000,000 options each.

The exercise periods of options are:

- 2007A: 1 April 2010–30 April 2012,
- 2007B: 1 April 2011–30 April 2013 and
- 2007C: 1 April 2012–30 April 2014.

The original share subscription price for 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 (EUR 45.82), for option 2007B, between 1 April and 30 April 2008 (EUR 26.57), and for option 2007C, between 1 April and 30 April 2009 (EUR 16.84). The subscription prices of shares subscribed for with stock options shall be reduced by the amount decided after the beginning of the period for the determination of the subscription price but before the subscription as at the record date for each dividend distribution or other distribution of funds. After the 2010 dividend distribution, the subscription price of a B share subscribed for with option 2007A is €41.02, with option 2007B €23.37 and with option 2007C €14.64. The share subscription price is recognised in the reserve of invested non-restricted equity.

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.

## SHARE SUBSCRIPTIONS WITH OPTIONS

During 2011, the number of 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 (2,750 B shares) and 1 August 2011 (1,000 B shares). The number of shares was raised by a total of 3,750 shares in 2011.

By the end of 2011, a total of 3,750 B shares have been subscribed for with 2007B options under the 2007 series option scheme. So far, 2007A share options have not been exercised. The exercise period of 2007C share options will begin on 1 April 2012.

The shares subscribed for in 2011 were included on the main list of NASDAQ OMAX Helsinki (the Helsinki stock exchange) for public trading.

## OTHER SPECIAL RIGHTS ENTITLING TO SHARES

The company has not issued other share options, convertible bonds, bonds with warrants or other special rights entitling to company shares.

## SHARES AND OPTIONS HELD BY THE MANAGEMENT

At the end of 2011, the members of Kesko Corporation's Board of Directors, the President and CEO and the corporations under their control held 229,720 Kesko Corporation A shares (224,720 at the end of 2010) and 109,420 Kesko Corporation B shares (105,820), or a total of 339,140 shares (330,540), which represents 0.34% (0.34%) of the company's total share capital and 0.63% (0.61%) of the voting rights.

At the end of 2011, the company's President and CEO held a total of 130,000 Kesko Corporation share options (150,000 at the end of 2010), which represents 0.13% (0.15%) of the company's total share capital and 0.03% (0.04%) of voting rights, presuming that shares have been subscribed for with all of the options. The Board members did not hold options at the end of 2011 (nor at the end of 2010).

Detailed information on shares and options held by the management at the beginning and at the end of 2011 is given on pages 56–59.

## TRADING IN KESKO CORPORATION'S SHARES AND SHARE OPTIONS IN 2011

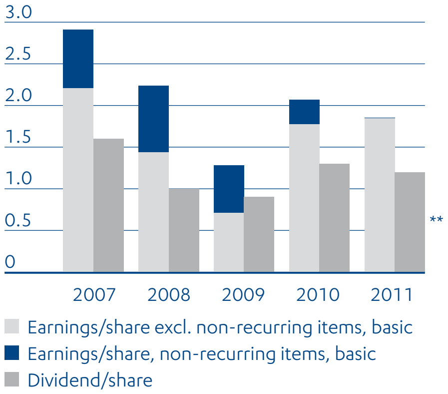
Kesko Corporation's shares are listed on the Helsinki stock exchange NASDAQ OMX Helsinki Ltd. Key information on share trading in 2011 is given in the graphs on the following double page spread. The price trends of both shares followed the general share price trend. The price of liquid B shares decreased by 26% and those of less liquid A shares by 28%, while the NASDAQ OMX Helsinki All Share Index decreased by 30%. The number and value of B shares traded on the Helsinki stock exchange rose by about one fifth. At the end of the year, the market capitalisation of A shares was €788million and that of B shares €1,719 million. The total market capitalisation of the company was €2,506 million, a decrease of €932 million, or 27% during the year.

