KESKO

KESKO'S YEAR

2010

KESKO'S YEAR 2010

2 Kesko in brief, Kesko 70 years
4 Vision and values
6 Review by the President and CEO
8 Year 2010 in brief
10 Strategic objectives
16 K-Plussa
18 Food trade
24 Home and speciality goods trade
32 Building and home improvement trade
40 Car and machinery trade
46 Real estate operations
50 Human resources
56 K-retailer career
58 Responsibility
64 Kesko's Corporate Governance
76 Board of Directors
78 Corporate Management Board

FINANCIAL STATEMENTS

80 Contents
81 Report by the Board of Directors
87 Group's performance indicators
94 Consolidated financial statements (IFRS)
98 Notes to the consolidated financial statements
141 Parent's financial statements (FAS)
152 Shares and shareholders
160 Shareholder information
161 Information about Kesko for investors
162 Contact information
164 Glossary

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

KESKO IN BRIEF

OUR CORE COMPETENCE AREAS

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

KESKO'S DIVISIONS

Food trade | page 18

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

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

Kesko Food's subsidiary Kespro is the leading wholesaler in the Finnish HoReCa business. It offers the best sourcing solutions in the sector for its customers.

Home and speciality goods trade | page 24

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

Building and home improvement trade | page 32

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

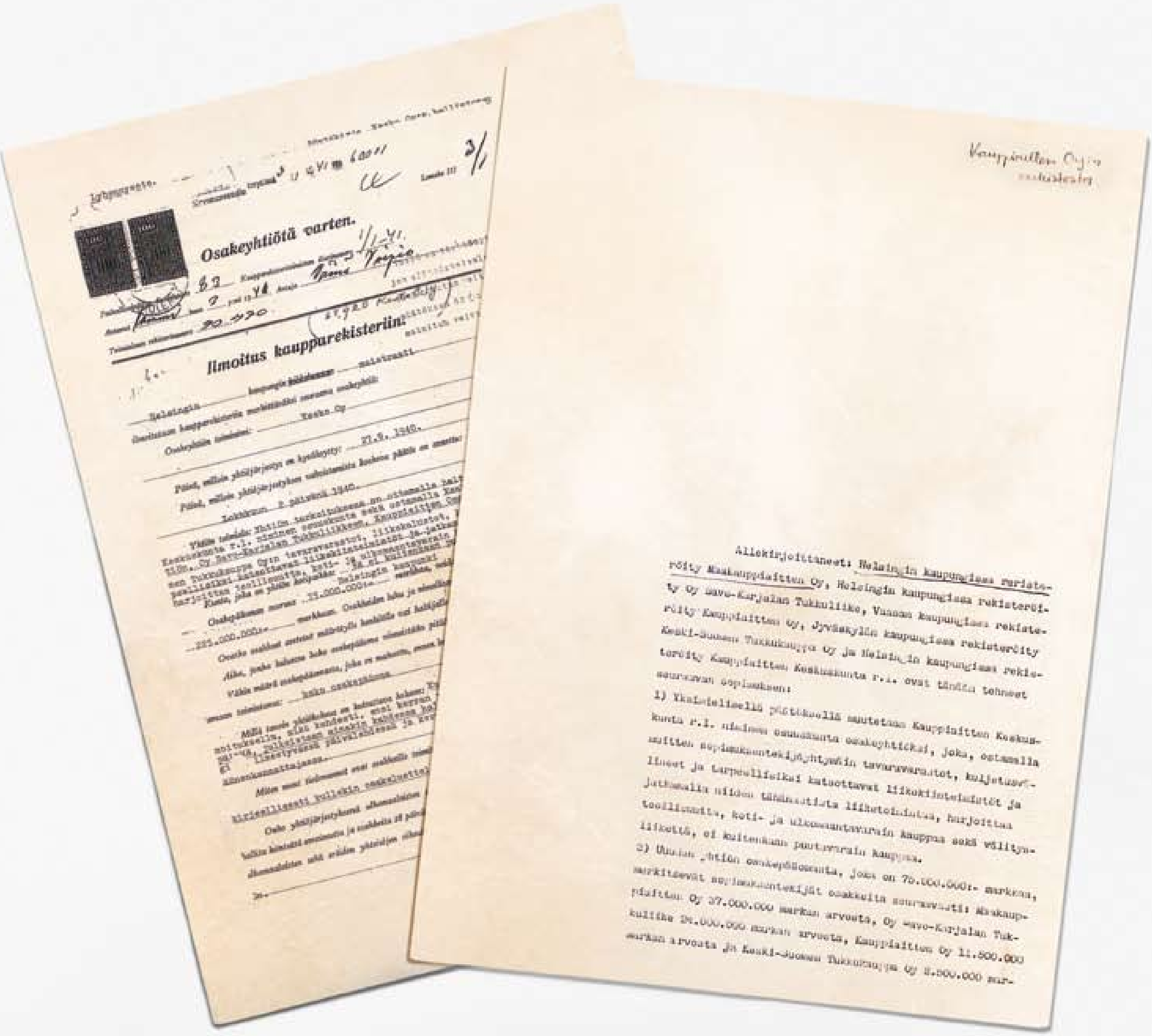
There are 331 building and home improvement stores in eight countries and 88 agricultural stores in Finland. All stores in Finland are owned by retailer entrepreneurs. There are also 96 retailer-owned stores in Norway.

Car and machinery trade | page 40

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

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

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



KESKO 70 YEARS

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

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

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

Vision

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

VALUES

THE VALUES GUIDE OUR OPERATIONS:

WE EXCEED OUR CUSTOMERS' EXPECTATIONS

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

WE ARE THE BEST OPERATOR IN THE TRADING SECTOR

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

WE CREATE A GOOD WORKING COMMUNITY

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

WE BEAR OUR CORPORATE RESPONSIBILITY

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

REVIEW BY THE PRESIDENT AND CEO

KESKO'S PROFITABILITY IMPROVEMENT WAS EXCELLENT

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

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

WE AIM AT PROFITABLE GROWTH IN FINLAND AND NEARBY AREAS

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

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

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

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

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

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

CHIP&PIN TERMINALS CAME TO K-STORES

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

PERSONNEL

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

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

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

RESPONSIBILITY

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

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

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

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

KESKO 70 YEARS

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

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

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

I wish to extend my warmest thanks to all Kesko employees for their diligence and for a job well done. I would also like to thank all shareholders, K-retailers and their staff, and all our business partners for good cooperation during 2010.

Matti Halmesmäki
President and CEO

YEAR 2010 IN BRIEF

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

NET SALES AND SALES INCREASED

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

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

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

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

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

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

PROFITABILITY IMPROVED IN ALL DIVISIONS

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

STORE NETWORK IS STRENGTHENED

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

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

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

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

STATUTORY PENSION LIABILITY IS TRANSFERRED TO ILMARINEN

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

NUMBER OF FOREIGN SHAREHOLDERS INCREASED

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

Performance indicators for 2010

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

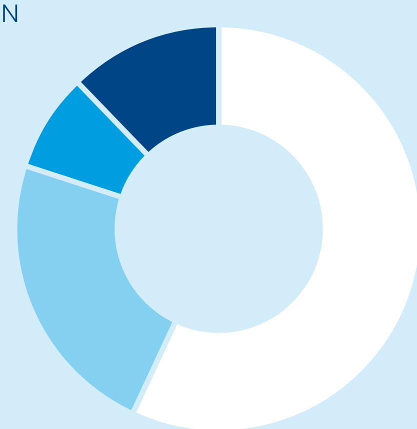
**proposal to the AGM*

NET SALES IN 2010, BREAKDOWN

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

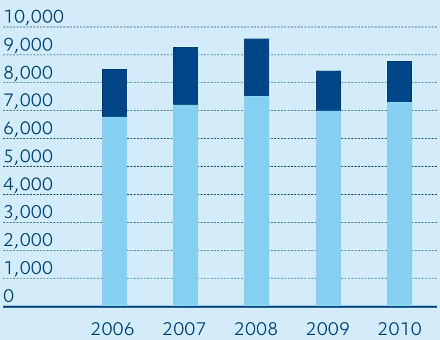
OPERATING PROFIT EXCL. NON-RECURRING ITEMS IN 2010, BREAKDOWN

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



GROUP'S NET SALES*

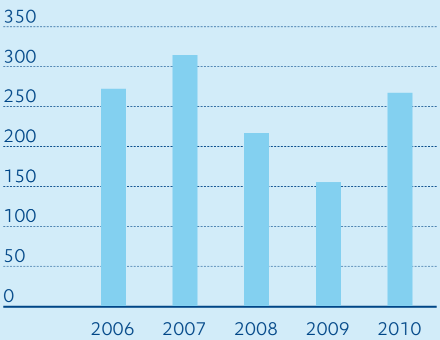
€ million



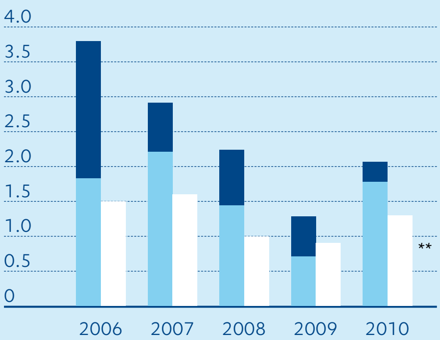
- Finland
- Other countries

GROUP'S OPERATING PROFIT*

excl. non-recurring items, € million



EARNINGS PER SHARE AND DIVIDEND PER SHARE, €



- Earnings per share excl. non-recurring items, basic
- Earnings per share, non-recurring items
- Dividend

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

Illustrative picture of the Veturi shopping centre in Tervaskangas.

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

STRATEGIC OBJECTIVES

PROFITABLE GROWTH

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

SALES AND SERVICES FOR CONSUMER-CUSTOMERS

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

RESPONSIBLE AND EFFICIENT OPERATING PRACTICES

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

THE OBJECTIVE IS PROFITABLE GROWTH

PROFITABLE GROWTH

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

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

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

Capital expenditure in the store network and in strengthening competitive advantages

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

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

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

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

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

SALES AND SERVICES FOR CONSUMER-CUSTOMERS

Kesko is a house of brands

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

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

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

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

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

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

Customer-driven business models

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

1) Retailer entrepreneurs' retailing

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

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

2) Kesko's own retailing

Kesko acts as a retailer in business operations where the competitive advantage derives from having a centrally managed chain concept and large units. Kesko's own retail stores in Finland include the Anttila and Kodin Ykkönen department stores. In addition, Kesko is also responsible for retailing home and speciality goods in the K-citymarket chain. Kesko's own retailing is the model mainly used in expanding business operations outside Finland. In 2010, Kesko's own retailing accounted for 27% of net sales.

3) B2B sales

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

Online communications and e-commerce

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

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

Kesko is developing its current online stores and services and opening new ones. The objective is to improve customer satisfaction and increase sales. Kesko has gained a strong position in online sales of home and speciality goods through the NetAnttila, Kodin1.com, Konebox.fi, CM-store and Budget Sport online stores.

CUSTOMER-DRIVEN BUSINESS MODELS

Sustainable development and responsible operating practices

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

Efficient combination of retailer entrepreneurship and chain operations, and benefitting from economies of scale

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

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

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

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

Work and productivity programme

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

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

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

Electronic and automated processes

A project to automate processes and routines with the goal of improving cost-efficiency is underway in Kesko. Key areas in process automation include logistics automation projects, the forecasting systems and automated orders that improve the availability of products in stores, the adoption of electronic purchase and sales invoices, and the automation of financial management routines in the shared services centre of the Kesko Group.

More detailed information on each division's strategic emphases and projects is provided in the division-specific presentations starting on page 18.

FINANCIAL OBJECTIVES AND THEIR REALISATION

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

Kesko's own estimate

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

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

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

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

By concentrating their purchases, K-Plussa customers get benefits and services that are based on their needs and shopping behaviour. The K-Plussa customer loyalty system operates on three levels: benefits granted to customers are either store-specific, chain-specific or provided across the entire K-Plussa network. Targeted marketing communications and special offers in electronic channels in particular were further increased in 2010.

RETAILERS CATER FOR CUSTOMERS

Customer information obtained via the K-Plussa card is used in planning store-specific selections and services and in targeting the store's marketing messages. Targeted marketing carried out by the retailers both in electronic and traditional media is cost-efficient and attracts much attention. Results obtained from special benefits and events targeted to customers are extremely good.

K-GROUP CHAINS' OPERATIONS ARE BASED ON CUSTOMER INFORMATION

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

BENEFITS FOR ALL K-PLUSSA CUSTOMERS

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

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

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

NEW PARTNERS TO THE K-PLUSSA NETWORK

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

MORE THAN 170,000 NEW K-PLUSSA CUSTOMERS

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

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

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

Customers' privacy protection is ensured when customer information is collected and made use of. K-Plus Oy processes customers' purchasing data on the sum total or product group level. Anonymous receipt line level purchasing data may also be used.

Napero Club is also on Facebook

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

Food trade

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

€3,896m
Food trade segment's net sales

€160.1m
Food trade segment's operating profit excluding non-recurring items

2.6%
Development in 2010

€27.0m
Growth in 2010


CITYMARKET
MINI

K-food stores focus on food and service

MARKET

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

SATISFIED CUSTOMERS ARE A PREREQUISITE OF SUCCESS

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

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

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

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

K-RETAILERS SERVE CUSTOMERS TAKING LOCAL NEEDS INTO ACCOUNT

Local K-retailers are responsible for the customer service, competence of personnel, quality, and profitability of business. Making use of customer data, the retailer builds a selection and service that meet customer needs, offering, for example, food from local producers to complement joint selections of the chain.

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

Efficient cooperation between Kesko Food and the K-food retailer is based on the chain operations defined in the chain agreement. Chain operations ensure customer-orientation, operational efficiency, and the attainment of competitive advantages.

STRONG CHAIN CONCEPTS

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

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

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

K-supermarkets are better than the average food stores, the strength of which is excellent service and wide selections of food items. In addition to the retailer and other staff, customers are also served by over 160 employees with a specialist food manager qualification. These meat and fish experts provide customers with cooking tips and advice. The chain consists of 181 stores.

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

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

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

K-FOOD STORE CHAINS HAVE A STRONG COMMON CORE

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

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

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

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

PIRKKA – HIGH QUALITY, PERMANENTLY LOW PRICES AND RESPONSIBILITY

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

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

Pirkka recycled plastic bag receives a recovery award

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

K-supermarket Torpparinmäki has LED lighting

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

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

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

KESPRO

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

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

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

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

YEAR 2010

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

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

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

OBJECTIVES AND STRATEGIC EMPHASES

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

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

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

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

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

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

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

COMPETITORS

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

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

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

** cumulative average*

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

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

*** capital employed at the end of month*

Home and speciality goods trade

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

€1,569m
Home and speciality goods trade segment's net sales

€66.0m
Home and speciality goods trade segment's operating profit excluding non-recurring items

0.7%
Development in 2010

€36.5m
Growth in 2010


Ultimate
CC
H.SALT
MISSION
budget sport
budget sport

Well-known and reliable store chains in many product lines

MARKET

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

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

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

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

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

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

YEAR 2010

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

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

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

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

SIX DEVELOPING ONLINE STORES

Kesko has several online stores selling home and speciality goods and their sales are increasing. Anttila's online store NetAnttila operates in Finland, Estonia and Latvia. For many years, NetAnttila has been the best-known and most popular online department store in Finland. Anttila also has the Kodin1.com online store, which specialises in interior decoration goods.

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

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

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

OBJECTIVES AND STRATEGIC EMPHASES

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

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

The home and speciality goods trade aims to be a market leader in selected product lines. This will be achieved by enhancing store concepts and selections, by increasing the cost-efficiency of operations chains and the staff's sales and service competence.

A new logistics centre

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

K-CITYMARKET

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

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

Year 2010

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

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

ANTTILA

Anttila retails entertainment, fashion and home goods.

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

Kodin Ykkönen provides smart, up-to-date products and services for home decoration. There are nine Kodin Ykkönen department stores for interior decoration and home goods, complemented with the Kodin1.com online store.

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

Year 2010

Anttila's net sales were €505 million in 2010, a decrease of 1.6%. Retail sales of Anttila department stores totalled €295 million, a decrease of 2.9%. Retail sales of Kodin Ykkönen department stores for interior decoration and home goods totalled €132 million, down 0.5%. Retail sales of NetAnttila amounted to €80 million, an increase of 0.9%.

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

In late 2010, Anttila's new logistics centre applying the latest, modern technology was completed in Kerava. It will be implemented gradually during the first months of 2011. The logistics centre will take care of deliveries to all Anttila and Kodin Ykkönen department stores and NetAnttila customers. The new logistics centre's floor area is 19,000 m^2 and cubic volume 350,000 m^3. The total capital expenditure of the project is €50 million, divided approximately half and half between the building and the warehousing technology.

INTERSPORT FINLAND

Intersport Finland's retail store chains are Intersport, Budget Sport and Kesport. Intersport Finland is responsible for the marketing, sourcing and logistics services, store network and retailer resources of the chains. There are 56 Intersport stores, five Budget Sport stores and 35 Kesport stores in Finland, of which 89 are owned by retailer entrepreneurs and seven by Intersport Finland. They are complemented by the Budget Sport online store.

Intersport is part of the international sports chain. The Intersport chain is the market leader in Finnish sports retailing. Intersport provides clothing and equipment for keen enthusiasts and less active athletes, for sports and leisure purposes. Intersport's strengths include the chain's high reliability and recognition among customers, wide and diversified selections, and its expert and service-minded staff.

Budget Sport is a sports store format which is based on low prices and the cost-effective business concept. It offers products for leisure and versatile physical exercise, for sports and outdoor activities.

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

Kesko is a partner of Intersport International Corporation.

E-commerce is expanding

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

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

Year 2010

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

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

INDOOR

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

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

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

Year 2010

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

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

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

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

MUSTA PÖRSSI AND KONEBOX

The Musta Pörssi chain of speciality stores offers its customers home technology products that make housework easier, enhance communications and provide entertainment. In addition, Musta Pörssi offers a range of product-related services and customers can choose to have the home technology installed ready to use. There are 46 Musta Pörssi stores, two Konebox stores and the Konebox online store in Finland. 44 of the stores are owned by retailer entrepreneurs and four by Musta Pörssi Ltd.

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

Year 2010

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

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

KENKÄKESKO

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

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

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

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

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

Year 2010

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

Seven shoe stores were closed during the year.

MARKET SHARES AND COMPETITORS

Hypermarket and department store trade

- K-citymarket, Anttila, Kodin Ykkönen and NetAnttila
- Market share cannot be reliably calculated
- Competitors: department stores, hypermarkets, speciality store chains and online stores

Sports trade

- Intersport, Budget Sport and Kesport
- Market share 34% (own estimate)
- Competitors: Sportia, Top Sport, Stadium, department stores and hypermarkets, and other speciality sports stores

Furniture trade

- Asko and Sotka
- Market share in Finland about 19% (own estimate)
- Competitors: furniture and interior decoration stores

Home technology trade

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

Shoe trade

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

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

** incl. online sales*

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

** cumulative average*

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

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

*** capital employed at the end of month*

Building and home improvement trade

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

€2,519m
Building and home improvement trade segment's net sales

€24.0m
Building and home improvement trade segment's operating profit excluding non-recurring items

9.0%
Development in 2010

€12.1m
Growth in 2010


27 28 29 30 31
35 36 37 38 39 40 41 42 43 44 45 46 47 48 49

The best total solutions for building, renovation and home improvement

BUILDING AND HOME IMPROVEMENT TRADE MARKET

Working in cooperation with its customers, Rautakesko enhances living. Rautakesko aims to be a leading international retail company in the building and home improvement trade, and the market leader in its operating area. Rautakesko's building and home improvement store chains K-rauta, Rautia, Byggmakker, Senukai and OMA serve both consumer and professional customers. Consumer-customers mainly comprise home, leisure home and yard builders, renovators and interior decorators. Important professional customers include construction companies, the manufacturing industry and public institutions.

In terms of its chains' retail sales, Rautakesko is one of the six largest companies in the European building and home improvement market. The sector's largest operators in Rautakesko's market area are DT Group, Bauhaus, OBI, Leroy Merlin and Castorama. Rautakesko is a partner in tooMax-x GmbH, which is, in terms of the purchasing power, the third largest European sourcing channel for home building and interior decoration items.

The total retail market of this sector in Rautakesko's operating area amounts to some €25 billion (VAT 0%). During 2010, the market took an upward turn in Finland, Sweden and Norway, while the downward trend stopped in the Baltic countries and Russia.

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

In Finland, the retail market in the building and home improvement sector totals some €3.4 billion (VAT 0%, Finnish Hardware Association, DIY) and increased by 11% in 2010 (Finnish Hardware Association, DIY). The K-Group's market share in this sector is some 37% (Finnish Hardware Association, DIY, own estimate).

In Finland, Rautakesko operates the K-rauta and Rautia retail chains and Rautakesko B2B Sales which serves construction companies, the manufacturing industry and other professional customers. In addition, Rautakesko has 32 customer contract stores.

The K-rauta chain consists of 41 stores, with some 70% of sales going to consumers. The Rautia chain consists of 106 stores, 50 of which also operate as K-maatalous stores, engaged in the agricultural trade. The emphasis in the sales structure of Rautia is more on basic building products. All Finnish chain stores are run by retailer entrepreneurs.

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

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

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

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

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

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


K-RAUTA
K-RAUTA

Energy efficiency project

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

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

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

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

In Lithuania, the building and home improvement market totals some €0.3 billion (VAT 0%, own estimate) and it decreased by 15% in 2010 (own estimate). In Lithuania, Rautakesko has the majority shareholding in UAB Senuku Prekybos centras, which is the market leader in the Lithuanian building and home improvement sector with a share of about 25%. The Senukai chain, which sells to both consumers and business customers, comprises 17 stores of its own, a logistics centre and 58 partner stores. Senukai's retail sales totalled €228 million (VAT 0%) in 2010, a decrease of 12.4% from the previous year. Its competitors include local building supplies outlets and speciality stores.

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

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

AGRICULTURAL TRADE MARKET

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

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

STRONG CHAIN CONCEPTS

Rautakesko's operations are based on customer-oriented chain concepts, efficient sourcing, and the best practices, which are duplicated internationally. Rautakesko's international business model combines the category management, purchasing, logistics, information system control and network improvements of the company's chains which operate in different countries. The total synergy benefits achieved enable the company to offer products and services to customers at competitive prices.

K-rauta is Rautakesko's international concept. K-rauta operates in Finland, Sweden, Estonia, Latvia and Russia. The K-rauta concept focuses on wide selections, total solutions that make customers' lives easier and a reliable price-quality ratio. The concept combines the total services and solutions, selections and business models for consumers, builders and professional customers.

The Rautia chain has the widest building and home improvement store network in Finland. Its selections are targeted at builders, renovators and building professionals in particular. Key competitive advantages include comprehensive customer service, knowledge of the local market and the cooperation network. Many Rautia stores also complement their range with agricultural supplies.

The K-maatalous chain's strengths include the K-maatalous retailers, who know the local customers and circumstances, and the wide product range combined with the comprehensive services and network. Active contacts and sales and the utilisation of data and information technology provide the basis for close cooperation between agricultural entrepreneurs and K-maatalous.

Byggmakker is the largest building and home improvement store chain in Norway. Special strengths include sales of building supplies and knowledge of professional customers. The Norwegian concept has undergone a reform with the introduction of Byggmakker stores providing full service.

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

Rautakesko B2B Sales operates in Finland. Its customers include nationwide construction companies, the manufacturing industry and other professional customers. Rautakesko B2B Sales' strengths include close cooperation with the network of Finnish K-rauta and Rautia stores through which a significant part of the deliveries are made.

YEAR 2010

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

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

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

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

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

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

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

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

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

Chains' new web pages

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

Cultivation programmes provide solutions for plant cultivation

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

OBJECTIVES AND STRATEGIC FOCUSES

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

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

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

Easy and fast shopping and active sales will be emphasised in stores. Related products will be presented in a centralised display area close to desks providing service and design assistance. More comprehensive product information and signage facilitate self-service.

In the agricultural trade, the aim is to develop a customer-driven K-maatalous concept and improve market position. This can be achieved by active sales and offering the best total selection of products and services.

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

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

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

MARKET SHARES AND PRINCIPAL COMPETITORS

Building and home improvement trade

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

Agricultural supplies trade

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

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

** In 2010, one K-rauta store and 50 Rautia stores also operated as K-maatalous stores*
** In 2009, two K-rauta stores and 50 Rautia stores also operated as K-maatalous stores*

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

** cumulative average*

Building and home improvement trade segment's net sales in 2010	**€ million**	**Change, %**
Building and home improvement trade, Finland	1,163	10.2
K-rauta, Sweden	208	11.1
Byggmakker, Norway	547	14.7
Rautakesko, Estonia	52	-17.6
Rautakesko, Latvia	47	-1.1
Senukai, Lithuania	227	-12.8
Rautakesko, Russia	204	20.5
OMA, Belarus	74	38.5
Total	**2,519**	**9.0**

Building and home improvement trade segment's capital employed at 31 December, € million	**2010**	**2009**
Non-current assets	512	494
Inventories	254	196
Short-term receivables	246	222
./. Non-interest-bearing debt	-365	-284
./. Provisions	-2	-4
Capital employed**	**645**	**624**

*** capital employed at the end of month*

Car and machinery trade

THE CAR AND MACHINERY TRADE segment consists of VV-Auto and Konekesko with their subsidiaries. VV-Auto imports and markets Volkswagen, Audi and Seat passenger cars, and Volkswagen commercial vehicles in Finland, and it also imports and markets Seat passenger cars in Estonia and Latvia. VV-Auto is also engaged in car retailing and provides after-sales services at its own outlets in the Greater Helsinki area and Turku. Konekesko is a service company specialising in the import, marketing and after-sales services of recreational machinery, construction and materials handling machinery, agricultural machinery, and buses and trucks. Konekesko operates in Finland, Estonia, Latvia, Lithuania and Russia. Konekesko arranges the manufacture of and sells Yamarin boats in Finland and exports them to several European countries and Russia.

€955m
Car and machinery trade segment's net sales

€33.1m
Car and machinery trade segment's operating profit excluding non-recurring items

0.8%
Development in 2010

€32.7m
Growth in 2010


Audi A1

Car tower in Autostadt Wolfsburg.
Photo: Volkswagen AG.

Leading brands and comprehensive services

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

CAR TRADE MARKET

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

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

MACHINERY TRADE MARKET

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

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

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

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

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

YEAR 2010

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

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

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

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

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

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

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


WOB TF 2225

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

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

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

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

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

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

OBJECTIVES AND STRATEGIC EMPHASES

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

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

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

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

CAR TRADE MARKET SHARES IN FINLAND

VV-Auto

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

K-Group's car and machinery trade, number of stores, and retail and B2B sales	Number		Sales, (VAT 0%) € million	
	2010	2009	2010	2009
VV-Auto, retail outlets	9	9	334	307
VV-Auto, imports	1	1	354	307
Konekesko, Finland	2	2	193	191
Finland, total	**12**	**12**	**881**	**805**
Konekesko, Estonia			29	33
Konekesko, Latvia			40	92
Konekesko, Lithuania			28	29
Konekesko, Baltic countries, total			**97**	**154**
Car and machinery trade, total	**12**	**12**	**978**	**959**

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

* *cumulative average*

Car and machinery trade segment's net sales in 2010	€ million	Change, %
VV-Auto Group	668	11.7
Konekesko, Finland	193	1.2
Konekesko, Baltic countries	96	-41.0
Total	**955**	**0.8**

Car and machinery trade segment's capital employed at 31 December, € million	2010	2009
Non-current assets	85	96
Inventories	165	157
Short-term receivables	58	67
./. Non-interest-bearing debt	-130	-83
./. Provisions	-14	-15
Capital employed**	**164**	**222**

** *capital employed at the end of month*

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 particularly sought and made use of in shopping centre projects.


K
CITYMARKET
Alko

Real estate operations

REAL ESTATE PROPERTY MANAGEMENT

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

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

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

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

Development properties are those needing further development for their intended use.

CAPITAL EXPENDITURE

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

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

LIFE-CYCLE AFFORDABLE AND ECO-EFFICIENT REAL ESTATE OPERATIONS

Kesko's construction activity is based on life-cycle affordability and eco-efficiency. This means optimising the costs and environmental burden across the entire life cycle of a store site.

The aim is to build business premises with the lowest life-cycle costs in the trading sector.

Further development of the eco-efficiency of existing properties has focused on monitoring energy consumption and improving energy use. The aim is to reduce both consumption and costs.

PROPERTY MAINTENANCE

Property maintenance relies on systematisation and proactivity. Repair work is scheduled to coincide with the rebuilding necessitated by business operations.

The management and maintenance of properties owned or leased by Kesko has been outsourced to ISS Palvelut Oy, Ovenia Oy and YIT Kiinteistötekniikka Oy, which carry out the work in accordance with Kesko's requirements. Kestra Kiinteistöpalvelut Oy, owned by Kesko, is responsible for purchasing electricity for the K-Group.

KESKO'S ENERGY TEAM MONITORS ENERGY CONSUMPTION OF PROPERTIES

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

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

Read more about energy solutions on page 61.

Real estate operations indicators for 2010

OWNED PROPERTIES

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

Area m²	2010	2009
Finland	615,000	629,000
Other Nordic countries	90,000	80,000
Baltic countries and Belarus	118,000	103,000
Russia	61,000	46,000
Total	**884,000**	**858,000**

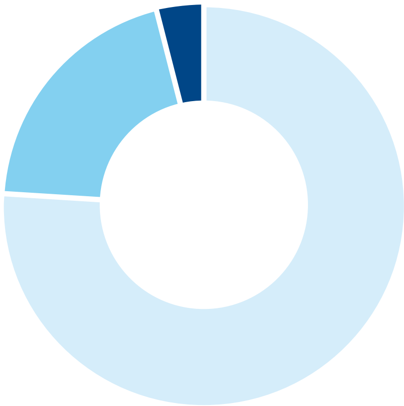
LEASED PROPERTIES

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

Area m²	2010	2009
Finland	2,338,000	2,358,000
Other Nordic countries	190,000	202,000
Baltic countries and Belarus	471,000	429,000
Russia	25,000	25,000
Total	**3,024,000**	**3,014,000**

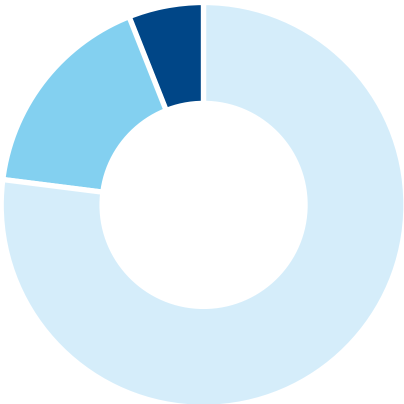
* *Carrying amounts*

BREAKDOWN OF OWNED PROPERTIES 2010



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

BREAKDOWN OF OWNED PROPERTIES 2009



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

Human resources

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

12,720

Kesko Group personnel in Finland at 31 December 2010

9,404

Kesko Group personnel in other operating countries at 31 December 2010


209,-
170,-
209,-
143,-
135,-
149,-
189,-
140,-

Kesko is a good place to work

AIMING TO BE THE MOST ATTRACTIVE WORKPLACE IN THE TRADING SECTOR

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

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

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

THE MOST COMPETENT AND MOTIVATED PEOPLE IN THE TRADING SECTOR

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

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

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

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


STILL
STILL
FM-X17
41
KESK
41
STILL

Kesko promotes wellbeing at work

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

MANAGEMENT AND LEADERSHIP

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

The annual personnel survey plays a key role in measuring the operations of the working community, and the quality of management. A similar survey is conducted throughout Kesko and its chain stores. In 2010, replies were received from 74% of the employees of the companies included in the survey. Active leverage of survey results in managerial work and the efficient implementation of concrete development activities are of essential importance.

One of the key tools in efficient performance management and the motivating leadership of immediate superiors is the performance and development review whose implementation is included in the personnel survey. 72% of the employees have had a performance and development review during the past year, and rated their satisfaction with the review as 3.98 (scale 1–5).

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

LABOUR PRODUCTIVITY

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

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

In Finland, Kesko's Occupational Health Service Unit focuses on operations that maintain work ability and promote the wellbeing of the working community. Currently 30–40% of the total occupational health costs are allocated to these activities. In other countries, occupational health services have been arranged according to the local practice and legislation.

Support for personnel's recreational activities is provided through joint staff clubs and in the form of company-specific contribution.

Most of Kesko's employees belong to an incentive system. The management's incentive systems are described on pages 68–69 of this Annual Report.

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

Competitive advantage from chain operations and K-retailer enterprise

The K-Group's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in the chains managed by Kesko. At the end of 2010, Kesko had 1,270 K-chain retailer entrepreneurs and about 170 other K-retailers as partners.

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

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

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

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

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

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

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

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

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

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

Responsibility

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

€5,174m
Purchases from suppliers in Finland

65 GWh
Energy savings by the end of 2016

678
K-environmental stores

11,623
Respondents in the personnel survey

8,826
Number of products analysed by the Product Research

86
Factory visits by the monitoring team in China

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

Building for a better tomorrow

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

KESKO'S 11TH CORPORATE RESPONSIBILITY REPORT IN SPRING 2011

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

RESPONSIBILITY PROGRAMME 2008–2012

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

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

The updating of the responsibility programme will start in 2011.

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

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

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

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

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

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

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

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

The guide will be updated in 2011.

IMPACT ON SOCIETY

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

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

Comprehensive store network

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

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

Impact of Kesko's operations on society

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

Most of the Kesko Group's purchases come from Finland

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

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

Considerable donations to universities in 2010

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

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

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

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

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

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

The Good Christmas Spirit collection was organised jointly by the Mannerheim League for Child Welfare, the Finnish Red Cross, the Finnish Broadcasting Company's YLE Radio Suomi and Morning TV, and Kesko for the 14th time. The collection for the benefit of low-income Finnish families with children in difficult situations in life raised €1,034,827.

WELLBEING OF EMPLOYEES

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

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

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

ENERGY SOLUTIONS

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

We increase energy efficiency

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

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

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

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

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

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

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

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

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

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

Real estate managers advise in energy savings

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

K-environmental stores

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

Nearly 40 Pirkka Fairtrade products

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

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

Energy efficiency of housing

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

We reduce emissions from transportation

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

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

When purchasing company cars, Kesko favours low-emission models and the latest engine technology. Emission levels of the Kesko Group's company cars are primarily below 160 g CO_2/km.

