



Annual Report 1997

KESKO

Our basic values

Customer satisfaction is the result of successful service and high-quality products. It creates and ensures loyal customer relationships.

Enterprising spirit means confidence in entrepreneurship and one's own competence, diligence and a willingness to develop in one's work and the will to produce profit.

Profitability means good financial results and high-quality operations.

Cooperation - both inside and outside the K-Group - improves the competitiveness and results of all participants.

Continuous improvement means active responses to customer needs, utilisation of new opportunities, open and unprejudiced attitudes to new ideas, and continuous development of operations.

Responsibility and honest working methods allow one to make a full and active contribution in a changing society.

Respect of other people, and solidarity create a good working environment.

Main events in 1997

The organisation of Kesko Corporation was renewed. The Corporate Board and the management of the profit groups were separated. Business operations are now divided into four commercial profit groups, two profit groups operating in finance and administration and the Corporate Board with the service units.

The Plussa loyal customer marketing was successfully launched in November. At the end of 1997, there were about 1.4 million Plussa cards in use. The Plussa system combines the goods offered by the K-Group and other partners into a total package providing benefits for the customer. It is expected that the Plussa system will further increase the sales of the K-Group retail stores and Kesko's wholesaling to K-retailers.

In 1997, Kesko fulfilled all the obligations imposed on it by the European Commission related to the divestiture of Tuko daily consumer goods business purchased in 1996. Anttila Oy, which is engaged in the department store business, Rautia Oy, a hardware retailer, and Tuko Oy, a property owner which was later renamed Hämeenkylässä Kauppa Oy, were all included in the Corporation. An increasing share of the Kesko Corporation's net sales now comes from retailing as opposed to the traditional wholesaling.

Executive Vice President Matti Honkala has been appointed as Kesko's Chairman and Chief Executive, and will take up office on 1 May 1998. The present Chairman and Chief Executive, Eero Kinnunen, will retire on 30 April 1998.

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Corporation's key figures

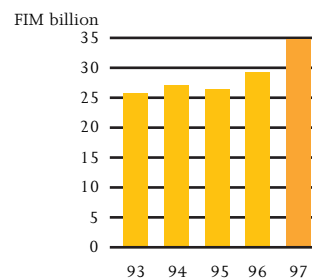
- Net sales increased by almost a fifth.
- Operating profit increased by almost a third.
- Profit before extraordinary items and taxes decreased to the 1995 level.
- Return on equity decreased.
- Equity ratio remained excellent.
- Proposed dividend FIM 3.00 per share.

	1993	1994	1995	1996	1997	1997
	USD million					
Net sales, FIM million	25,822	27,060	26,438	29,279	34,824	6,424
Operating profit, FIM million	137	381	453	485	644	119
Profit before extraordinary items and taxes, FIM million	285	462	689	740	690	127
Cash flow, FIM million	662	749	921	1,260	1,110	205
Return on investment, %	5.9	7.7	8.7	9.0	8.2	
Return on equity, %	4.0	5.0	7.1	7.3	6.7	
Earnings per share, FIM	2.82	3.75	5.61	6.05	5.87	1.08
Dividend per share, FIM	1.10	1.40	1.90	2.00	*3.00	0.55
Equity per share, FIM	73.18	77.10	80.70	84.26	88.18	16.27
Price per earnings ratio (P/E)	17.4	14.7	9.7	10.7	14.7	
Balance sheet total, FIM million	15,589	13,312	13,260	14,809	15,369	2,835
Equity ratio, %	42.9	52.8	55.6	51.9	53.2	
Investments, FIM million	640	654	519	1,067	923	170
Personnel (average)	6,227	5,701	5,833	6,503	10,672	

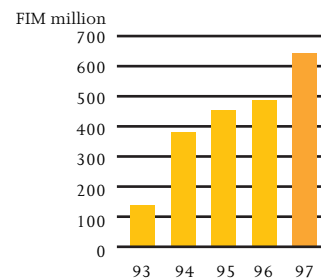
* Proposal to the Annual General Meeting

USD 1 = FIM 5.42

Corporation's net sales



Corporation's operating profit



Kesko in brief

Kesko is a customer-oriented purchasing and logistics company, responsible for developing the K-store chains. Its customers are retailers, institutional kitchens, restaurants and industry. Kesko's business operations comprise foodstuffs, speciality goods and international operations. The foodstuffs trade includes foodstuffs and other daily consumer goods, and the speciality goods trade includes home technology, shoes, clothing, sports goods, and agricultural and builders' supplies. International operations are responsible for seeking and surveying new business areas and for coordinating the operations of the subsidiaries operating in the media business, and in importing and international trade.

Kesko's purpose and functions

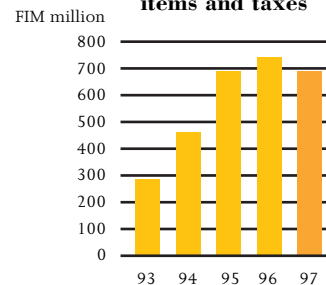
- Kesko purchases goods and provides services for its customers on competitive terms and conditions to support their business operations.
- Kesko creates the best conditions for the K-retailer entrepreneurs to compete in the market.
- The aim of Kesko's business operations is to bring a good return on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

Kesko's financial targets

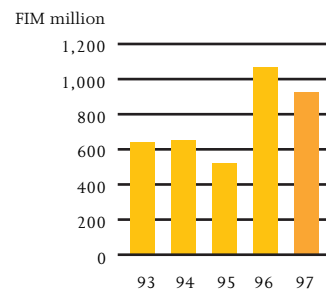
Kesko's Board of Directors has set the following targets for Kesko Corporation:

- 12% return on investment
- 10% return on equity
- 50% equity ratio
- to distribute at least a third of annual profits as dividends, or a half, if the equity ratio exceeds 50%.

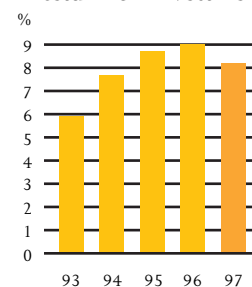
Profit before extraordinary items and taxes



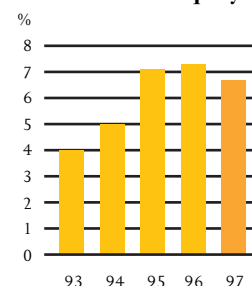
Investments



Return on investment



Return on equity



Function of the Division	Year 1997	Share of the Corporation's net sales
<p>Foodstuffs Division</p> <p>The Foodstuffs Division acts as a wholesaler for the K-stores and other customers in the retailing and catering sectors. Quality control, product research and training are examples of important competitive benefits offered, along with traditional wholesale and logistical operations.</p>	<p>The increase of 2.4% in net sales did not meet the target. Many small customer stores closed down, which was the most important single factor having an adverse effect on sales growth. The review of the Division's operations is on pages 8-11.</p>	 <p>49.9%</p>
<p>Home and Speciality Goods Division</p> <p>The Home and Speciality Goods Division is a significant operator both in wholesaling and retailing. In wholesaling, its major fields are sports goods, home technology, shoes and clothing. Its subsidiary, Anttila Oy, is the biggest retailer of home and speciality goods in Finland.</p>	<p>The net sales increased by 228.0%, which can be mainly attributed to the inclusion of Anttila Oy in the Corporation. The review of the Division's operations is on pages 12-15.</p>	 <p>14.9%</p>
<p>Builders' and Agricultural Supplies Division</p> <p>The Builders' and Agricultural Supplies Division acts as a wholesaler for the K-rauta hardware and builders' supplies stores and K-agricultural stores and other retailing customers operating in these sectors. The biggest subsidiaries, K-maatalous-yhtiöt Oy and Rautia Oy, are retail companies.</p>	<p>The net sales increased by 13.1%. The Division's units strengthened their position in the market. The review of the Division's operations is on pages 16-19.</p>	 <p>21.7%</p>
<p>International Division</p> <p>The International Division is responsible for seeking and surveying new business operations. The Division is also responsible for coordinating and developing environmental and media operations. Long-standing work in the field of import, export and wholesaling is the key to the success of the Division's operations.</p>	<p>The net sales increased by 13.9%. The net sales and profit resulted mainly from the successful operations of Kaukomarkkinat Oy and VV-Auto Oy. The review of the Division's operations is on pages 20-23.</p>	 <p>13.1%</p>
<p>Finance and Administration</p> <p>The Finance and Administration of Kesko consists of the Accounting and Finance Division and the Administration Division. The Divisions and their subsidiaries are mainly responsible for the functions that support the actual business operations.</p>	<p>The review of the Division's operations is on pages 24-25.</p>	

Review by the Chairman and Chief Executive



Chairman and Chief Executive Eero Kinnunen

Economic growth continued in 1997: the gross national product of Finland increased by 5.9% in terms of value, exports by 13.5% and imports by 9.3%.

During the first half of the year, growth in private consumption only slightly exceeded two percent. However, towards the end of the year growth picked up, so that the figure for the whole year amounted to 3.1%. Purchases of consumer durables continued to increase the fastest. The increase of over 3 percent in the real purchasing power of households contributed to the growth in private consumption.

In terms of volume, the sales of the retailing sector increased by some 3.7%. Sales of cars, hardware and builders' supplies, domestic appliances and consumer electronics developed best.

Price increases accelerated slightly but remained slower than in the EU countries on average. The consumer price index rose by 1.2% over the previous year, while the wholesale price index rose by 1.5% and the building cost index by 2.4%. Domestic cost factors only had a minor effect on inflation due to the moderate income policy agreement. During autumn, Finland also experienced a slight increase in short-term interest rates as a result of the upward pressure on market rates.

Strong structural change will continue

Internal migration in Finland increases the constant need to establish new stores in all product lines. Kesko has the plans and the potential to invest in development of all store types, both by building new premises and refurbishing the existing ones. It is necessary to build new stores in the areas where consumers will be living in the future. Sluggish town planning and decision-making are serious hindrances to this development.

Growth from the speciality goods trade

Kesko will gain part of its future growth from the sales of speciality goods and from the new business operations to be established in the neighbouring countries.

Speciality goods already account for about a half of the Kesko Corporation's net sales. This will have a positive effect on future profitability, because the majority of growth will be experienced in the speciality goods trade.

Stabilisation after acquisitions and disposals

By the autumn of 1997, Kesko had fulfilled the obligations imposed on it by the European Commission in con-

nection with the Tuko deal. After the disposal of the daily consumer goods business of Tuko, the operations of Anttila Oy, Rautia Oy and Carrols Oy were combined with the Corporation.

Kaukomarkkinat Oy, purchased in the spring of 1996, has established its position as a trading house in the Kesko Corporation and has also achieved very good results.

In October, Kesko acquired the share capital of Academica Oy. The aim is to further develop the company into a major chain selling computers and related equipment and supplies.

Increased efficiency through changes in organisation

The K-store chain reform and the installation of the closely related back-up information systems for retail stores are about to be completed.

The combination of these two provide a basis for a centralised guidance of information and goods flows in the future. Planning operations on the basis of demand greatly contributes to the cost-control of mass products in particular. These measures will also yield good results in the speciality goods trade.

Marketing was boosted by the Plus-sa loyal customer marketing programme

successfully introduced towards the end of the year.

In addition to the K-retailers, the Kesko Corporation has over 30,000 important customers in the sphere of e.g. HoReCa Wholesale, cash & carry outlets, industrial and constructor sales, as well as car and machinery trade. Here, more efficient marketing and improved logistics have resulted in a distinct increase in net sales and profitability.

During the year under review, the organisation of the Kesko Corporation underwent a reform. In management, the Corporate Board and the profit groups were separated from each other.

Vigorous work has been continued to introduce the new management model based on quality management. The results and experience gained have been promising.

Good prospects for an increase in domestic demand

In 1998, the Finnish economy is expected to grow by about 4%. Thanks to the moderate income policy agreement, purchasing power is expected to grow by at least the same percentage. Unemployment has taken a downward turn, so the prospects for an increase in domestic demand appear good.


Economic disturbances in Southeast Asia have, however, brought major uncertainty to the international outlook, whereas the trade as a whole will enjoy the positive influence of the EMU decision.

Kesko's objective continues to be the improvement of profitability and competitiveness through controlled growth, for which the present corporate structure provides good opportunities.

Kesko's strong financial status, growth-oriented financial targets and favourable profit outlook provide a strong basis for a shareholder-friendly dividend policy and fruitful commercial cooperation with suppliers and customers.

I would like to thank our customers for their good cooperation and the personnel of Kesko and our subsidiaries for their excellent performance during 1997.

Helsinki,
17 February 1998



Eero Kinnunen



Foodstuffs Division

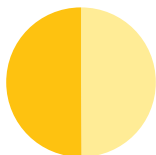
Continuous quality control and the sustained efforts of the product research unit to further improve product safety give an important competitive edge to the Foodstuffs Division.



Foodstuffs Division

- **The Foodstuffs Division of Kesko acts as a wholesaler for about 1,400 K-retailers, 4,000 other customers in the retailing and catering sectors, and over 20,000 customers of K-Cash & Carry Ltd.**
- **The reduction in the number of chain units from five to three will improve the competitiveness of the Division and contribute to making it the most efficient purchasing, logistics and service organisation for groceries in Finland.**

Share of the Corporation's net sales 49.9%



The net sales of the Division totalled FIM 17,364 million and operating profit FIM 516 million. The growth of 2.4 percent in net sales did not meet the target. The return on capital employed was 13%, and investments amounted to FIM 326 million. Many customer stores operating outside the chains closed down, which was the most important single factor having an adverse effect on sales growth. On the other hand, the good financial performances of the HoReCa Wholesale and K-Cash & Carry Ltd, as well as the successful store refurbishments and marketing carried out by the Superstore Chain Unit, all contributed to the improved profit.

At the end of the year, the decreasing trend in wholesale prices stopped and turned into an increase of about 1% for the whole year. Trade picked up towards the end of the year, with sales lots from stock increasing by about 10%. The volume of terminal deliveries grew by 25%. During the last months of 1997 trade picked up thanks to the Plussa loyalty card, which fast became the most widely owned bonus card in the Finnish trading sector.

In 1998, the market for fresh foods and frozen foods in particular is expected to grow. Sales of prepared food are expected to grow both in retail stores and restaurants. It is estimated that the price level will increase only slightly. Although the grocery market has remained relatively stable, the liberalisation of imports and the market growth have increased competition and the number of competitors. The Division has put a lot of effort into active selling.

The number of retail stores will continue to decrease. The customer base of the stores in areas losing population

is getting smaller. On the other hand, although more new, big stores are needed in growing areas, stricter town planning has made founding them more difficult. During the year, 91 mainly small K-stores operating outside the chains closed down. 12 new K-stores were opened.

In order to increase efficiency, the organisation of the Foodstuffs Division was changed on 1 January 1998. The number of chain units serving retail stores was decreased from five to three. The Neighbourhood Store Chain Unit, the Supermarket Chain Unit and the Rimi Chain Unit merged to form the Neighbourhood Chain Unit, which will serve K-supermarkets, K-neighbourhood stores, Rimi stores, K-extra stores and the K-stores operating outside the chains. Two other chain units, the Superstore Chain Unit and Citymarket Chain Unit, remain unchanged. The Citymarket Chain Unit is now also responsible for wholesaling the Foodstuffs Division's non-food articles.

The Division systematically developed category management in the various store types, to conform with the business idea of each store type. The aim is to supply the needs of the consumer more accurately.

Vigorous development of Kesko's own brands continued. 55 new Pirkka products were launched, bringing the total over 600. The sales of the Pirkka product family increased by 7.2%. Other important Kesko brands include Costarica, Diva, Rico and Menu.

The average number of personnel in the Foodstuffs Division was 4,434. The director of the Profit Group is Vice President Kalervo Haapaniemi.

Rimi Chain Unit

The Rimi Chain Unit operated as the chain organisation and wholesaler for Rimi stores (21). The net sales of the Rimi Chain Unit amounted to FIM 137 million. The number of Rimi stores increased by four, which contributed to the 18.8% increase in sales. The emphasis in operations was on the extension of the store network. The Rimi Chain Unit employed an average of 7 persons.

Neighbourhood Store Chain Unit

The Neighbourhood Store Chain Unit operated as the chain organisation and wholesaler for the chain of K-neighbourhood stores (360) and K-extra stores (435), and as a wholesaler for non-chain grocery stores (174) situated in villages or suburbs.

The net sales of the Neighbourhood Store Chain Unit amounted to FIM 3,045 million. The 2.1% decrease in sales was due to the closing down of many non-chain customer stores. The average number of personnel was 65.

Supermarket Chain Unit

The Supermarket Chain Unit operated as the chain organisation and wholesaler for K-supermarkets (218). The net sales of the Supermarket Chain Unit

were FIM 3,000 million, representing a decrease of 1.2% on the previous year. Sales increased most in Kesko's own fresh food brands. The average number of personnel was 58.

Superstore Chain Unit

The Superstore Chain Unit operates as the chain organisation and wholesaler for K-superstores (82). The net sales of the Superstore Chain Unit amounted to FIM 2,815 million, an increase of 1.8% over the previous year. The growth in net sales of foodstuffs was 4.1%. This good result was due to the successful store site refurbishments in particular.

The chain aimed at raising its profile and strengthening the image of a high-quality "better-than-average grocery store". The average number of personnel was 27.

Citymarket Chain Unit

The Citymarket Chain Unit operates as the chain organisation and wholesaler for the grocery trade carried out by the Citymarkets (38). In cooperation with K-yhtiöt Oy, the Unit is also responsible for the non-food trading of the Citymarket chain. The Citymarket chain is the market leader of this store type in Finland.

The net sales of the Citymarket Chain Unit amounted to FIM 3,317 million. The decrease of 4.1% in net sales can be partly attributed to the lower degree of centralisation in retailer purchases. The non-food sales of K-yhtiöt Oy amounted to FIM 2,017 million. The average number of personnel was 47.

HoReCa Wholesale

The HoReCa Wholesale is responsible for product ranges of large-scale groceries, and for purchasing and selling these products to restaurants, the public catering sector, service station shops, fast food outlets, bakeries and industry.

The net sales of HoReCa Wholesale totalled FIM 2,285 million, an increase of 9.2%. Sales to restaurants and service

station shops developed particularly well. The outlook for 1998 is also promising. By the end of the year, the Menu branded product range comprised 250 products, whose sales increased by 26% compared with the previous year. The average number of personnel was 102.

Kesko Fruit and Vegetables

Kesko Fruit and Vegetables is responsible for the purchasing and sale of fruit and vegetables to K-stores and other customers. The sales of the unit amounted to FIM 4,782 million, an increase of 5.6%. The sales volume grew by 8%, and the unit's products strengthened their position in the market.

Emphasis was placed on achieving uninterrupted flow in the refrigerated chains and accelerating the turnover of products according to the wishes of customers. Kesko Fruit and Vegetables increased purchases under its own Ricon brand, whose strict quality control and grading system will ensure continuous fruitful development. The average number of personnel was 79.

Fresh Foods

The Fresh Foods department is responsible for purchases of dairy, bakery, meat, processed and frozen food products, and for the development of Kesko's own brands. The sales of the unit amounted to FIM 5,567 million, an increase of 0.9% over the previous year.

A shift in consumption towards increasingly ready-to-eat food and meals contributed to an increase in the sales of processed and frozen food products. The department employed an average of 19 persons.

Groceries

The Groceries department is responsible for purchases of groceries, such as soft drinks and canned food, and of non-food items. The unit is also responsible for the development of Pirkka, Diva and Euro Shopper products in its line.

Net sales, FIM million

	1997	Change, %
Rimi Chain Unit	137	18.8
Neighbourhood Store Chain Unit	3,045	-2.1
Supermarket Chain Unit	3,000	-1.2
Superstore Chain Unit	2,815	1.8
Citymarket Chain Unit	3,317	-4.1
HoReCa Wholesale	2,285	9.2
Other units	260	11.5
Subsidiaries:		
K-Cash & Carry Ltd	1,819	6.7
K-yhtiöt Oy Citymarkets	1,659	3.4
Kesped Ltd	402	10.8
Carrols Oy	138	-
K-Plus Oy	85	-
Kesko Eesti A/S	67	45.7
Finnish Rich Coffee Ltd	25	-33.7
K-Luotto Oy	22	-22.3
less inter-company sales	-1,712	
Total	17,364	2.4

The sales totalled FIM 6,713 million, an increase of 5.5% over the previous year. Sales of all product groups grew. The coffee market was characterised by sharp fluctuations in prices. Thanks to the warm summer, the sales of beverages increased. In 1997, the new environmentally-friendly 'Green 2000' range of detergents and cleaning agents was launched.

The main target of increasing the efficiency and centralisation of purchases was achieved. The purchasing cooperation carried out with 10 European AMS partners brings competitive advantage in the form of new products and competitive prices. The average number of personnel was 30.

Subsidiaries

K-Cash & Carry Ltd

K-Cash & Carry Ltd is a wholesaler selling groceries and non-food articles mainly to catering customers, kiosks, service stations and small grocery stores.

The net sales of K-Cash & Carry Ltd were FIM 1,819 million. The 6.7% increase in sales exceeded the target. The operating profit was FIM 30 million.

K-Cash & Carry Ltd increased its market share among the main customer groups, and by the end of the year had outlets in 25 Finnish towns.

The general revival of the home market improved the operating conditions for cash & carry outlets, and further improvement is expected. The average number of K-Cash & Carry Ltd's personnel was 457. The Managing Director is Matti Hukka.