## FLAGGING NOTIFICATIONS

Kesko Corporation did not receive any flagging notifications in 2011. The company is not aware of any agreements concerning its shareholding and voting rights.

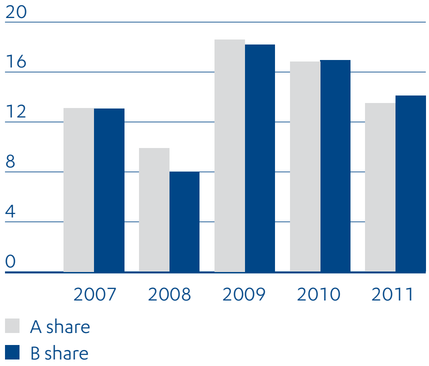
# SHARE PERFORMANCE INDICATORS

## EARNINGS/SHARE AND DIVIDEND/SHARE
€

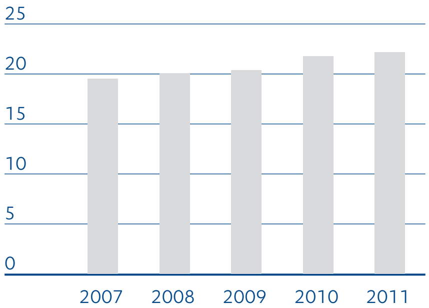



*** proposal to the General Meeting*

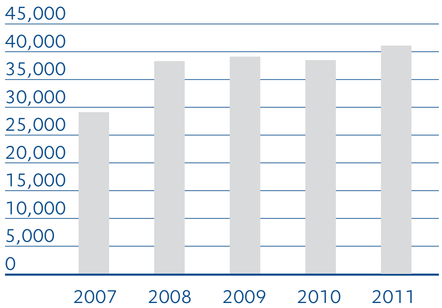
## SHARE PRICE/PROFIT, P/E
as at 31 Dec., adjusted



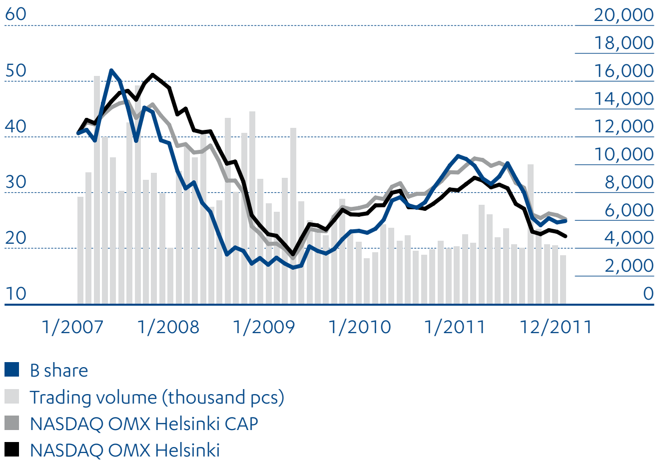

## EQUITY/SHARE
€, at 31 Dec.




## NUMBER OF SHAREHOLDERS
as at 31 Dec.




## TRENDS IN KESKO B SHARE PRICE
€ thousand pcs




**READ MORE**

More share performance indicators on page 71.

# SHARES AND SHAREHOLDERS

**Price and turnover of Kesko Corporation A and B share on the Helsinki stock exchange NASDAQ OMX Helsinki Ltd in 2011**

| Share | Share price, € at 31 Dec. 2010 | Share price, € at 31 Dec. 2011 | Change, % | Lowest price, € | Highest price, € | Trading volume, pcs | Total value traded, € |
|---|---|---|---|---|---|---|---|
| A share | 34.70 | 24.82 | -28.5 | 22.35 | 36.00 | 2,098 | 61,671 |
| B share | 34.93 | 25.96 | -25.7 | 22.21 | 35.97 | 63,304 | 1,856,087 |

During the year, the NASDAQ OMX Helsinki All Share Index decreased by 30.1% and the NASDAQ OMX Helsinki CAP Index by 28.0% and the Helsinki Stock Exchange Consumer Staples Index by 24.3%. Up-to-date information on share and shareholders is available at www.kesko.fi.