Waste recovery

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

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

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

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

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

RESPONSIBLE PURCHASING AND SALES

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

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

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

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

Product safety

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

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

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

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

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

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

Inter-national recognition for responsi-bility

KESKO PARTICIPATES IN THE GLOBAL COMPACT INITIATIVE

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

KESKO IN SUSTAINABILITY INDEXES

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

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

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

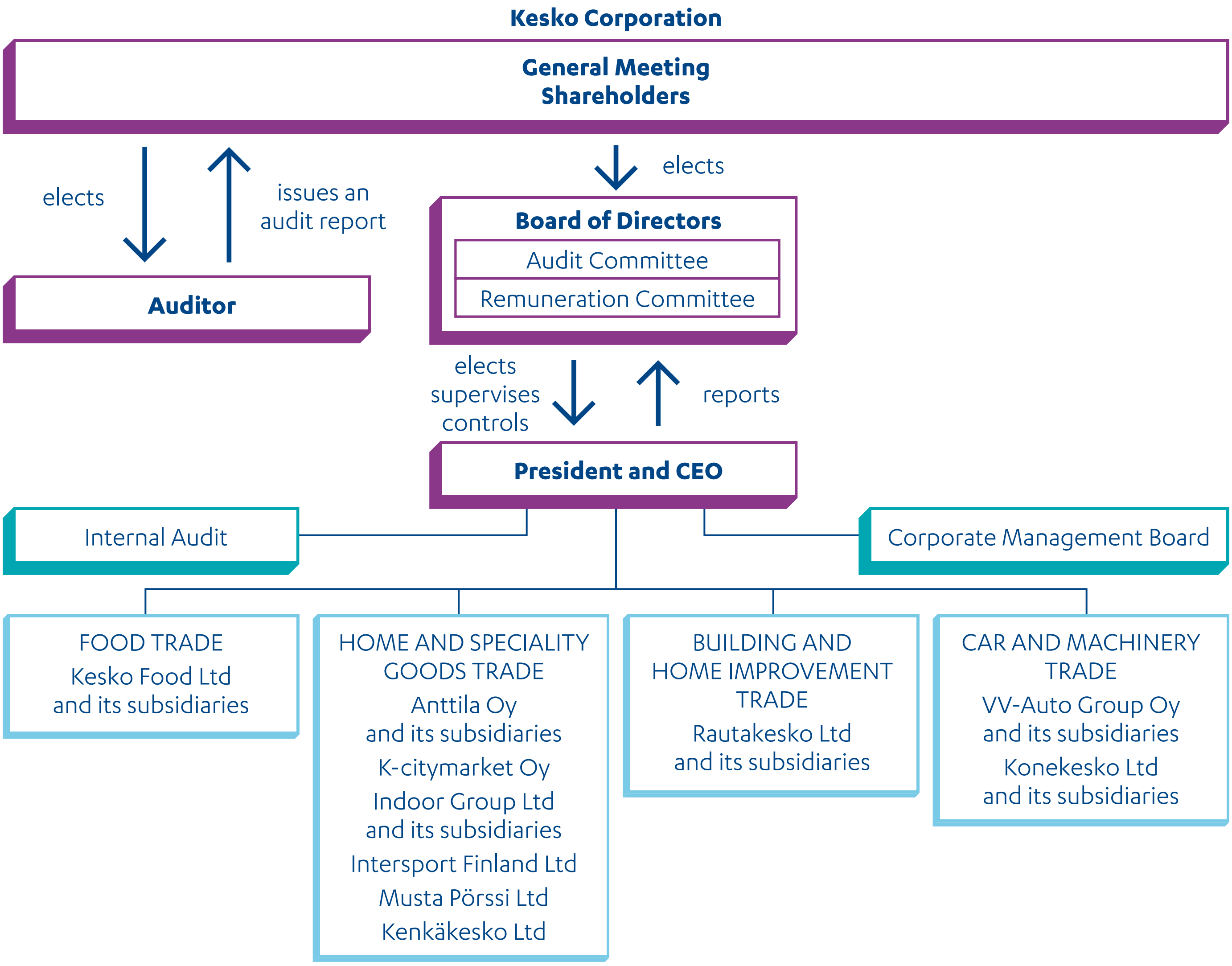
Kesko is also included in the 'The Global 100 Most Sustainable Corporations in the World' list, published annually at the meeting of World Economic Forum in Davos. Kesko has been on the list since 2005. Kesko's ranking on the list published in January 2011 was 26th, compared with 33rd a year before.

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

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

Kesko's Corporate Governance

KESKO GROUP'S CORPORATE GOVERNANCE STRUCTURE



THE RULES AND THE CORPORATE GOVERNANCE CODE OBSERVED BY KESKO

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

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

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

Departure from Corporate Governance Code recommendation

The terms of office of the members of Kesko's Board of Directors depart from the term of one year stated in Recommendation 10 of the Corporate Governance Code. The term of the company's Board is defined in the company's Articles of Association. The General Meeting makes decisions on amendments to the Articles of Association. According to the company's Articles of Association, the term of each Board member is three years, with the term starting at the close of the General Meeting electing the member and expiring at the close of the third Annual General Meeting after the election.

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

Corporate Governance Statement

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

GENERAL MEETING

The Annual General meeting, which is held before the end of every June on a date designated by the company's Board of Directors, handles the business specified for the Annual General Meeting in the company's Articles of Association and any other proposals that may be made to the General Meeting. Kesko's Annual General Meeting has usually been held in March or April. If needed, the company may also hold an Extraordinary General Meeting.

The General Meetings are convened by the company's Board of Directors. An Extraordinary General Meeting must also be convened if shareholders with at least 10% of the shares so demand in writing in order to deal with a certain matter. As a rule, the General Meeting handles items proposed by the company's Board of Directors.

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

Major matters within the competence of the General Meeting

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

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

Convening the General Meeting

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

- the name of the company, the time and place of the General Meeting
- the proposed agenda for the General Meeting
- the proposals for the number and fees of Board members and, when necessary, proposals for Board members with biographical information
- the proposal for the auditor
- other proposals to the General Meeting
- a mention of the procedures that a shareholder must comply with in order to participate in and cast votes at the General Meeting
- a mention of the procedures that a shareholder must comply with in order to participate in the General Meeting by proxy
- a mention of a shareholder's right to ask questions related to items on the agenda of the General Meeting
- the date on which a person must be listed as a shareholder in the company's shareholder register in order to have the right to participate in the General Meeting and to cast votes at it (so-called record date of the General Meeting)
- the place where the General Meeting documents and draft resolutions are available
- the total number of shares and voting rights by share class at the date of convocation
- the address of the company website.

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

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

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

Right to participate in the General Meeting

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

Minutes of the General Meeting

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

Presence of governing bodies at the General Meeting

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

SHARE SERIES

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

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

BOARD OF DIRECTORS AND ITS COMMITTEES

Term, composition and independence of the Board

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

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

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

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

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

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

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

Principal functions

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

The Board of Directors' principal functions include:

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

Decision-making, operations and meetings

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

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

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

The Board meetings regularly include a review by the President and CEO on topical and important issues concerning Kesko, as well as reports by the Chairs of the Board's Audit Committee and Remuneration Committee on preparatory committee meetings preceding the Board meeting. The auditor presents his findings to the Board once a year.

The Board of Directors regularly assesses its operations and working practices and carries out a related self-assessment once a year. Most recently the Board made a self-assessment of its operations and working practices in December 2010. This was based on a questionnaire, followed by the Board's discussion on the results and further actions. On the basis of the assessment, the Board decided to continue to focus especially on strategy work.

Board Committees

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

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

All members of the Remuneration Committee are independent of the company's significant shareholders and the majority of them are also independent of the company. In the election of the Remuneration Committee members, the relevant qualification requirements have been taken into account.

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

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

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

Audit Committee and its operations

The Audit Committee members are:

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

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

- monitoring the financial situation of the Kesko Group
- monitoring the reporting process of the company's financial statements
- supervising the company's financial reporting process
- evaluating the efficiency of the company's internal control, internal audit and risk management systems
- reviewing the Corporate Governance Statement submitted by the company
- reviewing the plans and reports of the company's internal audit function
- monitoring the statutory audit of the financial statements and the consolidated financial statements
- evaluating the independence of the company's audit firm
- evaluating the non-audit services provided to Kesko by the company's audit firm and audit companies belonging to the same chain
- preparing the draft resolution concerning the election of the company's auditor
- taking care of contacts with the company's auditor.

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

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

Remuneration Committee and its operations

The Remuneration Committee members are:

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

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

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

INDEPENDENCE OF THE BOARD MEMBERS IN 2010*

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

** Based on independence evaluation of 22 Sept. 2010.*

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

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

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

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

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

COMPANY MANAGEMENT

President and CEO

Kesko has a managing director who is the President and CEO. Kesko's President and CEO is Matti Halmesmäki, M.Sc. (Econ.), LL.M. He has been Kesko's President and CEO since 1 March 2005.

The President and CEO is responsible for the management of the company in accordance with the instructions and orders issued by the company Board, and for informing the Board about the developments in the company's business operations and financial situation. He is also responsible for the company's day-to-day management and that the financial matters are handled in a reliable manner. The President and CEO also chairs the Corporate Management Board and the Boards of the Group's major subsidiaries, such as Kesko Food and Rautakesko.

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

More information on Kesko's President and CEO is available on page 78 or at www.kesko.fi.

Corporate Management Board

The Kesko Group has a Corporate Management Board, the Chair of which is Kesko's President and CEO.

The Corporate Management Board has no authority based on legislation or the Articles of Association. The Corporate Management Board is responsible for considering Group-wide development projects and Group-level policies and practices. In addition, the Corporate Management Board discusses the Group's and the division parent companies' business plans, profit performance and matters handled by Kesko's Board of Directors, in whose preparation it also participates. The Corporate Management Board meets 8–10 times a year.

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

Subsidiary management

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

REMUNERATION STATEMENT

Remuneration of the Board of Directors and its Committees

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

Remuneration of the President and CEO and other executives

Remuneration principles and the decision-making process

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

CORPORATE MANAGEMENT BOARD MEMBERS AND RESPONSIBILITY AREAS IN 2010

	Since	Responsibility area
Matti Halmesmäki, Ch.	1.1.2001	Kesko's President and CEO
Terho Kalliokoski, President of Kesko Food Ltd	17.3.2005	Food trade
Jari Lind, President of Rautakesko Ltd	1.3.2005	Building and home improvement trade
Matti Leminen, Senior Vice President, Home and Speciality Goods Division	1.1. 2007	Home and speciality goods trade
Pekka Lahti, President of VV-Auto Group Oy	1.3.2005	Car and machinery trade
Arja Talma, Senior Vice President, CFO of Kesko	17.3.2005	Finance and accounting
Riitta Laitasalo, Senior Vice President, Human Resources of Kesko	1.1.2001	Human Resources
Paavo Moilanen, Senior Vice President, Corporate Communications of Kesko	13.10.2005	Corporate communications and responsibility

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

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

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

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

Performance bonus scheme (short-term compensation plan)

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

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

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

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

Option scheme (long-term compensation plan)

In addition to the performance bonus scheme, Kesko operates the 2007 option scheme for the Group management and other key people. The 2007 option scheme includes an obligation placed by Kesko's Board of Directors on option recipients to use 25% of their option income to acquire company shares for permanent ownership. Kesko's Board of Directors makes decisions on the granting of option rights on the basis of proposals made by the Remuneration Committee and within the terms and conditions of the option scheme resolved by the company's General meeting. The option scheme does not contain terms or conditions that would limit the option recipients' income from option rights.

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

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

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

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

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

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

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

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

PRESIDENT AND CEO MATTI HALMESMÄKI

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

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

** Based on the previous year's performance.*

Retirement benefits

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

Notice period and termination payment

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

Option rights granted in 2007–2010 (pcs)

Option right (symbol)	2010	2009	2008	2007	Vesting period*
2007A	-			50,000	4/2007–4/2010
2007B	-		50,000		4/2008–4/2011
2007C	-	50,000			4/2009–4/2012
Total	**-**	**50,000**	**50,000**	**50,000**	

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

Ownership obligation

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

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

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

** Excl. President and CEO Halmesmäki*

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

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

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

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

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

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

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

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

Notice period and termination compensation

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

Retirement benefits

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

RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

Risk management

Risk management is an integral part of management in Kesko

Kesko's risk management is proactive and an integral part of management and day-to-day activities. The objective of Kesko's risk management is to ensure the implementation of the Group strategy, the delivery of customer promises, shareholder value, and the continuity of business. Efficient risk management is a competitive advantage for Kesko.

The risk management policy confirmed by the Board of Directors guides risk management in the Kesko Group. The policy, based on the COSO ERM Framework, defines the objectives, principles, responsibilities and key practices of risk management. Kesko divides risks into strategic, financial, operational and damage/loss risks. In the Kesko Group, a risk is defined as any kind of uncertainty that may lead to:

- a failure to exploit business opportunities
- events or reasons which prevent or hinder the attainment of objectives or have other harmful consequences.

Risk management principles in the Kesko Group:

- We set objectives relating to risks and opportunities for the divisions and functions.
- We take calculated risks within the limits set in strategy selections, e.g. in expanding business operations, in strengthening market position and power, and in creating new business. Risk appetite is aligned with determined risk tolerance.
- We avoid or reduce financial, operational and damage/loss risks.
- We ensure a safe shopping environment and product safety for our customers.
- We create a safe working environment for our employees.
- We minimise opportunities for unhealthy phenomena, crime or malpractice through operating principles and controls.
- The continuity of operations is ensured by safeguarding critical functions and the resources they require.
- Crisis management and continuity plans are prepared in case any risks are realised.
- Risk management costs and resources are proportionate to the obtainable benefits.
- Information on risks and risk management is provided to stakeholders in accordance with Kesko's corporate governance principles.

The Group has a uniform risk assessment and reporting system

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

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

Responsibilities and roles in risk management

The business division and Group unit managements are responsible for risk management implementation. Each division has appointed a management board member, usually the finance director, to be responsible for coordinating risk management and security and providing guidelines in each respective division and reporting on risk management responses. In addition, each of the food trade, the building and home improvement trade, and the home and speciality goods trade divisions has a risk manager, who is responsible for the development and control of risk management and security in the division, in cooperation with the business management and supporting functions.

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

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

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

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

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

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

Providing insurance cover is part of Kesko's risk management

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

Risk management responses in 2010

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

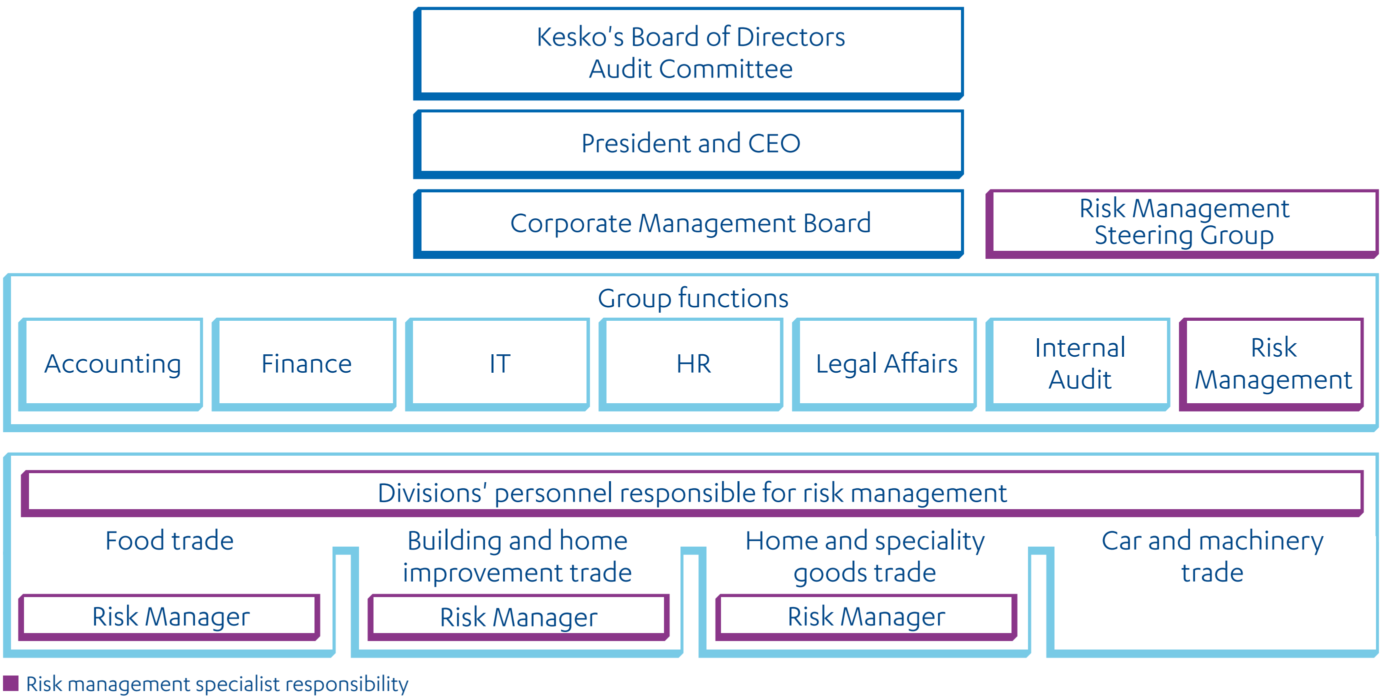
For the purpose of improving occupational safety, an extensive inquiry for the assessment of the risks at work was carried out in Finland towards the end of the year. At the next stage, the identified risk factors will be assessed in more detail and location or unit specific measures will be determined.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

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

Focal areas of risk management in 2011

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

KESKO GROUP'S RISK MANAGEMENT ORGANISATION



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

The most significant risks and their management responses

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

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

Internal control

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

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

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

Internal audit

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

Organisation of the audit function

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

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

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

Internal audit operations in 2010

In 2010, the areas of emphasis of the internal audit function included foreign operations and information system audits. The audits of foreign operations concentrated on the implementation of changes in business operations, stocks and selections management, and basic controls. In information system audits special attention was paid to new systems projects, continuity and information security. Compliance with Kesko's accounting policies and reporting guidelines was verified and assessed in audits conducted in Finland and abroad. The audits increasingly leveraged data extraction and analysing software. Especially in information system audits, the focus was increasingly placed on service providers.

Focal areas of internal audit in 2011

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

Ensuring professional competence

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

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

Outline of internal control and risk management systems related to the Group's financial reporting

Kesko's management system

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

Roles and responsibilities

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

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

Planning and performance reporting

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

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

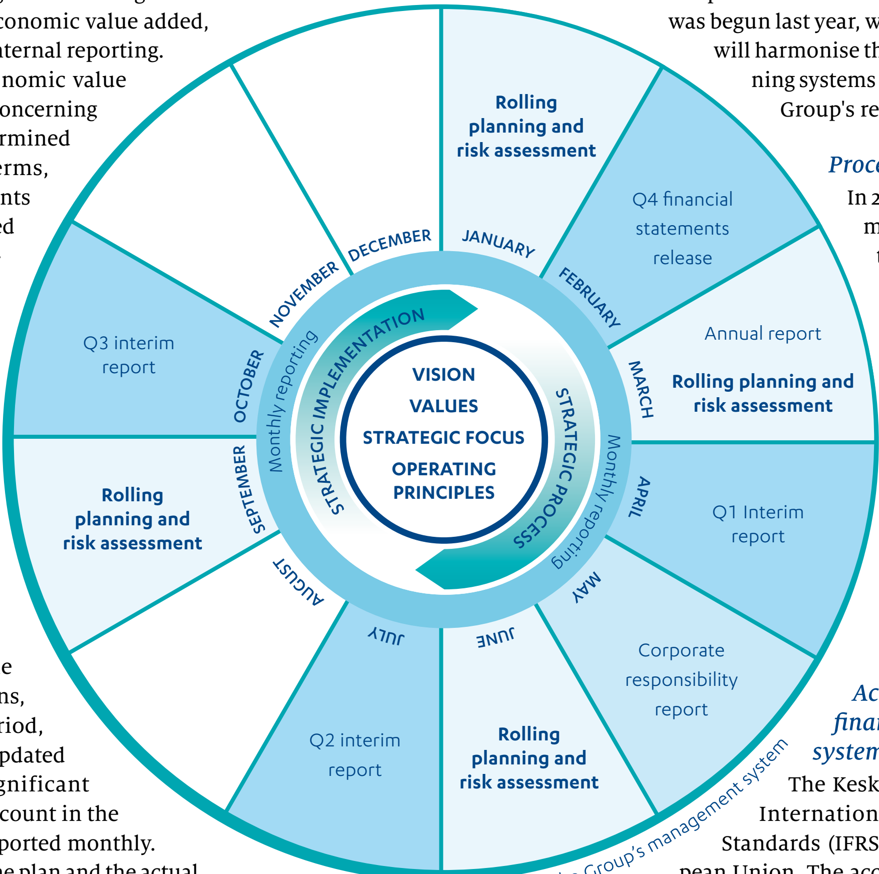


Fig 1. The Kesko Group's management system

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

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

Key procedures in 2010

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

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

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

Procedures in 2011

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

Accounting policies and financial management IT systems

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

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

AUDIT

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

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

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

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

AUDITORS' FEES IN 2009–2010 (€ thousand)

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

INSIDER ADMINISTRATION

Kesko's insider regulations

Kesko complies with the insider guidelines of NASDAQ OMX Helsinki Ltd. Kesko's Board of Directors has confirmed Kesko's insider regulations for permanent and project-specific insiders. The contents of the regulations correspond with the insider rules of NASDAQ OMX Helsinki Ltd. Kesko's insider regulations have been distributed to all insiders.

Kesko's permanent insiders and insider registers

In accordance with the Securities Markets Act, Kesko's permanent public insiders include Kesko's Board members, the President and CEO (managing director), and the audit firm's auditor with principal responsibility for Kesko. Kesko Corporation's Board of Directors has also stipulated that, in addition to the President and CEO, the other members of the Corporate Management Board are regarded as the company's permanent public insiders. All permanent public insiders and the statutory information about them, their related parties and the corporations that are controlled by related parties, or in which they exercise influence, have been entered in Kesko's register of public insiders.

Other permanent insiders of Kesko include persons working in positions determined by the Board of Directors who, in their duties, receive insider information on a regular basis and who are thus entered in the company's own, non-public insider register. Kesko's company-specific insider register is divided into sub-registers that consist of permanent insiders and of possible insider projects and persons participating in their preparation.

Monitoring

The Group's legal affairs function monitors the compliance with insider guidelines and maintains the company's insider registers in cooperation with Euroclear Finland Ltd. At regular intervals, the legal affairs function delivers an extract of the information in the insider register to permanent public insiders for checking and monitors the compliance with permanent insiders' trading restrictions. Kesko's permanent insiders are not allowed to acquire or dispose of securities issued by the company, including securities or derivative financial instruments entitling to them, during 21 days prior to the disclosure of interim reports and during 28 days prior to the disclosure of the annual financial statements. These disclosure dates are announced annually beforehand in a stock exchange release. Furthermore, people involved in possible insider projects may not trade in Kesko's securities or derivative financial instruments during such a project.

Further information on the holdings of Kesko's permanent public insiders is available on pages 76–79 and at www.kesko.fi.

OTHER MATTERS

Stock exchange communications and stock exchange releases

The Group's Senior Vice President, CFO is responsible for the financial content of stock exchange releases, and for investor communications. The Corporate Communications and Responsibility Unit produces the Group level communications material and is responsible for stock exchange and financial communications. The Vice President, General Counsel is responsible for ensuring that the rules related to stock exchange communications are observed by Kesko.

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

Board of Directors

Heikki Takamäki
b. 1947
Domicile: Tampere, Finland.

Chair (Chair of the Remuneration Committee).

Principal occupation: Retailer, K-rauta Rauta-Otra Nekala.
Main employment history: K-rauta retailer since 1979. Kesport-Intersport retailer 1995–1999.
Main positions of trust: -
Board member since: 1 January 2001.
Fees in 2010: €87,000.
Kesko shares and stock options held on 1 January 2010: 104,470 A shares and 68,120 B shares held by him or his company. No stock options.
On 31 December 2010: 104,470 A shares and 68,120 B shares held by him or his company. No stock options.

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

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

Principal occupation: -
Main employment history: Itikka Co-operative: Director 1970–1973, Luja-Yhtiöt: Director 1973–1987, Itikka Co-operative and Itikka Lihabotnia Oy: CEO 1988–1991, Atria Group plc: CEO 1991–2006.
Main positions of trust: Ilkka-Yhtymä Oyj: Board member 1994–2007, Board Chair 2007–, Alma Media Corporation: Deputy Chair of Board 2008–, Finavia Corporation: Board Chair 2010–, Seinäjoki Region Business Service Center: Board Chair 2009–.
Board member since: 27 March 2006.
Fees in 2010: €59,000.
Kesko shares and stock options held on 1 January 2010: No shares. No stock options.
On 31 December 2010: No shares. No stock options.

Esa Kiiskinen
b. 1963, Business College Graduate
Domicile: Helsinki, Finland.

Principal occupation: Retailer, K-supermarket Kontumarket, Helsinki
Main employment history: K-food retailer since 1990.
Main positions of trust: K-Retailers' Association: Board Chair 2008–, the Foundation for Vocational Training in the Retail Trade: Board Chair 2008–, Vähittäiskaupan Tilipalvelu VTP Oy: Board member 2008–, the Federation of Finnish Commerce: Board member 2008–, Saija ja Esa Kiiskinen Oy: Board Chair 1995–.
Board member since: 30 March 2009.
Fees in 2010: €42,000.
Kesko shares and stock options held on 1 January 2010: 102,350 A shares held by him or his company. No stock options.
On 31 December 2010: 102,350 A shares held by him or his company. No stock options.

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

Principal occupation: SRV Group Plc: Board Chair.
Main employment history: A-Betoni Oy: Constructor 1972–1974, Perusyhtymä Oy: Director 1974–1987, SRV Group Plc: Board Chair 1987–, Pontos Ltd: Board Chair 2002–.
Main positions of trust: Central Chamber of Commerce: Board member 2002–2006, Council member 2001–, JTO School of Management: Board Chair 1999–, Finnish-Russian Chamber of Commerce (FRCC): Deputy Chair of Board 2006–.
Board member since: 27 March 2006.
Fees in 2010: €44,000.
Kesko shares and stock options held on 1 January 2010: 16,100 B shares held by him. No stock options.
On 31 December 2010: 16,100 B shares held by him. No stock options

on 31 December 2010

Mikko Kosonen

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

Principal occupation: President of Finnish Innovation Fund Sitra.
Main employment history: Nokia plc: Senior Vice President for Strategic Planning and Information Management 1997–2005 and Executive Advisor 2005–2007. Finnish Innovation Fund Sitra: Special Advisor 2007–2008 and President 2008–.
Main positions of trust: Fifth Element Ltd: Board member 2008–, Kauppatieteellinen Yhdistys: Board member 1998–, Center for Knowledge and Innovation Research (CKIR): Board member 2000–, Technology Academy Finland Foundation: Board member 2009-, Kuntien Palvelukeskus KPK ICT Oy: Board Chair 2010–.
Board member since: 30 March 2009.
Fees in 2010: €44,000.
Kesko shares and stock options held on 1 January 2010:
No shares. No stock options.
On 31 December 2010: No shares. No stock options.

Maarit Näkyvä

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

Principal occupation: -
Main employment history: Unitas Bank Ltd.: Director 1990–1995, Merita Bank Ltd.: Director 1995–1996, Merita Fund Management Ltd: President 1996–1997, Leonia Bank plc: Board member 1998–2000, Sampo plc: Executive Vice President 2001–2006, Sampo Bank plc: Board member 2001–2008, Executive Vice President 2007–2008, Sampo Fund Management Ltd: Board member 2007–2008.
Main positions of trust: -
Board member since: 1 January 2001.
Fees in 2010: €46,000.
Kesko shares and stock options held on 1 January 2010:
No shares. No stock options.
On 31 December 2010: No shares. No stock options.

Rauno Törrönen

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

Principal occupation: Retailer, K-citymarket Kauppakatu, Joensuu.
Main employment history: Pohjois-Karjalan Osuuskauppa: member of the management team 1986–1998. K-food retailer since 1998.
Main positions of trust: Kiihtelysvaaran Osuuspankki, Supervisory Board member 2004–, Joensuun kauppaopetuksen tukisäätiö: Board member 2009–, Alepro Oy: Board member 2009–.
Board member since: 30 March 2009.
Fees in 2010: €42,000.
Kesko shares and stock options held on 1 January 2010: 15,900 A shares and 9,600 B shares held by him or his company. No stock options.
On 31 December 2010: 15,900 A shares and 14,600 B shares held by him or his company. No stock options.

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

Corporate Management Board




Matti Halmesmäki

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

Other major duties: Confederation of Finnish Industries EK: Board Deputy Chair 2005–, the Finnish Fair Corporation: Board member 2005–, the Federation of Finnish Commerce: Board member 2005–, Ilmarinen Mutual Pension Insurance Company: Board member 2010–, Luottokunta: Supervisory Board member 2005– and Chair 2007–, Foundation for Economic Education: Board member 2005–, Finnish Business and Policy Forum EVA: member 2005–, Helsinki Region Chamber of Commerce: Delegation member 2006–, the Association for Promoting Voluntary National Defence of Finland: Delegation member 2005–, the Central Chamber of Commerce in Finland: Board member 2006–, ICC Finland – the Finnish Section of International Chamber of Commerce: Executive Board member 2005–, Savonlinna Opera Festival Patrons' Association, member of the Board of Trustees 2006–, East Office of Finnish Industries Oy: Board member 2008–, Varma Mutual Pension Insurance Company: Supervisory Board member 2005–.
Employment history: employed by Kesko Ltd since 1980: Director of the Accounting and Office Administration Department 1985–1989, Executive Vice President, Finance and Accounting 1989–1993, Executive Vice President, Agricultural and Builders' Supplies Division 1993–1995, Executive Vice President, Speciality Goods Division 1995–1996, Managing Director of Tuko Oy 1996–1997, Executive Vice President, Speciality Goods Trade 1997–2000. Member of Kesko Corporation's Board of Directors 1989–2000. President of Rautakesko Ltd and Kesko Agro Ltd 2001–2005. Kesko Corporation's Managing Director and the Kesko Group's President and CEO since 1 March 2005.
Retirement age and benefits: 60 years. Full pension is 66% of the pensionable salary.
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.
Corporate Management Board member since: 1 January 2001.
Kesko shares and stock options held on 1 January 2010: 2,000 A shares, 7,000 B shares, 50,000 A stock options, 50,000 B stock options and 50,000 C stock options.
On 31 December 2010: 2,000 A shares, 7,000 B shares, 50,000 A stock options, 50,000 B stock options and 50,000 C stock options.

Terho Kalliokoski

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

Other major duties: the Finnish Grocery Trade Association: Board member 2006–, the Association of Finnish Advertisers: Board member 2005–, the Association for Finnish Work: Board member 2010-, Helsinki Region Chamber of Commerce: Board member 2009–, the Finnish 4H Federation: Supervisory Board member 2009–.
Employment history: employed by Kesko Ltd since 1985: Project Planner, Store Site Office (Helsinki) 1985–1987, Investment Manager, Real Estate Department (Helsinki) 1988–1990, Financial Manager, Northern Finland (Oulu) 1990–1995, Retail Services Manager, Grocery Retail Services (Oulu) 1995–1996, Sales Director, Supermarket Chain Unit (Oulu) 1996–1997, District Director, Northern Finland (Oulu) 1998–2002, Senior Vice President, Kesko Real Estate (Helsinki), 2002–2005. President of Kesko Food Ltd since 1 May 2005.
Retirement age and benefits: 62 years. Full pension is 66% of the pensionable salary.
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.
Corporate Management Board member since: 17 March 2005.
Kesko shares and stock options held on 1 January 2010: 3,250 B shares, 25,000 A stock options, 25,000 B stock options and 30,000 C stock options.
On 31 December 2010: 3,250 B shares, 25,000 A stock options, 25,000 B stock options and 30,000 C stock options.

Jari Lind

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

Other major duties: tooMax-x Handelsgesellschaft mbH: Executive Board member 2009-, Eurogroup Far East Ltd.: Executive Board member 2009-.
Employment history: employed by Kesko Ltd since 1990: Rautakesko, Purchase Logistics Director 2000–2001, Vice President for the K-rauta chain and B2B Service 2002–2005. President of Rautakesko Ltd since 1 March 2005.
Retirement age and benefits: 62 years. Full pension is 66% of pensionable salary.
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.
Corporate Management Board member since: 1 March 2005.
Kesko shares and stock options held on 1 January 2010: 25,000 A stock options, 25,000 B stock options and 25,000 C stock options.
On 31 December 2010: 25,000 A stock options, 25,000 B stock options and 25,000 C stock options.

Matti Leminen

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

Other major duties: -
Employment history: employed by Kesko Ltd since 1982: Director of the Vaatehuone chain 1990–1991, Director of the Leisure Goods Department 1992–1995, Director of Kesko Sports 1995–1998, Executive Vice President of Keswell Ltd 2005–2006. President of Anttila Oy 1998–13 August 2010.
Retirement age and benefits: 60 years. Full pension is 66% of pensionable salary.
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.
Corporate Management Board member since: 1 January 2007.

on 31 December 2010

Kesko shares and stock options held on 1 January 2010: 20,000 A stock options, 20,000 B stock options, 20,000 C stock options and 3,000 F stock options.
On 31 December 2010: 20,000 A stock options, 20,000 B stock options and 20,000 C stock options.

Pekka Lahti

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

Other major duties: The Association of Automobile Importers in Finland: Board member 2007–, Board Chair 2010–, Finnish Car Recycling Ltd: Board member 2007–, Tieliikenteen tietokeskus TT Oy: Board member 2009–, Board Chair 2010–, the Federation of Finnish Commerce: Board member 2010–.
Employment history: employed by Kesko Ltd since 1981: Vice President, Kesko Machinery 2000, Managing Director of Konekesko Ltd 2001–2005 and President of Kesko Agro Ltd since 2005. President of VV-Auto Group Oy since 1 February 2006.
Retirement age and benefits: 62 years. Full pension is 66% of pensionable salary.
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.
Corporate Management Board member since: 1 March 2005.
Kesko shares and stock options held on 1 January 2010: 20,000 A stock options, 20,000 B stock options, 20,000 C stock options and 17,200 F stock options.
On 31 December 2010: 20,000 A stock options, 20,000 B stock options and 20,000 C stock options.

