

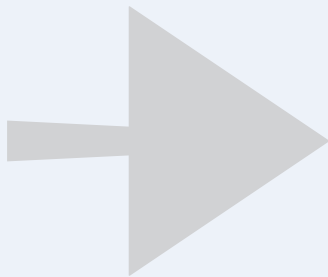
KESKO

ANNUAL REPORT 1996

Change

The store type reform in 1994 of the key customer group, K-stores, initiated a significant change in Kesko's operations. During 1995, wholesale-oriented operations were changed so as to serve the store type chains. A new area emerging alongside the domestic trade was the development of operations in neighbouring countries. For Kesko's personnel, 1996 was a year of very extensive internal regeneration. The full-scale implementation of the new management system, introduction of the quality system and more systematic environmental management were extensive projects.

2. Key figures and main events



Values

The key value of Kesko and also the whole K-Group is customer satisfaction. It is connected with all other values. The core element of the value structure is formed by a spirit of enterprise, profitability and cooperation, on which the business operations of the whole K-Group are based. Continuous improvement, responsibility and respect for other people form in this structure the flexible element which can adapt to the surrounding society.

3. Basis for Kesko's operations

4. Review by the Chairman and Chief Executive

7. Kesko's operating environment



KESKO

Kesko is the leading wholesale company in Finland and the central company of the biggest trading group. Its business operations are divided into foodstuffs trade, speciality goods trade and international operations. The foodstuffs trade consists of groceries and home goods. The speciality goods trade consists of home electronics, shoes, clothes, sports articles, and agricultural and builders' supplies. International Operations maps out and starts new business operations and develops the business of foreign trade companies.

Growth

Kesko's strong position in the domestic market has limited its opportunities for growth. During 1996, Kesko made an active effort to reach its growth targets by means of company acquisitions. Despite the partial dissolution of the Tuko deal, significant advances were made in directing operations to new growth areas. The international expertise of Kaukomarkkinat and the setting up of hardware and shoe stores in Sweden, as well as the introduction of completely new speciality goods lines at home, widen the scope for future growth.

6. Business reviews

Domestic Operations

Foodstuffs Division (6)

Speciality Goods Division (14)

International Operations (18)

Tuko (20)

22. Corporate Administration

24. Kesko and the environment

Performance

For Kesko, profitability of operations has always been an important principle. Nearly thirty successive profitable years are a proof of that. The difficult economic circumstances in the 1990's have severely tested profitability management. However, Kesko has managed to maintain its profitability and even produced improved results in recent years. In this, profound expertise and effective cost-control in the main line of operations have been the deciding factors, as well as continuous improvement of operational quality and efficiency.

25. Report by the Board of Directors

30. Corporation in figures

32. Financial statements

Consolidated income statement (32)

Consolidated statement of cash flows (33)

Consolidated balance sheet (34)

Kesko Ltd's income statement (36)

Kesko Ltd's statement of cash flows (37)

Kesko Ltd's balance sheet (38)

Notes to the financial statements (40)

47. Share capital and shareholders

51. Auditors' report

51. Statement by the Supervisory Board

52. Kesko's subsidiaries and associated companies

54. Kesko Corporation's Organisation and Board of Directors

56. Supervisory Board, Auditors and Directors

58. K-stores

60. Addresses

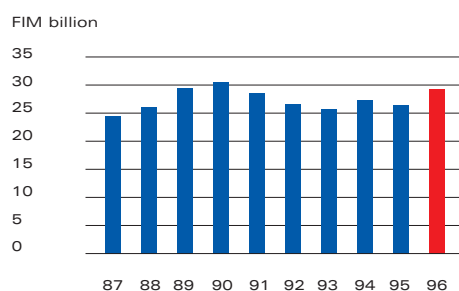
Key figures

	1992	1993	1994	1995	1996	1996
Net sales, FIM million	26,641	25,822	27,060	26,438	29,279	USD 6,309 million
Profit before extraordinary items and taxes, FIM million	378	285	462	689	740	USD 159 million
Cash flow, FIM million	585	662	749	921	1,260	USD 271 million
Earnings per share, FIM	3.24	2.82	3.75	5.61	6.05	USD 1.09
Dividend per share, FIM	1.30	1.10	1.40	1.90	* 2.00	USD 0.43
Net assets per share, FIM	68.79	73.18	77.10	80.70	84.26	USD 18.14
Price per earnings ratio (P/E)	11.3	17.4	14.7	9.7	10.7	
Balance sheet total, FIM million	14,848	15,589	13,312	13,260	14,809	USD 3,189 million
Total equity to assets ratio, %	42.3	42.9	52.8	55.6	51.9	
Investments, FIM million	725	640	654	519	1,067	USD 230 million
Average number of personnel	6,816	6,227	5,701	5,833	6,503	

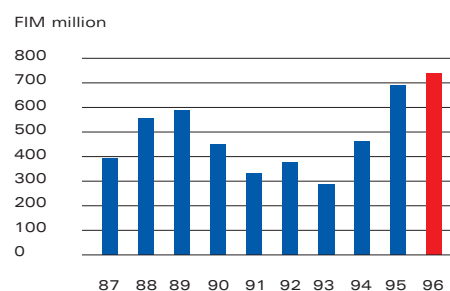
* proposal to the Annual General Meeting

USD 1 = FIM 4.64 (31.12.1996)

Net sales



Profit before extraordinary items



Main events

On 8 May 1996, Kesko purchased the total share capital of Kaukomarkkinat Oy from Sponsor Oy.

On 27 May 1996, Kesko purchased a majority shareholding in Tuko Oy from Merita Bank Ltd, the Pohjola Insurance Company Ltd and the Central Bank of the Cooperative Banks.

From 12 June 1996, the organisation of the Kesko Corporation and the areas of responsibility of the members of Kesko's Board of Directors were changed.

On 20 June 1996, Kesko and Rautaruukki made an agreement to sell Keskometalli Oy to Rautaruukki.

On 26 June 1996, the Finnish authorities monitoring competition submitted the Tuko deal to the European Union Commission for examination.

On 26 July 1996, the EU Commission made a decision to examine the deal.

On 13 September 1996, Kesko and the Swedish ICA Handlarnas AB announced that they had sold all their mutual shareholdings related to the cross ownership established in 1993.

On 17 September 1996, the EU Commission announced its preliminary view that the concentration could lead to the creation or strengthening of a dominant market position through which effective competition in Finland would be significantly impeded.

On 2 October 1996, Kesko submitted a statement of defence on the Tuko deal to the EU Commission.

On 20 November 1996, the EU Commission gave its decision on the Tuko deal of Kesko. According to the decision, the concentration is incompatible with the common market.

On 27 December 1996, Kesko purchased the total share capital of Anttila Oy from Tuko Oy.

On 7 February 1997, Kesko made an agreement to divest the daily consumer goods and cash-and-carry businesses of Tuko excluding the daily consumer goods trade of Anttila. The real estate properties were sold to a consortium of investors formed of insurance companies. The deals are subject to the EU Commission's approval.

On 19 February 1997, the EU Commission gave its decision on the necessary actions for the dissolution of the Tuko deal.

Basic values

Individual expertise and commitment form the basis for development.



Retailer entrepreneurship is the spiritual and economic basis of all operations.

Purpose and functions

Kesko

Kesko purchases goods and provides services for its customers on competitive terms and conditions to support their business operations. Kesko creates the best conditions for the K-retailer entrepreneurs to compete in the market. The capital invested in Kesko brings a good return to its owners.

The K-store

The K-store aims to be the best store for its customers. The K-retailer, as an entrepreneur, is responsible for customer satisfaction and the profitable operation of his store. The K-retailer is a member of the K-Retailers' Association and a holder of Kesko's exclusive shares.

The K-Group

The K-Group is formed of the K-stores, the K-Retailers' Association, Kesko and its subsidiaries. The K-Group aims to be the best and most versatile trading group for its customers. Cooperation is the basic element for improving the K-Group's competitiveness and profitability.

The K-Retailers' Association

The K-Retailers' Association is responsible, together with Kesko, for cooperation among the K-retailers and for the improvement of their operational environment.

Review by the Chairman and Chief Executive



Economic development

The gross national product of Finland increased by about 3.2% in 1996.

The average change in wage level was 3.9%. Private consumption grew by about 3.5% and the disposable income of consumers by the same amount. The inflation rate was at an all-time low of only about 0.6%.

This increase in income contributed to a growth of some 4% in the retail sales in 1996. Moreover, when interest rates dropped to an unprecedentedly low level during the year and the savings rate failed to reach three percent, the sales of some consumer durables, such as cars, increased drastically.

Consumers' expectations concerning economic development are optimistic. Although the average rate of unemployment was still nearly 16% in 1996, we have sufficient reason to expect that the positive development in domestic consumption will continue as the rate of unemployment slowly improves.

Growth and profitability as targets

Profitable business operations also require continuous growth. Our key target is to strengthen our market position and competitiveness in selected operational sectors. Equally, profitability is the cornerstone of Kesko's long-term operations, as it secures a good financial position, a sufficient equity to assets ratio and an ability to pay a dividend.

A year of acquisitions

During the year, Kesko pursued actively its growth targets, particularly through acquisitions.

The purchase of Kaukomarkkinat aimed, quite successfully, at enhancing Kesko's strong position in international trade, export and import, and in the wholesale trade of branded goods.

The fact that the operations have continued uninterrupted proves that the acquisition was successful. This also provides opportunities for im-

proving branded goods knowhow in other parts of the Corporation.

The Tuko Group was acquired with the intention of continuing and developing the operations of Tuko and its chains. Making use of the planned synergy advantages and with their different operating methods, Kesko and Tuko would have been able to offer their customers more competitive purchasing opportunities than before.

In June, the Finnish Office of Free Competition sent a request to the EU Commission to examine the Tuko deal. The Commission declared that the deal was incompatible with the common market in respect of the daily consumer goods and cash-and-carry businesses, because Kesko would have gained a dominant position in these sectors in Finland.

On 19 February 1997, the EU Commission ordered that the daily consumer goods and cash-and-carry businesses of Tuko must be divested and the competitive situation re-

stored for that part. Kesko hopes to receive, as soon as possible, a confirmation from the EU Commission that the arrangement of Tuko's daily consumer goods trade implemented at the beginning of February meets the requirements of the Commission's decision. Kesko's objective is to retain the business operations of Anttila and Rautia.

Opportunities for growth are also being sought in the cash-and-carry market in Estonia and the hardware and shoe markets in Sweden. Experiences from the Swedish market in particular have been encouraging.

Management system launched

Intensive work to implement a new management system continued in the Kesko Corporation. In 1996, long-term planning and the closely connected annual planning, together with the process management based on quality thinking were used, for the first time, as the whole Corporation's planning tools. The management system is based mainly on the criteria of the Finnish Quality Prize (TQM).

New perspectives opened on many issues, as operational planning emphasized the development of both customer satisfaction and operational quality.

Importance of information grows

An efficiently operating trading group needs information systems that are

suitable for controlling its goods flows. Increasing sizes of retail stores and growing demands made by expanding chain operations call for increasingly sophisticated control systems.

Our objective is to maintain the flows of goods as economical as possible. One prerequisite to profitable operations is the effective control of mass product distribution costs. For that purpose, comprehensive management of logistical information systems is necessary.

Also, the strong commitment of Kesko's customers to the purchasing and utilisation of information systems increases Kesko's competitiveness through better control of information flows in distribution and customer operations. When the present investments in information systems are completed by the end of 1997, Kesko's competitiveness in this respect will be the best possible.

The Kesko Corporation's trading result exceeded the previous year's record by FIM 51 million. This result was made despite the capital tied to business acquisitions and the increasing need for capital. All major subsidiaries of the Corporation performed well, although the exceptional circumstances prevented active development of the Tuko Group's operations according to the original plan.

It is expected that both private consumption and retail sales volume will increase by about 4% in 1997. Private investments are estimated to

grow by nearly 10%, investments in machinery and equipment by about 9% and construction investments by over 10%.

Our sales are expected to grow by some 4%, and we aim at retaining the high profit level of the previous year. Due to the EU Commission's decision, the Tuko deal will be called off this year.

Kesko's objective is to achieve better competitiveness through growth, profitability and cost management.

Kesko's strong financial status and favourable profit outlook will continue to benefit our shareholders and partners.

I would like to thank our customers for their good cooperation and the personnel of Kesko and our subsidiaries for their excellent performance during 1996.

Helsinki,

21 February 1997



Eero Kinnunen

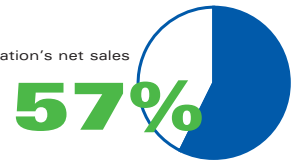
- RIMI CHAIN UNIT • NEIGHBOURHOOD STORE CHAIN UNIT • SUPERMARKET CHAIN UNIT
- SUPERSTORE CHAIN UNIT • CITYMARKET CHAIN UNIT • HORECA WHOLESALE
- FRUIT AND VEGETABLES • FRESH FOODS • GROCERIES • HOME GOODS
- K-CASH & CARRY LTD



The product selection of the Foodstuffs Division consists of foodstuffs, other groceries and home goods. International and domestic brands are complemented by Kesko's own brands of Pirkka, Diva, Rico, Costarica, Kokki and Menu.







DOMESTIC OPERATIONS

Foodstuffs Division

The Foodstuffs Division of Kesko's Domestic Operations serves, as a wholesaler, K-retailers' store type chains, K-retailers operating outside the chains, as well as other retail outlets and companies and institutions in the catering sector.

The net sales of the Foodstuffs Division totalled FIM 16,780 million, an increase of 1.3% over the previous year. Finland's membership in the EU continued to have a lowering effect on food prices, which fell by about 2% in 1996.

The store type and operating system reform that was implemented in cooperation with K-retailers was brought to the conclusion in 1996. During the three-year project, retailers refurbished a total of 930 K-grocery stores in accordance with the new store type concepts. The chain guidance information system introduced by Kesko in 1996 will help K-retailers to make effective solutions concerning merchandise trade.

ECR cooperation, aiming for customer-oriented, efficient operations between industry and trade, was started with suppliers.

The Division's operations and cost-efficiency were enhanced by reducing the number of district centres from seven to four and preparing a management information system. In addition, preparations were made for the introduction of product identification in accordance with the EAN standard.

Logistics were further improved by reducing the number of distribution centres from six to four. In addition to the Central Warehouse, Kesko has distribution centres in Turku, Tampere, Kuopio and Oulu. This increased the delivery volumes of the Central Warehouse by 15% and those of the Tampere distribution centre by 3%. The volume of terminal deliveries grew by 6.3%.

The Pirkka product range comprised over 550 items. Other important own brands include Costarica, Diva, Rico and Kokki.

Neighbourhood Store Chain Unit

The Unit operates as the chain organisation and wholesaler for the chains of K-neighbourhood stores and K-kauppa stores. It also acts as a wholesaler for the village and suburb stores of the K-Group which operate outside the chains. The organisation consists of the central unit of the chain and, starting from April, four district units. The net sales of the Neighbourhood Store Chain Unit amounted to FIM 3,111 million. The 5.5% decrease in sales was due to the closing down of many customer stores.

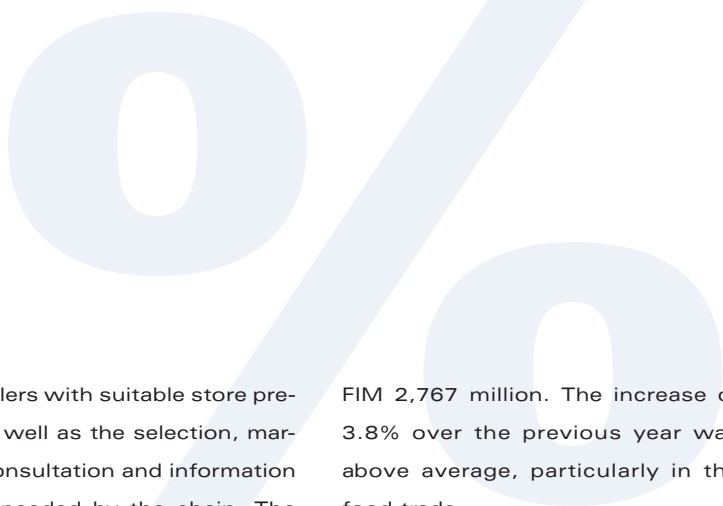
Net sales (FIM million)	1996	1995
Rimi Chain Unit	115	86
Neighbourhood		
Store Chain Unit	3,111	3,291
Supermarket Chain Unit	3,036	3,115
Superstore Chain Unit	2,767	2,666
Citymarket Chain Unit	3,458	3,096
HoReCa Wholesale	2,093	2,126
K-Cash & Carry Ltd	1,705	1,685
K-yhtiöt Oy/Citymarkets	1,604	1,477
Rich Coffee Oy	38	30
./. Inter-Corporation sales	1,146	1,004
Total	16,780	16,568

During 1996, some of the village and suburb stores operating outside the chain of K-neighbourhood stores formed a new marketing chain called K-kauppa. At the end of the year, the Neighbourhood Store Chain Unit's clientele consisted of 387 K-neighbourhood stores ("Greens"), 463 K-kauppa stores ("Blues") and 285 non-chain village and suburb stores of the K-Group.

The Unit's key activities included the development of category management and marketing models.

Rimi Chain Unit

In January, the Rimi unit was separated from the Neighbourhood Store Chain Unit and formed into the Rimi Chain Unit. In addition to wholesaling operations, the Unit provides



Rimi retailers with suitable store premises as well as the selection, marketing, consultation and information services needed by the chain. The main task of the chain is to increase the number of stores meeting the needs of this store format.

The net sales of the Rimi Chain Unit amounted to FIM 115 million, an increase of 34.0% over the previous year, which was due to new store openings. At the end of the year, there were 18 Rimi stores.

Supermarket Chain Unit

The Supermarket Chain Unit operates in the service of 223 K-Supermarkets. The net sales of the Unit totalled FIM 3,036 million, a decrease of 2.6% over the previous year. In 1996, attention was focused on the enhancement of the operating methods of the K-supermarket chain and the development of chain cooperation in, for instance, marketing. All this was done in collaboration with the chain retailers.

The cost-efficiency and competitiveness of the Supermarket Chain Unit increased as the number of district units dropped during 1996.

Superstore Chain Unit

Besides operating in the service of the K-superstores, the Superstore Chain Unit acts as a wholesaler for K-superstores, Stockmann department stores and Sesto grocery stores. The net sales of the Unit totalled

FIM 2,767 million. The increase of 3.8% over the previous year was above average, particularly in the food trade.

The number of K-superstores rose to 81. As the store type reform is now nearing conclusion, future investments will focus mainly on the opening of new stores.

The national chain marketing theme "A better than average grocery store" was introduced by the superstore chain in 1996.

Citymarket Chain Unit

The Unit deals in wholesale groceries and non-food articles, and cooperates with Citymarket retailers in the retailing of non-food articles through the Citymarket hypermarkets of Kesko's subsidiary K-yhtiöt Oy. The net sales of the Citymarket Chain Unit wholesale trading totalled FIM 3,458 million, an increase of 11.7% over the previous year. The net retail sales of K-yhtiöt Oy, Citymarket hypermarkets amounted to FIM 1,604 million. This represents an increase of 8.6%, which is above average for the store type. The sales of non-food articles were up in all product lines, but the greatest growth occurred in sports and leisure products.

There are a total of 38 Citymarket hypermarkets in 34 cities and towns. During the year, 11 Citymarkets were refurbished and Hämeenlinna Citymarket moved to new premises in the autumn. In 1996, the

chain celebrated its 25th anniversary.