**10 largest shareholders by number of shares (A and B series) as at 31 Dec. 2011**

| | | Number of shares, pcs | % of shares | Number of votes | % of votes |
|---|---|---|---|---|---|
| 1 | Ilmarinen Mutual Pension Insurance Company | 3,573,257 | 3.62 | 6,182,915 | 1.61 |
| 2 | The 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 |

**Ownership structure 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 serving households** | 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** |

| A shares | Number of shares | % of A shares | % of all shares |
|---|---|---|---|
| Non-financial corporations and housing corporations | 20,574,728 | 64.83 | 20.86 |
| Financial and insurance corporations | 1,433,430 | 4.52 | 1.45 |
| General Government* | 1,204,419 | 3.79 | 1.22 |
| Households | 6,750,236 | 21.27 | 6.84 |
| Non-profit institutions serving households** | 1,694,523 | 5.34 | 1.72 |
| Rest of the world | 7,411 | 0.02 | 0.01 |
| Nominee registered | 72,260 | 0.23 | 0.07 |
| **Total** | **31,737,007** | **100.00** | **31.74** |

| B shares | Number of shares | % of B shares | % of all shares |
|---|---|---|---|
| Non-financial corporations and housing corporations | 8,211,032 | 12.27 | 8.32 |
| Financial and insurance corporations | 3,805,263 | 5.69 | 3.86 |
| General Government* | 8,881,154 | 13.27 | 9.00 |
| Households | 21,689,690 | 32.42 | 21.99 |
| Non-profit institutions serving households** | 4,784,240 | 7.15 | 4.85 |
| Rest of the world | 954,255 | 1.43 | 0.97 |
| Nominee registered | 18,582,401 | 27.77 | 18.84 |
| **Total** | **66,908,035** | **100.00** | **67.83** |

** 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.*

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

| | | Number of shares, pcs | % of shares | Number of votes | % of votes |
|---|---|---|---|---|---|
| 1 | The 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 | The 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 |

### Distribution of share ownership at 31 Dec. 2011

| All shares<br>Number of shares | Number of shareholders | % of shareholders | Shares total | % of shares |
|---|---|---|---|---|
| 1–100 | 12,319 | 29.89 | 703,127 | 0.71 |
| 101–500 | 15,691 | 38.07 | 4,273,662 | 4.33 |
| 501–1 000 | 5,675 | 13.77 | 4,456,910 | 4.52 |
| 1 001–5 000 | 5,814 | 14.11 | 12,849,184 | 13.03 |
| 5 001–10 000 | 910 | 2.21 | 6,503,551 | 6.59 |
| 10 001–50 000 | 660 | 1.60 | 13,503,073 | 13.69 |
| 50 001–100 000 | 80 | 0.19 | 5,780,765 | 5.86 |
| 100 001–500 000 | 50 | 0.12 | 10,685,107 | 10.83 |
| 500 001–999 999 999 999 | 16 | 0.04 | 39,889,663 | 40.44 |
| **Total** | **41,215** | **100.00** | **98,645,042** | **100.00** |

| A shares<br>Number of shares | Number of shareholders | % of holders of A shares | A shares total | % of A shares |
|---|---|---|---|---|
| 1–100 | 2,169 | 30.11 | 104,680 | 0.33 |
| 101–500 | 1,622 | 22.52 | 419,964 | 1.32 |
| 501–1 000 | 1,049 | 14.56 | 900,509 | 2.84 |
| 1 001–5 000 | 1,604 | 22.27 | 3,928,052 | 12.38 |
| 5 001–10 000 | 386 | 5.36 | 2,741,092 | 8.64 |
| 10 001–50 000 | 322 | 4.47 | 6,883,026 | 21.69 |
| 50 001–100 000 | 33 | 0.46 | 2,370,201 | 7.47 |
| 100 001–500 000 | 13 | 0.18 | 2,684,299 | 8.46 |
| 500 001–999 999 999 999 | 6 | 0.08 | 11,705,184 | 36.88 |
| **Total** | **7,204** | **100.00** | **31,737,007** | **100.00** |