Riitta Laitasalo

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

Other major duties: Kesko Pension Fund: Board Chair 1998–, Kesko Sickness Fund: Board Chair 2005–, the Foundation for Vocational Training in the Retail Trade: Board member 1998–, Edita plc: Board member 2005–, Chair of the Audit Committee 2005–, JTO School of Management: Board member 2005–, Fintra: Board member 2005–, the Unemployment Insurance Fund of the Ministry of Social Affairs and Health: Supervisory Board member 2010–.
Employment history: employed by Kesko Ltd since 1979: Personnel Director 1995–1997, Vice President, Accounting and Finance Division 1997–1998, Vice President, Finance and Administration Division 1998–1999, Senior Vice President, Administration 2000–2005. Senior Vice President, Human Resources since 30 March 2005.
Retirement age and benefits: 60 years. Full pension is 66% of pensionable salary.
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.
Corporate Management Board member since: 1 January 2001.
Kesko shares and stock options held on 1 January 2010: 10,000 B shares, 15,000 A stock options, 15,000 B stock options, 15,000 C stock options and 16,000 F stock options.
On 31 December 2010: 11,000 B shares, 15,000 A stock options, 15,000 B stock options and 15,000 C stock options.

Arja Talma

b. 1962, M.Sc. (Econ.), eMBA. Senior Vice President, CFO.
Domicile: Helsinki, Finland.

Other major duties: VR-Group Ltd: Board member 2006– and Chair of the Audit Committee 2006–, Sponda Plc: Board member 2007– and Chair of the Audit Committee 2007–, Luottokunta: Board member 2008–, Finnish Scout Foundation: Supervisory Board member 2010–.
Employment history: KPMG Wideri Oy Ab: APA 1992–2001, partner 2000–2001. Oy Radiolinja Ab: Executive Vice President, Finance and Administration 2001–2003. Employed by Kesko Corporation since 2004: Vice President, Corporate Controller 2004–2005. Senior Vice President, CFO since 17 March 2005.
Retirement age and benefits: General retirement age and pensionable salary based on the Employees' Pensions Act (TyEL).
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.
Corporate Management Board member since: 17 March 2005.
Kesko shares and stock options held on 1 January 2010: 2,000 B shares, 25,000 A stock options, 25,000 B stock options and 25,000 C stock options.
On 31 December 2010: 2,000 B shares, 25,000 A stock options, 25,000 B stock options and 25,000 C stock options.

Paavo Moilanen

b. 1951, Business College Graduate. Senior Vice President, Corporate Communications and Responsibility.
Domicile: Espoo, Finland.

Other major duties: Kaleva Mutual Insurance Company: Supervisory Board member 2005–, the Association for Finnish Work: member of the Communications and Research Committee 2005–, the Federation of Finnish Commerce: Chair of the Communications Committee 2010–.
Employment history: employed by Kesko Ltd since 1974: Kajaani District Director 1986–1989; Jyväskylä District Director 1989–1991; Seinäjoki District Director 1991–1995; Director of the Neighbourhood Store Chain Unit 1995–1996; Director of the Speciality Goods Division 1996–1997, Vice President, Builders' and Agricultural Supplies Division 1998–2000, Managing Director of the K-Retailers' Association 2000–2005. Kesko Group: Senior Vice President, Corporate Communications since 13 October 2005.
Retirement age and benefits: 60 years. Full pension is 66% of pensionable salary.
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.
Corporate Management Board member since: 13 October 2005.
Kesko shares and stock options held on 1 January 2010: 500 A shares, 1,500 B shares, 15,000 A stock options, 15,000 B stock options and 15,000 C stock options.
On 31 December 2010: 500 A shares, 1,500 B shares, 15,000 A stock options, 15,000 B stock options and 15,000 C stock options.

Report by the Board of Directors and Financial Statements

REPORT BY THE BOARD OF DIRECTORS

81 Report by the Board of Directors
- **86** Proposal for profit distribution
- **87** Group's performance indicators

FINANCIAL STATEMENTS

94 Consolidated Financial Statements (IFRS)
- **94** Consolidated income statement
- **95** Consolidated statement of financial position
- **96** Consolidated statement of cash flows
- **97** Consolidated statement of changes in equity
- **98** Notes to the Consolidated Financial Statements
  - **98** Note 1, Accounting policies for the consolidated financial statements
  - **105** Note 2, Segment information
  - **108** Note 3, Acquisitions
  - **108** Note 4, Disposal of assets
  - **109** Note 5, Other operating income
  - **109** Note 6, Other operating expenses
  - **109** Note 7, Non-recurring items
  - **110** Note 8, Staff cost, number of personnel and management's compensation
  - **110** Note 9, Finance income and costs
  - **111** Note 10, Income tax expense
  - **111** Note 11, Components of other comprehensive income
  - **111** Note 12, Earnings per share
  - **112** Note 13, Property, plant and equipment
  - **113** Note 14, Intangible assets
  - **115** Note 15, Investments in associates
  - **115** Note 16, Non-current available-for-sale financial assets
  - **116** Note 17, Non-current receivables
  - **116** Note 18, Finance lease receivables
  - **117** Note 19, Deferred tax
  - **118** Note 20, Pension assets
  - **120** Note 21, Inventories
  - **120** Note 22, Trade and other current receivables
  - **120** Note 23, Financial assets at fair value through profit or loss
  - **120** Note 24, Current available-for-sale financial assets
  - **120** Note 25, Cash and cash equivalents
  - **120** Note 26, Non-current assets classified as held for sale and related liabilities
  - **121** Note 27, Notes to shareholders' equity
  - **122** Note 28, Carrying amounts of financial assets and liabilities by category
  - **124** Note 29, Finance lease liabilities
  - **124** Note 30, Provisions
  - **125** Note 31, Trade payables and other current non-interest-bearing liabilities
  - **125** Note 32, Jointly controlled assets
  - **125** Note 33, Commitments
  - **125** Note 34, Operating leases
  - **126** Note 35, Share-based payment
  - **129** Note 36, Non-cash flow investing activities
  - **129** Note 37, Adjustments to cash flows from operating activities
  - **129** Note 38, Disposal of real estate companies
  - **129** Note 39, Proceeds from disposal of available-for-sale financial assets
  - **129** Note 40, Cash and cash equivalents within the statement of cash flows
  - **130** Note 41, Financial risk management
  - **137** Note 42, Related-party transactions
  - **138** Note 43, Other notes
  - **139** Note 44, Subsidiaries and associates at 31.12.2010

141 Parent's Financial Statements (FAS)
- **141** Parent's income statement
- **142** Parent's balance sheet
- **143** Parent's cash flow statement
- **144** Notes to the parent's financial statements

150 Signatures

151 Auditor's Report

Report by the Board of Directors

FINANCIAL PERFORMANCE

The Group's net sales were €8,777 million, which is 3.9% up on the previous accounting period (€8,447 million). Net sales increased in all divisions. In Finland, net sales increased by 4.3% and in other countries by 2.2%. International operations accounted for 16.7% (17.0%) of the net sales. In the food trade, net sales continued to grow steadily, and K-food stores' grocery sales performance exceeded the market performance. The net sales growth recorded in the building and home improvement trade in the spring accelerated towards the year end.

1–12/2010	Net sales, M€	Change, %	Operating profit excl. non-recurring items, M€	Change, M€
Food trade	3,896	+2.6	160.1	+27.0
Home and speciality goods trade	1,569	+0.7	66.0	+36.5
Building and home improvement trade	2,519	+9.0	24.0	+12.1
Car and machinery trade	955	+0.8	33.1	+32.7
Common operations and eliminations	-162	-3.5	-15.0	+4.4
Total	**8,777**	**+3.9**	**268.1**	**+112.8**

The operating profit excluding non-recurring items was €268.1 million (€155.4 million), representing 3.1% (1.8%) of the net sales. The operating profit excluding non-recurring items includes an €8 million amount recognised as revenue in connection with the transfer of the pension insurance portfolio. In the comparative period, the operating profit excluding non-recurring items was negatively impacted by the €9 million amount of impairments and expense provisions recognised on the Baltic agricultural supplies business. Improved management of inventory processes, coupled with cost reductions significantly contributed to the improvement of the Group's profitability. All divisions recorded higher year-on-year operating profits excluding non-recurring items.

Operating profit was €306.7 million (€232.3 million). The operating profit includes a net total of €38.6 million of non-recurring gains on disposals, and provisions related to the reorganisation of the service station grocery store business of Pikoil Oy, a Kesko Food subsidiary. The non-recurring items for the comparative period included a net total of €77.0 million of gains on the disposal of real estate, and impairments. The Group's profit before tax was €312.4 million (€216.6 million).

The Group's earnings per share were €2.06 (€1.27). The Group's equity per share was €21.81 (€20.39).

The K-Group's (i.e. Kesko's and the chain stores') retail and B2B sales (VAT 0%) were €10,977 million, up 4.2% compared to the previous year. During the same period, K-food stores' grocery sales grew by 4.2% (VAT 0%). The K-Group chains' sales entitling to K-Plussa points were €5,456 million excluding tax, up 4.6% compared to the previous year.

During the accounting period, the K-Plussa customer loyalty programme gained 92,040 new households. At the end of December, there was 2,098,747 K-Plussa households.

FINANCE

The cash flow from operating activities was €438.2 million (€378.8 million) and included a €151.6 million amount of pension assets returned by the Kesko Pension Fund. The cash flow from investing activities was €-239.6 million (€31.0 million). It included a €123.6 million (€252.0 million) amount of proceeds from the sale of fixed assets.

The Group's liquidity and solvency remained at an excellent level. At the end of the accounting period, liquid assets totalled €847 million (€715 million). Interest-bearing liabilities were €477 million (€456 million) and interest-bearing net debt €-370 million (€-259 million) at the end of December. Equity ratio was 53.4% (54.1%) at the end of the accounting period.

The Group's net finance income was €6.0 million (net finance costs €16.0 million). The costs for hedging currency exposures, which had increased the net finance costs in the previous year, normalised to €1.8 million (€17.9 million).

TAXES

The Group's taxes were €96.7 million (€82.4 million). The effective tax rate was 31.0% (38.0%), affected by loss-making foreign operations.

CAPITAL EXPENDITURE

The Group's capital expenditure totalled €325.3 million (€198.0 million), or 3.7% (2.3%) of the net sales. Capital expenditure in store sites was €212.2 million (€161.2 million) and other capital expenditure €113.1 million (€36.7 million). Capital expenditure in foreign operations represented 13.1% (35.5%) of total capital expenditure.

The capital expenditure includes a €126 million amount of real estate acquisitions from the Kesko Pension Fund. The acquired real estate comprises store and office properties used by the Group itself.

PERSONNEL

In January-December, the average number of employees in the Kesko Group was 18,215 (19,200) converted into full-time employees. In Finland, the average decrease was 370 people, while outside Finland, it was 616.

At the end of December 2010, the total number of employees was 22,124 (22,207), of whom 12,720 (12,959) worked in Finland and 9,404 (9,248) outside Finland. Compared to the end of December 2009, there was a decrease of 239 people in Finland. Outside Finland, the number of personnel increased by 156 people, compared to the end of December 2009.

The Group's staff cost decreased by €14.6 million, or by 2.7%, compared to the previous year.

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

	1–12/2010	1–12/2009
Net sales, € million	3,896	3,798
Operating profit excl. non-recurring items, € million	160.1	133.1
Operating profit as % of net sales excl. non-recurring items	4.1	3.5
Capital expenditure, € million	117.2	69.4

Net sales, € million	**1–12/2010**	**Change, %**
Sales to K-food stores	2,996	+3.7
Kespro	688	+1.7
Others	212	-8.2
Total	**3,896**	**+2.6**

In the food trade, net sales were €3,896 million (€3,798 million), up 2.6%. During the same period, the grocery sales of K-food stores increased by 4.2% (VAT 0%). Good sales performance was achieved especially by K-citymarkets and K-supermarkets. The sales of Pirkka products increased by 11.2% (VAT 0%). In 2010, the growth rate of the total grocery trade market in Finland is estimated at some 2.5% (VAT 0%) compared to the previous year (Kesko's own estimate). In 2010, prices are estimated to have remained at the previous year's level, although they increased during the last part of the year. K-food stores strengthened their market share in 2010.

The operating profit excluding non-recurring items of the food trade was €160.1 million (€133.1 million), or €27.0 million up on the previous year. In addition to good retail sales performance, profitability improved due to more efficient purchasing, logistics, store site and chain operations. Operating profit was €158.4 million (€170.6 million). Non-recurring items totalled €-1.7 million, the most significant items of which were gains on the disposal of real estate, and the provisions for the reorganisation of the service station grocery store business of Pikoil Oy, a Kesko Food subsidiary.

Capital expenditure in the food trade was €117.2 million (€69.4 million), of which capital expenditure in store sites was €102.4 million (€56.2 million).

The most significant store sites being built are the new K-citymarkets in Hyvinkää, in Palokka, Jyväskylä, in Kouvola, in Karisto, Lahti, in Päivölä, Seinäjoki and in Äänekoski. K-supermarket Jättijako in Vantaa is being extended into a K-citymarket. New K-supermarkets are being built in Kilo, Espoo, in Jalasjärvi, in Veikkola, Kirkkonummi, in Lappeenranta, Mäntyharju, Pietarsaari, Pori, Savonlinna and Vihti.

Home and speciality goods trade

	1–12/2010	1–12/2009
Net sales, € million	1,569	1,558
Operating profit excl. non-recurring items, € million	66.0	29.5
Operating profit as % of net sales excl. non-recurring items	4.2	1.9
Capital expenditure, € million	45.3	29.6

Net sales, € million	**1–12/2010**	**Change, %**
Anttila	505	-1.6
K-citymarket home and speciality goods	620	+4.2
Intersport	173	+5.1
Indoor	155	-0.5
Musta Pörssi	96	-10.6
Kenkäkesko	23	-6.5
Total	**1,569**	**+0.7**

In the home and speciality goods trade, net sales were €1,569 million (€1,558 million), up 0.7%. K-citymarket's net sales performance was good especially in clothing and household goods. The net sales were also increased by the stores opened in the previous year. Intersport's and especially Budget Sport's sales were up on the previous year. Sunday opening had a clearly positive impact on the sales performance in January-April and in September-October.

The operating profit excluding non-recurring items of the home and speciality goods trade was €66.0 million, showing a €36.5 million year-on-year increase, which is attributable to improved productivity and more efficient purchasing operations. The operating profit was €103.4 million (€66.5 million). The non-recurring items include gains on real estate disposals, which totalled €37.4 million. The most significant disposal was the sale of Anttila's logistics centre in Hämeenkylä.

Capital expenditure in the home and speciality goods trade was €45.3 million (€29.6 million).

At the beginning of the year, Kodin Ykkönen in Kaisaniemi, Helsinki was closed down due to the termination of the lease. The K-citymarket in downtown Pori was converted into a K-supermarket early in the year. A new K-citymarket was opened in Kankaanpää in November 2010. The Anttila department store in Jyväskylä was relocated to a new site in March 2010. Indoor disposed of its operating activities in Latvia in March. A new Kodin Ykkönen was opened in Lappeenranta at the end of May.

The construction of Anttila's new automated logistics centre in Kerava was completed. The centre will start operating in stages during the first months of 2011. The logistics centre will make e-commerce and department store logistics significantly more efficient.

Building and home improvement trade

	1–12/2010	1–12/2009
Net sales, € million	2,519	2,312
Operating profit excl. non-recurring items, € million	24.0	11.9
Operating profit as % of net sales excl. non-recurring items	1.0	0.5
Capital expenditure, € million	78.2	84.7

Net sales, € million	**1–12/2010**	**Change, %**
Rautakesko Finland	1,163	+10.2
K-rauta Sweden	208	+11.1
Byggmakker Norway	547	+14.7
Rautakesko Estonia	52	-17.6
Rautakesko Latvia	47	-1.1
Senukai Lithuania	227	-12.8
Rautakesko Russia	204	+20.5
OMA Belarus	74	+38.5
Total	**2,519**	**+9.0**

In the building and home improvement trade, net sales were €2,519 million (€2,312 million), up 9.0%. The building and home improvement market in all of Rautakesko's operating countries was on the increase during the latter half of the year. In 2010, the market grew by some 8% in Finland, some 5% in Norway and some 6% in Sweden. During the first months of the year, the market decreased in the Baltic countries and Russia, but returned to growth during the year also in these countries. The market development in Belarus has been steady.

The net sales in Finland were €1,163 million, an increase of 10.2%. The building and home improvement product lines contributed €842 million to the net sales in Finland, an increase of 13.1%. The agricultural supplies trade contributed €321 million to the net sales, up 3.2%.

The net sales from foreign operations in the building and home improvement trade were €1,357 million (€1,257 million), an increase of 8.0%. The net sales from foreign operations increased by 1.4% in terms of local currencies. In Sweden, net sales decreased by 0.2% in terms of kronas. In Norway, net sales increased by 5.2% in terms of krones. In Russia, net sales increased by 9.9% in terms of rubles, and in Belarus, by 40.6% in terms of rubles. Foreign operations contributed 53.9% 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 €24.0 million (€11.9 million). Operating profit improved in Finland and Lithuania. In Russia, profitability decreased because of new store openings. The operating profit including non-recurring items was €23.9 million (€19.6 million).

Capital expenditure in the building and home improvement trade totalled €78.2 million (€84.7 million), of which 54.4% (82.8%) abroad. During the year, a new uniform enterprise resource planning system was adopted in Russia, Sweden, Estonia and Latvia.

During the accounting period, new K-rauta stores were opened in Palokka, Jyväskylä, in Stockholm, Sweden and in Kaluga and Tula, Russia. In June, the first full-service building and home improvement store was opened in Minsk, Belarus.

The retail sales of the K-rauta and Rautia chains in Finland grew by 6.2% to €1,009 million (VAT 0%). The sales of Rautakesko B2B Service increased by 23.0%, as the building industry rapidly recovered. As a whole, the growth rate of Rautakesko's building materials sales is estimated to have exceeded that of the market in Finland. The retail sales of the K-maatalous chain were €378 million (VAT 0%), up 0.7%.

Car and machinery trade

	1–12/2010	1–12/2009
Net sales, € million	955	947
Operating profit excl. non-recurring items, € million	33.1	0.3
Operating profit as % of net sales excl. non-recurring items	3.5	0.0
Capital expenditure, € million	17.8	13.4

Net sales, € million	**1–12/2010**	**Change, %**
VV-Auto	668	+11.7
Konekesko	287	-17.9
Total	**955**	**+0.8**

The net sales of the car and machinery trade were €955 million (€947 million), up 0.8%. The comparable net sales of the car and machinery trade grew by 15.1%. The impact of the car tax change (effective 1 April 2009) and the discontinued Baltic grain and agricultural inputs trade have been eliminated from the comparable net sales.

VV-Auto's net sales were €668 million (€598 million), an increase of 11.7%. In the first part of the year, the net sales performance was lowered by the car tax change effective 1 April 2009, causing the car tax to be excluded from net sales. VV-Auto's comparable net sales growth was 19.1%. In Finland, new registrations of passenger cars increased by 23.6% and those of vans by 27.3% compared to the previous year. The combined market share of passenger cars imported by VV-Auto rose to 18.9% (18.5%) and that of vans to 22.3% (20.9%).

Konekesko's net sales were €287 million (€350 million), down 17.9% compared to the previous year, as a result of the planned discontinuation of the Baltic grain and agricultural inputs trade. Konekesko's comparable net sales grew by 6.2%. The net sales in Finland were €193 million, up 1.2%. The net sales from Konekesko's foreign operations were €96 million, down 41.0%. In line with its strategy, Konekesko concentrates on the machinery trade also in the Baltic countries.

The operating profit excluding non-recurring items of the car and machinery trade was €33.1 million, which was €32.7 million higher than in the previous year. The profit performance was affected by VV-Auto's strong sales growth, cost savings achieved in the division, as well as the €9 million impairment charges and expense provisions recognised by Konekesko on the Baltic agricultural supplies business for the first quarter of 2009. The operating profit was €33.9 million (€-5.1 million).

Capital expenditure in the car and machinery trade was €17.8 million (€13.4 million).

CHANGES IN THE GROUP COMPOSITION

There were no significant changes in the Group composition during the accounting period.

RESOLUTIONS OF THE ANNUAL GENERAL MEETING 2010 AND DECISIONS OF THE BOARD'S ORGANISATIONAL MEETING

Kesko Corporation's Annual General Meeting held on 29 March 2010 adopted the financial statements for 2009 and discharged the Board of Directors' members and the Managing Director from liability. The Annual General Meeting also resolved to distribute a dividend of €0.90 per share, or a total amount of €88,547,166.90, as proposed by the Board. The dividend pay date was 12 April 2010. The Annual General Meeting also resolved to leave the number of members of the Board of Directors 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 proposal to amend the Article of Association providing for the convocation period so that the notice of a General Meeting shall be given not later than three weeks before the General Meeting, but in any case at least nine days before the record date of the General Meeting, referred to in Chapter 4, Article 2, Subsection 2 of the Companies Act. The resolutions of the Annual General Meeting were announced in more detail in a stock exchange release on 29 March 2010.

The organisational meeting of Kesko Corporation's Board of Directors, held after the Annual General Meeting, decided to leave the compositions of the Board's Audit Committee and Remuneration Committee unchanged. The decisions of the Board's organisational meeting were announced in a stock exchange release on 29 March 2010.

SHARES, SECURITIES MARKET AND BOARD AUTHORISATIONS

At the end of December 2010, Kesko Corporation's share capital totalled €197,282,584. Of all shares 31,737,007, or 32.2%, were A shares and 66,904,285, or 67.8%, were B shares. The aggregate number of shares was 98,641,292. Each A share entitles to ten (10) votes and each B share to one (1) vote. In January-December, the share capital was increased three times as a result of the share subscriptions with the options of the 2003 stock option scheme. The increases were made on 11 February 2010 (€128,424), 3 May 2010 (€422,754) and 3 June 2010 (€88,348) 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 12 February 2010, 4 May 2010 and 4 June 2010.

The price of a Kesko A share quoted on NASDAQ OMX Helsinki (the Helsinki stock exchange) was €23.60 at the end of 2009, and €34.70 at the end of 2010, representing an increase of 47.0%. Correspondingly, the price of a B share was €23.08 at the end of 2009, and €34.93 at the end of 2010, representing an increase of 51.3%. In January-December, the highest A share price was €36.45 and the lowest was €23.16. For B shares, they were €37.49 and €22.40 respectively. In January-December, the Helsinki stock exchange (OMX Helsinki) All-Share index rose by 18.7%, the weighted OMX Helsinki CAP index by 24.8%, while the Consumer Staples Index was up 31.0% during the same period.

At the end of December 2010, the market capitalisation of A shares was €1,101 million, while that of B shares was €2,337 million. Their combined market capitalisation was €3,438 million, an increase of €1,152 million from the end of 2009. In January-December 2010, 4.4 million A shares were traded on the Helsinki stock exchange at a total value of €133 million, while 52.7 million B shares were traded at a total value of €1,575 million.

The number of 2003F stock options of the 2003 scheme traded in 2010 was 273,212 at a total value of about €3.4 million. The 2003 option scheme expired on 30 April 2010.

In addition, the company operates the 2007 stock option scheme for management and key personnel, which comprises 2007A options, whose exercise period began on 1 April 2010, and 2007B and 2007C options, whose exercise periods will begin at the beginning of April in 2011 and 2012 respectively. The 2007A options have also been included on the official list of the Helsinki stock exchange since 1 April 2010, and 15,150 options were traded during the reporting period at a total value of €24,490.

The Board of Directors was authorised 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. The authorisation also includes a rights issue. The authorisation has not been used. Further information on Board authorisations is available at www.kesko.fi.

At the end of December 2010, the number of shareholders was 38,258, which was 630 less than at the end of 2009. At the end of December 2010, foreign ownership of all shares was 26%, and foreign ownership of B shares was 38%.

FLAGGING NOTIFICATIONS

On 27 July 2010, the Kesko Pension Fund sold such a number of Kesko A shares owned by it to Kruunuvuoren Satama Oy that its holding of Kesko shares, as a percentage of votes carried by all Kesko shares, fell below 5%, and respectively, the number of votes carried by shares held by Kruunuvuoren Satama Oy exceeded 5% of votes carried by all Kesko shares. The matter was announced in a stock exchange release on 27 July 2010.

On 29 October 2010, Kesko Corporation received a notice according to which the aggregate holding of Kesko shares by the K-Retailers' Association, its Branch Clubs and the Foundation for Vocational Training in the Retail Trade exceeded 5 percent on 28 October 2010. The matter was announced in a stock exchange release on 29 October 2010.

MAIN EVENTS DURING THE REPORTING PERIOD

On 1 July 2010, Kesko sold ten properties to Ilmarinen Mutual Pension Insurance Company and Kruunuvuoren Satama Oy, a joint venture established by Ilmarinen, the Kesko Pension Fund and Kesko Corporation. The debt-free selling price of the properties totalled €107.5 million. The gain on the sale of the properties was €47.4 million. In the same connection, the Kesko Pension Fund sold seven retail store properties owned by it to Kruunuvuoren Satama Oy. The Kesko Group companies leased the properties for the Kesko Group companies' use, mainly on 15-year leases with extension options. In consequence, the Kesko Group's lease liabilities increased by about €120 million. Kesko Corporation has made a capital contribution of approximately €33 million to the joint venture. Its ownership interest and voting rights in Kruunuvuoren Satama Oy are 49%. The company is included in the Kesko Group's financial reporting as an associate starting from 1 July 2010 (stock exchange releases on 1 July 2010).

On 1 September 2010, the management of the statutory pension liability and the related insurance portfolio of some 3,100 people employed by the Kesko Group were transferred from the Kesko Pension Fund to Ilmarinen Mutual Pension Insurance Company. The matter was announced in a stock exchange release on 1 September 2010. As a result of the transfer, Kesko recorded an €8 million actuarial gain in the income statement in September, not treated as a non-recurring item. The fair value of the Kesko Pension Fund plan assets exceeded the amount of its pension liabilities. The difference was recognised as pension assets in Kesko's statement of financial position. Pension assets were returned to the Kesko Group companies in December. In addition, the Kesko Pension Fund returned the contributions it had charged in the first part of the year, which produced a total cash inflow of €152 million.

RESPONSIBILITY

Kesko continues on the 'The Global 100 Most Sustainable Corporations in the World' list, published at the meeting of World Economic Forum in Davos, Switzerland in January.

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

In May, as in the previous year, Kesko was included as a member in the FTSE4Good Global and FTSE4Good Europe indexes focusing on responsible investment. The FTSE4Good indexes include a total of over 800 companies. The assessment for the FTSE Group in London is made by the independent Ethical Investment Research Service (EIRIS).

For the eighth year in succession, Kesko was selected for the Dow Jones sustainability indexes DJSI World and DJSI Europe. In the annual review 2010, Kesko gained the subsector's best scores for its eco-efficiency, environmental reporting, risk management, and anti-corruption and anti-bribery practices.

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

Kesko was the main partner of the ´Your Move On Tour´ series of events organised by the Young Finland Association and the Finnish Sports Federation. The tour, targeted to the young, ran in May-June and Kesko was present in five localities in Finland.

Kesko Food has, in cooperation with Suominen Flexible Packaging Ltd, developed Pirkka recycled plastic bags made of protective plastic wrappings used in Kesko Food's central warehouses and terminals. The new Pirkka recycled plastic bags were available in K-food stores in September. In November 2010, the Pirkka recycled plastic bag received the recovery award, granted by the Association of Environmental Enterprises (YYL) and Uusiouutiset, the Finnish Recycling News magazine.

K-supermarket Torpparinmäki, opened in Helsinki in October, is the first store in the world with the energy efficient LED lighting system throughout the premises. The LED lighting of the store consumes over 35 percent less energy than traditional fluorescent lighting.

K-food stores continue adding lids and doors to their existing freezers. The annual energy savings achieved by this amounted to 11.6 million kilowatt hours (kWh), which correspond the annual electricity consumption of nearly 600 one-family houses. The K-Group has signed the trading sector energy efficiency agreement and is committed to saving over 65 million kWh by the end of 2016.

In November, the results of the responsibility survey ordered by the Helsingin Sanomat newspaper showed that consumers perceive Pirkka as Finland's third most responsible brand after Valio and Fazer.

INFORMATION CONTAINED IN THE NOTES TO THE FINANCIAL STATEMENTS

Information on the Group's personnel is disclosed in note 8.

Information on option rights, shares under options and voting rights is disclosed in note 35.

Related party transactions are disclosed in note 42.

The Kesko Group is not engaged in significant research and development activities.

In May 2011, 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 Kesko's risk management is to ensure the implementation of the Group strategy, the delivery of customer promises, the maintenance of shareholder value, and the continuity of business. The risk management policy approved by the Board of Directors guides risk management in the Kesko Group. The policy defines the objectives, principles, responsibilities and key practices of risk management. The management of financial risks is based on the Group's treasury policy, confirmed by Kesko's Board of Directors. The management of business operations and the Group units' managements are responsible for risk management in practice.

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 activities at the Group, division, company and unit levels in all of Kesko's operating countries.

Kesko has a uniform risk assessment and reporting system. Risks are identified and prioritised by assessing the impact and probability of their materialisation, and the level of management. Risk management responses, schedules and responsibilities are established. The risks classified as critical and their management responses are discussed quarterly by the management boards. The development of a risk situation is assessed on the basis of the progress made through the responses and the changes in external factors. In addition, risk assessments are made concerning significant projects related to capital expenditure or changes in operations.

The divisions make risk assessments and update them in accordance with the strategy process and the rolling planning framework. The division parent companies' managements and the Group management regularly discuss the division parent companies' risks and how to manage them. In their respective responsibility areas, the Group units have assessed the risks threatening the Group's objectives and the management of such risks. On the basis of these risk analyses, the Group's risk management function prepares quarterly summaries of 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 Chair of the Audit Committee reports on risk management to the Board of Directors. Kesko's Board of Directors discusses the most significant risks and the responses required to control them, and assesses the efficiency of risk management. The following is a description of the risks and uncertainties assessed to be significant.

SIGNIFICANT RISKS AND UNCERTAINTIES

Kesko's objective is to expand operations abroad, especially in the food trade, and to further expand the international store network of its building and home improvement trade. Failures in international expansion projects may put growth and profitability at risk. In international operations, uniform operating practices and processes are a prerequisite for efficiency and synergy benefits. In Rautakesko, category management, purchasing and sourcing are managed in a centralised manner, and the adoption of a shared information system supporting these operations is progressing. There is a risk that unless the new selection management and purchasing model or information system work as planned, efficiency benefits will not be achieved.

For the purpose of increasing market share, good store sites are a key competitive factor. The acquisition of store sites can be slowed by scarcity of plots, zoning and permit procedures and trends in plot prices. Considerable amounts of capital or lease liabilities are tied up in store properties for years. As a result of changes in the market situation, there is a risk that a store site becomes unprofitable and that operations end while the long-term liabilities remain.

The attainment of objectives requires efficient store concepts which attract customers. If the concepts are not competitive, sales and market share performance fail to achieve the targets.

The intensive increase in the supply of electronic services, e-commerce growth, internationalisation and social media are significantly changing consumer behaviour and the operating systems of trade. Future success relies on the ability to combine the possibilities of online trading, electronic customer communications and the retailer business model into an efficient system.

Instability in the euro zone financial market continues, although the real economy has returned to growth. Increases in taxes and public charges resulting from public sector indebtedness, coupled with tightened financial markets impact consumers' purchasing power and can deteriorate consumer confidence and willingness to invest.

Regulations restricting efficient trading operations have increased and continue to increase also at the level of the European Union. Such a development can weaken the trading sector's possibilities to serve customers and operate efficiently.

The trading sector is characterised by increasingly complicated and long supply chains and a dependency on information systems, telecommunications and external service providers. Failures in the supply chain and payment systems can cause major losses in sales and profit.

Failure in the protection of personal information and card payments can cause losses, claims for damages and endanger reputation.

Expansion and operations in Russia and Belarus involve country risks. The unpredictability of officials and sudden changes in legislation and the interpretation and application of laws, as well as corruption can complicate operating activities or delay expansion.

Crime is becoming more professional and an increasing part of crimes are committed through data networks. There is a risk that controls against such crime are not sufficient.

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

The implementation of strategies and the achievement of goals require competent and motivated people. There is a risk that the trading sector will not attract the most competent people.

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

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

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

The objective of Kesko's communications is to produce and publish reliable information at the right time. If some information published by Kesko proved to be incorrect or a release failed to meet regulations, it can result in investors and other stakeholders losing confidence, and possible sanctions.

Accidents and damages caused by, for example, natural phenomena cannot always be prevented. The financial consequences of damages are covered with insurance, in accordance with the policy defined by the Kesko Board of Directors.

Further information about the risks, uncertainties and their management responses relating to Kesko's operating activities, and about Kesko's risk management system and principles is available on the company's website at www.kesko.fi/en/Investors/Keskos-Corporate-Governance.

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 (1/2011–12/2011) in comparison with the 12 months preceding the accounting period (1/2010–12/2010).

The outlook for trends in consumer demand has remained steady, as a result of high consumer confidence and continuously low interest rate levels. Nevertheless, the trend in economic development continues to involve significant uncertainties relating to the evolution of total production, tightening taxation and possible ramifications of disturbances in the financial market.

The steady development of the grocery trade and the home and speciality goods trade is expected to continue. The building and home improvement market is expected to strengthen as a result of increasing housing construction. In the car and machinery trade, the sales of new cars are expected to grow, and the situation in the machinery market is expected to recover gradually.

The Kesko Group's net sales are expected to grow during the next twelve months.

Throughout 2010, Kesko's profitability performance has been excellent, except for the building and home improvement trade. During the next twelve months, the store site network will be significantly expanded, regardless of which, the operating profit excluding non-recurring items is expected to remain at the achieved level.

PROPOSAL FOR PROFIT DISTRIBUTION

The parent's distributable profits are €1,152,126,586.65, of which the profit for the financial year is €189,532,714.65.

The Board of Directors proposes to the Annual General Meeting to be held on 4 April 2011 that the distributable profits be used as follows:

- €1.30 per share, or a total of €128,233,679.60, be distributed as dividends.
- €1,023,892,907.05 are carried forward in equity.

ANNUAL GENERAL MEETING

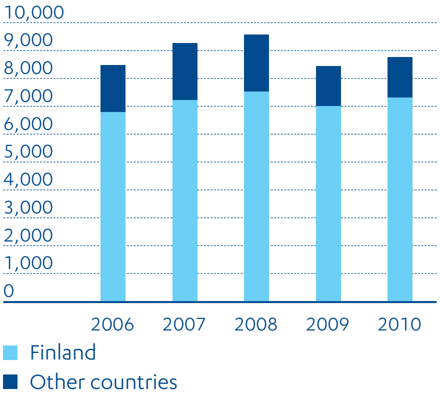
The Board of Directors decided to convene the Annual General Meeting at the Helsinki Fair Centre on 4 April 2011 at 13.00. Kesko Corporation will publish a notice of the Annual General Meeting at a later date.

