

**KESKO**



**Annual Report** *1998*



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## Key figures

	1994	1995	1996	1997	1998
Net sales, EUR million	4,584	4,478	4,948	5,870	5,992
Change in net sales, %	4.7	-2.3	10.5	18.6	2.1
Operating profit, EUR million	62	76	82	112	130
Operating profit as % of net sales	1.4	1.7	1.6	1.9	2.2
Profit before extraordinary items, EUR million	78	116	124	115	133
Profit before extraordinary items as % of net sales	1.7	2.6	2.5	2.0	2.2
Balance sheet total, EUR million	2,239	2,230	2,491	2,585	2,545
Return on investment, %	7.3	8.8	9.0	8.2	8.9
Return on equity, %	5.0	7.1	7.3	6.6	6.5
Investments, EUR million	110	87	179	155	132
Net cash flow from operations, EUR million	253	182	147	244	179
Equity ratio, %	52.8	55.6	51.9	53.2	56.7
Debt to equity ratio, %	47.2	44.4	48.1	46.8	43.3
Personnel (average)	5,701	5,833	6,503	10,672	11,172
Dividend per share, EUR	0.24	0.32	0.34	0.50	0.67*
Earnings per share, EUR	0.64	0.94	1.02	0.98	1.01
Price per earnings ratio (P/E)	14.6	9.7	10.7	14.8	12.7
Equity per share, EUR	12.97	13.57	14.17	14.83	15.59

\* proposal to the Annual General Meeting

- *Net sales increased by 2%.*
- *Operating profit increased by 16%.*
- *Return on investment increased.*
- *Proposed dividend is FIM 4.00 per share.*

## Changes by four months

	I/1997	I/1998	II/1997	II/1998	III/1997	III/1998
Net sales, EUR million	1,989	1,900	1,916	2,045	1,965	2,048
Change in net sales, %	32.4	-4.5	21.5	1.0	18.9	2.1
Operating profit, EUR million	19	26	56	49	37	56
Operating profit as % of net sales	1.0	1.4	2.9	2.4	1.9	2.7
Profit before extraordinary items, EUR million	22	22	55	50	38	61
Equity ratio at the end of period, %	46.1	51.8	51.9	54.3	53.2	56.7

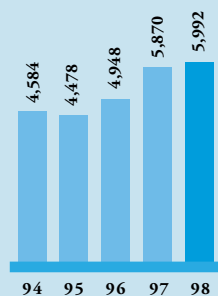
EUR 1 = FIM 5.94573

More key figures for 1994-1998 on pages 38-39.

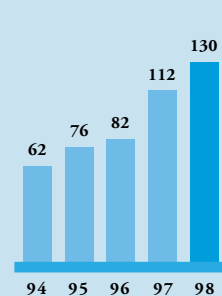
# Year 1998

- The Group achieved a record profit of EUR 133 million.
- In line with its strategy, Kesko sold real estate to the value of EUR 162 million.
- Plussa established itself as the leading customer loyalty system in Finland. At the end of 1998, there were 1.9 million Plussa cards in 1.1 million households.
- The Tähti Optikko chain established by Kesko's subsidiary, Kaukomarkkinat Oy, started operations in September. At the end of the year, the chain included about 100 outlets.
- Matti Honkala took up his post as Chairman and CEO on 1 May 1998.

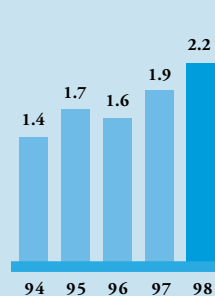
Group net sales,  
EUR million



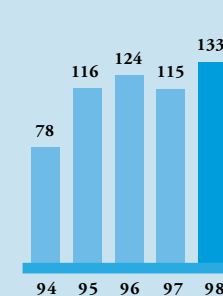
Group operating profit,  
EUR million



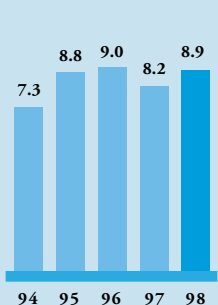
Group operating profit as  
% of net sales



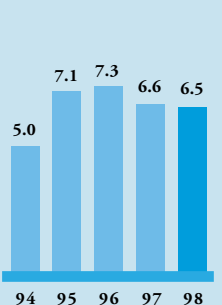
Group profit before extraordi-  
nary items, EUR million



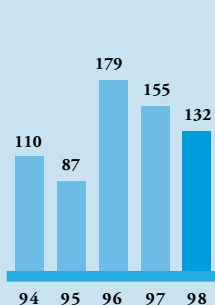
Group return  
on investment, %



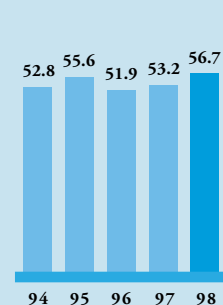
Group return  
on equity, %



Group investments,  
EUR million



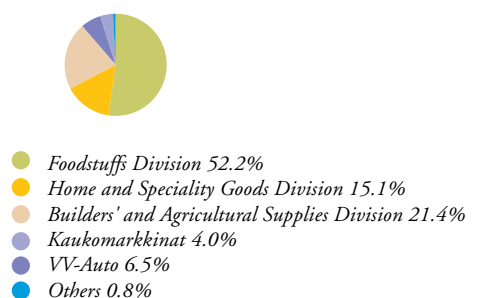
Group equity ratio, %



# Kesko *in brief*

Kesko is a marketing and logistics company, which develops retail concepts and operating models. The Foodstuffs Division, the Home and Speciality Goods Division and the Builders' and Agricultural Supplies Division are the profit divisions responsible for Kesko's commercial operations. Their customers include the K-retailers and other wholesale customers. The profit divisions are responsible in their business sectors for marketing, purchasing, logistics, store sites, and for carrying on retail trade in the areas of home and speciality goods, and builders' and agricultural supplies.

Breakdown of net sales by profit division



**The Foodstuffs Division** acts as a wholesaler for the K-store chains and other retail stores, catering customers and K-Cash & Carry Ltd's customers.

**The Home and Speciality Goods Division** participates in both wholesale and retail trade. The Division's product lines include home technology, sports goods, shoes, clothing, home goods and interior decoration materials.

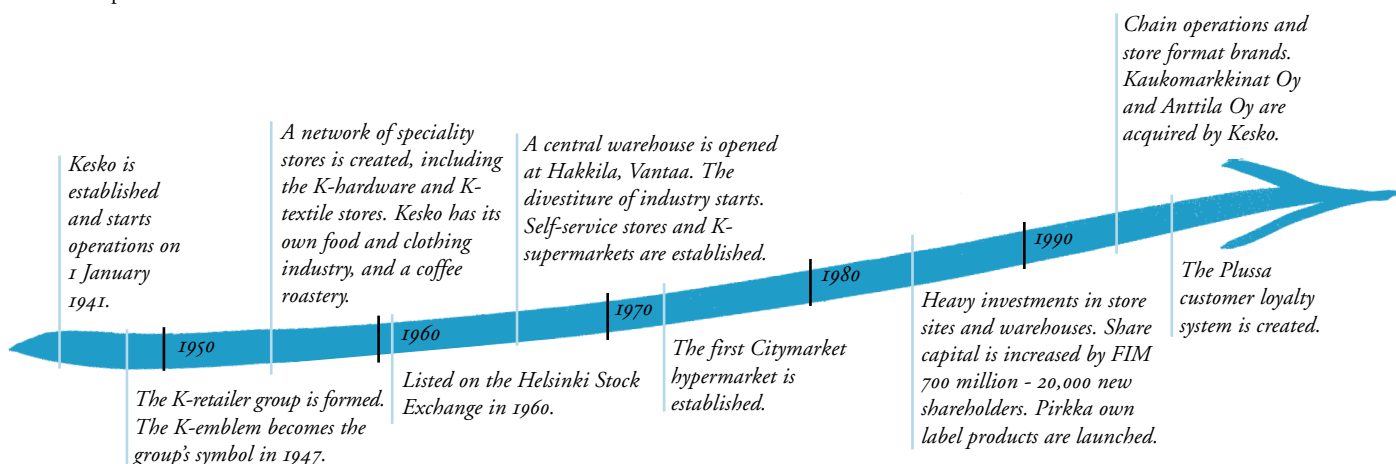
**The Builders' and Agricultural Supplies Division** purchases, sells and delivers goods and services related to building, real estate maintenance, home and garden renovation, agriculture and forestry, transport and construction, and leisure time.

**Kaukomarkkinat** is the biggest and most diversified Finnish trading house, with international operations and over 20 subsidiaries or representative offices abroad. In the Finnish market, Kaukomarkkinat is the leading supplier in the sports goods, watches and home electronics trade.

**VV-Auto** is the importer of Volkswagen, Audi and Seat cars and Volkswagen commercial vehicles manufactured by the Volkswagen Group.

**The Resource Division** is responsible for the Group's real estate, for information management and logistical services supporting business operations, and for risk management.

**The Finance and Administration Division** is responsible for the Group's financing operations and financial management, and provides administrative services for the business units.



## Review by *the Chairman and CEO*

The year 1998 was the fifth successive year of growth in the Finnish trade. According to the Research Institute of the Finnish Economy, the value of private consumption increased by about 5.5 percent and that of private investment by over 10 percent. The information gathered by the Federation of Finnish Commerce and Trade shows that the value of wholesaling increased by 10 percent in 1998. The lines of business recording the biggest growth in the wholesale trade were cars, electronics, building and interior decoration materials, machines, and sports and leisure goods. Retail sales were up by nearly 7 percent.

This year economic growth in Finland will increasingly be based on service industries and domestic consumption. The retail trade volume is expected to grow by about 3.5 percent and the wholesale trade volume by about 4 percent. Towards the end of 1998 wholesale sales slowed, particularly in the sectors in which the share of industrial customers is significant. However, Statistics Finland's consumer survey shows that the confidence of Finnish consumers in favourable economic development continues to be strong, and at the beginning of 1999 they still believe in continuing economic growth. This provides a good basis for operations and further growth in both the

wholesale and retail sectors. The current wage and salary agreements and a low inflation rate contribute to increased real income, which is favourable for trading.

For the trading sector this year will be time of active adaptation for the year 2000. The adaptation to the euro started right at the beginning of the year, with euro price labels being displayed in retail stores, for example.

Kesko is well prepared to deal in euros. One positive matter is that the costs arising from the transfer to the new currency seem to be clearly lower than expected.

Kesko started preparations for the turn of the millennium as early as the beginning of the 1980s. To secure a smooth transfer to the new millennium, the Board of Directors appointed a steering group to control and manage all our schedule-bound operations.

The strategies for logistics, information management and real estate ownership, which are significant activities for Kesko's competitiveness, were revised last year. The redefinition of strategies will be continued in other key areas this year.

The new strategies called for organisational changes to support them. Last year the division of responsibilities was revised among the members of the Group's Board of Directors, as well as the

areas of responsibilities of the profit divisions, so that we can work more efficiently for the Group's overall advantage and success.

The new strategies and organisational changes also help us better achieve the financial targets. More efficient operations improve the use of capital in all parts of the Group. In line with the strategy agreed for real estate, we streamlined the Group's balance sheet by divesting real estate and shares. The disposal of real estate will be continued this year.

To improve the quality of operations and to decrease related costs, we started last year a quality training programme for the personnel, which is being continued this year, too. The people working in the Group are also competing for an internal quality prize, which is another way to encourage a greater focus on quality.

In the domestic market the operating conditions of large retail stores will be affected by a new Building Act, which became effective at the beginning of March 1999, because it will have the effect of slowing and complicating the building of large stores. Kesko intends, however, to adapt to the new situation.

Last year we achieved a profit before extraordinary items of EUR 133 million, which was the best in Kesko's history. We are satisfied with this performance. Grow-

ing net sales and the Kesko Group's continuously diversifying operations will continue to provide us excellent opportunities to obtain good results. Kesko has all the necessary prerequisites and resources to be a pioneer and the leading company in the trading sector in the future as well.

On behalf of Kesko's Board of Directors, I would like to thank all the Group's personnel for their high-quality work and the record profit, as well as our customers and partners for their fine cooperation.

*Matti Honkala*



## **Kesko's** *functions and role*

Kesko purchases, stocks and transports goods and provides other services in such a way that it is profitable for K-retailers and other customers to make their purchases at Kesko. Kesko also provides additional value to its customers by developing store types, acquiring store sites and offering consulting, training and research services. Key functions also include decisions on product selections and the development of marketing cooperation between manufacturing industry, Kesko and the K-retailers.

Kesko publishes several customer magazines, including Pirkka, Maatilan Pirkka, Birka and Åker-Birka.

### **KESKO'S RETAIL OPERATIONS**

Kesko is also a significant retailer. Anttila Oy, engaged in the department store business and mail order sales, is the biggest retailer of home and speciality goods in Finland. Citymarket Oy is a retail company in charge of the non-food trade of the Citymarket hypermarkets. Other retail companies include K-maatalousyhtiöt Oy in agricultural products and hardware, Alekski 13 Oy in clothing and shoes, the Tähti Optikko chain in the optical sector and Academica Oy, which sells information technology and services. Kesko also carries on retail trade in Sweden through the K-rauta hardware store and Alekski 13 shoe store concepts. More details on these companies are given in the profit divisions' texts, starting from page 11.

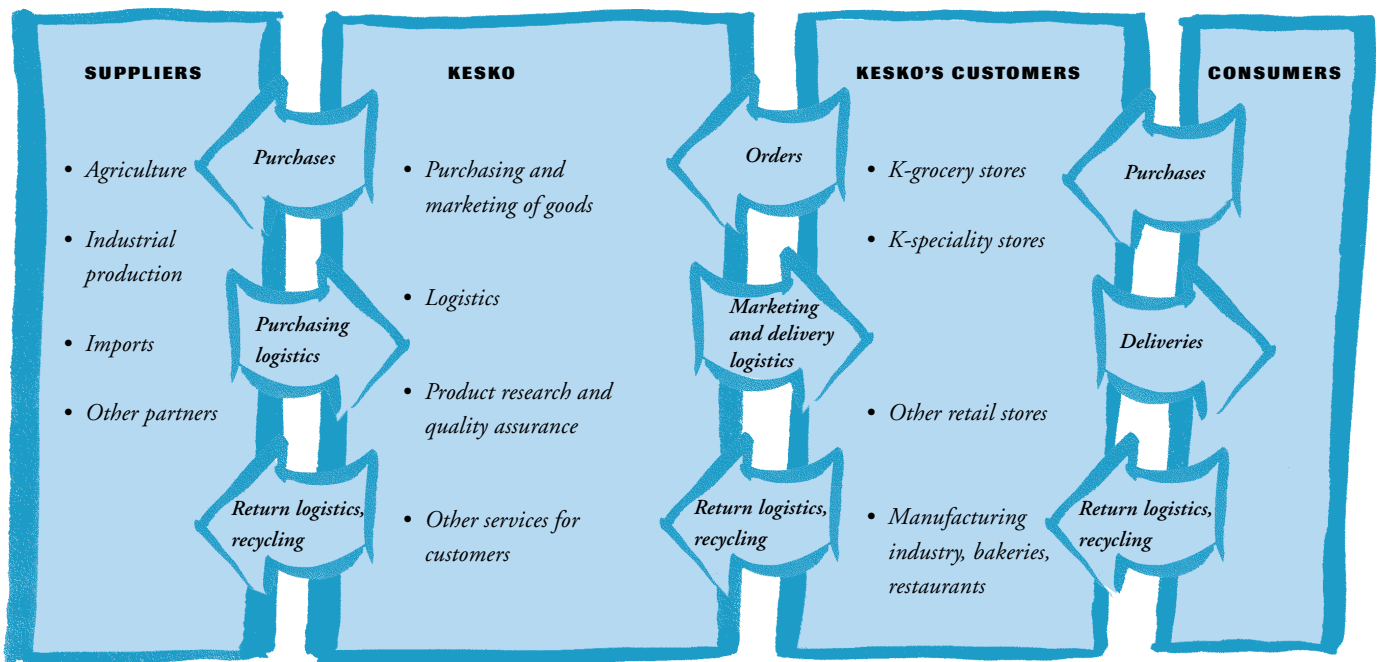
### **KESKO'S SUPPLIERS**

Kesko has about 37,000 suppliers in Finland and about 5,000 abroad. The major importing countries are Germany, Spain, Sweden, Japan and Italy.

### **KESKO'S CUSTOMERS**

Kesko's most important single customer group is the K-retailers, whose share of Kesko's sales is about a half. K-retailers are independent entrepreneurs who are Kesko's shareholders and are entitled to use the K-logo or other marketing symbols of the chains. In their entrepreneurial capacity, K-retailers are responsible for customer satisfaction and the profitable performance of their stores.





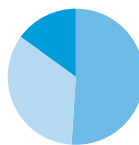
**Kesko's purchases**



- from Finland, 80.8%
- from abroad, 19.2%

In 1998, Kesko's purchases totalled EUR 5,237 million.

**Kesko's customers**



- K-retailers, 51%
- Other corporate and wholesale customers, 34%
- Consumers (retail trade), 15%

In 1998, Kesko's net sales totalled EUR 5,992 million.

# Kesko's vision, *strategy and values*

**Kesko's vision is to be the best and most highly respected trading company.**

## **KESKO'S TARGETS**

Good performance

- return on investment at least 12%
- return on equity at least 10%

The most satisfied customers and success on the market

Excellent practices, products and services

Competent and motivated personnel

## **KESKO'S DIVIDEND POLICY**

Kesko will distribute at least a third of its earnings per share as dividends - or a half, if the equity ratio exceeds 50%.

## **KESKO'S BASIC VALUES**

Customer satisfaction is our key basic value. The other values are means of achieving it.

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

**An enterprising spirit** signifies confidence in entrepreneurship and one's own competence, diligence, the willingness to develop and the will to produce profit.

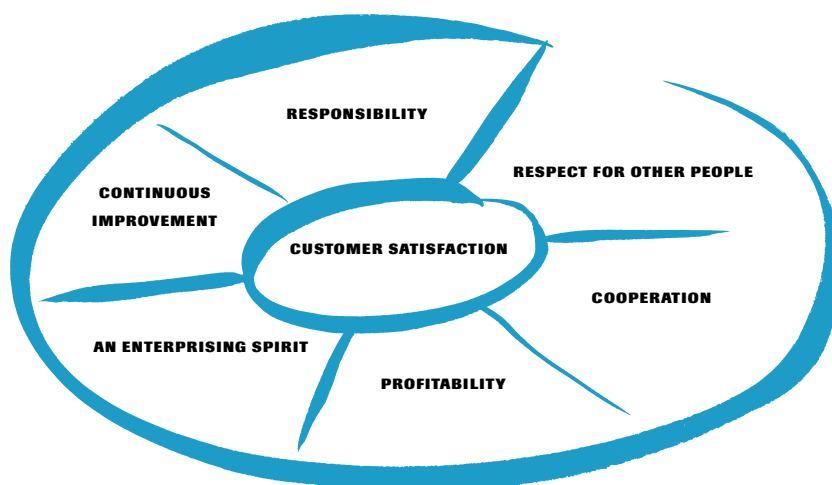
**Profitability** means good financial results and high-quality operations.

**Cooperation** - both internal and external - improves the competitiveness and results of all participants.

**Continuous improvement** is active response to customer needs, the utilisation of new opportunities, open and unprejudiced attitudes to new ideas and the continuous development of operations.