HoReCa Wholesale

HoReCa Wholesale is responsible for the formation of product categories of large-scale groceries and for purchasing and selling them nationwide to restaurants, the public catering sector, service station shops, fast food outlets, bakeries and industry.

The net sales of HoReCa Wholesale totalled FIM 2,093 million, a decrease of 1.5%. During the year, the number of district sales units decreased from seven to four.

At the end of the year, the branded product range Menu of HoReCa Wholesale comprised 200 products. Their sales increased by 9.3% compared with the previous year.

Fruit and Vegetables

The Fruit and Vegetables department is responsible for the purchasing and sales of fruit, vegetables and flowers to K-stores and other customers.

The sales of fruit and vegetables totalled FIM 741 million, a growth of 3.2% over the previous year. The volume increased by 8% during the last four months of the year.

Activities emphasized the enhancement of customer satisfaction by improving the quality of both products and operations.

In order to improve operations and cut down costs and shrinkage,

Customer-oriented chain operations gained full speed

new logistical methods were created, advance planning was increased and transit times of products were shortened. The emphasis in the purchasing operations of the Nordic Viking Fruit was on overseas producer countries.

Fresh Foods

The Fresh Foods department is responsible for purchases of dairy, meat, bakery, processed and frozen food products. It is also in charge of the product development of Kesko's brands in its product line to meet the needs of the chain units in the Foodstuffs Division.

Kesko's position in the fresh foods trade strengthened. Sales of fresh foods were FIM 5,515 million, a decrease of 0.6% over the previous year. Fresh meat products were launched in the Pirkka product range.

The emphasis was on product safety, hygiene and high quality, environmental issues and the growing demand for organic products.

Groceries

The Groceries department is responsible for purchases of groceries. The sales of the department amounted to FIM 6,342 million, an increase of 1.7% over the previous year. Sales from stock increased most in beverages, non-food items, sweets and tobacco products. On the coffee market, decreasing price levels resulted in a clear growth in sales volumes. Recycling of returned cans was started, and this contributed to the successful launch of Pirkka First Choice Cola.

The 12 European AMS partners continued to develop the Euro Shopper product range with the aim of increasing its number of items to about 50.

Home Goods

The Home Goods department is in charge of the purchasing and wholesale of home textiles, household goods, hobby items, publications and toys mainly to the grocery store chains of the K-Group.

The sales of the department amounted to FIM 745 million, an increase of 1.7% over the previous year. The sales of Kesko's own brands, Pirkka and Kokki, developed according to plan.

Logistics cooperation with suppliers was developed, forming the basis for the 1997 input in this area. Demand is expected to grow by over 4% in 1997.

K-Cash & Carry Ltd

K-Cash & Carry Ltd sells groceries and non-food articles in wholesale from 26 outlets to small grocery retailers and catering customers.

The net sales of K-Cash & Carry Ltd were FIM 1,705 million, an increase of 1.2%. K-Cash & Carry Ltd increased its market share among the main customer groups.

Uncertainty in the operating environment increased: many client companies organized into chains and changes were expected in the legislation governing store opening hours.

Speciality Goods Division

The units of the Speciality Goods Division of Kesko's Domestic Operations serve, as a wholesaler, the K-store chains and other customers operating in respective lines. The Speciality Goods Division includes Kesko Clothing, Kesko Shoes, Kesko Home Technology, Kesko Sports, Kesko Agriculture and Machinery, and Kesko Hardware and Builders' Supplies. On 31 December 1996, the Division included seven subsidiaries, the biggest of which were K-maatalous-yhtiöt Oy and Alekski 13 Oy.

The general economic recovery, growing consumer disposable income and new business areas increased this Division's sales. During 1996, the following new chains started operations: Nicky&Nelly for children's wear, PopToy for toys, and Online Superstore specialising in computers and mobile communicators. In the agricultural trade, the conditions were normalised and sales developed better than expected.

The net sales of the Speciality Goods Division amounted to FIM 8,246 million, an increase of 0.1%. This figure was affected by the transfer of Keskometalli Oy outside the Corporation. The rise in comparable figures was 4.9%.

Kesko Shoes

Kesko Shoes creates shoe, glove and handbag collections in cooperation with the various chains of the K-Group and looks after the purchasing and wholesale trading of the K-kenkä and Andiamo shoe stores, as well as customers outside the K-Group.

The net sales of Kesko Shoes amounted to FIM 209 million, a decrease of 3.2%. In addition, shoes were sold to the K-grocery store chains and customers outside the K-Group for FIM 169 million. The overall wholesale sales of shoes and

clothing decreased by 6.6% in Finland. The sales of the speciality shoe stores grew by 1.6%.

The customers of Kesko Shoes included 28 Andiamo and 89 K-kenkä shoe stores. Sales to the Andiamo stores increased by 7%, whereas sales to the K-kenkä stores decreased by 1%. In addition, exports to the Baltic countries showed a favourable trend. The Skechers trademark, representing junior fashion, was added to the sales programme.

Kesko Home Technology

Kesko Home Technology is responsible for the purchase and sale of home electronics, household machines, computers and mobile phones to the Musta Pörssi stores and other customers. The number of Musta Pörssi stores was 74.

The net sales of Kesko Home Technology were FIM 483 million, a growth of 23.8%. This exceeds clearly the favourable market trend experienced in this business. The trade in mobile communicators and computers developed particularly well. In 1996, Kesko Home Technology started cooperation with Oy Anglo-Nordic Ab for the marketing of Nokia mobile phones.

The first store belonging to the Online Superstore chain, which specialises in the sale of computers,

Net sales (FIM million)	1996	1995
Kesko Shoes	209	216
Kesko Home Technology	483	390
Kesko Clothing	287	280
Kesko Sports	479	425
Kesko Agriculture and Machinery	2,965	2,948
Kesko Hardware and Builders' Supplies	3,014	2,832
Total	7,437	7,091
Subsidiaries	1,592	1,915
./ Inter-Corporation sales	783	766
Total	8,246	8,240

mobile communicators, and related articles and equipment, was opened just before the Christmas season.

Kesko Clothing

Kesko Clothing develops, in cooperation with the K-Group's chains, the collections needed by these chains and purchases them from domestic and foreign suppliers. Kesko Clothing sells its collections to the Vaatehuone, the Alekski 13 Citylook and the Nicky&Nelly chains, as well as to customers operating outside the K-Group. At the end of 1996, a total of 68 Vaatehuone fashionwear stores and 4 Alekski 13 Citylook stores were operating. The new Nicky&Nelly chain for children's wear started operating, and there were 21 such stores at the end of the year.

The clothing sector was not able to benefit from the increased purchasing power of consumers, so the sales figures in this business re-

mained exceptionally low. The poor development mainly resulted from the unfavourable weather conditions during the seasons, which did not encourage consumers to buy clothes. The overall wholesale sales of shoes and clothing decreased by 6.6% in Finland, while the sales of speciality clothing stores increased by 1.7%.

The net sales of Kesko Clothing totalled FIM 287 million, a rise of 2.5%. In addition, clothes were sold to the K-grocery stores and customers outside the K-Group for FIM 438 million. Wholesale sales to customers outside the K-Group developed favourably.

From the beginning of July 1996, Finland removed the transitional obstacles to clothing imports and started to apply external EU tariffs.

Kesko Sports

Kesko Sports is responsible for the establishment of collections and the purchase of goods to all the K-Group's chains which sell sports and leisure goods and to other customers of Kesko. Collections and products are developed in cooperation with domestic and foreign suppliers of brand products, and with the international Intersport.

The market for sports goods expanded clearly. Kesko's sales of sports goods increased by 11%. In particular, sales of winter sports accessories and ball-game accessories developed favourably. Sales of sports clothing and footwear also increased clearly.

The net sales of Kesko Sports totalled FIM 479 million, a rise of 12.7%. Sales to the Kesport-Intersport stores grew by 14% and to

Citymarket hypermarkets by 20%. There were 94 Kesport-Intersport stores operating at the end of 1996.

Shoe and handbag chain Aleksi 13

The net sales of the chain specialising in the retail of shoes and handbags amounted to FIM 72 million. A new store was opened in Lahti, and two new stores in Sweden, near Stockholm. A total of 11 Aleksi 13 stores were operating in Finland at the end of the year.

Alekski 13 Citylook

The net sales of the Alekski 13 Citylook chain specialising in the retail of clothing totalled FIM 69 million.

New stores were opened in Tampere, Lahti and Helsinki. A total of 4 Alekski 13 Citylook stores were operating at the end of the year.

PopToy

PopToy is a new chain of toy stores owned by K-yhtiöt Oy. The first two PopToy stores were opened in Helsinki towards the end of the year. The first experiences from this store format were positive. In addition to toys and games, the versatile selection of PopToy includes videos, CD-ROM products and video games for children.

In Finland, speciality toy stores sell less than 20% of all toys. This share can be increased in the future by a nationwide chain of speciality stores.

Motorfeet Ltd

Motorfeet Ltd, which previously operated under the name Fennosale Oy, is a representative and an importer of well-known branded shoes of high quality. The net sales of the compa-

ny totalled FIM 21 million, an increase of 2.0%. Its brands include Vagabond, Elefanten, Westland, Sancho, and Piano - the most recently launched trademark. The Piano trademark, including its collection, has been designed by this company, and the collection has been well received by the market.

Kesko Agriculture and Machinery

The units called K-Agriculture, Kesmotors/Kotipiha, and Kesko Machinery operate under Kesko Agriculture and Machinery. The net sales totalled FIM 2,965 million, an increase of 0.6%.

K-Agriculture is responsible for the purchase, sale and delivery of animal feed and chemicals, as well as agricultural implements and dairy farming machines to its customers, the K-agricultural stores. It also trades in grain and functions as a marketing and chain management organisation for the retail chain of agricultural stores called K-maatalous. Its business operations are supported by the K-Group's training and experimental farm Hahkiala.

The sales of the K-Agriculture unit amounted to FIM 2,040 million, an increase of 8.4 %.

The harvest of grain was good in 1996. The amount of grain offered for trade returned to a normal level, which increased the grain business by over a half. The operating conditions for agriculture were stabilised, which increased the trade in agricultural implements by about 12% and the business of dairy farming machines and production buildings by over 30%.

With new chains to expanding markets

The outlook for the agricultural business is stable for 1997. The trade in grain, animal feed and chemicals is expected to remain at the level of the previous year. The investment in production buildings is expected to further increase the business in the dairy farming and building sectors.

Kesmotors/Kotipiha is responsible for the purchase, sale and delivery of light machines, outboard motors, boats, garden supplies, and fuels and lubricants. The main group of customers is formed by Kesmotors and Kotipiha retail stores and departments. An extensive reform of chain operations has been started for these stores.

The sales of this unit totalled FIM 660 million, an increase of 15.0% over the previous year. The market position of Kesko and the K-Group strengthened, and is expected to further improve. The customers of the K-Agriculture and Kesmotors/Kotipiha units included 69 K-agricultural stores and 74 K-agricultural and hardware stores.

Kesko Machinery is responsible for the purchase, sale and delivery of Case IH and Zetor agricultural tractors, Claas combine harvesters, MAN lorries, and several machines for materials handling, construction and environmental maintenance. Tractors and combine harvesters are sold to farmers in cooperation with the K-agricultural retailers. Kesko Machinery is responsible for the sale of the other products to the end users.

The tractor market expanded by a fifth, whereas the market for construction machines contracted. In other respects the overall market remained stable in the terms of volume. Sales of the products represented by

Kesko Machinery amounted to FIM 686 million, a rise of 2.3%.

Kesko Machinery introduced a new net pricing system, which reduced the selling prices of machines. The increased sales figure resulted from expanded market shares. The market position strengthened in almost all sectors, particularly in the business of construction machines, lorries and tractors. The increased sales of Wille and Kubota machines for environmental maintenance strengthened the market leadership in this sector.

The overall market of capital machines is expected to remain at the present level in 1997.

Kesko Hardware and Builders' Supplies

Kesko Hardware and Builders' Supplies is responsible for the purchase, sale and delivery of the following goods: hardware, builders' supplies, interior products and furniture, Hepac and refrigeration products, tools, accessories and small hardware items, car accessories and tyres. The main group of customers is formed of 103 stores for hardware and builders' supplies, called K-rauta, and 74 stores for hardware and agricultural supplies, called K-rauta-maatalous. Separate selling units serve building and installation firms, as well as the manufacturing industry in this branch.

Demand started to increase after the poor development at the beginning of the year in this sector. Despite the low volume of new construction, increased private consumption and renovation were able to propel the total market to a slight growth.

The net sales of Kesko Hardware and Builders' Supplies amounted to FIM 3,014 million, a rise of 6.4%.

The sales to K-hardware retailers exceeded the target, whereas the Hepac contractor sales, and the industrial and constructor sales failed to reach their targets. Sales of timber doubled and the tools business increased by about 20%. The revised marketing process of Kesko Hardware and Builders' Supplies worked excellently and brought cost savings. New operating procedures were laid down for the purchasing process, and the implementation of a new information technology application was started.

The outlook for the near future is positive, with forecasts promising an increase of about 7-10% in the overall demand.

Internationalisation had an increasing effect on the operations of Kesko Hardware and Builders' Supplies. The chain of K-rauta stores in Sweden and the wholesale operations in Russia will provide useful extra volume to own imports. Kesko Hardware and Builders' Supplies is a partner in a European purchasing organisation, Euro-Matériaux S.A.

K-maatalousyhtiöt Oy

K-maatalousyhtiöt Oy is engaged in agricultural retail trade through 17 agricultural centres. The net sales of the company amounted to FIM 598 million, an increase of 21.2%.

There are also 4 separate subsidiaries specialising in the retail business in agricultural and builders' supplies: Pekka Kalmi Oy, Antti Pehkonen Oy, Leena Turunen Oy and S.J. Aalto Oy.



INTERNATIONAL OPERATIONS

The International Operations unit is responsible for charting and starting new business operations for the Corporation, the Corporation's strategies in its relations with international and cooperating organisations. It also acts as a business controller for the subsidiaries and partnerships which operate internationally. The unit is also responsible for coordinating and developing Kesko's environmental operations. The operations of the unit, which was established in autumn 1995, were extended and diversified in 1996, due, for example, to the purchase of Kaukomarkkinat Oy and the expansion of operations to new international markets.

Net sales (FIM million)	1996	1995
Kesko International	96	92
VV-Auto Group	1,803	1,565
Kaukomarkkinat Group		
1.5.-31.12.1996	2,296	-
MK-mainos Oy	126	129
./.. Inter-Corporation sales	255	170
Total	4,066	1,616

Kesko International

The Kesko International unit, established in November 1996, includes the following subsidiaries: Kesko Export Ltd., Kesko Eesti A/S, Kesko Svenska AB and Kesthom Oy / ZAO Kestroy.

Kesko Export Ltd.

The contraction of export operations, which had started in spring 1995 due to changed market conditions, continued throughout 1996. The net sales of the company amounted to FIM 19 million, a drop of over 60% compared with the previous year. Towards the end of 1996, a decision was made to concentrate export op-

erations on own labels and cooperation with Russian partners. In 1997, the emphasis of operations will be on the marketing of Diva, Menu and Pirkka products.

Kesko Eesti A/S

Kesko Eesti A/S has been operating in Tallinn for three years. The changes in the competition environment have been rapid. As a whole, the operations have become stable, and the company's net sales amounted to FIM 46 million, representing a decrease of 10.6%. The market conditions have cleared up, and many companies which started operations soon after Estonia became independent have ceased wholesale trade as a result of the drastically reduced margins.

Kesko Svenska AB

The company started operations in February 1996. In April, a K-rauta hardware and builders' supplies store

and an Alekski 13 shoe and handbag store were opened at Sickla, in Stockholm. Another Alekski 13 store was opened at the Solna shopping centre in Stockholm later in August. A decision has been made to establish a new K-rauta store in Bromma. The net sales of the company were FIM 27 million.

Kesthom Oy / ZAO Kestroy Moskva 1

Kesko increased its holding in Kesthom Oy to 70% by an acquisition made in the spring. The former majority shareholder, Thomesto Trading Companies Ltd, participates in these operations with an ownership of 30%. ZAO Kestroy Moskva 1, a subsidiary registered in Russia and wholly owned by Kesthom Oy, started wholesale business operations in hardware and builders' supplies in November 1996.

opened to neighbouring countries' markets

International cooperation

International professional contacts were utilised through active participation in international trade organisations. Kesko also took active part in guarding the interests of the Finnish trade sector within the EU through the Committee on Commerce and Distribution within the EU Directorate-General XXIII, EuroCommerce, the Finnish Food Marketing Association, and Finnish preparatory committees for the EU.

VV-Auto Oy

VV-Auto Oy is the importer of Volkswagen and Audi cars and Volkswagen commercial vehicles manufactured by the VW Group. The net sales of VV-Auto Oy totalled FIM 1,739 million, a rise of 14% compared with the previous year. In 1996, Volkswagen continued to be the best selling car make in Finland.

The total market for new cars grew by 20%. Volkswagen's position continued to strengthen, with its market share increasing to 13.4%.

The total market for new commercial vehicles grew by 35%. Volkswagen improved its market leadership in this group.

VV-Auto Oy's subsidiary, Auto-Span Oy, is responsible for importing and marketing Seat cars belonging to the VW Group. Its net sales amounted to FIM 66 million, an increase of 71%.

Kaukomarkkinat Group

Kaukomarkkinat Group is a multi-sector company with 50 years of experience specialising in international trade, export, import and wholesale business. Kesko acquired the Kaukomarkkinat Group in May 1996.

The Group's import and wholesale trade includes several leading branded products, such as adidas sports and leisure goods, Citizen watches, Panasonic consumer and professional electronics, industrial electronics, textiles, and foodstuffs including their raw materials. The main international trade areas are Russia, the Baltic countries, China, Poland and other countries in eastern Central Europe.

The Group's net sales from 1 May 1996 amounted to FIM 2,296 million. The total net sales for 1996 were FIM 3,664 million, representing an increase of 21%. The growth can be mainly attributed to agency-based project sales of Panasonic consumer electronics to Russia, for other sales to Russia were affected by the country's unstable economic conditions. The best market area in eastern Central Europe was Poland, where the major product groups included machines and equipment for

the chemical and mechanical forest industry, and various electrotechnical equipment, as well as products for environmental protection. Sales of consumer goods to the Baltic countries also developed favourably.

Sales of Kaukomarkkinat's leading branded products increased more than the sector's average further strengthening the company's market position. Sales to bakeries of raw materials and other bakery products by Leipurien Tukku, a Kaukomarkkinat subsidiary, showed a satisfactory trend, whereas trading in textile products was affected, especially at the beginning of the year, by the higher duties which applied in Finland for a transitional period to textiles imported from countries outside the EU.

MK-mainos Oy

MK-mainos Oy is an authorised advertising agency, and a member of the Finnish Association of Advertising Agencies. The net sales of MK-mainos Oy amounted to FIM 126 million, a decrease of 2.3% compared with the previous year. In the autumn of 1996, MK-mainos Oy joined a cooperation group, in which advertising agencies from Denmark, Norway and Sweden are also members.



THE TUKO GROUP

The Tuko Group is a company operating in wholesale and retail trading. Its operational structure comprises the parent company Tuko Oy, responsible for Group management and administration, financing and property management, and four business companies, i.e. Suomen Spar Oy, a chain marketing company for daily consumer goods, TukoSpar Oy, a purchasing and logistics company, Anttila Oy, engaged in the department store and mail order business, and Rautia Oy, carrying on wholesale and retail sales of hardware products.