CORPORATE GOVERNANCE STATEMENT

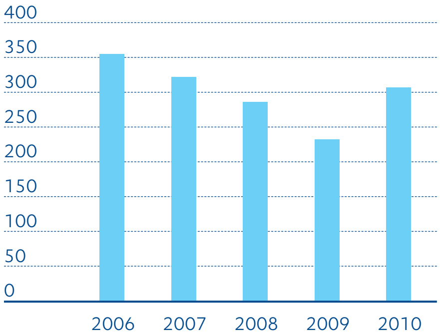
Kesko will publish a separate Corporate Governance Statement on week 10 on its website at www.kesko.fi.

The Group's key performance indicators

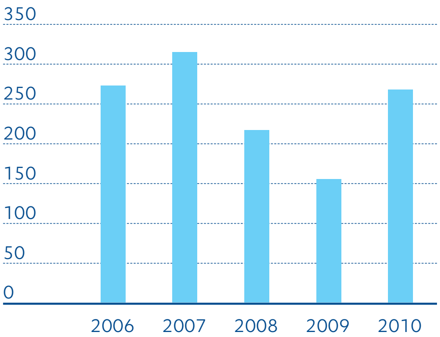
NET SALES*
€ million



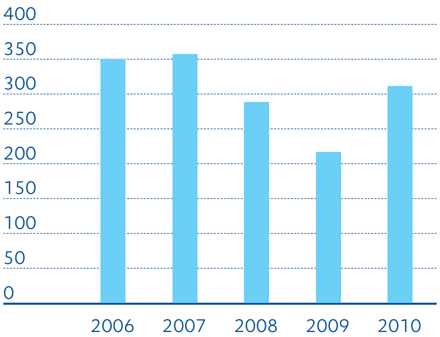
OPERATING PROFIT*
€ million



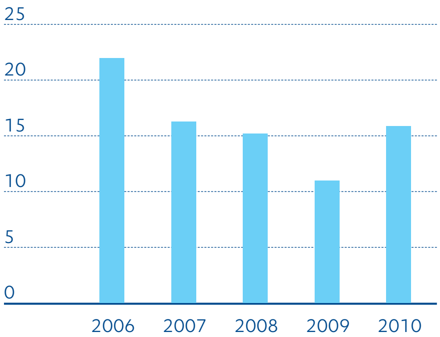
OPERATING PROFIT
excl. non-recurring items*, € million



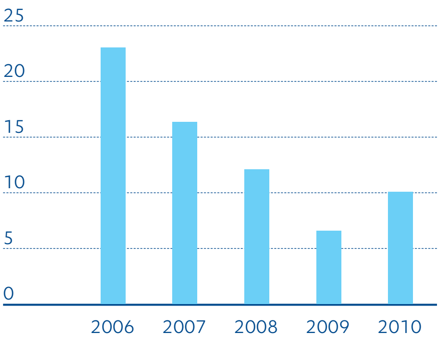
PROFIT BEFORE TAX*
€ million



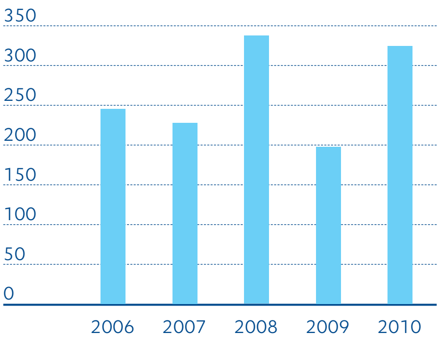
RETURN ON CAPITAL EMPLOYED
%



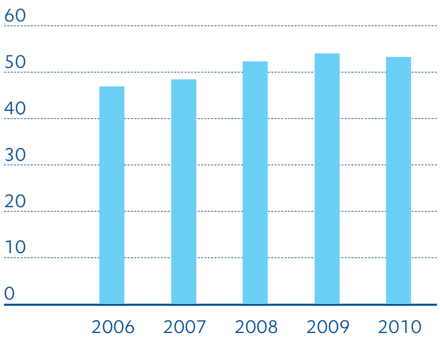
RETURN ON EQUITY
%



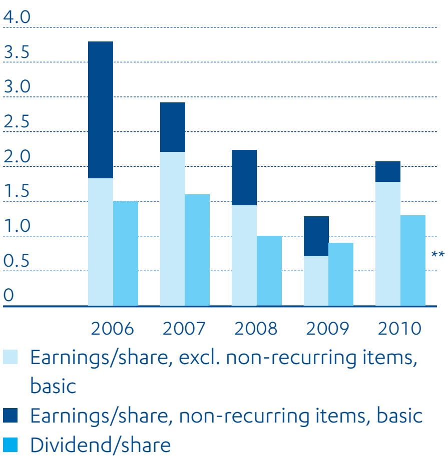
CAPITAL EXPENDITURE*
€ million



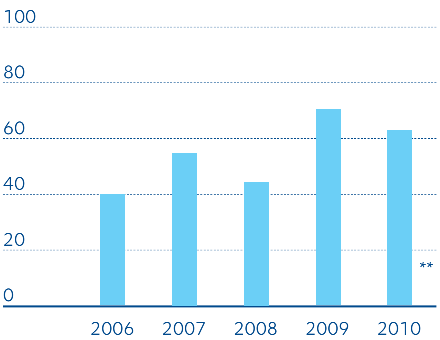
EQUITY RATIO
%



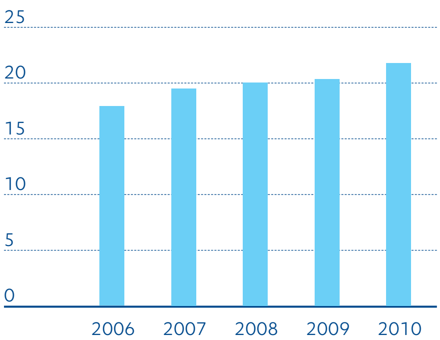
EARNINGS/SHARE AND DIVIDEND/SHARE, €



PAYOUT RATIO
%



EQUITY/SHARE
€, at 31 Dec., adjusted



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

GROUP'S PERFORMANCE INDICATORS

Continuing operations		2007	2008	2009	2010
Income statement					
Net sales	€ million	9,287	9,591	8,447	8,777
Change in net sales	%	9.4	3.4	-12.7	3.9
Staff cost	€ million	547	578	535	521
Staff cost as percentage of net sales	%	5.9	6.0	6.3	5.9
Depreciation, amortisation and impairment	€ million	116	178	131	121
Operating profit	€ million	322	286	232	307
Operating profit as percentage of net sales	%	3.5	3.0	2.8	3.5
Operating profit excl. non-recurring items	€ million	315	217	155	268
Operating profit excl. non-recurring items as percentage of net sales	%	3.4	2.3	1.8	3.1
Finance income and costs	€ million	36	1	-16	6
Income from associates	€ million	0	2	0	0
Profit before tax	€ million	358	289	217	312
Profit before tax as percentage of net sales	%	3.9	3.0	2.6	3.6
Income tax	€ million	87	89	82	97
Profit for the year from continuing operations	€ million	248	178	125	205
Profit for the year from discontinued operations	€ million	37	42	0	0
Capital expenditure	€ million	228	338	198	325
Capital expenditure as percentage of net sales	%	2.5	3.5	2.3	3.7
Personnel, average number for the year		20,520	21,327	19,200	18,215
Personnel at 31 Dec.		25,208	24,668	22,207	22,124
Earnings/share, diluted	€	2.52	1.81	1.27	2.06
Earnings/share, basic	€	2.54	1.82	1.28	2.08

Whole Group		2007	2008	2009	2010
Profit for the year (incl. non-controlling interests)	€ million	307	241	134	216
Profit for the year as percentage of net sales	%	3.2	2.5	1.6	2.5
Attributable to owners of the parent	€ million	285	220	125	205
Attributable to non-controlling interests	€ million	22	21	9	11
Cash flow from operating activities	€ million	248	131	379	438
Cash flow from investing activities	€ million	-85	-46	31	-240
Profitability					
Return on equity	%	16.4	12.1	6.6	10.1
Return on equity excl. non-recurring items	%	12.7	8.1	3.8	8.7
Return on capital employed	%	16.3	15.2	11.0	15.9
Return on capital employed excl. non-recurring items	%	14.7	10.3	7.3	13.9
Interest-bearing net debt/EBITDA		0.6	0.1	-0.7	-0.9
Funding and financial position					
Gearing	%	14.0	2.3	-12.5	-16.8
Equity ratio	%	48.5	52.4	54.1	53.4
Other indicators					
Capital expenditure	€ million	228	340	198	325
Capital expenditure as percentage of net sales	%	2.5	3.5	2.3	3.7
Personnel, average number for the year		20,520	21,327	19,200	18,215
Personnel at 31 Dec.		25,890	24,668	22,207	22,124
Share performance indicators					
Earnings/share, diluted	€	2.90	2.24	1.27	2.06
Earnings/share, basic	€	2.92	2.25	1.28	2.08
Earnings/share, excl. non-recurring items, basic	€	2.21	1.44	0.71	1.78
Equity/share	€	19.53	20.09	20.39	21.81
Dividend/share	€	1.60	1.00	0.90	1.30*
Payout ratio	%	54.8	44.5	70.5	63.1*
Payout ratio excl. non-recurring items	%	72.4	69.4	126.8	72.7*
Cash flow from operating activities/share, adjusted	€	2.52	1.37	3.86	4.43
Price/earnings ratio, (P/E), A share, adjusted		13.07	9.84	18.54	16.77
Price/earnings ratio, (P/E), B share, adjusted		13.02	7.96	18.13	16.88
Effective dividend yield, A share	%	4.2	4.6	3.8	3.8*
Effective dividend yield, B share	%	4.2	5.6	3.9	3.7*
Share price at 31 Dec.					
A share	€	37.85	22.00	23.60	34.70
B share	€	37.72	17.80	23.08	34.93
Average share price					
A share	€	43.85	28.30	21.92	30.42
B share	€	43.36	23.51	19.18	29.83
Market capitalisation at 31 Dec., A share	€ million	1,201	698	749	1,101
Market capitalisation at 31 Dec., B share	€ million	2,491	1,176	1,537	2,337
Turnover					
A share	million pcs	4	1	1	4
B share	million pcs	122	121	78	53
Relative turnover rate					
A share	%	11.5	4.5	3.1	13.8
B share	%	185.3	183.3	117.4	78.8
Diluted number of shares at 31 Dec.	thousand	98,395	98,256	98,382	99,121
Yield of A share for the last five periods	%	26.6	10.9	9.2	12.2
Yield of B share					
For the last five periods	%	36.1	12.9	10.3	12.6
For the last ten periods	%	18.7	11.7	14.9	13.8

**proposal to the Annual General Meeting*

Net sales by segment

€ million	1–12/2010	1–12/2009	Change %
Food trade, Finland	3,896	3,798	2.6
Food trade, other countries*	-	-	-
Food trade total	**3,896**	**3,798**	**2.6**
- of which intersegment trade	162	162	0.1
Home and speciality goods trade, Finland	1,553	1,538	1.0
Home and speciality goods trade, other countries*	15	20	-22.8
Home and speciality goods trade total	**1,569**	**1,558**	**0.7**
- of which intersegment trade	23	26	-10.2
Building and home improvement trade, Finland	1,163	1,055	10.2
Building and home improvement trade, other countries*	1,357	1,257	8.0
Building and home improvement trade total	**2,519**	**2,312**	**9.0**
- of which intersegment trade	0	2	-69.7
Car and machinery trade, Finland	859	787	9.1
Car and machinery trade, other countries*	96	160	-40.3
Car and machinery trade total	**955**	**947**	**0.8**
- of which intersegment trade	0	1	-41.6
Common operations and eliminations	-162	-168	-3.5
Finland total	**7,309**	**7,010**	**4.3**
Other countries total*	**1,468**	**1,437**	**2.2**
Group total	**8,777**	**8,447**	**3.9**

**Net sales in countries other than Finland.*

Operating profit by segment

€ million	1–12/2010	1–12/2009	Change
Food trade [1]	158.4	170.6	-12.2
Home and speciality goods trade [2]	103.4	66.5	36.8
Building and home improvement trade	23.9	19.6	4.2
Car and machinery trade	33.9	-5.1	39.0
Common operations and eliminations	-12.8	-19.3	6.5
Group total	**306.7**	**232.3**	**74.4**

Operating profit excl. non-recurring items by segment

€ million	1–12/2010	1–12/2009	Change
Food trade	160.1	133.1	27.0
Home and speciality goods trade	66.0	29.5	36.5
Building and home improvement trade	24.0	11.9	12.1
Car and machinery trade	33.1	0.3	32.7
Common operations and eliminations	-15.0	-19.4	4.4
Group total	**268.1**	**155.4**	**112.8**

1) *Includes gains on the disposal of real estate and provisions for the restructuring of Pikoil Oy's service station operations.*

2) *Includes gains on the disposal of real estate, the most significant of which is the disposal of Anttila's logistics centre in Hämeenkylä.*

Group's performance indicators by quarter

	1–3/ 2009	4–6/ 2009	7–9/ 2009	10–12/ 2009	1–3/ 2010	4–6/ 2010	7–9/ 2010	10–12/ 2010
Net sales, € million	2,018	2,143	2,133	2,153	1,958	2,279	2,231	2,310
Change in net sales, %	-11.4	-15.9	-12.4	-7.7	-3.0	6.4	4.6	7.3
Operating profit, € million	23.2	42.7	48.3	118.1	20.9	79.0	123.9	82.8
Operating margin, %	1.1	2.0	2.3	5.5	1.1	3.5	5.6	3.6
Operating profit excl. non-recurring items, € million	3.4	36.4	47.5	68.0	20.9	78.1	88.7	80.5
Operating margin excl. non-recurring items, %	0.2	1.7	2.2	3.2	1.1	3.4	4.0	3.5
Finance income/costs, € million	-5.1	-4.4	-4.7	-1.8	0.8	-0.2	0.8	4.6
Profit before tax, € million	18.2	38.2	43.8	116.3	21.9	78.7	124.5	87.3
Profit before tax, %	0.9	1.8	2.1	5.4	1.1	3.5	5.6	3.8
Return on capital employed, %	4.2	8.0	9.4	22.9	4.4	16.0	26.3	17.4
Return on capital employed excl. non-recurring items, %	0.6	6.8	9.2	13.2	4.3	15.8	18.8	16.9
Return on equity, %	2.4	4.6	5.2	14.7	2.9	10.6	16.1	11.5
Return on equity excl. non-recurring items, %	-0.6	3.7	5.0	7.7	2.9	10.5	11.1	11.2
Equity ratio, %	49.8	51.0	52.3	54.1	51.1	51.2	53.3	53.4
Capital expenditure, € million	51.5	55.8	49.2	41.5	42.0	45.7	35.9	201.6
Earnings/share, diluted, €	0.12	0.19	0.24	0.73	0.15	0.51	0.81	0.59
Equity/share, €	19.16	19.36	19.60	20.39	19.69	20.30	21.10	21.81

Net sales by segment

€ million	1–3/ 2009	4–6/ 2009	7–9/ 2009	10–12/ 2009	1–3/ 2010	4–6/ 2010	7–9/ 2010	10–12/ 2010
Food trade	888	974	966	970	912	976	986	1,022
Home and speciality goods trade	346	331	381	500	355	334	378	501
Building and home improvement trade	529	643	614	525	495	712	687	625
Car and machinery trade	296	233	213	205	236	298	218	203
Common operations and eliminations	-41	-39	-41	-47	-40	-41	-39	-42
Group total	2,018	2,143	2,133	2,153	1,958	2,279	2,231	2,310

Operating profit by segment

€ million	1–3/ 2009	4–6/ 2009	7–9/ 2009	10–12/ 2009	1–3/ 2010	4–6/ 2010	7–9/ 2010	10–12/ 2010
Food trade	42.3	33.8	35.8	58.7	31.7	42.2	47.3	37.2
Home and speciality goods trade	-3.3	-3.6	7.0	66.5	0.1	7.0	50.6	45.6
Building and home improvement trade	-5.2	14.8	8.5	1.6	-13.8	17.9	19.9	-0.2
Car and machinery trade	-6.0	1.9	1.7	-2.7	6.4	15.0	8.6	3.9
Common operations and eliminations	-4.6	-4.3	-4.5	-5.9	-3.4	-3.2	-2.5	-3.7
Group total	23.2	42.7	48.3	118.1	20.9	79.0	123.9	82.8

Operating profit excl. non-recurring items by segment

€ million	1–3/ 2009	4–6/ 2009	7–9/ 2009	10–12/ 2009	1–3/ 2010	4–6/ 2010	7–9/ 2010	10–12/ 2010
Food trade	33.8	30.1	35.5	33.7	31.7	42.1	49.5	36.8
Home and speciality goods trade	-10.7	-6.0	6.5	39.7	0.1	7.0	13.2	45.7
Building and home improvement trade	-9.1	14.8	8.4	-2.1	-13.8	17.9	20.0	-0.2
Car and machinery trade	-6.0	1.9	1.7	2.7	6.4	14.1	8.7	3.9
Common operations and eliminations	-4.6	-4.4	-4.5	-6.0	-3.4	-3.1	-2.8	-5.7
Group total	3.4	36.4	47.5	68.0	20.9	78.1	88.7	80.5

CALCULATION OF PERFORMANCE INDICATORS

Profitability

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

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

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

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

EBITDA = Operating profit + depreciation and amortisation + impairments

Funding and financial position

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

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

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

Share performance indicators

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

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

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

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

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

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

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

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

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

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

ANALYSIS OF SHAREHOLDING

Ownership structure at 31. Dec. 2010

All shares	Number of shares	% of all shares
Non-financial corporations and housing corporations	27,638,401	28.02
Financial and insurance corporations	4,458,231	4.52
General government*	7,248,353	7.35
Households	27,579,318	27.96
Non-profit institutions**	6,168,560	6.25
Rest of the world	505,742	0.51
Nominee registered	25,042,687	25.39
Total	**98,641,292**	**100.00**

10 largest shareholders by number of shares at 31 Dec. 2010

		Number of shares	% of shares	Number of votes	% of votes
1.	Vähittäiskaupan Takaus Oy	3,491,771	3.54	27,148,568	7.06
2.	K-Retailers' Association	3,449,301	3.50	34,125,360	8.88
3.	Kruunuvuoren Satama Oy	2,635,046	2.67	26,350,460	6.86
4.	Ilmarinen Mutual Pension Insurance Company	2,043,050	2.07	4,155,908	1.08
5.	Valluga-sijoitus Oy	1,340,439	1.36	13,404,390	3.49
6.	Kesko Pension Fund	1,303,839	1.32	8,538,390	2.22
7.	Varma Mutual Pension Insurance Company	1,130,986	1.15	1,130,986	0.29
8.	Oy The English Tearoom Ab	1,008,400	1.02	1,008,400	0.26
9.	Foundation for Vocational Training in the Retail Trade	946,027	0.96	8,089,318	2.11
10.	Tapiola Mutual Pension Insurance Company	900,000	0.91	900,000	0.23

10 largest shareholders by number of votes at 31 Dec. 2010

		Number of shares	% of shares	Number of votes	% of votes
1.	K-Retailers' Association	3,449,301	3.50	34,125,360	8.88
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	1,303,839	1.32	8,538,390	2.22
6.	Foundation for Vocational Training in the Retail Trade	946,027	0.96	8,089,318	2.11
7.	Ilmarinen Mutual Pension Insurance Company	2,043,050	2.07	4,155,908	1.08
8.	Food Paradise Oy	389,541	0.39	3,895,410	1.01
9.	K-Food Retailers' Club	366,413	0.37	3,664,130	0.95
10.	Heimo Välinen Oy	320,000	0.32	3,020,000	0.79

* *General government = for example, municipalities, the provincial administration of Åland, employment pension institutions and social security funds.*

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

Management's shareholdings

At the end of December 2010, the members of Kesko Corporation's Board of Directors, the President and CEO and the corporations controlled by them held 224,720 Kesko Corporation A shares and 105,820 Kesko Corporation B shares, i.e. a total of 330,540, which represent 0.34% of the company's share capital and 0.61% of voting rights.

At 31 December 2010, the President and CEO held 2,000 Kesko Corporation A shares and 7,000 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 150,000 option rights.

If shares were subscribed for with the President and CEO's option rights, they would represent 0.15% of all shares and 0.04% of all voting rights.

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

€ million	Note	1.1.–31.12.2010	%	1.1.–31.12.2009	%
Net sales	2	**8,776.8**	100.0	**8,446.8**	100.0
Cost of sales		-7,546.7	-86.0	-7,323.2	-86.7
Gross profit		**1,230.1**	14.0	**1,123.6**	13.3
Other operating income	5, 7	698.8	8.0	710.4	8.4
Staff cost	8, 35	-520.6	-5.9	-535.2	-6.3
Depreciation, amortisation and impairment	13, 14	-120.9	-1.4	-131.2	-1.6
Other operating expenses	6, 7	-980.7	-11.2	-935.2	-11.1
Operating profit		**306.7**	3.5	**232.3**	2.8
Interest income and other finance income	9	22.7	0.3	24.4	0.3
Interest expense and other finance costs	9	-15.4	0.2	-21.3	0.3
Foreign exchange differences	9	-1.4	0.0	-19.0	-0.2
Total finance income and costs	9	6.0	0.1	-16.0	-0.2
Income from associates		-0.3	0.0	0.2	0.0
Profit before tax		**312.4**	3.6	**216.6**	2.6
Income tax	10	-96.7	-1.1	-82.4	-1.0
Profit for the year		**215.7**	2.5	**134.2**	1.6
Profit for the year attributable to					
Owners of the parent		204.5		125.2	
Non-controlling interests		11.2		9.0	
Earnings per share for profit attributable to owners of the parent					
Basic, €	12	2.08		1.28	
Diluted, €	12	2.06		1.27	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit for the year		215.7	134.2
Other comprehensive income			
Currency translation differences related to a foreign operation	11	4.9	-2.5
Cash flow hedge revaluation	11	20.8	-3.9
Revaluation of available-for-sale financial assets	11	1.2	-1.9
Others	11	-0.7	-0.3
Tax related to other comprehensive income	11	-5.7	1.5
Total other comprehensive income for the year, net of tax		**20.4**	**-7.1**
Comprehensive income for the year		**236.1**	**127.1**
Comprehensive income for the year attributable to			
Owners of the parent		224.4	123.0
Non-controlling interests		11.7	4.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ million	Note	31.12.2010	%	31.12.2009	%
ASSETS					
Non-current assets					
Property, plant and equipment	13	1,261.0		1,110.6	
Intangible assets	14	189.4		184.8	
Interests in associates	15, 45	53.5		33.0	
Available-for-sale financial assets	16, 28, 41	7.6		3.0	
Long-term receivables	17, 18, 28	68.9		67.5	
Deferred tax assets	19	2.7		3.2	
Pension assets	20	185.8		315.2	
Total non-current assets		**1,768.8**	42.4	**1,717.4**	44.7
Current assets					
Inventories	21	756.9		665.5	
Interest-bearing receivables	22, 28	21.0		32.1	
Trade receivables	22, 28, 41	619.6		593.6	
Current tax assets	22, 28	29.0		3.1	
Other non-interest-bearing receivables	22, 28	132.6		114.5	
Financial assets at fair value through profit or loss	23, 28, 41	242.1		213.1	
Available-for-sale financial assets	24, 28, 41	549.0		427.7	
Cash and cash equivalents	25	56.1		73.9	
Total current assets		**2,406.3**	57.6	**2,123.5**	55.3
Non-current assets held for sale	4, 26	1.3	0.0	0.9	0.0
Total assets		**4,176.5**	100.0	**3,841.8**	100.0
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	27	197.3		196.6	
Share premium	27	197.8		194.2	
Other reserves	27	242.8		242.8	
Currency translation differences	27	-2.8		-7.1	
Revaluation reserve	27	13.6		-2.7	
Retained earnings		1,502.7		1,381.0	
		2,151.4	51.5	**2,004.9**	52.2
Non-controlling interests		**58.5**	1.4	**64.5**	1.7
Total equity		**2,209.9**	52.9	**2,069.4**	53.9
Non-current liabilities					
Interest-bearing non-current liabilities	28, 29, 41	235.3		262.0	
Non-interest-bearing non-current liabilities	28, 29, 41	4.6		5.7	
Deferred tax liabilities	19	96.9		127.7	
Pension obligations	20	1.7		1.8	
Provisions	30	11.7		14.5	
Total non-current liabilities		**350.1**	8.4	**411.6**	10.7
Current liabilities					
Current interest-bearing liabilities		241.5		194.2	
Trade payables	28, 31	838.3		703.5	
Other non-interest-bearing liabilities	28, 31	196.3		179.9	
Current tax liabilities	28, 31	64.2		37.0	
Accrued liabilities	28, 31	246.9		217.1	
Provisions	30	29.3		29.2	
Total current liabilities		**1,616.5**	38.7	**1,360.9**	35.4
Total liabilities		**1,966.6**	47.1	**1,772.5**	46.1
Total equity and liabilities		**4,176.5**	100.0	**3,841.8**	100.0

CONSOLIDATED STATEMENT OF CASH FLOWS

€ million	Note	2010	2009
Cash flow from operating activities			
Profit before tax		312.4	216.6
Adjustments:			
Depreciation according to plan		116.3	116.9
Finance income and costs		-6.0	16.0
Other adjustments	37	96.8	-74.0
		207.1	58.9
Change in working capital			
Current non-interest-bearing receivables, increase (-) / decrease (+)		-15.4	39.4
Inventories increase (-) / decrease (+)		-82.4	206.6
Current non-interest-bearing liabilities, increase (+) / decrease (-)		152.8	-83.9
		54.9	162.2
Interest paid and other finance costs		-19.5	-37.5
Interest received		15.6	23.0
Dividends received		0.1	0.1
Income tax paid		-132.3	-44.5
Net cash generated from operating activities		**438.2**	**378.8**
Cash flows from investing activities			
Acquisition of real estate company, net of cash acquired		-130.5	-16.4
Acquisition of associate		-33.9	-0.2
Purchases of tangible and intangible assets		-197.9	-205.2
Purchases of available-for-sale financial assets		-4.7	-0.8
Disposal of subsidiary, net of cash disposed of	4, 38	1.9	52.3
Disposal of associate		0.0	0.1
Proceeds from sale of available-for-sale financial assets	39	0.5	1.2
Proceeds from sale of tangible and intangible assets		121.1	198.3
Decrease in non-current loan receivables		3.9	1.6
Net cash used in investing activities		**-239.6**	**31.0**
Cash flows from financing activities			
Increase (+) / decrease (-) in interest-bearing liabilities		39.9	-33.1
Repayments of finance lease liabilities		-0.4	0.2
Increase (-) / decrease (+) in current interest-bearing receivables		11.0	-13.7
Dividends paid		-106.2	-98.4
Proceeds from issuance of shares		4.2	4.6
Increase (-) / decrease (+) in short-term money market investments		-114.2	-97.6
Other items		-15.3	3.6
Net cash used in financing activities		**-181.0**	**-234.4**
Change in cash and cash equivalents and current available-for-sale financial assets		**17.6**	**175.4**
Cash and cash equivalents and current available-for-sale financial assets at 1 Jan.	40	491.4	319.3
Currency translation difference adjustment and change in fair value		0.4	-3.2
Cash and cash equivalents and current available-for-sale financial assets at 31 Dec.	40	509.4	491.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent									
€ million	Share capital	Issue of share capital	Share premium	Other reserves	Currency translation differences	Revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 Jan. 2010	**196.6**	**0.0**	**194.2**	**242.8**	**-7.1**	**-2.7**	**1,381.0**	**2,004.9**	**64.5**	**2,069.4**
Shares subscribed for with options	0.6		3.6					4.2		4.2
Option cost							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		0.0	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
Other items							-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**	**0.0**	**197.8**	**242.8**	**-2.8**	**13.6**	**1,502.7**	**2,151.4**	**58.6**	**2,209.9**
Balance at 1 Jan. 2009	**195.6**	**0.1**	**190.6**	**242.9**	**-9.5**	**1.6**	**1,344.4**	**1,965.7**	**60.7**	**2,026.4**
Shares subscribed for with options	1.0	-0.1	3.7					4.6		4.6
Option cost							8.1	8.1		8.1
Dividend distribution							-97.9	-97.9	-0.5	-98.4
Other changes				-0.2			1.5	1.3	0.2	1.6
Profit for the year							125.2	125.2	9.0	134.2
Other comprehensive income										
Currency translation differences related to a foreign operation				0.0	2.4		0.0	2.4	-4.9	-2.5
Cash flow hedge revaluation						-3.9		-3.9		-3.9
Revaluation of available-for-sale financial assets						-1.9		-1.9		-1.9
Other items							-0.3	-0.3		-0.3
Tax related to other comprehensive income						1.5		1.5		1.5
Total other comprehensive income				0.0	2.4	-4.3	-0.3	-2.2	-4.9	-7.1
Total comprehensive income for the period				0.0	2.4	-4.3	124.9	123.0	4.1	127.1
Balance at 31 Dec. 2009	**196.6**	**0.0**	**194.2**	**242.8**	**-7.1**	**-2.7**	**1,381.0**	**2,004.9**	**64.5**	**2,069.4**

Further information on share capital and reserves is given 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 the 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, Helsinki, and via the internet, at www.kesko.fi.

Kesko's Board of Directors has approved these financial statements for disclosure on 2 February 2011.

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 valid at 31 December 2010. The International Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with the procedure enacted in EC regulation 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 the 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 2010, the Group has adopted the following new and revised standards:

IFRS 3 Business Combinations (revised)

The revised standard continues to apply the acquisition method to business combinations but with some significant changes. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The revised standard has had no impact on the consolidated financial statements.

IAS 27 Consolidated and Separate Financial Statements (revised)

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

The Group has applied the revised standard to transactions with non-controlling interests since 1 January 2010. The revision has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

The following revised or amended IFRS standards and IFRIC interpretations have had no impact on the consolidated financial statements:

- IAS 39 Eligible Hedged Items (amendment)
- IFRS 2 Share-based Payments: Cash-settled Share-based Payment Transactions (amendment)
- IFRIC 9 and IAS 39, Reassessment of Embedded Derivatives on Reclassification (amendment)
- IFRIC 12 Service Concession Arrangements
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers

In addition, IASB issued improvements to 12 standards in April 2009 as part of its annual improvements project. 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 3 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 consideration of 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 in selecting and applying the accounting policies, for example, to the measurement of assets and classification of 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 that are currently exercisable have been considered when assessing whether the Group controls another entity. The subsidiaries are listed in note 44.

Internal shareholdings are eliminated by using the acquisition cost method. The cost of acquisition is determined on the basis of the fair value of the acquired assets as on the date of acquisition, 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 of the acquiree are measured at the fair value on the date of acquisition, gross of non-controlling interest.

Intra-group transactions, receivables and payables, unrealised gains and internal distribution 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 interests in the net income are disclosed in the income statement and the amount of equity attributable to the non-controlling interests is disclosed separately in the Group's equity.

The Group has applied the revised standards IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements starting from 1 January 2010. Subsequently, the Group has not acquired entities to be accounted for as business combinations. Consequently, the amendments have not affected the consolidated financial statements.

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 its associates' 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, 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. The associates are listed in note 44.

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 combined on a line-by-line basis are listed in note 44.

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 in 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 to provide a hedge against 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. Gains and losses from forward foreign exchange contracts and options used to hedge financial transactions, and from foreign currency loans are included in financial income and expenses.

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 translation 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.

The goodwill arising from the acquisition of foreign units and the fair value adjustments of assets and liabilities made upon their acquisition have been treated as assets and liabilities of these foreign units and translated into euros at the closing rate.

FINANCIAL ASSETS

The Group classifies financial assets in the following categories:

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

The category is determined at initial recognition on the basis of why they were originally acquired.

Purchases and sales of financial assets are recognised using settlement date accounting. Financial assets are classified as non-current assets if they have a maturity date greater than twelve months after the balance sheet date. If financial assets are going to be held for less than 12 months, they are classified as current assets. Financial assets at fair value through profit or loss are classified as current assets.

Financial assets are derecognised when the contractual rights to the cash flow of the financial asset expire or have been transferred to another party, and when the risks and rewards of ownership have been transferred.

At each reporting date, the Group assesses whether there is any indication that a financial asset may be 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 investment instruments 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 accounted for based on fair value and they include investments in money market funds, as defined by the Group's treasury policy, as well as investments in other interest-bearing instruments with over 3-month maturities. 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 results of derivatives used to hedge financial items are 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 changes in fair value are recognised in equity, and the 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 changes in fair value 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 balances 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. The arrangement fees related to lines of credit are amortised over the validity period of the credit. Financial liabilities having a maturity period of over 12 months after the balance sheet date are classified as non-current liabilities. Those having a maturity period of less than 12 months after the balance sheet date are classified as current liabilities.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

When acquired, derivative financial instruments are carried at fair value and subsequently they are measured at fair value. The recognition of changes in the fair values of derivatives depends on whether the derivative financial instrument qualifies for hedge accounting, and if so, on the hedged item. When entered into, derivative financial instrumens are treated 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 financial instruments 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 within 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 hedging relationship is tested regularly and the effective portion is recognised, against the change in the fair value of the hedged item, in translation differences in equity, or in the revaluation reserve. The ineffective portion is recognised in financial items or other operating income and expenses, depending on its nature. The effective portion of a change in the fair value of cash flow hedging instruments, such as the long-term credit facility, is recognised in the revaluation reserve. A change in the fair value of forward foreign exchange contracts relating to the credit facility is recognised in the loan account and a change in the fair value of interest rate derivative contracts is recognised in other non-interest-bearing receivables or liabilities.

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 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 of 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 forward foreign exchange contracts is determined by measuring the forward exchange contracts at the forward rate of 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 of the balance sheet date.

Hedging a net investment in a stand-alone foreign operation

The Group applies hedge accounting in accordance with IAS 39 to hedge foreign currency net investments in foreign operations. Forward foreign exchange contracts or foreign currency loans are used as hedging instruments. Spot price changes of forward foreign exchange contracts are recognised as translation differences under equity, and disclosed in components of comprehensive income. The interest rate differentials of forward exchange contracts are recognised as income within financial items. The exchange differences of foreign currency loans are stated as translation differences under equity. When a foreign operation is partially or totally disposed of or dissolved, the accumulated gains or losses on 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 of the measurement date and the change in the 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 any 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 part is derecognised. The machinery and equipment of buildings are treated as separate assets and any significant expenditure related to their replacement is capitalised. All other repair, service and maintenance expenditures of items of property, plant and equipment are recognised as an expense as incurred.