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

**Respect for other people** and solidarity create a good working environment.



*Kesko is a growing, profitable innovator in trading. Its purpose is to supply its customers with the best possible products and services and to be esteemed highly as an employer, a business partner and an investment target.*



### **KESKO'S MANAGEMENT MODEL**

The management model is used for guiding the organisation, and planning and directing operations in order to attain targets. Kesko's management model is based on customer-orientation, interaction and retailer enterprise. Customer-orientation means that each customer is served by a nationwide chain unit at Kesko, acting as a partner.

### **LOGISTICAL STRATEGY**

Kesko's logistical strategy guides the entire flow of merchandise and related information. Information management will be our asset in logistics. The turnaround time of the delivery chain will be improved by pruning and standardising logistical operations models. Combining orders, cutting expenses and speeding up operations will strengthen Kesko's position as the best distribution route for both suppliers and customers.

### **INFORMATION MANAGEMENT STRATEGY**

Information management will be a regular part of business planning and management. The cost-efficiency of overall solutions will be verified and sufficient room left for differentiation by profit division, with fast reactions and flexibility as the targets. The technical basic structure of the Group is developed and maintained with compatibility and cost-efficiency as the targets. In-house expertise is directed to strategically important targets and the use of software packages and other services on the market will be increased with efficiency in mind.

### **REAL ESTATE STRATEGY**

Kesko aims to strengthen its competitive position by both owning and renting store premises. The strategy is based on the continuous evaluation of the significance of real estate to the Group. Sale of real estate and business premises will continue with the purpose of streamlining the real estate balance sheet. Efficiency and higher return on real estate capital are sought by centralising operations and expertise in Kesko Real Estate. Kestra Kiinteistöpalvelut Oy is in charge of retaining the value of real estate properties through timely maintenance.

### **ETHICAL CODE**

In 1998, an ethical assessment of the implementation of the value "responsibility and honest working methods" was made among the personnel. The purpose was to provide a basis for the ethical code being prepared. The code will be connected to the corporate values and will address the operations of the personnel.

Along with this, Kesko Group is preparing an ethical code for all purchasing operations, primarily based on the recommendations and agreements of the International Labour Organization (ILO). Since the 1980s, our internal directions have, among other things, included a prohibition against buying goods from companies using child labour. Surveillance in this regard has been intensified in the Far East, where the companies responsible for the purchase of home and speciality goods and their quality control for Kesko have included the condition concerning prohibition of child labour in the written purchasing agreements made with manufacturers.

# Changes *in the operating environment*

**Kesko's operating environment is strongly affected by the outlook for the Finnish economy and the growth in domestic and European competition. Only high-quality operations and continuous improvement will ensure lasting competitive advantage. The adoption of the euro will, among other things, make new demands on the operations of the trading sector. Information technology will be increasingly important for enhancing the efficiency of operations. Logistical management and guidance based on information about products and the demand for them will be the key factors for trading success.**

## KESKO AND THE EURO

When the decisions on Kesko's euro schedule were made, the crucial factor was that the majority of Kesko's customers operate in Finland. Retail operations are maintained in markkas until consumers have euro notes and coins available, i.e. until the end of the transition period. More information on Kesko's euro schedule is included in the Board of Directors' Report on page 34.

The euro was adopted for stock exchange trading and financial operations right from the start of 1999. At the same time, Kesko was also fully prepared to receive and send euro-denominated invoices. As about one half of Kesko's imports have been invoiced in the currencies of the euro area, the adoption of the euro will significantly reduce both the costs of foreign exchange and the currency risks. Kesko has informed domestic suppliers that it would prefer them to keep sending markka-denominated invoices.

In late 1998, K-linkki Oy supplied the K-retailers with the information system modifications necessary for the dual display of prices. Kesko's representative chaired the EMU work group of the Federation of Finnish Commerce and Trade, and participated in the negotiations between trade and the consumers, headed by the European Commission. As a result, a Europe-wide agreement on the distribution of euro information was signed on 30 June 1998.

Kesko completed the modifications of its information systems for the launch of the euro to the extent required by the end of 1998. Tietokesko estimates that the work has so far taken about 170 man-days, and the plan for modifications to be implemented during the next three years has already been made.

## THE YEAR 2000

Kesko's preparations for the year 2000 are described on page 34 of the Board of Directors' Report.

## AMENDMENTS TO NATIONAL LEGISLATION

The most important single amendment to legislation affecting Kesko's operating environment is the new Land Use and Building Act. The provisions of the Act concerning large stores entered into force on 1 March 1999, while the entire Act will come into force on 1 January 2000 and replace the present Building Act. The amendment will influence store planning and construction considerably, and will thus affect the real estate and store site strategy of Kesko.

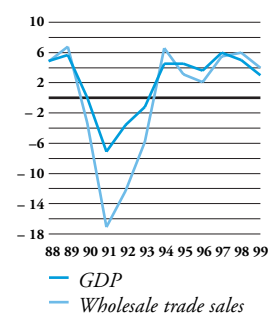
For the first time in Finnish legislation, the new Act has defined the concept of a "large retailing unit", which means a store with a floor area exceeding 2,000 square metres. However, "a speciality store selling products that require much space" is not considered to be a large retailing unit. According to the Act, large

retailing units may not be located outside the area meant for town centre functions, unless the area has been zoned for that particular purpose.

The concept of a speciality store selling products that require much space has not been accurately defined in the Act, which gives the authorities relatively wide discretionary powers when applying it. Local decision-making authority will also increase in matters concerning planning and building permits.

In practice, the new Act is expected to slow down the construction of big units selling daily consumer goods outside of the planned zones. Kesko will therefore focus on strengthening the present service centres, instead of building supermarkets outside the planned zones.

**Changes in wholesale trade sales and GDP volumes, %**



*Estimate for 1999 by the Research Institute of the Finnish Economy  
Source: Statistics Finland*

# Financial risk *management*

**Kesko Corporation's Finance unit is responsible for the management of the Kesko Group's financial risks. The Group's long-term financing has been mainly arranged through the parent company, and intra-Group loans are used for providing finance to subsidiaries. The Group companies' domestic cash flows are netted by the Group accounts, and the Finance unit is responsible for investing liquidity surplus.**

## **INTEREST RISK**

In order to manage interest rate risks, the Group's borrowings and investments have been distributed in fixed and floating rate instruments by means of derivative contracts. The aim is to hedge against the negative effects of variations in interest rates. During the financial year, the average interest rate tying period for loans granted by financial institutions was two years and for liquid funds two months.

## **EXCHANGE RATE RISK**

The Group's exchange rate risks mainly arise from trade debts, which the respective commercial units and subsidiaries are responsible for hedging. Forward exchange contracts and options are used to hedge these items. The business units carry out their hedging operations together with the Finance unit, which hedges risk positions by market transactions within the limits confirmed.

At 31 December 1998, the counter value of the foreign subsidiaries' assets denominated in foreign currencies amounted to EUR 4.4 million. The foreign currency risk related to these assets has been mainly hedged by loans and other financial instruments.

## **LIQUIDITY RISK**

The aim of liquidity risk management is to maintain liquid funds and credit limits at a sufficient level to secure the financing of the Group's business operations.

At the end of 1998, the Group's liquid funds and investments totalled EUR 246.1 million. On the balance sheet date, the counter value of the committed non-current credit limits available was EUR 185 million.

## **CREDIT RISK**

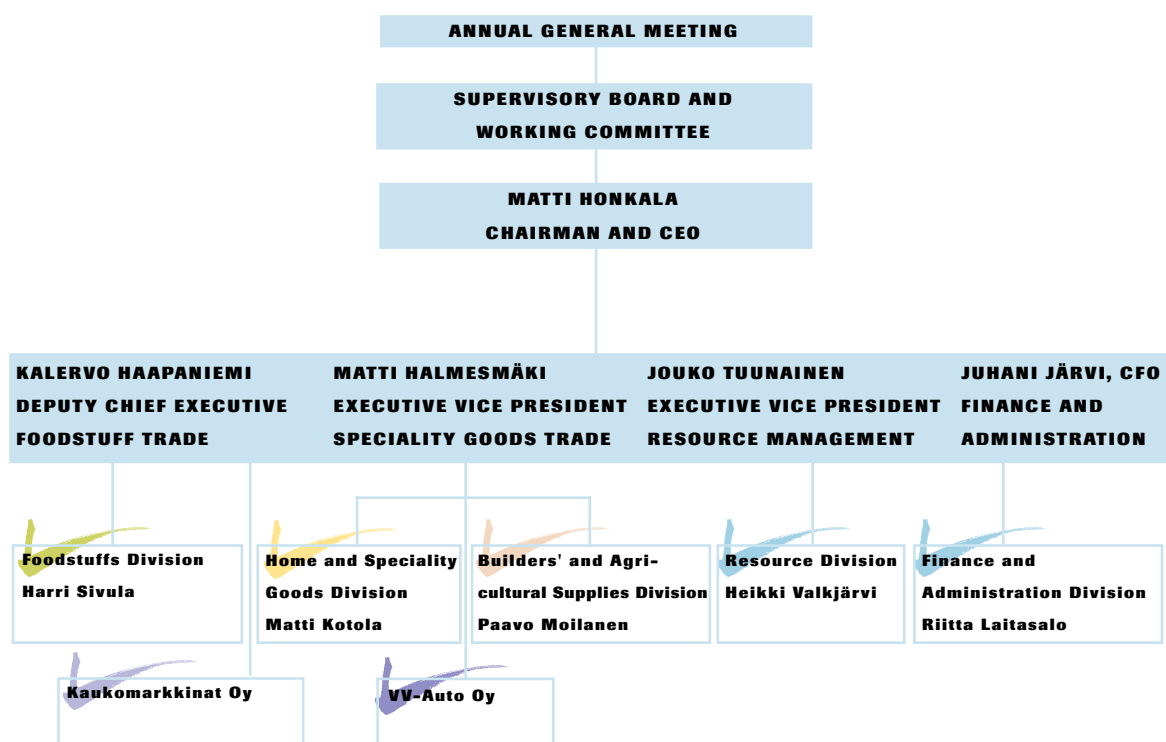
Financial instruments also include the risk that the other party will fail to fulfil its obligations.

Currency and interest rate derivative contracts are made only with those domestic and foreign banks that have good creditworthiness. Liquid funds are invested, within the limits confirmed, in objects with good creditworthiness.



# Organisation

*1 March 1999*



# Profit divisions *in brief*

**The Foodstuffs Division's** net sales amounted to EUR 3,129 million, and the operating profit was EUR 76 million. Net sales increased by 6.6%, which exceeded expectations. The Division's return on capital employed was 13%. Investments in retail stores and wholesale operations totalled EUR 45 million. The Citymarket Chain Unit, Citymarket Oy and HoReCa Wholesale were the units recording the highest increases in net sales. More information on the Foodstuffs Division's year can be found on pages 12-15.

**The Home and Speciality Goods Division's** net sales were EUR 906 million, and the operating profit was EUR 3 million. Net sales grew by 2.7%. Net sales progressed as expected, with the exception of clothing and shoes. The Division's return on capital employed was 1%. Investments in retail stores and wholesale operations were EUR 17 million. Sports goods and home technology were the product groups recording the best performance. More information on the Home and Speciality Goods Division's year can be found on pages 16-19.

**The Builders' and Agricultural Supplies Division's** net sales totalled EUR 1,282 million, and the operating profit was EUR 9 million. Net sales increased by 0.5%, which exceeded expectations. Net sales were decreased by the sale of the Rautia retail operations to retailers. The Division's return on capital employed was 4%. Investments in retail stores and wholesale operations were EUR 22 million. The Division's financial performance was affected by the poor crop harvest last autumn and investments in new retail store chains in Finland and Sweden. Hardware and building materials were the products recording the best performance. More information on the Builders' and Agricultural Supplies Division's year can be found on pages 20-23.

**The Kaukomarkkinat Group's** net sales were EUR 276 million, a decrease of 37.9% on the previous year. The drop resulted from the termination of a project-based export agreement on the trade of Panasonic products to Russia and the transfer of this business to the manufacturer's own subsidiary. In comparable figures, the Group's net sales increased by 6.5%. Operating profit was EUR 13 million.

**The VV-Auto Group's** net sales amounted to EUR 392 million, a rise of 14.0% over the previous year. Operating profit was EUR 19 million. The overall market for new cars expanded by 20%. Volkswagen's market share was 9.6%, which was smaller than in 1997. This resulted mainly from the long delivery times of cars in the first part of the year. More information on Kaukomarkkinat's and VV-Auto's year can be found on pages 24-25.

The units of the **Resource Division** and the **Finance and Administration Division** offer services to all of the Group's units. These services offered by the Resource Division include real estate operations and real estate maintenance, forwarding and transport, information management and risk management, while the services offered by the Finance and Administration Division include the Group's finance, financial management and personnel operations. More information on the Resource Division's and the Finance and Administration Division's year can be found on pages 26-27. Information on the personnel is on page 28.

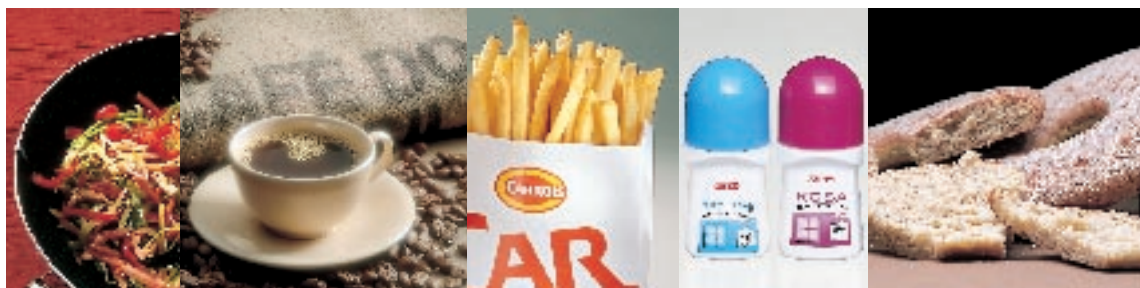
Share of the Group's net sales, %

Share of the Group's operating profit, %





*The Plussa customer loyalty system was the key element in the substantial sales growth in the Foodstuffs Division.*





# foodstuffs *division*

**The Foodstuffs Division of Kesko acts as a wholesaler for the K-store chains and other retail stores, as well as the catering sector. The Division aims to be the best purchasing, logistics, marketing and service organisation for groceries in Finland. The Division is responsible for developing the grocery store network and for retailer resources.**

The net sales of the Division totalled EUR 3,129 million and the operating profit EUR 76 million. The growth of 6.6% in net sales exceeded the target. The return on capital employed was 13%. Investments in store sites and wholesale operations were EUR 45 million. The sales of the Citymarket Chain Unit, Citymarket Oy and HoReCa Wholesale showed the highest increases. The Neighbourhood Chain Unit and the Superstore Chain Unit also reached their sales targets. Sunday openings during the summer boosted the sales of big store types in particular.

Daily consumer goods are also sold by the units of the Home and Speciality Goods Division and the Builders' and Agricultural Supplies Division to their respective customers, for instance to the Anttila department stores. Kesko's total sales of daily consumer goods amounted to EUR 2,711 million.

In 1998, private consumer demand in Finland increased by around 5.5% and contributed to a significant proportion of the growth of about 4.5% in daily consumer goods. According to A.C. Nielsen Finland Oy, the value of the Finnish daily consumer goods market amounted to about EUR 17 billion, including the sales of restaurants, cafes, service stations and kiosks and the retail sales of alcoholic beverages. The drastic structural change continued in retailing, with hypermarkets showing the best progress of all store types. Supermarkets and superstores also increased their share, whereas neighbourhood stores lost ground.

In the near future, the trading sector is expecting a further liberalisation of store opening hours and amendments to

the legislation regulating the retail trade of wines and over-the-counter medicines. The trade will respond to the changing needs of customers with new concepts based on pre-prepared food. Electronic trading will open up new distribution channels in the grocery markets, too. The efficiency and management of the operational chain will emerge as the critical success factors in the grocery trade.

#### **PLUSSA CUSTOMER LOYALTY MARKETING**

In 1998, the marketing strategy of the Division was reshaped and linked with the Plussa customer loyalty system launched in late 1997. The targets were reached. At the end of the year, there were 1.1 million Plussa households and 1.9 million Plussa cardholders. Much of the good sales development of the Division's retail chain units can be attributed to the Plussa system.

#### **STORE NETWORK**

New K-superstores were completed in Pori and Helsinki. 15 new K-stores were opened to bring retail services nearer the consumers. Some major projects were started, such as the Citymarket hypermarkets in Vantaa, Riihimäki and Joensuu that are due for completion in 1999.

#### **ORGANISATIONAL CHANGES**

The transport and forwarding company, Kespel Ltd, was transferred from the Foodstuffs Division to the Resource Division on 1 September 1998. Viking Coffee Ltd, Kesko Export Ltd and its subsidiary ZAO Kesfood were transferred to the Foodstuffs Division when the responsibilities of the International Division were

divided between the various profit divisions according to the type of activity on 1 September 1998.

On 1 March 1999, HoReCa Wholesale, K-Cash & Carry Ltd, Kesko Eesti A/S, Kesko Export Ltd and its subsidiary ZAO Kesfood were merged into one unit, called Kespro. The sales and marketing activities of the Neighbourhood Chain Unit were centralised.

#### **LOGISTICAL OPERATIONS SYSTEMS**

Kesko's logistical strategy is being modernised: from a wholesale trade system to a retail trade replacement system. In 1999, the number of logistical systems will be reduced to four - deliveries from warehouses, warehouse terminals and transport terminals, and return logistics.

#### **NEIGHBOURING AREAS**

Kesko's business in Russia is carried out through Kesko Export Ltd, its subsidiary ZAO Kesfood and Carrols Oy. In August, the emphasis in Kesko Export Ltd's operations shifted to the economic area of Moscow where, in addition to Kesko brands, the company markets other branded and local goods. In Estonia, business is carried out by Kesko Eesti A/S and Carrols AS. Kesko Eesti A/S trades in groceries, home and speciality goods and agricultural supplies in Tallinn, Estonia. The market situation in Estonia and particularly in Russia was difficult throughout the latter part of the year.

#### **ECR AND INTERNET**

In order to intensify category management and ECR operations (Efficient Consumer Response), a new product data bank was created, which will be brought



Vice President Harri Sivula, Foodstuffs Division

into use in 1999. Chain operations will be supported by a new information management system covering the products sold by grocery stores. The system will be used to transfer information to all the stores participating in the chain operations. All orders from stores will be combined in the interactive Kattava system. The project, which is at the pilot stage, will be carried out in cooperation with major domestic suppliers.

Electronic trading was developed in cooperation with the K-stores. The most important projects were the Internet trading sites of K-supermarket Veitikka in Oulu and K-superstore Ykköshalli in Vantaa. The concepts are being tested before on-line trading is expanded.

The average number of personnel in the Foodstuffs Division was 4,811, of whom 3,097 were employed by the subsidiaries.

### *Development of business units*

The Division has three chain units serving the retail trade: the Neighbourhood Chain Unit, the Superstore Chain Unit and the Citymarket Chain Unit. The K-stores operating outside the chains, as well as other customers, are served by HoReCa Wholesale.

#### **THE NEIGHBOURHOOD CHAIN UNIT**

operates as the chain organisation and wholesaler of a total of 1,100 K-supermarkets, K-neighbourhood stores, K-extra stores and Rimi stores. The net sales of the Neighbourhood Chain Unit amounted to EUR 1,076 million, an increase of 2.4%. Taking into account the generally diminishing demand for services near consumers, the growth can be considered satisfactory.