K-yhtiöt Oy

K-yhtiöt Oy is a retail company responsible for the non-food trade of 33 City-market hypermarkets. The net sales of K-yhtiöt Oy amounted to FIM 1,673 million, an increase of 4.0% on the previous year. The operating profit was FIM 101 million. The average number of personnel was 1,787. The Managing Director is Matti Honkala.

Kesped Ltd

Kesped Ltd is responsible for the domestic and foreign transport and forwarding of Kesko Corporation. In addition, Kesped Ltd has outside customers. Its net sales amounted to FIM 402 million, an increase of 10.8% on the previous year.

Thanks to the inclusion of Anttila and Kaukomarkkinat, and increased trade with Sweden and Russia, international operations grew by over 20%. Domestic distribution transport increased by 6.3%, which can, above all, be attributed to the inclusion of Anttila and Carrols as well as to the increased sales of HoReCa Wholesale.

The average number of personnel was 138. The Managing Director is Timo Kortelainen.

Carrols Oy

Carrols Oy started operations as part of Kesko Corporation on 1 May 1997. The company is engaged in the fast food restaurant business in Finland and the neighbouring areas under the chain concepts of the Carrols hamburger restaurants (45) and the Pan Pizza Express units (3).

The net sales of Carrols Oy (starting from 1 May 1997) were FIM 138 million. The market for fast food is growing and the company's aim in Finland is fast extension to a nation-wide chain.

In 1997, eight new Carrols restaurants were opened in Finland and two new ones in St. Petersburg. The average number of personnel was 345. The Managing Director is Kari Kivikoski.

K-Plus Oy and K-Luotto Oy

K-Plus Oy is a company specialised in loyal customer marketing, and is responsible for the centralised implementation of the loyal customer programme of the K-Group. The company was established on 30 April 1997, and during the year under review its net sales amounted to FIM 85 million.

Kesko has put a lot of effort into the development of loyal customer market-

ing in recent years. In 1997, the loyal customer system was improved to allow consumers to be rewarded for the purchases made in all K-Group stores.

The name of the loyalty card was changed to 'Plussa'. The idea behind Plussa is to combine the goods offered by the K-Group and other partners into a total package providing benefits for the customer. At the beginning of 1998, an agreement was made to start Plussa cooperation with the Neste and Kesoil service station chains. At the turn of the year, there were about 830,000 households covered by the Plussa programme and the total number of Plussa cards approached 1.4 million.

K-Luotto Oy is a credit card company that manages the Plussa cards and K-cards. It is also responsible for the related invoicing and credit control. The net sales amounted to FIM 22 million. The total number of credit cards in use amounts to about 90,000.

The average combined number of personnel in K-Plus Oy and K-Luotto Oy was 34. The Managing Director is Eijja Jantunen.

Kesko Eesti A/S

Kesko Eesti A/S operates a cash & carry outlet in Tallinn, Estonia. Its net sales amounted to FIM 67 million, a 45.7% increase on the previous year. The average number of personnel was 15. The Managing Director is Timo Hämälä.

Finnish Rich Coffee Ltd

Finnish Rich Coffee Ltd is a coffee marketing company. Its net sales amounted to FIM 25 million, a decrease of 33.7% on the previous year. The decrease was mainly due to price and demand fluctuations in the coffee market. The average number of personnel was 43. The Managing Director is Aila Hirvoila.



Home and Speciality Goods Division

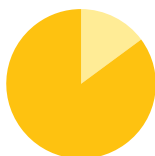
The share of home and speciality goods in the net sales of the Kesko Corporation has increased considerably. It is estimated that future growth in consumption will also be directed at these products. The Home and Speciality Goods Division was established in the spring of 1997, when the operations of the speciality goods trade were divided into two profit groups.



Home and Speciality Goods Division

- **The product lines of Kesko's wholesale trade in the Home and Speciality Goods Division are home technology, sports goods, shoes and clothing. Their sales have developed strongly during the last few years.**
- **The department store and mail order businesses have made Anttila Oy the biggest Finnish retailing company in home and speciality goods. Anttila Oy's aim is to open 7-8 new Anttila Kodin Ykkönen department stores specialising in home and leisure products in the near future. All of the Ruoka-Anttila foodstuffs departments will become retailer-operated during 1998.**

Share of the Corporation's net sales 14.9%



The net sales of the Division amounted to FIM 5,191 million, an increase of 228.0%. The operating profit was FIM 138 million. The return on capital employed was 6%, and investments amounted to FIM 64 million. The new sales brought by Anttila Oy and Academica Oy totalled over FIM 3 billion. Increases were particularly high in shoe and sports goods sales. Sales of home technology also developed well, whereas the wholesale trade of clothing in Finland experienced a drop.

The Division has five wholesale departments: Kesko Clothing, Kesko Shoes, Kesko Home Technology, Kesko Sports, and the Home Goods department. They are responsible for the purchases, sales and warehousing of the merchandise in their respective product lines for the K-store chains and other Kesko customers. At the beginning of November, an Anttila Chain Unit was established in the Division to act as the chain unit for Anttila Oy and to handle and develop its product ranges and marketing.

In October, Kesko acquired the share capital of Academica Oy, which specialises in the information technology trade in the Helsinki area. With this acquisition, Kesko seeks to expedite its expansion in the field of information technology. The operations of K-yhtiöt Oy's PopToy stores were wound up on 31 December 1997. New Aleksis 13 stores were opened in Tampere, Lahti and Turku.

It is expected that in 1998 consumers will use an increasing share of their growing incomes for sports equipment. The outlook is also good for home electronics, household appliances, computers and telephone equipment. In 1998, the whole Division will strive for a

strong increase in sales and profit. Anttila and the Citymarket hypermarkets will contribute greatly to the total trading volume in home and speciality goods. Refurbishment of the present speciality stores will be continued and the new chains will grow fast.

At the end of the year, the number of personnel in the Home and Speciality Goods Division totalled 3,296. The director of the Division is Vice President Matti Kotola.

Kesko Sports

Kesko Sports acts as a chain unit of the Kesport-Intersport stores, and develops the chain's product ranges in cooperation with retailers. Product development and purchasing is supported by IIC-Intersport International Corporation, in which Kesko is an associate. Intersport is the world's leading chain in the sports goods speciality trade. It operates in 23 countries via nearly 4,000 retail stores. Kesko Sports is responsible for purchasing sports goods for all of Kesko's store chains.

The market for sports goods grew considerably and sales of the best-known brands in particular developed well. The net sales of Kesko Sports were FIM 568 million. Sales to the Kesport-Intersport stores grew by 17.3%, to Citymarket hypermarkets by 4.8% and to K-rauta hardware stores by 11.1%. The net sales in sports goods by other units amounted to FIM 318 million.

Sales of sports clothing increased by 18.4% and sales of sports shoes by 8.4%. Many years of favourable development have made sports stores an important distribution channel for leisure time clothing. Sales of camping and ball-game equipment increased by about 20% and sales of sports and lei-

sure equipment by as much as 40%. Sales of the new imported brand Helly Hansen had a very promising start. Sales of guns and ammunition continued to decrease by about 15%. The outlook for sports goods trade is good also for 1998. The average number of personnel was 23.

Kesko Home Technology

Kesko Home Technology is responsible for the purchase, sale and business development of home electronics, household appliances, computers and telephone equipment. The department purchases products for all K-store chains and other Kesko customers.

The net sales of Kesko Home Technology were FIM 564 million, an increase of 16.9%. Sales of mobile phones, home computers and home electronics developed best. Because of the good prospects, the department's personnel was increased and purchasing and marketing were separated from each other. The department's own imports include Daewoo and Telefunken brands. The average number of personnel was 17.

Kesko Clothing

Kesko Clothing is responsible for the clothes purchases of the whole K-Group. Kesko Clothing also comprises the chain units of the Vaatehuone fashionwear stores and Nicky&Nelly stores for children's wear. Other important chains selling clothing in the K-Group are Anttila Oy, Alekski 13 Oy, Citymarket hypermarkets, K-superstores and K-supermarkets. Kesko Clothing's customers also include clothes stores operating outside the K-Group.

The net sales of Kesko Clothing were FIM 284 million, a decrease of 1.1% on the previous year. The wholesale trade of clothing in Finland dropped by 3.1%. The net sales in clothing by the K-Group's chains outside Kesko Clothing amounted to FIM 1,041 million.

The results were weakened by fluctuations in foreign exchange rates as well as the additional customs duties imposed by the EU on clothing imported without customs duties from Bangladesh under the developing country preferential treatment system.

The average number of personnel was 59.

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 wholesaling of the K-kenkä and Andiamo shoe stores, export customers, and other customers outside the K-Group. The net sales of Kesko Shoes amounted to FIM 282 million, an increase of 35.6%. The net sales in shoes of Kesko's other units were FIM 338 million. The total wholesaling of shoes decreased by 3.3% in Finland.

The customers of Kesko Shoes included 30 Andiamo and 87 K-kenkä shoe stores. The sales to Andiamo stores increased by 20.1% and sales to K-kenkä stores by 4.9%. The most important export country was Estonia. In addition to its own brands, such as Andiamo, Knox, Hankiset and Snoopy, Kesko Shoes imports high-quality, international branded shoes, such as Skechers, Don & Donna and James Bond.

Kesko Shoes established its own purchasing office in Italy. In purchases from the Far East assistance is received from a purchasing office in Hong Kong, and in Portugal the corresponding services are out-sourced. The average number of personnel was 41.

Home Goods

At the beginning of May, the Home Goods department was transferred from the Foodstuffs Division to the Home and Speciality Goods Division. The department is responsible for purchasing the goods in its product line to all of the K-Group's chains and customers. The biggest product groups include

Net sales, FIM million		
	1997	Change, %
Kesko Sports	568	18.7
Kesko Home Technology	564	16.9
Kesko Clothing	284	-1.1
Kesko Shoes	282	35.6
Anttila Chain Unit	137	-
Subsidiaries:		
Anttila Group	3,370	-
Alekski 13 Oy	177	24.8
Motorfeet Ltd	25	15.6
Academica Oy	24	-
Kesko Svenska AB/Alekski 13	9	-
Other subsidiaries	14	-
less inter-company sales	-263	
Total	5,191	228.0

home textiles, household goods, publications, electrical supplies, tapes and toys. The product range of the department includes the following K-Group's own brands: Pirkka, Kokki cooking utensils, Pirta yarns and Harmony home textiles. The department also imports Fuji cassettes, Figgjo restaurant china and Royal Bone China tableware. The main customers have been the grocery store chains and HoReCa Wholesale, but in the future the Anttila and Anttila Kodin Ykkönen department stores will account for a significant part of sales.

The Division's net sales in home goods were FIM 924 million, which consisted nearly entirely of the new sales by Anttila Oy. The sales of other divisions in these goods amounted to FIM 627 million. Sales to K-neighbourhood stores increased by 7.0%, to K-superstores by 4.2% and to Citymarket hypermarkets by 0.6%. The average number of personnel was 24.

Anttila Chain Unit

At the beginning of November, this unit was established to act as the chain unit of Anttila Oy with the responsibility of handling and developing its product ranges and marketing. The net sales of the Anttila Chain Unit were FIM 137 million. The average number of personnel was 33.

Subsidiaries

Anttila Oy

Anttila Oy is engaged in the department store business and mail order sales. It has a total of 31 department stores, which include two Anttila Kodin Ykkönen department stores specialised in home and leisure products. The remaining 29 Anttila department stores

provide a wide selection of products for home, clothing and leisure time needs.

The foodstuffs trade is also an important part of their operations. There are foodstuffs departments in 25 Anttila department stores. Anttila Oy also carries on the mail order business in Estonia.

The net sales of the Anttila Group amounted to FIM 3,370 million, reaching the level of the previous year. The operating profit was FIM 36 million. The profit increased considerably. Sales of home and speciality goods grew by 2.4%, while the comparable sales of foodstuffs dropped by 5.9%. In the foodstuffs trade, sales improvement fell short of the average in the market. With its sales of home and speciality goods reaching FIM 2,802 million, Anttila is the biggest in Finland in this field. In June, a decision was made to dispose of the business operations of the foodstuffs departments to retailer-entrepreneurs.

In 1997, an extensive store network reform programme was prepared and initiated. In the near future, several new department stores will be established and the existing ones will be expanded and refurbished. In 1998, a new Anttila Kodin Ykkönen will be opened in Espoo and Oulu.

Plussa, the loyal customer marketing system of the K-Group, was successfully introduced in Anttila and is expected to contribute to sales in 1998. The average number of personnel was 2,433. The Managing Director is Jouko Björkman.

Aleksi 13 Oy

Aleksi 13 Oy is a chain specialising in the retailing of shoes, bags, clothing and cosmetics. Its net sales amounted to FIM 177 million. New stores were

opened in Tampere, Lahti and Turku. At the end of the year, there were 19 Aleksi 13 stores in Finland. The average number of personnel was 180. The Managing Director is Risto Volmanen.

Motorfeet Ltd

Motorfeet Ltd represents and imports well-known, high-quality branded shoes. The net sales of the company were FIM 25 million, an increase of 15.6%. Its brands include Vagabond, Elefanten, Piano, Sancho and Westland. The average number of personnel was 9. The Managing Director is Jukka Pietarila.

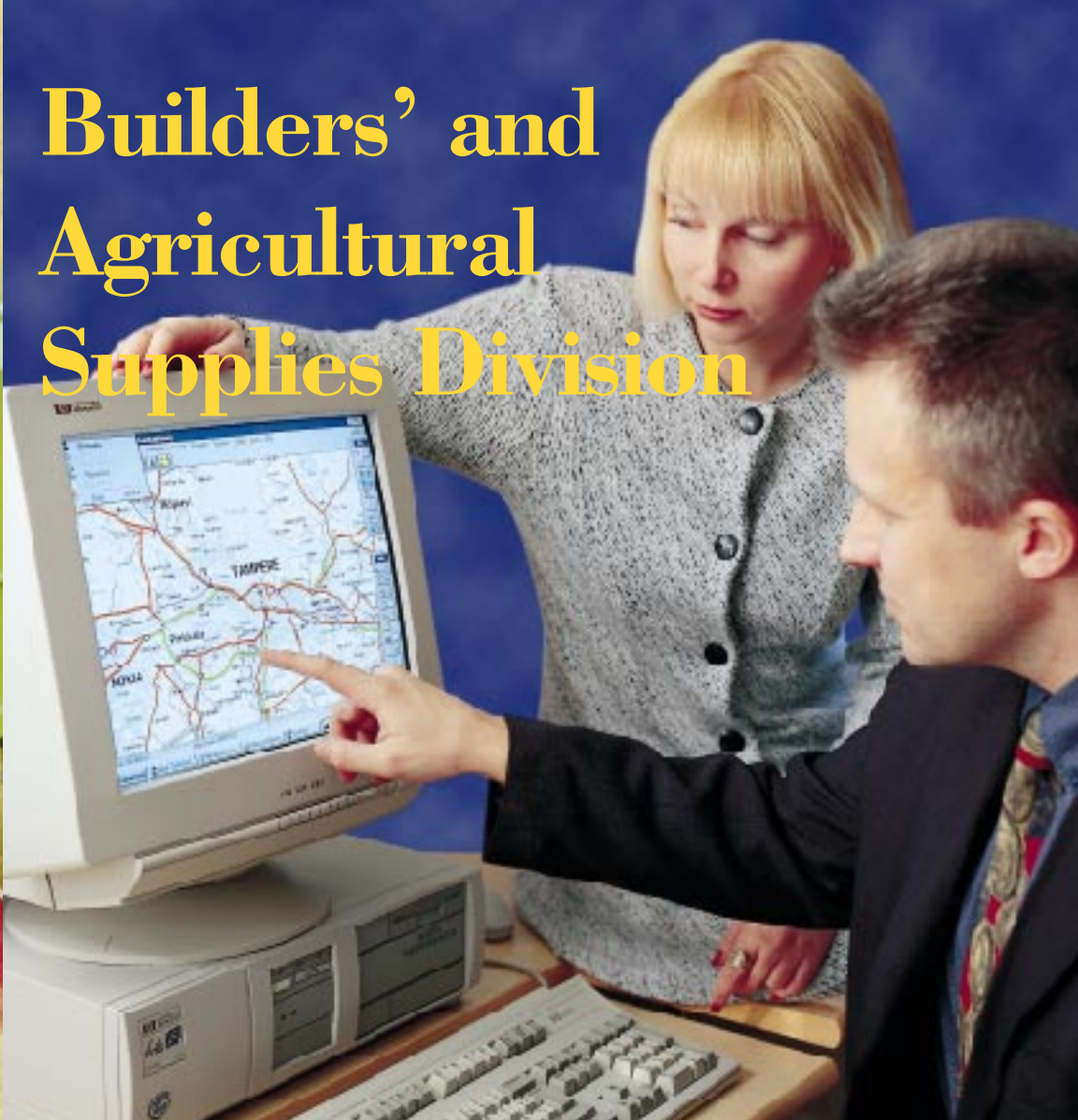
Academica Oy

Academica Oy sells information technology equipment and services. In order to expedite its expansion in the field of information technology, Kesko acquired the whole share capital of the company on 7 October 1997. The two retail stores and the corporate sales unit of Academica Oy are situated in Helsinki. The net sales of the company were FIM 24 million. The prospects in this field are very favourable for the growth and expansion of the company. The average number of personnel was 21. The Managing Director is Juha Mäntylä.

Kesko Svenska AB / Aleksi 13

Kesko Svenska AB is a retail company operating in Sweden. Its shoe trade was, after the initial stages, transferred from the International Division to the Home and Speciality Goods Division. The company has 2 shoe stores in Sweden. The net sales of the shoe trade were FIM 9 million. The average number of personnel was 10. The Managing Director is Matti Vatanen.

Builders' and Agricultural Supplies Division



Emphasis is on the development of store formats and retail store networks in the Builders' and Agricultural Supplies Division. The store format reform within the K-rauta and K-maatalous chains provided new efficiency and visibility.

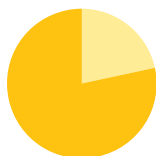


Builders' and Agricultural Supplies Division

• **The Builders' and Agricultural Supplies Division of Kesko is formed of two main units; Kesko Hardware and Builders' Supplies and Kesko Agriculture and Machinery. As a wholesaler, they provide services to K-hardware and builders' supplies stores and K-agricultural stores. The Division's major subsidiaries carrying on the retail trade are K-maatalousyhtiöt Oy and Rautia Oy.**

• **The Builders' and Agricultural Supplies Division was established in spring 1997 when the operations of the speciality goods trade were divided into two profit groups. At the same time, the Foreign Operations Department was formed within the Division, and Rautia Oy was transferred to the Division. In autumn 1997, a decision was made to transfer Rautia Oy's stores to retailers.**

Share of the Corporation's net sales 21.7%



The Division's net sales amounted to FIM 7,548 million, an increase of 13.1%. The operating profit was 68 FIM million. The profit decreased due to Rautia Oy's restructuring. The return on capital employed was 5%, and investments were FIM 64 million. Agricultural business was better than expected. The Kesmotors/Kotipiha unit also strengthened its position in boats, light machinery and garden supplies markets. The recovery of new construction operations and the wide network of K-rauta hardware and builders' supplies stores in growth areas increased the sales of Kesko Hardware and Builders' Supplies.

The average number of personnel in the Builders' and Agricultural Supplies Division was 1,407 persons. The Division's director is Vice President Paavo Moilanen.

Kesko Hardware and Builders' Supplies

Kesko Hardware and Builders' Supplies is responsible for the purchase, sale and delivery of hardware, builders' supplies, interior products and furniture, Hepac and refrigeration products, tools, small hardware items, car accessories and tyres to the K-rauta and Rautia retailers, and to subsidiaries in Sweden and Russia. Industrial and Constructor Sales is responsible for selling products to building firms, the manufacturing industry and other wholesale customers.

Increased new construction operations propelled sales of basic building supplies and timber. Sales of interior products grew towards the end of the year. The volumes of renovation, yard construction and hobby activities, which have an effect on sales in this sector, varied strongly from month to month. Regional differences in building

activities have increased. After the recession there has been a clear trend toward higher than average quality products. The outlook for the near future is also good, and the overall demand in this branch is expected to increase by about 10% in 1998.

The net sales of Kesko Hardware and Builders' Supplies amounted to FIM 3,379 million, a rise of 12.2%. The trade in houses, sawn timber and building supplies showed the highest increases.

Rautia Oy's purchasing, warehousing and wholesale operations were merged with Kesko Hardware and Builders' Supplies from 1 September 1997. At the same time the Rautia chain unit was established within Kesko Hardware and Builders' Supplies to develop the Rautia store chain. The chain's stores will be upgraded, and marketing will start in spring 1998. The sales target of the Rautia chain is FIM 1,500 million in 1998.

The K-rauta chain consisted of 122 stores, which are customers of Kesko Hardware and Builders' Supplies. Completely new stores were opened in Helsinki and Kempele. More than 40 K-rauta retailers upgraded their stores, and the first stage of the store format reform was completed. According to a market survey made among customers, K-rauta retained its superior position as the best chain in this business.

Kesko Hardware and Builders' Supplies arranged an environmental event for 200 experts in the construction business, with emphasis on mould and moisture damage. The K-rauta stores started to sell, as new products, air and ground heat pumps, which allow considerable energy savings. Cooperating within Euro-Mat also brought new products to the sales programme, such

as Fischer fixings. Kesko's quality prize was awarded to the Industrial and Constructor Sales unit.