Net sales (FIM million)	1996	1995
Suomen Spar Oy	5,826	5,744
TukoSpar Oy	4,894	4,838
- of which sales to Group companies	-3,423	-3,312
Anttila Oy	3,410	3,319
Rautia Oy	730	729
Others	79	83
Total	11,516	11,401

In 1996 the net sales of Tuko totalled FIM 11,516 million, showing an increase of 1.0% compared to the previous year. This development was due among other things to a continued decline in food prices and the termination of purchase cooperation with Elanto.

The Tuko Group's financial position improved considerably during the year. FIM 1.8 billion worth of interest-bearing debts were repaid, of which the share of a subordinated bond with warrants amounted to FIM 494.0 million. Kesko made a share subscription with the debentures of the warrant bond, which it paid with the principal in accordance with the terms of the loan. Otherwise loans were mainly repaid by selling property. At the end of the financial year, the Group's equity to assets ratio was 28.5%.

Suomen Spar Oy

Suomen Spar Oy is a chain marketing company for daily consumer goods through the SPAR and Metro Divisions. Its net sales in 1996 totalled FIM 5,826 million, an increase of 1.4% over the previous year. The net sales of the SPAR Division amounted to FIM 3,417 million, showing a decrease of 2.0%, and the net sales of the Metro Division totalled FIM 2,409 million, an increase of 6.6%.

At the end of 1996, the number of SPAR stores totalled 344, in addition to the 6 EUROSPAR and 25 SPAR Anttila outlets. There were 52 stores operating as Suomen Spar's own stores. During 1996, a total of 50 SPAR outlets were refurbished completely. The own-label SPAR products included 181 items by the end of the year.

The Metro wholesale operations were combined with Metro cash & carry outlets to form the Metro Division. The number of the Division's customers, the Tarmo Lähikauppias stores went up to 560. The cash & carry outlet Merkur Pikatukku, in Vantaa, was purchased from Rautakirja Oy and transformed into a service centre called Metro-tukku. At the year end, the number of Metro cash & carry outlets totalled 30.

TukoSpar Oy

TukoSpar Oy is the purchasing and logistics company for daily consumer goods. In addition to Suomen Spar Oy and Anttila Oy, it has customer companies outside the Tuko Group.

In June 1996, Tuko Oy acquired the whole share capital of Helsingin Keskustukku Oy, whose operations were combined with those of TukoSpar on 1 July, 1996, to become the logistical division of TukoSpar.

The net sales of TukoSpar Oy amounted to FIM 4,894 million, showing an increase of 1.2%. Of this, sales to Group companies accounted for FIM 3,423 million and sales to other customers for FIM 1,471 million. Taking into account the discontinuation of deliveries to Elanto, the comparable growth in the net sales was 5.7%.



Anttila Oy

Anttila Oy is engaged in department store and mail order sales. It has 31 department stores in 26 locations, which include two Anttila Kodin Ykkönen department stores specialising in home and leisure products. 25 department stores have a daily consumer goods department called SPAR Anttila. In addition to Finland, Anttila carries on mail order sales in Estonia, where a subsidiary called Anttila A/S is responsible for the practical operation. Anttila is the biggest department store chain selling general merchandise in Finland.

Anttila's net sales amounted to FIM 3,410 million, showing an increase of 2.7% over the previous year. The share of general merchandise was FIM 2,260 million, an increase of 2.3%. The best sales growth took place in leisure goods. The net sales by the SPAR Anttila stores totalled FIM 1,150 million, an increase of 3.3%. The net sales of the department stores totalled FIM 3,090 million, an increase of 2.7%, and the net sales of the mail order business amounted to FIM 320 million, showing an increase of 2.2%.



Rautia Oy

Rautia Oy is engaged in the wholesale and retail trade of hardware products. At the end of 1996, it operated 18 Rautia hardware stores and six Fixa neighbourhood hardware stores. Rautia-tukku wholesale operations are carried out on a nationwide basis.

The net sales of Rautia Oy amounted to FIM 730 million, which is the same as in the previous year. The development did not meet expectations due, among other things, to the disposal of two Rautia outlets and the discontinuation of the steel department. The sales of own-imported products and floor coverings developed favourably.



Corporate Administration

Corporate Administration consists of the units that manage and control corporate resources. They are Corporate Accounting and Office Administration, Credit and Real Estate, and Corporate Planning with their subsidiaries, and Internal Auditing and Corporate Communications.

K-instituutti Oy

K-instituutti Oy is Kesko's subsidiary providing training services. It provides training for the personnel of Kesko and K-stores and, increasingly, also tailored training for chains, stores and units.

For K-instituutti, 1996 was the first full year as Kesko's subsidiary. The first stage of the store format training was completed in nearly all product lines, and the follow-up training of chains is under way. Information system training for each product line in particular has made fast progress.

In 1996, the operating environment of commercial training changed significantly. K-instituutti participated in the development of examinations under the supervision of the National Board of Education, and several new vocational examinations in the field of trade were approved.

K-instituutti attained both its financial and qualitative targets in respect of customer satisfaction. In 1996, the number of students was 11,500 and the number of training days totalled 23,000. There were nearly one thousand training events.

Kesped Ltd

Kesped Ltd is a company specialising in domestic and foreign transport and forwarding. 1996 was its first full year as an independent company.

Fast goods transport through stock terminals from Finland and other EU countries increased. In distribution, tightly scheduled and routed

transport is becoming more and more common. Construction of a new information system for transport companies started towards the end of the year and will be completed in 1997.

The changes in Kesko's operating districts resulted in extensive reorganisation of domestic transport. In forwarding operations, new areas were export deliveries of speciality goods to Kesko's subsidiaries in Russia and Sweden.

The majority of the operations of Kesped consisted of assignments from Kesko and K-stores, but transport and forwarding requests from other companies were on the increase. The company's net sales amounted to FIM 363 million.

CREDIT AND REAL ESTATE

Kesko Real Estate

Kesko Real Estate is responsible for coordinating the overall store network planning and assisting Kesko's chain units in the acquisition of store premises.

In June, the real estate activities of the Kesko Corporation were centralized in the Credit and Real Estate under the name of Kesko Real Estate.

The store site investments of Kesko totalled FIM 502 million. During the year, about 30,000 square metres of new store premises were completed. The most important new projects were a Citymarket hypermarket and a K-rauta hardware and builders' supplies store in Hämeenlinna, a new K-superstore in Raisio, a new K-

supermarket in Sysmä, and new premises for Super Kesport-Inter-sport and Musta Pörssi stores in both Turku and Helsinki.

During 1996, major extensions were made to the Citymarket hypermarkets in Varkaus, Iisalmi, Savonlinna, Salo and Kokkola. A total of about 14,200 square metres of rented premises were taken into use.

44 real estate properties were sold during the year.

Kestra Kiinteistöpalvelut Oy

The technical maintenance of Kesko's real estates was centralised in Kestra Kiinteistöpalvelut Oy, a fully owned subsidiary of Kesko. The company started operations in June and by the end of the year its maintenance services comprised 640 real estates. During 1997, maintenance of all Kesko's real estate properties will be transferred to the company.

This centralisation brought significant savings right from the start for instance in electric energy purchases. Expert maintenance of real estates also contributes to the retaining of the value and competitiveness of real estates during their whole lifespan.

Credit Operations

In the Credit Department's operations, the emphasis was on the development of management methods of credit risks. Overdue accounts continued to decrease. Bad debts remained at a low level.

The K-Accounting Service provides financial and administrative services for its client K-stores. These include statutory accounting and consulting in matters related to budgeting, financial statements, taxation and profitability of operations.

In 1996, the K-Accounting Service had some 1,650 clients.

K-Luotto Oy

K-Luotto Oy is a credit card company, which is in charge of the invoicing and credit control of the K-cards used as a means of payment. In addition, the company is responsible for the technical implementation of loyal customer marketing, that is the customer register, card systems and mailing services. Its net sales were FIM 28 million.

The total number of K-stores' cards used within the loyal customer programme is more than 650,000. The number of K-charge cards is about 90,000 and the purchases with them totalled FIM 604 million.

Corporate Planning

Corporate Planning is responsible for providing information to Kesko's management, and for developing the K-Group's management and quality system and operational principles. The subsidiaries Tietokesko Oy, K-linkki Oy and SV-Tietopalvelu Oy, acquired on 1 December 1996 by Kyhtiöt Oy, all operate under Corporate Planning.

The use of the management system for Kesko's and the K-Group's chain operations and the related training became established as part of normal operations. A new information system was used by all units to make long-term plans and quality eval-

uations in accordance with the criteria applied to Finnish quality prizes.

K-linkki Oy

K-linkki Oy provides retail trade information system services to its customer K-stores. The services include hardware, software, service, maintenance and other necessary support at a fixed monthly price.

1996 was the company's first full year of operation. During the year, over 400 systems were delivered, and by the end of the year, K-stores had more than 600 systems required for chain operations.

As the number of contracts increases, the emphasis in the operations of K-linkki Oy will shift from delivery of systems to continuous development and support of usage. At the end of the year, the clinic of K-linkki started operations offering requested support services from one telephone number at all store opening hours.

Tietokesko Oy

Tietokesko provides information technology services for Kesko's business operation units. 1996 was its first full year of operation as a company.

The first stage of a customer relations marketing system was implemented and launched. Kesko's first information system for one chain, Vaatehuone fashionwear stores, was also implemented and taken into use in October.

During the year, support was given to the use of the Internet in the Corporation and the Internet shop of Musta Pörssi stores was opened at the end of October.

At the end of the year, a total of 725 stores were using EDI connec-

tions and EDI production contacts had been established with 153 other business partners. The volume of EDI operations doubled during the year.

Internal Auditing

Internal Auditing is responsible for assessing the appropriateness and efficiency of the Corporation's guidance and monitoring systems as well as the quality of operations in attaining goals and targets. The operating principles of internal auditing in Kesko were defined in 1996.

Corporate Communications

The significant company purchases, the acquisitions of Kaukomarkkinat and Tuko, as well as the situation after the Tuko deal with the EU examination burdened the unit to an exceptional amount.

Kesko's www pages were opened on the Internet in June. The annual report was published in Finnish, Swedish and English in March, and interim reports in June and October. 10 issues of Handelsnytt, a magazine for Swedish-speaking K-retailers, were published. At the end of the year, the editorial office of the magazine was transferred to the K-Retailers' Association.

The central themes in Kesko's corporate image advertising were entrepreneurship, environmental affairs and cooperation with Olympic sports. The end of the year also meant the end of the cooperation with the Finnish Olympic Committee that started in 1989. An extensive development of activities relating to the company image was started towards the end of the year.

Kesko and the environment

The trading sector, with its buying, distributing and selling operations, is in a unique position to reduce the environmental effects of consumption. Kesko had been active in this important area for a long time before the publication of its first environmental policy in 1990.

A significant part of all corrugated board, packaging plastic and aluminium cans delivered to K-stores is nowadays returned for recycling in return deliveries by Kesko's distribution lorries. The reusable plastic cases first introduced by Kesko for vegetable suppliers' use are now also increasingly used in the meat and processed food industry. The reduction of packaging materials and their increasing reuse has been advocated through manuals distributed among suppliers, and by making good use of the packaging data files of the Pirkka, Diva and Menu product ranges, as well as through active participation in cooperation covering the whole packaging industry. Waste management in individual K-stores has been significantly intensified, and the recycling points provided for customers are becoming increasingly popular.

Towards systematic environmental management

Environmental activities became increasingly important for Kesko's strategic management during the year under review.

In February, Kesko was the first trading company in Finland to sign "The Business Charter for Sustainable Development" (ICC), thus adopting its international environmental management standards. Practical development of environmental management has subsequently been based on the ISO 14001 standard.



In May, Kesko's Board of Directors and the Board of the K-Retailers' Association adopted a revised environmental policy for the K-Group, which emphasizes the life-cycle philosophy in environmental impact reduction through close cooperation between all parties. Persons responsible were appointed in all units of the Corporation and trained together with the managerial staff to launch an environmental management system. A wide survey was carried out among industry, K-retailers and Kesko personnel in order to determine current environmental attitudes and abilities.

Present environmental effects mapped out

Preliminary surveys, based on the standard, mapping out the present environmental effects were started in all units in the autumn. Action programmes with operational instructions and manuals will be prepared during the spring of 1997. The new operating model integrates environ-

mental issues into everybody's work within the K-Group and also facilitates measurement of the results.

External communication increased

Two publications were released in the course of the year: The "Recycling manual" gives K-store customers instructions on recycling daily consumer goods packagings, and the "Environment manual" presents environmental achievements, the K-Group's new environmental policy and the possibilities of influencing environmental affairs.

Other important environmental actions during the year included "Pure Food Day" events arranged for all links in the food chain, development of computer software for calculating logistical impacts on the environment, designing a reusable pallet and promoting K-stores' own waste sorting.

Report by the Board of Directors

The year under review was in many respects exceptional, from both the financial and the operational point of view. The reorganisation effected in the autumn of 1995 was further developed during 1996 to improve efficiency and customer-orientation.

The new management model and culture had a strong effect on daily operations at both the individual and unit levels. Planning of operations and development of operational processes, as well as quality assessments in accordance with the ProK quality system were important elements in the new management system.

The acquisitions, through which Kesko Corporation purchased the share capital of Kaukomarkkinat Oy and Tuko Oy, reflected a distinct tendency to seek growth outside the existing core businesses. The acquisitions were made at a particularly opportune time in view of the Company's good solvency and the rapidly reduced interest rates.

In 1996, the financial performance of Kesko Corporation was good. The operational profit, amounting to FIM 740 million, remained at a record level. The improved results achieved by subsidiaries due to increased consumer demand, and the acquisitions contributed to the good profit development during the year under review.

Main events

At the Annual General Meeting held on 15 April 1996 the financial statements for 1995 were adopted and those accountable were discharged from their responsibilities. A decision was made to pay a dividend of FIM 1.90 per share for the year 1995.

As part of the incentive system for management, a decision was made to make an exception to the shareholders' subscription privilege and to issue bonds with warrants for subscription by Kesko's management. The maximum amount of bonds is FIM 1,350,000, and the loan period is 6 years beginning on 30 April 1996. Bonds were subscribed for FIM 1,325,000, and Kesko's Board of Directors has approved the subscriptions.

On 8 May 1996, Kesko Ltd purchased the whole share capital of Kaukomarkkinat Oy from Sponsor Oy. Kaukomarkkinat is a trading house specialising in international trade, export, import and wholesale business.

On 27 May 1996, Kesko purchased the majority shareholding in Tuko Oy, from Merita Bank Ltd, Pohjola Insurance Company Ltd and the Central Bank of the Coopera-

tive Banks. Together they held 56.4% of Tuko's share capital and 59.3% of its voting rights. On the basis of the bonds with warrants gained in the deal, Kesko subscribed for more shares in a rights issue and, in August, made an offer to purchase the remaining shares from Tuko Oy's other shareholders. Kesko's ownership increased to 99.6% of Tuko's share capital by 31 December 1996.

From 12 June 1996, the organisation of Kesko Corporation and the areas of responsibility of the members of Kesko's Board of Directors were changed. Executive Vice President Jouko Tuunainen was appointed Director responsible for Domestic Operations, which include both the Foodstuffs Division and the Speciality Goods Division. Executive Vice President Matti Halmesmäki was appointed Director responsible for Tuko's operations. Chairman and Chief Executive Eero Kinnunen continues as Chairman of the Board of Directors. Deputy Chief Executive Timo Karake is responsible for Kesko Corporation's International Operations. The Corporation's real estate functions were centralised in Credit and Real Estate under the management of Executive Vice President Heikki Huhtanen. Executive Vice President Matti Honkala is responsible for Kesko Corporation's Finance and Administration, and Executive Vice President Paavo Tanskanen for Corporate Planning.

On 20 June 1996, Kesko and Rautaruukki made an agreement to sell Keskometalli Oy, a company specialising in the wholesale trade and service centre operations in steel and other metals, to Rautaruukki Oy.

On 26 June 1996, the Finnish authorities monitoring competition submitted the Tuko deal to the European Union Commission for examination.

On 26 July 1996, the EU Commission made a decision to examine the deal, and announced on 17 September 1996 as its preliminary view that the concentration could lead to the creation or strengthening of a dominant position through which effective competition in Finland would be significantly impeded. Kesko had a different view of the matter, and gave its statement of defence on 2 October 1996.

On 13 September 1996, Kesko Ltd and the Swedish ICA Handlarnas AB announced that they had sold all their mutual shareholdings related to the cross ownership established in 1993. Kesko and ICA also agreed that Kesko will acquire ICA's ownership share in Viking Coffee Ltd, a coffee roastery which was previously jointly owned

by these companies.

On 20 November 1996, the EU Commission gave its decision on the Tuko deal. According to the decision, the concentration is incompatible with the common market policy.

On 27 December 1996, Kesko purchased from Tuko Oy the total share capital of Anttila Oy and the Hämeenkylä real estate for central warehouse and materials handling operations at FIM 215 million.

On 19 February 1997, the EU Commission gave its decision on the necessary actions to be taken to restore effective competition in the retail and cash & carry markets of daily consumer goods in Finland. According to the Commission's decision, Kesko must divest the daily consumer goods business of Tuko. Kesko may retain the Anttila department stores, provided that this will not cause the K-Group's market share of the Finnish daily consumer goods business to expand. Binding agreements on the divestiture shall be made within six months from receipt of notification about the Commission's decision.

On 7 February 1997, an agreement was made to divest the daily consumer goods and cash & carry businesses of Tuko, excluding the daily consumer goods trade of Anttila, to a consortium of Finnish purchasers and investors. The total value of the shares and real estate was over FIM 2.1 billion. The deals are subject to the EU Commission's approval by 30 April 1997.

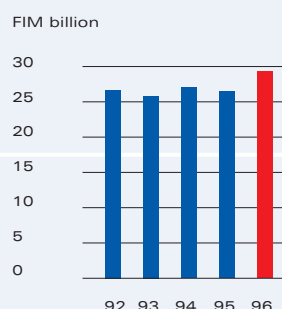
Net sales

The net sales of the Corporation amounted to FIM 29,279 million, representing an increase of 10.7%. The net sales by commercial units were as follows:

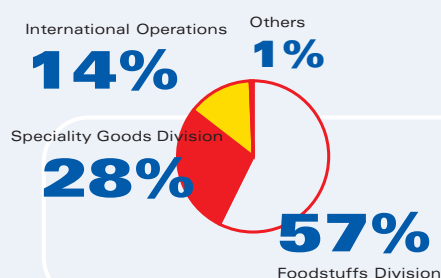
	FIM million	Change, %
Domestic Operations		
Foodstuffs Division	16,780	1.3
Speciality Goods Division	8,246	0.1
International operations		
Others	187	-
Total	29,279	10.7

The retailing operations of the Corporation, and the majority of the supporting activities, are carried out through subsidiaries. Their net sales and trading results are included in the figures for the respective commercial units. In the financial statements, Tuko Oy and Anttila Oy have

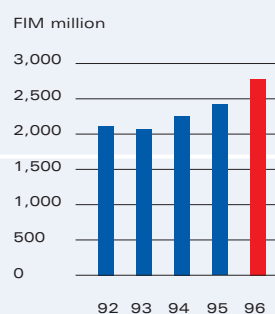
Corporation's net sales



Breakdown of net sales by unit



Corporation's gross profit



been dealt with as associated companies from 1 June 1996 due to the EU's examination process. Kaukomarkkinat Oy was consolidated with the Corporation from 1 May 1996.