The Neighbourhood Chain Unit started operations at the beginning of the year, when three chain units were merged to form one. Its operating methods have become established during the year. The investments in extensions carried out in

line with the new K-supermarket chain concept have proved successful. The concept for the K-neighbourhood stores is now under further development. Progress was made in category management through the definition of major product categories. Space management and programs, and the related training in the stores, played a crucial role in this.

#### **THE SUPERSTORE CHAIN UNIT**

operates as the chain organisation and wholesaler of 84 K-superstores. The net sales of the Superstore Chain Unit amounted to EUR 497 million, an increase of 4.1%. The growth was largely due to the successful refurbishments of K-superstores and the establishment of new stores. The emphasis in operations was on strengthening customer loyalty and on category management. Selections of fresh foods will be expanded further.

In 1999, the number of stores operating in this chain will increase. The focus will be on profitable sales increase, category management, new service concepts, the introduction of electronic stores and increasing the number of environmental stores.

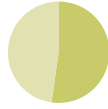
#### **THE CITYMARKET CHAIN UNIT**

operates as the chain organisation and wholesaler for the grocery trade carried out by 38 Citymarket hypermarkets. Together with Citymarket Oy, the Chain Unit is responsible for the home and speciality goods trade in the Citymarkets. The net sales of the Citymarket Chain Unit amounted to EUR 628 million, an increase of 11.8%. This can be attributed to good retail sales growth in both groceries and home and speciality goods, and to the increased centralisation of retailers' purchases.

The emphasis in Citymarkets has been on improving customer loyalty marketing, on category management and on concept development. The new Citymarkets due to open in 1999 are expected to enhance further growth. The biggest City-

Foodstuffs Division	Net sales, EUR million	Change, %
Neighbourhood Chain Unit	1,076	2.4
Superstore Chain Unit	497	4.1
Citymarket Chain Unit	628	11.8
HoReCa Wholesale	594	37.2
K-Cash & Carry Ltd	310	1.2
Citymarket Oy	304	8.8
K-Plus Oy	59	315.9
Viking Coffee Ltd	49	- 9.6
Carrols Group	39	69.5
Kesko Eesti A/S	14	26.7
K-Luotto Oy	4	- 3.9
Finnish Rich Coffee Ltd	3	- 26.6
Kesko Export Group	2	- 7.9
./.. internal sales	-451	
<b>Total</b>	<b>3,129</b>	<b>6.6</b>

The Foodstuffs Division's share of the Group's net sales, 52.2%



The Foodstuffs Division's share of the Group's operating profit, 58.5%



market of all will be opened in the Jumbo shopping centre in Vantaa, near Helsinki, in October 1999.

#### **HORECA WHOLESALE**

is responsible for purchasing large-scale groceries 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 EUR 594 million, an increase of 37.2%. The high figure is due to in-house reorganisations in purchasing, which shifted part of K-Cash & Carry Ltd's direct purchases to HoReCa Wholesale. The comparable growth of 6.3% also exceeded the target. Sales of fresh foods developed particularly well, and the emphasis will remain on the growth of this product group.

#### **K-CASH & CARRY LTD**

is a grocery wholesaler operating in 25 towns throughout Finland. Its customers consist mainly of the catering sector, kiosks and service stations. The net sales of K-Cash & Carry Ltd totalled EUR 310 million. The increase of 1.2% did not meet the target. The operating profit amounted to EUR 4 million.

Despite the modest growth in net sales, K-Cash & Carry Ltd retained its strong market position in key areas. The focus in operations was on the introduction of category management, the advances made in the quality programme and the introduction of a new version of the wholesale information system for K-cash & carry outlets.

#### **CITYMARKET OY**

is a retail company responsible for the non-food trade of 34 Citymarket hypermarkets. The company started operations on 1 January 1999, when it acquired the business operations of K-yhtiöt Oy. The net sales of the company amounted to EUR 304 million, an increase of 8.8%. The growth exceeded the target and was

particularly good in leisure time and technical-chemical products. The operating profit was EUR 15 million.

#### **CARROLS OY**

is engaged in the fast food restaurant business in Finland and the neighbouring areas, and responsible for developing new fast food concepts. The company operates under the chain concepts of the Carrols hamburger restaurants (60), the Pan Pizza Express units (5) and the Deli Express fast food outlets (1). The net sales amounted to EUR 39 million, an increase of 69.5%.

The fast extension of the Carrols restaurant chain into a nationwide chain proceeded according to plan. 14 new Carrols restaurants were opened in Finland and the sales of the chain increased by 26%, which exceeded the average growth in the sector. The establishment of new restaurants will continue and the number of special fast food outlets in connection with grocery stores is expected to increase.

#### **K-PLUS OY**

K-Plus Oy is a company that specialises in customer loyalty marketing, and is responsible for the centralised implementation of the customer loyalty programme of the K-Alliance. The net sales of K-Plus Oy amounted to EUR 59 million. In recent years, Kesko has put a lot of effort in customer loyalty marketing. The Plussa system aims at combining the versatility of the K-Alliance and Kesko's business partners for the customers' benefit.

The Plussa system was expanded to include the mail order business of Anttila, the Carrols hamburger restaurants, and the Rautia and the Tähti Optikko chains. During the year, the Neste service stations and the Scandic hotels and restaurants in Finland also joined the system as Kesko's partners. In 1998, Kesko, the K-retailers and our partners gave the customers Plussa points to a total value of EUR 46 million.

Key information on the subsidiaries of this Division may be found on page 62.

### *Purchasing of foodstuffs*

Purchases of foodstuffs are divided between three departments: Groceries, Fresh Foods and Kesko Fruit and Vegetables.

The chain units of the Division sell 94% of the products purchased by these departments. The main targets included growth in the share of Kesko brands and further improvements in logistics. The major Kesko brands are Pirkka, Diva and Euro Shopper.

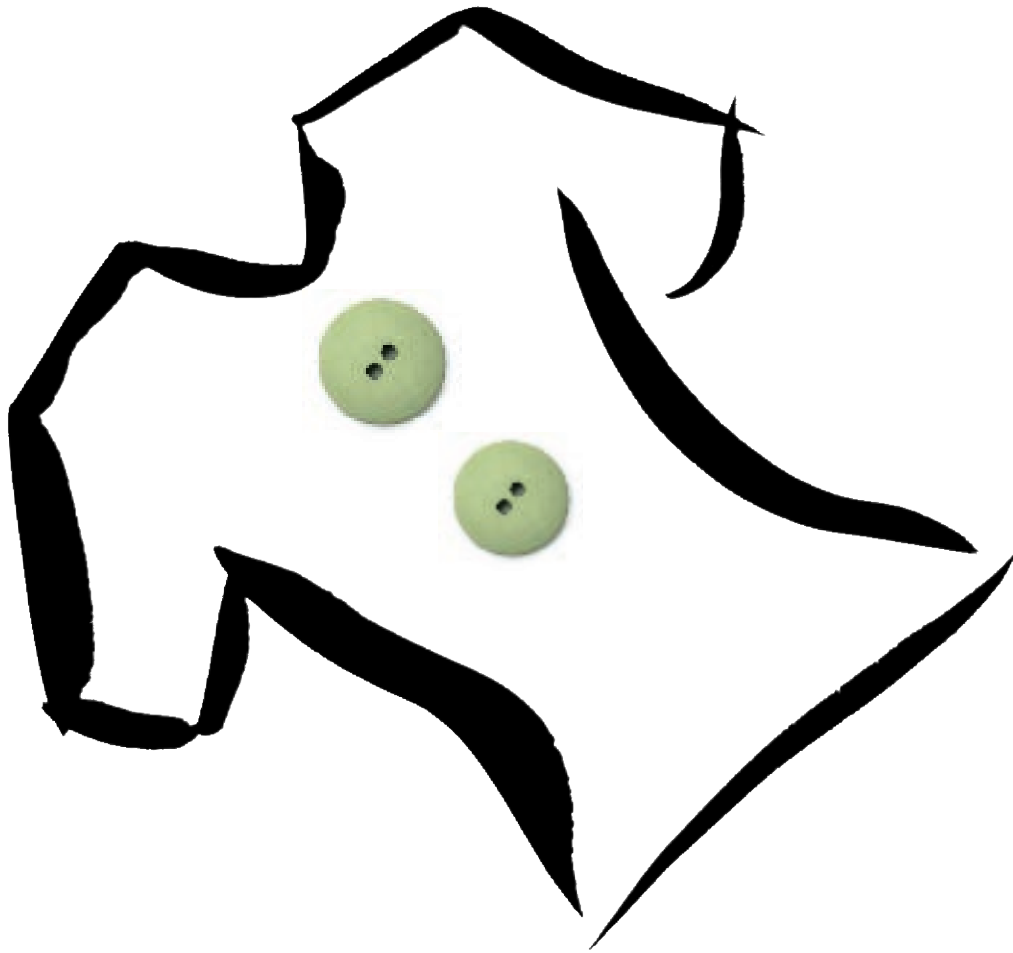
The brands of Kesko Fruit and Vegetables include Rico (imported fruit and vegetables) and Star+ (domestic vegetables) which increased their share to over 20%. Kesko Fruit and Vegetables has also launched a successful range of organic products. The sales of Kesko brands totalled EUR 224 million.

The number of Pirkka products exceeded 650 and their sales, calculated in wholesale prices, amounted to EUR 144 million. The Menu brand directed at catering customers is under further development. At the end of the year, the range consisted of 260 products and sales increased by 25% over the previous year.

The Foodstuffs Division carried out purchasing in close cooperation with AMS partners, companies operating in European trade. The partners included ICA from Sweden, Albert Heijn from the Netherlands, Casino from France and Safeway from Britain. Thanks to this cooperation, Kesko has launched the European Euro Shopper product range on the Finnish market.

Consumers' interest in healthy, natural food was reflected in a growing choice of organic foods. Environmental effects of products have also gained importance as a criteria in consumer in-store selections.

The Fresh Foods department also incorporates Kesko's product research unit, which studies, analyses and develops Kesko brands and the brands imported by Kesko. The unit is also responsible for Kesko's product control, for responding to customer inquiries and for supplier audits, together with the purchasing units.



*In the home and speciality goods trade, the best performers were sports goods and home technology.*



# home and speciality goods *division*

**Kesko's Home and Speciality Goods Division is engaged in both the wholesale and retail trade. The Division serves the retailing sector in many ways - both in purchasing, logistics and store type development. The Division carries out retail business through the Anttila and Aleksi 13 department stores and the Academica Online stores. Its product lines are home technology, sports goods, shoes, clothing, home goods and interior decoration items. In the next few years, the focus of Kesko's development will be on this sector.**

The net sales of the Division amounted to EUR 906 million and the operating profit was EUR 3 million. The growth in net sales was 2.7%. With the exception of the clothing and shoes trade, net sales growth was as expected. The return on capital employed was 1%. Investments in store sites and wholesale operations totalled EUR 17 million. In terms of net sales, the most progress was made in sports goods and home technology.

The units of the Foodstuffs Division and the Builders' and Agricultural Division also sell home and speciality goods to their own retail customers, for instance to the Citymarkets. Kesko's total sales of these product lines amounted to EUR 740 million.

Finnish consumer prices of home and speciality goods dropped by 1.8% and the growth in consumption remained at the level of 3-4%. The retail sales of the K-speciality stores operating in these product lines increased by 8.4%.

## **DEVELOPMENT PLAN FOR THE DIVISION**

The development plan initiated in June aims to improve profitability by pruning overlapping operations and combining the purchasing power and versatile expertise of the K-Alliance in the home and speciality goods trade. The reform will strengthen the identity of the chains.

The trend for strong foreign retail chains to enter the Finnish market will continue, which will change the competitive situation. The Home and Speciality Goods Division will respond to this competition by increasing efficiency in pur-

chasing, logistics and use of capital, by renewing the chain concepts of speciality stores and by intensifying chain cooperation and marketing. The network of K-speciality stores and Anttila department stores will be strengthened and sales to Finland's neighbouring areas will be promoted.

## **ORGANISATIONAL CHANGES**

The former seven departments of the Division were combined to form four departments. Kesko Clothing and Kesko Shoes were merged to form Kesko Clothing & Shoes, while Kesko Sports and Kesko Home Technology were merged to form Kesko Leisure Goods. The Anttila Chain Unit now serves Anttila Oy. The Home Goods department was converted into the Kesko Home unit operating in connection with the Anttila Chain Unit. Kesko Home is responsible for purchasing the goods in its product line for all the chains of the K-Alliance.

As part of the plan, Kesko established Tremont Oy. This company concentrates on the wholesaling of home and speciality goods to customers operating outside the K-chains, with discount stores as the main target group. Tremont Oy is also engaged in exports to the Baltic countries and Russia. The product range consists of clothing, shoes, home goods, home electronics and sports goods.

## **STORE NETWORK**

Anttila Kodin Ykköinen department stores operating under the new concept and specialising in home goods and interior decoration were opened in Espoo and

Oulu. The concept has proved successful and a total of 9 new department stores will be established in major Finnish towns. Another target for the near future is the refurbishment of all Anttila department stores.

11 new K-speciality stores were opened and 12 stores were closed down. In the next few years, the average size of speciality stores will increase considerably, while their number will drop. An important new project to be completed next year is the Jumbo shopping centre in Vantaa, which will house an Anttila department store and several K-speciality stores.

The average number of personnel in the Home and Speciality Goods Division was 3,260, of whom 2,421 were employed by subsidiaries.

## ***Development in product lines***

The Home and Speciality Goods Division has three chain units serving the retail trade: Kesko Clothing & Shoes, Kesko Leisure Goods and the Anttila Chain Unit, including Kesko Home.

## **KESKO CLOTHING & SHOES**

operates as the chain unit of some 200 Andiamo shoe stores, K-kenkä shoe stores, Vaatehuone fashionwear stores and Nicky & Nelly stores for children's wear. It is responsible for serving retailer chains at Kesko and for developing the chains in cooperation with retailers. The net sales of Kesko Clothing & Shoes totalled EUR 98 million, an increase of 2.1%. Sales growth to the Vaatehuone and K-kenkä chains and to customers operating outside the K-chains remained low.



*Vice President Matti Kotola,  
Home and Speciality Goods Division*

Home and Speciality Goods Division	Net sales, EUR million	Change, %
Kesko Clothing & Shoes	98	2.1
Kesko Leisure Goods	202	6.0
Anttila Chain Unit	364	-
Anttila Group	520	-9.4
Aleksi 13 Oy	36	19.6
Academica Oy	14	258.5
Motorfeet Ltd	5	20.1
Kesko Svenska AB/Aleksi 13	2	18.7
Others	0	-
./ internal sales	- 335	
<b>Total</b>	<b>906</b>	<b>2.7</b>

Kesko Clothing & Shoes is also responsible for purchasing products in its line for other K-Alliance chains, such as Citymarket Oy and Anttila Oy. Kesko's total sales of products under Kesko Clothing & Shoes' responsibility amounted to EUR 225 million.

As in previous years, the growth in the market for shoes and clothing fell short of the total growth in the retail trade. The wholesale trade of shoes totalled EUR 82 million, an increase of 15.8%. The wholesale trade of clothing totalled EUR 143 million, an increase of 40.2%.

The Andiamo, K-kenkä and Vaatehuone chains are undergoing a process of clarifying their business ideas and strengthening their profiles by means of thorough concept renewals. The retailers operating in the Nicky & Nelly chain, established in 1995, signed the K-retailer agreement in August 1998.

Kesko Clothing & Shoes is also responsible for the operations of Aleksi 13 Oy, Tremont Oy and Motorfeet Ltd, which imports branded shoes.

#### **ALEKSI 13 OY**

is a chain of department stores specialising in the retailing of shoes, bags, clothing and cosmetics. Its net sales amounted to EUR 36 million, an increase of 19.6%. At the end of the year, there were 15 Aleksi 13 stores in Finland. The target is to make Aleksi 13 the leading chain of department stores specialising in clothing and shoes, in those areas with strong purchasing power. Department stores operating under the new concept were

opened in Helsinki and Kuopio. The Aleksi 13 stores that sell shoes and bags only will be replaced by either Andiamo or K-kenkä shoe stores.

Aleksi 13 also has shoe stores in Sweden. Kesko intends to build a major chain of stores for shoes and bags, starting with the Greater Stockholm area. In autumn 1998, two new stores were opened in Stockholm, bringing the total number to 4. The net sales were EUR 2 million, an increase of 18.7%.

#### **MOTORFEET LTD**

represents and imports well-known, high-quality branded shoes. The net sales were EUR 5 million, an increase of 20.1%. The development plan also included merging Kesko Shoes' branded goods unit into Motorfeet Ltd. The company's primary brands are Elefanten, Piano, Salamander and Vagabond.

#### **KESKO LEISURE GOODS**

operates as the chain unit for a total of 167 Kesport-Intersport stores, Musta Pörssi home technology stores and Online Academica speciality stores. The net sales of Kesko Leisure Goods totalled EUR 202 million, an increase of 6.0%.

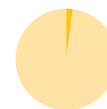
The product lines of Kesko Leisure Goods are sports equipment, sportswear and home technology. The unit is also responsible for purchasing these goods for other K-Alliance chains, such as Citymarket Oy and Anttila Oy. Kesko's total sales of sports goods and home technology goods were EUR 278 million.

The K-Alliance strengthened its position as the leading seller of sports goods

The Home and Speciality Goods Division's share of the Group's net sales, 15.1%



The Home and Speciality Goods Division's share of the Group's operating profit, 2.2%



in Finland. Sales of sports goods amounted to EUR 135 million, an increase of 18.5%. Sales to Kesport-Intersport stores grew by 10.1% and to Citymarkets by 14.7%.

The Kesport chain celebrated its 25th anniversary by organising a major marketing campaign. The HellyHansen range of winter and outdoor wear, imported by Kesko, was launched successfully. Responsibility for the manufacture and marketing of Nopsa bicycles was transferred to Kesko, resulting in a steep increase in advance sales of bikes for spring 1999.

Sales of home technology products amounted to EUR 143 million, an increase of 42.5%, which took place both in speciality stores and department stores. In 1998, Kesko started to sell Ericsson mobile phones and began the image marketing of the Daewoo brand. Efficiency in the warehousing of small domestic appliances was improved in cooperation with suppliers.

Sales of leisure time goods have grown vigorously over several years and the trend is expected to continue in 1999. Large units offering wide selections and operating in major population centres will experience the biggest increases. The chain concepts of both the Musta Pörssi and Kesport-Intersport stores are being renewed in cooperation with retailers, to respond to the future competitive situation.

#### **ACADEMICA OY**

sells information technology products and services and phones in the Greater Helsinki area. In autumn, a new store was

opened in Espoo. The net sales of the company were EUR 14 million. Academica's customers include small and medium-sized companies and institutions, and consumers.

#### **ANTTILA CHAIN UNIT**

is responsible for the home and speciality goods trade of the Anttila chain in cooperation with Anttila Oy. The Anttila Chain Unit also operates as the chain unit and wholesaler for the foodstuffs departments (25) of the Anttila department stores. The net sales of the unit amounted to EUR 363 million.

In the organisational change in the Home and Speciality Goods Division in October, the former Home Goods department was transferred to the Anttila Chain Unit and renamed Kesko Home. This unit is responsible for purchasing the goods in its product line for all of the K-Alliance's chains. The participation of the Anttila department stores in purchasing these products increases the purchasing volume of the unit considerably.

#### **ANTTILA OY**

is engaged in the department store business and mail order sales. It has a total of 33 department stores, which include four Anttila Kodin Ykkönen department stores specialising in home goods and interior decoration. New stores were opened in Oulu and Espoo in October. The mail order business is currently carried out in Finland and Estonia, while test marketing started in Latvia in autumn. In the home and speciality goods business, Anttila is the market leader in Finland.