| B shares<br>Number of shares | Number of shareholders | % of holders of B shares | B shares total | % of B shares |
|---|---|---|---|---|
| 1–100 | 11,091 | 30.41 | 647,475 | 0.97 |
| 101–500 | 14,933 | 40.94 | 4,080,459 | 6.10 |
| 501–1 000 | 4,905 | 13.45 | 3,791,808 | 5.67 |
| 1 001–5 000 | 4,577 | 12.55 | 9,741,907 | 14.56 |
| 5 001–10 000 | 535 | 1.47 | 3,885,864 | 5.81 |
| 10 001–50 000 | 351 | 0.96 | 6,988,437 | 10.44 |
| 50 001–100 000 | 39 | 0.11 | 2,866,307 | 4.28 |
| 100 001–500 000 | 34 | 0.09 | 7,755,704 | 11.59 |
| 500 001–999 999 999 999 | 11 | 0.03 | 27,150,074 | 40.58 |
| **Total** | **36,476** | **100.00** | **66,908,035** | **100.00** |

# SHAREHOLDER INFORMATION

## FINANCIAL REPORTING CALENDAR AND KEY DATES IN 2012

| | |
|---|---|
| Year 2011 financial statements release | 2 Feb. 2012 |
| Year 2011 Annual Report (incl. the financial statements and the report by the Board of Directors) | Week 12 |
| Annual General Meeting | 16 April 2012 |
| Year 2012 3-month interim report | 26 April 2012 |
| Year 2012 6-month interim report | 25 July 2012 |
| Year 2012 9-month interim report | 24 Oct. 2012 |

In addition, the Kesko Group's sales figures are published monthly and the K-Group's retail sales figures in connection with the interim reports.

## GENERAL MEETING

The Annual General Meeting of Kesko Corporation will be held in the Helsinki Fair Centre's congress wing, Messuaukio 1 (congress wing entrance), Helsinki, on 16 April 2012 at 13.00.

Shareholders included in Kesko Corporation's shareholder register, kept by Euroclear Finland Ltd, on 2 April 2012 (Annual General Meeting record date) are entitled to attend the Annual General Meeting. Shareholders whose shares are registered in their personal Finnish book-entry account are included in the company's shareholder register.

Shareholders wishing to attend the meeting should notify, not later than 11 April 2012 at 16.00, either by post addressed to Kesko Corporation/Legal Affairs, FI-00016 Kesko, by fax to +358 1053 23421, by telephone to +358 1053 23211, by e-mail to taina.hohtari@kesko.fi, or through website at www.kesko.fi/investors. The notification must be received by the end of the registration period. Any proxies authorising the holders to attend the Annual General Meeting shall be sent to the above postal address by the end of the registration period.

Holders of nominee registered shares are advised to request necessary instructions for registering in the shareholder register, submitting proxies and registering for the Annual General Meeting from their custodian banks. The account operator of the custodian bank reports the information on the owner of a nominee registered share wishing to attend the Annual General Meeting for entry into the company's temporary shareholder register not later than 11 April 2012 at 10.00.

More information about the Annual General Meeting, attendance and decision-making is given at 'Corporate Governance' on pages 46–55.

The resolutions of the Annual General Meeting are published without delay after the meeting in a stock exchange release.