The average number of personnel in Kesko Hardware and Builders' Supplies was 205 persons.

Kesko Agriculture and Machinery

The K-Agriculture, Kesmotors/Kotipiha, and Kesko Machinery units operate under Kesko Agriculture and Machinery. The net sales of Kesko Agriculture and Machinery totalled FIM 3,352 million, an increase of 13.1%.

K-Agriculture is responsible for the purchase, sale and delivery of animal feed and chemicals, and 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. Sales of the K-Agriculture's products were FIM 2,196 million, a growth of 7.7%.

The trade in agricultural supplies developed better than expected. Grain and agricultural machines were the best growing areas, with grain business increasing by more than 20%. Although the harvest of grain was good, difficulties arose from exceptionally small barley kernels. In the 1997-1998 season, the greatest challenge to the grain businesses will be to find uses for such light barley with small kernels. Recovering investments in the farming sector increased agricultural machinery sales, which grew by over 20%.

The chain reform of the K-maatalous agricultural stores, which are customers of Kesko Agriculture and Machinery, was nearly completed. By the end of 1997, a total of 82 agricultural businesses had entered into a K-maatalous chain agreement. The significance of chain operations have been emphasised when farmers have demanded increased cost efficiency and high professional skills from the agricultural businesses.

The outlook for the agricultural business is stable for 1998. The trade in

grain, animal feed and chemicals is expected to remain at the level of the previous year. The pre-seasonal sales of agricultural machines to farmers were greater than in the previous year. The investment in production buildings is expected to further increase the business of dairy farming machines and buildings.

Kesmotors/Kotipiha is responsible for the purchase, sale and delivery of light machines, outboard motors, boats, boating equipment, garden supplies, flowers, fuels and lubricants. The main customer groups are formed by Kesmotors and Kotipiha retail stores and departments, K-rauta and Rautia hardware stores, K-maatalous agricultural stores, speciality stores for light machines and boating equipment, and the K-Group's all grocery and department stores for garden supplies and flowers. The sales of this unit totalled FIM 714 million, an increase of 8.7% on the previous year.

Kesko's and the K-Group's position in the market strengthened, and it is expected to improve further. Boat exports to Sweden and Norway developed particularly well, and the rate of growth was higher than average in the boat and outboard motor business in Finland. Sales targets were exceeded in other product lines as well. The outlook for the near future is positive, with forecasts promising an increase of about 7-10% in overall demand.

The flower business was transferred to Kesmotors/Kotipiha in September 1997. New operational concepts are being created, and the implementation of a new flower terminal has started. The purpose is to increase flower sales manyfold within the next few years. In the light machinery business, the new products represented strengthen Kesko's

Net sales, FIM million		
	1997	Change, %
Kesko Hardware and Builders' Supplies	3,379	12.2
Kesko Agriculture and Machinery	3,352	13.1
Foreign Operations	38	-
Other units	2	-
Subsidiaries:		
K-maatalousyhtiöt Oy	751	25.5
Rautia Oy	738	-
Kesko Svenska AB/K-rauta	32	-
ZAO Kestroy Moskva 1	25	-
Other subsidiaries	171	-
less inter-company sales	-940	
Total	7,548	13.1

position. They include MBK scooters and mopeds from one of the biggest European manufacturers, and Poulan/Weedeater garden machines and Poulan chain saws from the United States.

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

In all sectors of machinery business, combine harvesters and tractors in particular, growth exceeded the general economic development. Sales of the products represented by Kesko Machinery amounted to FIM 782 million, a rise of 13.4%. The steady development is expected to continue, except in the tractor business, which is estimated to decrease by a tenth.

The market position of Claas combine harvesters, and BT and TCM materials handling machines strengthened. The market share of tractors was reduced due to model range changes and unfavourable changes in exchange rates. The import and sale of Mecalux warehousing equipment were started during the year. In September 1997, a new AMW information system was introduced for the machinery trade.

The average number of personnel in Kesko Agriculture and Machinery was 253 persons.

Foreign Operations Department

The Foreign Operations Department exports hardware and builders' supplies and is responsible for the operations of Kesko Svenska AB, Kesthom Oy and ZAO

Kestroy Moskva 1, and for the development of new business areas. The unit's net sales were FIM 38 million.

Subsidiaries

K-maatalousyhtiöt Oy

K-maatalousyhtiöt Oy is engaged in agricultural, light machinery, and hardware and builders' supplies retailing through 18 stores. The company's net sales amounted to FIM 751 million, an increase of 25.5%.

The company's market position strengthened in all sectors. The improvement of information systems was started in these outlets in 1997. The level of services provided by stores was increased by a store format reform. The upgraded stores opened were Kouvolan K-Maatalous, Porinseudun K-Maatalous and Kankaanpään K-rauta-maatalous. The company's new stores were K-Rauta Rauma and Kuopion K-Maatalous.

The average number of personnel was 156 persons. The company's Managing Director is Jouni Oksanen.

Rautia Oy

Rautia Oy carries on retail trade in hardware and builders' supplies. The company sold its wholesale operations to Kesko Ltd on 31 August 1997. The company operates 14 Rautia stores and 5 Fixa stores. A decision has been made to sell the business operations to retailers. The company's net sales amounted to FIM 738 million.

The average number of personnel was 367 persons. The company's Managing Director is Raimo Jaakkola.

Kesko Svenska AB

Kesko Svenska Ab started operations in February 1996. In April, a K-rauta hard-

ware and builders' supplies store was opened at Sickla, in Stockholm. In November 1997, another K-rauta store was opened at Bromma. A decision has been made to also open new K-rauta stores at Häggvik and Haninge in Stockholm, and in Norrköping. The purpose is to continue establishing new stores to create an efficient chain. The net sales of the K-rauta stores operating in Sweden totalled FIM 32 million. The average number of personnel was 42 persons. The company's Managing Director is Matti Vatanen.

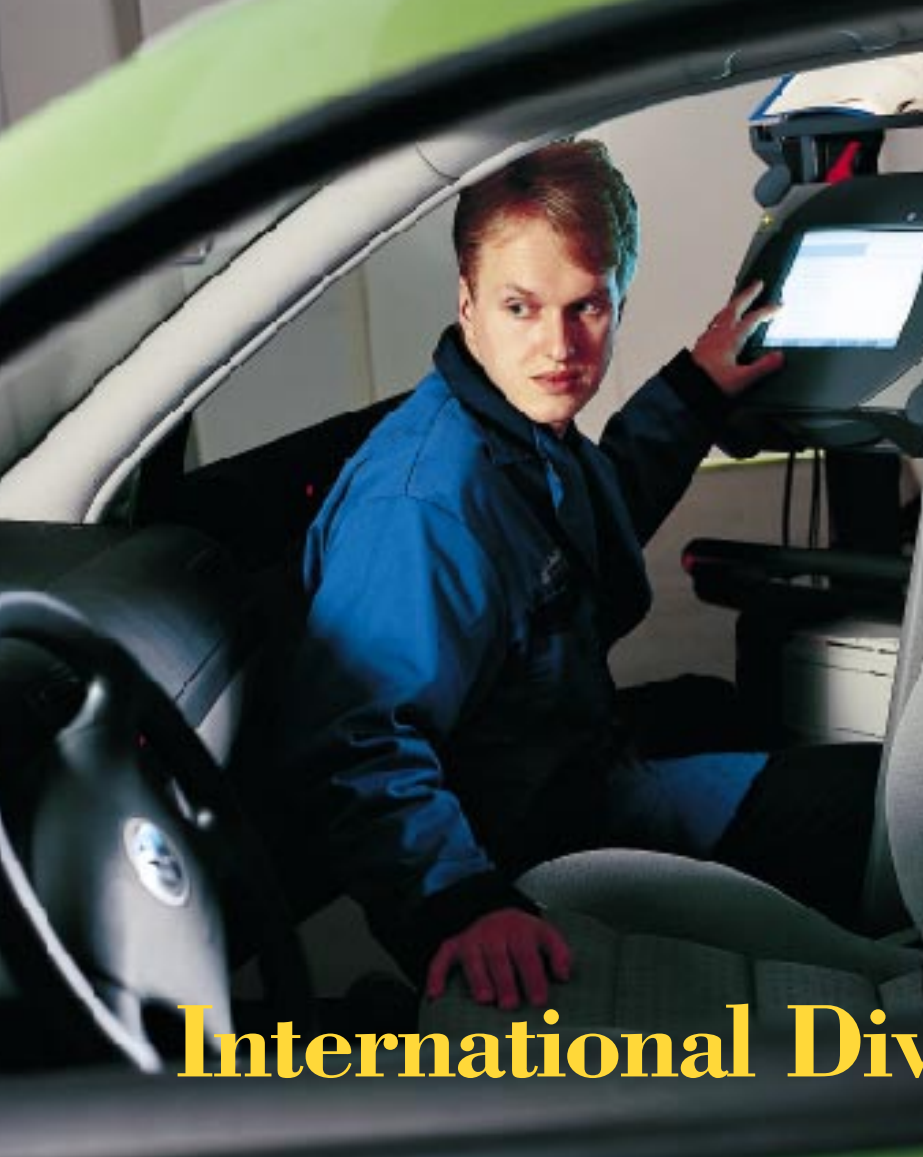
Kesthom Oy/ZAO Kestroy Moskva 1

Kesthom Oy/ZAO Kestroy Moskva 1 carries on wholesale trade in hardware and builders' supplies in Russia. Kesko's ownership in Kesthom Oy increased to 100% by the acquisition agreement made in autumn 1997. In its initial phase, the company operated under the International Division, but was then transferred to form part of the operations of the Builders' and Agricultural Supplies Division. Net sales for 1997 amounted to FIM 25 million.

The average number of personnel was 31 persons. Kesthom Oy's Managing Director is Matti Vatanen and ZAO Kestroy Moskva 1's Managing Director is Leena Paju.

Other retail companies

At the beginning of 1997, there were also four separate subsidiaries operating in the retail business of agricultural and builders' supplies in Finland: Pekka Kalmi Oy, Antti Pehkonen Oy, Leena Turunen Oy and SJ. Aalto Oy. The retailers of Pekka Kalmi Oy and Leena Turunen Oy acquired complete ownership of their companies in summer 1997.



International Division

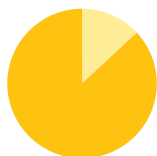
The sustained, long-term work carried out by the International Division in the import, export and wholesaling of leading brands has been the key to its success. A main function of the Division is the active search for new business areas.



International Division

- **The International Division of Kesko is responsible for seeking and surveying new business operations for the Corporation. The Division is also responsible for coordinating and developing environmental and media operations.**
- **As a result of the expansion of business, Kesko Eesti A/S (a cash & carry company) was transferred to the Foodstuffs Division, and Kesko Svenska AB (a retail company) and Kes-thom OY/ZAO Kestroy Moskva 1 (a wholesaler of hardware and builders' supplies) were transferred to the Builders' and Agricultural Supplies Division. The Kaukomarkkinat Group produced a record profit in its first full year as part of Kesko Corporation.**

Share of the Corporation's net sales 13.1%



The net sales of the Division amounted to FIM 4,575 million, an increase of 13.9%. The operating profit was FIM 152 million. The return on capital employed was 12%, and investments amounted to FIM 193 million. The net sales and profit of the Division mainly resulted from the successful operations of the two biggest subsidiaries, Kaukomarkkinat Oy and VV-Auto Oy.

The net sales of the Kaukomarkkinat Group decreased by 28%. This can be attributed to the transfer of the Russian trade in Panasonic products to the principal. The net sales from other operations increased by 13%. In Finland, adidas and Citizen strengthened their positions as market leaders in their product lines.

VV-Auto Oy's net sales increased by 13.4%. The total market for new cars grew by 9%. Volkswagen continued to be the best-selling car make in Finland. The market position of Audi also strengthened considerably. Seat Toledo TDi was elected the "Eco Car of the Year" for 1998.

The general growth in consumption should lead to further business growth in the Division. The strong brand business expertise provides a good basis for this.

The average number of personnel in the International Division was 931. The Division and international trading operations are headed by Deputy Chief Executive Timo Karake.

Media Companies unit

In the autumn of 1997, the operations of the International Division were expanded due to the establishment of a Media Companies unit in the Division. The unit consists of the MK-mainos Oy advertising agency, the SV-Tietopalvelu

Oy market research company, the Kauppi-aiden Komedia Group TV production company, a media development unit for electronic trading, and Kauppiaitten Kustannus Oy, a company whose majority was bought by Kesko from the K-Retailers' Association. As a result of this deal, the K-Group's customer magazines - Pirkka, Birka, Asu Hyvin, Maatilan Pirkka, Åker-Birka and Menu- were transferred to the International Division. The aim is to improve the coordination of Kesko's media operations and to develop trading on the Internet in particular.

International cooperation

A primary task of the Division is to survey new business areas for the Corporation. The Division is also responsible for the Corporation's strategies in relation to international and cooperating organisations.

International cooperation was maintained both on the business-to-business level and through participation in the work of international trade organisations. The most important ones in this respect were UGAL, the Association of Retailer-owned Wholesalers of Europe, and IFGA, the International Federation of Grocers' Associations, both of which are chaired by Kesko's Deputy Chief Executive Timo Karake.

Kesko took an active part in guarding the interests of the Finnish trade sector within the EU through the Committee on Commerce and Distribution in the European Commission as well as in the working groups of EuroCommerce and the Federation of Finnish Commerce and Trade. Kesko has paid careful attention to the future adoption of the single currency and preparing for the new Act on Competition.

Environmental affairs

This unit coordinates and develops environmental operations at Kesko. The environmental management system was linked to the management and quality system of the whole K-Group. More information about environmental affairs can be found on pages 26-27 of this Annual Report.

Subsidiaries

Kaukomarkkinat Group

Kaukomarkkinat is the biggest and most diversified trading house in Finland, with over 20 subsidiaries or representative offices abroad. Its Finnish business operations focus on imports and the wholesaling of leading branded goods, such as adidas, Citizen, Panasonic and Technics. The main international trade and export areas are Russia, China, Poland and the Baltic countries.

The Group's net sales were FIM 2,598 million, a decrease of 28% over the previous year. This drop can be attributed to the transfer of the Russian trade in Panasonic products to the principal in April, which had been previous-

ly agreed and went according to plan. However, the net sales of the other operations increased by 13%. The operating profit, FIM 78 million, was the highest in the 50-year-old company's history.

In international trade and exports the biggest growth was experienced in Russia, where net sales increased by 38%, excluding Panasonic exports. Volumes also increased significantly in trade with China, while trade with Poland remained at a high level. On the other hand, the volumes of transit sales decreased from the previous year.

adidas strengthened its position as the market leader in sports goods in Finland. The increase in sales was three times the general growth in this field. Sales of Citizen watches, market leaders in Finland for over twenty years, reached an all-time high - further strengthening their leadership in the market.

Among the wide range of Panasonic products the most successful were office automation and telecommunications products, whose sales increased by 45%. Sales of industrial electronics also grew

considerably. Leipurien Tukku further strengthened its position in the domestic market and took steps to increase trade both in the Baltic countries and the St. Petersburg area.

The range of products in international trade and exports is wide and includes raw materials for industry, machinery, equipment, products related to environmental protection and health care, furniture and consumer goods for customer needs. In addition, the company has a tank farm of nearly 100,000 cubic metres at Hamina for the transshipment of petrochemical and chemical products.

In domestic trade, the Kaukomarkkinat Group is well-known for the sports equipment, watches and electronics it represents. adidas products are marketed by its subsidiary Virsu Oy. Kaukomarkkinat is also a major importer and manufacturer of eye optics.

The subsidiaries LT-Tukku Oy and LT-Kone Oy serve bakers, institutional kitchens and restaurants by delivering raw materials, semifinished goods and machinery and equipment. The product range also includes wines, high-quality meat products, berries and fruit. Leitok Oy, for its part, is specialised in the import and wholesaling of light clothing and fashion items.

In domestic trade, the positive trend is expected to continue in 1998, particularly in the fields in which the Group has leading branded goods. There is also potential for growth in the trade with Russia and China.

The average number of personnel in the Kaukomarkkinat Group was 738. The Managing Director is Kari Ansio. Kaukomarkkinat Oy publishes its annual report in Finnish and English.

Net sales, FIM million		
	1997	Change, %
Kaukomarkkinat Group	2,598	-
VV-Auto Group	2,045	13.4
Viking Coffee Ltd	321	-
MK-mainos Oy	158	25.5
Kauppiaitten Kustannus Oy	21	-
Kesko Export Ltd	13	-32.1
Kauppiaiden Komediat Group	8	-
SV-Tietopalvelu Oy	7	-
less inter-company sales	-596	-
Total	4,575	13.9

VV-Auto Oy/Auto-Span 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 Group totalled FIM 2,045 million, a rise of 13.4% compared with the previous year. The operating profit was FIM 99 million. In 1997, Volkswagen was the best selling car make in Finland for the fourth successive year.

The total market for new cars grew by 9%. For the first time, Volkswagen was also number one in the passenger car trade with a market share of 13.2%. A sales increase of over 60% strengthened the market position of Audi.

The total market for new commercial vehicles grew by 29%. In this vehicle category, despite tighter competition, Volkswagen managed to maintain its market leadership with a 23.2% share.

Along with the increase in the total number of cars came an increase in after-sales operations. In the largest sales areas the target is to provide customer service in each car make. Store premises will be refurbished in accordance with this concept.

VV-Auto Oy's subsidiary, Auto-Span Oy, is responsible for importing and marketing Seat cars of the VW Group. Its net sales amounted to FIM 75 million, an increase of 13%.

The outlook for the car trade has clearly improved along with economic recovery, and the increase in sales is expected to continue in 1998. Due to the new, high-quality range of VV-Auto, the future sales prospects look good.

VV-Auto employed an average of 88 persons. The Managing Director of both companies is Erkki Sillantaka.

Viking Coffee Ltd

Viking Coffee Ltd roasts coffee for the Finnish, Swedish, Estonian and Norwegian markets. Deliveries to Norway started in the autumn of 1997. The net sales of the company amounted to FIM 321 million. The coffee market was and will be characterized by strong fluctuations in the price of raw coffee. The average number of personnel was 46. The Managing Director is Raimo Ilveskero.

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 158 million, an increase of 25.5% over the previous year. The targets for net sales, gross profit and net profit were all exceeded. The vigorous growth in net sales was mainly due to the increase in media planning and sales. The average number of personnel was 51. The Managing Director is Kari Soininen.

Kauppiaitten Kustannus Oy

Kauppiaitten Kustannus Oy is a member of the Finnish Periodical Publishers' Association and publishes the customer magazines of the K-Group. For the period starting on 1 October 1997, the net sales of the company were FIM 21 million. The advertising income of the magazines increased, as did the numbers of readers. The circulation figures for customer magazines were as follows: Pirkka 2,277,171; Birka 76,170; Asu Hyvin 109,276; Maatilan Pirkka 85,028; Åker-Birka 9,063 and Menu 7,500. The average number of personnel was 20. The Managing Director is Matti Laamanen.

Kesko Export Ltd

Kesko Export Ltd markets and sells mainly Kesko's own brands in Russia. The most important market areas are Moscow, St. Petersburg and Murmansk. ZAO Kesfood, a fully owned subsidiary of Kesko Export, was established in Moscow in autumn. In other areas business is based on cooperation with local partners. The net sales of Kesko Export amounted to FIM 13 million. The Russian market is now showing signs of stabilising and settling, and the reorganisation of the company's operations improves its trading potential. The average number of personnel was 5. The Managing Director is Ari Svensk.

Kauppiaiden Komedial Oy

Kauppiaiden Komedial Oy maintains and develops in-store TV media operations. Its subsidiary, Proidea Oy, produces programme services for the in-store TV media as well as commercials, company videos and TV programmes. For the period starting on 1 October 1997, the net sales of the Group were FIM 8 million. The average number of personnel was 6. The Managing Director is Ari Laitinen.

SV-Tietopalvelu Oy

SV-Tietopalvelu Oy is a market research company specialising in customer and corporate image surveys. Its net sales amounted to FIM 7 million. In 1997, SV-Tietopalvelu made a total of 1,150 surveys for various customers. The average number of personnel was 9. The Managing Director is Lasse Mitronen.

Finance and Administration

The Finance and Administration of Kesko consists of the Accounting and Finance Division and the Administration Division. These Divisions and their subsidiaries are mainly responsible for functions that support the actual business activities.

Accounting and Finance Division

The Accounting and Finance Division consists of Corporate Accounting and Office Administration, Finance, Credit, Risk Management, and the subsidiaries K-konerahoitus Oy and Sincera Oy. The average number of personnel was 152. The director of the profit group is Vice President Riitta Laitasalo.

K-konerahoitus Oy

The company provides hire purchase finance for agricultural and construction machinery and consumer goods. At the end of 1997, there were 3,538 agreements and financing receivables amounted to FIM 247.7 million. The Managing Director is Seppo Kettunen.

Sincera Oy

Sincera Oy is a security investment company which started operations in December. The company trades in listed shares. The Managing Director is Heikki Ala-Seppälä.

Administration Division

The Administration Division consists of Personnel, Pension Insurance and Occupational Health Services, Kesko Real Estate and the subsidiaries Tietokesko Oy, Kestra Kiinteistöpalvelut Oy, Hämeenkylä Kauppa Oy, K-linkki Oy and K-instituutti Oy. The average

number of personnel was 408. The director of the profit group is Vice President Heikki Valkjärvi.