The company's net sales amounted to EUR 520 million, of which home and speciality goods accounted for EUR 420 million. Net sales dropped by 9.4%. The sale of foodstuffs departments to K-retailer-entrepreneurs continued, and by the end of the year 19 departments out of the 25 had been sold. In all, although the changes diminish the annual net sales of Anttila by about one third, the majority, about EUR 128 million, remains in the wholesale figures of the Anttila Chain Unit.

The comparable change in foodstuffs sales was -6.2%, and the company's operating loss amounted to EUR 1 million. The figure decreased by EUR 7 million compared with the previous year. Major reasons for this development were active discount sales of non-marketable stocks, the losses realised in connection with the sales of foodstuffs departments to retailers, and the additional expenses caused by the start and marketing of the new Anttila Kodin Ykkönen department stores.

In 1999, Anttila Oy will continue the active development of the store network. Two new department stores will be opened. Construction of two new Anttila Kodin Ykkönen department stores will also start, and old department stores will be refurbished. The investment programme will ensure that Anttila's position as the market leader in this sector will be maintained. In the mail order business the focus will be on internationalisation and further marketing in Latvia.

Basic information on the subsidiaries of this Division may be found on page 62.



*The net sales of hardware and building products recorded the best growth within the Builders' and Agricultural Supplies Division.*





# builders' and agricultural supplies *division*

**The Builders' and Agricultural Supplies Division purchases, sells and delivers under competitive terms goods and services relating to building real estate maintenance, home and garden renovation, agriculture and forestry, transport, construction and leisure time. In the retail trade, the Division develops and builds store chains to meet customer needs and provides the best trading conditions for the K-retailers in each business sector.**

The Division's net sales amounted to EUR 1,282 million and operating profit was EUR 9 million. Net sales increased by 0.5%, which exceeded expectations. Net sales were reduced by the sale of the Rautia retail operations to retailers. The Division's return on capital employed was 4%, and investments in store sites and wholesale operations were EUR 22 million. The poor crop harvest last autumn and investments in new retail chains in Finland and Sweden affected the Division's performance. In terms of net sales, the best-performing sector within the Division was hardware and building products whose growth rate was faster than the market average. The machinery business also performed favourably.

The units operating within the Foodstuffs Division and the Home and Speciality Goods Division also sell hardware and agricultural products to their own retail customers, such as the Citymarket hypermarkets. Sales of builders' and agricultural supplies from Kesko totalled EUR 1,309 million.

## **CHANGES IN THE ORGANISATION**

On 30 April 1998, Rautia Oy was merged with Hämeenkyllän Kauppa Oy. The sale of the business operations of Rautia Oy's stores to independent retailers was continued. At the turn of the year, there were two stores not yet sold to retailers.

On 1 July 1998, Industrial and Constructor Sales was separated from Kesko Hardware and Builders' Supplies and reorganised into a separate profit unit. At the same time, the Russian operations were merged with it.

The average number of personnel in this Division was 1,377, of whom 466 worked for subsidiaries.

## *Development of business units*

### **KESKO HARDWARE AND BUILDERS' SUPPLIES**

purchases, sells and delivers hardware and builders' supplies to all of the K-Alliance's retail chains and to Industrial and Constructor Sales. Kesko Hardware and Builders' Supplies operates as the chain unit of the K-rauta and Rautia stores. Its net sales amounted to EUR 481 million, an increase of 19.0%. Interior and building materials were the product groups recording the best sales. Goods purchased by Kesko Hardware and Builders' Supplies were also sold by the units of the Foodstuffs Division and the Home and Speciality Goods Division to their own customers. Sales of hardware and builders' supplies totalled EUR 672 million, up by 16.6%.

Kesko Hardware and Builders' Supplies works in close cooperation with its customers. It is also responsible for offering new products by using its extensive international contacts. According to the statistics of the Hardware and Interior Business Association, the total demand for products in this sector increased by 6.6%. Professional and new construction grew most rapidly. This was directly reflected in the sale of building materials, which increased steeply. The construction cost index rose by only 1%.

The market is expected to continue to develop favourably within the next few years, but at the same time the requirements for both the wholesale and retail trade are changing: package solutions, such as bathroom and kitchen renovation packages, are becoming more popular and the trade has to establish and manage a service network supporting this trend. An

increasing number of ecological product alternatives will be offered to customers.

The share of renovation, leisure and DIY products will increase in the near future. Families will play a more important role in decisions on building and renovation projects, but at the same time the significance of professional customers will also grow. According to estimates made together with the Technical Research Centre of Finland, renovation and new construction will increase by 4% in 1999.

The operations of Kesko Hardware and Builders' Supplies were made more efficient by continued development of the purchasing and sales processes. Competitiveness was strengthened by opening a distribution warehouse for building materials and hepac products at Kerava. The share of Kesko's own imports continued to grow, as well as the number of Kesko's own label products. The purchasing units expanded their international contacts through Euromat cooperation, for example.

The K-rauta chain includes 126 stores. Sales to the K-rauta retailers totalled EUR 338 million. Research shows that the K-rauta chain has a strong position in the Finnish market. The K-rauta stores were the first in this sector in Finland to introduce category management. A new generation pilot store, K-rauta 2000, will be opened in Turku in the spring of 1999.

There are four stores operating in Sweden under the K-rauta concept, and a further three stores will be opened in 1999. The aim is to expand activities and to develop chain operations by building a chain of about 20 K-rauta stores in Sweden within the next few years.

The Rautia chain started operations on 1 April 1998, and comprises 93 outlets. Sales to the Rautia retailers amounted to EUR 147 million. The Rautia operations are based on a conventional hardware store concept, which will be redefined this year.

#### **INDUSTRIAL AND CONSTRUCTOR SALES**

is responsible for the wholesaling of hardware and builders' supplies to corporate customers, the public sector and dealers not operating within the K-Alliance. Industrial and Constructor Sales is also responsible for exports to their wholesale customers in Russia and the Baltic countries, and for the operations of Kesthom Oy/ZAO Kestroy in Russia. This unit's net sales amounted to EUR 191 million, an increase of 13.1%. Sales to building firms and constructors recorded the highest increases. The Industrial and Constructor Sales unit has about 2,300 customers.

The aim of Industrial and Constructor Sales is to operate as an integral part of the total purchasing process of professional customers. Its product range supports the purpose of Kesko Hardware and Builders' Supplies to pool purchasing power. The development work focuses on solving customers' logistical problems through improving terminal operations and information management.



*Vice President Paavo Moilanen, Builders' and Agricultural Supplies Division*

The most important development projects were the launching of terminal operations in Turku, and the expansion of electronic trading.

#### **KESKO AGRICULTURE AND MACHINERY**

is formed of three units: K-Agriculture, Kesko Machinery and Kesmotors/Kotipiha. The net sales of Kesko Agriculture and Machinery totalled EUR 572 million, representing a growth of 0.3%.

**K-Agriculture** purchases, sells and delivers animal feed and chemicals, agricultural implements and dairying machines to the K-maatalous agricultural stores. It also trades in grain, and functions as the chain unit of the K-maatalous stores. The unit's business operations are supported by the K-Alliance's training and experimental farm Hahkiala.

Goods purchased by this unit were also sold by the units of the Foodstuffs Division and Home and Speciality Goods Division to their customers. Sales of the products purchased by K-Agriculture totalled EUR 360 million, a decrease of 2.7%. The strongest product group was farming machines, in which market K-Agriculture is the leading seller.

The crop harvest diminished by a third compared with the previous year.

World market prices continued to decrease. Kesko's grain sales dropped by about 20% due to the poor quality of grain in the previous year and the poor amount of crop last autumn.

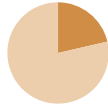
Agricultural investments picked up in Finland. Sales of dairying machines, production buildings and farming machines grew by about 15%. The opportunities provided by electronic trading were used in selling trade-in machines on the Internet.

There were 109 stores operating in the K-maatalous chain at the end of 1998. Chain operations have grown in importance, as farmers now demand improved cost efficiency and high professional skills from agricultural businesses. The total amount of agricultural production is expected to remain at the present level. As the number of farmers is decreasing and the size of farms is growing, agricultural stores will have to further improve their expertise. But heavy investments will be needed in farms in the future as well.

**Kesko Machinery** purchases, sells and delivers Case and Zetor tractors, Claas combine harvesters, MAN lorries and machines for materials handling, construction and environmental maintenance. Tractors and combine harvesters

<b>Builders' and Agricultural Supplies Division</b>		
	<b>Net sales, EUR million</b>	<b>Change, %</b>
Kesko Hardware and Builders' Supplies	481	19.0
Kesko Agriculture and Machinery	572	0.3
Industrial and Constructor Sales	191	13.1
K-maatalousyhtiöt Oy	126	-0.4
Rautia Oy	25	-79.9
Kesko Svenska AB/K-rauta	12	110.0
Kesthom Oy/ZAO Kestroy	5	26.4
Kesko Eesti A/S/Agro	13	-
Others	11	-
./ internal sales	- 144	
<b>Total</b>	<b>1,282</b>	<b>0.5</b>

The Builders' and Agricultural Supplies Division's share of the Group's net sales, 21.4%



The Builders' and Agricultural Supplies Division's share of the Group's operating profit, 7.0%



are sold to farmers in collaboration with the K-maatalous retailers. Other products are sold by Kesko Machinery directly to the end users. Sales of the products purchased by Kesko Machinery totalled EUR 147 million, an increase of 11.2%.

The market for construction and materials handling machines and heavy lorries expanded by 18%. The increase in Kesko Machinery's sales was in line with the average market growth. The market for combine harvesters nearly doubled in 1998, while the market for tractors contracted by 7.4%. The K-Alliance's market position strengthened in both the combine harvester and tractor business.

The range of Case tractors was entirely renewed during 1998. The real estate machine representation was changed, and sales of LM-Trac were started successfully at the beginning of August. Internet was used for the sale of trade-in machines in particular.

Sales of construction and materials handling machines and heavy lorries are expected to remain steady in 1999, whereas the Finnish combine harvester market is estimated to contract from 700 to 500 units and the tractor market to further decrease by about 10%.

The development of Kesko Machinery as a heavy machinery business is being continued, with after-sales operations being an area of special emphasis.

**Kesmotors/Kotipiha** purchases, sells and delivers light machinery, outboard motors, boats, boating equipment, garden products, flowers, fuels and lubricants. The major customers include the K-maatalous, K-rauta and Rautia stores, speciality stores for light machinery and boating, and all of the K-Alliance's gro-

cery and department stores for garden products and flowers.

The market position of Kesko and the K-Alliance remained steady. Goods purchased by this unit were also sold by units of the Foodstuffs Division and the Home and Speciality Goods Division to their customers. Sales of the products purchased by Kesmotors/Kotipiha totalled EUR 130 million, a rise of 7.8% over the previous year. Sales targets were exceeded in all product categories. Sales of boats and outboard motors continued to increase strongly. Exports of Yamarin boats increased by almost 50% due to the competitive models offered and the marketing agreements made with Yamaha Motor Norway and Sweden.

In the flower trade, investments were made in a new terminal which meets the requirements of this business. In the light machinery sector, sales of new product makes met expectations. The sale of new MBK scooters and mopeds was started successfully and a market share of 8% was achieved.

The outlook for 1999 is positive in all product sectors, and demand is expected to increase by 5-7%. Chain-specific concepts have been established for the flower business, with the purpose of increasing flower sales manyfold within the next few years.

#### **K-MAATALOUSYHTIÖT OY**

specialises in agricultural and light machines, boats and hardware retailing through 19 stores in Southern and Central Finland. The company's net sales amounted to EUR 126 million, a decrease of 0.4%.

The operations of the K agricultural centre in Salo were developed by adding light machinery and boats to its sales

programme. The stores in Kankaanpää, Kouvola and Somero were expanded. The building of a shop for boats and light machinery was started in the MP-Center at Vantaa. All sales outlets will start to use the new Profix information system in 1999.

#### **KESKO EESTI A/S/AGRO**

is a full-service agricultural store in Estonia, opened in August 1998. Its operations are based on the Finnish agricultural store concept. The aim is to become the market leader in the Estonian agricultural business.

#### **KESKO SVENSKA AB/K-RAUTA**

is a retail company specialising in hardware and builders' supplies in Sweden. During 1998, two K-rauta stores were opened, one in Häggvik in Stockholm and the other in Norrköping in addition to those existing in Sickla and Bromma in Stockholm. A decision has been made to open K-rauta stores in Haninge, Västerås and Linköping. The purpose is to continue the establishment of stores to form an efficient chain. The net sales of the K-rauta stores operating in Sweden totalled EUR 12 million.

#### **KESTHOM OY/ZAO KESTROY**

is a company carrying on wholesale trade in hardware and builders' supplies in Russia. Commercial operations were started in Moscow by opening an outlet in November 1996. Economic uncertainty in Russia in autumn 1998 was also reflected in sales. In 1998, net sales amounted to EUR 5 million.

Information about the subsidiaries operating within this Division may be found on page 63.



# Kaukomarkkinat and VV-Auto

**Kaukomarkkinat is the biggest and most diversified Finnish trading house operating on an international scale. It has over 20 subsidiaries or representative offices abroad. In Finland, Kaukomarkkinat is the leading supplier in its main fields of sports goods, watches and home electronics. VV-Auto is the importer of Volkswagen, Audi and Seat cars and Volkswagen commercial vehicles manufactured by the Volkswagen Group.**

## *Kaukomarkkinat*

The Group's net sales were EUR 276 million, a decrease of 37.9% on the previous year. This drop can be attributed to the termination of a project export agreement concerning Panasonic products in Russia, upon the trade being transferred to the manufacturer's subsidiary on 30 April, 1997. The comparable net sales of the Group increased by 6.5%, while the operating profit was EUR 13 million.

In international and export trade, Kaukomarkkinat concentrates on difficult

market areas where it has local knowledge and the required expertise, and in which the manufacturers and principals are not willing to establish their own sales companies. The main market areas are Russia, China, Central Eastern Europe and the Baltic countries.

In domestic trade, Kaukomarkkinat aims to be the leading supplier in its main fields and to serve all distribution channels and customers in them alike. Kaukomarkkinat represents several leading branded goods in Finland, the best-

known of which are adidas sports goods, Citizen watches, Panasonic and Technics electronics, Yashica cameras, Rodenstock spectacle lenses, Silhouette frames and Polaroid sunglasses.

## **KAUKO EAST-WEST TRADE**

The net sales of the Kauko East-West Trade division, in charge of international trade and exports, increased by 4.9%. Growth was curbed by the uncertain situation and disturbances in payments in Russia. Despite the Asian recession, trade

Kaukomarkkinat's share of the Group's net sales, 4.0%  
VV-Auto's share of the Group's net sales, 6.5%



Kaukomarkkinat's share of the Group's operating profit, 7.1%  
VV-Auto's share of the Group's operating profit, 14.6%



to China increased by 44.4%. Trade in Central Eastern Europe, particularly in Poland, increased as expected. Volumes of transit operations and oil trading decreased, due to the unfavourable development in the world market prices of oil.

#### **BRANDED GOODS DIVISION**

The net sales of the Branded Goods division increased by 7.3%. The figure was highest for adidas, the market leader in the Finnish sports goods trade, whose sales increase of 24.2% was more than double the average growth in the field. Kaukomarkkinat is the representative of Citizen watches in Finland and Sweden. In Finland, where Citizen has been a clear market leader, sales grew by 9.3%, while the growth in Sweden was 8.7%. Kaukomarkkinat established an optical chain Tähti Optikko, consisting of both its own and its partners' outlets. The target is to capture a 30% market share in five years' time. The start was faster than expected, and by the end of the year the chain comprised about 100 retail outlets.

#### **PANASONIC DIVISIONS**

The net sales of the Panasonic Divisions grew by 9.9%. Sales of consumer electronics increased by 19.4%, which was more than double the average growth in the field. The sales of professional Panasonic audio and video equipment and surveillance cameras exceeded all expectations, with an increase of 23.6%. Due to heavy price competition, the growth was much smaller in office automation and telecommunications products.

#### **LEIPURIEN TUKKU DIVISION**

The division's main business, supplying ingredients, materials and semifinished products to bakeries, went up by 9.7%. The division has expanded its operations to the economic regions of Estonia and St Petersburg, both of which are also consid-

ered to offer significant potential for growth in the machinery and equipment trade.

#### **FUTURE OUTLOOK**

The outlook for the Group's domestic operations in 1999 remains good, but the rate of growth is expected to slow down. Success in international and export trade will greatly depend on the developments in Russia and the effects of the Asian recession on the Chinese economy. The overall development in the Group's net sales and performance is expected to be positive.

The average number of personnel in the Kaukomarkkinat Group was 772. The Managing Director is Kari Ansio.

The Group publishes its annual report in Finnish and English.

#### **VV-Auto**

The net sales of the VV-Auto Group totalled EUR 392 million, a rise of 14.0% compared with the previous year. The operating profit was EUR 19 million.

VV-Auto Oy imports Volkswagen and Audi cars and Volkswagen commercial vehicles. Auto-Span Oy is responsible for importing and marketing Seat cars.

#### **PASSENGER CARS**

The total market for new cars grew by 20%. The market share of Volkswagen was 9.6%, a decrease on the previous year. This was mainly due to the long delivery times for cars in early 1998. The situation improved towards the end of the year, while the range was also supplemented. The number of new Volkswagen cars registered in Finland exceeded 12,000.

The importer and the district sales organisation continued their efforts to strengthen Audi's market position. Consequently, Audi reached a market share of 1.7% and increased its sales by nearly 50%. A separate sales network was built

for Seat in key market areas and the sales programme was extended to cover a new, wider range. For Seat, the year was a success - sales increased by nearly 170% and the market share reached 1.8%. The net sales of Auto-Span Oy were EUR 34 million.

#### **COMMERCIAL VEHICLES**

The total market for new commercial vehicles grew by 16%. Competition intensified as new makes were introduced to the market. Volkswagen ranked second in this category, with a 20% market share.

#### **AFTER-SALES OPERATIONS AND SALES NETWORK**

Good sales over several years have increased the number of relatively new cars, and this has contributed to the progress in after-sales operations. Sales of spare parts and accessories were up by nearly 15%.

The sales network was further improved by investments made in the premises of both VV-Auto and the authorised dealers, and by a separation of operations in accordance with the concepts of the car makes. The number of authorised dealers and service points is 67. In addition, there are 47 authorised repair shops.

#### **FUTURE OUTLOOK**

The growth in the car market is expected to continue, although at a slower rate than before. VV-Auto Oy's new range will expand further, and delivery times will be cut considerably. This will pave the way for sales growth and higher customer satisfaction.

The VV-Auto Group employed an average of 97 persons. The Managing Director of both companies is Erkki Silantaka.

# Resource *Division and* Finance and Administration *Division*



*Vice President Riitta Laitasalo, Finance and Administration Division, and  
Vice President Heikki Valkjärvi, Resource Division*

**The Resource Division and the Finance and Administration Division offer their services to all units of the Group. The key services of the Resource Division include real estate operations and maintenance, forwarding and transport, information management and risk management, while in the Finance and Administration Division they include the Group's finance and financial control, as well as personnel operations.**

## **REAL ESTATE**

Kesko Group owns 1,220,000 square metres of real estate, of which store premises account for 700,000 sq.m., offices and warehouses for 340,000 sq.m. and other premises for 180,000 sq.m. Kesko uses 87.5% of the total floor area, while 10% has been rented out. At the end of the year, 2.5% of the premises were unoccupied. The book value of the store premises was EUR 543.8 million, that of the offices and warehouses EUR 159.7 million, and that of other premises EUR 58.2 million, which totals EUR 761.6 million. The market value of the property exceeds the book value.