Gross margin

Kesko's gross margin was 6.8%, compared with 6.4% for 1995. The Corporation's gross margin was 9.5%, compared with 9.2% for the previous year. The Corporation's bad debts were FIM 11.4 million, compared with FIM 25.6 million in the previous year, while Kesko's bad debts were FIM 15.4 million, compared with FIM 16.1 million in 1995.

Expenses

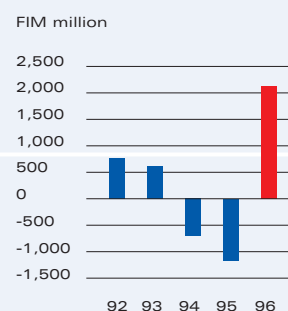
The Corporation's personnel costs increased from FIM 1,008 million to FIM 1,150 million, representing a rise of 14.1%, which mainly resulted from the inclusion of Kaukomarkkinat Oy in the Corporation. Kesko's personnel costs amounted to FIM 602 million, compared with FIM 637 million in the previous year, a decrease of 5.5%. The total fixed costs of the Corporation increased by 11.8% and of Kesko by 3.5%.

Financing

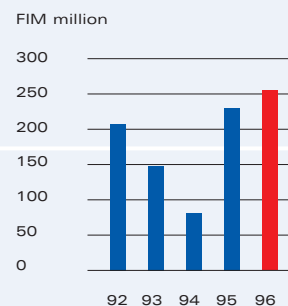
The Corporation's net financial income totalled FIM 255 million, of which the share of profits less losses of associated companies amounted to FIM 133 million. In 1995, the corresponding figures were FIM 235 million and FIM 4 million. The financial income decreased by FIM 78 million. The decrease resulted from reduced interest rates and the funds tied to the shares of Tuko and Kaukomarkkinat. At the end of the year, the Corporation's interest-free liabilities amounted to FIM 4,297 million, and interest-bearing liabilities to FIM 2,812 million. The total equity to assets ratio dropped from 56% to 52% during the year. According to the loan repayment plan, a total of FIM 244 million will be repaid in 1997.

The cash flow from operations in the Corporation was FIM 1,010 million. The investments amounting to FIM 3,441 million were mainly covered by cash on hand. The liabilities increased by FIM 337 million.

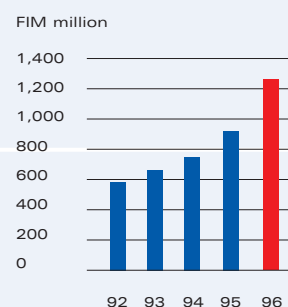
Corporation's liabilities ./. current assets



Corporation's net financial income



Cash flow



Profit

The Corporation's profit before extraordinary items and taxes was FIM 740 million, compared with FIM 689 million in 1995. The profit of the parent company was FIM 316 million, FIM 402 million in the previous year. The increased profit mainly resulted from the improved trading results of subsidiaries. The combined profit of subsidiaries was FIM 424 million, compared with FIM 287 million in the previous year. The share of profits less losses of associated companies increased from FIM 4 million to FIM 133 million. The profits of Tuko Oy and Anttila Oy amounted to FIM 150 million. Profits on the sale of fixed assets, amounting to FIM 283 million, are included in extraordinary income. Sales losses, amounting to FIM 11 million, and amortization on goodwill for Tuko's shares, amounting to FIM 400 million, are included in extraordinary expenses.

Earnings per share went up to FIM 6.05 from the previous year's figure of FIM 5.61. The return on capital invested was 9.0%, compared with 8.7% in the previous year.

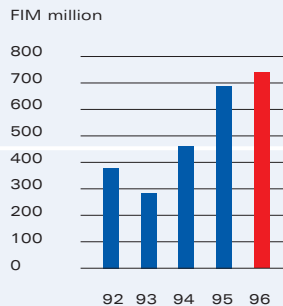
The Board of Directors will propose to the Annual General Meeting that a dividend of FIM 2.00 per share be paid for 1996. The dividend for 1995 was FIM 1.90.

Profitability by commercial units

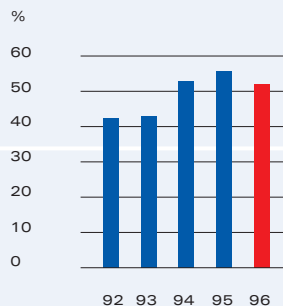
The profitability of International Operations was good, while the profitability of the Foodstuffs Division and the Speciality Goods Division was satisfactory.

This evaluation is based on the figures calculated in the Corporation for management accounting purposes. For these purposes, income and expenses attributable to wholesale and store site operations have been allocated to the commercial units. The fixed assets used by the units are stated at current values. Part of the overhead costs of the company, i.e. FIM 147 million, have not been allocated to these units. The evaluation criteria applied to the return on capital invested were as follows: over 15% - good, 10-15% - satisfactory, 5-10% - fair, and below 5% - poor.

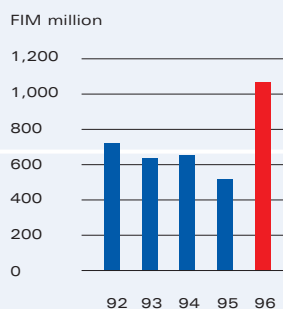
Profit before extraordinary items



Total equity to assets ratio



Corporation's investments



Investments

The Corporation's investments in the wholesale and retail sectors amounted to FIM 1,067 million, of which investments in the wholesale trade accounted for FIM 565 million, and investments in store sites and premises for FIM 502 million. FIM 329 million was invested in grocery stores and FIM 73 million in speciality stores. In addition, FIM 2,036 million was paid for Tuko Oy's shares, and FIM 495 million for the shares of Kaukomarkkinat Oy.

Personnel

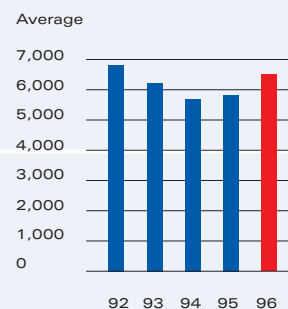
During the year, the average number of personnel in the Corporation was 6,503, an increase of 670 persons, and in the parent company 2,908, a decrease of 180 persons. The personnels of Tuko Oy and Anttila Oy are not included in these figures.

The number of the Corporation's personnel was increased by the acquisition of Kaukomarkkinat Oy and the expanded operations of K-yhtiöt Oy's Citymarket hypermarkets. On the other hand, the number was decreased by the disposal of Keskometalli Oy to Rautaruukki Oy, by a change made in the regional division of the Foodstuffs Division's operations in the parent company, and by the establishment of Kestra Kiinteistöpalvelut Oy, a company for real estate services.

The turnover of personnel in the parent company was 8%. The Corporation provided temporary employment during the summer for about 500 young people, of whom about 200 worked in the parent company. The vacancies in the Corporation were chiefly filled by internal transfers.

The remuneration paid during the financial year to the Board of Directors, the Supervisory Board and the Managing Directors amounted to FIM 10 million in Kesko, and FIM 21 million in the Corporation. The wages and salaries paid to other personnel totalled FIM 591 million in Kesko, and FIM 1,129 million in the Corporation.

Corporation's personnel



Prospects for 1997

The favourable development expected in Finland's economic conditions will provide a good basis for growth in Kesko Corporation in 1997. Further opportunities for growth are also sought from the Swedish hardware and shoe markets.

The sales of Kesko Corporation are expected to rise by about 4% in 1997, and the aim is to retain the good profit level reached.

On 7 February 1997, an agreement was made to divest the daily consumer goods and cash & carry businesses of Tuko Oy, except the daily consumer goods trade of Anttila. The price of the business companies and real estate divested amounted to FIM 2,156 million. The deals are binding, but they include mechanisms for price adjustments. According to the Board of Directors, the adjustments will not have any essential effect on Kesko's financial position. The deals are subject to the EU Commission's approval by 30 April 1997.

At the fulfilment of the deals, the book value of Tuko Oy's shares is equal to Tuko Oy's shareholders' equity. Tuko's balance sheet also includes the Carrols hamburger chain, which has good chances for growth. In addition to the share capital of Rautia Oy, Tuko owns real estate to the book value of FIM 983 million. According to the Board of Directors, the book values of the real estate do not exceed their current values. The book value of Anttila Oy's shares is FIM 433 million, which includes goodwill of FIM 260 million.

Corporation in figures

	1992	1993	1994	1995	1996
Income statement					
Net sales, FIM million	26,641	25,822	27,060	26,438	29,279
Change in net sales, %	- 6.5	- 3.1	4.8	- 2.3	10.7
Gross profit, FIM million	2,118	2,071	2,253	2,418	2,781
Gross margin, %	7.94	8.01	8.32	9.14	9.49
Personnel costs, FIM million	1,043	962	937	1,007	1,150
Personnel costs of net sales, %	3.91	3.72	3.46	3.81	3.93
Operating profit before depreciation, FIM million	504	500	725	795	864
Operating margin, %	1.89	1.93	2.67	3.00	2.94
Plan depreciation, FIM million	335	363	343	342	379
Operating profit, FIM million	170	137	381	453	485
Operating profit of net sales, %	0.64	0.53	1.40	1.71	1.65
Financial income, net, FIM million	208	148	81	235	255
Financial income of net sales, %	0.78	0.57	0.30	0.89	0.87
Profit before extraordinary items and taxes, FIM million	378	285	462	689	740
Profit before extraordinary items and taxes of net sales, %	1.42	1.10	1.70	2.60	2.52
Profit before provisions and taxes, FIM million	313	355	545	747	651
Profit before provisions and taxes of net sales, %	1.18	1.37	2.01	2.82	2.22
Direct taxes, FIM million	63	51	143	187	171
Profit for the year, FIM million	250	304	402	560	481
Balance sheet					
Fixed assets, FIM million	4,135	4,286	4,519	4,447	7,417
Stocks, FIM million	2,870	2,957	1,783	1,727	2,403
Current assets, FIM million	7,843	8,346	7,010	7,086	4,989
Shareholders' equity, FIM million	6,206	6,603	6,956	7,281	7,602
Share capital, FIM million	902	902	902	902	902
Unrestricted equity, FIM million	4,250	4,647	5,003	5,335	5,657
Provisions, FIM million	0	3	22	27	53
Liabilities, FIM million	8,614	8,955	6,304	5,914	7,109
Interest-bearing liabilities, FIM million	3,234	3,690	2,107	1,815	2,812
Net indebtedness, FIM million	771	610	-706	-1,171	2,120
Balance sheet total, FIM million	14,848	15,589	13,312	13,260	14,809
Key indicators					
Return on capital invested, %	7.8	5.9	7.7	8.7	9.0
Return on equity, %	4.7	4.0	5.0	7.1	7.3
Cash flow, FIM million	585	662	749	921	1,260
Total equity to assets ratio, %	42.3	42.9	52.8	55.6	51.9
Interest-bearing net debt of equity, %	11.5	8.6	- 4.4	- 12.9	28.2
Investments, FIM million					
Investments of net sales, %	2.7	2.5	2.4	2.0	3.6
Personnel (average)					
	6,816	6,227	5,701	5,833	6,503
Parent company (Kesko Ltd)					
Net sales, FIM million	24,410	23,595	24,382	22,551	22,250
Gross margin, %	5.79	5.27	5.61	6.39	6.86
Operating margin, %	1.37	1.27	1.58	1.75	1.88
Profit before extraordinary items, FIM million	375	254	247	402	316
Personnel (average)	3,952	3,229	3,119	3,088	2,908
Share capital and shares					
Share capital, FIM million	902	902	902	902	902
Number of shares at 31.12., million pcs	90	90	90	90	90
Adjusted number of shares at 31.12., million pcs	90	90	90	90	90
Adjusted average number of shares during the year, million pcs	90	90	90	90	90
Number of shareholders at 31.12.	44,231	28,285	28,486	27,479	25,890
Market capitalisation, FIM million	3,293	4,438	4,962	4,881	5,851
Share trading, FIM million	510	1 130	1,284	1,111	2,709
Change in the number of shares traded, million pcs	15	28	24	22	42
Change in share trading, %	160.4	85.5	- 14.5	- 7.0	87.4

	1992	1993	1994	1995	1996
Exclusive shares, %	39	36	34	38	35
Ordinary shares, %	61	64	66	62	65
Nominal dividend per share, FIM	1.30	1.10	1.40	1.90	**2.00
Adjusted dividend per share, FIM	1.30	1.10	1.40	1.90	**2.00
Dividend of profit, %	40.1	39.0	37.3	33.9	33.1
Nominal value of share, FIM	10	10	10	10	10
Share price at 31.12., FIM	36.50	49.20	55.00	54.10	64.90
Adjusted share price at 31.12., FIM	36.50	49.20	55.00	54.10	64.90
Average share price at 31.12., FIM	-	-	-	-	64.86
Highest share price during the year, FIM	39.00	49.20	60.00	59.00	75.40
Lowest share price during the year, FIM	21.00	33.50	45.00	41.20	53.00
Adjusted earnings per share, FIM	3.24	2.82	3.75	5.61	6.05
Cash flow per share, FIM	6.48	7.34	8.30	10.20	13.97
Price per earnings ratio (P/E)	11.3	17.4	14.7	9.7	10.7
Dividend yield, %	3.6	2.2	2.5	3.5	3.1
Net assets per share, adjusted, FIM	68.79	73.18	77.10	80.70	84.26
Yield of share (internal rate of return on share capital, %)					
For last 5 financial years	3.5	4.5	1.9	6.9	15.2
For last 10 financial years	15.2	18.7	18.0	16.4	13.8

** Proposal to the Annual General Meeting

Calculation of key indicators

Return on capital invested, % (ROI)	=	$\frac{\text{profit before extraordinary items} + \text{interest expenses and other financial expenses}}{\text{balance sheet total} \text{ ./. } \text{interest-free liabilities (average during the financial year)}}$	x 100
Return on equity, % (ROE)	=	$\frac{\text{profit before extraordinary items} \text{ ./. } \text{taxes}}{\text{shareholders' equity} + \text{minority interest (average during the year)}}$	x 100
Total equity to assets ratio, %	=	$\frac{\text{shareholders' equity} + \text{minority interest}}{\text{balance sheet total} \text{ ./. } \text{advances received}}$	x 100
Net indebtedness	=	liabilities ./. current assets	
Interest-bearing net debt of equity, %	=	$\frac{\text{interest-bearing liabilities} \text{ ./. } \text{short-term investments} \text{ ./. } \text{cash and bank}}{\text{shareholders' equity} + \text{minority interest}}$	x 100
Cash flow	=	operating profit + plan depreciation + financial income (net) + extraordinary income and expenses ./. taxes ./. minority interest	
Dividend per share	=	$\frac{\text{dividend for the financial year}}{\text{number of shares at 31.12. adjusted for the bonus element of share issues}}$	
Dividend of profit, %	=	$\frac{\text{dividend for the financial year}}{\text{profit before extraordinary items} \text{ ./. } \text{taxes for the financial year} \text{ ./. } \text{minority interest}}$	x 100
Earnings per share	=	$\frac{\text{profit before extraordinary items} \text{ ./. } \text{taxes for the financial year} \text{ ./. } \text{minority interest}}{\text{average number of shares in issue during the year adjusted for the bonus element of share issues}}$	
Price per earnings ratio (P/E)	=	$\frac{\text{share price on the balance sheet date}}{\text{earnings per share}}$	
Net assets per share	=	$\frac{\text{shareholders' equity}}{\text{number of shares at 31.12. adjusted for the bonus element of share issues}}$	
Dividend yield, %	=	$\frac{\text{dividend per share}}{\text{share price on the balance sheet date}}$	x 100
Cash flow per share	=	$\frac{\text{cash flow}}{\text{average number of shares}}$	
Market capitalisation	=	share price on the balance sheet date x number of shares	

Consolidated Income Statement

FIM million		1.1.-31.12.1996		%	1.1.-31.12.1995		%
(1)	Net sales	29,278.6	100.0		26,438.5	100.0	
(2)	Other operating income	330.1	1.1		306.7	1.2	
	Variable costs						
	Materials, supplies and products						
	Purchases during the year	26,838.3			24,209.3		
	Increase/decrease in inventories (-/+)	-80.7			70.3		
(4)	Personnel costs	20.7			17.3		
	Other variable costs	49.7	-26,828.0	91.6	30.0	-24,326.9	92.0
	Gross profit	2,780.7	9.5		2,418.3	9.2	
(3)	Services income	906.2	3.1		902.1	3.4	
	Fixed costs						
(4)	Personnel costs	1,129.3			990.2		
	Rents	647.7			629.9		
	Other fixed costs	1,046.3	-2,823.3	9.6	904.9	-2,525.0	9.6
	Operating profit before depreciation	863.6	2.9		795.4	3.0	
(5)	Depreciation on fixed assets and other capitalised expenditure	-378.8	1.3		-342.2	1.3	
	Operating profit	484.8	1.6		453.2	1.7	
(6)	Financial income and expenses						
	Dividend income	8.8			6.8		
	Interest income from non-current investments	6.1			8.0		
	Other interest income	166.2			165.2		
	Other financial income	82.5			161.6		
	Foreign exchange profit or loss	-1.7			-		
	Share of profits less losses of associated companies	133.6			3.9		
	Interest expenses	-115.9			-106.2		
	Other financial expenses	-24.1	255.5	0.9	-4.0	235.3	0.9
	Profit before extraordinary items and taxes	740.3	2.5		688.5	2.6	
(7)	Extraordinary income and expenses						
	Extraordinary income	321.7			82.7		
	Extraordinary expenses	-410.7	-89.0	0.3	-23.4	59.3	0.2
(8)	Profit before taxes	651.3	2.2		747.8	2.8	
	Direct taxes						
	For the year	-180.5			-215.7		
	For previous years	-10.0			-		
	Change in deferred tax liabilities	19.1	-171.4	0.6	28.3	-187.5	0.7
	Minority interest	1.4	0.0		-0.6	0.0	
	Profit for the year	481.3	1.6		559.7	2.1	

Consolidated Statement of Cash Flows

FIM million	1.1.-31.12.1996	1.1.-31.12.1995
Operations		
Funds generated from operations		
Operating profit before depreciation	863.6	795.4
Financial income and expenses	255.5	235.3
Extraordinary items	38.5	59.3
Taxes	-171.4	- 198.7
	986.2	891.3
Change in working capital		
Stocks, increase (-), decrease (+)	-676.0	55.9
Short-term trade receivables, increase (-), decrease (+)	-2.6	270.3
Interest-free short-term debt, increase (+), decrease (-)	702.0	- 250.2
	23.4	76.0
Cash flow from operations	1,009.6	967.3
Investments		
Investments in fixed assets	-3,977.6	- 518.9
Profit on the sale of fixed assets	536.4	249.2
	-3,441.2	- 269.7
Cash flow before financing	-2,431.6	697.6
Financing		
Increase (-), decrease (+) in long-term receivables	4.3	4.4
Increase (+) in long-term loans	159.1	-
Decrease (-) in long-term loans	-	- 206.0
Increase (+), decrease (-) in short-term loans	334.1	- 14.3
Dividends, donations	-172.9	- 127.5
Share issue	0.0	0.0
Other financial items	12.5	- 8.8
	337.1	- 352.2
According to calculation, increase (+), decrease (-) in cash on hand	-2,094.5	345.4