Property, plant and equipment are written off on a straight-line basis during 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 from sales and disposals of property, plant and equipment are recognised in the income statement and presented 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 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 and customer relationships 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

Research and development expenses

The costs of research and development activities have been expensed as incurred. 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 and other direct expenditure of the Group employees working on new software development projects are capitalised as part of the software cost. In the balance sheet, computer software is included in intangible assets and its cost is written off during the useful life of the software. Software maintenance expenditure is 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 the costs of disposal, and its value in use. Often it is not possible to assess 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 disclosed in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been an increase in the reassessed recoverable amount. 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 incident 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 the risks and rewards incident 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 the interest expense and the liability. Finance lease assets are amortised over the shorter period of the useful life and the lease term.

Leases in which assets are leased out by the Group, and substantially all the risks and rewards incident 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 are 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 sale price and the future lease payments are usually interdependent. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognised as income. Instead it is deferred and amortised over the lease term. 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 sale price is below 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 sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used. If the 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 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 comprise 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 are 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. The Group did not have discontinued operations in the financial years 2010 and 2009.

PROVISIONS

A provision is recognised when the Group has a present legal or constructive obligation as a 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 at 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 has both defined contribution plans and defined benefit plans. The contributions payable under defined contribution plans are recognised as expenses in the income statement of 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 actuarial calculations. 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. Other pension plans are treated as defined contribution plans.

Share-based payments

The share options granted as part of the Group management's and other key personnel's incentive and commitment programme are measured at fair value at the grant date and expensed on a straight-line basis over the option's vesting period. The counter-item is recognised in retained earnings. The expenditure determined at the grant date is based on the Group's estimate of the number of options expected to vest at the end of the vesting 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 the 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.

REVENUE RECOGNITION POLICIES

Net sales comprise the sale of products, services and energy. The amount of services and energy represent an insignificant portion of net sales.

For net sales, sales revenue is adjusted by indirect taxes, sales adjustment items and the exchange differences of foreign currency sales. Sales adjustment items take into account of the 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 conduct retail operations.

The Group sells products to retailers and other retail dealers, and engages in own retailing. Revenue from the sale of goods is recognised when the 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 delivery of the goods. Sales to retailers and other retail dealers are based on central invoicing. Retail sales are mainly on cash and credit card basis.

Revenue from the rendering of services is recognised after the service has been rendered and when a flow of economic benefits associated with the service is probable.

Interest is recognised as revenue on a time proportion basis using the effective interest method. Dividends are recognised as revenue 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 rent income, store site and chain fees and various other service fees and commissions. Profits 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.

Excise taxes presented within other operating expenses in prior periods have been included in the cost of goods sold. The change has been applied retrospectively.

BORROWING COSTS

The Group has not capitalised interest costs as part of the cost of the asset, 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 are calculated from the taxable profit of each company determined by local jurisdiction.

Deferred tax assets and liabilities are recognised for all temporary differences 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 consequences.

Deferred tax is calculated using tax rates enacted by the balance sheet date, and if the rates change, at the new rate expected to apply. A deferred tax asset is recognised to the extent that it is probable that it can be utilised against future taxable income. The Group's deferred 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 business acquisitions.

DIVIDEND DISTRIBUTION

The dividend proposed by the Board to the Annual General Meeting has not been deducted from equity. Instead dividends are recognised on the basis of the decision of the Annual 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 2010 financial statements, the Group will adopt the following standards, interpretations and amendments to standards and interpretations issued for application in its 2011 financial statements.

IAS 24 Related Party Disclosures (revised)

The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The standard will not have a material impact on the consolidated financial statements.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (amendment)

The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. The amendment will not have any impact on the consolidated financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The standard will not have any impact on the consolidated financial statements.

IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment)

The amendment corrects an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The standard will not have any impact on the consolidated financial statements.

In July 2010, IASB also issued improvements to seven existing standards or interpretations as part of its annual improvement project. These amendments have not yet been endorsed by the European Union. The Group will adopt the amendments in its consolidated financial statements for 2011 after they have been endorsed by the European Union. The following is a summary of the amendments which the Group's management assesses to possibly have an impact on the consolidated financial statements.

IFRS 3 Business Combinations (amendments)

The amendment clarifies that the amendments to IFRS 7, Financial instruments: Disclosures, IAS 32, Financial instruments: Presentation, and IAS 39, Financial instruments: Recognition and measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 revised.

The choice of measuring noncontrolling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of noncontrolling interest are measured at fair value unless another measurement basis is required by IFRS. The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including unreplaced and voluntarily replaced share-based payment awards. The amendments will not have a material impact on the consolidated financial statements.

IFRS 7 Financial instruments: Disclosures (amendment)

The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment will not have a material impact on the consolidated financial statements.

IAS 34 Interim Financial Reporting (amendment)

The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, around transfers of financial instruments between different levels of the fair value hierarchy, around changes in classification of financial assets, and around changes in contingent liabilities and assets. The amendment will not have a material impact on the consolidated financial statements.

In 2012 or later, the Group will adopt the following standards, interpretations and amendments to existing standards:

IFRS 9 Financial Assets – Classification and Measurement

The part of IFRS 9 dealing with the classification and measurement of financial assets was issued in November 2009. It is the first step in the process to replace IAS 39, 'Financial Instruments: Recognition and Measurement' with a new standard. IFRS 9 introduces new requirements for classifying and measuring financial assets. The second part of IFRS 9 was issued in October 2010. It complements the first phase of the revision of IAS 39, 'Financial Instruments: Recognition and Measurement'. The new standard retains the existing guidance regarding classifying and measuring financial liabilities, except for those liabilities where the fair value option has been elected.

The Group is likely to adopt the new standard in 2013 at the earliest provided that the amendment has been endorsed by the EU. The standard is likely to affect the Group's accounting for its financial assets. It is estimated that the new standard will affect the Group's accounting for available-for-sale debt assets. IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income, if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

IFRS 7 Financial Instruments: Financial Statement Disclosures (amendment)

The amendment adds disclosure requirements related to risk exposures derived from transferred assets. Additional disclosures, where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, are required. The amendment can increase the disclosures in the notes to financial statements in the future. The Group will adopt the amendment in its financial statements for 2012, provided that it has been endorsed by the EU. The Group's management estimates 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 business 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 net sales of the reportable operating segments are derived 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. Incidental transactions outside ordinary course of business are treated as non-recurring items and allocated to segments. The Group identifies gains and losses on disposals of real estate, shares and operations, 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 the Group Treasury. Changes in the fair value of forward foreign exchange contracts 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 used by the segment in its operating activities which can be justifiably allocated to segments. The assets of capital employed comprise property, plant and equipment and intangible fixed assets, interests 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 changes in the fair values of forward foreign exchange contracts, 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 more than 1,000 K-food stores are based on the K-retailer business model. These stores form Kesko Food's K-citymarket, K-supermarket, K-market and K-extra chains. Kesko Food manages the operations of the chains made up by the stores. Chain operations ensure higher competitiveness. Through chain operations, Kesko Food ensures a strong operational base for K-retailers in terms of sourcing and purchasing, formation of 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 Finland, Indoor, Musta Pörssi and Kenkäkesko. Anttila retails home and speciality goods. Anttila serves its customers at Anttila department stores, Kodin Ykkönen department stores for home goods and interior decoration, and through NetAnttila focusing on distance sales. K-citymarket's 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 Finland is active in the sports equipment trade in Finland and its retail store chains in Finland are Intersport, Budget Sport and Kesport. Indoor is a furniture and interior decoration retailer 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 K-kenkä and Andiamo.

THE BUILDING AND HOME IMPROVEMENT TRADE comprises Rautakesko's building and home improvement 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 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 2010

Income statement

€ 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**	**0.0**	**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	0.0	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 from associates							-0.3
Profit before tax							**312.4**
Assets and liabilities							
Tangible and intangible assets	528.3	248.6	495.6	73.8	78.8	25.3	1,450.4
Interests in associates and other capital expenditure	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	**1,110.5**	**708.1**	**1,012.4**	**307.8**	**218.0**	**-30.3**	**3,326.6**
Unallocated items							
Deferred tax assets							2.7
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	**1,110.5**	**708.1**	**1,012.4**	**307.8**	**218.0**	**-30.3**	**4,176.5**
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							96.9
Total liabilities	**569.6**	**300.2**	**367.2**	**144.2**	**62.8**	**-51.1**	**1,966.6**
Total capital employed at 31 Dec.	**540.9**	**407.9**	**645.2**	**163.6**	**155.2**	**20.8**	**1,933.7**
Average capital employed	**592.5**	**431.3**	**634.1**	**168.6**	**80.5**	**20.6**	**1,927.6**
Return on capital employed excl. non-recurring items, %	**27.0**	**15.3**	**3.8**	**19.6**			**13.9**
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**

SEGMENT INFORMATION 2009

Income statement

€ million	Food trade	Home and speciality goods trade	Building and home improvement trade	Car and machinery trade	Common operations	Eliminations	Total
Segment net sales	3,797.6	1,558.0	2,311.8	947.5	133.7		8,748.6
of which inter-segment sales	-161.5	-26.1	-1.6	-0.5	-112.2		-301.8
Net sales from external customers	**3,636.1**	**1,532.0**	**2,310.2**	**947.0**	**21.5**		**8,446.8**
Other segment income	546.3	118.7	104.2	6.8	15.6		791.5
of which inter-segment income	-71.2	-5.4	-2.7	-0.4	-1.4		-81.1
Other operating income from external customers	**475.1**	**113.2**	**101.4**	**6.3**	**14.3**		**710.4**
Depreciation and amortisation	-42.8	-27.0	-36.6	-8.1	-2.7	0.3	-116.9
Impairment	-8.0	-1.1	-0.6	-4.6			-14.4
Operating profit	**170.6**	**66.5**	**19.6**	**-5.1**	**-19.3**	**0.0**	**232.3**
Non-recurring items	37.5	37.0	7.7	-5.4	0.7	-0.5	77.0
Operating profit excluding non-recurring items	**133.1**	**29.5**	**11.9**	**0.3**	**-20.0**	**0.5**	**155.4**
Finance income and costs							-16.0
Share of profit/loss from associates							0.2
Profit before tax							**216.6**
Assets and liabilities							
Tangible and intangible assets	480.8	252.0	450.4	67.5	19.7	25.1	1,295.4
Interests in associates and other capital expenditure	1.1	0.2	0.2	0.0	35.2	-0.6	36.0
Pension assets	150.5	52.1	43.3	28.5	40.8		315.2
Inventories	90.4	223.0	195.8	157.2		-0.8	665.5
Trade receivables	255.9	149.5	154.8	51.3	11.8	-29.7	593.7
Other non-interest-bearing receivables	35.4	24.2	54.0	13.0	9.2	-15.5	120.3
Interest-bearing receivables from external customers	79.7	0.6	13.3	2.9	3.4	-3.0	96.9
Assets held for sale					0.9		0.9
Assets included in capital employed	**1,093.8**	**701.5**	**911.8**	**320.3**	**121.1**	**-24.5**	**3,123.9**
Unallocated items							
Deferred tax assets							3.2
Financial assets at fair value through profit or loss							213.1
Available-for-sale financial assets							427.7
Cash and cash equivalents							73.9
Total assets	**1,093.8**	**701.5**	**911.8**	**320.3**	**121.1**	**-24.5**	**3,841.8**
Trade payables	348.7	138.3	198.9	31.4	3.1	-21.7	698.7
Other non-interest-bearing liabilities	140.6	121.3	85.4	51.9	70.4	-23.3	446.2
Provisions	8.4	8.2	3.8	14.7	8.7		43.7
Liabilities included in capital employed	**497.7**	**267.8**	**288.1**	**97.9**	**82.2**	**-45.0**	**1,188.6**
Unallocated items							
Interest-bearing liabilities							456.2
Deferred tax liabilities							127.7
Total liabilities	**497.7**	**267.8**	**288.1**	**97.9**	**82.2**	**-45.0**	**1,772.5**
Total capital employed at 31 Dec.	**596.1**	**433.8**	**623.7**	**222.4**	**38.8**	**20.5**	**1,935.3**
Average capital employed	**635.7**	**509.6**	**644.9**	**244.2**	**58.3**	**21.8**	**2,114.5**
Return on capital employed excl. non-recurring items, %	**20.9**	**5.8**	**1.8**	**0.1**	**0.0**		**7.3**
Capital expenditure	**69.4**	**29.6**	**84.7**	**13.4**	**2.5**	**-1.7**	**198.0**
Number of personnel at 31 Dec.	**3,288**	**8,073**	**9,226**	**1,196**	**424**		**22,207**
Average number of personnel	**3,035**	**5,666**	**8,804**	**1,291**	**403**		**19,200**

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, Norway, Sweden, the Baltic countries, Russia and Belarus. The item 'Other countries' includes Russia and Belarus.

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

2010

€ million	Finland	Other Nordic countries	Baltic countries	Other countries	Eliminations	Total
Net sales	7,323.0	755.1	437.8	277.7	-16.8	8,776.8
Assets	2,660.8	291.2	156.4	171.3	46.9	3,326.6
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

2009

€ million	Finland	Other Nordic countries	Baltic countries	Other countries	Eliminations	Total
Net sales	7,022.9	664.0	556.0	222.7	-18.8	8,446.8
Assets	2,489.7	248.7	197.7	144.2	43.7	3,123.9
Capital expenditure	127.1	18.6	5.8	47.2	-0.6	198.0
Average number of personnel 1 Jan.–31 Dec.	10,284	1,521	4,810	2,586		19,200

The net sales nearly completely consist of goods sales. 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 2010

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

ACQUISITIONS IN 2009

In 2009, the Kesko Group did not have acquisitions to be accounted for as business combinations.

NOTE 4
DISPOSAL OF ASSETS

DISPOSAL OF ASSETS IN 2010

In July, 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 the sale was €47.4 million. The gain was recorded as a non-recurring item in other operating income.

DISPOSAL OF ASSETS IN 2009

In March 2009, the Kesko Group sold four retail store properties to the Kesko Pension Fund. The debt-free selling price was about €50 million. The Group's €19.7 million gain on the sale was recorded as a non-recurring item in other operating income.

In addition, the Kesko Group sold 13 of its retail store properties in different parts of Finland to Varma Mutual Pension Insurance Company in December 2009. The debt-free selling price was €156 million. The Group's €63.5 million gain on the sale was recorded as a non-recurring item in other operating income.

NOTE 5
OTHER OPERATING INCOME

€ million	2010	2009
Service income	517.2	488.1
Lease income	36.4	39.3
Gains on sale of tangible and intangible assets	53.8	94.4
Realised gains on derivative financial instruments and changes in fair value *	4.5	2.6
Others	86.9	86.0
Total	698.8	710.4

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

Other operating income include €53.0 million (€93.7 million) in non-recurring gains on disposals.

NOTE 6
OTHER OPERATING EXPENSES

€ million	2010	2009
Lease expenses	-405.0	-383.1
Marketing costs	-245.5	-239.3
Property and store site occupancy costs	-117.4	-112.0
Data communication costs	-80.6	-65.1
Other trading expenses	-126.4	-132.1
Losses on disposal of tangible assets	-1.4	-1.4
Realised losses on derivative financial instruments and changes in fair value *	-4.4	-2.2
Total	-980.7	-935.2

Includes revaluations of embedded derivatives.

Other operating expenses include €1.2 million (€1.1 million) in non-recurring losses on disposals.

Audit fees

€ million	2010	2009
Authorised Public Accountants PricewaterhouseCoopers		
Audit fees	0.9	0.8
Tax consultation	0.1	0.1
Other services	0.1	0.2
Total	1.2	1.1
Other auditing firms	0.2	0.2

NOTE 7
NON-RECURRING ITEMS

€ million	2010	2009
Gains on disposal of real estate and shares	53.0	93.7
Losses on disposal of real estate and shares	-1.2	-1.1
Impairment losses	-4.6	-14.4
Others	-8.6	-1.3
Total	38.6	77.0

Incidental transactions outside ordinary course of business are treated as non-recurring items and 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 financial year, a total amount of €4.6 million of impairments in real estate were recognised as expenses.

During the comparative period, a total amount of €14.4 million of impairments in real estate were recognised as expenses.

NOTE 8

STAFF COST, NUMBER OF PERSONNEL AND MANAGEMENT'S COMPENSATION

€ million	2010	2009
Wages, salaries and fees	-451.0	-448.4
Social security costs	-41.0	-39.0
Pension costs	-23.5	-39.6
Defined benefit plans	32.0	8.2
Defined contribution plans	-55.5	-47.8
Share-based payments	-5.0	-8.1
Total	-520.6	-535.2

During the financial year, 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 42, and on option schemes in note 35.

Salaries and fees of the Group companies' managing directors and boards of directors

€ million	2010	2009
Salaries of managing directors (incl. fringe benefits)	5.5	5.0
Fees of board members	0.4	0.3
Total	5.9	5.3

Average number of the Group personnel

	2010	2009
Food trade	2,881	3,035
Home and speciality goods trade	5,418	5,666
Building and home improvement trade	8,379	8,804
Car and machinery trade	1,138	1,291
Others	399	403
Total	18,215	19,200

NOTE 9

FINANCE INCOME AND COSTS

€ million	2010	2009
Interest income and other finance income		
Interest income on loans and receivables	13.3	10.1
Interest income on financial assets carried at fair value through profit or loss	3.5	9.1
Interest income on available-for-sale financial assets	4.9	1.9
Gains on disposal of available-for-sale financial assets	0.7	3.2
Other finance income	0.3	0.2
Total interest income and other finance income	22.7	24.4
Interest expense and other finance costs		
Interest income on financial liabilities at amortised cost	-14.3	-20.1
Losses on disposal of available-for-sale financial assets	-0.1	-0.2
Other finance costs	-0.9	-1.0
Total interest expense and other finance costs	-15.4	-21.3
Exchange differences		
Exchange differences and changes in the fair values of derivatives, foreign currency loans and cash at bank not qualified for hedge accounting	-1.4	-19.1
Total exchange differences	-1.4	-19.1
Total finance income and costs	6.0	-16.0

The interest expense include €3.6 million (€4.9 million) in interests on finance leases recognised as expenses in the period. The interest income include €2.6 million (€3.1 million) in interests on finance leases recognised as income in the period.

The realised result of the derivative interest-rate contract 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	2010	2009
Sales	0.1	0.1
Other income	4.1	1.9
Purchases	1.5	-1.0
Other expenses	-4.4	-2.1
Finance income and costs	-1.4	-19.2
Total	-0.2	-20.3

NOTE 10
INCOME TAX EXPENSE

€ million	2010	2009
Current tax	-133.0	-82.7
Tax for prior years	0.7	-1.2
Deferred tax	35.6	1.6
Total	-96.7	-82.4

Reconciliation between tax expense and tax calculated at domestic rate.

Profit before tax	312.4	216.6
Tax at parent's rate (26%)	-81.2	-56.3
Effect of foreign subsidiaries' different tax rates	3.3	2.0
Effect of income not subject to tax	1.2	1.4
Effect of expenses not deductible for tax purposes	-7.5	-8.9
Effect of tax losses	-11.7	-17.1
Effect of consolidation	-3.5	0.0
Tax for prior years	0.7	-1.2
Adjustment of deferred tax in respect of prior years	0.2	-1.2
Others	1.9	-1.2
Tax charge	-96.7	-82.4

NOTE 11
COMPONENTS OF OTHER COMPREHENSIVE INCOME

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

Components of other comprehensive income and related tax			2009
	Before tax	Tax charge/ credit	After tax
Currency translation differences relating to a foreign operation	-2.5		-2.5
Cash flow hedge revaluation	-3.9	1.0	-2.9
Revaluation of available-for-sale financial assets	-1.9	0.5	-1.4
Other components	-0.3		-0.3
Total	-8.6	1.5	-7.1

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.

	2010	2009
Profit for the period attributable to equity holders of the parent	204.5	125.2
Number of shares		
Weighted average number or shares outstanding	98,525,906	98,061,761
Effect of options granted	595,548	320,423
Diluted weighted average number of shares outstanding	99,121,454	98,382,184
Earnings per share from profit attributable to equity holders of the parent		
Basic, €	2.08	1.28
Diluted, €	2.06	1.27

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 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	-2.6	-397.2	-358.1	-17.0	0.0	-774.8
Currency translation differences	0.0	-1.5	-3.3	-0.6	0.0	-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	-3.4	-421.6	-373.4	-24.0	0.0	-822.3
Carrying amount at 1 Jan. 2010	270.1	599.9	152.7	27.5	60.3	1,110.6
Carrying amount at 31 Dec. 2010	**308.9**	**691.3**	**164.3**	**34.0**	**62.6**	**1,261.0**

€ million	Land and waters	Buildings	Machinery and equipment	Other property, plant and equipment	Prepayments and purchases in progress	Total 2009
Cost						
Cost at 1 Jan. 2009	271.7	1,059.9	486.5	38.3	82.4	1,938.8
Currency translation differences	1.7	2.4	3.0	0.6	0.6	8.2
Additions	26.5	55.5	47.3	9.5	26.1	164.9
Disposals	-27.2	-159.1	-26.0	-4.2	-18.3	-234.8
Transfers between items	0.0	38.3		0.3	-30.4	8.3
Cost at 31 Dec. 2009	272.8	997.1	510.8	44.5	60.3	1,885.4
Accumulated depreciation, amortisation and impairment charges						
Accumulated depreciation, amortisation and impairment charges at 1 Jan. 2009	-2.4	-389.6	-322.6	-14.8		-729.3
Currency translation differences		-0.4	-1.7	-0.1		-2.2
Accumulated depreciation of disposals and transfers		45.2	15.6	2.3		63.2
Depreciation charge for the year		-38.4	-49.4	-4.4		-92.1
Impairments	-0.2	-14.0		-0.1		-14.3
Accumulated depreciation, amortisation and impairment charges at 31 Dec. 2009	-2.6	-397.2	-358.1	-17.0	0.0	-774.8
Carrying amount at 1 Jan. 2009	269.3	670.3	164.0	23.6	82.4	1,209.5
Carrying amount at 31 Dec. 2009	**270.1**	**599.9**	**152.7**	**27.5**	**60.3**	**1,110.6**

Property, plant and equipment include assets leased under finance leases as follows:

€ million	Land	Buildings	Machinery and equipment	Other PPE	Total
2010					
Cost	2.7	38.7	38.1	0.1	79.6
Accumulated depreciation		-25.0	-32.2	-0.1	-57.3
Carrying amount	2.7	13.6	5.9	0.0	22.2
2009					
Cost	2.7	38.7	37.0	0.1	78.4
Accumulated depreciation		-24.1	-29.8	-0.1	-54.0
Carrying amount	2.7	14.6	7.2	0.0	24.4

NOTE 14
INTANGIBLE ASSETS

€ million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2010
Cost					
Cost at 1 Jan. 2010	123.3	75.9	157.4	10.0	366.6
Currency translation differences	3.0	2.4	3.1	0.0	8.5
Additions	0.0		29.3	-0.4	28.9
Disposals	-0.1		-19.9	0.0	-20.0
Transfers between items	0.0		0.6	-6.8	-6.2
Cost at 31 Dec. 2010	126.2	78.3	170.5	2.8	377.8
Accumulated depreciation, amortisation and impairment charges					
Accumulated depreciation, amortisation and impairment charges at 1 Jan. 2010	-49.9	-29.8	-102.2		-181.9
Currency translation differences	-2.9	-0.5	-1.2		-4.6
Accumulated depreciation of disposals and transfers	-0.1		26.2		26.1
Depreciation charge for the year	0.0		-26.1		-26.1
Impairments			-2.0		-2.0
Accumulated depreciation, amortisation and impairment charges at 31 Dec. 2010	-52.9	-30.3	-105.3		-188.5
Carrying amount at 1 Jan. 2010	73.5	46.1	55.2	10.0	184.8
Carrying amount at 31 Dec. 2010	**73.5**	**48.0**	**65.2**	**2.8**	**189.4**

Other intangible assets include other long-term expenses, €43.7 million of which on software and licences.

€ million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2009
Cost					
Cost at 1 Jan. 2009	115.3	71.1	142.5	10.4	339.4
Currency translation differences	6.8	5.6	4.8		17.1
Additions	2.2		28.7	6.0	36.9
Disposals	-0.9	-0.7	-15.2	-0.6	-17.5
Transfers between items			-3.3	-5.9	-9.2
Cost at 31 Dec. 2009	123.3	75.9	157.4	10.0	366.6
Accumulated depreciation, amortisation and impairment charges					
Accumulated depreciation, amortisation and impairment charges at 1 Jan. 2009	-43.3	-28.6	-97.9		-169.7
Currency translation differences	-6.7	-1.3	-1.6		-9.6
Accumulated depreciation of disposals and transfers	0.2		22.0		22.1
Depreciation charge for the year			-24.7		-24.7
Impairments					0.0
Accumulated depreciation, amortisation and impairment charges at 31 Dec. 2009	-49.9	-29.8	-102.2		-181.9
Carrying amount at 1 Jan. 2009	72.1	42.5	44.6	10.4	169.6
Carrying amount at 31 Dec. 2009	**73.5**	**46.1**	**55.2**	**10.0**	**184.8**

Goodwill and intangible rights by segment

€ million	Trademarks* 2010	Goodwill 2010	Discount rate (WACC)** 2010	Trademarks* 2009	Goodwill 2009	Discount rate (WACC)** 2009
Building and home improvement trade						
Byggmakker, Norway	30.2		7.5%	28.3		8.0%
Rautakesko, Estonia		1.1	10.4%		1.1	13.0%
Senukai, Lithuania		17.2	13.0%		17.2	14.0%
Stroymaster, Russia		14.1	15.0%		14.2	15.0%
Real estate companies		7.2			7.1	
Home and speciality goods trade						
Anttila, Finland		23.4	6.0%		23.4	7.0%
Indoor, Finland	17.8	4.1	6.0%	17.8	4.1	7.0%
Car and machinery trade						
Machinery trade		3.8	7.5%		3.8	8.0%
Real estate companies		0.5			0.6	
Others		2.1			2.1	
Total	48.0	73.5		46.1	73.5	

Intangible assets with indefinite useful lives

***After tax, used for testing impairment*

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 they will affect the generation of cash flows over an indefinite period. 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 the 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 trends in operating costs. Cash flows beyond the period have been extrapolated mainly based on 1.5–4% (1.5–4%) 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 with the previous year, discount rates fell in the Nordic countries, the Baltic countries and Finland, as a result of general lowering of interest rates.

IMPAIRMENT LOSSES

In the financial years 2010 and 2009, 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 and Konekesko.

For Rautakesko Estonia and Konekesko, a reduction of the remaining EBITDA by over 0.8 pp would cause a need for impairment.

When other cash generating units are estimated according to the 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	2010	2009
Carrying amount at 1 Jan.	33.0	31.2
Share of profit for the period	-0.3	0.2
Additions	34.1	1.7
Restatement of gain on disposal	-13.3	
Disposals	0.0	-0.1
Carrying amount at 31 Dec.	53.5	33.0

Kesko Corporation has made an about €33 million equity investment 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 are as follows:

€ million	Assets	Liabilities	Net sales	Profit/Loss	Ownership interest, %
2010					
Kruunuvuoren Satama Oy	265.6	199.1	5.9	-8.6	49.0
Valluga-sijoitus Oy, Helsinki	34.6	0.0	0.0	1.1	39.0
Vähittäiskaupan Takaus Oy, Helsinki	58.8	0.3	1.2	2.7	34.4
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	6.1	2.5	10.9	2.3	30.0
Others	5.3	3.7	2.0	0.0	
Total	370.5	205.6	20.0	-2.4	
2009					
Valluga-sijoitus Oy, Helsinki	33.5	0.0	0.0	1.3	39.0
Vähittäiskaupan Takaus Oy, Helsinki	56.0	0.2	1.2	3.2	34.4
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	3.8	2.2	10.9	0.7	30.0
Others	5.3	3.7	1.9	0.0	
Total	98.5	6.1	14.0	5.1	

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

€ million	2010	2009
Carrying amount at 1 Jan.	3.0	3.0
Additions	4.7	0.8
Disposals	-0.1	-0.7
Carrying amount at 31 Dec.	7.6	3.0

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 41. The unquoted shares have mainly been measured at cost, because their fair values cannot be measured reliably.

NOTE 17
NON-CURRENT RECEIVABLES

€ milion	2010	2009
Non-interest-bearing non-current receivables	8.8	2.6
Finance lease receivables	58.5	59.5
Loan assets from associates	1.5	1.5
Other non-current receivables	0.0	3.8
Total	68.9	67.5

The non-interest-bearing non-current receivables include €8.0 million in 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. 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
Loan assets from associates					1.5	1.5
Total	14.9	12.7	13.4	11.7	16.2	68.9

Maturity analysis of non-current receivables at 31 Dec. 2009

€ million	2011	2012	2013	2014	2015–	Total
Non-interest-bearing non-current receivables	0.8	0.6	0.3	0.8	0.2	2.6
Finance lease receivables	11.2	11.2	11.2	11.2	14.7	59.5
Loan assets from associates					1.5	1.5
Other non-current receivables	1.1	1.0	0.8	0.7	0.2	3.8
Total	13.1	12.8	12.3	12.7	16.6	67.5

NOTE 18
FINANCE LEASE RECEIVABLES

€ million	2010	2009
Finance lease receivables are due as follows:		
No later than 1 year	19.6	20.1
Later than 1 year and no later than 5 years	51.9	50.9
Later than 5 years	12.4	15.3
Gross investment in finance leases	**83.8**	**86.3**
Present value of minimum lease payments receivable:		
No later than 1 year	16.6	16.8
Later than 1 year and no later than 5 years	46.5	44.8
Later than 5 years	12.0	14.7
Finance lease receivable	**75.1**	**76.3**
Unearned finance income	**8.7**	**10.0**

The finance lease receivables consist of store fixtures owned by Kesko Food Oy and leased by it 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 TAX

Movements in deferred 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						
Internal margin of 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	3.9	-0.9		0.3		3.2
Others	17.0	-2.0	-1.4	0.2	0.0	13.8
Total	31.2	-2.4	-1.4	0.5	0.0	28.0
Deferred tax liabilities						
Accumulated depreciation differences	39.3	-2.4			-0.6	36.4
Allocation of acquisition cost	24.8	-1.6		0.8	-0.1	23.9
Pensions	83.0	-35.8			0.0	47.2
Others	8.6	1.9	4.3			14.8
Total	155.7	-37.9	4.3	0.8	-0.7	122.2
Net deferred tax liabilities	124.5					94.2

Balance sheet division of net tax liabilities:

€ million	2010	2009
Deferred tax assets	2.7	3.2
Deferred tax liabilities	96.9	127.7
Total	94.2	124.5

The group 'others' within deferred tax assets includes €2.3 million in deferred tax assets arising from compliance with the Group's accounting principles and €5.5 million in deferred tax assets resulting from timing differences in local accounting and taxation requirements.

Movements in deferred tax in 2009:

€ million	31 Dec. 2008	Income statement charge	Tax charged/credited to equity	Exchange differences	Acquisition/sale of subsidiary	31 Dec. 2009
Deferred tax assets						
Internal margin of inventories	1.0	0.0				0.9
Finance lease assets	0.2	-0.1				0.1
Provisions	9.1	-0.2				8.9
Pensions	0.9	-0.4				0.5
Confirmed losses	2.8	0.6		0.5		3.9
Others	20.7	-2.6	-1.2	0.1		17.0
Total	34.5	-2.7	-1.2	0.6	0.0	31.2
Deferred tax liabilities						
Accumulated depreciation differences	49.5	-10.2			0.0	39.3
Change in Group composition	22.9	-0.8		1.6	1.0	24.8
Pensions	79.0	4.0				83.0
Others	8.5	2.8	-2.7	-0.1		8.6
Total	159.9	-4.1	-2.7	1.5	0.9	155.7
Net deferred tax liability	125.5					124.5

Balance sheet division of net tax liability:

€ million	2009	2008
Deferred tax assets	3.2	6.5
Deferred tax liabilities	127.7	132.0
Total	124.5	125.5

CONFIRMED LOSSES

At 31 December 2010, the Group's unused confirmed losses were €124.4 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	2011	2012	2013	2014	2015	2016–	Total
	0.5	2.3	0.0	0.1	0.4	121.0	124.4

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

NOTE 20
PENSION ASSETS

The Group operates several retirement plans. In Finland, employees' pension insurance is partly arranged with insurance companies and partly by the Kesko Pension Fund, whose department A granting additional benefits was closed on 9 May 1998. Pension plans arranged with 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 announced on 30 December 2009 to transfer the management of Kesko's statutory pension insurance and related insurance portfolio in two phases from the Kesko Pension Fund to Ilmarinen. The second phase is expected to be implemented at the beginning of 2012 at the earliest.

A total revenue of €8 million was recognised on the transfer of the pension insurance portfolio. The fair value of the Kesko Pension Fund's investment assets has exceeded the amount of pension liabilities and their difference is included in the receivables of 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 produced a €151.6 million cash inflow to the Kesko Group.

As regards foreign subsidiaries, the plan operated by the Norwegian subsidiary is the only pension plan classified as a defined benefit plan. At 31 December 2010, the net liability relating to the defined benefit plan in Norway was €0.3 million (€0.4 million).

Pension plans in other foreign subsidiaires are arranged in accordance with local regulations and practices. They do not contain significant defined benefit plans.