## PAYMENT OF DIVIDENDS

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of €1.20 per share be paid for 2011. The dividend will be paid to all shareholders included in the register of Kesko Corporation's shareholders kept by Euroclear Finland Ltd on 19 April 2012 (record date for the payment of dividend). The registration takes three banking days, so the dividends are paid to those who hold the shares at the close of the date of the Annual General Meeting on 16 April 2012. Dividends on the shares traded on the date of the Annual General Meeting are paid to buyers.

According to the Board of Directors' proposal, the payment of dividends starts on 26 April 2012.

## FINANCIAL PUBLICATIONS

Kesko publishes a printed Annual Report in Finnish and English.

The company maintains an Annual Report mailing list. To be added to the mailing list, please go to the company's website www.kesko.fi/media.

The Annual Report, three interim reports, monthly sales figures and other key releases are available on the company's website at www.kesko.fi/media.

Kesko publishes a printed Corporate Responsibility Report in Finnish and English.

## PUBLICATIONS MAY BE ORDERED FROM

Kesko Corporation/Corporate Communications and Responsibility
Satamakatu 3
FI-00016 Kesko
Tel. +358 1053 22404
www.kesko.fi/media

## CHANGES OF ADDRESS

Shareholders should notify changes of address to the bank, brokerage firm or other account operator with which they have a book-entry securities account.

# INFORMATION ABOUT KESKO FOR INVESTORS

## COMMUNICATIONS POLICY AND PRINCIPLES

The purpose of Kesko's communications is to promote the business of the Group and its business partners by taking the initiative in providing stakeholders with correct information on Group objectives and operations. The general principles followed in providing communications also include openness, topicality and truthfulness. No comments are made on confidential or unfinished business, nor on competitors' affairs.

The primary objective of communications is to describe what added value Kesko and its cooperation partners generate to consumers and other customers, whose impressions and behaviour ultimately decide Kesko's success.

## INVESTOR RELATIONS

In line with its IR strategy, Kesko continually produces correct and up-to-date information for the markets as a basis for the formation of Kesko Corporation's share price. The aim is to make Kesko's activities better known and to increase the transparency of investor information and, therefore, the attraction of Kesko as an investment target.

In its investor communications, Kesko follows the principle of impartiality and publishes all investor information on its website in Finnish and English.

Kesko publishes the printed Annual Report in Finnish and English. The financial statements release and three interim financial reports are available on Kesko's website. The company maintains the Annual Report mailing list. Those who wish to be included on the mailing list may fill in the form at www.kesko.fi/media. Kesko's stock exchange and press releases sent by e-mail can also be ordered at www.kesko.fi/media.

Kesko arranges press conferences for analysts and the media at the time of publishing financial statements or other significant news, and holds Capital Market Days for analysts and institutional investors on various themes 1–2 times a year.

Kesko observes a three-week period of silence before publishing its results releases. At other times, we are happy to answer the enquiries of analysts and investors by phone or e-mail, or at the investor meetings arranged.

## IR CONTACTS

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Tel. +358 1053 23495

**Jukka Erlund, Senior Vice President, CFO**
Tel. +358 1053 22113

E-mail: IR@kesko.fi

## CORPORATE COMMUNICATIONS AND RESPONSIBILITY

**Merja Haverinen, Senior Vice President**
Tel. +358 1053 22764

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### BERENBERG BANK, LONDON
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### CARNEGIE INVESTMENT BANK AB, FINLAND BRANCH, HELSINKI
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### EVLI PANKKI OYJ, HELSINKI
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### FIM PANKKI OY, HELSINKI
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### HANDELSBANKEN CAPITAL MARKETS, HELSINKI
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rosa09@handelsbanken.se

### NORDEA MARKETS, HELSINKI
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### POHJOLA PANKKI PLC, HELSINKI
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firstname.lastname@pohjola.fi

### SEB ENSKILDA, HELSINKI
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firstname.lastname@seb.fi

### SWEDBANK MARKETS, HELSINKI
Petri Karhunkoski
Tel. +358 20 746 9158
firstname.lastname@swedbank.fi

# CONTACT INFORMATION

## KESKO CORPORATION

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FI-00016 Kesko
Tel. +358 10 5311
www.kesko.fi
www.twitter.com/Kesko_Oyj
www.facebook.com/KeskoOyj