Consolidated Balance Sheet

FIM million		31.12.1996		%	31.12.1995		%
ASSETS							
(10)	Fixed assets and other non-current investments						
(11)	Intangible assets						
	Goodwill	197.6					
	Other capitalised expenditure	305.8	503.4	3.4	270.9	2.1	
	Tangible assets						
(12)	Land and water	645.5			556.4		
(13)	Buildings	2,603.2			2,179.9		
(14)	Machinery and equipment	814.9			674.5		
(15)	Other tangible assets	22.2			21.9		
(16)	Advance payments and construction in progress	22.4	4,108.2	27.7	50.7	3,483.4	26.3
	Financial assets and other long-term investments						
(17)	Bonds and shares		2,805.0	19.0	693.1	5.2	
Current assets							
	Stocks						
	Finished products/goods		2,403.0	16.2	1,726.9	13.0	
	Receivables						
	Trade receivables	2,461.8			2,342.9		
	Loan receivables	1,514.1			1,664.8		
	Prepaid expenses and accrued income	238.5			299.3		
	Other receivables	115.2	4,329.6	29.2	20.0	4,327.0	32.6
	Short-term investments						
	Other investments	104.1			108.5		
	Money market investments	281.6	385.7	2.6	2,415.3	2,523.8	19.0
	Cash in hand and at bank		273.9	1.9	234.7	1.8	
ASSETS			14,808.8	100.0		13,259.8	100.0

FIM million	31.12.1996			31.12.1995		
		%			%	
LIABILITIES						
(20)	Shareholders' equity					
	Restricted equity					
	Share capital	902.4		902.4		
	Reserve fund	1,020.7		1,020.9		
	Revaluation reserve	9.6		10.3		
	Other restricted reserves	11.8	1,944.5	13.1	11.8	1,945.5
						14.7
	Unrestricted equity					
	Other unrestricted equity	1,794.4		1,793.9		
	Retained earnings	1,507.3		1,055.7		
	Transfer from provisions	1,874.0		1,925.7		
	Profit for the year	481.3	5,657.0	38.2	559.7	5,335.0
						40.2
(21)	Provisions					
	Provisions for liabilities and charges		53.2	0.4		26.8
						0.2
(22)	Liabilities					
	Non-current liabilities					
	Bonds and notes	100.0		100.0		
	Bonds with warrants	1.3		-		
	Loans from financial institutions	435.4		181.9		
	Pension loans	5.1		0.2		
	Deferred tax liabilities	743.8		748.9		
	Other non-current liabilities	318.4	1,604.0	10.8	413.9	1,444.9
						10.9
(23)	Current liabilities					
	Loans from financial institutions	378.8		44.3		
	Pension loans	-		0.4		
	Advances received	86.7		102.3		
	Trade payables	2,817.7		2,669.5		
	Accrued liabilities and deferred income	522.5		502.8		
	Other current liabilities	1,699.6	5,505.3	37.2	1,149.9	4,469.2
						33.7
	Minority interest		44.8	0.3		38.3
						0.3
	LIABILITIES		14,808.8	100.0		13,259.8
						100.0

Kesko Ltd's Income Statement

FIM million		1.1.-31.12.1996		%	1.1.-31.12.1995		%
(1)	Net sales	22,249.9	100.0		22,550.9	100.0	
(2)	Other operating income	273.3	1.2		255.9	1.1	
	Variable costs						
	Materials, supplies and products						
	Purchases during the year	20,961.9			21,253.6		
	Increase/decrease in inventories (-/+)	27.8			104.7		
	Personnel costs	7.5	-20,997.2	94.4	7.7	-21,366.0	94.7
	Gross profit	1,526.0	6.8		1,440.8	6.4	
(3)	Services income	1,042.2	4.7		1,032.1	4.6	
	Fixed costs						
(4)	Personnel costs	594.1			629.2		
	Rents	600.4			606.0		
	Other fixed costs	956.4	-2,150.9	9.7	843.0	-2,078.2	9.2
	Operating profit before depreciation	417.3	1.9		394.7	1.8	
(5)	Depreciation on fixed assets and other capitalised expenditure	-215.5	1.0		-218.4	1.0	
	Operating profit	201.8	0.9		176.3	0.8	
(6)	Financial income and expenses						
	Dividend income	13.5			25.8		
	Income from non-current investments	6.1			8.0		
	Other interest income	147.4			153.9		
	Other financial income	82.5			161.6		
	Foreign exchange profit or loss	0.0			-		
	Interest expenses	-112.8			-120.1		
	Other financial expenses	-22.7	114.0	0.5	-3.8	225.4	1.0
	Profit before extraordinary items, provisions and taxes	315.8	1.4		401.7	1.8	
(7)	Extraordinary income and expenses						
	Extraordinary income	496.6			287.3		
	Extraordinary expenses	-453.4	43.2	0.2	-70.8	216.5	0.9
	Profit before provisions and taxes	359.0	1.6		618.2	2.7	
	Increase/decrease in accelerated depreciation (-/+)	-158.2	0.7		-22.3	0.1	
(9)	Increase/decrease (-/+) in voluntary provisions	214.8	1.0		103.8	0.5	
	Direct taxes						
	For the year	-115.5			-173.9		
	For previous years	-10.1	-125.6	0.6	-	-173.9	0.8
	Profit for the year	290.0	1.3		525.8	2.3	

Kesko Ltd's Statement of Cash Flows

FIM million	1.1.-31.12.1996	1.1.-31.12.1995
Operations		
Funds generated from operations		
Operating profit before depreciation	417.4	394.7
Financial income and expenses	114.0	225.4
Extraordinary items	94.6	235.1
Taxes	-125.6	-175.1
	500.4	680.1
Change in working capital		
Stocks, increase (-), decrease (+)	27.8	104.7
Short-term trade receivables, increase (-), decrease (+)	210.1	152.5
Interest-free short-term debt, increase (+), decrease (-)	111.5	-117.8
	349.4	139.4
Cash flow from operations	849.8	819.5
Investments		
Investments in fixed assets	-3,690.1	-380.5
Profit on the sale of fixed assets	627.3	219.6
	-3,062.8	-160.9
Cash flow before financing	-2,213.0	658.6
Financing		
Increase (-), decrease (+) in long-term receivables	0.5	0.5
Increase (+) in long-term loans	159.4	-
Decrease (-) in long-term loans	-	-182.0
Increase (+), decrease (-) in short-term loans	201.7	-15.4
Dividends, donations	-172.9	-127.6
Share issue	-	-
	188.7	-324.5
According to calculation, increase (+), decrease (-) in cash on hand	-2,024.3	334.1

Kesko Ltd's Balance Sheet

FIM million		31.12.1996		%		31.12.1995		%	
ASSETS									
(10)	Fixed assets and other non-current investments								
	Intangible assets								
(11)	Other capitalised expenditure	211.4	1.7			203.1	1.7		
	Tangible assets								
(12)	Land and water	439.9				379.7			
(13)	Buildings	1,771.5				1,555.7			
(14)	Machinery and equipment	298.8				293.6			
(15)	Other tangible assets	11.7				11.9			
(16)	Advance payments and construction in progress	15.0	2,536.9	20.1		32.1	2,273.0	18.7	
	Financial assets and other non-current investments								
(17,18)	Bonds and shares	3,685.1	29.2			1,210.1	10.0		
Current assets									
	Stocks								
	Finished products/goods	948.6	7.5			976.4	8.0		
(19)	Receivables								
	Trade receivables	2,125.7				2,069.9			
	Loan receivables	2,237.3				2,583.5			
	Prepaid expenses and accrued income	140.3				160.4			
	Other receivables	115.5	4,618.8	36.6		15.2	4,829.0	39.8	
	Short-term investments								
	Other investments	100.0				100.4			
	Money market investments	281.6	381.6	3.0		2,415.3	2,515.7	20.7	
	Cash in hand and at bank	248.1	1.9			138.6	1.1		
ASSETS		12,630.5	100.0			12,145.9	100.0		

FIM million	31.12.1996			31.12.1995			
			%			%	
LIABILITIES							
(20)	Shareholders' equity						
	Restricted equity						
	Share capital	902.4		902.4			
	Reserve fund	1,019.0		1,019.0			
	Revaluation reserve	11.0	1,932.4	15.3	11.7	1,933.2	15.9
	Unrestricted equity						
	Contingency fund	1,447.3		1,447.3			
	Retained earnings	1,124.2		771.3			
	Profit for the year	290.0	2,861.5	22.7	525.8	2,744.4	22.6
(21)	Provisions						
	Accelerated depreciation		1,512.9	12.0		1,404.7	11.6
	Voluntary provisions						
	Other provisions		496.1	3.9		709.0	5.8
	Provisions for liabilities and charges		4.8	0.0		4.2	0.0
	Liabilities						
(22)	Non-current liabilities						
	Bonds and notes	100.0			100.0		
	Bonds with warrants	1.3			-		
	Loans from financial institutions	416.2			158.7		
	Other non-current liabilities	319.0	836.5	6.6	418.4	677.1	5.6
(23)	Current liabilities						
	Loans from financial institutions	244.1			42.6		
	Advances received	28.7			47.3		
	Trade payables	2,343.6			2,499.5		
	Accrued liabilities and deferred income	286.3			294.7		
	Other current liabilities	2,083.5	4,986.3	39.5	1,789.2	4,673.3	38.5
	LIABILITIES		12,630.5	100.0		12,145.9	100.0

Notes to the financial statements

ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include Kesko Ltd and all subsidiaries, including 56 real estate companies. Kaukomarkkinat Oy has been consolidated with the Corporation from 1 May 1996, and Tuko Oy from 1 June 1996. Tuko Oy and Anttila Oy have been treated with as associated companies due to the EU examination. Keskometalli Oy was included in the Corporation's figures until 31 August 1996.

Shareholdings in subsidiary companies have been eliminated by using the acquisition method. Goodwill on consolidation arising from acquisitions during the financial year amounting to FIM 17.7 million has been deducted from unrestricted equity. Goodwill arising from Kaukomarkkinat Group will be amortized on a straight-line basis during 15 years. Minority interests have been deducted in arriving at the profit for the period attributable to the shareholders and have been disclosed separately from shareholders' equity in the balance sheet.

The Corporation's voluntary provisions have been transferred to deferred tax and unrestricted equity. The key indicators have been revised to make them comparable on a timely basis. The figures included in the income statement of the previous year have been revised by FIM 5.0 million by transferring the foreign exchange profits less losses arising from purchases to purchases during the year from financial items.

Associated companies in which Kesko's holding is 20-50% have been consolidated by using the equity method.

Changes within the Corporation

During the financial year, the following companies were established: Kesko Svenska AB, ZAO Kestroy Moskva 1 and Kestra Kiinteistöpalvelut Oy. Kaukomarkkinat Oy, Tuko Oy, SV-Tietopalvelu Oy and Anttila Oy were acquired during the year, and Keskometalli Oy was disposed. Kesthom Oy and Viking Coffee Ltd, former associated companies, became subsidiaries. In addition, the shareholdings in four companies were purchased and in one company sold. Seppo Heikkinen Oy and Kankaanpään Rauta-Maatalous Oy, as well as two real estate companies were merged with Kesko Ltd. Suomen Väri Oy was merged with K-yhtiöt Oy. Fennosale Oy changed its name to Motorfeet Ltd.

Foreign currencies

Assets and liabilities denominated in foreign currencies have been translated into Finnish markkas at the average rates of exchange ruling on the balance sheet date. If a receivable or a debt is tied to a certain rate of exchange, it has been used for translation. Profits and losses arising from foreign currency transactions in 1996 have been dealt with in the income statement.

Financial risk management

Interest rates and foreign currencies form the greatest financial risks to the Corporation. Forward rate agreements, options, interest rate swaps, currency

swaps and futures are used to manage these risks. Currency and interest rate derivative contracts are made only with such domestic and foreign banks and financial institutions which have good creditworthiness. Derivative instruments are only used to hedge existing positions. Kesko does not invest actively in listed companies.

Interest risk

The Corporation's loans and investments have been decentralised in fixed and floating rate instruments in order to hedge against the negative effects caused by varying interest rates, and derivative instruments are used to further minimise this risk.

Cash flows arising from forward rate agreements are recognised during the financial year as interest income or expenses, according to the maturity date. In the financial statements, open forward rate agreements, futures and options are stated at market values. Unrealised revaluations have not been stated as income. Any valuation losses have been included in interest expenses. Calculated premiums for options have been stated as adjustments to the premiums paid.

Exchange rate risk

The Corporation's exchange rate risks mainly arise from trade debts, which the respective commercial units and subsidiaries are responsible for hedging. Forward exchange contracts and options are used to hedge these items. The foreign currency denominated items relating to the Corporation's financing are hedged in full.

The forward exchange contracts are valued at the average exchange rate of the Bank of Finland current on the balance sheet date. The rate differences arising from forward exchange contracts are treated in the income statement as foreign exchange profit or loss, except for the interest difference of forward exchange contracts used to hedge interest bearing financial items. This difference has been stated as interest income or expenses, according to the term-to-maturity.

In the financial statements, the open option contracts are stated at market values. The valuation items of option contracts, as well as the premiums and results of matured options are included in the income statement as foreign exchange profit or loss.

Currency swaps are made to translate foreign currency denominated debts and receivables into Finnish markkas. The interest rate differences arising from currency swaps are stated as interest expenses or income during the term of the contract, like the interest of a corresponding loan.

Pension costs

Statutory and supplementary pension benefits are provided to parent company employees by means of contributions to Kesko Pension Fund. Contributions equivalent to 17% of relevant salaries and wages are charged in the income statement. The difference between 17% and the actuarially advised rate is included in extraordinary items. Pension coverage for employees of subsidiaries is arranged mainly by the Pension Foun-

ation for Trade. Annual contributions are charged in the income statement. In the Corporation, the retirement age agreed for Directors is 60 or 62 years.

Fixed assets

Fixed assets are stated at cost.

Depreciation

Plan depreciation is calculated on a straight line basis so as to write off the cost of fixed assets over their expected useful lives.

The annual rates adopted are as follows:

Buildings	3%	33 years
Fixtures and fittings	12.5%	8 years
Machinery and equipment	12.5 - 33%	3 - 8 years
Transportation fleet	20%	5 years
Other tangible assets and other capitalised expenditure	7 - 20%	5-14 years

Vehicles rented out are depreciated in equal annual instalments so as to write down the costs of the vehicles to their estimated residual values at the end of the lease term. Land is not depreciated.

In Finland companies are permitted to claim various tax deductions in respect of depreciation over and above the depreciation charged in line with normal depreciation plan. The changes in accelerated depreciation are treated as appropriations and classified as appropriations.

Stocks

The stocks are stated at lower of cost or net realisable value.

NOTES TO THE INCOME STATEMENT AND THE BALANCE SHEET

(1) Net sales

The net sales shown in the income statement included discounts on sales amounting to FIM 468.4 million in the Corporation, compared with FIM 445.2 million in the previous year. In the parent company, the corresponding figures were FIM 392.2 million and FIM 418.9 million. In the Corporation, the bad debts amounted to FIM 11.4 million, compared with FIM 25.6 in 1995. In the parent company, the bad debts were FIM 15.4 million, FIM 16.1 million in the previous year. Other adjustments to sales, distributing expenses, commissions and excise taxes included in net sales amounted to FIM 226.0 million, FIM 230.6 million in 1995.

(2) Other operating income

Other operating income includes rent income, advertising support and other recurrent income, as well as profits on the sale of retail premises. Profits on the sale of wholesale premises are included in extraordinary items.

(3) Services income

Services income includes compensations for services provided to K-retailers and subsidiaries in respect of the acquisition, financing and maintenance of their business premises, for joint marketing, accountancy and consulting services and the training of K-retailers and their personnel. The expenses incurred in providing these services are included within fixed costs, interest expenses and depreciation.

Notes to the financial statements

FIM million	CORPORATION		KESKO	
	1996	1995	1996	1995
(4) Personnel costs, variable and fixed total				
Wages and salaries	906.4	782.0	465.2	483.0
Pension costs	137.1	119.2	77.4	81.9
Other indirect employee costs	106.5	106.3	59.0	72.0
Total	1,150.0	1,007.5	601.6	636.9
Fringe benefits	19.4	13.6	11.0	10.9
Total	1,169.4	1,021.1	612.6	647.8
Personnel costs of net sales, %	4.0	3.9	2.8	2.9
Remuneration of the Supervisory Board, the Boards of Directors and the Managing Directors, of which the share of profits	21.0 1.3	14.5 0.5	10.1 0.6	9.6 0.5
(5) Plan depreciation				
Other capitalised expenditure	64.4	52.4	43.1	39.0
Buildings	98.0	93.9	71.3	69.7
Machinery and equipment	203.4	192.4	98.8	107.0
Other tangible assets	3.1	3.5	2.3	2.7
Amortization on goodwill	9.9	-	-	-
Total	378.8	342.2	215.5	218.4
Change in accelerated depreciation				
Other capitalised expenditure	-	-	-12.5	-29.3
Buildings	-	-	-162.2	-15.3
Machinery and equipment	-	-	16.1	14.7
Other tangible assets	-	-	0.4	-0.6
Advance payments and construction in progress	-	-	-	8.2
Shares	-	-	50.0	-
Cancellation of accelerated depreciation on shares	-	-	-50.0	-
Total	-	-	-158.2	-22.3
Under Finnish tax legislation, the maximum permitted depreciation	312.7	243.1	168.0	149.0
(6) Inter-Corporation financial income and expenses				
Financial income received from subsidiaries				
Dividend income	-	-	0.3	21.6
Other financial income	-	-	37.4	15.6
Interest expenses	-	-	-11.9	-16.8
(7) Extraordinary income and expenses				
Profits on the sale of fixed assets	283.2	14.1	354.0	16.1
Difference between the book and actuarial pension costs	38.5	67.8	38.1	67.7
Contributions from subsidiaries	-	-	104.5	203.5
Other extraordinary income	-	0.8	-	-
Total	321.7	82.7	496.6	287.3
Loss on the sale of fixed assets	-10.7	-2.7	-1.4	-5.2
Amortization on goodwill	-400.0	-18.6	-400.0	-18.6
Contributions to subsidiaries	-	-	-52.0	-47.0
Other extraordinary expenses	-	-2.1	-	-
Total	-410.7	-23.4	-453.4	-70.8
Total extraordinary income and expenses	-89.0	59.3	43.2	216.5
(8) Change in provisions for liabilities and charges				
Rent expenses for empty business premises	-0.5	-3.3	-0.4	-3.3
Change in guarantee losses	-0.2	1.7	-	-
Provisions for guarantee	6.7	5.9	1.0	-0.5
Change in supplementary pension liabilities	11.4	-	-	-
Court proceedings	9.0	-	-	-
Total	26.4	4.3	0.6	-3.8