Kesko Real Estate

Kesko Real Estate started operations on 1 January 1997. This followed the general trend for companies to separate real estate into a business sector of its own. Kesko Real Estate controls the development of the Corporation's office and store network, acquires premises when required and leases them to the users.

At the turn of the year, Kesko Corporation and Kesko Pension Fund owned a total of 1,350,000 square metres of store premises and 670,000 square metres of other premises.

Investments in real estate totalled FIM 306 million. During the year, about 31,000 square metres of new store premises were completed, including leased space. The most important new projects were the extension of the Citymarket hypermarket in Seinäjoki, the K-superstores in Keuruu and Pirkkala, and the K-rauta hardware stores in Helsinki and in Stockholm, Sweden. An extensive refurbishing project that will take several years was started in the head office at Katajanokka, Helsinki.

In 1997, a total of 62 properties, no longer in use for actual business operations, were sold for the combined sum of FIM 125 million. The total area of these properties was about 75,000 square metres.

Major projects under construction were a shopping centre in Vantaa, the extension of the Citymarket hypermarket in Kajaani, a K-superstore in Helsinki and Anttila Kodin Ykkönen department stores in Oulu and Espoo.

Tietokesko Oy

Tietokesko Oy provides information technology services for Kesko's business units.

The loyal customer marketing of the K-Group was further developed and the related Plussa bonus system was introduced nationally at the beginning of November 1997. This was preceded by two regional pilot projects.

The development of chain systems was emphasized in operations. During the year, the chain system of Musta Pörssi and the first stage of the grocery chain guidance system in the K-supermarket chain were introduced.

Modernized purchasing systems were introduced in Kesko Clothing, Kesko Fruit and Vegetables and the Builders' and Agricultural Supplies Division. Other systems launched in 1997 cover the K-accounting service, machinery sales and forwarding, and include a technical reform of the Martel customer system, as well as a personnel system.

The use of Internet and the amount of available Internet services both increased. During 1997, the number of Internet users trebled reaching 771 by the end of the year. The number of e-mail users was 3,148. Windows95 and MS Office95 were introduced for workstation software.

At the end of the year, EDI connections had been established with 1,086 retail stores and 171 other business partners. The same technology was also used for the transfer of Plussa information from 1,283 card terminals in nearly one thousand stores. The volume of EDI operations more than doubled during the year.

During the year, a survey was made of the data system maintenance still needed in relation to the turn of the millennium. The remaining work totals about five man-years and plans have been made to complete it mainly in 1998. The net sales of the company were FIM 162 million, an increase of 23.5%. The average number of personnel was 170. The Managing Director is Osmo Kimmo.

Kestra Kiinteistöpalvelut Oy

Kestra Kiinteistöpalvelut Oy is responsible for the technical maintenance of the approximately 1,000 properties controlled by Kesko. A significant increase came about through the addition of the premises of Anttila Oy and Hämeenkyllän Kauppa Oy. Altogether, the company is responsible for 2.7 million square metres of wholesale and retail premises.

The services of the company have been wholly out-sourced to the leading local suppliers in the field on the basis of competitive bidding. The centralisation of product and service acquisitions brought considerable cost savings. The net sales were FIM 147 million. The average number of personnel was 25. The Managing Director is Risto Lassila.

Hämeenkyllän Kauppa Oy

The name Tuko Oy was changed to Hämeenkyllän Kauppa Oy on 10 June 1997. Kesko Ltd fulfilled the obligations imposed on it by the EU Commission concerning the disposal of the daily consumer goods trade as described in the report by the Board of Directors on pages 28-33. The operations of Hämeenkyllän Kauppa Oy consist of the

management and leasing of real estate. The net sales were FIM 140 million. The average number of personnel was 37. The Managing Director is Erkki Heikonen.

K-linkki Oy

K-linkki Oy aims to provide standardized, efficient information systems for the chain operations of K-stores. The importance of information technology is increasing in retail stores. Reliable and real time data based on the actual sales of the each store is the key to successful development

By the end of 1997, K-linkki Oy had supplied a total of nearly 1,000 systems to the K-retailers. The standardization of information systems will increase the efficiency of the whole distribution chain. The Plussa bonus system is an example of the possibilities provided by a standardized information system. The net sales were FIM 77 million. The average number of personnel was 46. The Managing Director is Eero Vesterinen.

K-instituutti Oy

K-instituutti Oy is a training centre for the trading sector. It aims at improving its customers' competitiveness and profitability by developing the expertise and skills of their personnel. This is done through the provision of occupational further and complementary training

In 1997, the most important changes at the K-instituutti were related to the development of the operational systems of the K-retail store chains, the establishment of a management model, quality management and process thinking, and the extension of the Kesko Corpora-

tion through company acquisitions.

Introduction of the apprentice system in retail stores considerably changed the nature of customers' training operations and their finance. In future a considerable part of the vocational training of K-stores will aim at helping students to pass a vocational or special vocational examination.

The most important development projects were related to K-retailer training and the modernization of management programmes. In addition, retail store information system training was implemented as part of the adult education scheme of the Ministry of Employment and, related to the apprentice system, a pilot training programme for job trainers, coordinated by the National Board of Education. The net sales were FIM 16 million. The average number of personnel was 48. Until 15 September 1997, the Managing Director was Kyösti Pärssinen. He was succeeded by Timo Karkola.

Kesko and the environment



Environmental affairs have an increasingly focal position in trading operations. Transbox transport boxes have replaced one-trip cardboard boxes in foodstuffs trade logistics. Recycling has also become a part of consumers' everyday life.

The underlying idea in the K-Group's environmental policy is the life cycle approach. Kesko's own solutions in the fields of transport, packaging and energy consumption immediately affect the state of the environment. As distributors of merchandise, Kesko and the K-retailers can greatly contribute to the reduction of environmental damage during the whole life cycle of the product - the production, distribution, usage and disposal.

Systematic work for the environment

In 1997, the environmental management system that was started in the autumn of the previous year was integrated as part of the management and quality system of the whole K-Group and was improved on the basis of the ISO 14001 standard.

The survey of Kesko's present environmental impact, i.e. the environmental audit, was nearly completed, with the newest subsidiaries starting the work required by the standard towards

the end of 1997. The quality assessment made in summer paid much attention to environmental issues, which have also been given special emphasis in annual planning guidelines for the year 1998. The annual plans contain a total of about 150 concrete environmental targets, which means that systematic work for the reduction of environmental impact already covers a significant part of the organisation. However, not all targets have yet fulfilled the requirement for measureability.

During the year under review, environmental chapters were included in the K-retailers' store type manuals, with the aim of guiding the retailers in environmental matters and giving them operational instructions. Detailed environmental manuals for Kesko's own units will be completed in 1998. The subsidiary which has implemented the ISO standard to the largest extent in its operations is Viking Coffee Ltd.

In 1997, Kesko's Board of Directors appointed a management team for environmental operations which is respon-

sible for the advance of the environmental system and the implementation of the environmental programme at all levels of the organisation. The development unit for environmental operations and the employees responsible for environmental issues in different units are in charge of the practical implementation.

Extensive recycling and consulting

Kesko's own recycling operations were further expanded. On their return trips, goods distribution lorries carried e.g. corrugated board, aluminium beverage cans, and reusable plastic cases. As the use of plastic cases also increased in transportation for the meat and processed foods industry, the amount of packaging waste left in the K-stores decreased significantly. The customer restaurants of the HoReCa Wholesale were also provided with a collection service for corrugated board and liquor bottles.

By the end of the year about 100 K-stores had set up an in-store recycling

point in their stockrooms in order to improve waste sorting and recycling. 60 K-stores had large recycling points for customers, while 85 K-stores had smaller ones, known as "green walls".

The units and subsidiaries of Kesko participate in various collection experiments and development projects. In cooperation with the Finnish 4H Federation, the K-agricultural stores and K-Agriculture experimented with the recycling of agricultural plastics in Ostrobothnia in Western Finland. The 150 tons of plastic collected were used for the manufacture of asphalt in Central Finland. The K-grocery stores participated in a nation-wide organic waste campaign directed at consumers, and the K-rauta hardware and builders' supplies stores started the experimental collection of hazardous waste. The Musta Pörssi chain, Kesko Home Technology and the Panasonic Unit of Kaukomarkkinat Oy participated in the national recycling experiment for home electronics with the aim of creating a voluntary, effective recycling system in this field. Kesko also participated in a corresponding recycling experiment concerning office electronics.

The Foodstuffs Division continued to develop a calculation model for the cost and environmental impact of logistics. A decision was also made to adopt this model in the logistics of other product groups and for monitoring real estate energy and waste management.

National and international contributions

Kesko participated actively in the national and international development of environmental issues. The most important cooperative organs in this work are the environmental committees of the Federation of Finnish Commerce and Trade, the Finnish Packaging Association, EuroCommerce and the International Chamber of Commerce.

In 1997, Kesko continued to chair the delegation implementing a voluntary environmental agreement in the packaging sector. Kesko participated actively in planning the national organisation for recycling and recovery, and it participates in the operations of all producer organisations that are concerned with recycling, with the exception of industrial fibres.

Environmental report near completion

Life cycle thinking was promoted in many ways in corporate operations. So far, there is not much research data available to form a basis for solutions. During the year, Kesko gained its own experience of life cycle analyses through cooperation with a few suppliers. The "Construction and Environment" event arranged in the spring highlighted life cycle thinking.

More information about environmental operations will be provided by Kesko's environmental report which will be published for the first time this spring. The report, published in Finnish and English, will come out in May and can be ordered from Kesko Corporate Communications, tel. +358 10 532 2404, fax +358 9 174 398. The report will also be published in June on Kesko's home pages on Internet <http://www.kesko.fi>.

Recycling volumes in Kesko's return transport		
	1996	1997
Corrugated board (tons)	4,100	4,600
Cans (million pcs)	6.5	11.0
Bottles (million pcs)	1.1	2.0
Transbox cases (million pcs)	1.2	1.3
Dollies (million pcs)	1.3	1.4
Pallets (1,000 pcs)	244	264

Report by the Board of Directors

In 1997 Kesko Corporation's net sales increased to FIM 34,824 million, which was 18.9% more than in the previous year.

The increase in net sales mainly resulted from the new corporate structure. During the year under review, Kesko fulfilled all the obligations imposed on it by the European Commission relating to the divestiture of daily consumer goods operations of Tuko purchased in 1996. The following companies were merged with the Corporation: Anttila Oy, which operates in the department store business; Rautia Oy, which trades in hardware and builders' supplies; Tuko Oy, which owns real estate properties and whose name was changed to Hämeenkyllän Kauppa Oy. The combining of Anttila Oy's and Rautia Oy's wholesale operations with Kesko Corporation's operations was started towards the end of the year.

The Corporation's new organisation was adopted from 1 May 1997. The corporate board was separated from the management of profit groups. The Corporation's business operations are divided into four profit groups for commercial divisions, two profit groups for finance and administration, and corporate management with service units.

The Corporation expanded its business operations in the neighbouring countries. In Sweden, another K-rauta hardware and builders' supplies store was opened in Stockholm, and a deci-

sion was made to establish two new K-rauta stores. In Estonia, the established Kesko Eesti A/S cash & carry company reached a level of profitable operations. In Russia, the net sales of a wholesale outlet specialising in hardware and builders' supplies developed favourably.

The Corporation's profit before extraordinary items and taxes was FIM 690 million, a decrease of FIM 50 million on the previous year. The decrease mainly resulted from the adaptation measures during 1997 due to changes in the corporate structure.

Main events

On 7 February, Kesko made an agreement 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 deals were subject to the EU Commission's approval by 30 April 1997.

On 18 April, the EU Commission stated that the arrangement Kesko had agreed on 7 February for the daily consumer goods business of Tuko meets the demands made by the Commission in its decision on 19 February. According to the decision, the deals can be implemented as agreed.

On 30 April, the ownership and control of Suomen Spar Oy was transferred to Sentra Oy. In connection with this, the ownership and control of Metro business operations was transferred

to Wihuri Oy. Sentra Oy, in turn, transferred the Carrols and Pan Pizza business operations to the Kesko Corporation, starting from 1 May 1997. In addition, the ownership and control of TukoSpar Oy was transferred to Wihuri Oy, Sentra Oy, Oy Stockmann Ab and Hei-non Tukku Oy on 30 April 1997. Anttila Oy purchased its daily consumer goods from TukoSpar Oy until the end of 1997, as agreed.

In accordance with the agreement made by Kesko Ltd on 7 February 1997 concerning the daily consumer goods business of Tuko, the real estate with related shares used for Tuko's daily consumer goods business was transferred to Vasa-Sijoituskiinteistöt Oy on 30 June 1997. Vasa-Sijoituskiinteistöt Oy is owned by Pension Varma Mutual Insurance Company, Pension Sampo Insurance Company Limited, Sampo Insurance Company Limited and Nova Life Insurance Company Limited.

The real estate deals include mechanisms for price adjustments in 2007. According to Kesko's Board of Directors, the adjustments will have no substantial effect on the financial position of Kesko. After the implementation of the deals, the book value of Tuko Oy's (from 10 June Hämeenkyllän Kauppa Oy) shares is equal to their market value. In addition to Rautia Oy's share capital, Hämeenkyllän Kauppa Oy owns business real estate used by Anttila Oy, and real estate properties rented outside the K-

Group, the total book value of which is FIM 1,128 million in the Corporation. According to Kesko's Board of Directors, the book value of the real estate does not exceed its market value. The book value of Anttila Oy's shares in Kesko's balance sheet is FIM 433 million, which includes goodwill of FIM 243 million.

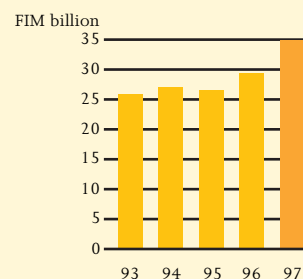
On 27 June, Kesko made a decision in principle to dispose of the business operations of the foodstuffs departments of the Anttila department stores, called Ruoka-Anttila, to retailers. The Ruoka-Anttila departments will continue operations in connection with the Anttila department stores. The new operational model aims at increasing sales, improving efficiency and customer satisfaction by combining the advantages of entrepreneurship at the local level and of centralised chain operations at the national level.

On 15 August, Arthur Andersen Oy, which acted as trustee in the Tuko arrangement, informed that it has confirmed in its report submitted to the European Commission that Kesko has fulfilled the obligations imposed on it by the Commission's decision of 19 February 1997.

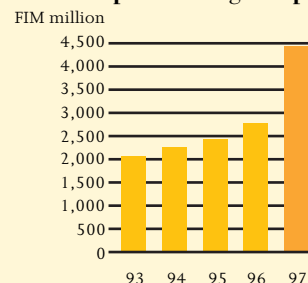
On 1 September, Rautia Oy sold the wholesale operations of its hardware business to Kesko Ltd, but continues retail operations in the Rautia and Fixa chains.

At the end of September, a media unit was established in Kesko to take

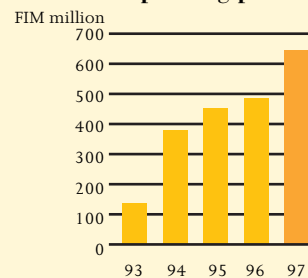
Corporation's net sales



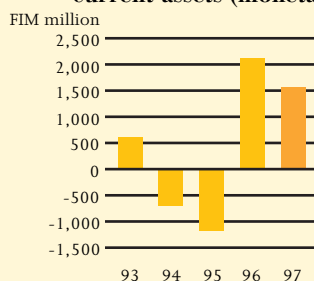
Corporation's gross profit



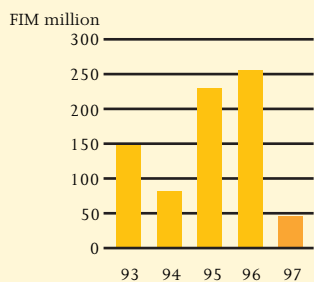
Corporation's operating profit



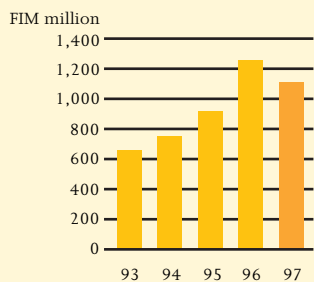
Corporation's liabilities less current assets (monetary)



Corporation's net financial income



Corporation's cash flow



responsibility for media operations within the K-Group, including the development and coordination of these operations. The media unit operates under Kesko's International Division. The media unit consists of the MK-mainos Oy advertising agency, the SV-Tietopalvelu Oy research company, the Kauppiaiden Komedia Group (a TV commercial production company), a development unit for electronic trading and the Kauppiaitten Kustannus Oy publishing company, whose majority shareholding was bought by Kesko from the K-Retailers' Association in October.

On 7 October, Kesko acquired the whole share capital of *Academica Oy*, which specialises in the sale of information technology equipment and services. With this acquisition, Kesko seeks to expedite its operational expansion in the field of information technology.

On 1 December, Kesko Ltd's Supervisory Board appointed Matti Honkala, 52, M.Sc. (Econ.), the present Executive Vice President, Finance and Administration, as the new Chairman and Chief Executive from 1 May 1998. At the same time, Matti Honkala was appointed as Deputy Chairman and Senior Executive Vice President from 1 December 1997 to 30 April 1998. Matti Honkala has been a member of Kesko's Board of Directors from 1986.

The present Chairman and Chief Executive Eero Kinnunen, 60, will retire at his own request after a full term of service on 1 May 1998. Eero Kinnunen

has been Kesko's Chairman and Chief Executive from 1993.

Net sales

The Corporation's net sales amounted to FIM 34,824 million, representing an increase of 18.9%. The net sales by profit group were as follows:

	FIM million	Change, %
Foodstuffs Division	17,364	2.4
Home and Speciality		
Goods Division	5,191	228.0
Builders' and Agricultural		
Supplies Division	7,548	13.1
International Division	4,575	13.9
Others	146	-
Total	34,824	18.9

The Corporation's subsidiaries carrying on retail trade are *Academica Oy*, *Aleksi 13 Oy*, *Anttila Oy*, *Carrols Oy*, *Kyhtiöt Oy Citymarket*, *K-maatalous-yhtiöt Oy*, *Kesko Svenska AB* and *Rautia Oy*. Their net sales and financial results are included in the figures of the respective profit groups. The increase in net sales in comparable figures without the changes in the corporate structure was 5.6%.

Gross margin

The Corporation's gross margin increased by FIM 1,641 million and was 12.7% (9.5%) of net sales. The growth mainly resulted from changes in the corporate structure. In addition to rent

income and marketing support income, the Corporation's other operating income includes profits of FIM 122 million on the sale of fixed assets, and it totalled FIM 481 million (FIM 330 million).

Costs

The Corporation's personnel costs increased to FIM 1,789 million (FIM 1,150 million). The growth resulted mainly from the inclusion of Anttila Oy, Rautia Oy, Hämeenkyllän Kauppa Oy and Carrols Companies in the Corporation. Kesko Ltd's personnel costs were FIM 672 million (FIM 602 million), an increase of 11.8%. The operations of Anttila Oy's central warehouse and part of the administrative personnel transferred to the parent company during the year. The total fixed costs grew by 44.8% in the Corporation and by 13.2% in Kesko Ltd. Personnel, marketing and real estate costs represented the highest increases.

Finance

The Corporation's net financial income totalled FIM 46 million (FIM 255 million). The share of associated companies' profits less losses included in financial income decreased to FIM 35 million from the previous year's FIM 133 million, due to the sale of Suomen Spar Oy's and TukoSpar Oy's shares and Tuko Oy's real estate used for daily consumer goods business.

At the end of 1997, the Corpora-

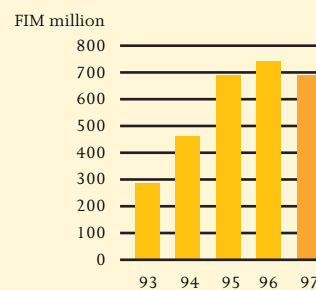
tion's interest-bearing net debt was FIM 1,045 million (FIM 2,153 million) and equity ratio was 53.2% (51.9%). The Corporation's interest-bearing liabilities amounted to FIM 2,290 million (FIM 2,812 million) and interest-free liabilities FIM 4,818 million (FIM 4,297 million). On 31 December 1997, the Corporation's non-current liabilities were FIM 1,265 million and current liabilities FIM 5,843 million. According to the repayment plan, a total of FIM 339 million will be repaid in 1998.

The cash flow from operations in the Corporation was FIM 1,110 million (FIM 1,260 million).

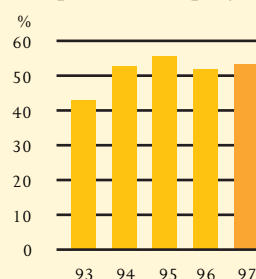
Profit

The Corporation's profit before extraordinary items and taxes was FIM 690 million (FIM 740 million). The Corporation's decreased profit is attributable to the adaptation of the operations merged with the Corporation after the Tuko deals. The subsidiaries' combined profit before extraordinary items including the profits/losses of associated companies was FIM 333 million (FIM 430 million). The profit of the associated companies decreased from FIM 133 million to FIM 35 million. The profit of the associated companies of Tuko divested during the year was FIM 15 million. In 1996, the profit of Tuko Group and Anttila Oy, which were treated as associated companies in the Kesko Corporation's financial statements, amounted to FIM 150 million.