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

€ million	2010	2009
Present value of funded obligations	-285.8	-525.1
Fair value of plan assets	528.7	871.6
Deficit/surplus	242.9	346.5
Unrecognised actuarial gains (-)/losses (+)	-57.1	-31.4
Net assets (+)/liabilities (-) recognised in the balance sheet	185.8	315.2
The movement in the present value of the obligation is as follows:		
Plan obligation at 1 Jan.	525.1	530.4
Current service cost	10.5	12.7
Interest cost	23.1	28.6
Benefits paid	-23.9	-27.7
Actuarial gains(-) / losses (+)	3.8	-24.3
Transfer of insurance portfolio	-252.8	
Others		5.5
Plan obligation at 31 Dec.	285.8	525.1
The movement in the fair value of plan assets ia as follows:		
Plan assets at 1 Jan.	871.6	819.5
Expected return on plan assets	53.4	54.9
Contributions to plan	-38.0	6.8
Benefits paid	-23.9	-27.7
Actuarial gains(+) / losses (-)	58.6	18.2
Transfer of insurance portfolio	-269.5	
Returned pension assets	-123.5	
Plan assets at 31 Dec.	528.7	871.6
The amounts recognised in the income statement were as follows:		
Current service cost	-10.5	-12.7
Interest cost	-23.1	-28.6
Expected return on plan assets	53.4	54.9
Others	4.0	-5.5
Impact of insurance portfolio transfer	8.3	
Total recognised in the income statement	32.0	8.2
The change in net receivables recognised in the balance sheet:		
At 1 January	315.2	300.3
Income/cost recognised in the income statement	32.0	8.2
Contributions to plan	-38.0	6.8
Returned pension assets	-123.5	
At 31 December	185.8	315.2

Pensions arranged with the Kesko Pension Fund	2010	2009	2008	2007	2006
Present value of plan obligation	-285.8	-525.1	-530.4	-560.6	-440.9
Fair value of plan assets	528.7	871.6	819.5	897.0	794.8
Surplus/deficit	242.9	346.5	289.1	336.4	353.9
Experience adjustments on plan assets	58.5	18.2	-130.9	11.5	113.1
Experience adjustments on plan liabilities	-2.7	4.3	-15.6	23.2	4.8

The return on plan assets was €112.0 million (€73.0 million).
In 2011, the Group expects to pay €27.4 million in contributions to defined benefit plans.

Classes of plan assets, % of fair values of plan assets	2010	2009
Real estate	45.2%	47.5%
Shares	31.8%	23.2%
Long-term interest investments	5.6%	19.3%
Short-term interest investments	14.8%	7.9%
Other investments	2.6%	2.1%
Total	100.0%	100.0%

Plan assets, € million		
Kesko Corporation shares included in fair value	45.3	104.3
Real estate leased by the Kesko Group	209.2	456.4

Principal actuarial assumptions:	2010	2009
Discount rate	5.00–5.25%	5.25%
Expected return on plan assets	6.30%	6.60%
Expected salary increases	3.50%	3.50%
Inflation	2.00%	2.00%
Expected average remaining service life	14–26	14–23

When calculating the pension obligation of the Kesko Pension Fund's department B, the supplementary coefficient has been 1.5% for years 2011–2012, 2.1% for years 2013–2016, 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 returns on the investment portfolio is composed of the compound returns on these asset classes. The returns expected on different asset classes is based on the parameters of an investment portfolio analysis model widely used in employee pension schemes, and calculated based on long-term historical data. The most significant class of assets affecting the total returns is shares, further divided into nine geographical subgroups, with expected returns ranging between 8.5%–12.3%.

NOTE 21
INVENTORIES

€ million	2010	2009
Goods	752.6	662.3
Prepayments	4.2	3.2
Total	756.9	665.5
At the end of the period, inventories have been written down to correspond to their net realisable value	35.5	49.8

NOTE 22
TRADE AND OTHER CURRENT RECEIVABLES

€ million	2010	2009
Interest-bearing receivables		
Finance lease receivables	16.6	16.8
Interest-bearing loan and other receivables	4.4	15.3
Total interest-bearing receivables	21.0	32.1
Trade receivables	619.6	593.6
Current tax assets	29.0	3.1
Other non-interest-bearing receivables		
Non-interest-bearing loan and other receivables	30.4	33.0
Deferred revenue and other accruals	102.1	81.6
Total other non-interest-bearing receivables	132.6	114.5
Total	802.3	743.3

A total amount of €3.6million (€12.6 million) of trade receivables has been recognised within credit losses in the income statement. Credit risk is described in more detail in note 41.

Deferred revenue and other accruals mainly include timings of marketing revenue, rebates and staff cost.

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	2010	2009
Financial assets at fair value through profit or loss	242.1	213.1
Total	242.1	213.1

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 41.

NOTE 24
CURRENT AVAILABLE-FOR-SALE FINANCIAL ASSETS

€ million	2010	2009
Carrying amount at 1 Jan.	427.7	291.0
Changes	120.1	138.6
Changes in fair value	1.2	-1.9
Carrying amount at 31 Dec.	549.0	427.7

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 41.

NOTE 25
CASH AND CASH EQUIVALENTS

€ million	2010	2009
Cash at bank and on hand	56.1	73.9
Total	56.1	73.9

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

Assets held for sale

€ million	2010	2009
Land	0,5	0,4
Buildings and real estate shares	0,8	0,5
Total	1,3	0,9

The assets classified as held for sale did not include liabilities at 31 December 2010 (at 31 December 2009).

NOTE 27
NOTES TO SHAREHOLDERS' EQUITY

Changes in share capital

Share capital	Number of shares A	B	Total	Share capital € million	Share premium € million	Total € million
1 Jan. 2009	31,737,007	66,087,847	97,824,854	195.6	190.6	386.2
Exercise of share options	-	496,675	496,675	1.0	3.7	4.7
31 Dec. 2009	31,737,007	66,584,522	98,321,529	196.6	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
Number of votes	**317,370,070**	**66,904,285**	**384,274,355**			

During the reporting period, the share capital was increased three times corresponding to share subscriptions made with the options of the 2003 option scheme. The increases were made on 11 February 2010 (€128,424), 3 May 2010 (€422,754) and 3 June 2010 (€88,348) 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 12 February 2010, 4 May 2010 and 4 June 2010.

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 entitles the holder to 10 votes and one B share to 1 vote.

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

DIVIDEND
After the balance sheet date, the Board has proposed that €1.30 per share be distributed as dividends. A dividend of €0.90 per share was distributed on the profit for 2009.

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. Shares subscriptions have not been made under the share option schemes governed by the effective companies act.

OTHER RESERVES
Other reserves have mainly been created and increased as a result of resolutions by the Annual 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 to hedging exposure to electricity price risk. As a result, the amount of €1.3 million (€-5.0 million) has been removed from equity and included in income statement as purchase cost adjustment, and €19.1 million (€0.3 million) have been recognised in equity. Their combined effect on the revaluation reserve for the year was €17.8 million (€5.3 million) before accounting for deferred tax assets.

A fair value change of €3.0 million (€-9.1 million) has been recognised in equity for the USD-denominated private placement arrangement before accounting for deferred taxes. In addition, a €0.8 million (€-0.1 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 2010

Asset 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**

31 December 2009

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			3.0			3.0	3.0
Non-current non-interest-bearing receivables		1.3				1.3	1.3
- Derivatives					1.3	1.3	1.3
Non-current interest-bearing receivables		64.9				64.9	64.9
Current financial assets							
Trade and other non-interest-bearing receivables		709.6				709.6	709.6
- Derivatives	1.5				0.2	1.7	1.7
Interest-bearing receivables		32.1				32.1	32.1
Financial assets at fair value through profit or loss	213.1					213.1	213.1
Available-for-sale financial assets			427.7			427.7	427.7
Carrying amount by category	**214.6**	**807.9**	**430.7**		**1.5**	**1,454.7**	**1,454.7**
Non-current financial liabilities							
Non-current interest-bearing liabilities				244.9		244.9	267.4
- Derivatives					17.1	17.1	17.4
Total non-current interest-bearing liabilities						262.0	284.5
Non-current non-interest-bearing liabilities				3.1		3.1	3.1
- Derivatives					2.5	2.5	2.5
Total non-current non-interest-bearing liabilities						5.7	5.7
Current financial liabilities							
Current interest-bearing liabilities				194.2		194.2	194.2
Trade payables				703.5		703.5	703.5
Other non-interest-bearing liabilities				176.5		176.5	176.5
- Derivatives					3.4	3.4	3.4
Accrued liabilities				245.8		245.8	245.8
- Derivatives	8.3					8.3	8.3
Total accrued liabilities						254.1	254.1
Carrying amount by category	**8.3**			**1,568.0**	**23.0**	**1,599.3**	**1,621.8**

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 41.

NOTE 29
FINANCE LEASE LIABILITIES

€ million	2010	2009
The maturities of finance lease payments are as follows:		
No later than 1 year	17.7	20.9
Later than 1 year and no later than 5 years	45.0	64.5
Later than 5 years	13.6	10.9
Total minimum lease payments	**76.4**	**96.3**
Present value of minimum lease payments:		
No later than 1 year	14.6	17.3
Later than 1 year and no later than 5 years	38.1	57.9
Later than 5 years	13.4	10.5
Total finance lease liabilities	**66.1**	**85.7**
Accumulating finance costs	**10.3**	**10.6**
Contingent rents for the period	**0.3**	**0.1**
Expected sublease rentals	**44.1**	**61.5**

The finance lease receivables 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. 2010	14.8	12.2	16.7	43.7
Exchange differences	0.5	0.0	0.1	0.6
Additional provisions	15.4	3.2	14.9	33.5
Unused amounts reversed	-6.2	-2.5	-10.1	-18.8
Expensed in income statement	24.5	12.9	21.6	59.0
Used during year	-2.9	-0.4	-14.8	-18.1
At 31 Dec. 2010	21.6	12.5	6.8	40.9
Analysis of total provisions				
Non-current	3.9	6.6	1.2	11.7
Current	17.7	6.0	5.7	29.3

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 from realised warranty obligations in previous years.

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

€ million	2010	2009
Trade payables	838.3	703.5
Other current non-interest-bearing liabilities	196.3	179.9
Current tax liabilities	64.2	37.0
Accrued liabilities	246.9	217.1
Total current non-interest-bearing liabilities	1,345.7	1,137.5

Accured 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	2010	2009
Non-current assets	70.9	41.4
Current assets	0.6	0.4
	71.5	41.8
Non-current liabilities	8.7	9.7
Current liabilities	17.6	15.0
	26.3	24.7
Net assets	45.2	17.1
Income	2.8	4.9
Expenses	1.9	4.1
Profit	0.9	0.8

NOTE 33
COMMITMENTS

COMMITMENTS

€ million	2010	2009
Collateral given for own commitments		
Pledges	91.3	90.7
Mortgages	85.1	21.3
Guarantees	28.6	23.3
Other commitments	70.9	78.0
Collateral given for shareholders		
Guarantees	-	0.0
Collateral given for others		
Other commitments and contingent liabilities	6.1	6.5
Guarantees	0.4	0.1

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	2010	2009
No later than 1 year	348.2	352.6
Later than 1 year and no later than 5 years	1,071.1	1,071.5
Later than 5 years	925.0	935.4
Total	2,344.3	2,359.5
Expected future minimum lease payments under non-cancellable sublease agreements	50.5	57.8
Lease and sublease payments recognised for the period:		
Minimum lease payments	360.6	335.9
Contingent rents	0.0	0.5
Sublease income	26.7	26.3

The 2010 income statement includes capital and maintenance rentals on real estate under real estate operating leases, and other rentals in a total amount of €405.0 million (€381.1 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	2010	2009
No later than 1 year	8.5	8.6
Later than 1 year and no later than 5 years	17.0	15.3
Later than 5 years	5.8	13.6
Total	31.3	37.5
Aggregate contingent rents charged to the income statement	-	-

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 PAYMENT

The Group operates share option plans as part of the management's incentive and commitment system. 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 of the option scheme. The options are forfeit 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 may keep all or some of the options under offering obligation.

2003 OPTION SCHEME

On 31 March 2003, the Annual General Meeting resolved to grant a total of 1,800,000 options with no consideration to the management of the Kesko Group as well as to a wholly-owned subsidiary of Kesko Corporation. A deviation was made from the shareholders' pre-emptive subscription rights, since the share options form a part of the incentive and commitment programme for the management. Each option entitles its holder to subscribe for one new Kesko Corporation B share. The options are marked with the symbols 2003D (KESBVEW103), 2003E (KESBVEW203) and 2003F (KESBVEW303) in units of 600,000 options each. The options are exercisable as follows:

- 2003D 1 April 2005–30 April 2008 (exercise period has expired)
- 2003E 1 April 2006–30 April 2009 (exercise period has expired) and
- 2003F 1 April 2007–30 April 2010 (exercise period has expired).

After the distribution of dividends for 2009, the price of a B share subscribed for with option 2003F was €12.98. The option exercise period expired on 30 April 2010.

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 stock 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 2009, the price of a B share subscribed for with option 2007A was €42.32 at the and of 2010, with option 2007B €24.67, and with option 2007C €15.94. The exercise period of option 2007A began on 1 April 2010. The exercise periods of options 2007B and 2007C have not begun yet. 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 of the shares will apply after the share capital increase has been entered in the Trade Register.

The company has not granted other options or special rights entitling to shares.

Share options in the financial year 1 January–31 December 2010

Principal terms of the plans	2003 share options	2007 share options		
Grant date	31 March 2003	26 March 2007		
Instrument	share option	share option		
Target group	management	management, other key personnel		
	2003F	2007A	2007B	2007C
Original number of options	600,000	1,000,000	1,000,000	1,000,000
Number of subscribable shares per option	1	1	1	1
Original exercise price per share	€19.08	€45.82	€26.57	€16.84
Dividend adjustment	Yes	Yes	Yes	Yes
Exercise price 31 Dec. 2006	€17.98	-	-	-
Exercise price 31 Dec. 2007	€16.48	€45.82	-	-
Exercise price 31 Dec. 2008	€14.88	€44.22	€26.57	
Exercise price 31 Dec. 2009	€13.88	€43.22	€25.57	€16.84
Exercise price 31 Dec. 2010	€12.98	€42.32	€24.67	€15.94
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. 2007	1 Apr. 2010	1 Apr. 2011	1 Apr. 2012
Expiry date	30 Apr. 2010	30 Apr. 2012	30 Apr. 2013	30 Apr. 2014
Remaining vesting period, years	expired	1.3	2.3	3.3
Plan participants at end of financial year	-	114	115	123

Movements in quantities and exercise prices 2010

	2003 share options	2007 share options			
2010	2003F	2007A	2007B	2007C	Weighted average exercise price
Options outstanding at beginning of period	319,764	737,500	745,500	782,500	€28.30
Options available for grant at beginning of period	47,500	262,500	254,500	217,500	€29.29
Options granted during period	0	1,700	1,700	1,700	€28.54
Options forfeited during period	0	10,500	47,000	31,500	€24.56
Options exercised during period	319,763				
Options expired during period	47,501				
Options outstanding at end of period		728,700	700,200	752,700	€28.45
Options exercisable at end of period	0	1,000,000	1,000,000	1,000,000	€28.54
Average price weighted by grant date trading volume*	€26.62				
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 2003F: trade volume weighted average price of a B share in January-April 2010, 2007A: weighted average price of a B share in April-December 2010, shares were not subscribed for with 2007A options during the financial year*

Movements in quantities and exercise prices in 2009

	2003 share options	2007 share options			
2009	2003F	2007A	2007B	2007C	Weighted average exercise price
Options outstanding at beginning of period	433,045	756,500	767,500		€35.33
Options available for grant at beginning of period	47,500	243,500	232,500	1,000,000	€35.60
Options granted during period	0			785,500	€16.84
Options forfeited during period	0	19,000	22,000	3,000	€32.60
Options exercised during period	113,281				
Options expired during period					
Options outstanding at end of period	319,764	737,500	745,500	782,500	€28.30
Options exercisable at end of period	367,264	1,000,000	1,000,000	1,000,000	€28.54
Average price weighted by grant date trading volume*	€19.19				

**2003F: weighted average price of a B share in 2009*

FAIR VALUE MEASUREMENT

For fair value measurement of options, Kesko Corporation has consulted Evli Alexander Management Oy. The fair value of options has been calculated using the Black-Scholes valuation 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 2010, the options contributed €5.0 million (€8.1 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	€32.04
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	23,817,557

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.

NOTE 36
NON-CASH FLOW INVESTING ACTIVITIES

€ million	2010	2009
Total purchases of fixed assets,	325.3	198.0
of which settlement in cash	310.7	222.6
Settlement of prior period purchases of fixed assets	-5.2	-16.6
Purchases of shares in associates	-32.7	
Purchases of assets leased to customers	-17.2	-17.5
Purchases financed by finance lease or other liability	69.7	9.4

NOTE 37
ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

€ million	2010	2009
Adjustment of non-cash transactions in the income statement, and items presented elsewhere in the cash flow statement:		
Change in provisions	3.8	-0.8
Income from associates	0.3	-0.2
Impairments	4.6	14.4
Credit losses	3.6	12.6
Non-recurring gains on disposal of fixed assets	-52.9	-94.9
Non-recurring losses on disposal of fixed assets	1.4	1.4
Option expenses	5.0	8.1
Defined benefit pensions	137.5	-16.0
Others	-6.6	1.4
Total	96.8	-74.0

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
DISPOSAL OF REAL ESTATE COMPANIES

2010
The cash inflow from the disposal of real estate companies totalled €1.9 million during the financial year.

2009
The cash inflow from the disposal of real estate properties to a pension insurance company and the Kesko Pension Fund totalled €52.3 million during the financial year.

NOTE 39
PROCEEDS FROM DISPOSAL OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

2010
In 2010, the proceeds from available-for-sale financial assets totalled €0.5 million.

2009
In 2009, the proceeds from available-for-sale financial assets totalled €1.2 million.

NOTE 40
CASH AND CASH EQUIVALENTS WITHIN THE STATEMENT OF CASH FLOWS

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

€ million	2010	2009
Available-for-sale financial assets (maturing in less than 3 months)	453.3	417.5
Cash and cash equivalents	56.1	73.9
Total	509.4	491.4

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 (€549.0 million) also include bonds with longer maturities in the amount of €95.7 million.

NOTE 41
FINANCIAL RISK MANAGEMENT

With respect to financial risks, the Group observes a uniform financing policy that has been approved by the company 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 Group funding, 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 and makes purchases from numerous countries. As a result, 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. In the 2010 financial year, the hedging cost arising from subsidiary funding, i.e. the interest rate differential between the euro and the hedged currencies, narrowed significantly and was €1.8 million (€17.9 million).

TRANSLATION RISKS

The Group's balance sheet is exposed to foreign currency translation risks relating to net investments in subsidiaries outside the euro area. During the first part of the year, this balance sheet exposure has been hedged by loans denominated in the relevant foreign currencies and forward foreign exchange contracts. During the second quarter, net investment hedging was discontinued. The risk is hedged if equity is repatriated, or if the currency is expected to be exposed to a significant devaluation risk. The most significant translation exposures are in the Estonian kroon, Norwegian krone, Swedish krona, Russian ruble, Lithuanian litas and Latvian lat. The exposure does not include the non-controlling interest. 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 they are not included in the translation exposure.

Group's translation exposure at 31 Dec. 2010

€ million	LVL	NOK	EEK	SEK	RUB	LTL	BYR
Net investment	7.3	24.9	61.4	17.7	29.2	37.2	2.0
Hedging derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hedging loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exposure	7.3	24.9	61.4	17.7	29.2	37.2	2.0

Group's translation exposure at 31 Dec. 2009

€ million	LVL	NOK	EEK	SEK	RUB	LTL	BYR
Net investment	2.7	32.4	63.8	24.3	28.3	45.8	1.6
Hedging derivatives	0.0	0.0	-44.7	-10.5	-19.2	-26.6	0.0
Hedging loans	-2.8	-18.8	0.0	0.0	0.0	0.0	0.0
Exposure	-0.1	13.6	19.1	13.8	9.1	19.1	1.6

The following table shows how a 10% change in the Group companies' functional currencies would affect the Group's equity. Sensitivity has been calculated from net exposure, in other words, the effects of hedging derivative instruments or loans have been calculated in addition to the hedged exposure.

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

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

Sensitivity analysis, effect on equity, at 31 Dec. 2009

€ million	LVL	NOK	EEK	SEK	RUB	LTL	BYR
Change + / -10%	0.0	1.4	1.9	1.4	0.9	1.9	0.2

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, forecasted cash flows in foreign currencies, and foreign subsidiaries' liabilities and receivables with respect to the parent. The risk is commercially managed by, e.g., transferring exchange rate changes to selling prices, or by replacing suppliers. The remaining exposures are hedged by currency derivative instruments. 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 value changes 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. Forecasted amounts included in the transaction exposure, the most significant differences from the table below are in the USD and LTL exposures. At 31 December 2010, the exposure to USD risk was €-14.5 million, and the exposure to LTL risk was €5.2 million.

INTEREST RATE RISK OF LOANS AND SENSITIVITY ANALYSIS

Interest rate movements affect the Group's interest expense. The interest rate 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 derivative instruments. 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 3.5 (3.5) years on average.

On 10 June 2004, Kesko Corporation issued in the United States a total of USD 120 million USD private placement notes in three tranches; 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 currency 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 has been fully hedged against currency and interest rate risk. During the financial year, there has been no ineffectiveness to be recorded in the income statement from this credit facility.

A sensitivity analysis for commercial paper liabilities realised during the period used average balance values. At the balance sheet date of 31 December 2010, the effect of variable rate borrowings on the pre-tax profit would have been €-/+2.6 million, if the interest rate level had risen or fallen by 1 percentage point (€-/+3.3 million).

Group's transaction exposure at 31 Dec. 2010

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

Group's transaction exposure at 31 Dec. 2009

€ million	USD	SEK	NOK	EEK	LVL	LTL	RUB	BYR
Group's transaction risk	-4.5	69.7	43.5	-23.9	39.8	-20.4	32.1	-2.3
Hedging derivatives	10.1	-68.9	-37.8	25.8	-13.5	-3.8	-38.8	0.0
Hedging loans	0.0	0.0	-5.3	0.0	-18.3	0.0	0.0	0.0
Exposure	5.6	0.8	0.4	1.9	7.9	-24.2	-6.7	-2.3

A sensitivity analysis of the transaction exposure shows how a +/-10% exchange rate change in internal receivables and liabilities denominated in foreign currencies and hedging foreign currency derivatives and loans would affect the Group's profit.

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

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

Sensitivity analysis, effect on pre-tax profit at 31 Dec. 2009

€ million	USD	SEK	NOK	EEK	LVL	LTL	RUB	BYR
Change +/-10%	0.6	0.1	0.0	0.2	0.8	2.4	0.7	0.2

LIQUIDITY RISK AND SENSITIVITY ANALYSIS FOR INTEREST-BEARING RECEIVABLES

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

The aim 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 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 €+/-6.5 million (€+/-4.0 million), and +/-€2.2 million (€+/-1.5 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 borrowing facilities was €151.5 million (€227 million). The committed borrowing facilities mature at the end of 2012. In addition, the Group's uncommitted financial resources available contain commercial paper programmes denominated in euros to a total equivalent of €359 million (€329 million).

The terms and conditions of the private placement notes and the committed facility 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 accounting period.

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
Liabilities 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
Commercial papers							
Finance costs							
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**

Undiscounted cash flows from financial liabilities and related financial expenses at 31 Dec. 2009

€ million	2010	2011	2012	2013	2014	2015-	Total
Loans from financial institutions	**8.2**	**1.2**	**17.8**	**0.9**	**0.7**	**26.7**	**55.5**
Finance costs	4.6	3.4	2.2	1.1	1.1	1.3	13.7
Private placement notes (USD)					**41.6**	**41.6**	**83.3**
Finance costs	5.2	5.2	5.2	5.2	3.9	7.2	31.8
Pension loans		**2.9**	**5.8**	**5.8**	**5.8**	**26.3**	**46.7**
Finance costs	1.9	1.9	1.7	1.4	1.2	2.6	10.6
Finance lease liabilities	**17.3**	**23.4**	**10.8**	**10.5**	**13.3**	**10.5**	**85.7**
Finance costs	3.6	1.9	1.6	1.5	1.5	0.4	10.6
Liabilities to K-retailers	**109.7**						**109.7**
Finance costs	0.5						0.5
Other interest-bearing liabilities	**56.6**						**56.6**
Finance costs	0.1						0.1
Commercial papers							
Finance costs							
Non-current non-interest-bearing liabilities		**0.0**		**0.0**	**0.0**		**0.1**
Current non-interest-bearing liabilities							
Trade payables	**703.5**						**703.5**
Accrued liabilities	**245.0**						**245.0**
Other non-interest-bearing liabilities	**161.6**						**161.6**

Undiscounted cash flows from derivative instruments at 31 Dec. 2010

€ million	2011	2012	2013	2014	2015	2016-	Total
Payables							
Forward foreign exchange contracts hedging net investment							
Forward foreign exchange contracts 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							
Forward foreign exchange contracts hedging net investment							
Forward foreign exchange contracts 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

Undiscounted cash flows from derivative instruments at 31 Dec. 2009

€ million	2010	2011	2012	2013	2014	2015-	Total
Payables							
Forward foreign exchange contracts hedging net investment	141.8						141.8
Forward foreign exchange contracts outside hedge accounting	296.4						296.4
Net settlement of payables							
Interest rate derivatives	0.3	0.2	0.1	0.0	0.0		0.6
Electricity derivatives	3.1	2.1	0.6	0.2	0.0		6.0
Derivatives relating to private placement notes*							
Foreign currency derivatives	1.1	1.1	1.1	1.1	9.4	10.0	23.6
Receivables							
Forward foreign exchange contracts hedging net investment	138.0						138.0
Forward foreign exchange contracts outside hedge accounting	293.4						293.4
Net settlement of receivables							
Interest rate derivatives							
Electricity derivatives	0.2	0.4	0.3	0.0	0.0		0.9
Derivatives relating to private placement notes*							
Interest rate derivatives	0.9	0.9	0.9	0.9	0.7	1.2	5.4

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

The private placement notes and part of the loans from financial institutions, €226.1 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, liabilities to retailers and other interest-bearing liabilities was 2.3%. Some of the loans are eurodenominated, the private placement notes are USD-denominated, and the loans from financial institutions include NOK-denominated loans in the total of €25.6 million (€24.1 million) and LVL-denominated loans in the total of €7.0 million (€21.1 million).

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
Liabilities 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 borrowing 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.*

Maturity analysis for liabilities 2009

€ million	31 Dec. 2009	Available	Total	2010	2011	2012	2013	2014 and later
Loans from financial institutions	55.3		55.3	8.2	1.2	17.8	0.9	27.3
Private placement notes	100.0		100.0					100.0
Pension loans	46.4		46.4		2.9	5.8	5.8	31.8
Finance lease liabilities	85.7		85.7	17.3	23.4	10.8	10.5	23.8
Liabilities to K-retailers	109.7		109.7	109.7				
Other interest-bearing liabilities	56.6		56.6	56.6				
Trade payables	703.6		703.6	703.5	0.0			
Accrued liabilities	254.1		254.1	254.1				
Other non-interest-bearing liabilities	185.5		185.5	179.9	3.0	1.5	1.1	0.0
Committed borrowing facilities	*	225.0	227.0	76.0	0.9	150.0		
Commercial paper programmes	0.0	329.0	329.0					
Financial guarantees	23.3		23.3	0.2	1.5	0.0	0.0	21.6
Total	1,620.3	554.0	2,176.2	1,405.5	33.0	185.9	18.3	204.6

**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.

Liabilities to K-retailers consist of two types of interest-bearing receivables payable 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 fair value change of currency derivative instruments.

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 in banks operating in Kesko's market area, in Finnish government bonds, and in the bonds of selected companies. The return on these investments for 2010 was 1.5% (2.2%). 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 companies of the business divisions are responsible for the management of credit risk associated with customer receivables. Each company has a credit policy and its implementation is monitored. The aim is to secure the payment of receivables by carefully assessing customers' creditworthiness, by reviewing 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 the retailer agreements, retailers lodge bank overdrafts as collateral against their trade payables to 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	2010	2009
Trade receivables fully performing	579.1	550.0
1–7 days past due	12.3	14.5
8–30 days past due	12.3	9.2
31–60 days past due	3.6	4.8
Over 60 days past due	12.4	15.1
Total	619.6	593.6

The analysis includes impaired receivables in a total amount of €27.0 million.

Within trade receivables, €346.5 million (€319.5 million) were from chain retailers and €24.3 million (€38.0 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 collateral given by the K-retail company and entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the aggregate value

An analysis of financial instruments recognised at fair value by valuation technique is set out below.

Measurement hierarchy of financial assets and liabilities at fair value

	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
Money market funds	10.4			10.4
Total	10.4	231.7		242.1
Derivative instruments at fair value through profit or loss				
Derivative receivables		18.4		18.4
Derivative liabilities		16.4		16.4
Available-for-sale financial assets				
Private 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

Measurement hierarchy of financial assets and liabilities at fair value

	Fair value at 31 Dec. 2009			
€ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Commercial papers				0.0
Bank certificates of deposit and deposits		202.9		202.9
Money market funds	10.1			10.1
Total	10.1	202.9		213.1
Derivative instruments at fair value through profit or loss				
Derivative receivables		3.5		3.5
Derivative liabilities		31.9		31.9
Available-for-sale financial assets				
Commercial papers (maturing in less than 3 months)		214.1		214.1
Bank certificates of deposit and deposits (maturing in less than 3 months)	3.8	199.6		203.4
Bonds	10.2			10.2
Total	14.0	413.7		427.7

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, but these instruments are not so actively traded. 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. 2010

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

The private equity funds purchased during the financial year have been classified as available-for-sale financial assets. Private equity funds are measured based on valuation calculations obtained from fund management companies. Profits or losses from private equity funds have not been recorded for the 2010 financial year.

of counterparty collaterals was €224.3 million. In addition, the collateral for receivables includes other collaterals, such as business mortgages and other pledged assets.

The trade receivable impairments provided for were €14.2 million (€19.9 million). An aggregate amount of €3.6 million (€12.6 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 €4.6 million (€13.0 million).

FINANCIAL CREDIT RISK

Financial instruments involve the risk of counterparties failing to settle their obligations. Kesko only makes currency and interest rate derivative contracts with banks that have good creditworthiness. Liquid funds are invested, within the limits confirmed annually for each counterparty, in instruments with good creditworthiness. Company and bank-specific limits in terms of euros and time 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 (OVER 50% INTEREST)

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 borrowing facility, the syndicate has the right to call in the loan facility and any withdrawn loan amounts.

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 value changes of derivatives hedging the price of electricity supplied during the period are recognised within the adjustment items of 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 €0.0 million (€-0.4 million).

At the balance sheet date, a total quantity of 1,131,120 MWH (995,344 MWH) of electricity had been purchased with electricity derivatives, and the 1–12 month hedging rate was 79.5% (70.2%), the 13–24 month rate was 67.0% (47.3%), the 25–36 month rate was 39.7% (29.6%), the 37–48 month rate was 5.8% (9.6%) and the 49–60 month rate was 0.0% (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 percentage points from the balance sheet date 31 December 2010, it would contribute €+/-6.0 million (€+/-3.4 million) to the 2011 profit and €+/-6.4 million (€+/-4.4 million) to equity. The impact has been calculated before tax.

CAPITAL STRUCTURE MANAGEMENT

The Kesko Group's capital management objectives 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 investment 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 given by any external credit rating institution.

The target levels set 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 2010	Level achieved in 2009
Equity ratio	40–50%	53.4%	54.1%
Interest-bearing net debt / EBITDA	< 3	-0.9	-0.7

Equity ratio	**2010**	**2009**
Shareholders' equity	2,209.9	2,069.4
Balance sheet total	4,176.5	3,841.8
- Prepayments received	35.0	17.3
Total	4,141.5	3,824.6
Equity ratio	53.4%	54.1%
Interest-bearing net debt		
Interest-bearing debt	476.8	456.2
Financial assets	847.2	714.7
Interest-bearing net debt	-370.5	-258.5
EBITDA	427.6	363.6
Interest-bearing net debt /EBITDA	-0.9	-0.7

Fair values of derivative contracts

€ million	31.12.2010 Positive fair value (balance sheet value)	31.12.2010 Negative fair value (balance sheet value)	31.12.2010 Net fair value	31.12.2009 Net fair value
Interest rate derivatives	3.7 *	-0.1	3.6	0.6
Currency forwards	1.4	-16.2 *	-14.8	-24.0
Electricity derivatives	13.3	-0.1	13.2	-5.0

Notional principal amounts of derivative contracts

€ million	31.12.2010 Notional principal amount	31.12.2009 Notional principal amount
Interest rate derivatives	205.4 *	206.7
Currency forwards	324.8 *	541.7
Electricity derivatives	63.2	40.1

* *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 €3.7 million (€0.6 million), and currency swaps with a notional principal amount of €100.4 million and a fair value of €-10.6 million (€-17.2 million).*

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

NOTE 42
RELATED-PARTY TRANSACTIONS

The Group's related parties include its key management personnel (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 44).

The related party transactions disclosed consist of transactions 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 and Valluga-Sijoitus Oy has 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 to 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 €45.3 million. Real estate and premises owned by the Pension Fund have been leased to the Kesko Group.

The following transactions were carried out with related parties:

Sales of goods and services

€ million	2010	2009
Sales of goods		
Board of Directors and management	35.9	37.2
Kesko Pension Fund	0.0	0.2
Total	35.9	37.4
Sales of services		
Associates	1.5	0.9
Board of Directors and management	4.4	4.8
Kesko Pension Fund	1.1	1.5
Total	7.0	7.1

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 management of the statutory pension provision and the related Kesko Group employees' insurance portfolio was partly 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. In 2009, the total amount paid in contributions was €52.5 million.

On 1 July 2010, Kesko sold eight real estate properties to Kruunuvuoren Satama Oy, one of the Group's associates. The 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 has been recorded as a non-recurring item within other operating income.

In March 2009, the Kesko Group sold four store properties to the Kesko Pension Fund. The debt-free selling price was about €50 million. The Group's €19.7 million gain on the disposal has been included in the non-recurring items 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	2010	2009
Purchases of goods		
Board of Directors and management	2.1	1.4
Total	2.1	1.4
Purchases of services		
Associates	2.9	2.6
Board of Directors and management	0.1	0.1
Kesko Pension Fund	1.6	0.0
Total	4.6	2.7

Items included in other operating expenses include lease rentals paid by the Kesko Group to the Kesko Pension Fund in a total amount of €32.2 million (€34.7 million), and to associates in a total amount of €4.4 million (€0.2 million).

In December 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.

Finance costs

€ million	2010	2009
Associates	0.3	0.5
Kesko Pension Fund	0.0	0.0
Total	0.3	0.5

Trade receivables

€ million		
Associates	0.0	0.1
Board of Directors and management	2.6	2.1
Pension Fund	0.1	0.3
Total	2.7	2.5

Some members of Kesko's Board of Directors act as K-retailers. At the balance sheet date, the receivables resulting from sales by Kesko to enterprises controlled by them totalled €2.6 million (€2.1 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 €4.8 million (€3.2 million).

Other current liabilities

€ million	2010	2009
Associates	34.4	38.6
Board of Directors and management	0.9	0.8
Pension Fund	49.3	3.4
Total	84.6	42.8

Other current liabilities include, among other things, chain rebate liabilities payable 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.

Other current liabilities include the Kesko Group's real estate companies' loans from the Kesko Pension Fund.

In addition, Kesko's non-current receivables from a real estate associate total €1.5 million.