Notes to the financial statements

FIM million	CORPORATION		KESKO	
	1996	1995	1996	1995
(9) Change in voluntary provisions				
Acquisitions reserve	-	-	-0.8	97.7
Transition reserve	-	-	215.6	6.1
Total	-	-	214.8	103.8
(10) Revaluation amounts included in fixed assets				
Revaluations on fixed assets included in revaluation reserve				
Land	5.0	5.1	5.0	5.1
Shares	4.6	5.2	6.0	6.6
Total	9.6	10.3	11.0	11.7
Tax values				
Land	316.2	272.7	220.7	211.3
Buildings	1,278.7	1,243.5	828.4	835.1
Investments	767.4	555.3	707.2	520.5
Investments in subsidiaries	-	-	1,050.8	530.8
(11) Goodwill				
Goodwill at 1.1.	-	-	-	-
Increases 1.1.-31.12.	229.7	-	-	-
Accumulated depreciation 31.12.	-32.1	-	-	-
Net book value 31.12.	197.6	-	-	-
Other capitalised expenditure				
Acquisition cost at 1.1.	470.6	469.0	354.9	389.2
Increases 1.1.-31.12.	119.5	72.9	51.6	47.4
Decreases 1.1.-31.12.	-20.1	-71.3	-1.1	-81.7
Acquisition cost at 31.12.	570.0	470.6	405.4	354.9
Accumulated depreciation at 31.12.	-264.2	-199.7	-194.0	-151.8
Net book value at 31.12.	305.8	270.9	211.4	203.1
(12) Land and water				
Acquisition cost at 1.1.	556.5	559.0	379.7	388.3
Increases 1.1.-31.12.	105.8	15.1	74.2	8.6
Decreases 1.1.-31.12.	-16.8	-17.6	-14.0	-17.2
Net book value at 31.12.	645.5	556.5	439.9	379.7
(13) Buildings				
Acquisition cost at 1.1.	2,818.1	2,760.0	2,014.0	2,008.5
Increases 1.1.-31.12.	639.8	112.5	306.2	60.2
Decreases 1.1.-31.12.	-75.8	-54.4	-36.3	-54.7
Acquisition cost at 31.12.	3,382.1	2,818.1	2,283.9	2,014.0
Accumulated depreciation at 31.12.	-778.9	-638.2	-511.9	-458.3
Net book value at 31.12.	2,603.2	2,179.9	1,771.9	1,555.7
Fire insurance value of buildings in the Corporation was FIM 4,131 million and in Kesko FIM 3,051 million.				
(14) Machinery and equipment				
Acquisition cost at 1.1.	1,792.2	2,310.5	1,036.0	1,429.0
Increases 1.1.-31.12.	526.6	255.9	104.0	126.3
Decreases 1.1.-31.12.	-112.8	-774.2	-	-519.3
Acquisition cost at 31.12.	2,206.0	1,792.2	1,140.0	1,036.0
Accumulated depreciation at 31.12.	-1,391.1	-1,117.7	-841.3	-742.4
Net book value at 31.12.	814.9	674.5	298.7	293.6

FIM million	CORPORATION		KESKO	
	1996	1995	1996	1995
15) Other tangible assets				
Acquisition cost at 1.1.	37.7	51.6	23.6	35.0
Increases 1.1.-31.12.	6.5	1.3	2.3	1.2
Decreases 1.1.-31.12.	-0.7	-15.2	-0.4	-12.6
Acquisition cost at 31.12.	43.5	37.7	25.4	23.6
Accumulated depreciation at 31.12.	-21.3	-15.8	-13.7	-11.7
Net book value at 31.12.	22.2	21.9	11.7	11.9
(16) Advance payments and construction in progress				
Acquisition cost at 1.1.	50.6	29.4	32.0	23.3
Increases 1.1.-31.12.	188.1	182.2	180.7	117.0
Decreases 1.1.-31.12.	-216.3	-161.0	-197.7	-108.2
Acquisition cost at 31.12.	22.4	50.6	15.0	32.1
(17) Bonds and shares	2,805.0	693.1	3,685.1	1,210.1

The register of shareholdings required under Accounting Act and § 11.8 of the Companies Act is annexed to the Company's official financial statements. In 1996 the shareholdings in listed companies amounted to FIM 102 million (FIM 112 million in 1995). Major shareholdings in listed companies were Kiinteistösijoitus Oy Citycon, Neste Group, Rautaruukki Oy and Enso Oy. The book value of the shareholdings in real estate companies (58 business premises) was FIM 461 million.

Companies owned by the Corporation and the parent company

	Corporation's shareholding %	Corporation's voting rights %	Corporation's share of shareholders' equity FIM million	Parent company's shareholding %	Shares held by the parent company			Profit/loss shown in the latest financial statements FIM million
					Quantity	Nominal value FIM million	Book value FIM million	
Subsidiaries								
S.J. Aalto Oy	90.0	90.0	1.8	90.0	90	0.9	0.9	0.5
Aleksi 13 Oy	100.0	100.0	11.1	100.0	10,000	10.0	17.6	0.3
Golf Talma Oy	77.1	77.1	33.9	16.9	810	4.1	33.9	-1.3
Pekka Kalmi Oy	90.0	90.0	5.4	90.0	180	1.8	1.8	1.3
Kaukomarkkinat Oy (Group)	100.0	100.0	341.1	100.0	2,085,320	208.5	499.0	43.3
Kesko Eesti A/S	100.0	100.0	0.5	100.0	145	1.4 EEK	4.6	-1.2
Kesko Export Ltd.	100.0	100.0	4.1	100.0	300	3.0	3.0	0.7
Kesko Svenska AB	100.0	100.0	-9.4	100.0	800	8.0 SEK	5.2	-14.8
Kesped Ltd	100.0	100.0	8.7	100.0	300	3.0	3.0	5.4
Kesthom Oy (Group)	70.0	70.0	2.4	70.0	7,000	7.0	6.5	-5.5
Kestra Kiinteistöpalvelut Oy	100.0	100.0	1.3	100.0	100	1.0	1.0	0.3
K-instituutti Oy	90.0	90.0	12.1	90.0	990	9.9	9.9	1.6
K-konerahoitus Oy	99.9	99.9	59.7	-	2,121,386	21.2	35.6	7.2
K-liikki Oy	100.0	100.0	21.4	100.0	2,000	20.0	20.0	0.8
K-Luotto Oy	98.3	98.3	19.5	98.3	11,800	11.8	11.8	0.6
K-maatalousyhtiöt Oy	100.0	100.0	10.0	-	500	5.0	5.0	2.2
K-Cash & Carry Ltd	100.0	100.0	144.7	100.0	10,000	100.0	10.0	17.7
K-yhtiöt Oy	100.0	100.0	789.5	100.0	2,200	44.0	44.0	93.3
MK-mainos Oy	90.0	90.0	5.9	-	216	2.2	2.5	0.9
Motorfeet Ltd	100.0	100.0	1.6	100.0	100	0.0	1.2	0.0
Antti Pehkonen Oy	90.0	90.0	1.7	90.0	900	0.9	0.9	0.0
Suneva Oy	99.8	99.8	0.2	99.8	1,796	0.2	0.1	0.0
Finnish Rich Coffee Ltd	100.0	100.0	1.7	100.0	1,000	1.0	1.0	0.3
SV-Tietopalvelu Oy	100.0	100.0	2.1	-	50	0.0	12.7	0.5
Tietokesko Oy	100.0	100.0	15.2	100.0	1,000	10.0	10.0	5.0
Leena Turunen Oy	90.0	90.0	2.2	90.0	90	0.9	0.9	1.3
V.F.E. Co. Ltd	98.0	98.0	-0.0	-	49	0.0	0.2	0.2
Viking Coffee Ltd	100.0	100.0	30.3	100.0	3,000	30.0	39.5	0.2
VV-Auto Oy (Group)	99.9	99.9	179.6	-	8,399,577	41.9	43.3	7.7
Associated companies								
Anttila Oy (Group)	100.0	100.0	173.5	100.0	20,324,844	101.6	433.3	-44.5 ¹⁾
Center-yhtiöt Oy (Group)	48.5	38.0	26.9	-	99,450	9.9	43.5	-6.3
Kauppiainien Komedia Oy (Group)	49.2	49.2	12.2	-	191	0.2	2.5	3.4
Kiinteistösijoitus Oy Citycon	26.4	26.4	72.6	26.4	7,946,000	79.5	55.6	3.5
Kivinokka Oy	48.0	48.0	4.4	47.0	18,847	2.8	11.8	3.3
K-rahoitus Oy	39.0	39.0	8.5	-	2,574	2.6	2.6	4.0
Suomen Osakaskiinteistöt Oy (Group)	30.0	30.0	0.8	30.0	450,000	0.4	1.9	-0.7
Tuko Oy (Group)	99.6	99.6	926.9	99.6	40,688,327	406.9	1,635.9	481.8
Vaajakosken Tulitikkutehdas Oy	33.3	33.3	0.8	-	5	0.5	1.2	0.2
Vesni Italia S.R.L.	24.1	24.1	0.1	24.1	20,000	0.1	0.2	0.0
Viking Fruit AB (Group)	33.3	33.3	4.8	33.3	13,333	0.9	1.3	1.6
Vähittäiskaupan Takaus Oy	30.0	30.0	17.2	30.0	120,088	1.2	3.4	14.0

¹⁾ Included in Tuko Oy's (Group) result.

Notes to the financial statements

FIM million	CORPORATION		KESKO	
	1996	1995	1996	1995
(18) Other non-current investments/subsidiaries and associated companies				
Subsidiaries				
Investments			881.6	306.2
Associated companies				
Investments			2,476.2	396.1
(19) Receivables and debt/subsidiaries and associated companies				
Trade receivables / subsidiaries			269.4	186.3
Trade receivables / associated companies			0.3	28.6
Loan receivables / subsidiaries			734.3	924.0
Loan receivables / associated companies			1,089.8	1,200.7
Prepaid expenses and accrued income / subsidiaries			11.1	2.8
Other receivables / subsidiaries			72.2	0.9
Other long-term debt / subsidiaries			4.4	5.5
Advances received / subsidiaries			13.1	16.9
Advances received / associated companies			1.9	19.3
Trade payables / subsidiaries			108.7	75.9
Trade payables / associated companies			5.5	-
Accrued liabilities and deferred income / subsidiaries			18.0	21.5
Other current liabilities / subsidiaries			463.4	733.2
Other current liabilities / associated companies			245.4	152.3
(20) Shareholders' equity				
Share capital at 1.1.	902.4	902.4	902.4	902.4
Share capital at 31.12.	902.4	902.4	902.4	902.4
Reserve fund at 1.1.	1,020.9	1,020.9	1,019.0	1,019.0
Change	-0.3	0.0	-	-
Reserve fund at 31.12.	1,020.6	1,020.9	1,019.0	1,019.0
Revaluation reserve at 1.1.	10.3	16.5	11.7	17.6
Decrease in connection with sale of fixed assets	-0.7	-6.2	-0.7	-5.9
Revaluation reserve at 31.12.	9.6	10.3	11.0	11.7
Other reserves at 1.1.	11.8	11.9	-	-
Other change in reserves 1.1.	-0.0	- 0.1	-	-
Other reserves at 31.12.	11.8	11.8	-	-
Restricted equity at 31.12.	1,944.5	1,945.5	1,932.4	1,933.2
Unrestricted equity at 1.1.	5,335.0	5,003.5	2,744.4	2,347.4
Dividends	-171.4	-126.3	-171.4	-126.3
Donations	-1.5	- 1.2	-1.5	-1.2
Taxes for previous years	-0.0	-11.3	-	-1.3
Goodwill written off	-17.7	-10.2	-	-
Adjustment for associated companies	5.3	4.9	-	-
Other changes	0.4	0.7	-	-
Transfer from provisions	25.6	-84.8	-	-
Profit for the year	481.3	559.7	290.0	525.8
Unrestricted equity at 31.12.	5,657.0	5,335.0	2,861.5	2,744.4
Distributable reserves	3,783.0	3,409.3	2,861.5	2,744.4

FIM million	CORPORATION		KESKO	
	1996	1995	1996	1995
(21) Provisions				
Accelerated depreciation	-	-	1,512.9	1,404.7
Voluntary provisions				
Acquisitions reserve	-	-	2.3	1.4
Transition reserve	-	-	493.8	707.6
Total	-	-	496.1	709.0
Deferred tax corresponding to provisions	743.7	748.9	562.5	591.80
Provisions for liabilities and charges				
Rent expenses for empty business premises	0.4	0.9	0.4	0.9
Guarantee losses	1.5	1.7	-	-
Provisions for guarantee	30.9	24.2	4.4	3.3
Supplementary pension liabilities	11.4	-	-	-
Court proceedings	9.0	-	-	-
Total	53.2	26.8	4.8	4.2
(22) Non-current liabilities				
Liabilities due to fall after five years				
Loans from financial institutions	304.3	6.6	300.0	-
Pension loans	5.1	-	-	-
Other non-current liabilities	-	100.0	-	100.0
Total	309.4	106.6	300.0	100.0
K-rebate liabilities				
Kesko's liabilities under the K-rebate scheme, of which current liabilities	361.0	414.9	365.4	414.9
FIM 61.5 million (FIM 78.3 million in 1995)				
Marketing discount liabilities, of which current liabilities FIM 27.0 million (FIM 31.4 million in 1995)	42.1	113.2	43.0	113.2
Bonds and notes				
	FIM million	Interest		
Debenture				
1985-1995	250.0	12%	-	-
of which FIM 0.6 million short-term (FIM 1.1 million in 1995)				
Bonds				
1993-2003	100.0	6.25%	100.0	100.0
Bonds with warrants				
1996-2002	1.3	4.00%	1.3	-
The loan includes 1,325,000 warrants, each of which entitles to subscribe for one of Kesko's ordinary shares during 1.12.1999-30.4.2002				
Convertible bonds				
1989-1994	125.0	5%	-	-
of which FIM 0.1 million short-term (FIM 0.1 million in 1995)				
Currency loans, of which FIM 527.4 million short-term (FIM 185.5 million in 1995)	533.0		386.6	152.8
(23) Current liabilities				
Interest-free debt	4,297.1	4,098.8	3,309.5	3,386.5

Notes to the financial statements

FIM million	CORPORATION		KESKO	
	1996	1995	1996	1995
(24) Contingent liabilities				
Pledges given				
For own debt	598	89	594	82
For associated companies	-	71	-	71
For subsidiaries	-	-	20	20
For shareholders	-	-	-	-
For management	-	-	-	-
For others	-	-	-	-
Mortgages given as security				
For own debt	472	133	354	97
For associated companies	-	-	-	-
For subsidiaries	-	-	30	34
For shareholders	-	-	-	-
For management	-	-	-	-
For others	-	-	-	-
Guarantees				
For own debt	-	-	-	-
For associated companies	-	20	-	20
For subsidiaries	-	-	282	240
For shareholders	2	2	2	2
For management	-	-	-	-
For others	14	10	6	2
Other contingent liabilities				
For own debt	2	2	-	-
For associated companies	-	-	-	-
For management	-	-	-	-
For others	-	-	-	-
Leasing liabilities	3	4	2	2
Liabilities arising from derivative contracts	Corporation		Kesko	
	1996	Market value 1996	1996	Market value 1996
Value of underlying instruments 31.12.				
Interest rate derivative instruments				
Forward rate agreements	1,900	-1	11,550	-1
Option agreements				
Bought	-	-	-	-
Written	-	-	240	-
Interest rate swaps	-	-	-	-
Currency derivative instruments				
Forward exchange contracts	405	0	115	0
Option agreements				
Bought	47	0	22	0
Written	13	0	-	-
Currency swaps	-	0	-	-

The market values reflect the operational performance, and their have been included in the income statement.

The nominal values reflect trading volumes.

(25) Pension Fund, Pension Foundation and Sickness Fund

The Kesko Pension Fund provides personnel with statutory and supplementary pensions. The Kesko Pension Fund paid FIM 128.1 million in statutory pension benefits, an increase of 8.2% compared with the previous year. Supplementary pensions totalled FIM 55.0 million, an increase of 8.3% compared with 1995. The Pension Fund received FIM 4.7 million towards the pension benefits provided jointly with pension institutions, in the previous year the Pension Fund paid FIM 0.9 million. On 31 December 1996, the pension funds totalled FIM 1,899.3 million, of which the statutory liabilities deficit was FIM 10.0 million. All pension liabilities except the statutory liabilities deficit are fully covered. At the end of 1996, the number of retired employees was 2,635.

The statutory pension benefits of Kesko's subsidiaries are provided by the Pension Foundation for Trade, which paid out FIM 12.1 million in pension benefits, and FIM 24.5 million towards the pension benefits provided jointly with pension institutions. On 31 December 1996, the pension funds totalled FIM 147.1 million, of which the statutory liabilities deficit was FIM 3.8 million. All pension liabilities except the statutory liabilities deficit are fully covered. The number of pensioners at the end of the year was 232.

Kesko's Sickness Fund, which operates as an employer's fund, is responsible for paying out benefits to Kesko's and its subsidiaries' personnel under the Sickness Insurance Act. In 1996 these benefits amounted to FIM 19.9 million, which was 5.4% more than in the previous year.

Share capital and shareholders

On 31 December 1996, Kesko's share capital was FIM 902,434,000.

The nominal value of each share is FIM 10. 30,000 shares have been redeemed by the company and cancelled. At the end of the year, the number of shares entitled to full dividend was 90,213,400.

The share capital is divided into exclusive and ordinary shares, which differ with respect to the votes they carry at the Annual General Meeting. A holder of exclusive shares is entitled to 6 votes on the first 100 shares held and one additional vote on each subsequent holding of 100 shares. A holder of ordinary shares is entitled to one vote on a holding of 1 to 10,000 shares and one additional vote on each subsequent holding of 10,000 shares.

Exclusive shares are registered in the list of shareholders under the names of retailers and retailing businesses. The shares of other shareholders are registered in the list of shareholders as ordinary shares. At the end of 1996, the issued share capital consisted of 31,908,761 exclusive shares and 58,304,639 ordinary shares. Ordinary shares are quoted on the Helsinki Stock Exchange.

The Annual General Meeting held on 3 April 1995 authorized the Board of Directors to increase the share capital, within one year, by a maximum of FIM 100 million by issuing shares, convertible bonds or bonds with warrants. During the financial year, the share capital was not increased and no loans were taken under this authorization. At present, the Board of Directors has no authorization to issue shares, convertible bonds or bonds with warrants.

The Annual General Meeting held on 15 April 1996 made a decision to issue bonds with warrants to be offered for subscription by Kesko's management. The subscription period was from 22 April to 26 April 1996, and the subscribed amount FIM 1,325,000. A maximum of 1,325,000 ordinary shares of Kesko Ltd can be subscribed for with the warrants related to this loan at a unit price of FIM 59.50. The shares to be subscribed for entitle to a maximum of 0.04% of the total voting rights. The subscription period for the shares is from 1 December 1999 to 30 April 2002, and the holder of the shares is entitled to be paid dividends for the financial period during which the shares were subscribed and paid for.

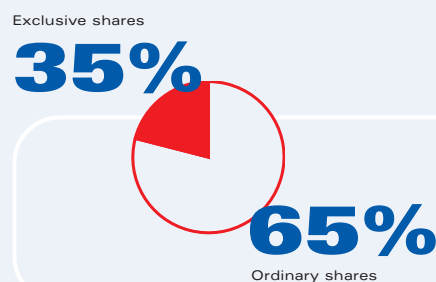
The Company has not issued any other convertible bonds or bonds with warrants.

Increases in share capital 1985-1996

Year	Subscription period	Subscription terms	Issue FIM thousand	New share capital FIM thousand	Dividend
1985	1.3.-15.4.85	R 2 for 3 at FIM 12.50	200,000	500,000	1/1 1985
1988	11.4.-27.5.88	R 1 for 2 at FIM 26	250,000	750,000	1/1 1988
1989	22.5.-30.6.89	R 1 for 5 at FIM 45	150,000	900,000	1/1 1989
1990	15.1.-20.2.90	C 200 for 5,000 at FIM 68	2,434	902,434	1/1 1990

R = rights issue, C = conversion

Analysis of share capital



Shareholders

According to the register of Kesko's shareholders kept by the Central Share Register of Finland Co-operative, there were 25,883 registered shareholders on 31 December 1996.

The total number of shares registered in a nominee name was 13,958,984, accounting for 15.47% of the share capital. The theoretical number of votes entitled by these shares was 1,395, or 0.24% of the total voting rights.

At 31 December 1996, the members and deputy members of Kesko's Supervisory Board, and the members of the Board of Directors held a total of 1,496,269 shares, representing 1.66% of the total share capital and 3.59% of the total voting rights.