In 1998, premises were purchased and rented for the Group use to the total value of EUR 269 million. The Group's investments in real estate totalled EUR 49

million, of which investments in new buildings accounted for EUR 15 million. The most important new projects were the K-superstores in Helsinki and in Pori, and the K-supermarket in Sipoo. The most important projects under construction include an extension to the Citymarket hypermarket in Rovaniemi, Citymarket hypermarkets in Riihimäki and in Joensuu, a Citymarket hypermarket with speciality stores in a shopping centre in Vantaa, a K-superstore in Pieksämäki and a K-rauta hardware store in Kotka. In 1998, ready-to-use store premises were bought for EUR 43 million and sold on during the year.

In 1998, real estate was sold for EUR 161.9 million. Some premises were rented back for the periods during which they will probably be needed. Kesko Group

has rented a total of 1,200,000 sq.m. of premises for its use, mainly for stores. The most important rented store sites opened in 1998 were a refurbished shopping centre in Espoo and an Anttila Kodin Ykkönen department store in Oulu.

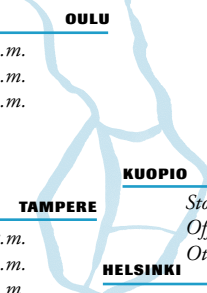
Kestra Kiinteistöpalvelut Oy is responsible for the maintenance and electricity supply of the real estate in the Group use, totalling about 875 premises.

## **TRANSPORT AND FORWARDING**

Kesped Ltd is responsible for transport and forwarding in the K-Alliance. In 1998, its net sales amounted to EUR 79 million, an increase of 17.5%.

The growth in net sales can mainly be attributed to Kesko's own units Anttila, Kaukomarkkinat and Carrols, but assignments from outside customers have also

## REAL ESTATE BY AREA AT DEC 1998



OULU	
Store premises	90,000 sq.m.
Offices and warehouses	26,000 sq.m.
Other premises	18,000 sq.m.

TAMPERE	
Store premises	190,000 sq.m.
Offices and warehouses	21,000 sq.m.
Other premises	48,000 sq.m.

KUOPIO	
Store premises	160,000 sq.m.
Offices and warehouses	16,000 sq.m.
Other premises	35,000 sq.m.

HELSINKI	
Store premises	260,000 sq.m.
Offices and warehouses	277,000 sq.m.
Other premises	79,000 sq.m.

increased. In 1998, outside customers accounted for EUR 3 million of net sales.

Kesped has about 200 trucks in use, and the aim is to enhance competitiveness by raising the degree of capacity utilisation. Excess transport capacity is also offered to customers outside the K-Alliance.

For a long time, the foreign transport of Kesped was related only to imports, but a few years ago exports were started to Kesko's subsidiaries in Sweden, Estonia and Russia.

Kesped's network of terminals now extends throughout the country. Logistic warehouse operations are in use in the Vantaa and Tampere terminals. Kesped's temperature-controlled +2°C fleet for meat and prepared food transports, and its surveillance system, cover nearly all customers. A high level of reliability has been reached in grocery distribution. In 1999, the focus will be extended to cover the distribution of speciality goods.

### INFORMATION MANAGEMENT

In February, Kesko's Board of Directors approved a new information management strategy. It provided the basis for an organisational reform, in which the key components are information management units established in each profit division and an information management control unit for the whole Group. In this way, information management is linked more closely with business planning and management.

The information management units of the profit divisions are responsible for the development and acquisition of information systems within each division.

Information management control is responsible for the organisation and basic technical structure of information management on the Group level.

### TIETOKESKO OY

supports Kesko's business operations by providing information technology services. These services are dependent on the basic technical structure developed and maintained by Tietokesko. The net sales of the company were EUR 32 million, an increase of 18.1%.

In 1998, the focus of new applications was on the chain systems of the Foodstuffs Division and the Home and Speciality Goods Division, and on the Plussa payment and credit card system.

The key processes of Tietokesko are measured regularly and are compared with the best practices in the sector. When the quality and cost level of work station services were measured in spring 1998, they proved to be at the level of the best international practices.

For Kesko, continuous improvements in the efficiency of the entire chain, extending from the supplier to the customer, is of primary importance. Interoperative information systems and the ECR (Efficient Consumer Response) operations model are the tools needed in this work. Right from the beginning, Tietokesko has participated in the development of EDI operations between Finnish organisations and is now the leader in EDI applications. At the end of the year, EDI connections had been established with 1,253 K-stores and 202 other business partners. The same technology was

also used to transfer the information of the Plussa customer loyalty system from 1,448 card terminals.

### K-LINKKI OY

provides information technology services to K-retailers. It aims at compatible solutions that support chain operations. The net sales of the company were EUR 17 million.

The target set at the establishment of K-linkki in 1995 has nearly been reached as the information technology of the store chains have been cost-effectively standardised. By the end of 1998, K-linkki Oy had supplied a total of over 1,150 systems and about 1,448 payment terminals for the Plussa programme to the K-stores. The target for the year 1999 is to supply about 200 more systems to stores. After this, the emphasis will be on the improvement and maintenance of the supplied systems. K-linkki also implemented pilot projects and produced web-based electronic shopping sites for the first grocery stores. Furthermore, capacity was built for the launch of dual pricing in euros and markkas in most K-stores from the beginning of 1999.

### K-KONERAHOITUS OY

provides hire purchase finance for agricultural and construction machinery and consumer goods. At the end of 1998, the company had 4,408 agreements and financing receivables amounted to EUR 56.2 million.

### 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. The goal of K-instituutti Oy is to be Finland's leading institute specialising in retail trading. K-insituutti Oy has been responsible for the practical implementation of KQ (Kesko Quality) training.

# Personnel

**Kesko's basic values guide all personnel-related operations. These values have been put into practice through personnel principles and plans for equal opportunities. In 1999, the personnel strategy and the personnel principles of the Group will be more exactly defined.**

A satisfied personnel is one route to customer satisfaction. The ultimate goal of Kesko's quality work is to achieve the company's most important basic value, customer satisfaction. In 1998, therefore, special emphasis was laid on the quality competence of the employees. The systematic efforts towards this end included completion of the one-year first phase of KQ (Kesko Quality) training in which Kesko's management participated for a total of 1,000 working days. This training aims at spreading quality thinking throughout the entire K-Alliance. The first phase aimed at mastery of the key quality concepts and the efficient introduction of related tools in the work of Kesko's management and experts. In 1999, KQ training will be expanded further to include management team training.

As in past years, job rotation within the Group offered the personnel new challenges and opportunities for learning. Active in-house training serves to create the prerequisites for job rotation.

## WORK CAPABILITIES IMPROVED

The occupational health service is focusing more on activities that maintain work capabilities. In the long run, this will reduce the need to use the resources of the occupational health service for medical treatment. In 1998, activities directed at maintaining work capabilities accounted for some 40% of the operations of the occupational health service. About 100

employees participated in the rehabilitation programmes initiated and controlled by Kesko's health care centre. This rehabilitation is implemented and paid for by the Social Insurance Institution.

In addition to normal rehabilitation programmes, two pilot "job attitude" courses for superiors, run by the Social Insurance Institution, were held in Kesko Group in 1998. These courses prepare superiors to handle both their own job pressures and the welfare and working capabilities of their subordinates.

Kesko's office employees have had significantly fewer sick leaves and less absenteeism than corresponding employee categories in Finland. In warehousing, however, the figures are at the national average.

In December 1998, a job satisfaction survey was made among the personnel for the third time. According to the survey, job satisfaction (3.61) had slightly increased compared with the previous year (3.59).

For decades, the Kesko Staff Club has arranged recreational activities for the personnel and thus actively promoted not only the company spirit, but also the vigour and work capacity of the personnel. The Club offers a wide range of sporting, cultural and other activities.

## WAGES, SALARIES AND PROFIT-SHARING

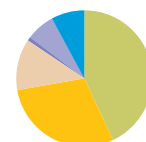
A profit-sharing system introduced in 1997 in the Kesko Corporation and some

subsidiaries to cover the whole personnel was further developed on the basis of the experience gained. In addition to the total performance of the Group and the sales and performance of each unit, the key factor contributing to this reward is customer satisfaction. For management, the job satisfaction in each unit is another contributing factor, and it is hoped that this will promote an open management style. Subsidiaries have applied profit-sharing systems according to the nature of their business operations. In 1998, the sum paid under this scheme totalled EUR 9 million.

## STRUCTURE OF PERSONNEL

Changes in the structure of the personnel are presented in the Board of Directors' report on page 32.

### Group personnel by profit division



● Foodstuffs Division	43.1%
● Home and Speciality Goods Division	29.2%
● Builders' and Agricultural Supplies Division	12.2%
● Kaukomarkkinat	6.8%
● VV-Auto	0.8%
● Others	7.9%





**Kesko's first environmental policy was approved in 1990 and the present one in 1996, when the life cycle approach was defined as the basis of Kesko's environmental operations. In August 1998 Kesko published an environmental report on the progress that has taken place in various sectors of environmental policy, and on the principles of environmental management. The report was the first of its kind in the trading sector in Finland.**

#### **ENVIRONMENTAL MANAGEMENT SYSTEM**

At Kesko, environmental development is based on the ISO 14001 standard. Kesko's subsidiary Viking Coffee Ltd received the ISO certificate on 30 March 1998. Its environmental system was audited and the certificate was awarded by Det Norske Veritas.

Environmental management was further developed during the year. Kesko's units were instructed to take environmental affairs increasingly into account in the planning and assessment of their operations. Kesko's environmental manual was further improved in cooperation with several pilot units. In addition to presenting elements and principles of environmental management common to all units the manual also contains guidelines for individual units.

In connection with the transfer of operations of the International Division to various units on 1 September 1998, the main responsibility for environmental affairs was transferred to the Corporate Planning unit, which reports to the Chief Financial Officer. Thus the development of the environmental management system has been closely connected to other management development. In addition, the Logistics unit of the Foodstuffs Division has a sub-unit for the purpose of promoting environmentally sound logistical solutions.

#### **PRODUCTS AND PACKAGES**

Kesko's selection of environmentally sound products has grown, as Kesko

launched its own range of organically grown fruits and vegetables, consisting of about 25 products.

The number of packages was further decreased due to reusable Transbox plastic cases. Annually, they replace over 10,000 tons of disposable packaging materials. Nearly three million of these cases, first introduced by Kesko, have already been manufactured for transportation between farms, industry and trade. Last year they were used for about 30 million round trips.

#### **WASTE MANAGEMENT, LOGISTICS AND REAL ESTATE**

Kesko started collecting unrecyclable energy components from the big K-stores in the Greater Helsinki area, and thus contributed to the establishment of a treatment plant for such wastes. This collection decreases the environmental load caused by the stores, cuts the amount of waste ending up in dumps by up to 90% and reduces the waste management expenses of retail stores.

Return logistics, consisting of the allocation of returning packages and materials for reuse or recovery, was separated from other logistical operations.

Energy consumption monitoring was further improved in the major premises owned by Kesko. A new monitoring programme was introduced to track the monthly consumption of heat, electricity and water in some 250 premises. About 100 assessments of the condition of buildings and premises were made.

#### **PERSONNEL**

Training was given to Kesko's personnel concerning life cycle surveys, the Nordic environmental label, organic production and environmental features of packaging. The employees responsible for environmental affairs in the units also received training in the principles of environmental management and the use of a control system.

#### **K-GROCERY STORES' ENVIRONMENTAL STORE DIPLOMA**

The Finnish Association for Nature Conservation, Kesko and the K-Retailers' Association have set the criteria for the management of environmental impact in the trading sector. The K-environmental store diploma can be awarded to retailers who have arranged their stores' environmental actions so as to fulfil the strict requirements for environmental training, energy savings, distribution and return logistics and product selection. In 1998, 36 grocery stores were awarded a K-environmental store diploma as proof of their successful environmental actions. The assessments were made by outside auditors.

#### **ENVIRONMENTAL REPORT IN JUNE**

Kesko will publish an environmental report - the second in succession - in Finnish and English in June. The report will also be published on Kesko's web site <http://www.kesko.fi>.

# Report *by the Board of Directors*

## MARKET REVIEW

1998 was the fifth successive year of growth in the trading sector. According to the Research Institute of the Finnish Economy, the value of private consumption increased by about 5.5% and that of private investments by over 10%. According to advance sales statistics from Statistics Finland, the cumulative change in the value of wholesaling in 1998 (January-November) was 6.0%. The lines of business recording the biggest increases in the wholesale trade were electronics, building and interior decoration materials, machines and sports and leisure goods.

According to Statistics Finland, consumer prices increased by 1.4% in Finland in 1998. Statistics Finland's consumer survey also shows that the confidence of Finnish consumers in favourable economic development continues to be strong, and their belief in continuing economic growth strengthened slightly in January 1999.

## NET SALES

During the period 1 January to 31 December 1998, Kesko Group's net sales amounted to EUR 5,992 million, an increase of 2.1% compared with 1997 (EUR 5,870 million). The comparable growth of net sales was 5.4%. The trade in hardware and builders' supplies, cars, sports goods and home technology recorded the biggest increases. In the foodstuffs sector, sales to large-scale customers and big grocery stores increased the most, while sales to small grocery stores decreased. Compared with the previous year, net sales were decreased by the transfer of the Russian trade in Panasonic products from Kesko's subsidiary, Kaukomarkkinat, to the principal in April 1997. The sale of Anttila's foodstuffs departments and the Rautia retail operations to independent retailers was continued in accordance with an agreed strategy, which decreased net sales by about EUR 25 million.

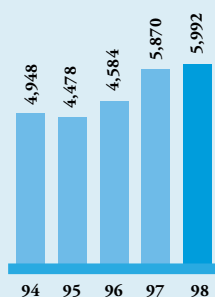
## Net sales by profit division

	1998 EUR million	1997 EUR million	Change %
Foodstuffs Division	3,129	2,936	6.6
Home and Speciality			
Goods Division	906	882	2.7
Builders' and Agricultural			
Supplies Division	1,282	1,275	0.5
Kaukomarkkinat	276	446	-37.9
VV-Auto	392	343	14.0
Others	49	22	129.9
./. internal sales	-42	-34	-
Group total	5,992	5,870	2.1

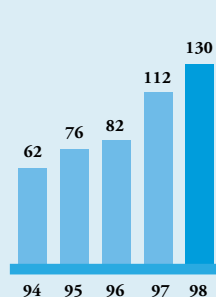
## PERFORMANCE

The Group's profit before extraordinary items amounted to EUR 133 million (EUR 115 million), which is 2.2% of net sales. The Group's operating profit includes profits of EUR 25 million on the sale of Radiolinja Oy's shares and of EUR 7 million on the sale of Kiinteistösjoitus Oyj Citycon, and of EUR 3 million on the sale of real estate. The net profit on the sale of fixed assets totalled EUR 42 million (EUR 15 million).

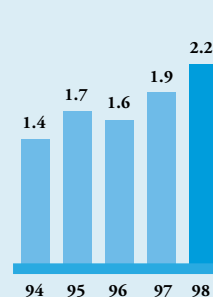
Group net sales,  
EUR million



Group operating profit,  
EUR million



Group operating profit  
as % of net sales



Anttila Oy's operating profit decreased by EUR 7 million from the previous year and showed a loss of EUR 1 million. The result was affected by lower-than-expected sales and gross margin figures in the first part of the year, and increased marketing expenses. In addition, the costs arising from the opening of two new Anttila Kodin Ykkönen department stores at the end of the year had an effect on the result. However, the performance improved towards the end of the year.

The operating profit of K-yhtiöt Oy Citymarkets increased by EUR 4 million to EUR 15 million. VV-Auto Group's operating profit grew by EUR 2 million to EUR 19 million. Kesko Svenska AB's operations showed a loss due to the costs resulting from the establishment of new K-rauta and Alekski 13 stores.

Net financial income was EUR 3 million, which was at the same level as in 1997. Financial income and expenses include a profit of EUR 0.3 million (EUR 1.2 million) arising from associated companies. The profits/losses of real estate associated companies have been included in other operational income and expenses.

Extraordinary items include a book income of EUR 23 million arising from a change in accounting practice affecting the calculation of tax receivables and debt. This amount refers to previous accounting periods.

Return on investment was 8.9% (8.2%) and return on equity 6.5% (6.6%).

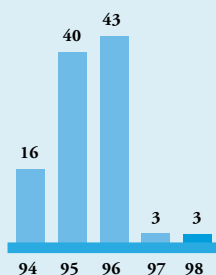
Earnings per share were EUR 1.01 (EUR 0.98). Equity per share was EUR 15.59 (EUR 14.83).

#### Operating profit by profit division

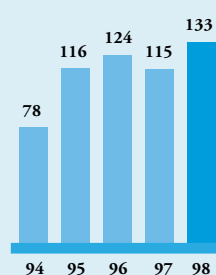
	1998 EUR million	1997 EUR million
Foodstuffs Division	76	80
Home and Speciality		
Goods Division	3	18
Builders' and Agricultural		
Supplies Division	9	9
Kaukomarkkinat	9	8
VV-Auto	19	17
Total	116	131
Common divisions	14	-19
Group's operating profit	130	112
Financial income	3	2
Associated companies	-	1
Profit before extraordinary items	133	115

The common divisions include the Resource Division and the Finance and Administration Division. Their results, including the profits and losses on the sale of shares and real estate have not been allocated to the profit divisions engaged in business operations. Other expenses resulting from corporate administration have been allocated to the profit divisions in the table.

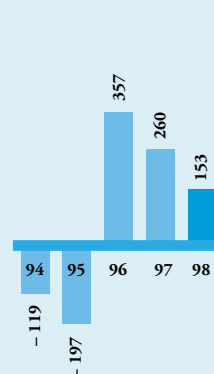
#### Group financial income and expenses, EUR million



#### Group profit before extraordinary items, EUR million



#### Group net debt, EUR million



## INVESTMENTS

The Group's investments totalled EUR 132 million (EUR 155 million), which is 2.2% (2.7%) of net sales. The investments in Kesko's wholesale operations and subsidiaries' real estate, information technology and fixtures amounted to EUR 65 million, while investments in the buildings, fixtures and information technology of retail stores amounted to EUR 67 million. During the year, real estate and real estate shares were sold to the value of EUR 162 million (EUR 5 million).

## FINANCE

The Group's investments were financed by funds generated from operations and released from the sale of real estate. The cash flow before financing amounted to EUR 169 million. Liabilities decreased by EUR 104 million, which increased the Group's equity ratio to 56.7% (53.2%). At the end of 1998, the Group's interest-bearing net debt totalled EUR 71 million (EUR 176 million).

## GROUP MANAGEMENT AND GROUP STRUCTURE

Matti Honkala, 53, took up his post as Chairman and CEO of Kesko on 1 May 1998. His predecessor, Eero Kinnunen, retired on 30 April 1998.

On 1 September 1998, Kalervo Haapaniemi, 51, took over as Deputy Chief Executive. He is responsible for the Foodstuffs Trade. Haapaniemi has been a member of Kesko's Board of Directors since 1 April 1998. The former Deputy Chief Executive Timo Karake retired on 31 August 1998.

On 1 September 1998, Juhani Järvi, 46, became a member of the Board of

Directors and Chief Financial Officer. The responsibilities of the other Board members are: Executive Vice President Matti Halmesmäki, 46, Speciality Goods Trade; and Executive Vice President Jouko Tuunainen, 53, Resource Management.