Board of Directors' compensation

€ thousand	2010	2009
Board members		
Heikki Takamäki, Chair	87.0	81.5
Seppo Paatelainen, Deputy Chair	59.0	53.0
Esa Kiiskinen (from 30 March 2009)	42.0	31.8
Ilpo Kokkila	44.0	41.8
Mikko Kosonen (from 30 March 2009)	44.0	33.8
Maarit Näkyvä	46.0	45.3
Rauno Törrönen (from 30 March 2009)	42.0	31.8
Pentti Kalliala (until 30 March 2009)		8.5
Keijo Suila (until 30 March 2009)		12.0
Jukka Säilä (until 30 March 2009)		8.5

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

€ thousand	2010	2009
Matti Halmesmäki, President and CEO	855.2	744.6
Corporate Management Board (the other members)	1,872.2	1,621.4

OTHER TOP MANAGEMENT EMPLOYEE BENEFITS

Share-based payments

At 31 December 2010, the President and CEO held 150,000 option rights. If shares were subscribed for with the President and CEO's option rights, the option rights would represent 0.15% of shares and 0.04% of all voting rights. At 31 December 2010, the other Corporate Management Board members held an aggregate of 440,000 option rights. The option rights held by the Corporate Management Board members have equal rules and vesting periods with the other option rights included in the management's option plans.

Retirement benefits

The retirement age of the President and CEO is 60 years, and his full pension is 66% of his pensionable remuneration. The retirement age of the other Corporate Management Board members is mainly 60–62, and the full pension is 66% of the pensionable remuneration. The retirement benefits of the CFO are determined on the basis of the Employees' Pensions Act (TyEL).

Termination benefits

The notice period of the President and CEO is 6 months. The severance compensation paid in addition to the salaries for the notice period corresponds to 12 months' salary. The notice period of the other Corporate Management Board members is 6 months and the severance compensation paid in addition to the salaries for the notice period corresponds to 6–12 months' salary.

NOTE 43
OTHER NOTES

EVENTS AFTER THE REPORTING PERIOD

After the date of the financial statements, no significant events have taken place within the Group.

NOTE 44

SUBSIDIARIES AND ASSOCIATES AT 31 DECEMBER 2010

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
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
Ruokakesko 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 %
Agro Trade Latvija SIA	Riga, Latvia	100.00	
Ansami OOO	St. Petersburg, Russia	100.00	
Antti SIA	Riika, 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	66.26	
Byggmakker Distribusjon AS	Ski, Norway	99.92	
Byggmakker Norge AS	Oslo, Norway	99.92	
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 LTD	Lahti	100.00	
Interstroy OOO	Tula, Russia	100.00	
Kamenka OOO	St. Petersburg, Russia	100.00	
K-citymarket Oy	Helsinki	100.00	
Keru Kiinteistöt Oy	Helsinki	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	
Kiinteistö Oy Arolan Risteys	Kouvola	100.00	
Kiinteistö Oy Hannunhelmi	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	
Kiintestö Oy Mäntyharjun Liiketori	Mäntyharju	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 Tervaskangas	Helsinki	100.00	
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00	
K-maatalouskaupat Oy	Helsinki	100.00	
Knuto AS	Ski, Norway	100.00	

Owned by other Group companies	Domicile	Group's ownership interest %	Parent's ownership interest %
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	
Limingan Portti 1 Oy	Liminka	100.00	
Loimaan Maatalous- ja Rautakauppa Oy	Helsinki	100.00	
Malmintorin Pysäköintitalo Oy*	Helsinki	99.91	
Masterstroyprof ZAO	St. Petersburg, Russia	100.00	
Match-Point OOO	St. Petersburg, Russia	100.00	
Mežciems Real Estate SIA	Riga, Latvia	100.00	
Norgros Handel AS	Lilleström, Norway	99.92	
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 Centras 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	

Owned by other Group companies	Domicile	Group's ownership interest %	Parent's ownership interest %
Suomenojan Kauppakeskus Oy	Espoo	100.00	
Tampereen Länsikeskus Oy	Tampere	100.00	
Teploschit OOO	Yaroslavl, Russia	100.00	
TP Real Estate SIA	Riga, Latvia	100.00	
Trøgstadveien 13 AS	Ski, Norway	99.92	
Turun VV-Auto Oy	Helsinki	100.00	
Verdal Eiendom AS	Ski, Norway	99.92	
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's Financial Statements for 2010

PARENT'S INCOME STATEMENT (FAS)

€	1.1.–31.12.2010	1.1.–31.12.2009
Net sales	**22,902,406.32**	**19,555,415.66**
Other operating income	203,947,480.78	261,003,341.19
Materials and services	-251.91	419.20
Staff expenses	84,202,193.58	-10,348,598.91
Depreciation and reduction in value	-18,950,307.10	-31,569,693.98
Other operating expenses	-114,744,356.57	-122,535,449.73
Operating profit	**177,357,165.10**	**116,105,433.43**
Financial income and expenses	13,813,089.93	11,198,853.70
Profit before extraordinary items	**191,170,255.03**	**127,304,287.13**
Extraordinary items	51,637,711.18	21,584,005.65
Profit before appropriations and taxes	**242,807,966.21**	**148,888,292.78**
Appropriations	11,578,899.13	39,559,034.61
Profit before taxes	**254,386,865.34**	**188,447,327.39**
Income taxes	-64,854,150.69	-49,670,354.28
Profit for the financial year	**189,532,714.65**	**138,776,973.11**

PARENT'S BALANCE SHEET (FAS)

€	31.12.2010	31.12.2009
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Other capitalised long-term expenditure	4,513,294.58	6,173,722.48
Advance payments	1,736,613.77	1,472,260.89
	6,249,908.35	7,645,983.37
TANGIBLE ASSETS		
Land and waters	80,873,372.49	97,192,920.76
Buildings	205,180,300.54	233,179,097.13
Machinery and equipment	2,863,976.71	3,867,441.64
Other tangible assets	5,293,574.24	6,639,197.75
Advance payments and construction in progress	2,840,181.75	4,639,483.95
	297,051,405.73	345,518,141.23
INVESTMENTS		
Holdings in Group companies	290,883,006.31	264,122,468.86
Participating interests	50,428,962.48	17,767,798.60
Other shares and similar rights of ownership	11,269,659.86	7,285,332.58
	352,581,628.65	289,175,600.04
CURRENT ASSETS		
DEBTORS		
Long-term		
Amounts owed by Group companies	301,952,665.95	410,731,848.84
Amounts owed by participating interests	1,546,010.01	1,546,010.01
Other long-term loan receivables	-	1,454,664.32
	303,498,675.96	413,732,523.17
Short-term		
Trade debtors	133,107.69	146,040.27
Amounts owed by Group companies	419,278,113.48	296,808,568.37
Amounts owed by participating interests	1,031,965.85	2,072,193.08
Other receivables	529,725.06	197,328.26
Prepayments and accrued income	34,266,780.47	3,454,499.07
	455,239,692.55	302,678,629.05
INVESTMENTS		
Other investments	762,309,168.71	635,648,380.60
CASH IN HAND AND AT BANKS	11,311,650.71	11,809,147.40
TOTAL ASSETS	**2,188,242,130.66**	**2,006,208,404.86**

€	31.12.2010	31.12.2009
LIABILITIES		
CAPITAL AND RESERVES		
Share capital	197,282,584.00	196,643,058.00
Share premium account	197,498,010.90	193,929,222.36
Other reserves	243,415,795.55	243,415,795.55
Retained earnings	719,178,076.45	669,668,254.41
Profit for the financial year	189,532,714.65	138,776,973.11
	1,546,907,181.55	1,442,433,303.43
APPROPRIATIONS		
Depreciation reserve	80,033,522.19	91,612,421.32
PROVISIONS		
Other provisions	2,004,418.01	7,833,178.72
CREDITORS		
Non-current		
Private placement notes	100,418,410.04	100,418,410.04
Loans from credit institutions	32,689,235.40	38,194,792.42
Other long-term creditors	13,200.00	-
	133,120,845.44	138,613,202.46
Current		
Loans from credit institutions	-	7,049,203.44
Advances received	1,109.73	9,922.97
Other long-term creditors	2,745,213.39	2,333,672.26
Amounts owed to Group companies	373,586,139.84	238,966,256.30
Amounts owed to participating interests	34,211,919.86	38,387,884.71
Other debt	4,934,194.55	13,102,883.11
Accruals and deferred income	10,697,586.10	25,866,476.14
	426,176,163.47	325,716,298.93
TOTAL LIABILITIES	**2,188,242,130.66**	**2,006,208,404.86**

PARENT'S CASH FLOW STATEMENT (FAS)

€	1 Jan.–31 Dec. 2010	1 Jan.–31 Dec. 2009
Cash flow from operating activities		
Profit before extraordinary items	191,170,255.03	127,304,287.13
Adjustments:		
Depreciation according to plan	17,434,923.06	22,431,800.30
Financial income and expenses	-13,813,089.93	-11,208,558.82
Other adjustments	-69,584,215.55	-86,901,943.53
	125,207,872.61	51,625,585.08
Change in working capital		
Interest-free short-term trade receivables, increase/decrease (-/+)	-1,088,925.27	5,013,184.12
Interest-free short-term debt, increase/decrease (+/-)	11,765,141.48	-7,364,940.23
	10,676,216.21	-2,351,756.11
Interests paid	-16,082,754.25	-24,886,896.53
Interests received	25,698,497.53	50,091,388.56
Dividends received	21,851.99	15,919.30
Taxes paid	-103,242,413.51	-31,500,126.37
	-93,604,818.24	-6,279,715.04
Cash flow from operating activities	**42,279,270.58**	**42,994,113.93**
Cash flow from investing activities		
Purchases of other investments	-4,494,826.00	0.00
Investments in tangible and intangible assets	-7,342,155.49	-25,407,912.38
Decrease in long-term receivables	107,916,292.15	14,727,559.87
Subsidiary acquired	-27,381,743.56	0.00
Subsidiary disposed	1,934,425.00	30,401,356.84
Associated company acquired	-32,669,166.40	0.00
Associated company disposed	6,727.52	140,000.00
Proceeds from other investments	411,370.00	0.00
Proceeds from sale of tangible and intangible assets	103,295,518.59	164,968,531.04
Cash flow from investing activities	**141,676,441.81**	**184,829,535.37**
Cash flow from financing activities		
Increase/decrease (+/-) in current creditors	114,638,294.24	-165,768,732.94
Increase/decrease (+/-) in non-current creditors	-5,492,357.02	17,681,692.46
Increase/decrease (-/+) in short-term interest-bearing receivables	-120,104,979.56	248,003,649.29
Short-term money market investments	-112,971,602.17	-98,162,726.19
Dividends paid	-88,547,166.90	-97,850,410.00
Group contributions received and paid	51,637,711.18	21,584,005.65
Increase in share capital	4,208,314.54	4,577,454.34
Others	-14,132,237.45	-14,532,339.74
Cash flow from financing activities	**-170,764,023.14**	**-84,467,407.13**
Change in liquid assets	**13,191,689.25**	**143,356,242.17**
Liquid assets at 1 January	**425,387,795.98**	**282,031,553.81**
Liquid assets at 31 December	**438,579,485.23**	**425,387,795.98**

Notes to the parent'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	5–14 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 in the parent company.

Valuation of financial assets

Marketable securities have been valued at lower of cost or 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 derivative contracts

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 derivative contracts 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. Unrealised revaluation is not stated as income. Any valuation losses are included in interest expenses.

Currency derivative contracts

Currency derivative contracts are used for hedging against translation and transaction risks. Forward exchange contracts 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 contract has been used to hedge a foreign-currency-denominated asset, the 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 derivative contracts made with the 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 derivative contracts hedging the price of electricity supplied during the financial year, changes in value are recognised in Kesko within financial income and expenses. The unrealised gains and losses of contracts hedging future purchases are not recognised through profit or loss.

Pension plans

On 1 September 2010, the pension insurance of Kesko Corporation's personnel was transferred from the Kesko Pension Fund to Ilmarinen Mutual Pension Insurance Company. In connection with the transfer, the Financial Supervisory Authority granted the Kesko Pension Fund the permission to return surplus amounts to participants transferred from the Pension Fund. Kesko Corporation's share of the returned surplus was 94.9 million. In addition, some of Kesko Corporation's employees participate in a voluntary pension plan in the Kesko Pension Fund's department A. The department A was closed on 9 May 1998. Pension expenses have been expensed throughout the financial year.

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.

€ million	2010	2009
1. Other operating income		
Profits on sales of real estate and shares	66.3	95.7
Rent income	137.3	164.4
Others	0.3	1.0
Total	203.9	261.0

During the financial year, 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	150	147
Total	150	147

3. Personnel expenses		
Salaries and fees	-9.9	-9.1
Social security expenses		
Pension expenses	94.6	-0.5
Other social security expenses	-0.5	-0.7
Total	84.2	-10.3

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

Salaries and fees to the management		
Managing Director	0.9	0.8
Board of Directors' members	0.4	0.3
Total	1.2	1.1

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

4. Depreciation and reduction in value		
Depreciation according to plan	-17.4	-22.4
Reduction in value, non-current assets	-1.5	-9.1
Total	-19.0	-31.6

5. Other operating expenses		
Rent expenses	-80.5	-90.0
Marketing expenses	-1.6	-1.0
Maintenance of real estate and store sites	-10.5	-11.7
Data communications expenses	-14.5	-12.2
Losses on sales of real estate and shares	-1.0	-0.7
Other operating expenses	-6.5	-6.9
Total	-114.7	-122.5

Auditor's fees PricewaterhouseCoopers, Authorised Public Accountants		
Auditor's fees	0.1	0.1
Tax consultation	0.1	0.0
Other fees	0.1	0.1
Total	0.3	0.2

€ million	2010	2009
6. Financial income and expenses		
Income from long-term investments		
Profits from the sale of shares	0.3	0.0
Income from long-term investments, total	0.3	0.0
Other interest and financial income		
From Group companies	15.7	37.0
From others	27.1	12.9
Interest and financial income, total	42.8	49.8
Interest and other financial expenses		
To Group companies	-2.6	-5.5
To others	-26.7	-33.1
Interest and financial expenses, total	-29.2	-38.6
Total	13.8	11.2

7. Items included in extraordinary income and expenses		
Contributions from Group companies	100.7	49.7
Contributions to Group companies	-49.1	-28.1
Total	51.6	21.6

8. Appropriations		
Difference between depreciation according to plan and depreciation in taxation	11.6	39.6
Total	11.6	39.6

9. Changes in provisions		
Future rent expenses for vacant business premises	3.7	-0.5
Other changes	2.2	1.0
Total	5.8	0.4

10. Income taxes		
Income taxes on extraordinary items	-13.4	-5.6
Income taxes on operating activities	-51.4	-44.1
Total	-64.9	-49.7

DEFERRED TAXES

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

€ million	2010	2009
11. Other capitalised long-term expenditure		
Acquisition cost at 1 January	40.2	39.1
Increases	0.3	1.5
Decreases	-1.1	-1.1
Transfers between items	0.2	0.7
Acquisition cost at 31 December	39.6	40.2
Accumulated depreciation at 1 January	-34.0	-32.6
Accumulated depreciation on decreases and transfers	0.5	0.4
Depreciation for the financial year	-1.5	-1.8
Accumulated depreciation at 31 December	-35.1	-34.0
Book value at 31 December	4.5	6.2
Advance payments		
Acquisition cost at 1 January	1.5	1.6
Increases	0.5	0.9
Decreases	0.0	-0.6
Transfers between items	-0.2	-0.4
Acquisition cost at 31 December	1.7	1.5
Book value at 31 December	1.7	1.5
12. Tangible assets		
Land and waters		
Acquisition cost at 1 January	97.2	111.4
Increases	0.3	1.8
Decreases	-16.2	-16.0
Decrease in value	-0.5	-
Acquisition cost at 31 December	80.9	97.2
Book value at 31 December	80.9	97.2
Buildings		
Acquisition cost at 1 January	428.0	514.9
Increases	4.1	9.6
Decreases	-56.3	-99.6
Transfers between items	2.0	3.1
Acquisition cost at 31 December	377.9	428.0
Accumulated depreciation at 1 January	-194.8	-205.6
Accumulated depreciation on decreases and transfers	36.8	35.5
Decrease in value	-1.0	-9.1
Depreciation for the financial year	-13.6	-15.6
Accumulated depreciation at 31 December	-172.7	-194.8
Book value at 31 December	205.2	233.2
Machinery and equipment		
Acquisition cost at 1 January	22.1	24.7
Increases	0.4	0.8
Decreases	-2.9	-3.6
Transfers between items	0.2	0.2
Acquisition cost at 31 December	19.7	22.1
Accumulated depreciation at 1 January	-18.2	-19.8
Accumulated depreciation on decreases and transfers	2.3	2.8
Depreciation for the financial year	-1.0	-1.3
Accumulated depreciation at 31 December	-16.8	-18.2
Book value at 31 December	2.9	3.9

€ million	2010	2009
Other tangible assets		
Acquisition cost at 1 January	13.7	15.2
Increases	0.3	1.1
Decreases	-1.3	-2.6
Transfers between items	0.1	0.0
Acquisition cost at 31 December	12.8	13.7
Accumulated depreciation at 1 January	-7.1	-7.1
Accumulated depreciation on decreases and transfers	0.6	1.4
Depreciation for the financial year	-1.1	-1.3
Accumulated depreciation at 31 December	-7.5	-7.1
Book value at 31 December	5.3	6.6
Advance payments and construction in progress		
Acquisition cost at 1 January	4.6	7.1
Increases	1.4	9.2
Decreases	-0.9	-8.1
Transfers between items	-2.3	-3.6
Acquisition cost at 31 December	2.8	4.6
Book value at 31 December	2.8	4.6

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

€ million	2010	2009
13. Investments		
Holdings in Group companies		
Acquisition cost at 1 January	264.1	273.5
Increases	27.4	28.6
Decreases	-0.6	-38.0
Acquisition cost at 31 December	290.9	264.1
Book value at 31 December	290.9	264.1
Participating interests		
Acquisition cost at 1 January	17.8	18.7
Increases	32.7	-
Decreases	0.0	-0.9
Acquisition cost at 31 December	50.4	17.8
Book value at 31 December	50.4	17.8
Other shares and similar rights of ownership		
Acquisition cost at 1 January	7.3	7.3
Increases	4.5	-
Decreases	-0.5	0.0
Acquisition cost at 31 December	11.3	7.3
Book value at 31 December	11.3	7.3

Kesko Corporation's ownership interests in other companies as at 31 December 2010 are presented in the notes to the consolidated financial statements.

€ million	2010	2009
14. Debtors		
Amounts owed by Group companies		
Long-term		
Loan receivables	251.6	360.7
Subordinated loans	50.4	50.0
Long-term receivables, total	302.0	410.7
Short-term		
Trade debtors	1.6	1.1
Loan receivables	415.4	294.3
Prepayments and accrued income	2.3	1.5
Short-term receivables, total	419.3	296.8
Total	721.2	707.5

Kesko Corporation has issued capital loans of €30 million, €10 million and €10 million respectively to its subsidiaries Konekesko Ltd, Indoor Group Ltd and Kiinteistö Mesta Oy.

The loan issued to Konekesko Ltd will mature on 31 December 2024. The capital will be repaid in fifteen equally large instalments of €2 million payable each year on 31 December, provided that the provisions of chapter 12, section 1, paragraph 1 of the Limited Liability Companies Act are fulfilled. The loan interest will only be paid if the aggregate amount of the company's unrestricted equity and 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 last concluded financial year, or of any more recent financial statements. If the payment criteria are met, the interest amount comprises the interest payable, a reference rate of interest and an interest margin. The reference rate will be the 3-month Euribor and the margin will be 0.5% p.a. The interest will be paid in arrears on 31 December. Any unpaid interest will be treated as the borrower's debt and a sum of interest will be payable annually on it, whose rate will be the same as for the interest to be paid on the capital of the loan.

The loan issued to Indoor Group Ltd will mature on 31.3.2014. The capital will be repaid in five equally large instalments. The capital will be repaid only if the provisions of chapter 12, section 1, paragraph 1 of the Limited Liability Companies Act are fulfilled. Interest will be payable only if the amount of the company's unrestricted equity plus all capital 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 last concluded financial year or of any more recent financial statements. If the repayment criteria are met, 10% interest will be paid on the loan.

The loan issued to Kiinteistö Mesta Oy will be repaid only if, after repayment of the loan, the restricted equity shown in the balance sheet to be adopted for the borrower's last concluded financial year and all other non-distributable items are fully funded.

€ million	2010	2009
Amounts owed by participating interests		
Long-term		
Loan receivables	1.5	1.5
Short-term		
Loan receivables	1.0	2.1
Short-term receivables, total	1.0	2.1
Total	2.6	3.6
Prepayments and accrued income		
Taxes	26.3	-
Others	8.0	3.5
Total	34.3	3.5

€ million	2010	2009
15. Capital and reserves		
Share capital at 1 January	196.6	195.6
Subscriptions with options	0.6	1.0
Share capital at 31 December	197.3	196.6
Share issue, exercise of options at 1 January	-	0.1
Increase	4.2	4.6
Transfer to share capital	-0.6	-1.0
Transfer to share premium account	-3.6	-3.7
Share issue, exercise of options at 31 December	-	-
Share premium account at 1 January	193.9	190.3
Subscriptions with options	3.6	3.7
Share premium account at 31 December	197.5	193.9
Other reserves at 1 January	243.4	243.4
Other reserves at 31 December	243.4	243.4
Retained earnings at 1 January	808.4	767.8
Distribution of dividends	-88.5	-97.9
Transfer to donations	-0.7	-0.3
Retained earnings at 31 December	719.2	669.7
Profit for the financial year	189.5	138.8
Capital and reserves, total	1,546.9	1,442.4

Increase in share capital

During the reporting period, the share capital was increased three times corresponding to share subscriptions with the options of the 2003 option scheme. The increases were made on 11 February 2010 (€128,424), 3 May 2010 (€422,754), 3 June 2010 (€88,348) 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 12 February 2010, 4 May 2010 and 4 June 2010.

Distributable reserves

	2010	2009
Other reserves	243.4	243.4
Retained earnings	719.2	669.7
Profit for the financial year	189.5	138.8
Total	1,152.1	1,051.9

Breakdown of the parent company's share capital

	pcs	counter value, €	€ million
A shares	31,737,007	2.00	63.5
B shares	66,904,285	2.00	133.8
Total	98,641,292		197.3

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

2003 and 2007 stock option plans

On 31 March 2003, the Annual General Meeting resolved to gratuitously issue a total of 1,800,000 share options to the management of the Kesko Group as well as to a wholly-owned subsidiary of Kesko Corporation. A deviation was made from the shareholders' pre-emptive right to subscription since the options form a part of the incentive and commitment programme for the management. Each option entitles the holder to subscribe for one new Kesko Corporation B share. The options are marked with symbols 2003D (KESBVEW103), 2003E (KESBVEW203) and 2003F (KESBVEW303) in units of 600,000 options each. The share subscription periods of the options were:

- 2003D, 1 April 2005 – 30 April 2008 (subscription period expired),
- 2003E, 1 April 2006 – 30 April 2009 (subscription period expired) and
- 2003F, 1 April 2007 – 30 April 2010 (subscription period expired).

After the distribution of dividends for 2009, the price of a B share subscribed for with a 2003F option was €12.98. The subscription period expired on 30 April 2010.

The Annual General Meeting of 26 March 2007 decided to grant a total of 3,000,000 stock options for no consideration to the Kesko Group management and other key Kesko personnel, and to a subsidiary wholly owned by Kesko Corporation. The company had a weighty financial reason for granting stock options because they are intended to be part of Kesko's share-based incentive system. Each stock option entitles its holder to subscribe for one new Kesko Corporation B share. The 2007 option scheme includes an obligation placed by Kesko's Board of Directors on option recipients to use 25% of their option income to buy company shares for permanent ownership. The stock options were marked with symbols 2007A, 2007B and 2007C in units of 1,000,000 options each. The share subscription periods of the 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 subscription price for stock 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), for stock option 2007B between 1 April and 30 April 2008 (€26.57), and for stock option 2007C between 1 April and 30 April 2009 (€16.84).

The subscription prices of shares subscribed for with stock 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 dividend distribution or other distribution of funds.

After the 2009 dividend distribution, the subscription price for a B share with a 2007A option at the end of 2010 was €42.32, with a 2007B option €24.67 and with a 2007C option €15.94. The share subscription period of the 2007A option began on 1 April 2010. The subscription periods of the 2007B and 2007C options have not yet begun. The share option plan covers about 130 people.

Percentage of issued options out of all shares and votes

If shares were subscribed for with all of the exercisable options, the shares subscribed for under the 2007 plan would account for 2.95% of all shares and 0.77% of all votes. The subscriptions made with options could 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.

The shares subscribed for with options entitle to dividends and carry other shareholder rights after the corresponding share capital increase has been entered in the Trade Register.

Authorisations of the Board of Directors

Kesko's Annual General Meeting held on 30 March 2009 authorised the company's Board of Directors to decide about the issuance of 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 investments.

The authorisation is for the issuance of up to 20,000,000 new shares.

The Board of Directors was also given the authority to decide about the subscription price of the shares and to issue shares against non-cash consideration.

The authorisation is valid until 30 March 2012.

The Board of Directors does not have other valid authorisations for rights issue, convertible bonds or option rights.

€ million	2010	2009
16. Appropriations		
Depreciation reserve	80.0	91.6
Total	80.0	91.6
17. Provisions		
Future rent expenses for vacant business premises	2.0	5.6
Other provisions	0.0	2.2
Total	2.0	7.8
18. Non-current creditors		
Debt falling due later than within five years		
Private placement notes	50.2	50.2
Loans from credit institutions	-	24.1
Total	50.2	74.3

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	2010	2009
19. Current creditors		
Debt to Group companies		
Trade creditors	0.1	0.1
Other creditors	370.4	237.1
Accruals and deferred income	3.0	1.8
Total	373.6	239.0
Amounts owed to participating interests		
Other creditors	34.2	38.4
Total	34.2	38.4
Accruals and deferred income		
Staff expenses	3.0	2.5
Taxes	-	12.1
Others	7.7	11.2
Total	10.7	25.9
20. Interest-free debt		
Current creditors	17.8	32.0
Total	17.8	32.0

OTHER NOTES

€ million	2010	2009
21. Guarantees and contingent liabilities		
Real estate mortgages		
For own debt	6	7
For Group companies	10	10
Pledged shares	39	39
Guarantees		
For own debt	2	3
For Group companies	42	36
For others	0	0
Other contingent liabilities		
For own debt	7	15
Rent liabilities on machinery and fixtures		
Falling due within a year	0	0
Falling due later	0	0
Rent liabilities on real estate		
Falling due within a year	62	81
Falling due later	330	463

€ million	2010	Fair value	2009	Fair value
Liabilities arising from derivative instruments				
Value of underlying instruments at 31 Dec.				
Interest rate derivatives				
Forward and future contracts	-	-	12	-0.1
Interest rate swaps	201	3.7	201	0.7
Currency derivatives				
Forward and future contracts				
Outside the Group	223	-4.2	437	-6.6
Inside the Group	27	0.0	9	0.1
Option agreements				
Bought	-	-	-	-
Written	4	0.0	5	0.0
Currency swaps	100	-10.6	100	-17.2
Commodity derivatives				
Electricity derivatives				
Outside the Group	63	13.2	40	-5.0
Inside the Group	63	-13.2	40	5.0

Signatures

SIGNATURES

Helsinki, 2 February 2011

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, 9 February 2011

PricewaterhouseCoopers Oy
Authorised Public Accountants

Johan Kronberg
APA

Auditor's Report

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, 2010. 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 and 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, 9 February 2011
PricewaterhouseCoopers Oy
Authorised Public Accountants

Johan Kronberg
Authorised Public Accountant

(Translation from the Finnish Original)

Shares and shareholders

DIVIDEND POLICY

On 4 February 2009, Kesko Corporation's Board of Directors decided to revise Kesko Corporation's dividend policy published on 6 April 2005. In addition to the financial position and the operating strategy, the new policy takes account of the nature of non-recurring items. 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 however the company's financial position and operating strategy into account (stock exchange release on 5 February 2009).

The financial objectives are presented on page 15.

PROPOSED DIVIDENDS FOR THE YEAR 2010

Kesko Corporation's Board of Directors proposes to the Annual General Meeting that €128,233,679.60 or €1.30 per share be distributed as dividends from the net profit for the year 2010, representing 63% of earnings per share and 73% of earnings per share excluding non-recurring items. During the past five years 84.7% of earnings per share excluding non-recurring items, on the average, has been distributed as dividends.

BASIC INFORMATION ON THE SHARES AT 31 DECEMBER 2010

A share

- symbol: KESAV (OMX)
- ISIN code: FI0009007900
- voting rights per share: 10 votes
- number of shares: 31,737,007
- market capitalisation: €1,101 million

B share

- symbol: KESBV (OMX)
- ISIN code: FI0009000202
- voting rights per share: 1 vote
- number of shares: 66,904,285
- market capitalisation: €2,337 million

Trading unit of both share series: 1 share
Total share capital: €197,282,584
Total number of shares: 98,641,292
Voting rights carried by all shares: 384,274,355
Total market capitalisation: €3,438 million

SHARE SERIES AND SHARE CAPITAL

Kesko Corporation's share capital is divided into A shares and B shares. 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 that the total number of shares is at minimum two (2) and at maximum four hundred million (400,000,000). The total number of shares is 98,641,292, of which 31,737,007 (32.2%) are A shares and 66,904,285 (67.8%) are B shares.

Each A share entitles the holder to 10 votes and each B share to 1 vote. Both shares give the same 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 company's shares are included in the book-entry securities system 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 on the record date
- whose right to receive payments has been entered by the record date into the book-entry securities account of the shareholder registered in the shareholder register, and registered in the shareholder register
- if a share is registered in a nominee name, into whose book-entry securities account the share is entered 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

Kesko Corporation's Annual General Meeting held on 30 March 2009 authorised the company's Board of Directors to decide about 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 expenditure. The company must have a weighty financial reason for deviating from the shareholders' pre-emptive rights. The share subscription price is recognised in the reserve of invested non-restricted equity.

The Board of Directors was also given 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 issue authorisation will be valid until 30 March 2012. The authorisation has not been used.

The company operates the 2007 share option plan. The exercise period of the plan's 2007A options began on 1 April 2010. The exercise periods of the 2007B and 2007C options have not begun yet.

The Board of Directors has no other valid authorisations to issue shares, to increase share capital, or to acquire or dispose of treasury shares.

Kesko Corporation or its subsidiaries held no Kesko Corporation shares.

SHAREHOLDERS

According to the register of Kesko's shareholders kept by the Euroclear Finland Ltd, there were 38,258 shareholders at the end of 2010 (38,888 at the end of 2009). The total number of shares registered in a nominee name was 25,042,687, accounting for 25.39% of all shares (19,352,409 and 19.68% respectively at the end of 2009). The number of votes carried by these shares was 25,633,807 or 6.67% of the total voting rights (19,875,903 or 5.18% respectively at the end of 2009). A list of Kesko's largest shareholders, updated monthly, is available at www.kesko.fi/investors.

THE 2003 OPTION SCHEME

On 31 March 2003, the Annual General Meeting resolved to gratuitously issue a total of 1,800,000 stock options to the management of the Kesko Group as well as to a wholly-owned subsidiary of Kesko Corporation. A deviation was made from the shareholders' pre-emptive right to subscription since the stock options form a part of the incentive and commitment programme for the management. The scheme comprised approximately 60 persons. Each stock option entitled its owner to subscribe for one Kesko Corporation B share. The stock options were marked with shortnames 2003D (KESBVEW103, ISIN code FI0009609317), 2003E (KESBVEW203, ISIN code FI0009609325), and 2003F (KESBVEW303, ISIN code FI0009609333), in units of 600,000 stock options each.

The share subscription periods of the options are (subscription periods have expired):

- 2003D, 1 April 2005 – 30 April 2008,
- 2003E, 1 April 2006 – 30 April 2009, and
- 2003F, 1 April 2007 – 30 April 2010.

The original share subscription price for stock option 2003D was the trade volume weighted average price of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 to 30 April 2003 (€9.63), for stock option 2003E, the corresponding price between 1 to 30 April 2004 (€15.19) and for stock option 2003F, the corresponding price between 1 to 30 April 2005 (€19.08). The subscription periods have expired.

THE 2007 OPTION SCHEME

The Annual General Meeting of 26 March 2007 decided to grant a total of 3,000,000 stock options for no consideration to the Kesko Group management and other key Kesko personnel, and to a subsidiary wholly owned by Kesko Corporation. The company had a weighty financial reason for granting stock options because they are intended to be part of Kesko's share-based incentive system.

Each stock option entitles its holder to subscribe for one new Kesko Corporation B share. The stock 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 share subscription periods of the 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 subscription price for stock 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), for stock option 2007B between 1 April and 30 April 2008 (€26.57), and for stock option 2007C between 1 April and 30 April 2009 (€16.84). The subscription prices of shares subscribed for with stock 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 dividend distribution or other distribution of funds. After the 2009 dividend distribution, the subscription price for a B share with a 2007A option is €42.32, with a 2007B option €24.67 and with a 2007C option €15.94.

If shares were subscribed for with all of the exercisable options, the shares subscribed for with all of the 2007 scheme options would account for 2.95% of shares and 0.77% of all votes. The subscriptions made with options could raise the number of the company 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 MADE WITH STOCK OPTIONS

In 2010, the share capital was increased three times corresponding to share subscriptions made with the options of the 2003 option scheme. The increases were made on 11 February 2010 (€128,424), 3 May 2010 (€422,754) and 3 June 2010 (€88,348). In 2010, the share capital was increased by a total of €639,526 (319,763 shares).

By the end of 2010, 574,088 B shares had been subscribed for with the 2003D options (subscription period has expired), 576,000 with the 2003E options (subscription period has expired), and 552,499 with the 2003F options (subscription period has expired), or 1,702,587 B shares in aggregate.

The subscribed shares have been included in the official list of the NASDAQ OMX Helsinki stock exchange for public trading.

Until now, shares have not been subscribed for with the 2007 option scheme options. A total of 3,000,000 new B shares can be subscribed for under this scheme. The proceeds from share subscriptions are recorded in the reserve of invested non-restricted equity.

OTHER SPECIAL SHAREHOLDING RIGHTS

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

SHARES AND OPTIONS HELD BY THE MANAGEMENT

At the end of 2010, the members of Kesko Corporation's Board of Directors, the President and CEO and the corporations under their control held 224,720 Kesko Corporation A shares (224,720 at the end of 2009) and 105,820 Kesko Corporation B shares (100,820), or a total of 330,540 shares (325,540), which represented 0.34% (0.33%) of the company's total share capital and 0.61% (0.61%) of the voting rights.