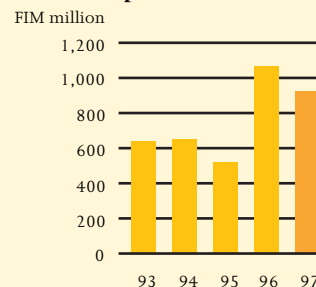
Corporation's profit before extraordinary items and taxes



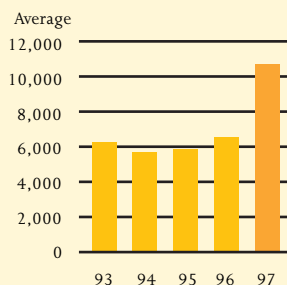
Corporation's equity ratio



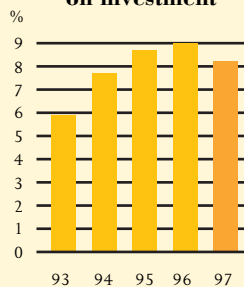
Corporation's investments



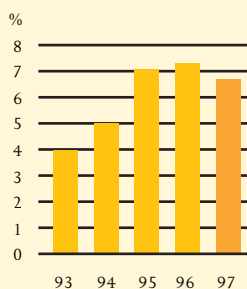
Corporation's personnel



Corporation's return on investment



Corporation's return on equity



The return on investment was 8.2% (9.0%), and the return on equity 6.7% (7.3%).

Earnings per share were FIM 5.87 (FIM 6.05). Kesko's Board of Directors will propose to the Annual General Meeting that a dividend of FIM 3.00 per share be paid for 1997. The dividend per share for 1996 was FIM 2.00.

Profitability by profit group

The operating profit by profit group was as follows:

Foodstuffs Division	FIM 516 million
Home and Speciality	
Goods Division	FIM 138 million
Builders' and Agricultural	
Supplies Division	FIM 68 million
International Division	FIM 152 million
Total	FIM 874 million
Common groups	-FIM 230 million
Operating profit	FIM 644 million
Net financial income	FIM 46 million
Profit before extraordinary items and taxes	FIM 690 million

The common groups include the Accounting and Finance Division, Administration Division and corporate administration. Their costs and assets have not been allocated to the profit groups engaged in business operations.

Investments

The investments totalled FIM 923 million (FIM 1,067 million). Investments in the real estate for Kesko's wholesale operations and subsidiaries, and information technology and shares were FIM 518 million. Investments in store buildings, fixtures and information technology amounted to FIM 405 million.

Personnel

During the year, the average number of personnel in the Corporation was 10,672, of whom 3,289 persons worked in the parent company. The average increase in the Corporation's personnel was 4,169 persons, of whom almost 3,100 persons worked in Anttila, Rautia and Hämeenkyllän Kauppa Oy. The merger of Carrols Companies with the Corporation also increased the number of personnel.

The average increase in the parent company's personnel was 381 persons, which was mainly attributable to the transfer of Anttila's central warehouse and administrative personnel to the parent company.

The turnover of personnel in the parent company was 4%. The vacancies in the Corporation were chiefly filled by internal transfers.

The average number of personnel by Division was as follows:

	Number	Increase
Foodstuffs Division	4,434	614
Home and Speciality Goods Division	3,296	2,786
Builders' and Agricultural Supplies Division	1,407	396
International Division	931	294
Others	604	79
Corporation total	10,672	4,169

From the beginning of the year under review, Kesko adopted a new profit sharing system concerning all personnel groups. In addition to the Corporation's profit, the main factors which are used to determine the amount of the reward to be paid are the sales and profits of individual units, as well as customer satisfaction and the job satisfaction of the personnel.

The quality management system introduced in Kesko Corporation has encouraged the personnel to widely develop operations. The annual measurements of customer satisfaction and the personnel's job satisfaction support the sustained development of the operational processes to achieve the Corporation's basic values and financial targets.

Financial targets

Kesko's Board of Directors has set the following targets for Kesko Corporation:

- 12% return on investment
- 10% return on equity
- 50% equity ratio
- to distribute at least a third of annual profits as dividends, or a half, if the equity ratio exceeds 50%.

Prospects for 1998

The Finnish economy is expected to continue to grow by 4%, and the 3% increase in consumers' purchasing power will strengthen domestic demand. Furthermore, consumers' investment and purchase intentions are at a higher level than earlier. The recovering economic activity will also increase manufacturing industry's purchases of machines, equipment and raw materials.

Growth will be mainly achieved from the increasing domestic consumer demand. In the speciality goods trade, there are good expectations in sports goods, home electronics, household appliances and computers businesses, in particular. The share of speciality goods in the Corporation's sales is already about a half. This change is anticipated to have a favourable effect on the Corporation's profitability, because the

focus of the increased consumption will be mainly on speciality goods. The domestic foodstuffs market is expected to grow at a slower rate than the speciality goods trade.

The Corporation's structure is now stable, and a wider range of products and services can be provided to our customers after the Anttila department stores with their direct mail business, as well as Rautia and Carrols were added to the K-Group's store formats.

The Plussa loyal customer marketing, started in November, has proved to be successful, and it is expected to further increase the sales of the K-Group's retail stores and to also increase Kesko's wholesaling to K-retailers. At the end of the year, Plussa cards were used by about 1.4 million people in 830,000 households. The features of the Plussa card are being developed continuously, and new advantages are being added to it.

Kesko Corporation will achieve part of its growth from new business operations to be established in the neighbouring countries. In the Swedish hardware and shoe markets, growth is being sought through new store openings.

According to forecast, Kesko Corporation's net sales will increase by 4% and profit before extraordinary items and taxes will exceed FIM 750 million.

Corporation in figures

	1993	1994	1995	1996	1997
Income statement					
Net sales, FIM million	25,822	27,060	26,438	29,279	34,824
Change in net sales, %	-3.1	4.8	-2.3	10.7	18.9
Gross profit, FIM million	2,071	2,253	2,418	2,781	4,422
Gross margin, %	8.01	8.32	9.14	9.49	12.70
Personnel costs, FIM million	962	937	1,007	1,150	1,789
Personnel costs of net sales, %	3.72	3.46	3.81	3.93	5.14
Operating profit before depreciation, FIM million	500	725	795	864	1,231
Operating margin, %	1.93	2.67	3.00	2.94	3.54
Plan depreciation, FIM million	363	343	342	379	587
Operating profit, FIM million	137	381	453	485	644
Operating profit of net sales, %	0.53	1.40	1.71	1.65	1.85
Financial income, net, FIM million	148	81	235	255	46
Financial income of net sales, %	0.57	0.30	0.89	0.87	0.13
Profit before extraordinary items and taxes, FIM million	285	462	689	740	690
Profit before extraordinary items and taxes of net sales, %	1.10	1.70	2.60	2.52	1.98
Profit before taxes, FIM million	355	545	747	651	685
Profit before taxes of net sales, %	1.37	2.01	2.82	2.22	1.96
Direct taxes, FIM million	51	143	187	171	161
Profit for the financial year, FIM million	304	402	560	481	526
Balance sheet					
Fixed assets, FIM million	4,286	4,519	4,447	7,417	7,065
Current assets (stocks), FIM million	2,957	1,783	1,727	2,403	2,739
Current assets (monetary), FIM million	8,346	7,010	7,086	4,989	5,565
Shareholders' equity, FIM million	6,603	6,956	7,281	7,602	7,955
Share capital, FIM million	902	902	902	902	902
Unrestricted equity, FIM million	4,647	5,003	5,335	5,657	6,009
Provisions, FIM million	3	22	27	53	127
Liabilities, FIM million	8,955	6,304	5,914	7,109	7,108
Interest-bearing liabilities, FIM million	3,690	2,107	1,815	2,812	2,290
Net indebtedness, FIM million	610	-706	-1,171	2,120	1,543
Balance sheet total, FIM million	15,589	13,312	13,260	14,809	15,369
Key indicators					
Return on investment, %	5.9	7.7	8.7	9.0	8.2
Return on equity, %	4.0	5.0	7.1	7.3	6.7
Cash flow, FIM million	662	749	921	1,260	1,110
Equity ratio, %	42.9	52.8	55.6	51.9	53.2
Interest-bearing net debt of equity, %	8.6	-4.4	-12.9	28.2	12.8
Investments, FIM million					
Investments of net sales, %	2.5	2.4	2.0	3.6	2.7
Personnel (average)					
	6,227	5,701	5,833	6,503	10,672
Parent company (Kesko Ltd)					
Net sales, FIM million	23,595	24,382	22,551	22,250	23,471
Gross margin, %	5.27	5.61	6.39	6.86	8.32
Operating margin, %	1.27	1.58	1.75	1.88	2.38
Profit before extraordinary items, FIM million	254	247	402	316	463
Personnel (average)	3,229	3,119	3,088	2,908	3,289
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.	28,285	28,486	27,479	25,890	24,292
Market capitalisation, FIM million	4,438	4,962	4,881	5,851	7,793
Share trading, FIM million	1,130	1,284	1,111	2,709	2,467
Change in the number of shares traded, million pcs	28	24	22	42	34
Change in share trading, %	85.5	-14.5	-7.0	87.4	-18.8
Exclusive shares, %	36	34	38	35	35
Ordinary shares, %	64	66	62	65	65
Nominal dividend per share, FIM	1.10	1.40	1.90	2.00	*3.00
Adjusted dividend per share, FIM	1.10	1.40	1.90	2.00	*3.00
Dividend of profit, %	39.0	37.3	33.9	33.1	51.1
Nominal value of share, FIM	10	10	10	10	10

	1993	1994	1995	1996	1997
Share price at 31.12., FIM	49.20	55.00	54.10	64.90	86.20
Adjusted share price at 31.12., FIM	49.20	55.00	54.10	64.90	86.20
Average share price at 31.12., FIM	-	-	-	64.86	86.39
Highest share price during the year, FIM	49.20	60.00	59.00	75.40	88.00
Lowest share price during the year, FIM	33.50	45.00	41.20	53.00	63.50
Adjusted earnings per share, FIM	2.82	3.75	5.61	6.05	5.87
Cash flow per share, FIM	7.34	8.30	10.20	13.97	12.31
Price per earnings ratio (P/E)	17.4	14.7	9.7	10.7	14.7
Dividend yield, %	2.2	2.5	3.5	3.1	3.5
Equity per share, adjusted, FIM	73.18	77.10	80.70	84.26	88.18
Yield of share (internal rate of return on share capital. %)					
For last 5 financial years	4.5	1.9	6.9	15.2	21.7
For last 10 financial years	18.7	18.0	16.4	13.8	12.3

* proposal to the Annual General Meeting

Calculation of key indicators

Return on investment, % (ROI)	=	$\frac{\text{profit before extraordinary items} + \text{interest expenses and other financial expenses}}{\text{balance sheet total less interest-free liabilities (average during the financial year)}} \times 100$
Return on equity, % (ROE)	=	$\frac{\text{profit before extraordinary items less taxes}}{\text{shareholders' equity} + \text{minority interest (average during the year)}} \times 100$
Return on capital employed, % (RONA)	=	$\frac{\text{operating profit}}{\text{capital employed}} \times 100$
Equity ratio, %	=	$\frac{\text{shareholders' equity} + \text{minority interest}}{\text{balance sheet total less advances received}} \times 100$
Net indebtedness	=	liabilities less current assets (monetary)
Interest-bearing net debt of equity, %	=	$\frac{\text{interest-bearing liabilities less short-term investments less cash and bank}}{\text{shareholders' equity} + \text{minority interest}} \times 100$
Cash flow	=	operating profit + plan depreciation + financial income (net) + extraordinary income and expenses less taxes
Dividend per share	=	$\frac{\text{dividend for the financial year}}{\text{number of shares at 31 Dec. adjusted for the bonus element of share issues}}$
Dividend of profit, %	=	$\frac{\text{dividend for the financial year}}{\text{profit before extraordinary items less taxes for the financial year less minority interest}} \times 100$
Earnings per share	=	$\frac{\text{profit before extraordinary items less taxes for the financial year less minority interest}}{\text{average number of shares in issue during the year adjusted for the bonus element of share issues}}$
Price per earnings ratio, (P/E)	=	$\frac{\text{share price on the balance sheet date}}{\text{earnings per share}}$
Equity per share	=	$\frac{\text{shareholders' equity}}{\text{number of shares at 31 Dec. adjusted for the bonus element of share issues}}$
Dividend yield, %	=	$\frac{\text{dividend per share}}{\text{average share price on the balance sheet date}} \times 100$
Cash flow per share	=	$\frac{\text{cash flow}}{\text{average number of shares}}$
Market capitalisation	=	average share price on balance sheet date x number of shares

Income Statement

FIM million	Consolidated				Kesko Ltd			
	1.1.-31.12.1997		1.1.-31.12.1996		1.1.-31.12.1997		1.1.-31.12.1996	
		%		%		%		%
(1) Net Sales	34,824.1	100.0	29,278.6	100.0	23,470.5	100.0	22,249.9	100.0
(2) Other operating income	480.7	1.4	330.1	1.1	525.7	2.2	273.3	1.2
Variable costs								
Materials, supplies and products								
Purchases during the year	30,618.4		26,838.3		22,174.0		20,961.9	
Increase/decrease in stocks (-/+)	214.1		-80.7		-137.0		27.8	
(4) Personnel costs	20.8		20.7		7.2		7.5	
Other variable costs	29.4		49.7					
Gross profit	4,422.1	12.7	2,780.7	9.5	1,952.0	8.3	1,526.0	6.8
(3) Services income	896.3	2.6	906.2	3.1	1,040.6	4.4	1,042.2	4.7
Fixed costs								
(4) Personnel costs	1,768.4		1,129.3		665.2		594.1	
Rents	862.5		647.7		684.8		600.4	
Other fixed costs	1,456.1		1,046.3		1,085.0		956.4	
Operating profit before depreciation	1,231.4	3.5	863.6	2.9	557.6	2.4	417.3	1.9
(5) Depreciation on fixed assets and other capitalised expenditure	-587.0	1.7	-378.8	1.3	-216.8	0.9	-215.5	1.0
Operating profit	644.4	1.8	484.8	1.6	340.8	1.5	201.8	0.9
(6) Financial income and expenses								
Dividend income	16.5		8.8		120.7		13.5	
Interest income from non-current investments	4.9		6.1		4.9		6.1	
Other interest income	143.0		166.2		134.5		147.4	
Other financial income	21.6		82.5		20.0		82.5	
Foreign exchange profits less losses	-1.0		-1.7		0.0		0.0	
Share of profits less losses of associated companies	35.1		133.6					
Interest expenses	-114.3		-115.9		-103.4		-112.8	
Other financial expenses	-60.4		-24.1		-54.3		-22.7	
Profit before extraordinary items, provisions and taxes	689.8	2.0	740.3	2.5	463.2	2.0	315.8	1.4
(7) Extraordinary income and expenses								
Extraordinary income	7.0		321.7		111.5		496.6	
Extraordinary expenses	-12.2		-410.7		-95.0		-453.4	
Profit before provisions and taxes	684.6	2.0	651.3	2.2	479.7	2.0	359.0	1.6
Increase/decrease in accelerated depreciation (-/+)					-11.2	0.0	-158.2	0.7
(9) Increase/decrease in voluntary provisions (-/+)					495.0	2.1	214.8	1.0
Direct taxes								
For the financial year	-341.4		-180.5		-268.1		-115.5	
For previous financial years	19.9		-10.0		20.7		-10.1	
Change in deferred tax provision	160.5		19.1					
Minority interest	2.5	0.0	1.4	0.0	-247.4	1.1	-125.6	0.6
Profit for the financial year	526.1	1.5	481.3	1.6	716.1	3.0	290.0	1.3

Statement of Cash Flows

FIM million	Consolidated		Kesko Ltd	
	1.1.-31.12.1997	1.1.-31.12.1996	1.1.-31.12.1997	1.1.-31.12.1996
Operations				
Funds generated from operations				
Operating profit before depreciation	1,231.3	863.6	557.6	417.4
Financial income and expenses	45.4	255.5	122.4	114.0
Extraordinary items	-5.2	38.5	16.5	96.6
Taxes	-161.0	-171.4	-247.4	-125.6
	1,110.5	986.2	449.1	502.4
Change in working capital				
Stocks, increase/decrease (-/+)	-336.1	-676.0	-137.0	27.8
Short-term trade receivables, increase/decrease (-/+)	9.3	-2.6	86.5	210.2
Interest-free short-term debt, increase/decrease (+/-)	675.1	203.4	407.9	-155.8
	348.3	-475.2	357.4	82.2
Cash flow from operations	1,458.8	511.0	806.5	584.6
Investments				
Investments in fixed assets	-922.9	-3,977.6	-442.0	-3,690.1
Profit on the sale of fixed assets	898.5	536.4	163.0	625.5
	-24.4	-3,441.2	-279.0	-3,064.6
Cash flow before financing	1,434.4	-2,930.2	527.5	-2,480.0
Financing				
Long-term loans, increase (+)	-	159.1	-	159.4
Long-term loans, decrease (-)	-339.0	-	-385.1	-
Short-term loans, increase/decrease (+/-)	-337.1	832.7	546.9	468.7
Dividends, donations	-181.9	-172.9	-181.9	-172.9
Share issue	0	0	0	0
Other financial items	9.2	12.5	-	-
	-848.8	831.4	-20.1	455.2
According to calculation and balance sheet, increase (+), decrease (-) in cash on hand	585.6	-2,098.8	507.4	-2,024.8

Balance Sheet

FIM million	Consolidated				Kesko Ltd			
	31.12.1997		31.12.1996		31.12.1997		31.12.1996	
	%		%		%		%	
Assets								
(10) Fixed assets and other non-current investments								
(11) Intangible assets								
Corporation goodwill	426.4		197.6				211.4	
Other capitalised expenditure	471.1		305.8		181.7		211.4	
	897.5	5.9	503.4	3.4	181.7	1.4	211.4	1.7
Tangible assets								
(12) Land and water	887.1		645.5		471.1		439.9	
(13) Buildings	3,429.8		2,603.2		1,745.3		1,771.5	
(14) Machinery and equipment	1,018.3		814.9		303.3		298.8	
(15) Other tangible assets	21.1		22.2		9.5		11.7	
(16) Advance payments and construction in progress	101.3		22.4		80.6		15.0	
	5,457.6	35.5	4,108.2	27.7	2,609.8	19.7	2,536.9	20.1
(17) Financial assets and other long-term investments								
Bonds and shares	703.2		2,805.0		3,692.3		3,685.1	
Loan receivables	6.6				8.6			
	709.8	4.6	2,805.0	19.0	3,700.9	27.9	3,685.1	29.2
Current assets								
Stocks								
Finished products/goods	2,739.1	17.8	2,403.0	16.2	1,085.6	8.2	948.6	7.5
Receivables								
Trade receivables	2,786.1		2,461.8		2,277.4		2,125.7	
Loan receivables	1,157.5		1,514.1		2,027.0		2,237.3	
Prepaid expenses and accrued income	340.9		238.5		209.5		140.3	
Other receivables	35.7		115.2		18.4		115.5	
	4,320.2	28.1	4,329.6	29.2	4,532.3	34.2	4,618.8	36.6
Marketable securities								
Other securities	0.0		104.1				100.0	
Money market investments	1,069.3		281.6		1,068.8		281.6	
	1,069.3	7.0	385.7	2.6	1,068.8	8.1	381.6	3.0
Cash on hand and at bank	175.8	1.1	273.9	1.9	68.3	0.5	248.1	1.9
Assets	15,369.3	100.0	14,808.8	100.0	13,247.4	100.0	12,630.5	100.0

FIM million	Consolidated				Kesko Ltd			
	31.12.1997		31.12.1996		31.12.1997		31.12.1996	
		%		%		%		%
Liabilities								
(20) Shareholders' equity								
Restricted equity								
Share capital	902.4		902.4		902.4		902.4	
Reserve fund	1,020.5		1,020.7		1,019.0		1,019.0	
Revaluation reserve	10.8		9.6		8.5		11.0	
Other restricted reserves	11.9		11.8					
	1,945.6	12.7	1,944.5	13.1	1,929.9	14.6	1,932.4	15.3
Unrestricted equity								
Other unrestricted equity	1,792.3		1,794.4		1,447.3		1,447.3	
Retained earnings	2,224.8		1,507.3		1,232.3		1,124.2	
Transfer from provisions	1,466.1		1,874.0					
Profit for the financial year	526.1		481.3		716.1		290.0	
	6,009.3	39.1	5,657.0	38.2	3,395.7	25.6	2,861.5	22.7
(21) Provisions								
Accumulated depreciation in excess of plan					1,524.1	11.5	1,512.9	12.0
Voluntary provisions								
Other provisions					1.1		496.1	3.9
Obligatory provisions	126.8	0.8	53.2	0.4	4.1	0.0	4.8	0.0
Liabilities								
(22) Non-current liabilities								
Bonds and notes	100.0		100.0		100.0		100.0	
Bonds with warrants	3.0		1.3		1.3		1.3	
Loans from financial institutions	94.6		435.4		77.5		416.2	
Pension loans	0.1		5.1					
Deferred tax provision	589.6		743.8					
Other non-current liabilities	477.6		318.4		272.6		319.0	
	1,264.9	8.3	1,604.0	10.8	451.4	3.4	836.5	6.6
(23) Current liabilities								
Loans from financial institutions	338.7		378.8		238.7		244.1	
Advances received	87.9		86.7		82.2		28.7	
Trade payables	2,990.2		2,817.7		2,543.8		2,343.6	
Accrued liabilities and deferred income	843.0		522.5		484.8		286.4	
Other current liabilities	1,583.4		1,699.6		2,591.6		2,083.5	
	5,843.2	38.0	5,505.3	37.2	5,941.1	44.9	4,986.3	39.5
Minority interest	179.5	1.1	44.8	0.3				
Liabilities	15,369.3	100.0	14,808.8	100.0	13,247.4	100.0	12,630.5	100.0

Notes to the financial statements

Accounting policies

Principles of consolidation

The consolidated financial statements include Kesko Ltd and all subsidiaries, including 52 real estate companies. From 1 January 1997, Hämeenkyllän Kauppa Oy (former Tuko Oy), Anttila Oy and Rautia Oy have been treated as subsidiaries, whereas they were treated as associated companies in the financial statements for 1996 due to the EU examination.