From 1 September 1998, the operations of the International Division were redistributed to various profit divisions. Kaukomarkkinat and VV-Auto report directly to the Kesko Group's Board of Directors.

## PERSONNEL

The average number of personnel in the Group was 11,172 (10,672), and the major changes were as follows:

	Average number	Change
Foodstuffs Division	4,811	+ 464
Home and Speciality Goods Division	3,260	- 36
Builders' and Agricultural Supplies Division	1,363	- 44
Kaukomarkkinat	757	+ 38
VV-Auto	97	+ 9
Others	884	+ 69
Total	11,172	+ 500

The number increased by over 260 persons due to the strong growth of the Carrols restaurant chain, while the number was decreased by about 400 persons by the sale of the Rautia stores and the foodstuffs departments of the Anttila department stores to retailers.

## REVIEW BY PROFIT DIVISION

### Foodstuffs Division

Net sales of the Foodstuffs Division were EUR 3,129 million. The growth of 6.6% exceeded expectations. Operating profit

was EUR 76 million, a decrease of EUR 3 million over the previous year. The Division's return on capital employed was 13% (12%). Investments amounted to EUR 45 million.

Trading in foodstuffs has been boosted, above all, by the successful customer loyalty marketing of the K-Alliance, based on the K-Plussa card.

The Carrols restaurant chain has expanded rapidly. In 1998, a total of 14 new Carrols hamburger restaurants were opened in Finland, and one in Moscow and one in Tallinn.

K-yhtiöt sold the Citymarket business operations to the company Citymarket Oy established within the Group at the beginning of 1999.

The major retail stores completed during the year included K-superstores in Helsinki and Pori, and a K-supermarket in Sipoo. In addition, three Citymarket hypermarkets had major extensions built. Large retail stores under construction are the Citymarkets in Vantaa, Joensuu and Riihimäki, a K-superstore in Pieksämäki and an extension of the Rovaniemi Citymarket.

### Home and Speciality Goods Division

Net sales of the Division amounted to EUR 906 million, an increase of 2.7%. With the exception of the clothing business, net sales progressed as expected. Operating profit was EUR 3 million, a decrease of EUR 15 million over the previous year. The Division's return on capital employed was 1% (4%), and investments totalled EUR 17 million.

The sales of the Home and Speciality Goods Division developed much better in the last third of the year than they had

done earlier in the year. Sports goods and shoes recorded the biggest sales increase.

The net sales of the Anttila Group amounted to EUR 520 million, a decrease of 9.4%. In comparable figures, net sales increased by 3.5%. The operating loss was EUR 1 million, compared with the operating profit of EUR 6 million in 1997. The sale of the foodstuffs departments of the Anttila department stores to retailers continued according to plan. By the end of 1998, 19 of the 25 foodstuffs departments had been sold to retailers.

During the year, Anttila Kodin Ykkönen specialising in interior decoration opened new department stores in Oulu and in Espoo, in the Merituuli shopping centre, which also has business premises for several K-speciality stores. In addition to the present four department stores, the chain will be expanded to include about 10 department stores in Fin-

land by the end of 2001. Other major retail stores to be opened in 1999 are an Anttila department store and some K-speciality stores, which will operate in the Vantaanportti shopping centre. In addition, Anttila is carrying on the mail order business in Finland and Estonia, and started the test marketing of mail order business in Latvia last autumn.

The net sales of Alekski 13 were EUR 36 million, a growth of 19.6%. The aim of Alekski 13 is to build a leading chain of department stores for clothing and shoes in areas with good purchasing power. Department stores based on the new concept were opened in Helsinki and Kuopio. In Stockholm, Alekski 13 opened a fourth shoe and handbag store.

The aim of the reorganisation plan for the Home and Speciality Goods Division started in June is to improve profitability by pruning overlapping operations

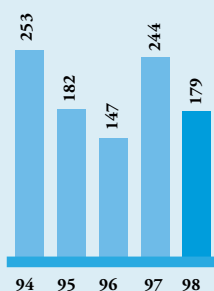
and by combining the K-Alliance's purchasing power and areas of expertise in this business sector.

#### **Builders' and Agricultural Supplies Division**

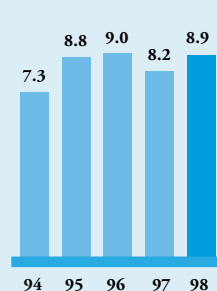
The net sales of the Division amounted to EUR 1,282 million. The growth of 0.5% slightly exceeded expectations. Operating profit was EUR 9 million, which was at the same level as in 1997. The Division's return on capital employed was 4% (4%), and investments totalled EUR 22 million.

The net sales of Kesko Hardware and Builders' Supplies amounted to EUR 481 million, a growth of 19.0%, which clearly exceeds the average development in this sector. The net sales of the Industrial and Constructor Sales unit, which was reorganised into a separate profit unit at the beginning of July, were EUR 191 million, a rise of 13.1%.

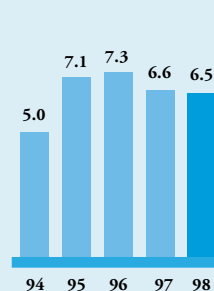
**Group net cash flow from operations, EUR million**



**Group return on investment, %**



**Group return on equity, %**



The net sales of Kesko Agriculture and Machinery amounted to EUR 572 million, which was the same as in the previous year. The crop harvest diminished by a third compared with the previous year, and the world market prices dropped, which both had a decreasing effect on sales. However, the trade in agricultural investment goods and machines increased by almost a fifth.

In August, a fourth K-rauta hardware store was opened in Sweden, in Norrköping. A decision was made to open new K-rauta stores in Haninge, Västerås and Linköping. During 1999, new K-rauta stores will be opened in Kotka and Turku. A full service agricultural store was opened in Tallinn in August 1998.

#### **Kaukomarkkinat**

The net sales of the Kaukomarkkinat Group were EUR 276 million, which was 37.9% less than in 1997. The comparable increase in net sales was 6.5%. The Group's operating profit was EUR 13 million (EUR 13 million).

In domestic trade, the best performer was adidas - the market leader in the sports business - with a sales increase of 24.2%. This growth was more than double compared with the average development in this sector. In the optical business, the establishment of the company's own Tähti Optikko store chain was started. The chain developed more quickly than expected, and there were about 100 stores operating within this chain at the end of 1998.

#### **VV-Auto**

The net sales of the VV-Auto Group totalled EUR 392 million, a growth of 14.0%. Operating profit was EUR 19 million (EUR 17 million). The overall market for cars increased by 20%. Long delivery times slowed the sales growth of Volkswagen cars in the first part of the year, but the situation improved towards the end of the year. In addition, new models were added to the selection. Sales of Audi and Seat cars were extremely good. Sales of Audi increased by nearly 50% and those of Seat by nearly 170%.

#### **RESEARCH AND DEVELOPMENT**

Research and development are included in the Group's normal business operations. Costs arising from these operations have been stated as annual expenses.

#### **SHARES AND EQUITY MARKETS**

Kesko Corporation's share capital was FIM 902,134,000 (EUR 1 = FIM 5.94573). The share capital was decreased by an amount corresponding to the nominal value of the shares redeemed by the Corporation, i.e. by EUR 50,456. The new share capital was entered in the Trade Register on 8 April 1998. At the end of 1998, 35.1% of the share capital consisted of exclusive shares and 64.9% of ordinary shares.

Kesko's share price was EUR 14.50 at the end of 1997, and EUR 12.78 at the end of 1998. 28.0 million Kesko shares, with a total value of EUR 382 million, were traded on the Helsinki Exchanges during the year. During the period, the HEX general index rose by 68.5%, while the business sector price index dropped by 6.1%.

#### **KESKO AND THE EURO**

A crucial factor in decisions on Kesko's euro timetable has been that the majority of Kesko's customers are domestic. Therefore, it has been considered more practical to retain retail operations in Finnish markkas until consumers are using euro-denominated notes and coins, i.e. until the end of the transition period.

Kesko will prepare its financial statements for 1998 in markkas and they will then be converted into euros. Financial statements will be prepared in markkas for the last time for the year 2001.

The majority of Kesko's purchases and sales will be made in markkas during the transition period. The prices of Kesko's stock items will remain in markkas until 31 December 2001. However, Kesko is also prepared to deal in euros.

The transfer to the use of euros has progressed in Kesko according to plan. The costs arising from this transfer have been clearly lower than expected.

#### **KESKO AND THE YEAR 2000**

Kesko's business operations are dependent on information technology. Operational information system services are mainly offered by Tietokesko Oy. Long-term preparations have been made at Tietokesko for the turn of the millennium:

- In 1980, date fields were internally standardised to present years in four digits.
- In 1993, instructions were given to ensure that applications and purchases meet Year 2000 compliance.
- In 1997, a project to assess Year 2000 compliance was started.
- In 1998, a project to test and maintain Year 2000 compliance was started.

The necessary alteration work for applications had been completed by the end of 1998. The major work to be done in 1999 includes the testing of electronic data interchange platforms with suppliers, banks and other partners, as well as the technical testing of servers.

K-linkki Oy has ascertained that the cash register systems delivered by it will meet the requirements of the year 2000. At the end of 1998, over 1,150 K-stores were using a cash register system delivered by K-linkki.

Concerning the real estate systems, a survey is just being made of all the technical systems used in Kesko's own buildings. The survey will be completed by September 1999. Any uncertainty will be removed by active cooperation with suppliers and trade organisations.

A separate project has been started for the goods trade, with the aim of identifying and controlling any year-2000 risks related to the goods sold by Kesko and

creating uniform policies for handling any product faults.

A contingency plan for exceptional conditions in information management and logistics is being updated in order to prepare for any problems which may arise. As for real estate, preparations are being made for the manual control of house technology.

It has been possible to avoid high alteration expenses by making preparations for the year 2000 in good time. The estimated additional costs for the years 1997-1999 are about EUR 1.7 million. At Kesko, Year 2000 compliance is controlled and managed by a steering group appointed by Kesko Corporation's Board of Directors.

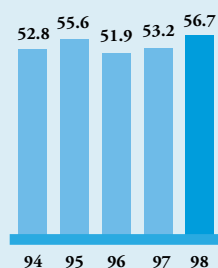
#### MAIN EVENTS IN 1998

On 12 February, Kesko Corporation and Kesko's associated company Center-yhtiöt Oy sold 77 properties used for wholesale and retail trading to Kiinteistösi joitus Oy

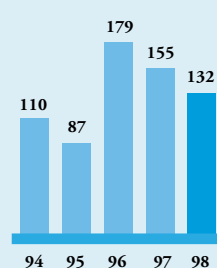
Citycon. The total value of the deal amounted to EUR 71 million. The retail sites and premises sold are mainly used by K-retailers. Part of the selling price was settled in shares of Kiinteistösi joitus Oy Citycon. In the targeted issue of 10 March 1998, Kesko Corporation subscribed to 4.6 million shares and Center-yhtiöt Oy to 16.7 million shares of Kiinteistösi joitus Oy Citycon.

On 18 February, Kesko and Neste signed a cooperation agreement including the Neste service stations in the Plussa customer loyalty programme. The nearly 600 service stations operated by Neste in Finland joined the system on 1 June 1998. The largest hotel chain in the Nordic countries, Scandic Hotels, was incorporated in the Plussa system as of 1 June 1998. The position of the Plussa card as the most comprehensive loyalty card in Finland was thus further strengthened. At the end of 1998, there were as many as over 1.9 million Plussa loyalty cards.

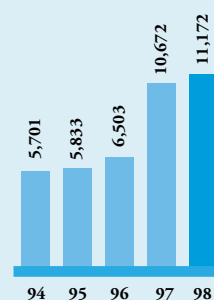
Group equity ratio, %



Group investments, EUR million



Group personnel, average



On 2 April, Kesko Group sold 600 Oy Radiolinja Ab A-shares to Helsinki Telephone Corporation for a total price of EUR 25.2 million. Kesko Group's profit on the sale amounted to EUR 24.7 million.

On 6 April, Kesko Corporation's Annual General Meeting decided to pay a dividend of FIM 3.00 per share. The total amount of dividends paid amounted to EUR 46 million. In line with an amendment to the Companies Act in Finland, the Annual General Meeting decided to make Kesko a public limited company. Accordingly, the name of the company became Kesko Oyj in Finnish and Kesko Corporation in English as of 1 May 1998.

On 12 June, Kesko Corporation sold its shareholding in Kiinteistösi joitus Oyj Citycon for a total profit of EUR 7 million. This figure includes the sales profits of EUR 0.5 million obtained by Center-yhtiöt Oy, an associated company of Kesko Corporation.

On 6 August, Kesko published the Finnish trading sector's first environmental report. The development of an environmental management system based on the ISO 14001 standard had been started in autumn 1996.

On 7 October, Kesko Corporation and its subsidiary Hämeenkylä Kauppa Oy, together with Kesko's associated company Center-yhtiöt Oy and the Kesko Pension Fund, sold 18 properties used for retail trading to Kiinteistösi joitus Oyj Citycon. The value of the deal was EUR 128 million, and the share of the Kesko Pension Fund was EUR 15 million. Kesko Group's profit on the sale of these properties amounted to EUR 16 million. Kesko will rent the retail sites and premises actively used by retailers from Citycon.

On 30 November, Kesko's Supervisory Board elected Matti Kallio as the Supervisory Board's Chairman for 1999, while Heikki Takamäki was appointed as Deputy Chairman.

In December, Merita Real Estate Ltd, Kesko Corporation, Sampo Insurance Company plc, Pohjola Non-Life Insurance Company Limited and Pohjola Life Assurance Company Ltd made an agreement on cooperation with the aim of establishing a real estate investment company from the shopping centres or their parts owned by these companies. At the initial stage, the value of the property will total about EUR 336 million.

#### **FUTURE OUTLOOK**

The year 1998 was a period of strong growth in the Finnish economy. The reinvigoration of the economy improved consumers' purchasing power and optimism, which was clearly reflected in retail sales volume. Consumers' confidence in favourable economic progress is expected to remain strong this year, too. It provides good operational conditions for both the wholesale and retail trade.

According to the Ministry of Finance, the purchasing power of households will grow this year by 3.5% and the savings ratio will decrease from 4.3% to 3.6%.

According to the Research Institute of the Finnish Economy, the value of private consumption is forecast to grow by 5.0% in 1999. The low inflation rate increases real income, which means a positive trend for trading.

Although the overall economic outlook continues to be good, Finnish export industry will have to make some adaptations due to the situation currently pre-

vailing in Russia and Asia. Some of these companies are also Kesko's customers. At present, Kesko's own business activities in Russia are insignificant.

A big part of Kesko Group's net sales comes from speciality goods trading. Due to the growing purchasing power of consumers, the trade in speciality goods is expected to increase more than in foodstuffs. Kesko's future growth will be increasingly based on the growing consumption and sales of speciality goods. This will also be affected by expanding business operations in the Swedish hardware and shoe markets, and by the opportunities for growth in the Baltic and Russian markets.

The outlook for the Foodstuffs Division is good. As the increase in consumption focuses on speciality goods, and consumers' purchasing behaviour favours population centres, there will be enhanced sales opportunities for big stores in the foodstuffs trade as well.

The organisational changes implemented in the Home and Speciality Goods Division in October 1998 and those to be carried out in the Foodstuffs Division in March 1999 will substantially improve Kesko's wholesale operations in these business sectors. The annual cost savings resulting from these organisational changes will amount to about EUR 5 million.

If investment and consumer demand achieve the expected levels, the Group's net sales are forecast to amount to EUR 6.4 billion and the profit divisions' operating profits to improve significantly. The Group's profit before extraordinary items is expected to reach the level of 1998.



# Calculation *of key indicators*

Return on investment, % (ROI)	=	$\frac{\text{profit before extraordinary items} + \text{interest expenses and other financial expenses}}{\text{balance sheet total less interest-free debt (average during the year)}}$	x 100
Return on equity, % (ROE)	=	$\frac{\text{profit before extraordinary items less income taxes}}{\text{shareholders' equity} + \text{minority interest (average during the year)}}$	x 100
Return on capital employed, % (RONA)	=	$\frac{\text{operating profit}}{\text{capital employed (= balance sheet total less interest-free debt)}}$	x 100
Equity ratio, %	=	$\frac{\text{shareholders' equity} + \text{minority interest}}{\text{balance sheet total less advances received}}$	x 100
Debt to equity ratio, %	=	$\frac{\text{liabilities} + \text{provisions}}{\text{balance sheet total less advances received}}$	x 100
Net debt	=	liabilities less receivables, securities and cash on hand and at bank	
Interest-bearing net debt as % of equity	=	$\frac{\text{interest-bearing liabilities less securities less cash on hand and at bank}}{\text{shareholders' equity} + \text{minority interest}}$	x 100
Net cash flow from operations	=	operating profit + depreciation and reduction in value + change in net working capital + financial income and expenses less income taxes	
Dividend as % of profit	=	$\frac{\text{dividend per share}}{\text{earnings per share}}$	x 100
Earnings per share	=	$\frac{\text{profit before extraordinary items less income taxes less minority interest}}{\text{adjusted average number of shares in issue during the year}}$	
Price per earnings ratio (P/E)	=	$\frac{\text{average share price on the balance sheet date}}{\text{earnings per share}}$	
Equity per share	=	$\frac{\text{shareholders' equity}}{\text{adjusted number of shares in issue at 31 Dec.}}$	
Dividend yield, %	=	$\frac{\text{dividend per share}}{\text{average share price on the balance sheet date}}$	x 100
Net cash flow from operations per share	=	$\frac{\text{net cash flow from operations}}{\text{average number of shares}}$	
Market capitalisation	=	average share price on the balance sheet date x number of shares	

# Group *in figures*

	1994	1995	1996	1997	1998
<b>Income statement</b>					
Net sales, EUR million	4,584	4,478	4,948	5,870	5,992
Change in net sales, %	4.7	-2.3	10.5	18.6	2.1
Other operating income, EUR million	192	203	208	238	290
Materials and services, EUR million	4,243	4,116	4,530	5,204	5,270
Personnel expenses, EUR million	158	169	193	302	321
Personnel expenses as % of net sales	3.4	3.8	3.9	5.2	5.4
Depreciation and reduction in value, EUR million	58	58	64	99	101
Other operating expenses, EUR million	256	262	287	391	460
Operating profit, EUR million	62	76	82	112	130
Operating profit as % of net sales	1.4	1.7	1.6	1.9	2.2
Financial income and expenses, EUR million	16	40	43	3	3
Profit before extraordinary items, EUR million	78	116	125	115	133
Profit before extraordinary items as % of net sales	1.7	2.6	2.5	2.0	2.2
Profit before taxes, EUR million	92	126	110	115	156
Income taxes, EUR million	24	32	29	27	42
Minority interest, EUR million	0	0	0	0	0
Net profit for the financial year, EUR million	68	94	81	88	114
<b>Balance sheet</b>					
Intangible assets, EUR million	42	46	85	151	143
Tangible assets, EUR million	596	586	691	918	886
Investments, EUR million	122	117	472	119	82
Stocks, EUR million	300	290	404	461	495
Receivables, EUR million	773	728	728	727	692
Securities, EUR million	364	425	65	180	208
Cash on hand and at bank, EUR million	42	40	46	30	39
Share capital, FIM million	152	152	152	152	152
Shareholders' equity, EUR million	1,170	1,225	1,279	1,338	1,407
Minority interest, EUR million	5	6	8	30	27
Provisions, EUR million	4	5	9	21	19
Liabilities, EUR million	1,060	995	1,196	1,196	1,091
Balance sheet total, EUR million	2,239	2,230	2,491	2,585	2,545
Interest-bearing liabilities, EUR million	354	305	473	385	317
Net debt, EUR million	-119	-197	357	260	153
Interest-bearing net debt, EUR million	-52	-159	362	176	71
<b>Key indicators</b>					
Return on investment, %	7.3	8.8	9.0	8.2	8.9
Return on equity, %	5.0	7.1	7.3	6.6	6.5
Equity ratio, %	52.8	55.6	51.9	53.2	56.7
Interest-bearing net debt as % of equity	-4.4	-12.9	28.2	12.8	4.9
Net cash flow from operations, EUR million	253	182	147	244	179
<b>Investments, EUR million</b>					
Investments as % of net sales	2.4	2.0	3.6	2.7	2.2
<b>Personnel</b>					
	5,701	5,833	6,503	10,672	11,172