**Subsidiaries**

*K-instituutti Oy*
Tel. +358 1053 37350
www.k-instituutti.fi

*K-Plus Oy*
Tel. +358 10 53020
www.plussa.com

*K-talouspalvelukeskus Oy*
Tel. +358 10 5311

## DISTRICT OPERATIONS

### THE GREATER HELSINKI AREA, HELSINKI
Tel. +358 10 5311

### UUSIMAA, HELSINKI
Tel. +358 10 5311

### EASTERN FINLAND, KUOPIO
Tel. +358 10 5311

### THE FINNISH LAKELAND, JYVÄSKYLÄ
Tel. +358 10 5311

### SOUTHEASTERN FINLAND, LAHTI
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### SOUTHWESTERN FINLAND, TURKU
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### PIRKANMAA, TAMPERE
Tel. +358 10 5311

### OSTROBOTHNIA, SEINÄJOKI
Tel. +358 10 5311

### NORTHERN FINLAND, OULU
Tel. +358 10 5311

## FOOD TRADE

### KESKO FOOD LTD
Tel. +358 10 53030

**Subsidiaries**

*Kespro Ltd*
Tel. +358 10 53040
www.kespro.com

*Keslog Ltd*
Tel. +358 10 53050
www.keslog.fi

## HOME AND SPECIALITY GOODS TRADE

### K-CITYMARKET OY
Tel. +358 10 5311
www.k-citymarket.fi

### ANTTILA OY
Tel. +358 10 5311
www.anttila.fi, www.kodin1.com,
www.netanttila.com

**Subsidiaries**

*Anttila AS, Estonia*
Tel. +372 50 32 677
www.anttila.ee

*SIA Antti, Latvia*
Tel. +371 703 3301
www.anttila.lv

### INDOOR GROUP LTD
Tel. +358 10 53 46600
www.indoorgroup.fi, www.asko.fi,
www.sotka.fi

**Subsidiaries**

*Indoor Group AS, Estonia*
Tel. +372 680 5570
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*Insofa Oy*
Tel. +358 20 76 14510
www.insofa.fi

### INTERSPORT FINLAND LTD
Tel. +358 10 5311
www.intersport.fi, www.budgetsport.fi

### MUSTA PÖRSSI LTD
Tel. +358 10 5311
www.mustaporssi.fi, www.konebox.fi

### KENKÄKESKO LTD
Tel. +358 10 5311
www.kookenka.fi, www.andiamo.fi

## BUILDING AND HOME IMPROVEMENT TRADE

### RAUTAKESKO LTD
Tel. +358 10 53032
www.k-rauta.fi
www.rautia.fi
www.k-maatalous.fi

*K-maatalous Experimental Farm*
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www.k-koetila.fi

**Subsidiaries**
*Byggmakker Norge AS, Norway*
Tel. +47 6491 4000
www.byggmakker.no
*K-Rauta AB, Sweden*
Tel. +46 8 588 18 900
www.k-rauta.com
*Rautakesko AS, Estonia*
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www.k-rauta.com
*AS Rautakesko, Latvia*
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www.k-rauta.com
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*ZAO Stroymaster, Russia*
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www.k-rauta.com
*OOO OMA, Belarus*
Tel. +375 17 344 9303
www.oma.by

## CAR AND MACHINERY TRADE

### VV-AUTO GROUP OY
Tel. +358 10 53 38300
www.audi.fi
www.volkswagen.fi
www.seat.fi

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www.seat.fi
*VV-Autotalot Oy*
Tel. +358 1053 33200
www.vv-auto.fi
*Turun VV-Auto Oy*
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www.vv-auto.fi