The inter-company shareholdings have been eliminated by using the acquisition method. The minority interests have been separated from the financial statements of individual subsidiaries and disclosed separately from shareholders' equity.

The Corporation's provisions have been transferred to deferred tax and unrestricted equity.

The 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 companies Carrols Oy, K-Plus Oy and Sincera Oy were established. Ulko Baltic AS, Femex Baltic AS, 000 Leipurien Tukku and Metex CZ s.r.o. were established in the Kaukomarkkinat Group. Three real estate companies were formed in the Hämeenkyllän Kauppa Group. ZAO Kesfood was established to operate as Kesko Export Ltd's subsidiary. During the financial year, Academica Oy and three real estate companies were acquired. Carrols Oy purchased Sentra Eesti AS. K-yhtiöt Oy purchased Kauppiaitten Kustannus Oy. Kesko Ltd acquired a minority shareholding in Kesthom Oy. Kauppiaiden Komedio Oy and its subsidiary Proidea Oy started to operate as K-yhtiöt Oy's subsidiary. Kiinteistö Oy Vantaanportin Liikekeskus became Kesko's associated company. The subsidiaries sold were Pekka Kalmi Oy, Leena Turunen Oy and three business real estate companies. Hämeenkyllän Kauppa Oy's subsidiaries Suomen Spar Oy, TukoSpar Oy, 36 real estate companies and 44 business real estate associated companies were sold. The associated companies sold were Suomen Osakaskiinteistöt Oy and Vesni Italia S.R.L. Three real estate companies were merged with Kesko and one company was dissolved. Four companies were dissolved at Kaukomarkkinat Oy: Tuko Oy's name was changed to Hämeenkyllän Kauppa Oy, Finlands Rich Coffee Ab became Suomen Rich Coffee Oy (Finnish Rich Coffee Ltd), K-rahoitus Oy became Valluga-sijoitus Oy and V.E.E. Co. Ltd became Kesko Shoes (Asia) Co., Limited.

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 1997 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 those domestic and foreign banks and financial institutions that 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 spread in fixed and floating rate instruments in order to hedge against the negative effects caused by varying interest rates. Derivative instruments are also 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 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

Pension costs are included in personnel costs in the income statement. Contributions to the Kesko Pension Fund for statutory and supplementary pension benefits, equivalent to 17% of the relevant wages and salaries, and provided for Kesko Ltd's employees, are charged in the income statement. The difference between the actuarially advised and actual contributions are included in extraordinary items. Pension coverage for employees of subsidiaries is arranged mainly by the Pension Foundation for Trade. The Pension Foundation was dissolved on 31 December 1997, and the payment of pensions and the pension liabilities were transferred to pension insurance companies. 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

The depreciation on vehicles rented out is based on foreseeable useful lives and net realisable values. Land is not depreciated.

The goodwill arising from the Kaukomarkkinat Group and Anttila Oy will be amortized within fifteen years on a straight line basis. The goodwill of Carrols Oy will be amortized within seven years and that of Kauppiaitten Kustannus Oy within five years.

The plan depreciation and the depreciation accumulated in excess of plan comply with the Finnish tax legislation. The depreciation accumulated in excess of plan has been treated as appropriations in the parent company, and included in deferred tax provision and equity in the Corporation.

Stocks

The stocks are stated at the 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 483.4 million in the Corporation, compared with FIM 468.4 million in the previous year. In the parent company, the corresponding figures were FIM 414.2 million and FIM 392.2 million. In the Corporation, the bad debt amounted to FIM 0.3 million, compared with FIM 11.4 million in 1996. In the parent company, the bad debt was FIM 0.9 million, and FIM 15.4 million in the previous year. Other adjustments to sales, distributing expenses, commissions and excise taxes included in net sales amounted to FIM 452.2 million, (FIM 226.0 million in 1996).

2. Other operating income

Other operating income includes rent income, advertising support and other recurrent income, and profits on the sale of real estate and shares amounting to FIM 122 million.

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.

FIM million	Corporation		Kesko Ltd	
	1997	1996	1997	1996
(4) Personnel costs, variable and fixed total				
Wages and salaries	1,440.6	906.4	536.1	465.2
Pension costs	208.9	137.1	74.5	77.4
Other indirect employee costs	139.8	106.5	61.8	59.0
Total	1,789.3	1,150.0	672.4	601.6
Fringe benefits	25.2	19.4	10.9	11.0
Total	1,814.5	1,169.4	683.3	612.6
Personnel costs of net sales, %	5.2	4.0	2.9	2.8
Remuneration of the Supervisory Board, the Boards of Directors and the Managing Directors	0.4 28.2	0.6 21.7	0.4 10.3	0.6 9.5
(5) Plan depreciation				
Other capitalised expenditure	89.1	64.4	45.2	43.1
Buildings	158.3	98.0	76.1	71.3
Machinery and equipment	302.7	203.4	93.4	98.8
Other tangible assets	0.0	3.1	2.1	2.3
Corporation goodwill	36.9	9.9	-	-
Total	587.0	378.8	216.8	215.5
Change in accelerated depreciation	-	-	-	-
Other capitalised expenditure	-	-	-0.3	-12.5
Buildings	-	-	30.8	-162.2
Machinery and equipment	-	-	-32.3	16.1
Other tangible assets	-	-	0.6	0.4
Advance payments and construction in progress	-	-	-10.0	-
Shares	-	-	-	50.0
Cancellation of accelerated depreciation on shares	-	-	-	-50.0
Total	-	-	-11.2	-158.2
Under Finnish tax legislation, the maximum permitted depreciation	452.1	312.7	150.2	168.0
(6) Inter-company financial income and expenses				
Financial income received from subsidiaries				
Dividend income	-	-	106.7	0.3
Other financial income	-	-	33.4	37.4
Interest expenses	-	-	-21.2	-11.9
(7) Extraordinary income and expenses				
Profits on the sale of fixed assets	-	283.2	-	354.0
Difference between the actual and actuarial pension costs	-	38.5	-	38.1
Contributions from subsidiaries	-	-	111.5	104.5
Returned guarantee losses	2.6	-	-	-
Items for discontinued business operations	4.4	-	-	-
Total	7.0	321.7	111.5	496.6
Loss on the sale of fixed assets	-	-10.7	-	-1.4
Amortization on goodwill	-	-400.0	-	-400.0
Contributions to subsidiaries	-	-	-95.0	-52.0
Change in pension liabilities	-9.3	-	-	-
Items for discontinued business operations	-2.9	-	-	-
Total	-12.2	-410.7	-95.0	-453.4
Total extraordinary income and expenses	-5.2	-89.0	16.5	43.2
(8) Change in obligatory provisions				
Rent expenses for vacant business premises	21.5	-0.5	-0.4	-0.4
Guarantee losses	4.8	-0.2	-	-
Guarantee provisions	0.7	6.7	-0.3	1.0
Supplementary pension liabilities	-7.8	11.4	-	-
Expenses for discontinued business operations	54.4	-	-	-
Court proceedings	0.0	9.0	-	-
Total	73.6	26.4	-0.7	0.6

notes to the financial statements

FIM million	Corporation		Kesko Ltd	
	1997	1996	1997	1996
(9) Change in voluntary provisions				
Acquisitions reserve	-	-	1.2	-0.8
Transition reserve	-	-	493.9	215.6
Total	-	-	495.1	214.8
(10) Revaluation amounts included in fixed assets				
Revaluations				
Land	3.6	5.0	3.6	5.0
Buildings	2.3	-	-	-
Shares	4.5	4.6	4.8	6.0
Total	10.4	9.6	8.4	11.0
Tax values				
Land	443.7	316.2	246.0	220.7
Buildings	1,816.9	1278.7	930.9	828.4
Investments	608.1	767.4	388.1	707.2
Investments in subsidiaries	-	-	1,673.1	1,050.8
(11) Corporation goodwill				
Goodwill at 1.1.	229.7	-	-	-
Increases 1.1.-31.12.	261.9	229.7	-	-
Decreases 1.1.-31.12.	-3.3	-	-	-
Goodwill at 31.12.	488.3	229.7	-	-
Accumulated depreciation 31.12.	-61.9	-32.1	-	-
Goodwill at 31.12.	426.4	197.6	-	-
Other capitalised expenditure				
Acquisition cost at 1.1.	570.0	470.6	405.4	354.9
Increases 1.1.-31.12.	522.3	119.5	31.9	51.6
Decreases 1.1.-31.12.	-77.1	-20.1	-16.5	-1.1
Acquisition cost at 31.12.	1,015.1	570.0	420.8	405.4
Accumulated depreciation at 31.12.	-544.1	-264.2	-239.1	-194.0
Net book value at 31.12.	471.0	305.8	181.7	211.4
(12) Land and water				
Acquisition cost at 1.1.	645.5	556.5	439.9	379.7
Increases 1.1.-31.12.	396.9	105.8	46.6	74.2
Decreases 1.1.-31.12.	-155.3	-16.8	-15.4	-14.0
Net book value at 31.12.	887.1	645.5	471.1	439.9
(13) Buildings				
Acquisition cost at 1.1.	3,382.1	2,818.1	2,283.9	2,014.0
Increases 1.1.-31.12.	2,331.8	639.8	78.0	306.2
Decreases 1.1.-31.12.	-1,049.6	-75.8	-46.7	-36.3
Acquisition cost at 31.12.	4,664.3	3,382.1	2,315.2	2,283.9
Accumulated depreciation at 31.12.	-1,234.5	-778.9	-569.9	-511.9
Net book value at 31.12.	3,429.8	2,603.2	1,745.3	1,771.9
Fire insurance value of buildings	4,307	4,131	3,078	3,051
(14) Machinery and equipment				
Acquisition cost at 1.1.	2,206.0	1,792.2	1,140.0	1,036.0
Increases 1.1.-31.12.	1,209.2	526.6	98.0	104.0
Decreases 1.1.-31.12.	-196.2	-112.8	-	-
Acquisition cost at 31.12.	3,219.0	2,206.0	1,238.0	1,140.0
Accumulated depreciation at 31.12.	-2,200.7	-1,391.1	-934.7	-841.3
Net book value at 31.12.	1,018.3	814.9	303.3	298.7
(15) Other tangible assets				
Acquisition cost at 1.1.	43.5	37.7	25.5	23.6
Increases 1.1.-31.12.	2.9	6.5	0.1	2.3
Decreases 1.1.-31.12.	-2.0	-0.7	-0.3	-0.4
Acquisition cost at 31.12.	44.4	43.5	25.3	25.5
Accumulated depreciation at 31.12.	-23.2	-21.3	-15.8	-13.7
Net book value at 31.12.	21.2	22.2	9.5	11.8

FIM million	Corporation		Kesko Ltd	
	1997	1996	1997	1996
(16) Advance payments and construction in progress				
Acquisition cost at 1.1.	22.4	50.6	15.0	32.0
Increases 1.1.-31.12.	158.9	188.1	137.9	180.7
Decreases 1.1.-31.12.	-80.0	-216.3	-72.3	-197.7
Acquisition cost at 31.12.	101.3	22.4	80.6	15.0
(17) Financial assets and other long-term investments				
Shares	703.2	2,805.0	3,692.3	3,685.1
Loan receivables	6.6	-	8.6	-
Total	709.8	2,805.0	3,700.9	3,685.1

The register of shareholdings referred to in § 11.8 of the Companies Act and in the Accounting Act is annexed to the financial statements. In 1997 the shareholdings in listed companies amounted to FIM 65 million (FIM 102 million in 1996), market value FIM 81 million. Major shareholdings in listed companies were Kiinteistösjointus Oy Citycon, Helsingin Puhelin Oy J E and Merita Plc A. The book value of the shareholdings in real estate companies (95 business premises) was FIM 545 million.

Companies owned by the Corporation and the parent company

	Corporation's shareholding %	Corporation's voting rights %	Corporation's share of equity, FIM million	Parent company's shareholding	Shares held by the parent company		Profit/loss shown in the latest financial statements, FIM million	
					Quantity	Book value FIM million		
Subsidiaries								
S.J.Aalto Oy	90.0	90.0	2.2	90.0	90	0.9	0.9	0.5
Academica Oy	100.0	100.0	1.8	100.0	700	0.7	5.1	0.4
Aleksi 13 Oy	100.0	100.0	12.0	100.0	10,000	10.0	17.6	1.0
Anttila Oy (Group)	100.0	100.0	195.0	100.0	20,324,844	101.6	433.3	21.5
Carrols Oy (Group)	100.0	100.0	8.7	100.0	1,000	10.0	10.0	-1.3
Golf Talma Oy	76.8	76.8	33.0	16.6	806	4.0	33.6	-1.0
Hämeenkyllän Kauppa Oy (Group)	99.7	99.7	1,638.4	99.7	81,746,054	408.7	1,646.3	693.1
Kaukomarkkinat Oy (Group)	100.0	100.0	372.7	100.0	2,085,320	208.5	499.0	49.2
Kauppiaiden Komedio Oy (Group)	69.6	68.8	18.5	-	274	0.3	6.3	2.3
Kauppiaitten Kustannus Oy	91.0	91.0	44.5	-	3,640	0.4	134.9	16.7
Kesko Eesti A/S	100.0	100.0	1.1	100.0	145	1.4 EEK	4.6	0.5
Kesko Export Ltd (Group)	100.0	100.0	5.7	100.0	300	3.0	3.0	1.5
Kesko Shoes (Asia) Co., Limited	98.0	98.0	-0.1	-	49	0.0 HKD	0.2	-0.1
Kesko Svenska AB	100.0	100.0	5.7	100.0	800	8.0 SEK	5.2	0.3
Kesped Ltd	100.0	100.0	11.3	100.0	300	3.0	3.0	2.7
Kesthom Oy (Group)	100.0	100.0	1.6	100.0	10,500	10.5	10.5	-3.6
Kestra Kiinteistöpalvelut Oy	100.0	100.0	1.4	100.0	100	1.0	1.0	0.1
K-instituutti Oy	90.0	90.0	11.6	90.0	990	9.9	9.9	-0.6
K-konerahoitus Oy	99.9	99.9	62.9	-	2,121,386	21.2	35.6	7.4
K-linkki Oy	100.0	100.0	21.5	100.0	2,000	20.0	20.0	0.1
K-Luotto Oy	98.3	98.3	23.4	98.3	11,800	11.8	11.8	4.0
K-maatalousyhtiöt Oy	100.0	100.0	19.9	-	500	5.0	5.0	9.9
K-Cash & Carry Ltd	100.0	100.0	152.9	100.0	10,000	100.0	100.0	23.2
K-Plus Oy	100.0	100.0	2.4	100.0	200	2.0	2.0	0.4
K-yhtiöt Oy	100.0	100.0	879.1	100.0	2,200	44.0	44.0	133.6
MK-mainos Oy	90.0	90.0	7.1	-	216	2.2	2.5	2.1
Motorfeet Ltd	100.0	100.0	1.0	100.0	100	0.0	1.2	-0.6
Antti Pehkonen Oy	90.0	90.0	2.2	90.0	900	0.9	0.9	0.5
Sincera Oy	100.0	100.0	20.1	100.0	2,000	20.0	20.0	0.1
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	1.8	100.0	1,000	1.0	1.0	0.1
SV-Tietopalvelu Oy	100.0	100.0	2.6	-	50	0.0	12.7	0.5
Tietokesko Oy	100.0	100.0	16.1	100.0	1,000	10.0	10.0	0.9
Viking Coffee Ltd	100.0	100.0	36.8	100.0	3,000	30.0	39.5	6.5
VV-Auto Oy (Group)	99.9	99.9	193.5	-	8,395,628	42.0	43.3	20.2
Associated companies								
Center-yhtiöt Oy (Group)	48.5	38.0	41.2	-	99,450	9.9	43.5	28.6
Kiinteistösjointus Oy Citycon	26.4	26.4	73.9	26.4	7,946,000	79.5	55.6	5.1
Kivinokka Oy	48.0	48.0	7.2	47.0	18,847	2.8	11.8	5.8
Valluga-sijoitus Oy	39.0	39.0	8.7	-	2,574	2.6	2.6	0.7
Vaajakosken Tulitikkutehdas Oy in liquidation	33.3	33.3	0.7	-	5	0.5	1.2	0.0
Viking Fruit AB (Group)	33.3	33.3	5.3	33.3	13,333	1.3 SEK	1.3	1.4
Vähittäiskaupan Takaus Oy	30.0	30.0	28.6	30.0	120,088	1.2	3.4	37.7

notes to the financial statements

FIM million	Corporation		Kesko Ltd	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
(18) Other non-current investments/subsidiaries and associated companies				
Subsidiaries				
Shares	-	-	3,070.0	971.6
Loan receivables	-	-	8.6	-
Associated companies				
Shares	-	-	454.8	2,476.2
(19) Receivables and debt/subsidiaries and associated companies				
Trade receivables / subsidiaries	-	-	266.4	269.4
Trade receivables / associated companies	-	-	19.1	0.3
Loan receivables / subsidiaries	-	-	896.6	734.3
Loan receivables / associated companies	-	-	732.2	1,089.8
Prepaid expenses and accrued income / subsidiaries	-	-	18.7	11.1
Other receivables / subsidiaries	-	-	0.3	72.2
Other long-term debt / subsidiaries	-	-	1.6	4.4
Advances received / subsidiaries	-	-	61.6	13.1
Advances received / associated companies	-	-	1.5	1.9
Trade payables / subsidiaries	-	-	105.1	108.7
Trade payables / associated companies	-	-	11.9	5.5
Accrued liabilities and deferred income / subsidiaries	-	-	36.8	18.0
Other current liabilities / subsidiaries	-	-	1,226.0	463.4
Other current liabilities / associated companies	-	-	62.7	245.4
(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.	1,020.7	1,020.9	1,019.0	1,019.0
Change in reserve fund	-0.2	-0.2	-	-
Reserve fund at 31.12.	1,020.5	1,020.7	1,019.0	1,019.0
Revaluation reserve at 1.1.	9.6	10.3	11.0	11.7
Change in revaluation reserve	1.2	-0.7	-2.5	-0.7
Revaluation reserve at 31.12.	10.8	9.6	8.5	11.0
Other reserves at 1.1.	11.8	11.8	-	-
Change in other reserves 1.1.	0.1	0.0	-	-
Other reserves at 31.12.	11.9	11.8	-	-
Restricted equity at 31.12.	1,945.6	1,944.5	1,929.9	1,932.4
Unrestricted equity at 1.1.	5,657.0	5,335.0	2,861.5	2,744.4
Dividends distributed	-180.4	-171.4	-180.4	-171.4
Transfer to donation funds	-1.5	-1.5	-1.5	-1.5
Taxes for previous financial years	-	0.0	-	-
Goodwill written off	-	-17.7	-	-
Adjustment for associated companies	4.7	5.3	-	-
Other changes	0.0	0.4	-	-
Transfer from provisions	3.4	25.6	-	-
Profit for the financial year	526.1	481.3	716.1	290.0
Unrestricted equity at 31.12.	6,009.3	5,657.0	3,395.7	2,861.5
Distributable reserves	4,543.2	3,783.0	3,395.7	2,861.5
(21) Provisions				
Accumulated depreciation in excess of plan	-	-	1,524.1	1,512.9
Voluntary provisions				
Acquisitions reserve	-	-	1.1	2.3
Transition reserve	-	-	-	493.8
Total	-	-	1,525.2	496.1
Deferred tax corresponding to provisions	589.6	743.8	427.0	562.5

FIM million	Corporation		Kesko Ltd	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Obligatory provisions				
Rent expenses for vacant business premises	21.9	0.4	0.0	0.4
Guarantee losses	6.3	1.5	-	-
Guarantee provisions	31.6	30.9	4.1	4.4
Supplementary pension liabilities	3.6	11.4	-	-
Expenses for discontinued business operations	54.4	-	-	-
Court proceedings	9.0	9.0	-	-
Total	126.8	53.2	4.1	4.8
(22) Non-current liabilities				
Liabilities due after five years				
Loans from financial institutions	1.2	304.3	-	300.0
Pension loans	-	5.1	-	-
Other non-current liabilities	100.0	-	100.0	-
Total	101.2	309.4	100.0	300.0
K-rebate liabilities, of which FIM 40.9 million short-term (FIM 61.5 million in 1996)	311.9	361.0	313.6	365.4
Marketing discount liabilities, of which FIM 6.0 million short-term (FIM 27.0 million in 1996)	6.0	42.1	6.1	43.0
Bonds and notes				
		Interest		
Debenture				
1985-1995 FIM 250.0 million	12%	-	-	
of which FIM 0.4 million short-term (FIM 0.6 million in 1996)				
Bonds				
1993-2003 FIM 100.0 million	6.25%	100.0	100.0	100.0
Bonds with warrants				
1996-2002 FIM 1.3 million	4%	1.3	1.3	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.				
1994- FIM 1.7 million	8%	1.7	1.7	-
Tuko Oy's subordinated bonds with warrants. Subscription period 3.6.1994-3.6.2001. Number of shares to be subscribed 37,644.				
Convertible bonds				
1989-1994 FIM 125.0 million	5%	-	-	-
of which FIM 0.1 million short-term (FIM 0.2 million in 1996)				
Debt denominated in foreign currencies, of which FIM 419.4 million short-term (FIM 527.4 million in 1996)		419.4	533.0	305.7
(23) Current liabilities				
Interest-free debt	4,817.9	4,297.1	3,581.4	3,309.5
(24) Contingent liabilities				
Pledges given				
For own debt	488	598	484	594
For associated companies	-	-	-	-
For subsidiaries	-	-	-	20
For shareholders	-	-	-	-
For management	-	-	-	-
For others	-	-	-	-

notes to the financial statements

FIM million	Corporation		Kesko Ltd	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Mortgages given				
For own debt	453	472	58	354
For associated companies	-	-	-	-
For subsidiaries	-	-	120	30
For shareholders	-	-	-	-
For management	-	-	-	-
For others	-	-	-	-
Guarantees				
For own debt	-	-	-	-
For associated companies	-	-	-	-
For subsidiaries	-	-	122	282
For shareholders	5	2	5	2
For management	-	-	-	-
For others	32	14	13	6
Other commitments				
For own debt	25	2	1	-
For associated companies	-	-	-	-
For subsidiaries	-	-	220	-
For shareholders	-	-	-	-
For others	-	-	-	-
Leasing liabilities	7	3	2	2

Liabilities arising from derivative instruments

	Corporation				Kesko Ltd			
		Market value	Market value		Market value	Market value		Market value
	1997	1997	1996	1996	1997	1997	1996	1996
Value of underlying instruments 31.12.								
Interest rate derivative instruments								
Forward rate agreements	560	-7.4	1,900	-1	560	-7.4	1,900	-1
Option agreements								
Bought	150	0.1	-	-	100	0.1	-	-
Written	-	-	-	-	-	-	240	0
Interest rate swaps	50	-0.3	-	-	50	-0.3	-	-
Currency derivative instruments								
Forward exchange contracts	550	7.2	405	0.0	234	0.9	254	0
Option agreements								
Bought	57	1.2	47	0.0	26	0.6	23	0
Written	8	-0.2	13	0.0	-	-	-	-
Currency swaps	-	-	-	-	-	-	-	-

The market values reflect the operational performance, and they have been included in the income statement. The nominal values reflect trading volumes.