	1994	1995	1996	1997	1998
<b>Share capital and shares</b>					
Share capital, FIM million	152	152	152	152	152
Number of shares at 31 Dec, million pcs	90	90	90	90	90
Adjusted number of shares at 31 Dec, 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 Dec.	28,486	27,479	25,890	24,292	23,704
Market capitalisation, EUR million	835	821	984	1,311	1,154
Share trading, EUR million	216	187	456	415	382
Share trading, million pcs	24	22	42	34	28
Change in share trading, %	-14.5	-7.0	87.4	-18.8	-21.5
Exclusive shares, %	34	38	35	35	35
Ordinary shares, %	66	62	65	65	65
Nominal dividend per share, EUR	0.24	0.32	0.34	0.50	0.67*
Adjusted dividend per share, EUR	0.24	0.32	0.34	0.50	0.67*
Dividend as % of profit	37.3	33.9	33.1	51.1	66.6
Nominal value of share, EUR	1.68	1.68	1.68	1.68	1.68
Share price at 31 Dec, EUR	9.25	9.10	10.92	14.50	12.78
Adjusted share price at 31 Dec, EUR	9.25	9.10	10.92	14.50	12.78
Average share price at 31 Dec, EUR	-	-	10.91	14.53	12.79
Highest share price during the year, EUR	10.09	9.92	12.68	14.80	16.40
Lowest share price during the year, EUR	7.57	6.93	8.91	10.68	10.09
Adjusted earnings per share, EUR	0.64	0.94	1.02	0.98	1.01
Net cash flow from operations per share, EUR	2.80	2.01	1.63	2.71	1.99
Price per earnings ratio (P/E)	14.6	9.7	10.7	14.8	12.7
Dividend yield, %	2.5	3.5	3.1	3.5	5.3
Equity per share, adjusted, EUR	12.97	13.57	14.17	14.83	15.59
Yield of share (internal rate of return on share capital, %)					
For last 5 financial years	1.9	6.9	15.2	21.7	12.2
For last 10 financial years	18.0	16.4	13.8	12.3	8.1

\* proposal to the Annual General Meeting

# Income *statement*

EUR million	CONSOLIDATED				KESKO CORPORATION			
	1.1.-31.12.1998		1.1.-31.12.1997		1.1.-31.12.1998		1.1.-31.12.1997	
		%		%		%		%
<b>Net sales</b>	<b>5,992.4</b>	100	<b>5,870.0</b>	100	<b>4,705.7</b>	100	<b>3,978.5</b>	100
Other operating income	290.1	4.8	238.3	4.0	334.2	7.1	263.4	6.6
Materials and services								
Materials and goods								
Purchases during the financial year	-5,237.1		-514.5		-4,344.3		-3,686.0	
Variation in stocks	34.2		-36.0		-0.9		23.0	
External services	-67.0		-22.6		-80.0		-74.3	
	-5,269.9	87.9	-5,203.6	88.6	-4,425.1	94.1	-3,737.2	93.9
Personnel expenses								
Wages and salaries	-257.3	4.3	-242.3	4.1	-103.5	2.2	-90.2	2.3
Social security expenses								
Pension expenses	-37.7	0.6	-32.8	0.5	-14.9	0.3	-12.5	0.3
Other social security expenses	-26.4	0.4	-27.4	0.5	-10.5	0.2	-10.4	0.3
	-321.4	5.3	-302.5	5.1	-128.9	2.7	-113.1	2.9
Depreciation and reduction in value								
Depreciation according to plan	-95.0	1.6	-92.5	1.6	-34.1	0.7	-36.5	0.9
Amortization on goodwill	-6.4	0.1	-6.2	0.1				
	-101.4	1.7	-98.7	1.7	-34.1	0.7	-36.5	0.9
Other operating expenses	-459.5	7.7	-391.3	6.7	-377.1	8.0	-297.8	7.5
<b>Operating profit</b>	<b>130.3</b>	2.2	<b>112.2</b>	1.9	<b>74.7</b>	1.6	<b>57.3</b>	1.4
Financial income and expenses								
Income from associated companies	0.4		1.2					
Dividend income								
From Group companies					13.9		18.0	
From others	0.5		2.8		0.4		2.3	
Interest income from investments held as non-current assets								
From others	0.0		0.8		0.0		0.8	
Other interest and financial income								
From Group companies					1.2		5.6	
From others	26.2		27.5		19.5		20.4	
Interest and other financial expenses								
To Group companies					-5.4		-3.6	
To others		-24.4		-29.4		-18.5		-23.0
	2.7	0.0	2.9	0.1	11.1	0.2	20.6	0.5
<b>Profit before extraordinary items</b>	<b>133.0</b>	2.2	<b>115.1</b>	2.0	<b>85.8</b>	1.8	<b>77.9</b>	2.0
Extraordinary items								
Extraordinary income	22.8				19.3	0.4	18.8	0.5
Extraordinary expenses					-5.4	-0.1	-16.0	-0.5
	22.8	0.4			13.9	0.3	2.8	0.0
<b>Profit before appropriations and taxes</b>					<b>99.7</b>	2.1	<b>80.7</b>	2.0
Appropriations								
Change in depreciation reserve					27.1	0.6	-1.9	
Change in untaxed reserves					0.2		83.3	2.1
<b>Profit before taxes</b>	<b>155.7</b>	2.6	<b>115.1</b>	2.0	<b>127.0</b>	2.7	<b>162.0</b>	4.1
Income taxes								
For the financial year	-46.5	0.8	-57.4	1.0	-35.7	0.7	-45.1	1.1
For previous financial years	0.2		3.3		0.1		3.5	0.1
Change in deferred tax liability	4.0	0.1	27.0	0.5				
	-42.3	0.7	-27.1	0.5	-35.6	0.7	-41.6	1.1
<b>Minority interest</b>	<b>0.4</b>		<b>0.4</b>					
<b>Profit for the financial year</b>	<b>113.9</b>	1.9	<b>88.5</b>	1.5	<b>91.4</b>	1.9	<b>120.4</b>	3.0

# Statement *of cash flows*

EUR million	CONSOLIDATED		KESKO CORPORATION	
	1.1.-31.12.1998	1.1.-31.12.1997	1.1.-31.12.1998	1.1.-31.12.1997
<b>Operations</b>				
Operating profit	130.3	112.2	74.7	57.3
Depreciation and reduction in value	101.4	98.7	34.1	36.5
Change in net working capital				
Stocks, increase/decrease (-/+)	-34.5	-56.5	0.9	-23.0
Short-term trade receivables, increase/decrease (-/+)	31.1	0.5	-5.9	12.8
Interest-free short-term debt, increase/decrease (+/-)	-9.5	113.5	29.0	68.6
	-12.9	57.5	24.0	58.4
Interest income	1.8	5.7	2.9	6.1
Dividends received	0.5	2.8	14.3	20.3
Other financial items	0.4	-5.5	-6.1	-5.8
Group contributions received and paid			13.9	2.8
Taxes	-42.3	-27.1	-35.6	-41.6
<b>Net cash flow from operations</b>	<b>179.1</b>	<b>244.3</b>	<b>122.2</b>	<b>133.9</b>
<b>Investments</b>				
Investment in shares	-30.7	-50.0	-64.3	-38.7
Purchases of other fixed assets	-149.4	-185.5	-75.0	-53.9
Sale of shares	68.1	54.3	99.8	37.3
Sale of other fixed assets	101.9	181.4	29.3	9.8
Increase in other long-term investments	-0.1	-1.1	-0.6	-1.4
<b>Net cash used in investments</b>	<b>-10.1</b>	<b>-0.9</b>	<b>-10.7</b>	<b>-46.9</b>
<b>Cash flow before financing</b>	<b>169.0</b>	<b>243.5</b>	<b>111.4</b>	<b>87.0</b>
<b>Financing</b>				
Raising of long-term loans (+)	23.9	0.3		
Repayment of long-term loans (-)	-22.8	-31.4	-22.7	-64.8
Long-term receivables, increase/decrease (-/+)	3.9	1.1	3.6	1.7
Short-term financing, increase/decrease (-/+)	-69.3	-56.8	-10.9	92.0
Dividends paid	-45.5	-30.3	-45.5	-30.3
Others	-22.5	-27.7	-0.3	-0.3
<b>Financing, total</b>	<b>-132.4</b>	<b>-144.8</b>	<b>-75.7</b>	<b>-1.6</b>
Increase/decrease in liquid funds	36.6	98.6	35.7	85.3
Liquid funds at 1.1.	209.5	110.9	191.2	105.9
<b>Liquid funds at 31.12.</b>	<b>246.2</b>	<b>209.5</b>	<b>226.9</b>	<b>191.2</b>

# Balance sheet

EUR million	CONSOLIDATED				KESKO CORPORATION			
	31.12.1998		31.12.1997		31.12.1998		31.12.1997	
		%		%		%		%
<b>Assets</b>								
<b>Non-current assets</b>								
Intangible assets								
Goodwill	66.7		71.7					
Other capitalised long-term expenses	76.6		79.2		28.1		30.6	
	<b>143.3</b>	5.6	<b>150.9</b>	5.8	<b>28.1</b>	1.3	<b>30.6</b>	1.4
Tangible assets								
Land and water	149.4		149.2		83.4		79.2	
Buildings	520.5		576.9		278.4		293.5	
Machinery and equipment	180.0		171.3		58.5		51.0	
Other tangible assets	3.7		3.5		1.9		1.6	
Advance payments and construction in progress	32.7		17.0		31.1		13.6	
	<b>886.3</b>	34.8	<b>917.9</b>	35.5	<b>453.3</b>	20.2	<b>438.9</b>	19.7
Investments								
Holdings in Group companies					517.9		516.3	
Participating interests	53.5		78.3		50.6		76.5	
Other shares and similar rights of ownership	27.2		39.9		17.0		28.2	
Other receivables	1.2		1.1		2.1		1.4	
	<b>81.9</b>	3.2	<b>119.4</b>	4.6	<b>587.6</b>	26.2	<b>622.4</b>	27.9
<b>Current assets</b>								
Stocks								
Finished products/goods	495.2	19.5	460.7	17.8	181.7	8.1	182.6	8.2
Receivables								
Long-term								
Trade receivables	0.2		0.5					
Receivables from participating interest companies	8.8		12.3		8.8		12.2	
Loan receivables	0.9		1.0		0.8		1.0	
	<b>10.0</b>	0.4	<b>13.8</b>	0.5	<b>9.7</b>	0.4	<b>13.3</b>	0.6
Short-term								
Trade receivables	518.9		464.6		374.8		335.0	
Receivables from Group companies					246.2		198.8	
Receivables from participating interest companies	72.6		114.6		72.2		114.1	
Loan receivables	10.6		70.2		8.3		65.9	
Other receivables	7.7		7.0		1.9		3.0	
Prepayments and accrued income	71.7		56.3		51.5		32.1	
	<b>681.6</b>	26.8	<b>712.6</b>	27.6	<b>754.9</b>	33.7	<b>749.0</b>	33.6
Securities								
Other securities	207.7	8.2	179.8	7.0	206.5	9.2	179.8	8.1
Cash on hand and at bank	38.5	1.5	29.7	1.2	20.4	0.9	11.5	0.5
<b>Assets</b>	<b>2,544.5</b>	100.0	<b>2,584.9</b>	100.0	<b>2,242.2</b>	100.0	<b>2,228.1</b>	100.0

EUR million	<b>CONSOLIDATED</b>				<b>KESKO CORPORATION</b>			
	31.12.1998		31.12.1997		31.12.1998		31.12.1997	
		%		%		%		%
<b>Liabilities</b>								
<b>Shareholders' equity</b>								
Share capital	151.7		151.8		151.7		151.8	
Share premium account	171.7		171.6		171.4		171.4	
Revaluation reserve	1.6		1.8		1.4		1.4	
Other reserves								
Other reserves	303.2		303.4		243.4		243.4	
Retained earnings	664.7		620.8		281.9		207.3	
Profit for the financial year	113.9		88.5		91.4		120.4	
	<b>1,406.8</b>	55.3	<b>1,337.9</b>	51.8	<b>941.3</b>	42.0	<b>895.7</b>	40.2
<b>Minority interest</b>	<b>27.4</b>	1.1	<b>30.2</b>	1.2				
<b>Appropriations</b>								
Depreciation reserve					<b>229.2</b>	10.2	<b>256.3</b>	11.5
Untaxed reserves								
Other reserves							<b>0.2</b>	
<b>Provisions</b>								
Other provisions	<b>19.2</b>	0.7	<b>21.3</b>	0.8	<b>1.1</b>	0.1	<b>0.7</b>	
<b>Liabilities</b>								
Deferred tax liability	<b>72.4</b>	2.9	<b>99.2</b>	3.8				
<b>Non-current liabilities</b>								
Bonds and notes			16.8				16.8	
Bonds with warrants	0.4		0.5		0.2		0.2	
Loans from financial institutions	10.0		15.9		7.8		13.0	
Pension loans								
Other debt	104.2		80.3		45.3		45.8	
	<b>114.6</b>	4.5	<b>113.6</b>	4.4	<b>53.3</b>	2.4	<b>75.9</b>	3.4
<b>Current liabilities</b>								
Loans from financial institutions	17.1		57.0		6.5		40.1	
Advances received	14.8		14.5		4.2		3.2	
Trade payables	501.2		500.9		441.8		408.2	
Debt to Group companies					297.5		240.8	
Debt to participating interest companies	4.5		12.8		4.5		12.8	
Other debt	241.1		259.2		197.8		218.9	
Accruals and deferred income	125.4		138.3		65.0		75.3	
	<b>904.0</b>	35.5	<b>982.8</b>	38.0	<b>1,017.4</b>	45.3	<b>999.2</b>	44.9
<b>Liabilities</b>	<b>2,544.5</b>	100.0	<b>2,584.9</b>	100.0	<b>2,242.2</b>	100.0	<b>2,228.1</b>	100.0

# Notes *to the financial statements*

## *Accounting policies*

### **Extent of consolidated financial statements**

In addition to Kesko Corporation, the consolidated financial statements contain all subsidiaries, including 49 real estate companies.

A copy of Kesko Corporation's financial statements and the consolidated financial statements can be received from Kesko Corporation, Satamakatu 3, FIN-00016 Kesko, Finland.

### *Principles of consolidation*

#### **Intra-Group shareholdings**

The intra-Group shareholdings have been eliminated by using the acquisition method. The difference between the acquisition cost of subsidiaries and the corresponding equity item has been partly included in fixed assets and partly stated as goodwill and depreciated according to plan. In the Group, goodwill is amortized over 5-15 years.

#### **Intra-Group business transactions and margins**

All intra-Group business transactions, unrealised margins arising from deliveries, receivables and debt, and distribution of profit have been eliminated.

#### **Minority interests**

Minority interests have been separated from the financial statements of individual subsidiaries and disclosed separately from shareholders' equity in accordance with minority interests.

#### **Translation differences**

The income statements and balance sheets of foreign Group companies have been translated into Finnish markkas at the exchange rate current on the balance sheet date. Translation differences have been included in retained earnings.

#### **Associated companies**

The associated companies in which Kes-

ko's holding is 20-50% have been consolidated by using the equity method. The Group's share of profits/losses of real estate associated companies, based on the Group's share of ownership, is included in other operating income and expenses. The share of profits/losses of Vähittäiskaupan Takaus Oy and Valluga-sijoitus Oy is included in financial items.

#### **Changes in the Group structure**

The companies Citymarket Oy (Kesfood Oy until 21 January 1999), Tremont Oy, Ulkokaupat Vilnius AS and Seppo Levoski Oy were established during the financial year. Six companies were acquired for the Kaukomarkkinat Group's Tähti Optikko chain, as well as four real estate companies and a holding of 41% in another real estate company. Antti Pehkonen Oy, SV-Tietopalvelu Oy, Xenex Telecom Oy and 15 real estate companies were divested during the year. In addition, holdings in 15 real estate associated companies were sold.

Toivalan Liikekiinteistö Oy and Rautia Oy were merged, and an associated company, Vaajakosken Tulitikkutehdas Oy, was dissolved during the financial year.

### *Principles used in preparing financial statements*

#### **Valuation of fixed assets**

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

#### **Depreciation plan**

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

The periods adopted for depreciation are as follows:

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

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

The goodwill arising from the Kaukomarkkinat Group and Anttila Oy is amortized over fifteen years on a straight line basis, while the goodwill arising from Carrols Oy is amortized over seven years and that of Kauppiaitten Kustannus Oy over five years. The periods for depreciation have been determined on the basis of the stability of business and the sector's future outlook.

Depreciation according to plan and the depreciation reserve comply with Finnish tax legislation. The depreciation reserve has been treated as appropriations in the parent company and included in deferred tax liability and shareholders' equity in the Group.

#### **Valuation of stocks**

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

#### **Valuation of financial assets**

Securities have been valued at lower of cost or net realisable value.

#### **Foreign currencies**

Items denominated in foreign currencies have been translated into Finnish markkas at the average exchange rate of the Bank of Finland on the balance sheet date.

If a receivable or a debt is tied to a fixed rate of exchange, it has been used for translation. Profits and losses arising from foreign currency transactions have been dealt with in the income statement.

#### **Interest rate derivative contracts**

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, options and swaps are stated at market values. Unrealised revaluation has not been stated as income. Any valuation losses have been included in interest expenses.



### Currency derivative contracts

The forward exchange contracts are valued at the average exchange rate of the Bank of Finland 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 is stated as interest income or expenses, according to the term-to-maturity.

In the financial statements, the open option contracts are stated at market value. 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 used 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, as is the interest of a corresponding loan.

### Equities derivative contracts

Open equities derivative contracts are valued on the prudence principle at the market price so that the valuation losses not realised on the balance sheet date are stated as expenses, but unrealised revaluation is not stated as income.

### Pension costs

Annual pension costs are included in personnel expenses in the income statement. Pension benefits provided to Kesko Corporation's employees are arranged through the Kesko Pension Fund. The Fund's A-Department, which provides supplementary pension benefits, was closed on 9 May 1998.

The Pension Foundation for Trade was dissolved on 31 December 1997, and the payment of pensions to the employees of subsidiaries and the pension liabilities

were transferred to pension insurance companies. The retirement age agreed for a number of directors in the Group is 60 or 62 years.

### Comparability

The income and expenses stated as extraordinary items in the consolidated income statement for 1997 are stated as comparable information in other operating income or expenses in the consolidated income statement for 1998. Their decreasing effect on the profit before extraordinary items is EUR 1 million. The shares of profits/losses of real estate associated companies included in financial items for 1997, amounting to EUR 5 million, have now been included in other operating income and expenses.

### Income relating to previous financial years

Extraordinary items include a book income of EUR 23 million arising from a change in accounting practice affecting the calculation of tax receivables and debt.