### KONEKESKO LTD
Tel. +358 10 53034
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www.konekesko.com/ee/
*Konekesko Latvija SIA, Latvia*
Tel. +371 6 706 4304
www.konekesko.com/lv/
*UAB Konekesko Lietuva, Lithuania*
Tel. +370 5 247 7400
www.konekesko.com/lt/
*OOO Konekesko, Russia*
Tel. +7 812 326 4653
www.konekesko.com/ru/

## SERVICE NUMBERS

### K-PLUSSA CUSTOMER SERVICE
Mon–Fri 8.00–18.00
Tel. +358 100 86044
E-mail: plussa@kesko.fi

### KESKO FOOD'S CONSUMER SERVICE
Mon–Fri 9.00–13.00
Tel. +358 800 0 1000
E-mail: ruokakesko.kuluttajapalvelu@kesko.fi

**READ MORE**
www.kesko.fi/Company.

# GLOSSARY

**IN THIS GLOSSARY WE HAVE COMPILED A LIST OF SOME KEY TERMS USED IN THE ANNUAL REPORT.**

**AFTER-SALES MARKETING** refers in the car and machinery trade in particular to after-sales activities, such as maintenance, repairs, sales of spare parts, accessories and equipment.

**AMS** is an abbreviation of AMS Sourcing BV. Kesko Food works in cooperation with major European food chains in AMS.

**BRAND** is a trademark, logo or branded product. It is an embodiment of all information relating to the company product or service. A brand is an image, created by the way of doing things, by quality and the willingness to reach the set destination.

**CERTIFICATION OF GOODS SOLD BY STORES** is an audit carried out by an independent third to verify the compliance of operating systems with certain criteria (e.g. with an ISO standard).

**CHAIN AGREEMENT** is a contract between the retailer and Kesko that enables the retailer join one of Kesko's retail store chains. Under the terms of the chain agreement, the retailer and Kesko agree on their rights and responsibilities regarding chain operations.

**CHAIN CONCEPT** is a comprehensive description of retail business operations and guidelines for their similar implementation in all stores of the chain.

**CHAIN SELECTION** in the K-Group is that part of a selection which is the same in all stores of the chain. The chain unit makes decisions concerning the selection.

**CHAIN UNIT** is the Kesko unit responsible for store chain operations and chain concept development in the K-Group. It has decision-making power in matters concerning the chain.

**CORPORATE RESPONSIBILITY** refers to voluntary responsibility towards key stakeholders. It is measurable, based on the company's values and objectives, and is divided into economic, social and environmental responsibility.

**DEALER**, for instance in the car trade, is a company authorised by the importer to sell and service branded products. The dealer meets the quality standards set by the manufacturer and the importer.

**DEPARTMENT STORE** is a retail store that sells a wide variety of goods. Its sales area is at least 2,500 m². In a department store, no product category accounts for over half of the total sales area.

**DISTANCE SALES** refers to trading activities where customers do not visit store premises, but instead trade through the Internet, other electronic media or mail order.

**FAIRTRADE** is a form of international trade, illustrated by a formalised parrot logo. The logo indicates that business is carried out directly with small producers of the third world avoiding intermediaries. Producers receive a guaranteed price for their products that is usually significantly higher that the world market price. They are also given guarantees of long contracts and opportunities for advance financing.

**GROCERIES** refer to food and other everyday products that people are used to buying when they shop for food. Groceries include food, beverages, tobacco, home chemical products, household papers, magazines and cosmetics.

**GROCERY STORE** is, in most cases, a self-service food store that sells the full range of the above groceries. Food accounts for about 80% of grocery stores' total sales.

**HOME AND SPECIALITY** goods stores include clothing, shoe, sports, home technology, home goods, furniture and interior decoration stores.

**HORECA** is a category consisting of large customers in the food trade, including hotels, restaurants and other catering companies.