At 31 December 1996, the members and deputy members of Kesko's Supervisory Board, and the members of the Board of Directors held a total of 28.30% of the warrants issued by the Company, on the basis of which they are entitled to a maximum of 0.41% of the total share capital and to 0.01% of the total voting rights.

Shareholder information

Kesko Ltd's shareholder information is kept by Finnish Central Securities Depository Ltd, telephone +358 9 686 200. In Kesko, matters concerning shareholder information are handled by the Legal Affairs Department: Sata-makatu 3, Helsinki, Finland; mailing address FIN-00016 KESKO; telephone +358 1053 22437.

Share capital and shareholders

The 20 main shareholders by number of shares at 31 December 1996

		Number of shares	% of shares	% of votes
1	Kesko Pension Fund	3,520,705	3.90	9.19
2	Merita Bank Ltd	2,617,000	2.90	0.07
3	Vähittäiskaupan Takaus Oy	2,378,533	2.64	6.42
4	Pension Insurance Company Ilmarinen	2,326,500	2.58	0.06
5	K-rahoitus Oy	2,205,510	2.44	6.00
6	The Finnish Local Government Pensions Institution	2,189,600	2.43	0.06
7	Suomi Mutual Life Insurance Company	1,450,000	1.61	0.04
8	Insurance Company Pohjola	1,428,500	1.58	0.04
9	Oy Stockmann Ab	1,267,000	1.40	0.70
10	Pamart Oy	1,077,175	1.19	2.91
11	Paulig Ltd	1,063,320	1.18	0.03
12	A. Ahlstrom Corporation	925,000	1.03	0.02
13	Kaleva Mutual Insurance Company	780,000	0.86	0.02
14	Pension Foundation Polaris Pensionsstiftelse sr	630,000	0.70	0.02
15	The K-Retailers' Association	574,818	0.64	1.47
16	Pension-Varma Mutual Insurance Company	457,320	0.51	0.01
17	Sampo Insurance Company Limited	450,000	0.50	0.01
18	Life Insurance Company Salama Unit Link	446,000	0.49	0.01
19	Foundation for Voc. Tr. in the Retail Trade	427,393	0.47	0.84
20	Nova Life Insurance Company Limited	426,000	0.47	0.01

The 20 main shareholders by number of votes at 31 December 1996

		Number of votes	% of votes	Number of shares	% of shares
1	Kesko Pension Fund	34,060	9.19	3,520,705	3.90
2	Vähittäiskaupan Takaus Oy	23,790	6.42	2,378,533	2.64
3	K-rahoitus Oy	22,060	5.96	2,205,510	2.44
4	Pamart Oy	10,776	2.91	1,077,175	1.19
5	The K-Retailers' Association	5,449	1.47	574,818	0.64
6	Foundation for Voc. Tr. in the Retail Trade	3,104	0.84	427,393	0.47
7	Kivinokka Oy	2,852	0.77	284,780	0.32
8	Oy Stockmann Ab	2,606	0.70	1,267,000	1.40
9	Veli Penttinen Ky	2,595	0.70	259,020	0.29
10	Lasse Aaltonen Oy	2,460	0.66	262,770	0.29
11	Kauppiaitten Kustannus Oy	2,165	0.58	216,000	0.24
12	A. Toivakka Oy	1,921	0.52	211,450	0.23
13	Hannu Aaltonen Oy	1,339	0.36	163,130	0.18
14	Vesa Laakso Oy	1,261	0.34	125,600	0.14
15	Ruokajätti Kalevi Sivonen Oy	1,237	0.33	197,500	0.22
16	Sundman & Co-Holding Ab	1,113	0.30	110,802	0.12
17	Lammela Oy	1,052	0.28	104,780	0.12
18	Järvenpään K-Tavaratalo Kauppamies Oy	1,021	0.28	101,650	0.11
19	Eho Oy	976	0.26	107,000	0.12
20	Kotihalli Oy	965	0.26	96,000	0.11

During the financial year, the company received no notifications under § 2:9 of the Securities Market Act.

Analysis of shareholders at 22 January 1997

Exclusive shares	Number of shares	% of exclusive shares	% of all shares
Private enterprises	15,550,514	48.75	17.24
Public companies	0	0.00	0.00
Financial and insurance institutions	2,205,510	6.91	2.44
General government	3,405,275	10.67	3.77
Non-profit institutions	571,784	1.79	0.63
Households	9,225,560	28.92	10.23
Foreigners (incl. nominee registrations)	71,720	0.22	0.08
On waiting list	792,883	2.49	0.88
Not transferred to book-entry securities system	77,625	0.24	0.09
	31,900,871	100.00	35.36

Ordinary shares

	Number of shares	% of ordinary shares	% of all shares
Private enterprises	7,884,161	13.52	8.74
Public companies	365,030	0.63	0.40
Financial and insurance institutions	8,262,449	14.17	9.16
General government	8,340,970	14.30	9.25
Non-profit institutions	3,725,129	6.39	4.13
Households	15,186,467	26.04	16.83
Foreigners (incl. nominee registrations)	14,424,772	24.74	15.99
On waiting list	18,246	0.03	0.02
Not transferred to book-entry securities system	105,305	0.18	0.12
	58,312,529	100.00	64.64

All shares

	Number of shares	% of all shares
Private enterprises	23,434,675	25.98
Public companies	365,030	0.40
Financial and insurance institutions	10,467,959	11.6
General government	11,746,245	13.02
Non-profit institutions	4,296,913	4.76
Households	24,412,027	27.06
Foreigners (incl. nominee registrations)	14,496,492	16.07
On waiting list	811,129	0.90
Not transferred to book-entry securities system	182,930	0.20
	90,213,400	100.00

Shareholders by size of holding at 22 January 1997

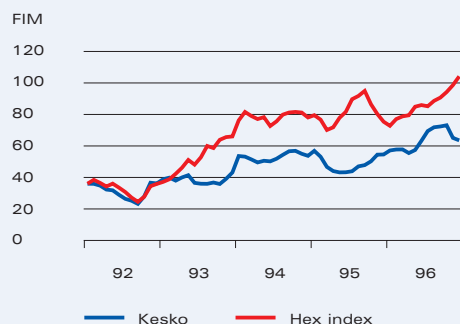
Exclusive shares

Number of shares	Number of shareholders	% of holders of exclusive shares	Total of exclusive shares	% of exclusive shares
1 - 100	516	10.44	27,106	0.08
101 - 500	876	17.73	246,984	0.77
501 - 1000	678	13.72	543,120	1.70
1001 - 5000	1,966	39.79	4,876,517	15.29
5001 - 50000	848	17.16	10,584,832	33.18
50001 -	57	1.15	14,751,804	46.24
On waiting list			792,883	2.49
Not transferred to book-entry securities system			77,625	0.24
		100.00	31,900,871	100.00

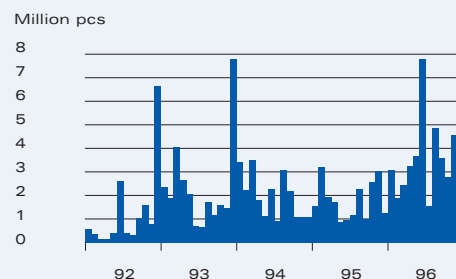
Ordinary shares

Number of shares	Number of shareholders	% of holders of ordinary shares	Total of ordinary shares	% of ordinary shares
1 - 100	5,639	24.60	290,377	0.50
101 - 500	8,838	38.55	2,367,718	4.06
501 - 1000	3,865	16.86	2,936,801	5.04
1001 - 5000	3,848	16.78	7,889,581	13.53
5001 - 50000	661	2.88	8,143,815	13.97
50001 -	76	0.33	36,560,686	62.70
On waiting list			18,246	0.03
Not transferred to book-entry securities system			105,305	0.18
		100.00	58,312,529	100.00

Trends in Kesko's share price



Number of shares traded by month



Proposed distribution of profit

Net profit for the year shown in the income statement	FIM	290,031,240.61
Retained profit brought forward from previous years on 31 December 1996		
	FIM	<u>1,124,165,237.55</u>
	FIM	<u>1,414,196,478.16</u>

The Board of Directors proposes that a dividend of FIM 2.00 per share be declared on all shares, amounting to	FIM	180,426,800.00
an amount be reserved for donations at the discretion of the Board of Directors of	FIM	1,500,000.00
an amount be carried forward as retained profit of	FIM	<u>1,232,269,678.16</u>
	FIM	<u>1,414,196,478.16</u>

Helsinki, 28 February 1997

Eero Kinnunen

Timo Karake

Jouko Tuunainen

Heikki Huhtanen

Matti Honkala

Paavo Tanskanen

Matti Halmesmäki

Auditors' Report

We have examined Kesko Ltd's accounting records, financial statements and administration for the financial period from 1 January to 31 December 1996. The statements prepared by the Board of Directors and the Chairman and Chief Executive include the Report by the Board of Directors, as well as the consolidated income statement and balance sheet, the parent company's income statement and balance sheet, and notes to the financial statements. On the basis of our examination, we give below a report on the financial statements and administration.

The audit has been carried out in accordance with generally accepted auditing standards. The accounting records and the financial statements, including the principles for preparing these statements, their contents and the practice to disclose the financial data, have been audited to obtain reasonable assurance that the financial statements have been correctly prepared. Concerning administration, we have examined the legality of the actions of the Supervisory Board's and Board of Directors' members and the Chairman and Chief Executive on the basis of the rules specified in the Companies Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and standards concerning the preparation of financial statements. The financial statements show a true and fair view of the performance and financial position of the Corporation and the parent company. The financial statements, including the consolidated financial statements, can be adopted. The members of the Supervisory Board and the Board of Directors, and the Chairman and Chief Executive can be discharged from their responsibilities for the financial period. The proposal of the Board of Directors for treating the unrestricted equity shown in the balance sheet conforms to law.

We have studied the Interim Reports published during the financial year. In our opinion they have been prepared in accordance with the standards concerning them.

Helsinki, 6 March 1997

Antti Helenius, CPA

Mauno Tervo, CPA

Liisa Mononen, CPA

Statement by the Supervisory Board

The Supervisory Board has reviewed the financial statements for 1996 for Kesko Ltd and for the Kesko Corporation and proposes that the financial statements be adopted.

The Supervisory Board has also reviewed the Auditors' Report; no action is required by the Supervisory Board.

Ensio Hannukari and Pentti Mononen have prematurely relinquished their memberships of the Supervisory Board.

The terms of the following members of the Supervisory Board are due to expire: Tarmo Aura, Matti Kallio, Pentti Miettinen, Risto Peltokangas, Heikki Takamäki and Hannu Virkkala as well as the deputy members Reijo Anttila, Urpo Heiskanen, Harri Joensuu, Matti Karvinen, Tuomo Kauhanen, Paavo Kolehmainen, Matti Lappalainen, Timo Leppälä, Hannu Nieminen, Ilmo Ojakumpu, Tua Storberg, Olavi Särvä and Pekka Tolonen.

Helsinki, 6 March 1997

For the Supervisory Board

Matti Kallio
Chairman

Heikki Takamäki
Deputy Chairman

Kesko's Subsidiaries and Associated Companies

SUBSIDIARIES

Aleksi 13 Oy

Aleksi 13 Oy is a retail company for shoes, handbags and clothes, which has 15 stores in Finland. Its net sales amounted to FIM 141 million. The average number of personnel was 128. The Managing Director is Pekka Pietilä.

Anttila Oy

Anttila Oy is a company engaged in the department store business through 31 department stores in 26 towns. This company was acquired by Kesko as Tuko's subsidiary on 1 June 1996 and was transferred into Kesko's direct ownership as a subsidiary on 27 December 1996. Between 1.6.-31.12.1996 its net sales were FIM 2,123 million. The average number of personnel was 2,725. The Managing Director is Jouko Björkman.

Finnish Rich Coffee Ltd

Finnish Rich Coffee Ltd is a coffee marketing company. The Managing Director is Timo Karkola.

Kaukomarkkinat Group

Kaukomarkkinat Group, which Kesko acquired on 8 May 1996, is a company specialising in the international trade, export, import and wholesale business. The Group has business units and subsidiaries in 14 countries. In international trade and export, its primary market areas are Russia, China and Poland. Between 1.5.-31.12.1996 its net sales amounted to FIM 2,296 million and for the whole year totalled FIM 3,664 million. The average number of personnel was 761. The Managing Director of Kaukomarkkinat Oy is Kari Ansio.

K-Cash & Carry Ltd

K-Cash & Carry Ltd offers, on the basis of a self-service wholesaler, a purchasing channel for groceries and non-food products to businesses and organisations engaged in retailing, catering and other food processing operations. Its net sales were FIM 1,705 million. The average number of personnel was 436. The Managing Director is Matti Hukka.

Kesko Eesti A/S

Kesko Eesti A/S operates a cash & carry outlet in Tallinn, Estonia. Its net sales amounted to FIM 46 million. The average number of personnel was 39. The Managing Director is Matti Vatanen.

Kesko Export Ltd.

Kesko Export Ltd. operates in the tax free export business, with Russia and Estonia as its principal marketing areas. Its net sales totalled FIM 19 million. The average number of personnel was 9. The Managing Director is Matti Vatanen.

Kesko Svenska AB

Kesko Svenska AB is a retail trade company operating in Sweden. The company started operations in February 1996. The company has a hardware store and two shoe stores in Sweden. Its net sales amounted to FIM 27 million. The average number of personnel was 32. The Managing Director is Matti Vatanen.

Kesthom Oy/ZA0 Kestroy Moskva 1

The company carries out wholesale trade in hardware and builders' supplies in Russia. Operations were started in Moscow in November. The Managing Director is Jarmo Niskanen.

Kesped Ltd

Kesped Ltd is a forwarding and transport company. Its net sales amounted to FIM 363 million. The average number of personnel was 124. The Managing Director is Timo Kortelainen.

Kestra Kiinteistöpalvelut Oy

The company was established on 7 June 1996 by reorganising the technical management services of the real estate properties controlled by Kesko. By the end of the year the company's services covered 640 real estate properties. The average number of personnel was 21. The Managing Director is Risto Lassila.

K-instituutti Oy

K-instituutti is a company providing training services in the trading business. Its net sales amounted to FIM 15 million. The average number of personnel was 45. The Managing Director is Kyösti Pärssinen.

K-konerahoitus Oy

The company provides hire purchase finance for agricultural and construction machinery and consumer goods. At the end of the year, the company had 3,173 agreements with financing receivables amounting to FIM 175 million. The Managing Director is Seppo Kettunen.

K-linkki Oy

K-linkki Oy is a company providing services in retail information systems. Its net sales amounted to FIM 54 million. The average number of personnel was 38. The Managing Director is Eero Vesterinen.

K-Luotto Oy

K-Luotto Oy manages the K-card and the new K-advantage cards. In addition to the keeping of a customer register and card system for customer loyalty marketing, K-Luotto offers K-retailers direct marketing mail services. Its net sales amounted to FIM 28 million. The number of K-charge cards in use is about 90,000, and during the financial period they were used for purchases totalling FIM 604 million. The average number of personnel was 26. The Managing Director is Eija Jantunen.

K-maatalousyhtiöt Oy

K-maatalousyhtiöt Oy is an agricultural retail company operating in 7 K-agricultural centres. Its net sales amounted to FIM 598 million. The average number of personnel was 131. The Managing Director is Jouni Oksanen.

K-yhtiöt Oy

K-yhtiöt Oy is a retail company including the non-food trade of 33 Citymarket hypermarkets. During the year, the company founded an Online Superstore specialising in information technology and two PopToy stores for toy retailing. K-yhtiöt Oy's net sales amounted to FIM 1,608 million. The average number of personnel was 1,581. The Managing Director is Matti Honkala.

MK-mainos Oy

MK-mainos Oy is an authorised advertising agency and a member of the Finnish Association of Advertising Agencies. Its net sales amounted to FIM 126 million and gross profit to FIM 15 million. The average number of personnel was 46. The Managing Director is Kari Soinen.

Motorfeet Ltd

Motorfeet Ltd is an importing and marketing company for branded shoes. Its net sales amounted to FIM 21 million. The average number of personnel was 9. The Managing Director is Jukka Pietarila.

SV-Tietopalvelu Oy

SV-Tietopalvelu Oy is a market research company specialising in customer research. The company was acquired by K-yhtiöt Oy on 1 December 1996. Its net sales amounted to FIM 8 million. The Managing Director is Lasse Mitronen.

Tietokesko Oy

Tietokesko Oy is a company providing information technology services to Kesko's business operation units. Its net sales amounted to FIM 131 million. The average number of personnel was 156. The Managing Director is Osmo Kimmo.

Tuko Group

Tuko Group is a wholesale and retail company, which Kesko acquired on 1 June 1996. Besides the parent company Tuko, the Group includes Suomen Spar Oy, TukoSpar Oy, Anttila Oy (until 27.12.) and Rautia Oy. Between 1.6.-31.12.1996, its net sales amounted to FIM 6,909 million and a total of FIM 11,516 million for 1996. The average number of personnel was 4,887. The Managing Director of Tuko Oy is Matti Halmesmäki.

Viking Coffee Ltd

Viking Coffee Ltd is a coffee roastery which was jointly and equally owned by Kesko and the Swedish central company ICA Handlarnas AB until 31 December 1996, when Kesko Ltd bought its share capital. The company roasts coffee for the

Finnish, Swedish and Estonian markets. Its net sales amounted to FIM 255 million. The average number of personnel was 48. The Managing Director is Raimo Ilveskero.

VV-Auto Oy

VV-Auto Oy is the importer of Volkswagen and Audi cars and Volkswagen commercial vehicles manufactured by the VW Group. Its net sales amounted to FIM 1,739 million and the average number of personnel was 84. The Managing Director is Erkki Sillantaka.

VV-Auto Oy's subsidiary, Auto-Span Oy, is an importing and marketing company for Seat cars. Its net sales amounted to FIM 66 million. The Managing Director is Erkki Sillantaka.

ASSOCIATED COMPANIES

Center-yhtiöt Oy

Center-yhtiöt Oy is a real estate investment company. Its two subsidiaries, Centeromistus Oy, which had business premises and shareholdings, and Polke Oy, a construction company, were merged with Center-yhtiöt Oy during 1996. The Center-yhtiöt Group's balance sheet total was FIM 753 million.

Kauppiaiden Komedial Oy

Kauppiaiden Komedial Oy develops in-store TV media operations. Its subsidiary, Proidea Oy, produces commercials, company presentation videos and in-store TV programme services. The net sales of the Group totalled FIM 23 million.

Kivinokka Oy

Kivinokka Oy is an investment company, which also operates in the retail trade. Its net sales were FIM 8 million and the balance sheet total amounted to FIM 66 million.

K-rahoitus Oy

K-rahoitus Oy is an investment company. Its balance sheet total was FIM 170 million.