(25) Provisions related to the sale of real estate properties

Price adjustment mechanisms in 2007 are connected with the sale of the real estate properties used for Tuko's daily consumer goods business and sold on 7 February 1997. They are not expected to have any essential financial effect on the Corporation's financial position.

(26) Pension Fund, Pension Foundation and Sickness Fund

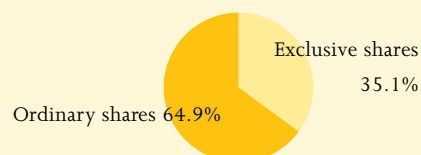
The Kesko Pension Fund provides personnel with statutory and supplementary pensions. The Kesko Pension Fund paid FIM 134.6 million in statutory pension benefits, an increase of 5.1% compared with the previous year. Supplementary pensions totalled FIM 56.1 million, an increase of 2.0% compared with 1996. On 31 December 1997, the pension funds totalled FIM 2,000.5 million, of which the statutory liabilities deficit was FIM 7.8 million. All pension liabilities except the statutory liabilities deficit are fully funded. At the end of 1997, the number of retired employees was 2,645.

The statutory pension benefits of Kesko's subsidiaries were provided by the Pension Foundation for Trade until the end of 1997. It paid out FIM 14.4 million in pension benefits and FIM 91.9 million towards the pension benefits provided jointly with pension institutions. On 31 December 1997, the pension funds totalled FIM 202.6 million, of which the statutory liabilities deficit was FIM 0.4 million. All pension liabilities except the statutory liabilities deficit are fully funded. The Pension Foundation for Trade was dissolved on 31 December 1997. The arrangement of pension benefits to subsidiaries and the accrued pension liabilities fund were transferred to Pension Varma (FIM 174.1 million) and to Pension Sampo (FIM 28.2 million).

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 1997 these benefits amounted to FIM 20.8 million, which was 5.4% more than in the previous year.

Share capital and shareholders

Breakdown of share capital



On 31 December 1997, Kesko's share capital was FIM 902,434,000. The nominal value of each share is FIM 10. A total of 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. Kesko Ltd's Board of Directors has decided to decrease the company's share capital by the amount corresponding to the nominal value of the redeemed shares, i.e. by FIM 300,000 to FIM 902,134,000.

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. The category of share can be converted under the conditions given in the Articles of Association.¹

Exclusive shares are subject to an approval clause. Exclusive shares are registered in the list of shareholders under the names of retailers and retailing businesses. The share of other shareholders are registered in the list of shareholders as ordinary shares. At the end of 1997, the issued share capital consisted of 31,652,790 exclusive shares and 58,560,610 ordinary shares. Ordinary shares are quoted on the Helsinki Stock Exchange.¹

The bonds with warrants totalling FIM 1,325,000 and issued to the company management entitle them to subscribe to a maximum of 1,325,000 ordinary shares of Kesko Ltd at a unit price of FIM 59.50. 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 year during which the shares were subscribed and paid for. The nominal value of the shares to be subscribed does not exceed FIM 13,250,000 and they give entitlement to a maximum of 0.04% of the total voting rights.

The company has not issued any other convertible bonds or bonds with warrants, and the Board of Directors has no authorization to issue such bonds or warrants or to issue shares.

Shareholders

According to the register of Kesko's shareholders kept by the Finnish Central Securities Depository Ltd, there were 24,292 registered shareholders on 31 December 1997. The total number of shares registered in a nominee name was 13,568,515, accounting for 15.04% of the share capital. The theoretical number of votes entitled by these shares was 1,354 or 0.37% of the total voting rights.

At 31 December 1997, the members and deputy members of Kesko's Supervisory Board, and the members of the Board of Directors, and the Chairman and Chief Executive held a total of 314,470 shares, representing 0.35% of the total share capital and 0.71% of the total voting rights. At 31 December 1997, the members and deputy members of Kesko's Supervisory Board, and the members of the Board of Directors, and the Chairman and Chief Executive held a total of 20.75% of the warrants issued by the Company, on the basis of which they are entitled to a maximum of 275,000 shares, or 0.28% of the total share capital and 0.01% of the total voting rights.

During the financial year, no notifications in accordance with § 2:9 of the Securities Market Act were made to the company.

¹ Regulations in the Articles of Association concerning share categories:

§ 4 The share capital is divided into exclusive shares and ordinary shares. The maximum number of exclusive shares is 250 million pcs and the maximum number of ordinary shares 250 million pcs, provided that the combined number of both share categories does not exceed 360 million pcs.

The holders of exclusive and ordinary shares are entitled to exercise their voting right at a General Meeting as specified in § 15 of these Articles of Association.

When increasing the share capital, the holders of exclusive shares have pre-emptive rights to subscribe to new exclusive shares and, correspondingly, the holders of ordinary shares have pre-emptive rights to subscribe to new ordinary shares.

When increasing the share capital by a rights issue, and the basis for subscription is other than shareholding, it is possible to offer either exclusive shares or ordinary shares, or both share categories, for subscription. Such decision made by a General Meeting is valid only if the decision has been supported by 2/3 of the votes given and 2/3 of the shares represented in the meeting.

§ 5 The purchase of the company's exclusive shares by assignment requires approval by the company's Board of Directors. Approval shall be given if the prospective shareholder is an active retailer or a retailing company or if such shareholder already holds an exclusive share entered into the register of shareholders under his name.

No approval is required if the transfer of a share is based on inheritance, testament or marital rights or if it has been purchased in a compulsory auction or bankrupt's estate.

If approval is not granted, the company's Board of Directors shall convert the assigned exclusive share to an ordinary share unless the shareholder has otherwise requested in writing when applying for approval.

The company's Board of Directors may convert an exclusive share to an ordinary share upon application. The company's Board of Directors is entitled to convert an ordinary share to an exclusive share if the share is held by an active retailer or a retailing company.

§ 15 Each holder of exclusive shares registered in the share register is entitled to vote at a General Meeting in accordance with the number of his shares registered in the share register as follows:

1-5 shares 1 vote, 6-10 shares 2 votes, 11-20 shares 3 votes, 21-40 shares 4 votes, 41-65 shares 5 votes, 66-100 shares 6 votes and an additional vote for each subsequent holding of 100 shares.

A holder of ordinary shares is entitled to vote in accordance with the number of his ordinary shares registered in the share register:

1 vote on a holding of 1-10,000 shares, and one additional vote on each subsequent holding of 10,000 shares.

share capital and shareholders

Latest increases in share capital

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

The 20 main shareholders by number of shares at 31 December 1997

	Number of shares	% of shares	% of votes
1 Merita Bank Plc	12,967,915	14.37	0.35
2 Kesko Pension Fund	3,520,705	3.90	9.32
3 Pension Insurance Company Ilmarinen	3,035,000	3.36	0.08
4 Vähittäiskaupan Takaus Oy	2,378,533	2.64	6.51
5 The K-Retailers' Association	2,191,239	2.43	5.97
6 The Finnish Local Government Pensions Institution	2,059,600	2.28	0.06
7 Valluga-Sijoitus Oy	1,669,510	1.85	4.57
8 Suomi Mutual Life Insurance Company	1,450,000	1.61	0.04
9 Insurance Company Pohjola	1,428,500	1.58	0.04
10 Paulig Ltd	1,063,320	1.18	0.03
11 A. Ahlström Corporation	925,000	1.03	0.03
12 Pension Varma Mutual Insurance Company	752,820	0.83	0.02
13 Life Insurance Company Pohjola	705,400	0.78	0.02
14 Foundation for Voc. Training in the Retail Trade	646,105	0.72	1.36
15 Pension Foundation Polaris Pensionsstiftelse Sr.	630,000	0.70	0.02
16 Oy Stockmann Ab	617,000	0.68	0.02
17 Pension Sampo Insurance Company Limited	568,800	0.63	0.02
18 Kaleva Mutual Insurance Company	485,000	0.54	0.01
19 Sampo Insurance Company Limited	450,000	0.50	0.01
20 Sampo Enterprise Insurance Company Limited	450,000	0.50	0.01

The 20 main shareholders by number of votes at 31 December 1997

	Number of votes	% of votes	Number of shares	% of shares
1 Kesko Pension Fund	34,060	9.32	3,520,705	3.90
2 Vähittäiskaupan Takaus Oy	23,790	6.51	2,378,533	2.64
3 The K-Retailers' Association	21,799	5.97	2,191,239	2.43
4 Valluga-Sijoitus Oy	16,700	4.57	1,669,510	1.85
5 Foundation for Voc. Training in the Retail Trade	4,951	1.36	646,105	0.72
6 Kivinkokka Oy	2,852	0.78	284,780	0.32
7 Lasse Aaltonen Oy	2,800	0.77	311,770	0.35
8 Penttinen Veli Ky	2,596	0.71	267,420	0.30
9 A Toivakka Oy	1,921	0.53	211,450	0.23
10 Hannu Aaltonen Oy	1,641	0.45	217,130	0.24
11 Ruokajätti Kalevi Sivonen Oy	1,386	0.38	197,500	0.22
12 Merita Bank Plc	1,296	0.35	12,967,915	14.37
13 Vesa Laakso Oy	1,261	0.35	125,600	0.14
14 Sundman & Co - Holding Oy Ab	1,113	0.30	110,802	0.12
15 Pekka Huovila Oy	1,059	0.29	105,430	0.12
16 Lammela Oy	1,052	0.29	104,780	0.12
17 Järvenpään K-Tavaratalo Kauppamies Oy	1,021	0.28	101,650	0.11
18 Kotihalli Oy	967	0.26	116,000	0.13
19 Jutor Oy	967	0.26	118,000	0.13
20 K-Tavaratalo Länsitori Simo Lignell Oy	926	0.25	92,120	0.10

Analysis of shareholders at 31 December 1997

	Number of shares	% of all shares
All shares		
Private enterprises	23,945,323	26.54
Public companies	415,731	0.46
Financial and insurance institutions	14,021,565	15.54
General government	9,573,580	10.61
Non-profit institutions	4,753,684	5.27
Households	22,859,143	25.34
Foreigners (incl. nominee registrations)	13,786,057	15.28
On waiting list	700,061	0.78
Not transferred to book-entry securities system	158,256	0.18
	90,213,400	100.00

	Number of shares	% of exclusive shares	% of all shares
Exclusive shares			
Private enterprises	16,546,139	52.28	18.34
Public companies	0	0	0
Financial and insurance institutions	1,669,510	5.28	1.85
General government	3,406,275	10.76	3.78
Non-profit institutions	766,313	2.42	0.85
Households	8,427,570	26.63	9.34
Foreigners (incl. nominee registrations)	72,350	0.23	0.08
On waiting list	692,841	2.19	0.77
Not transferred to book-entry securities system	68,112	0.22	0.08
	31,649,110	100.01	35.09

		% of ordinary shares	
Ordinary shares			
Private enterprises	7,399,184	12.63	8.20
Public companies	415,731	0.71	0.46
Financial and insurance institutions	12,352,055	21.09	13.69
General government	6,167,305	10.53	6.84
Non-profit institutions	3,987,371	6.81	4.42
Households	14,431,573	24.64	16.00
Foreigners (incl. nominee registrations)	13,713,707	23.42	15.20
On waiting list	7,220	0.01	0.01
Not transferred to book-entry securities system	90,144	0.15	0.10
	58,564,290	100.00	64.92

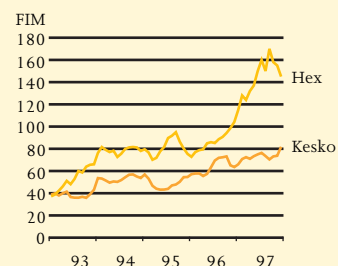
Shareholders by size of holding at 31 December 1997

All shares				
Number of shares	Number of shareholders	% of holders of all shareholders	Total of shares	% of all shares
1 - 100	5,171	21.29	265,745	0.29
101 - 500	8,438	34.75	2,281,432	2.53
501 - 1,000	3,915	16.12	2,987,517	3.31
1,001 - 5,000	5,119	21.08	11,387,719	12.62
5,001 - 50,000	1,495	6.16	19,390,001	21.49
50,001 -	147	0.61	53,042,669	58.8
Total	24,285	100.00	89,355,083	99.05
On waiting list			700,061	0.78
Not transferred to book-entry securities system			158,256	0.18
Grand total			90,213,400	100.00

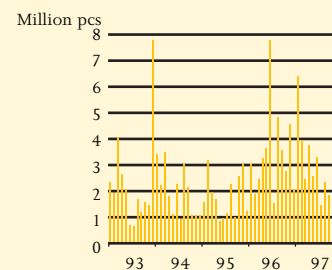
Exclusive shares				
Number of shares	Number of shareholders	% of holders of exclusive shares	Total of exclusive shares	% of exclusive shares
1 - 100	494	10.55	25,633	0.08
101 - 500	803	17.15	228,610	0.72
501 - 1,000	638	13.63	515,044	1.63
1,001 - 5,000	1,837	39.24	4,533,836	14.33
5,001 - 50,000	853	18.22	10,780,050	34.06
50,001 -	57	1.22	14,804,984	46.78
Total	46,821	100.00	30,888,157	97.6
On waiting list			692,841	2.19
Not transferred to book-entry securities system			68,112	0.22
Grand total			31,649,110	100.00

Ordinary shares				
Number of shares	Number of shareholders	% of holders of ordinary shares	Total of ordinary shares	% of ordinary shares
1 - 100	5,319	24.85	272,808	0.47
101 - 500	8,285	38.71	2,215,980	3.78
501 - 1,000	3,538	16.53	2,672,861	4.56
1,001 - 5,000	3,520	16.45	7,273,993	12.42
5,001 - 50,000	649	3.03	8,420,709	14.38
50,001 -	92	0.43	37,610,575	64.22
Total	21 4031	100.00	58 466,926	99.83
On waiting list			7,220	0.01
Not transferred to book-entry securities system			90,144	0.15
Grand total			58,564,290	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	716,125,018.30
Retained profit brought forward from previous years on 31 December 1997	FIM	1,232,269,678.16
	FIM	<u>1,948,394,696.46</u>

The Board of Directors proposes that a dividend of FIM 3.00 per share be declared on all shares, amounting to	FIM	270,640,200.00
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	1,676,254,496.46
	FIM	<u>1,948,394,696.46</u>

Helsinki, 17 February 1998

Eero Kinnunen

Matti Honkala

Timo Karake

Jouko Tuunainen

Matti Halmesmäki

Auditors' Report

To Kesko Ltd's shareholders

We have examined Kesko Ltd's accounting records, financial statements and administration for the financial period from 1 January to 31 December 1997. The statements prepared by the Board of Directors and the Chairman and Chief Executive include the Report by the Board of Directors, 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, 5 March 1998

SVH Coopers & Lybrand Oy
Certified Public Accountants
Antti Helenius, CPA

Mauno Tervo, CPA

Statement by the Supervisory Board

The Supervisory Board has reviewed the financial statements for 1997 for Kesko Ltd and for 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.

Helsinki, 5 March 1998

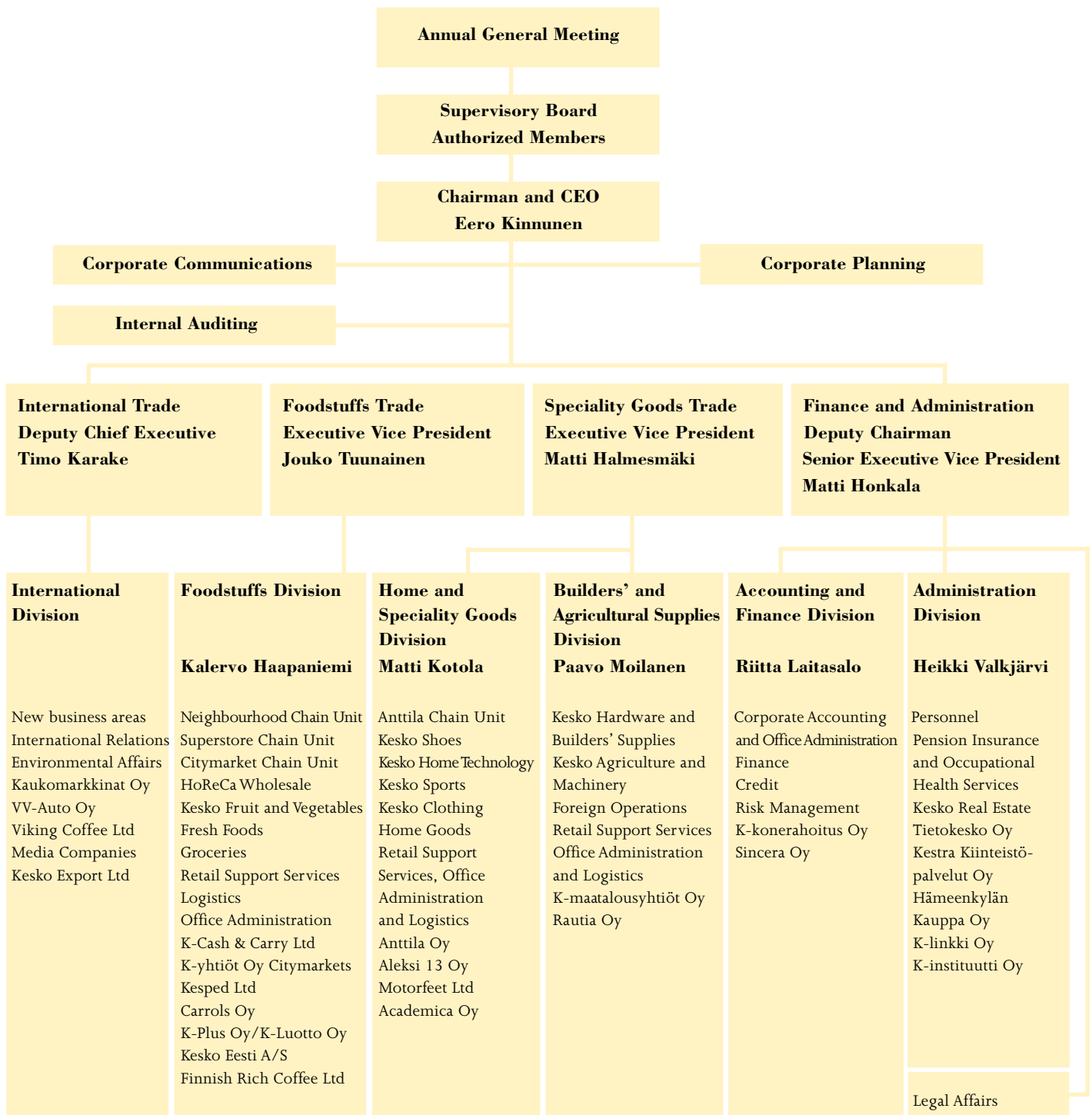
For the Supervisory Board

Matti Kallio
Chairman

Heikki Takamäki
Deputy Chairman

Organisation

1.1.1998



Board of Directors

Kesko Ltd's Board of Directors forms the company's highest operating management. It manages and supervises Kesko Corporation's operations as the Board of a listed company and makes fundamental and financially significant decisions concerning the Corporation.