**HYPERMARKET** is a retail store selling a wide variety of goods mainly on the selfservice principle. Its sales area exceeds 2,500 m². In a hypermarket, food accounts for about half of the total area, but sales focus on groceries (food and other everyday items).

**K-GROUP** consists of the K-retailers, the K-Retailers' Association and the Kesko Group.

**K-RETAILER** is an independent chain entrepreneur who, through good service, competence and local expertise, provides additional strength for chain operations. The K-retailer entrepreneurs are responsible for their stores' customer satisfaction, personnel and profitable business operations.

**K-RETAILERS' ASSOCIATION** looks after the interests and promotes the cooperation of the K-retailers. Its key function is to enhance and strengthen K-retailer entrepreneurship and promote the interests of its members. All the K-retailers – about 1,230 – are members of the K-Retailers' Association.

**LOGISTICS** is a process in which information management is used to direct the goods flow and related services throughout the entire supply chain. Logistics help optimise the quality and cost-efficiency of operations.

**NEIGHBOURHOOD STORE** is usually a small grocery store, located close to consumers and easily accessible by foot. It is usually a self-service store of less than 400 m². In Finland they have unrestricted opening hours even in town plan areas.

**NEW ESTABLISHMENT** (greenfielding) refers to new store sites or business premises.

**OPERATIONS CONTROL SYSTEM** (ERP Enterprise Resource Planning system) is an information system that supports the planning and control of business operations. It includes the information systems supporting the core processes of the company, such as category management and purchasing logistics in the trading sector, e.g. SAP R3.

**ORGANIC PRODUCT** is, according to the EU regulation on organic production, a product in which at least 95% of the raw materials of agricultural origin have been organically produced.

**PRIVATE LABEL** (own brand, house brand) product is a branded product made for the trading company by a manufacturer and marketed as part of a larger product family under one brand name. A company markets its private label products through its own network.

**RETAIL TRADE** refers to sales to consumer customers.

**SALES AREA** refers to the store area reserved for sales, such as goods areas, aisles, service counters, checkout areas and air lock entrances.

**SELECTION** is the range of products sold for the same purpose, for instance a selection of bread. Speciality stores carry a deep selection in the category.

**SELF-CONTROL** is an entrepreneur's own control system, the purpose of which is to prevent problems arising in food hygiene. In compliance with legislation, self-control is based on HACCP (Hazard Analysis and Critical Control Points) principles. The hazards related to products are assessed, the critical control points needed for hazard monitoring are identified and then controlled. The system is applied to the hygiene of manufacturing plants' machinery and equipment, the quality of raw materials and products, the effectiveness of manufacturing processes, and transportation and warehousing conditions.

**SERVICE COMPANY** is an enterprise that offers all the products and services wanted or expected by customers at the same time. The service company provides customers with a combination of products and related services, taking care of product assemblies and other user functions that may be required.

**SHOPPING CENTRE** houses many trading companies, but has joint management and marketing. A shopping centre has one or more main companies, but no individual store accounts for over 50% of the total business premises. A shopping centre has a minimum of 10 stores, in most cases joined by a common mall.

**STORE-SPECIFIC** selection in the K-Group is that part of the selection of a store that is adapted for the special needs of the local market.

**STORE SITE** is a business property or premises where the chain concept and related auxiliary services are carried out.

**STORE SITE FEE** is the term used for the payment made by the retailer to Kesko as a compensation for the use of the store site under the chain agreement and the related services offered by Kesko. The store site fee is, as a rule, calculated as a percentage of the retailer's gross profit or net sales.

**STRATEGY** is a comprehensive plan of the means the organisation intends to use in order to achieve its visions and goals.

**SUPERMARKET** is a grocery store that focuses on food sales and works on a selfservice principle. Its sales area is at least 400 m$^2$, with food accounting for over half of the total sales area.

**WHOLESALE** trade is purchasing from suppliers in large quantities and then selling to enterprises engaged in the retail trade.

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