At the end of 2010, the company's President and CEO held a total of 150,000 Kesko Corporation options (150,000 at the end of 2009), which represented 0.15% (0.15%) of the company's total share capital and 0.04% (0.04%) of voting rights, presuming that shares have been subscribed for with all of these options. The Board members did not hold options at the end of 2010 (nor at the end of 2009).

Detailed information on shares and options held by the management at the beginning and at the end of 2010 is given on pages 76–79.

TRADING IN KESKO'S SHARES AND OPTIONS IN 2010

Kesko Corporation's shares are listed on the NASDAQ OMX Helsinki Ltd Helsinki stock exchange. Key information about share trading in 2010 is given in the graphs on this double page spread. The price trends of both shares followed the general share price trend. The price of liquid B shares rose by 51% and those of less liquid A shares by 47%, while the NASDAQ OMX Helsinki All Share Index was up 19%. The number of B shares traded on the Helsinki stock exchange declined by about one third. However, the value traded increased by about 5%. The number of A shares traded nearly quadrupled, compared to the previous year, and the value traded was six-fold. At the end of the year, the market capitalisation of A shares was €1,101 million and that of B shares €2,337 million. The total market capitalisation of the company was €3,438 million, an increase of €1,152 million, or 50% during the year.

FLAGGING NOTIFICATIONS

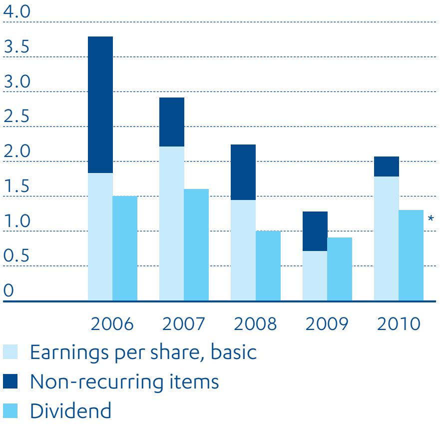
On 27 July 2010, the Kesko Pension Fund sold such a number of Kesko A shares owned by it to Kruunuvuoren Satama Oy that its holding of Kesko shares, as a percentage of votes carried by all Kesko shares, fell below 5%, and respectively, the number of votes carried by shares held by Kruunuvuoren Satama Oy exceeded 5% of votes carried by all Kesko shares. The matter was announced in a stock exchange release on 27 July 2010.

On 29 October 2010, Kesko Corporation received a notice according to which the aggregate holding of Kesko shares by the K-Retailers' Association, its Branch Clubs and the Foundation for Vocational Training in the Retail Trade exceeded 5 percent on 28 October 2010. The matter was announced in a stock exchange release on 29 October 2010.

The company has not been informed of any agreements concerning the ownership of its shares or voting rights.

Share performance indicators

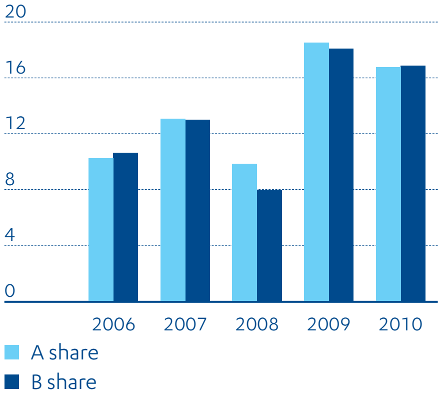
EARNINGS PER SHARE AND DIVIDEND PER SHARE, €



*Proposal to the AGM

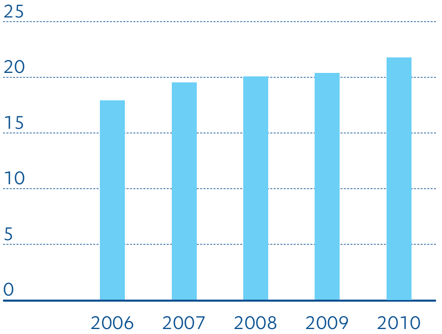
SHARE PRICE PER EARNINGS, P/E RATIO

at 31 Dec., adjusted



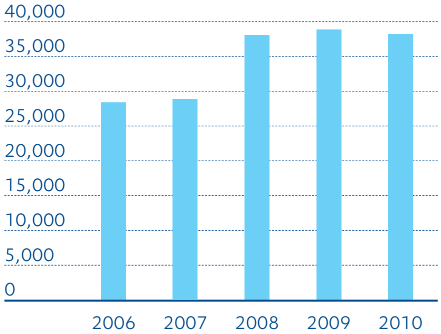
EQUITY PER SHARE, €

at 31 Dec., adjusted

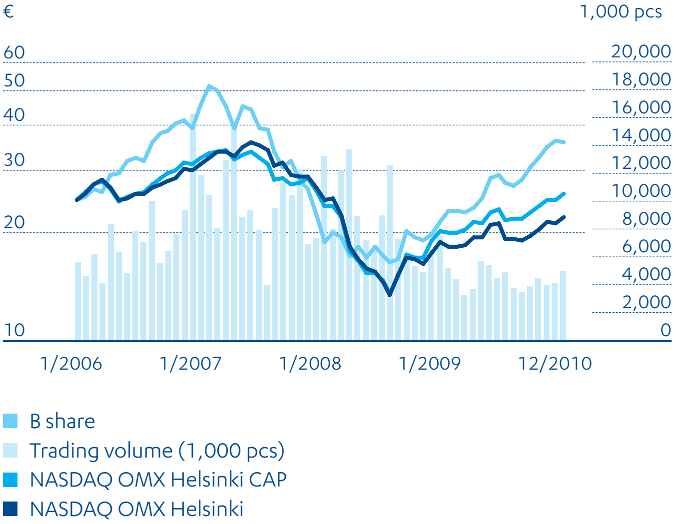


NUMBER OF SHAREHOLDERS

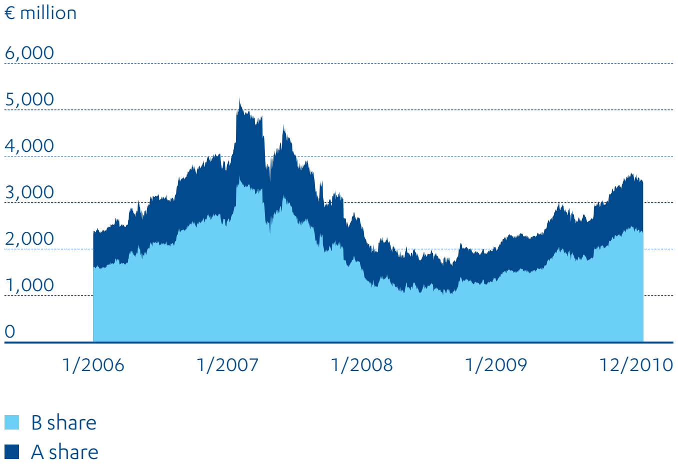
at 31 Dec.



PRICE TREND OF KESKO B SHARE



MARKET CAPITALISATION OF KESKO SHARES



THE LATEST CHANGES IS SHARE CAPITAL

Year	Subscription period	Subscription ratio and price per option type	Change	New share capital, €
2006	13.2.2006	1:1 à 7.87 € B stock option	€ 640,500	€ 193,608,352
		1:1 à 6.11 € C stock option		
		1:1 à 5.63 € D stock option		
2006	4.5.2006	1:1 à 7.87 € B stock option	€ 938,058	€ 194,546,410
		1:1 à 6.77 € B stock option		
		1:1 à 6.11 € C stock option		
		1:1 à 5.01 € C stock option		
		1:1 à 4.53 € D stock option		
2006	9.6.2006	1:1 à 4.53 € D stock option	€ 59,200	€ 194,605,610
		1:1 à 12.09 € E stock option		
2006	7.8.2006	1:1 à 4.53 € D stock option	€ 118,000	€ 194,723,610
		1:1 à 12.09 € E stock option		
2006	3.10.2006	1:1 à 4.53 € D stock option	€ 94,800	€ 194,818,410
		1:1 à 12.09 € E stock option		
2006	1.11.2006	1:1 à 4.53 € D stock option	€ 157,200 €	€ 194,975,610
		1:1 à 12.09 € E stock option		
2006	21.12.2006	1:1 à 4.53 € D stock option	€ 64,240	€ 195,039,850
		1:1 à 12.09 € E stock option		
2007	12.2.2007	1:1 à 4.53 € D stock option	€ 46,376	€ 195,086,226
		1:1 à 12.09 € E stock option		
2007	26.4.2007	1:1 à 3.03 € D stock option	€ 86,800	€ 195,173,026
		1:1 à 10.59 € E stock option		
2007	29.5.2007	1:1 à 3.03 € D stock option	€ 298,572	€ 195,471,598
		1:1 à 10.59 € E stock option		
		1:1 à 16.48 € F stock option		
2007	24.7.2007	1:1 à 3.03 € D stock option	€ 9,000	€ 195,480,598
		1:1 à 10.59 € E stock option		
2007	26.9.2007	1:1 à 3.03 € D stock option	€ 39,032	€ 195,519,630
		1:1 à 16.48 € F stock option		
2007	19.12.2007	1:1 à 3.03 € D stock option	€ 15,900	€ 195,535,530
		1:1 à 10.59 € E stock option		
2008	11.2.2008	1:1 à 3.03 € D stock option	€ 210	€ 195,535,740
		1:1 à 10.59 € E stock option		
2008	28.4.2008	1:1 à 3.03 € D stock option	€ 38,168	€ 195,573,908
		1:1 à 2.00 € D stock option		
		1:1 à 8.99 € E stock option		
2008	9.6.2008	1:1 à 2.00 € D stock option	€ 42,200	€ 195,616,108
		1:1 à 14.88 € F stock option		
2008	28.7.2008	1:1 à 8.99 € E stock option	€ 8,600	€ 195,624,708
2008	1.10.2008	1:1 à 8.99 € E stock option	€ 4,000	€ 195,628,708
2008	27.10.2008	1:1 à 8.99 € E stock option	€ 6,000	€ 195,634,708
2008	18.12.2008	1:1 à 8.99 € E stock option	€ 7,500	€ 195,649,708
2009	11.2.2009	1:1 à 8.99 € E stock option	€ 52,392	€ 195,702,100
2009	5.5.2009	1:1 à 8.99 € E stock option	€ 51,250	€ 195,753,350
		1:1 à 7.99 € E stock option		
2009	5.6.2009	1:1 à 7.99 € E stock option	€ 673,146	€ 196,426,496
		1:1 à 13.88 € F stock option		
2009	17.12.2009	1:1 à 13.88 € F stock option	€ 216,562	€ 196,643,058
2010	11.2.2010	1:1 à 13.88 € F stock option	€ 128,424	€ 196,771,482
2010	3.5.2010	1:1 à 12.98 € F stock option	€ 422,754	€ 197,194,236
2010	3.6.2010	1:1 à 12.98 € F stock option	€ 88,348	€ 197,282,584

Prices and trading of Kesko A and B shares on the Helsinki Stock Exchange in 2010

Share	Share price, € 31 Dec. 2009	Share price, € 31 Dec. 2010	Change,%	Lowest price, €	Highest price, €	Trading volume, 1,000 pcs	Total value traded, € million
A share	23.60	34.70	+47.0	23.16	36.45	4,366	132,839
B share	23.08	34.93	+51.3	22.40	37.49	52,696	1,574,785

During the year, the NASDAQ OMXHelsinki All Share Index rose by 18.7% and the NASDAQ OMXHelsinkiCAP Index by 24.8%, and the Helsinki Stock Exchange Consumer Staples Index by 31.0%. Up-to-date information on shares and shareholders is available at www.kesko.fi.

10 largest shareholders by number of shares (A- and B-series) at 31.12.2010

		Number of shares, pcs	% of shares	Number of votes	% of votes
1	Vähittäiskaupan Takaus Oy	3,491,771	3.54	27,148,568	7.06
2	The K-Retailers´ Association	3,449,301	3.50	34,125,360	8.88
3	Kruunuvuoren Satama Oy	2,635,046	2.67	26,350,460	6.86
4	Ilmarinen Mutual Pension Insurance Company	2,043,050	2.07	4,155,908	1.08
5	Valluga-sijoitus Oy	1,340,439	1.36	13,404,390	3.49
6	Kesko Pension Fund	1,303,839	1.32	8,538,390	2.22
7	Varma Mutual Pension Insurance Company	1,130,986	1.15	1,130,986	0.29
8	Oy The English Tearoom Ab	1,008,400	1.02	1,008,400	0.26
9	Foundation for Vocational Training in the Retail Trade	946,027	0.96	8,089,318	2.11
10	Tapiola Mutual Pension Insurance Company	900,000	0.91	900,000	0.23

Ownership structure 31.12.2010

All shares	Number of shares	% of all shares
Non-financial corporations and housing corporations	27,638,401	28.02
Financial and insurance corporations	4,458,231	4.52
General Government*	7,248,353	7.35
Households	27,579,318	27.96
Non-profit institutions serving households**	6,168,560	6.25
Rest of the world	505,742	0.51
Nominee registered	25,042,687	25.39
Total	**98,641,292**	**100.00**

A shares	Number of shares	% of A shares	% of all shares
Non-financial corporations and housing corporations	20,721,940	65.29	21.01
Financial and insurance corporations	1,459,995	4.60	1.48
General Government*	1,185,435	3.74	1.20
Households	6,642,550	20.93	6.73
Non-profit institutions serving households**	1,655,845	5.22	1.68
Rest of the world	5,562	0.02	0.01
Nominee registered	65,680	0.21	0.07
Total	**31,737,007**	**100.00**	**32.17**

B shares	Number of shares	% of B shares	% of all shares
Non-financial corporations and housing corporations	6,916,461	10.34	7.01
Financial and insurance corporations	2,998,236	4.48	3.04
General Government*	6,062,918	9.06	6.15
Households	20,936,768	31.29	21.23
Non-profit institutions serving households**	4,512,715	6.75	4.57
Rest of the world	500,180	0.75	0.51
Nominee registered	24,977,007	37.33	25.32
Total	**66,904,285**	**100.00**	**67.83**

* *General government = for example, municipalities, the provincial administration of Åland, employment pension institutions and social security funds.*

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

10 largest shareholders by number of votes at 31.12.2010.

		Number of shares, pcs	% of shares	Number of votes	% of votes
1	The K-Retailers´ Association	3,449,301	3.50	34,125,360	8.88
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	1,303,839	1.32	8,538,390	2.22
6	Foundation for Vocational Training in the Retail Trade	946,027	0.96	8,089,318	2.11
7	Ilmarinen Mutual Pension Insurance Company	2,043,050	2.07	4,155,908	1.08
8	Food Paradise Oy	389,541	0.39	3,895,410	1.01
9	The K-Food Retailers´ Club	366,413	0.37	3,664,130	0.95
10	Heimo Välinen Oy	320,000	0.32	3,020,000	0.79

Distribution of share ownership at 31.12.2010

All shares Number of shares	Number of shareholders	% of shareholders	Shares total	% of shares
1–100	10,932	28.57	634,207	0.64
101–500	14,498	37.90	3,949,825	4.00
501–1,000	5,445	14.23	4,290,823	4.35
1,001–5,000	5,681	14.85	12,580,749	12.75
5,001–10,000	939	2.45	6,677,528	6.77
10,001–50,000	636	1.66	13,251,152	13.43
50,001–100,000	69	0.18	4,995,879	5.06
100,001–500,000	45	0.12	9,355,076	9.48
500,001–	13	0.03	42,906,053	43.50
Total	**38,258**	**100.00**	**98,641,292**	**100.00**

A shares Number of shares	Number of shareholders	% of holders of A shares	A shares total	% of A shares
1–100	1,773	26.92	88,003	0.28
101–500	1,439	21.85	376,134	1.19
501–1,000	1,000	15.19	863,031	2.72
1,001–5,000	1,603	24.34	3,957,910	12.47
5,001–10,000	391	5.94	2,751,440	8.67
10,001–50,000	326	4.95	7,000,058	22.06
50,001–100,000	33	0.50	2,350,224	7.41
100,001–500,000	14	0.21	2,740,200	8.63
500,001–	6	0.09	11,610,007	36.58
Total	**6,585**	**100.00**	**31,737,007**	**100.00**

B shares Number of shares	Number of shareholders	% of holders of B shares	B shares total	% of B shares
1–100	10,045	29.52	592,718	0.89
101–500	13,901	40.85	3,792,433	5.67
501–1,000	4,719	13.87	3,657,216	5.47
1,001–5,000	4,420	12.99	9,415,007	14.07
5,001–10,000	540	1.59	3,885,275	5.81
10,001–50,000	333	0.98	6,618,065	9.89
50,001–100,000	31	0.09	2,241,743	3.35
100,001–500,000	29	0.09	6,397,961	9.56
500,001–	8	0.02	30,303,867	45.29
Total	**34,026**	**100.00**	**66,904,285**	**100.00**

Share capital and shares

		2006	2007	2008	2009	2010
Share capital	€ million	195	196	196	197	197
Number of shares at 31 Dec.	1,000 pcs	97,519.9	97,767.8	97,824.9	98,321.5	98,641.3
Average number of shares at 31 Dec.	1,000 pcs	97,152.3	97,665.9	97,795.7	98,061.8	98,525.9
Adjusted average number of shares during the year	1,000 pcs	98,027.0	98,395.3	98,256.2	98,382.2	99,121.5
of which A shares	%	32	32	32	32	32
of which B shares	%	68	68	68	68	68
Market capitalisation, A share	€ million	1,220	1,201	698	749	1,101
Market capitalisation, B share	€ million	2,632	2,491	1,176	1,537	2,337
Number of shareholders at 31 Dec.	pcs	28,414	28,925	38,080	38,888	38,258
Share turnover						
A share	€ million	61	161	41	22	133
B share	€ million	2,410	5,294	2,859	1,501	1,575
Share turnover						
A share	million pcs	2	4	1	1	4
B share	million pcs	77	122	121	78	53
Turnover rate						
A share	%	6.4	11.5	4.5	3.1	13.8
B share	%	117.1	185.3	183.3	117.4	78.8
Change in turnover						
A share	%	57.2	78.8	-61.0	-30.4	339.5
B share	%	15.4	58.8	-1.0	-35.4	-32.6
Share price at 31 Dec.						
A share	€	38.43	37.85	22.00	23.60	34.70
B share	€	40.02	37.72	17.80	23.08	34.93
Average share price						
A share	€	30.10	43.85	28.30	21.92	30.42
B share	€	31.34	43.36	23.51	19.18	29.83
Highest share price during the year						
A share	€	38.99	53.44	38.20	25.00	36.45
B share	€	40.48	54.85	38.12	24.00	37.49
Lowest share price over the year						
A share	€	23.72	34.52	21.33	18.73	23.16
B share	€	23.80	34.40	15.31	14.99	22.40
Earnings per share, diluted	€	3.76	2.90	2.24	1.27	2.06
Earnings per share, basic	€	3.80	2.92	2.25	1.28	2.08
Equity per share, adjusted	€	17.94	19.53	20.09	20.39	21.81
Dividend per share	€	1.50	1.60	1.00	0.90	1.30*
Payout ratio	%	39.5	54.8	44.5	70.5	63.1*
Dividend as percentage of profit excl. non-recurring items	%	82.0	72.4	69.4	126.8	72.7*
Cash flow from operating activities per share, adjusted	€	3.35	2.52	1.37	3.86	4.43
Price per earnings ratio (P/E), A share, adjusted		10.22	13.07	9.84	18.54	16.77
Price per earnings ratio (P/E), B share, adjusted		10.64	13.02	7.96	18.13	16.88
Effective dividend yield, A share	%	3.9	4.2	4.6	3.8	3.8*
Effective dividend yield, B share	%	3.8	4.2	5.6	3.9	3.7*
Yield of A share for the last five periods	%	29.3	26.6	10.9	9.2	12.2
Yield of B share						
for the last five periods	%	42.8	36.1	12.9	10.3	12.6
for the last ten periods	%	22.7	18.7	11.7	14.9	13.8

**proposal to the Annual General Meeting*

Shareholder information

FINANCIAL REPORTING CALENDAR AND KEY DATES IN 2011

Year 2010 financial statements release	3 Feb. 2011
Year 2010 Annual Report (incl. the financial statements and the report by the Board of Directors)	Week 10
Year 2011 Annual General Meeting	4 April 2011
Year 2011 3-month interim report	28 April 2011
Year 2011 6-month interim report	26 July 2011
Year 2011 9-month interim report	26 Oct. 2011

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 4 April 2011 at 13.00.

Shareholders included in Kesko Corporation's shareholder register, kept by Euroclear Finland Ltd, on 23 March 2011 (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 30 March 2011 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 the Internet 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 30 March 2011 at 10.00.

More information about the Annual General Meeting, attendance and decision-making is given at 'Corporate Governance' on pages 64–75.

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 €1.30 per share be paid for 2010. The dividend will be paid to all shareholders included in the register of Kesko Corporation's shareholders kept by Euroclear Finland Ltd on 7 April 2011 (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 4 April 2011. 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 14 April 2011.

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 Internet pages 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 Internet pages. The company maintains the Annual Report mailing list. Those who wish to be included on the mailing list may fill in the form on the Internet at www.kesko.fi/media. Kesko's stock exchange and press releases sent by e-mail can also be ordered on the Internet 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

Riikka Toivonen, Investor Relations Manager
Tel. +358 1053 23495

Arja Talma, 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

E-mail: firstname.lastname@kesko.fi

BROKERAGE FIRMS ANALYSING KESKO:

ABG Sundal Collier, Stockholm
Anna-Karin Envall
Tel. +46 8 5662 8627
firstname.lastname@abgsc.se

Bank of Åland Plc, Helsinki
Kenneth Nyman
Tel. +358 204 293 772
firstname.lastname@alandsbanken.fi

Carnegie Investment Bank AB, Finland Branch, Helsinki
Tommy Ilmoni
Tel. +358 9 6187 1235
firstname.lastname@carnegie.fi

Cheuvreux, Stockholm
Daniel Ovin
Tel. +46 8 723 5175
dovin@cheuvreux.com

Danske Markets Equities, Helsinki
Kalle Karppinen
Tel. +358 10 236 4794
firstname.lastname@danskebank.com

Deutsche Bank, Helsinki
Timo Pirskanen
Tel. +358 9 2525 2553
firstname.lastname@db.com

Evli Pankki Oyj, Helsinki
Mika Karppinen
Tel. +358 9 476 690
firstname.lastname@evli.com

FIM Pankki Oy, Helsinki
Martin Sundman
Tel. +358 9 6134 6508
firstname.lastname@fim.com

Handelsbanken Capital Markets, Helsinki
Robin Santavirta
Tel. +358 1044 42483
rosa09@handelsbanken.se

Nordea Markets, Helsinki
Rauli Juva
Tel. +358 9 1655 9944
firstname.lastname@nordea.com

Pohjola Bank plc., Helsinki
Jari Räisänen
Tel. +358 1025 24504
firstname.lastname@pohjola.fi

SEB Enskilda, Helsinki
Jutta Rahikainen
Tel. +358 9 6162 8713
firstname.lastname@seb.fi

Swedbank Markets, Helsinki
Petri Karhunkoski
Tel. +358 20 746 9158
firstname.lastname@swedbank.fi

E. Öhman J:or Securities Finland Ltd, Helsinki
Elina Pennala
Tel. +358 9 8866 6043
firstname.lastname@ohmangroup.fi

Organisation, management and contact information

Kesko Corporation's Board of Directors and Corporate Management Board are presented on pages 76–77 and 78–79.

KESKO CORPORATION

Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 10 5311, fax +358 9 174 398
E-mail (unless otherwise stated):
firstname.lastname@kesko.fi
President and CEO Matti Halmesmäki
Finance: Senior Vice President,
CFO Arja Talma
Corporate Accounting: Vice President,
Corporate Controller Eva Kaukinen
Treasury: Vice President,
Group Treasurer Heikki Ala-Seppälä
Finance and Accounting Services:
Vice President Eija Jantunen
Corporate IT:
Vice President, CIO Arto Hiltunen
Human Resources:
Senior Vice President Riitta Laitasalo
Legal Affairs, Risk Management and Internal Audit: Vice President,
General Counsel Anne Leppälä-Nilsson
Corporate Communications and Responsibility:
Senior Vice President Merja Haverinen

Subsidiaries

K-Instituutti Oy
Juustenintie 1, FI-01630 Vantaa
Tel. +358 1053 37370
www.k-instituutti.fi
Managing Director Juha Dahlman
K-Plus Oy
Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 10 53020
www.plussa.com
Managing Director Niina Ryynänen
K-Talouspalvelukeskus Oy
P.O.B. 823, FI-33101 Tampere
Tel. +358 10 5311
Managing Director Eija Jantunen

DISTRICT OPERATIONS

The Greater Helsinki Area, Helsinki
Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 10 5311
District Director Antti Palomäki

Uusimaa, Helsinki
Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 10 5311
District Director Timo Huurtola

Eastern Finland, Kuopio
Siunauskappelintie 2, P.O.B. 127,
FI-70101 Kuopio
Tel. +358 10 5311
District Director Kari Niskanen

The Finnish Lakeland, Jyväskylä
c/o K-citymarket Seppälä
Vasarakatu 29, FI-40320 Jyväskylä
Tel. +358 10 5311

Southeastern Finland, Lahti
c/o K-citymarket Lahti Laune
Ajokatu 53, FI-15500 Lahti
Tel. +358 10 5311
District Director Timo Heikkilä

Southwestern Finland, Turku
Lemminkäisenkatu 50, P.O.B. 116, FI-20101 Turku
Tel. +358 10 5311
District Director Olli Setänen

Pirkanmaa, Tampere
Kalevantie 2, P.O.B. 479, FI-33101 Tampere
Tel. +358 10 5311
District Director Jari Alanen

Ostrobothnia, Seinäjoki
c/o K-maatalous Seinäjoki
Hautomonkatu 2, FI-60100 Seinäjoki
Tel. +358 10 5311
District Director Heikki Tynjälä

Northern Finland, Oulu
Äimäkuja 6, P.O.B. 16, FI-90401 Oulu
Tel. +358 10 5311
District Director Jari Saarinen
(e-mail: jari.k.saarinen@kesko.fi)

FOOD TRADE

Kesko Food Ltd
Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 10 53030
President Terho Kalliokoski
K-citymarket, Food:
Vice President Mika Rautiainen
K-supermarket:
Vice President Jaana Hertsberg
K-market (K-market and K-extra):
Vice President Timo Lavikainen
Commerce: Vice President Minna Kurunsaari
K-Plus Oy:
Managing Director Niina Ryynänen
Retail Services:
Vice President Kari Heiskanen
(e-mail: kari.j.heiskanen@kesko.fi)
Logistics and IT Management:
Vice President Petteri Niemi
Finance and Human Resources:
Vice President Jukka Erlund

Subsidiaries

Kespro Ltd
Sähkötie 1, Vantaa, P.O.B. 15, FI-00016 Kesko
Tel. +358 10 53040
www.kespro.com
Managing Director Jorma Rauhala
Pikoil Oy
Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 20 742 2000
Managing Director Harri Ojala
Keslog Ltd
Jokiniementie 31, P.O.B. 47, FI-01301 Vantaa
Tel. +358 10 53050
www.keslog.fi
Managing Director Mika Salmijärvi

HOME AND SPECIALITY GOODS TRADE

Valimotie 17, Helsinki, P.O.B. 1060,
FI-00016 Kesko
Tel. +358 10 5343
Senior Vice President Matti Leminen

Anttila Oy
Valimotie 17, Helsinki, P.O.B. 1060,
FI-00016 Kesko
Tel. +358 10 5343
www.anttila.fi, www.kodin1.com
www.netanttila.com
President Ari Akseli

Subsidiaries

Anttila AS
Uus 33, EE-71033 Viljandi, Estonia
Tel. +372 43 53 360
E-mail: anttila@anttila.ee
www.anttila.ee
Managing Director Tauno Tuula
SIA Antti
Jersikas iela 12/14, LV-1003 Riga, Latvia
Tel. +371 703 3301
E-mail: anttila@anttila.lv
www.anttila.lv
Director Kalle Lill

K-citymarket Oy
Kutojantie 4, FI-02630 Espoo
Tel. +358 10 5311
www.k-citymarket.fi
President Ari Akseli

Indoor Group Ltd
Tikkurilantie 10, FI-01380 Vantaa
Tel. +358 1053 46600
www.indoorgroup.fi, www.asko.fi,
www.sotka.fi
President Jussi Mikkola

Subsidiaries
Indoor Group AS
Peterburi tee 50c, EE-11415 Tallinn, Estonia
Tel. +372 680 5560
www.indoorgroup.ee
Country Manager Kari Forssten
Insofa Oy
Iso-Paavolankatu 2, P.O.B. 226, FI-15101 Lahti
Tel. +358 2076 14510
www.insofa.fi
Managing Director Markku Remes

Intersport Finland Ltd
Kutojantie 4, FI-02630 Espoo
Tel. +358 10 5311
www.intersport.fi, www.budgetsport.fi
President Juha Nurminen

Musta Pörssi Ltd
Kutojantie 4, FI-02630 Espoo
Tel. +358 10 5311
www.mustaporssi.fi, www.konebox.fi
President Leena Havikari

Kenkäkesko Ltd
Kutojantie 4, FI-02630 Espoo
Tel. +358 10 5311
www.andiamo.fi, www.k-kenka.fi
President Martti Toivanen

BUILDING AND HOME IMPROVEMENT TRADE

Rautakesko Ltd
Tikkurilantie 10, P.O.B. 75, FI-01301 Vantaa
Tel. +358 10 53032
E-mail: rautakesko.info@kesko.fi
www.rautakesko.com
President Jari Lind
Field Operations:
Vice President Jouko Björkman
Finance: Vice President Juhani Järvi
Development: Director Mikko Pasanen
International Operations:
Vice President Timo Virtanen
Commerce (Hardware and Agricultural Trade):
Vice President Antti Ollila
K-rauta chain: Vice President Jani Karotie
Rautia chain, K-maatalous chain and
K-customer contract stores:
Vice President Kimmo Vilppula
B2B Sales: Vice President Olli Honkasaari

K-maatalous Experimental Farm
Hahkialantie 57, FI-14700 Hauho
Tel. +358 10 53032
www.k-koetila.fi

Subsidiaries
Byggmakker Norge AS
Snipetjernveien 7, Postboks 650,
NO-1401 Ski, Norway
Tel. +47 6491 4000
E-mail: firmapost@byggmakker.no
www.byggmakker.no
Managing Director Espen Hoff
K-rauta AB
Bagarbyvägen 61,
SE-19134 Sollentuna, Sweden
Tel. +46 8 588 18 900
E-mail: info@k-rauta.se
www.k-rauta.se
Managing Director Jani Jylhä
Rautakesko AS
Tähetorni 100a, EE-11625 Tallinn, Estonia
Tel. +372 6 257 501
E-mail: info@rautakesko.ee
www.rautakesko.ee
Managing Director Alo Ivask
AS Rautakesko
Tiraines st. 15, LV-1058 Riga, Latvia
Tel. +371 7 810 090
E-mail: rautakesko@rautakesko.lv
www.k-rauta.lv
Managing Director Alo Ivask
UAB Senuku prekybos centras
Pramones pr. 6,
LT-51500, Kaunas-31, Lithuania
Tel. +370 37 304 999
E-mail: marketing@senukai.lt
www.senukai.lt
President Arturas Rakauskas
ZAO Stroymaster
Bolshoi Sampsonievskij Prospekt 68,
lit N, RU-194100 St. Petersburg, Russia
Tel. +7 812 326 9231
E-mail: info@kesko.ru
www.k-rauta.ru
Country Director Mikko Nissinen
OOO OMA
Office 36, Per. Promyshlenny 12a
Minsk 220075, Belarus
Tel. +375 17 244 9303
E-mail: mh@oma.by
Managing Director Mikhail Khamichonak

CAR AND MACHINERY TRADE

VV-Auto Group Oy
Tikkurilantie 123, P.O.B. 140, FI-01511 Vantaa
Tel. +358 1053 38300
www.audi.fi, www.volkswagen.fi, www.seat.fi
President Pekka Lahti
Audi: Brand Manager Petri Aarnio
Volkswagen passenger cars:
Brand Manager Lauri Haapala
Volkswagen commercial vehicles:
Brand Manager Heikki Leskinen
After-sales services: Director Jarmo Toivanen
Business support:
Financial Director Timo Pesonen
Dealer network and business development:
Director Mia Miettinen

Subsidiaries
Auto-Span Oy
Tikkurilantie 123, P.O.B. 140, FI-01511 Vantaa
Tel. +358 1053 38380
www.seat.fi
Managing Director Kimmo Vainio
VV-Autotalot Oy
Mekaanikonkatu 10, FI-00880 Helsinki
Tel. +358 1053 33200
www.vv-auto.fi
Managing Director Arto Manninen
Turun VV-Auto Oy
Rieskalähteentie 89, FI-20300 Turku
Tel. +358 2 338 881
www.vv-auto.fi
Managing Director Arto Manninen

Konekesko Ltd
Vanha Porvoontie 245, P.O.B. 145,
FI-01301 Vantaa
Tel. +358 10 53034
www.konekesko.com
Managing Director Aatos Kivelä

Subsidiaries
Konekesko Eesti AS
Põrguvälja tee 3 a, Pildiküla, Rae vald,
EE-75301 Harju mk, Estonia
Tel. +372 605 9100
www.konekesko.com/ee/
Managing Director Ela Lillemaa
Konekesko Latvija SIA
Tiraines iela 15, LV-1058 Riga, Latvia
Tel. +371 6706 4304
www.konekesko.com/lv/
Managing Director Antra Spickus
UAB Konekesko Lietuva
Savanoriu pr. 191, LT-02300 Vilnius, Lithuania
Tel. +370 5 247 7400
www.konekesko.com/lt/
Managing Director Lina Morkunaite
OOO Konekesko
Urhov pereulok, 7 A,
198095 St. Petersburg, Russia
Tel. +7 812 326 4653
www.konekesko.com/ru/
Area Director for Russia Pekka Mankinen

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

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 1,270 – 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.

PHOTOS: Kimmo Syväri, Juha-Pekka Laakio, Anton Sucksdorff, Jussi Jäppinen, Adolfo Vera and Kesko's image banks
PRINTED BY: Libris Oy

NORDIC ENVIRONMENTAL LABEL
441 014
Printed matter

Kesko Corporation
Satamakatu 3, Helsinki, FI-00016 KESKO
Tel. +358 10 5311
www.kesko.fi
Business ID 0109862-8