According to the Articles of Association, at least 5 but no more than 9 members form the company's Board of Directors. The Chief Executive acts as Chairman. The Supervisory Board elects members to the Board of Directors for a term of 4 accounting periods, all of which expire at the end of the same accounting period. The present members were elected on 12 June 1995. Their term will expire on 31 December 1999, with the exception of Chairman and Chief Executive Eero Kinnunen, who will retire on 30 April 1998.

The members of the Board of Directors do not receive any extra remuneration for their membership. Rather, this is included in the salaries already paid by Kesko Ltd on the basis of normal employment contracts. In addition, the members of the Board of Directors receive the fringe benefits normally provided to Kesko Ltd's management. Their salaries have also been linked with the company's financial performance in the form of a profit sharing system and the bonds with warrants issued in spring 1996. A member of the Board of Directors must resign from this position when he reaches 60 years of age.

Eero Kinnunen, Chairman and Chief Executive (b. 1937), Business College Graduate. Employed by Kesko since 1958, Director from 1974, a member of the Board of Directors from 1989, Chief Executive and Chairman of the Board of Directors from 1993. His responsibilities include the duties deter-



The Board of Directors, from left: Matti Halmesmäki, Timo Karake, Matti Honkala, Eero Kinnunen and Jouko Tuunainen.

mined for a Managing Director in the Companies Act and the managing of the Board of Directors' work as its Chairman. The Corporate Communications, Internal Auditing and Corporate Planning units report to him directly.

Matti Honkala, Deputy Chairman and Senior Executive Vice President (b. 1945), M.Sc.(Econ.). Employed by Kesko since 1966, Director from 1978, a member of the Board of Directors from 1986. Elected to present duties and post in 1997, and will become Chairman and Chief Executive on 1 May 1998. His main responsibilities include finance and administration, with special competence in personnel matters.

Timo Karake, Deputy Chief Executive (b.1941), M.Sc.(Econ.). Employed by Kesko since 1964, Director from 1969, a member of the Board of Directors

from 1977 and Deputy Chief Executive from 1990. Elected to present duties in 1997. Responsible for international trade, with special competence in management models.

Jouko Tuunainen (b. 1945), M.Sc.(Econ.). Employed by Kesko since 1966, Director from 1976, a member of the Board of Directors from 1983 and elected to present duties in 1997. Responsible for foodstuffs trade, with special competence in logistics and store sites.

Matti Halmesmäki (b. 1952), M.Sc.(Econ.), LL.M., employed by Kesko since 1980, Director from 1985, a member of the Board of Directors from 1989 and elected to present duties in 1997. Responsible for speciality goods trade, with special competence in entrepreneurship and chain operations.

Supervisory Board



Kesko's Supervisory Board in 1997. Sitting from left: authorised members Risto Peltokangas, Eero Ahonen, Matti Kallio (chm), Heikki Takamäki and Kalevi Sivonen.

Supervisory Board in 1997

In addition to supervising the company's management, the main functions of the Supervisory Board are to elect the Chairman and Chief Executive and other members of the Board of Directors and to decide on their salaries and on matters concerning the substantial contraction or expansion of the company's operations or a substantial change in the company's organisation.

The Supervisory Board elects annually among its members a working group - authorised members - whose function is to prepare, together with the Board of Directors, the most significant matters to be decided by the Supervisory Board.

According to the Articles of Association, the Supervisory Board consists of a minimum of 15 and a maximum of 24 members and deputy members. The term of the Supervisory Board's members is 3 accounting periods. The Annual General Meeting elects new members to replace the members whose term is to expire at the end of the accounting period concerned. The members of the Supervisory Board shall be active retailers or directors of retailing businesses. A member is obliged to resign from this position at the end of the accounting period during which he reaches 65 years of age.

Members

Name and age	Year when term expires, and store
Ahonen Eero, 55	1998 Vaatehuone ja K-kenkä Veljekset Ahonen, Pudasjärvi
Aura Tarmo, 57	1997 K-market Linkki, Ylöjärvi
Hiltunen Leena, 42	1998 K-extra, Suomussalmi
Hämäläinen Kari, 45	1999 Citymarket, Kuopio
Hämäläinen Veikko, 49	1999 Maatalous-Rauta Hämäläinen, Jämsä
Kalliala Pentti, 49	1998 K-supermarket Kaarina Center, Kaarina
Kallio Matti, 52	2000 K-supermarket Jättijako, Vantaa
Karppinen Eija, 44	1999 K-market Karppinen, Kittilä
Karvinen Matti, 45	1999 K-supermarket Aslakki, Espoo
Keskinen Simo, 51	1999 K-supermarket Manhattan, Turku
Kuivalainen Antti, 53	1998 K-supermarket KollisCity, Kuusamo
Kuusiniemi Hannu, 38	1998 K-supermarket Kahveri, Kerava
Martikainen Jukka, 46	1999 Super Kesport-Intersport, Kuopio
Miettinen Pentti, 63	1997 K-market Mesikka, Joensuu
Mörk Christer, 49	1999 Citymarket, Kokkola
Peltokangas Risto, 49	2000 Vaatehuone, Seinäjoki
Peltola Reijo, 49	1998 K-lähikauppa Ruokamies, Lahti
Pesälä Pertti, 52	1999 K-rauta, Espoo
Puhakka Matti, 53	1999 K-lähikauppa Puhakka, Turku
Rinne Jyrki, 48	1999 K-lähikauppa Hiidenpirtti, Lohja
Sivonen Kalevi, 48	1997 Citymarket Itäkeskus, Helsinki
Takamäki Heikki, 50	2000 K-rauta Rauta-Otra, Tampere
Virkkala Hannu, 50	1997 K-market Piffi, Mustasaari
Vuorenmaa Simo, 49	1999 K-maatalouskeskus, Ilmajoki

Deputy members:

Name and age	Year when term expires, and store
Aaltonen Hannu, 35	1999 Citymarket Laune, Lahti
Hakala Jari, 42	1999 K-market Jarintori, Orivesi
Heinola Pekka, 49	1999 K-market Onnipukka, Nakkila
Heiskanen Urpo, 51	1997 K-lähikauppa Vehmer, Vehmersalmi
Hägglblom Dan, 39	1999 Citymarket Vaasa, Vaasa
Joensuu Harri, 37	1997 K-market, Alajärvi
Kauhanen Tuomo, 55	resigned 1997 K-supermarket Kahveri, Kerava
Kolehmainen Paavo, 55	1997 Citymarket Joensuu, Joensuu
Korpisaari Olavi, 58	1999 K-maalous Korpisaari, Riihimäki
Laine Olli, 47	1998 K-lähikauppa Laine, Luopioinen
Lappalainen Matti, 48	1997 Kesport Rinkka, Kajaani
Lehtinen Pekka, 52	1998 K-market Turenki, Janakkala
Leppälä Timo, 53	1997 K-lähikauppa Timppa, Rovaniemi
Maarala Eero, 45	1999 K-lähikauppa, Parainen
Mämmelä Arja, 49	1999 K-supermarket Ykkösetu, Raahe
Nieminen Hannu, 52	1997 Citymarket, Kouvola
Nieminen Väinö, 54	1998 K-lähikauppa Ruokakivelä, Keuruu
Ojakumpu Ilmo, 56	1997 Kesport-Intersport, Kemi
Reijonen Kalle, 51	1999 K-rauta Rauta-Kalle, Joensuu
Storberg Tua, 49	1997 K-närbutik, Västanfjärd
Särkilähti Tapio, 42	1999 K-rauta, Oulu
Särvä Olavi, 61	1997 K-market Lietori, Lieto
Tolonen Pekka, 45	1997 Andiamo, Tampere
Wallin Timo, 38	1998 K-supermarket Ostoporssi, Mäntsälä

Auditors

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

Kesko Ltd's directors 1.1.1998

Foodstuffs Division

Vice President	Kalervo Haapaniemi
Neighbourhood Chain Unit	Harri Sivula
Superstore Chain Unit	Jaakko-Pekka Vehmas
Citymarket Chain Unit	Matti Kautto
HoReCa Wholesale	Reima Oinaanoja
Kesko Fruit and Vegetables	Antti Palomäki
Fresh Foods	Esko Pihlström
Groceries	Aila Hirvoila
Logistics	Timo Lehtinen
Office Administration	Aatos Kivelä
Retail Support Services	Jukka Sipilä

Home and Speciality Goods Division

Vice President	Matti Kotola
Anttila Chain Unit	Jouko Björkman
Kesko Shoes	Pekka Pietilä
Kesko Home Technology	Veijo Grönroos
Kesko Clothing	Juha Ahtinen
Kesko Sports	Matti Leminen
Home Goods	Antti Puhakka
Retail Support Services, Office Administration and Logistics	Pasi Mäkinen

Builders' and Agricultural Supplies Division

Vice President	Paavo Moilanen
Kesko Agriculture and Machinery	Kimmo Vilppula
Kesko Hardware and Builders' Supplies	Simo Manner
Foreign Operations Office Administration and Logistics	Matti Vatanen Olli Rannisto

International Division

Media Unit	Matti Laamanen
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Accounting and Finance Division

Vice President	Riitta Laitasalo
Corporate Accounting and Office Administration	Paavo Rönkkö
Finance	Taisto Hautajärvi
Credit Department	Seppo Kettunen

Administration Division

Vice President	Heikki Valkjärvi
Personnel	Kyösti Pärssinen
Kesko Real Estate	Risto Lassila

Corporate Administration

Internal Auditing	Asko Ihalainen
Corporate Communications	Erkki Heikkinen
Legal Affairs	Tapio Erme
Corporate Planning	Lasse Mitronen

Managing Directors of subsidiaries

Academica Oy	Juha Mäntylä
Aleksi 13 Oy	Risto Volmanen
Anttila Oy	Jouko Björkman
Carrols Oy	Kari Kivikoski
Finnish Rich Coffee Ltd	Aila Hirvoila
Hämeenkyän Kauppa Oy	Erkki Heikonen
Kaukomarkkinat Oy	Kari Ansio
Kauppiaiden Komedia Oy	Ari Laitinen
Kauppiaitten Kustannus Oy	Matti Laamanen
K-Cash & Carry Ltd	Matti Hukka
Kesko Eesti A/S	Timo Hämälä
Kesko Export Ltd	Ari Svensk
Kesko Svenska AB	Matti Vatanen
Kesped Ltd	Timo Kortelainen
Kesthom Oy	Matti Vatanen
Kestra Kiinteistöpalvelut Oy	Risto Lassila
K-instituutti Oy	Timo Karkola
K-konerahoitus Oy	Seppo Kettunen
K-linkki Oy	Eero Vesterinen
K-Luotto Oy/K-Plus Oy	Eija Jantunen
K-maalousyhtiöt Oy	Jouni Oksanen
K-yhtiöt Oy	Matti Honkala
MK-mainos Oy	Kari Soinen
Motorfeet Ltd	Jukka Pietarila
Rautia Oy	Raimo Jaakkola
Sincera Oy	Heikki Ala-Seppälä
SV-Tietopalvelu Oy	Lasse Mitronen
Tietokesko Oy	Osimo Kimmo
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 symbols of the K-Group. In their entrepreneurial capacity, K-retailers are responsible for customer satisfaction and the profitable performance of their stores. K-retailers are Kesko's shareholders and members of the K-Retailers' Association.

At the end of the year, there were 1,860 K-retailers (in the previous year 1,911). Including the retailers, K-stores employed a total of 24,199 persons, of whom 10,530 were working part-time.

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

At the end of the year, there were 2,159 K-stores (2,194 in the previous year). In addition, there were 78 K-mobile stores (95 in the previous year).

K-retailers were operative under cooperation agreement in 731 store sites and premises belonging to Kesko. Of these, 409 were owned and 322 rented by Kesko.

The total sales of the K-stores amounted to FIM 36.7 billion, an increase of 12.2% on the previous year.

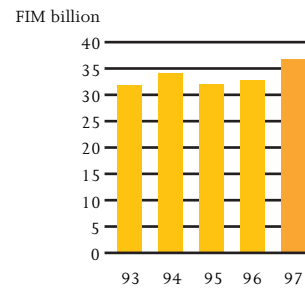
The sales by K-stores operating under cooperation agreements in Kesko's store premises and sites totalled FIM 25.1 billion.

K-stores' purchases from Kesko amounted to FIM 16.9 billion excluding VAT, an increase of 1.9% on the previous year.

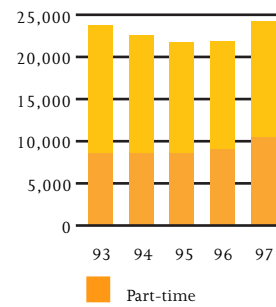


K-stores	Number	% of total number	% of sales
Citymarket hypermarkets	38	1.7	16.7
K-superstores	82	3.7	13.0
K-supermarkets	218	9.8	13.6
K-neighbourhood stores	360	16.0	8.9
K-extra stores	435	19.5	4.9
K-mobile stores	78	3.5	0.5
Rimi stores	21	0.9	0.5
Other grocery stores	174	7.8	2.3
Grocery stores, total	1,406	62.9	60.4
K-rauta hardware and builders' supplies stores	103	4.6	7.2
K-agricultural and builders' supplies stores	84	3.8	5.7
K-agricultural stores	69	3.1	6.3
Fixa stores	4	0.2	0.1
Rautia hardware stores	18	0.8	0.9
Other agricultural and builders' supplies stores	30	1.3	0.7
Agricultural and builders' supplies stores, total	308	13.8	20.9
Anttila department stores	31	1.4	10.2
Kesport-Intersport stores	91	4.1	2.7
Musta Pörssi stores for household appliances and home technology	76	3.4	2.2
Vaatehuone fashionwear stores	66	3.0	1.1
K-kenkä shoe stores	83	3.7	0.7
Andiamo shoe stores	30	1.3	0.5
Aleksi 13 stores	21	0.9	0.6
Nicky&Nelly stores for children's wear	23	1.0	0.1
Online Superstore stores	1	0.1	0.1
Other home and speciality goods stores	101	4.4	0.5
Home and speciality goods stores, total	523	23.3	18.7
All K-stores, total	2,237	100.0	100.0

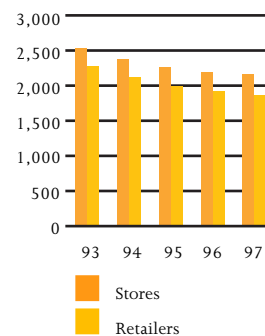
Sales by K-stores



Personnel of K-stores



Number of K-stores and K-retailers



Addresses

KESKO LTD **www.kesko.fi**

Corporate Administration

Satamakatu 3, Helsinki
P.O.B. 135, FIN-00016 Kesko
Tel. +358 10 5311
Fax +358 9 657 465
Corporate Communications
Legal Affairs
Corporate Planning

District Centres

Helsinki district centre

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

Kuopio district centre

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

Oulu district centre

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

Tampere district centre

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

International Division

Satamakatu 3, Helsinki
P.O.B. 135, FIN-00016 Kesko
Tel. +358 10 5311
Fax +358 9 657 465
New Business Areas
International Relations
Environmental Affairs
Media Companies

Subsidiaries

Kaukomarkkinat Oy
Kutojantie 4
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Fax +358 9 521 6641

Kauppiaiden Komedia Oy/Proidea Oy
Hiomotie 10
FIN-00380 Helsinki
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Fax +358 9 553 061

Kauppiaitten Kustannus Oy
Kanavakatu 3
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Kesko Export Ltd
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Fax +358 10 532 3411

MK-mainos Oy
Kruunuvuorenkatu 4
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Tel. +358 10 532 3100
Fax +358 9 657 243

SV-Tietopalvelu Oy
Kanavakatu 3 B
P.O.B. 135, FIN-00016 Kesko
Tel. +358 10 530 10
Fax +358 10 533 6296

Viking Coffee Ltd
Tikkurilantie 5
P.O.B. 269, FIN-01301 Vantaa
Tel. +358 10 532 8901
Fax +358 9 873 4034

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)

Foodstuffs Division

Satamakatu 3, Helsinki
P.O.B. 135, FIN-00016 Kesko
Tel. +358 10 5311
Fax +358 10 532 3471
Neighbourhood Chain Unit
Superstore Chain Unit
Citymarket Chain Unit
HoReCa Wholesale
Fresh Foods
Groceries

Jokiniementie 31
P.O.B. 152, FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 9 873 5544
Fruit and Vegetables

Central warehouse 2
Foodstuffs
Jokiniementie 31
P.O.B. 47, FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 10 532 7350

Subsidiaries

Carrols Oy
Isonniitynkujja 2 E
FIN-02270 Espoo
Tel. +358 10 530 60
Fax +358 10 532 4471

Kesko Eesti A/S
Peterburi mnt 63 A
P.O.B. 3074
EE0090 Tallinn, Estonia
Tel. +372 6 380 063
Fax +372 6 380 066

Kesped Ltd
Jokiniementie 31
P.O.B. 47, FIN-01301 Vantaa
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Fax +358 10 532 7021

K-Cash & Carry Ltd
Kruunuvuorenkatu 5
P.O.B. 135, FIN-00016 Kesko
Tel. +358 10 5311
Fax +358 9 634 169

K-Plus Oy/K-Luotto Oy
Satamakatu 3
P.O.B. 135, FIN-00016 Kesko
Tel. +358 10 530 20
Fax +358 9 622 3125

K-yhtiöt Oy
Citymarkets
Satamakatu 3
P.O.B. 135, FIN-00016 Kesko
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Fax +358 9 175 571

Finnish Rich Coffee Ltd
Tikkurilantie 5
P.O.B. 269, FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 10 532 8919

Home and Speciality Goods Division

Satamakatu 3, Helsinki
P.O.B. 135, FIN-00016 Kesko
Tel. +358 10 5311
Fax +358 1053 23482
Kesko Shoes
Anttila Chain Unit

Ankkurikatku 5, Helsinki
P.O.B. 135, FIN-00016 Kesko
Tel. +358 10 5311
Fax +358 9 176 780
Kesko Sports

Valimotie 17, Helsinki
FIN-00016 Kesko
Tel. +358 10 5343
Fax +358 9 175 331
Kesko Clothing
Home Goods

Tikkurilantie 5
P.O.B. 145, FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 9 857 3237
Kesko Home Technology

Central warehouse 1
Home and speciality goods, hardware
and builders' supplies
Tikkurilantie 5
P.O.B. 47, FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 1053 27505

Subsidiaries

Academica Oy
Lauttasaarentie 54 A
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Tel. +358 9 348 455
Fax +358 9 3484 5414

Aleksi 13 Oy
Aleksanterinkatu 13
FIN-00100 Helsinki
Tel. +358 9 131 441
Fax +358 9 174 640

Anttila Oy
Valimotie 17, Helsinki
P.O.B. 1060, FIN-00016 Kesko
Tel. +358 10 5343
Fax +358 1053 40109

Motorfeet Ltd
Fabianinkatu 7
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Tel. +358 9 668 9180
Fax +358 9 628 188

Builders' and Agricultural Supplies Division

Tikkurilantie 10
P.O.B. 54, FIN-01301 Vantaa
Tel. +358 10 5311
Fax +358 9 873 5975
Kesko Hardware and Builders' Supplies
Kesko Agriculture and Machinery

Kanavakatu 3, Helsinki
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Tel. +358 10 5311
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Foreign Operations

Training and experimental
farm of the K-Group

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

Subsidiaries

K-maatalousyhtiöt Oy
Virkatie 12-14 B
FIN-01510 Vantaa
Tel. +358 10 5311
Fax +358 10 532 0557

Rautia Oy
Ainontie 5 A
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Fax +358 10 533 9543

Accounting and Finance Division

Satamakatu 3, Helsinki
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Tel. +358 10 5311
Fax +358 10 532 3481

Subsidiaries

K-konerahoitus Oy
Satamakatu 3, Helsinki
P.O.B. 135, FIN-00016 Kesko
Tel. +358 10 5311
Fax +358 10 532 0556

Sincera Oy
Satamakatu 3, Helsinki
P.O.B. 135, FIN-00016 Kesko
Tel. +358 10 5311
Fax +358 9 666 131

Administration Division

Satamakatu 3, Helsinki
P.O.B. 135, FIN-00016 Kesko
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Fax +358 10 532 3481

Subsidiaries

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Fax +358 10 534 0049

Kestra Kiinteistöpalvelut Oy
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Fax +358 10 532 3466

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FIN-02860 Espoo
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Fax +358 9 863 8571

K-linkki Oy
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Fax +358 10 532 3443

Tietokesko Oy
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P.O.B. 135, FIN-00016 Kesko
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Fax +358 9 665 628

Financial publications

Kesko publishes its annual report in Finnish, Swedish and English in March. Summaries of the annual report in German and French are published 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 from:

Kesko Ltd

Corporate Communications

P.O.B. 135

FIN-00016 Kesko

Telephone +358 1053 22404

Fax +358 9 174 398

Internet <http://www.kesko.fi>

Annual General Meeting 1998

The Annual General Meeting of Kesko Ltd will be held in the Helsinki Fair Centre's congress wing, Rautatie-läisenkatu 3, on Monday 6 April 1998 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 1 April 1998 at 16.00 hours.

Change of address

Please notify the bank with whom the shareholder has a book-entry securities account about any change of address.