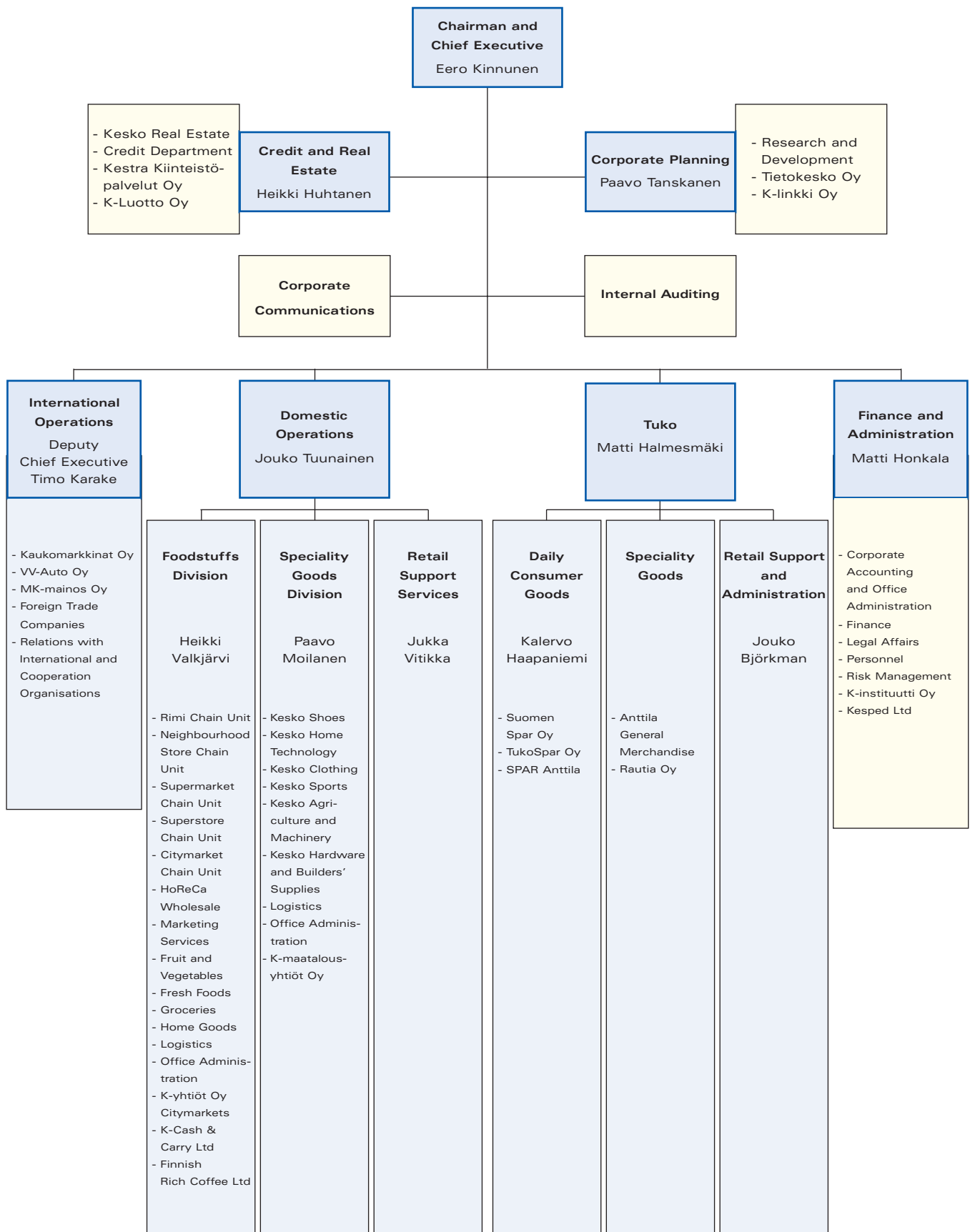
Viking Fruit AB

Viking Fruit AB is based in Gothenburg, Sweden. It imports fresh fruit and vegetables on behalf of the three Scandinavian companies which own it. Its net sales totalled FIM 863 million.

Vähittäiskaupan Takaus Oy

Vähittäiskaupan Takaus Oy is the K-retailers' mutual guarantee company. Its function is to support the K-retailers' financing arrangements. At the end of the year, the total value of guarantees granted to K-retailers amounted to FIM 1,417 million. The value of new guarantees granted in 1996 was FIM 476 million.

Organisation chart of the Kesko Corporation 31.12.1996



Board of Directors



Kesko's Board of Directors in 1996. In the front, Board Members from left: Timo Karake, Eero Kinnunen, Jouko Tuunainen and Heikki Huhtanen, and at the back, from left: Paavo Tanskanen, Matti Honkala and Matti Halmesmäki.

Eero Kinnunen (59)

Chairman and Chief Executive

Timo Karake (55)

Deputy Chief Executive

Executive Vice President, International Operations

Jouko Tuunainen (51)

Executive Vice President, Domestic Operations

Executive Vice President, Foodstuffs Division

until 12 June 1996

Heikki Huhtanen (52)

Executive Vice President, Credit and Real Estate

Matti Honkala (51)

Executive Vice President, Finance and

Administration

Paavo Tanskanen (54)

Executive Vice President, Corporate Planning

Matti Halmesmäki (44)

Managing Director of Tuko Oy

Executive Vice President, Speciality Goods Division

until 12 June 1996

Supervisory Board, Auditors and Directors



Kesko's Supervisory Board in 1996. In the front, from right: Chairman Vesa Lammela, Deputy Chairman Matti Kallio, and authorized members of the Supervisory Board Heikki Takamäki, Keijo Toivanen, Kalevi Sivonen and Eero Ahonen.

Supervisory Board

Kesko's Supervisory Board is elected by Annual General Meeting to supervise company administration. Members of the Supervisory Board must be either active retailers or directors of retailing companies.

In 1996, the Supervisory Board consisted of 24 members and 24 deputy members. Vesa Lammela acted as Chairman of the Supervisory Board with Matti Kallio as Deputy Chairman and Tapio Erme as Secretary.

There were six authorized members of the Supervisory Board.

Members

Eero Ahonen, Pudasjärvi
Tarmo Aura, Ylöjärvi
Ensio Hannukari, Oulu
Pertti Heino, Imatra
Leena Hiltunen, Suomussalmi
Pentti Kalliala, Turku
Matti Kallio, Helsinki
Simo Keskinen, Turku
Antti Kuivalainen, Kuusamo
Veli Kukkonen, Kajaani
Hannu Kuusiniemi, Muhos
Vesa Lammela, Kiukainen

Jukka Martikainen, Kuopio
Kauko Mattila, Parainen
Pentti Miettinen, Joensuu
Pentti Mononen, Jyväskylä
Risto Peltokangas, Seinäjoki
Reijo Peltola, Lahti
Tauno Pitkänen, Kaavi
Harry Roos, Pietarsaari
Kalevi Sivonen, Vantaa
Heikki Takamäki, Tampere
Keijo Toivanen, Joensuu
Hannu Virkkala, Mustasaari

Deputy members

Antero Ahonen, Jyväskylä
Jouni Anttila, Sievi
Reijo Anttila, Vaala
Veikko Heikkinen, Kuhmo
Urpo Heiskanen, Vehmersalmi
Heimo Hietala, Säskylä
Harri Joensuu, Alajärvi
Matti Karvinen, Vantaa
Tuomo Kauhanen, Tuusula
Paavo Kolehmainen, Joensuu
Olli Laine, Luopioinen
Matti Lappalainen, Kajaani
Pekka Lehtinen, Riihimäki
Timo Leppälä, Rovaniemi
Jaakko Luomanen, Nurmo
Hannu Nieminen, Nastola
Väinö Nieminen, Keuruu
Ilmo Ojakumpu, Oulu
Pertti Pesälä, Espoo
Tua Storberg, Västanfjärd
Olavi Särvä, Lieto
Pekka Tolonen, Tampere
Jukka Varis, Konnevesi
Timo Wallin, Mäntsälä

Auditors

SVH Coopers & Lybrand Oy,
Certified Public Accountants;
Auditor with principal responsibility:
Antti Helenius, M.Sc. (Econ.),
CPA
Mauno Tervo, B.Sc. (Econ.),
CPA
Liisa Mononen, M.Sc. (Econ.),
CPA

Deputy auditors

Jari Miiikkulainen, M.Sc. (Econ.),
CPA
Jukka Ala-Mello, M.Sc. (Econ.),
CPA
Mirja Tonteri, B.Sc. (Econ.),
CPA

Directors

Kesko's Directors and Managing
Directors of main subsidiaries
31.12.1996

Domestic Operations**Foodstuffs Division**

Heikki Valkjärvi
Rimi Chain Unit, Sakari Finne
Neighbourhood Store Chain Unit,
Perttu Rinta
Supermarket Chain Unit,
Matti Kautto
Superstore Chain Unit,
Jaakko-Pekka Vehmas
Citymarket Chain Unit, Matti Kotola
HoReCa Wholesale,
Reima Oinaanoja
Marketing Services, Timo Karkola
Fruit and Vegetables, Antti Palomäki
Fresh Foods, Esko Pihlström
Groceries, Aila Hirvoila
Home Goods, Antti Puhakka
Logistics, Timo Lehtinen
Office Administration, Aatos Kivelä

Speciality Goods Division

Paavo Moilanen
Kesko Shoes, Pekka Pietilä
Kesko Home Technology,
Veijo Grönroos
Kesko Clothing, Erkki Kahila
Kesko Sports, Matti Leminen
Kesko Agriculture and Machinery,
Kimmo Vilppula
Kesko Hardware and Builders'
Supplies, Simo Manner
Office Administration and Logistics,
Olli Rannisto

Retail Support Services

Jukka Vitikka

International Operations

New Business Operations,
Matti Vatanen

Tuko

Daily Consumer Goods,
Kalervo Haapaniemi
Retail Support and Administration,
Jouko Björkman

Corporate Administration

Personnel, Riitta Laitasalo
Kesko Real Estate, Risto Lassila
Corporate Accounting and Office
Administration, Paavo Rönkkö
Corporate Communications,
Erkki Heikkinen
Legal Affairs, Tapio Erme
Credit Department, Seppo Kettunen
Finance, Taisto Hautajärvi
Internal Auditing, Asko Ihalainen

Subsidiaries

Alexi 13 Oy, Pekka Pietilä
Anttila Oy, Jouko Björkman
Finnish Rich Coffee Ltd,
Timo Karkola
Kaukomarkkinat Oy, Kari Ansio
K-Cash & Carry Ltd, Matti Hukka
Kesko Eesti A/S, Matti Vatanen
Kesko Export Ltd., Matti Vatanen
Kesko Svenska AB, Matti Vatanen
Kespel Ltd, Timo Kortelainen
Kesthom Oy, Jarmo Niskanen
Kestra Kiinteistöpalvelut Oy,
Risto Lassila
K-instituutti Oy, Kyösti Pärssinen
K-konerahoitus Oy, Seppo Kettunen
K-linkki Oy, Eero Vesterinen
K-Luotto Oy, Eija Jantunen
K-maatalousyhtiöt Oy,
Jouni Oksanen
K-yhtiöt Oy, Matti Honkala
MK-mainos Oy, Kari Soininen
Motorfeet Ltd, Jukka Pietarila
SV-Tietopalvelu Oy, Lasse Mitronen
Tietokesko Oy, Osmo Kimmo
Tuko Oy, Matti Halmesmäki
Viking Coffee Ltd, Raimo Ilveskero
VV-Auto Oy, Erkki Sillantaka

K-stores



K-retailers are independent entrepreneurs who use the K-logo or other marketing names of the K-Group; they are also Kesko's shareholders. In their entrepreneurial capacity, K-retailers are responsible for customer satisfaction and the profitable performance of their stores. K-retailers are members of the K-Retailers' Association.

At the end of the year, there were 1,911 K-retailers (in the previous year 1,988). Including the retailers, K-stores employed a total of 21,848 persons, of whom 9,082 were working part-time.

A recruiting programme was started in cooperation with Kesko with the objective of finding novice retailers for new store sites. The programme comprises finding and testing would-be entrepreneurs, work practice, training and exchange of experiences. By the end of the year, over 100 students were being trained as grocers within this programme.

At the end of the year, there were 2,194 K-stores (2,257 in the previous year). In addition, there were 95 K-mobile stores (104 in the previous year).

K-retailers were operative under cooperation agreement in 726 store sites and premises belonging to Kesko. Of these, 416 were owned by Kesko and 310 were rented by Kesko to K-retailers.

During 1996, 382 K-stores were upgraded. The store type reform has been carried out in a total of 930 grocery stores and 363 speciality stores. In addition, a large-scale modernization of information systems was also carried out. A new information system was purchased for 570 K-stores.



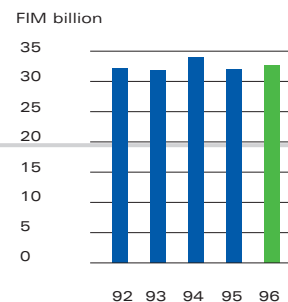
	Number	% of total number	% of sales
Citymarket hypermarkets	38	1.7	18.3
K-superstores	81	3.5	14.0
K-supermarkets	223	9.7	15.5
K-neighbourhood stores	389	17.0	10.3
K-kauppa stores	463	20.2	5.4
K-mobile stores	95	4.2	0.7
Rimi stores	18	0.8	0.6
Other grocery stores	216	9.4	7.2
Grocery stores, total	1,523	66.5	67.1
K-rauta hardware and builders' supplies stores	103	4.5	7.5
K-agricultural and builders' supplies stores	74	3.2	5.2
K-agricultural stores	69	3.0	6.0
Other agricultural and builders' supplies stores	29	1.3	0.6
Agricultural and builders' supplies, total	275	12.0	19.3
Kesport-Intersport stores	94	4.1	2.7
K-kenkä shoe stores	87	3.8	0.8
Andiamo shoe stores	28	1.2	0.4
Musta Pörssi stores for household appliances and home electronics	74	3.2	2.3
Vaatehuone fashionwear stores	68	3.0	1.3
Aleksi 13 shoe and handbag stores	15	0.7	0.5
Nicky&Nelly stores for children's wear	21	0.9	0.1
Other speciality stores	104	4.5	0.6
Speciality stores, total	491	21.5	8.7
All K-stores, total	2,289	100.0	100.0

The total sales of the K-stores amounted to FIM 32.7 billion, an increase of 2.1% over the previous year.

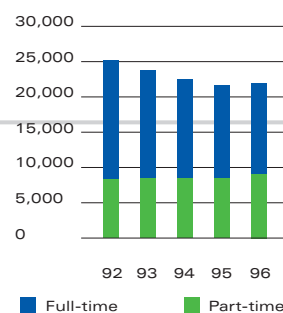
The sales by K-stores operating under cooperation agreements in store premises and sites owned by Kesko totalled FIM 20.0 billion.

K-stores' purchases from Kesko amounted to FIM 16.6 billion excluding VAT, an increase of 2.0% over the previous year.

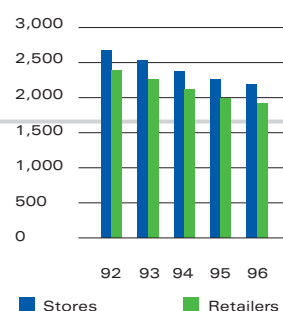
Sales by K-stores



Personnel of K-stores



Number of K-stores and K-retailers



Addresses

KESKO LTD

Street address:
Satamakatu 3
00160 Helsinki
Mailing address:
P.O.B. 135
FIN-00016 Kesko
Tel. +358 10 5311
Fax +358 9 655 473
Internet <http://www.kesko.fi>

SPECIALITY GOODS DIVISION

Kesko Agriculture and Machinery, Kesko Hardware and Builders' Supplies

Kuriiritie 10-12
P.O.B. 54
FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 9 873 5700

Central Warehouse 1

Speciality and home goods,
hardware and builders' supplies
Kuriiritie 5
P.O.B. 47
FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 1053 27505

Central Warehouse 2

Foodstuffs
Jokiniementie 31
P.O.B. 47
FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 1053 27350

Training and experimental farm of the K-Group

Hahkialantie 30
FIN-14700 Hauho
Tel. +358 3 61501
Fax +358 3 615 0230

DISTRICT CENTRES

Helsinki

Jokiniementie 31
P.O.B. 152
FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 9 834 486

Kuopio

Päivärannantie 18
P.O.B. 46
FIN-70701 Kuopio
Tel. +358 10 5311
Fax +358 1053 29318

Oulu

Äimäkuja 2
P.O.B. 16
FIN-90401 Oulu
Tel. +358 10 5311
Fax +358 1053 30572

Tampere

Jokipohjantie 28
P.O.B. 330
FIN-33101 Tampere
Tel. +358 10 5311
Fax +358 1053 25443

Turku distribution centre

Rydönnotko 1
P.O.B. 116
FIN-20101 Turku
Tel. +358 10 5311
Fax +358 1053 21664

SUBSIDIARIES

Aleksi 13 Oy

Satamakatu 3
FIN-00160 Helsinki
Tel. +358 10 5311
Fax +358 1053 23430

Anttila Oy

Valimotie 17
FIN-00380 Helsinki
P.O.B. 1060
FIN-00101 Helsinki
Tel. +358 9 61922
Fax +358 9 619 7832

Finnish Rich Coffee Ltd

Kuriiritie 5
P.O.B. 269
FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 9 636 763

Kaukomarkkinat Oy

Kutojantie 4
P.O.B. 40
FIN-02631 Espoo
Tel. +358 9 5211
Fax +358 9 521 6641

K-Cash & Carry Ltd

Kruunuvuorenkatu 5
P.O.B. 135
FIN-00161 Helsinki
Tel. +358 10 5311
Fax +358 9 634 169

Kesko Export Ltd.

Kanavakatu 3 A
P.O.B. 135
FIN-00161 Helsinki
Tel. +358 10 5311
Fax. +358 1053 23411

Kesped Ltd

Jokiniementie 31
P.O.B. 47
FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 1053 27021

K-instituutti Oy

Siikajärventie 88-90
FIN-02860 Espoo
Tel. +358 10 5311
Fax +358 9 863 8571

K-linkki Oy

Ylä-Malmintori 6 A
FIN-00700 Helsinki
Tel. +358 10 5311
Fax +358 1053 23443

K-Luotto Oy

Kauppiaankatu 3
P.O.B. 135
FIN-00161 Helsinki
Tel. +358 10 5311
Fax +358 9 622 3125

K-maatalousyhtiöt Oy

Kuriiritie 10-12
P.O.B. 54
FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 1053 20557

K-yhtiöt Oy

Satamakatu 3
P.O.B. 135
FIN-00161 Helsinki
Tel. +358 10 5311
Fax +358 9 175 571

MK-mainos Oy

Kruunuvuorenkatu 4
P.O.B. 135
FIN-00161 Helsinki
Tel. +358 10 5311
Fax +358 9 657 243

Tietokesko Oy

Satamakatu 3
P.O.B. 135
FIN-00161 Helsinki
Tel. +358 10 5311
Fax +358 9 665 628

Tuko Oy

Valimotie 17
FIN-00380 Helsinki
P.O.B. 1050
FIN-00101 Helsinki
Tel. +358 9 6191
Fax +358 9 619 6157

VV-Auto Oy/Auto-Span Oy

Hitsaajankatu 7 B
P.O.B. 80
FIN-00811 Helsinki
Tel. +358 9 758 31
Fax +358 9 758 3267 (VV-Auto)
Fax +358 9 758 3356 (Auto-Span)

Financial publications

Kesko publishes its annual report in Finnish, Swedish and English in March, and summaries of it in German and French in May. Interim reports are published in Finnish, Swedish and English in June, week 24, and in October, week 42. The publications may be ordered by letter from

Kesko Ltd

Corporate Communications

P.O.B. 135

FIN-00016 Kesko,

by telephone +358 1053 22404,

by fax +358 9 174 398

or by Internet, <http://www.kesko.fi>

Annual General Meeting 1997

The Annual General Meeting of Kesko Ltd will be held in the Helsinki Fair Centre's congress wing, Rautatietäisenkatu 3, on Monday 14 April 1997 at 13.00 hours. Shareholders wishing to attend the Annual General Meeting should notify Kesko Ltd's Legal Affairs Department by letter to P.O.B. 135, FIN-00016 Kesko, by fax +358 1053 23480, or by telephone +358 1053 23211, not later than 9 April 1997 at 16.00 hours.