## Notes to the income statement

	GROUP		KESKO CORPORATION	
EUR million	1998	1997	1998	1997
<b>Net sales</b>				
Foodstuffs Division	3,129	2,936	2,795	2,523
Home and Speciality Goods Division	906	882	664	310
Builders' and Agricultural Supplies Division	1,282	1,275	1,245	1,144
Kaukomarkkinat	237	415		
VV-Auto	389	340		
Others	49	22	2	1
Total	5,992	5,870	4,706	3,978
Exports	103	89	28	23
<b>Other operating income</b>				
services income	168.4	150.7	240.1	175.0
profit from sale of real estate and shares	62.3	20.5	45.9	19.7
income from associated companies	0.2	5.4		
others	59.2	61.6	48.2	68.8
Total	290.1	238.3	334.2	263.4
<b>Notes concerning employees and administrative body members</b>				
average number of personnel, by division				
Foodstuffs Division	4,811	4,434	1,714	1,631
Home and Speciality Goods Division	3,260	3,296	839	642
Builders' and Agricultural Supplies Division	1,363	1,407	911	745
Kaukomarkkinat	757	738		
VV-Auto	97	88		
Others	884	709	302	271
Total	11,172	10,672	3,766	3,289
<b>Salaries and fees to the management</b>				
salaries to the Supervisory Board members	0.1	0.1	0.1	0.1
salaries to Managing Directors	3.5	3.6	0.5	0.6
salaries to the Boards of Directors	1.5	1.1	1.5	1.1
Total	5.0	4.8	2.1	1.8
pension commitments to the management				

The retirement age agreed for a number of directors is 60 or 62 years.

EUR million	GROUP		KESKO CORPORATION	
	1998	1997	1998	1997
<b>Depreciation and reduction in value</b>				
depreciation on intangible and tangible assets are specified in the notes to the balance sheet.				
<b>Other operating expenses</b>				
rent expenses	148.7	145.1	154.3	115.2
marketing expenses	128.3	100.4	80.2	73.4
maintenance of real estate and store sites	50.7	43.7	55.6	45.7
other operating expenses	106.9	96.3	70.4	61.1
losses from sales of real estate and shares	20.8	4.8	16.5	2.4
profits/losses of associated companies	4.1	0.9		
	459.5	391.3	377.1	297.8
<b>Items included in extraordinary income and expenses</b>				
deferred tax assets	22.7			
contributions from Group companies			19.3	18.8
contributions to Group companies			-5.4	-16.0
	22.7		13.9	2.8
<b>Appropriations</b>				
difference between depreciation according to plan and depreciation made in taxation				
			27.1	-1.9
recognition of transition reserve				83.1
recognition of acquisition reserve			0.2	0.2
			0.2	83.3
<b>Changes in provisions</b>				
rent expenses for vacant business premises	0.3	3.6	0.3	-0.1
guarantee losses	-0.1	0.8		
guarantee provisions	0.4	0.1	0.1	-0.1
supplementary pension liabilities	0.0	-1.3		
expenses for discontinued business operations	-3.6	9.1		
other changes	0.9			
	-2.1	12.4	0.4	-0.1
<b>Income taxes</b>				
income taxes from operational activities	46.3	54.1	35.6	41.6
change in deferred tax liabilities	-4.0	-27.0		
	42.3	27.1	35.6	41.6

## Notes to the balance sheet

### Intangible assets

<b>Goodwill</b>				
acquisition cost at 1 Jan.	82.1	38.6		
increases	0.3	44.0		
decreases	-3.3	-0.6		
acquisition cost at 31 Dec.	79.1	82.1		
accumulated depreciation at 1 Jan.	10.4	5.6		
accumulated depreciation on decreases and transfers	-3.3	-0.6		
depreciation during the financial year	5.3	5.4		
accumulated depreciation at 31 Dec.	12.4	10.4		
book value at 31 Dec.	66.7	71.7		

### Other capitalised expenditure

acquisition cost at 1 Jan.	170.7	95.9	70.8	68.2
increases	26.3	87.8	5.2	5.4
decreases	-5.0	-13.0	-3.4	-2.8
transfers among items	-0.7		-0.7	
acquisition cost at 31 Dec.	191.2	170.7	71.8	70.8
accumulated depreciation at 1 Jan.	91.5	78.6	40.2	34.0
accumulated depreciation on decreases and transfers	4.8	-1.6	-2.4	-1.4
depreciation during the financial year	18.3	14.5	5.9	7.6
accumulated depreciation at 31 Dec.	114.6	91.5	43.8	40.2
book value at 31 Dec.	76.6	79.2	28.1	30.6

### Tangible assets

<b>Land and water</b>				
acquisition cost at 1 Jan.	147.6	106.7	78.6	73.1
increases	8.9	66.7	5.0	7.8
decreases	-10.1	-26.1	-2.2	-2.6
transfers among items	1.4	0.2	1.4	0.2
acquisition cost at 31 Dec.	147.7	147.6	82.8	78.6
revaluation	1.7	1.6	0.6	0.6
book value at 31 Dec.	149.4	149.2	83.4	79.2

EUR million	GROUP		KESKO CORPORATION	
	1998	1997	1998	1997
<b>Buildings</b>				
acquisition cost at 1 Jan.	760.7	545.1	389.4	384.1
increases	28.8	392.2	23.5	13.1
decreases	-74.1	-176.5	-35.7	-7.9
transfers among items	1.0		1.0	
acquisition cost at 31 Dec.	716.4	760.7	378.1	389.4
accumulated depreciation at 1 Jan.	207.6	188.8	95.9	87.8
accumulated depreciation on decreases and transfers	-19.9	-7.6	-8.4	-4.7
depreciation during the financial year	26.9	26.4	12.2	12.8
accumulated depreciation at 31 Dec.	214.6	207.6	99.7	95.9
revaluation	18.7	23.7	0.0	0.0
book value at 31 Dec.	520.5	576.9	278.4	293.5
<b>Machinery and equipment</b>				
acquisition cost at 1 Jan.	541.5	371.0	208.2	191.7
increases	69.0	203.4	23.0	16.5
decreases	-22.6	-32.9		
transfers among items	0.1	0.0	0.1	
acquisition cost at 31 Dec.	588.1	541.5	231.3	208.2
accumulated depreciation at 1 Jan.	370.3	319.4	157.2	141.5
accumulated depreciation on decreases and transfers	-13.9			
depreciation during the financial year	51.7	50.9	15.6	15.7
accumulated depreciation at 31 Dec.	408.1	370.3	172.8	157.2
book value at 31 Dec.	180.0	171.3	58.5	51.0
<b>Other tangible assets</b>				
acquisition cost at 1 Jan.	7.6	7.3	4.3	4.3
increases	0.7	0.5	0.7	0.0
decreases	-0.4	-0.2	-0.1	-0.1
acquisition cost at 31 Dec.	7.9	7.6	4.9	4.3
accumulated depreciation at 1 Jan.	4.1	4.3	2.7	2.4
depreciation on decreases and transfers	-0.3	-0.7	-0.1	-0.1
depreciation during the financial year	0.5	0.5	0.4	0.4
accumulated depreciation at 31 Dec.	4.3	4.1	3.0	2.7
book value at 31 Dec.	3.7	3.5	1.9	1.6
<b>Advance payments and construction in progress</b>				
acquisition cost at 1 Jan.	17.0	3.8	13.6	2.5
increases	32.0	26.7	30.7	23.2
decreases	-14.6	-13.5	-11.4	-12.2
transfers among items	-1.7		-1.7	
acquisition cost at 31 Dec.	32.7	17.0	31.1	13.6
book value at 31 Dec.	32.7	17.0	31.1	13.6
<b>Revaluation of non-current assets</b>				
land and water	1.7	1.6	0.6	0.6
buildings	18.7	23.7		
shares and similar rights of ownership	0.8	0.8	0.8	0.8
	21.2	26.1	1.4	1.4
Revaluation refers to land, buildings and shares whose value is estimated to have increased permanently to a level which essentially exceeds the acquisition cost.				
<b>Investments</b>				
<b>Holdings in Group companies</b>				
acquisition cost at 1 Jan.			583.6	163.2
increases			34.7	11.8
decreases			-33.2	-6.7
transfers among items				415.3
acquisition cost at 31 Dec.			585.1	583.6
accumulated depreciation at 1 Jan.			67.3	
accumulated depreciation on decreases and transfers				67.3
accumulated depreciation at 31 Dec.			67.3	67.3
revaluation			0.1	0.1
book value at 31 Dec.			517.9	516.3

EUR million	GROUP		KESKO CORPORATION	
	1998	1997	1998	1997
<b>Participating interests</b>				
acquisition cost at 1 Jan.	77.9	472.5	76.0	483.3
increases	27.7	19.8	27.6	9.3
share of profits/losses for the financial year	3.9	2.5		
decreases	-55.0	-3.2	-53.6	-3.2
transfers among items	-1.4	-413.7		-413.3
acquisition cost at 31 Dec.	53.0	77.9	50.1	76.0
accumulated depreciation at 1 Jan.		67.3		67.3
accumulated depreciation on decreases and transfers		67.3		67.3
accumulated depreciation at 31 Dec.		0.0		0.0
revaluation	0.5	0.5	0.5	0.5
book value at 31 Dec.	53.5	78.3	50.6	76.5
<b>Other shares and similar rights of ownership</b>				
acquisition cost at 1 Jan.	39.6	40.4	27.9	39.6
increases	2.4	28.7	2.0	17.6
decreases	-16.4	-27.5	-13.1	-27.4
transfers among items	1.4	-2.0		-2.0
acquisition cost at 31 Dec.	27.1	39.6	16.7	27.9
reduction in value	0.1			
accumulated depreciation at 31 Dec.	0.1			
revaluation	0.3	0.3	0.3	0.3
book value at 31 Dec.	27.2	39.9	17.0	28.2

The register of shareholdings referred to in the Companies Act is annexed to the company's official financial statements. In 1998, the shareholdings in listed companies amounted to EUR 0.5 million (EUR 11 million in 1997), with the market value of EUR 1.7 million. The book value of shareholdings in housing and real estate companies (74 business premises) was EUR 62.4 million.

Group companies	Group's shareholding, %	parent company's shareholding, %	shares held by the parent company		
			pcs	nominal value EUR million	book value EUR million
S.J. Aalto Oy, Tampere	90.0	90.0	90	0.2	0.2
Academica Oy, Helsinki	100.0	100.0	700	0.1	0.9
Aleksi 13 Oy, Helsinki	100.0	100.0	10,000	1.7	3.0
Anttila Oy, Helsinki (Group)	100.0	100.0	20,324,844	17.1	72.9
Carrols Oy, Helsinki (Group)	100.0	100.0	1,000	1.7	1.7
Citymarket Oy, Helsinki	100.0	-	10,000	16.8	16.8
Golf Talma Oy, Sipoo	58.0	12.5	736	0.5	4.0
Hämeenkyllän Kauppa Oy, Helsinki (Group)	100.0	100.0	81,972,530	68.9	278.0
Kaukomarkkinat Oy, Espoo (Group)	100.0	100.0	2,085,320	35.1	83.9
Kauppiaiden Komedia Oy, Helsinki (Group)	95.2	-	331	0.1	2.3
Kauppiaitten Kustannus Oy, Helsinki	91.0	-	3,640	0.1	22.7
Kesko Eesti A/S, Tallinn	100.0	100.0	1,145	11.5 EEK	2.1
Kesko Export Ltd, Helsinki (Group)	100.0	100.0	300	0.5	0.5
Kesko Svenska AB, Stockholm	100.0	100.0	800	8.0 SEK	0.9
Kesped Ltd, Helsinki	100.0	100.0	300	0.5	0.5
Kesthom Oy, Helsinki (Group)	100.0	100.0	10,500	1.8	1.8
Kestra Kiinteistöpalvelut Oy, Helsinki	100.0	100.0	100	0.2	0.2
K-instituutti Oy, Helsinki	90.0	90.0	990	1.7	1.7
K-konerahoitus Oy, Helsinki	100.0	-	21,221,340	3.6	6.0
K-linkki Oy, Helsinki	100.0	100.0	2,000	3.4	3.4
K-Luotto Oy, Helsinki	98.3	98.3	11,800	2.0	2.0
K-maatalousyhtiöt Oy, Helsinki	100.0	-	500	0.8	0.8
K-Cash & Carry Ltd, Helsinki	100.0	100.0	1,000	16.8	16.8
K-Plus Oy, Helsinki	100.0	100.0	200	0.3	0.3
K-yhtiöt Oy, Helsinki	100.0	100.0	2,200	7.4	7.4
Seppo Levokoski Oy, Helsinki	90.0	90.0	90	0.2	0.2
MK-mainos Oy, Helsinki	90.0	-	216	0.4	0.4
Motorfeet Ltd, Helsinki (Group)	100.0	100.0	100	0.0	0.2
Sincera Oy, Helsinki	100.0	100.0	2,000	3.4	3.4
Suneva Oy, Helsinki	99.9	99.9	1,799	0.0	0.0
Finnish Rich Coffee Ltd, Helsinki	100.0	100.0	1,000	0.2	0.2
Tietokesko Oy, Helsinki	100.0	100.0	1,000	1.7	1.7
Tremont Oy, Helsinki	100.0	100.0	500	0.8	0.8
Viking Coffee Ltd, Vantaa	100.0	100.0	3,000	5.0	6.6
VV-Auto Oy, Helsinki (Group)	100.0	-	8,398,640	7.1	7.3
<b>Associated companies</b>					
Center-yhtiöt Oy, Helsinki (Group)	48.5	-	99,450	1.7	7.3
Kivinokka Oy, Helsinki	48.0	47.0	18,847	0.5	2.0
Valluga-sijoitus Oy, Helsinki	39.0	-	2,574	0.4	0.4
Viking Fruit AB, Stockholm (Group)	33.3	33.3	13,333	1.3 SEK	0.2
Vähittäiskaupan Takaus Oy, Helsinki	30.0	30.0	120,088	0.2	0.6

	<b>GROUP</b>		<b>KESKO CORPORATION</b>	
EUR million	1998	1997	1998	1997
<b>Other receivables</b>				
other receivables	1.2	1.1	2.1	1.4
<b>Receivables from participating interest companies</b>				
long-term				
loan receivables	8.8	12.3	8.8	12.2
<b>Receivables from Group companies</b>				
short-term				
trade receivables			63.2	44.8
loan receivables			181.7	150.8
other receivables				0.1
prepayments and accrued income			1.3	3.1
			246.2	198.8
<b>Receivables from participating interest companies</b>				
short-term				
trade receivables	0.3	0.3		3.2
loan receivables	72.3	114.3	72.2	110.9
	72.6	114.6	72.2	114.1
<b>Prepayments and accrued income</b>				
essential items included in prepayments and accrued income				
purchase price receivables	8.9		8.9	
annual discounts	10.6	13.6	9.7	8.8
receivables from advertising costs	14.8	8.5	12.8	7.7
others	37.4	34.1	20.0	15.5
	71.7	56.3	51.5	32.1
<b>Shareholders' equity</b>				
share capital at 1 Jan.	151.8	151.8	151.8	151.8
transfer to share premium account	-0.1		-0.1	
share capital at 31 Dec.	151.7	151.8	151.7	151.8
share premium account at 1 Jan.	171.6	171.7	171.4	171.4
transfer from share capital	0.1	0.0	0.1	
share premium account at 31 Dec.	171.7	171.6	171.4	171.4
revaluation reserve at 1 Jan.	1.8	1.6	1.4	1.8
decrease in connection with sale of fixed assets	-0.2	0.2		-0.4
revaluation reserve at 31 Dec.	1.6	1.8	1.4	1.4
other reserves at 1 Jan.	303.4	303.8	243.4	243.4
adjustment for associated companies	1.0	0.8		
change in other reserves	-1.2	-1.1		
other reserves at 31 Dec.	303.2	303.4	243.4	243.4
retained earnings at 1 Jan.	709.2	649.6	327.7	237.9
distribution of dividend	-45.5	-30.3	-45.5	-30.3
transfer to donations	-0.3	-0.3	-0.3	-0.3
other changes	0.1			
transfer from untaxed reserves and provisions		0.6		
transfer from other reserves	1.2	1.1		
retained earnings at 31 Dec.	664.7	620.8	281.9	207.3
profit for the financial year	113.9	88.5	91.4	120.4
shareholders' equity	1,406.8	1,337.9	941.3	895.7
<b>Distributable reserves</b>				
other reserves	303.2	303.4	243.4	243.4
retained earnings	664.7	620.8	281.9	207.3
profit for the financial year	113.9	88.5	91.4	120.4
restricted reserves		-2.0		
share of depreciation reserve and untaxed reserves included in shareholders' equity	-219.4	-246.6		
deferred tax assets caused by timing differences	-16.2			
group entries	-5.4	-5.4		
	840.8	758.7	616.7	571.1
appropriations				
depreciation reserve	306.9	344.1		
untaxed reserves	1.1	1.6		
	308.0	345.7		

		<b>GROUP</b>		<b>KESKO CORPORATION</b>	
EUR million		31.12.1998	31.12.1997	31.12.1998	31.12.1997
breakdown of parent company's share capital	pcs	price each	EUR thousand		
exclusive shares	31,690,331	10	5,330		
ordinary shares	58,523,069	10	9,843		
total	90,213,400	10	15,173		
voting rights given by exclusive shares:	pcs	votes			
	1-5	1			
	6-10	2			
	11-20	3			
	21-40	4			
	41-65	5			
	66-100	6	one additional vote on each subsequent holding of 100 shares		
voting rights given by ordinary shares:	1-10,000	1	one additional vote on each subsequent holding of 10,000 shares		
<b>Untaxed reserves</b>					
acquisition reserve				0.0	0.2
<b>Provisions</b>					
rent expenses for vacant					
business premises		3.9	3.7	0.4	0.2
guarantee losses		1.0	1.1		
guarantee provisions		5.7	5.3	0.7	0.7
supplementary pension liabilities		0.6	0.6		
expenses for discontinued business operations		5.6	9.1		
court proceedings		1.5	1.5		
other provisions		0.9	0.0		
		19.2	21.3	1.1	0.9
<b>Deferred tax liabilities and assets</b>					
deferred tax assets caused					
by timing differences		21.8			
deferred tax liabilities					
caused by appropriations		-88.6	-99.2		
caused by timing differences		-5.6			
		-72.4	-99.2		
<b>Non-current liabilities</b>					
debt falling due after five years					
loans from financial					
institutions			0.2		
pension loans					
other long-term debt			16.8		16.8
			17.0		16.8
bonds and notes					
bonds and notes 1993-2003			16.8		16.8
bond loan 1996-2002	interest rate 4%		0.2	0.2	0.2
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.					
Bond loan (Tuko Oy) 1994-2001					
Tuko Oy's subordinated bond loan. Subscription period 3.6.1994-3.6.2001. Number of shares to be subscribed 37,644 pcs.					
<b>Current liabilities</b>					
bonds and notes					
debenture loan 1985-1995	interest rate 12%	fallen due		0.1	0.1
convertible bonds					
convertible bonds 1989-1994	interest rate 5%	fallen due		0.1	0.0
<b>Debt to Group companies</b>					
advances received				4.9	10.4
trade payables				13.9	17.7
other debt				268.0	206.5
accrued liabilities and deferred income				10.7	6.3
				297.5	240.8
<b>Debt to participating interest companies</b>					
advances received		0.3	0.3	0.3	0.3
trade payables			2.0		2.0
other debt		4.2	10.5	4.2	10.5
		4.5	12.8	4.5	12.8
<b>Accrued liabilities and deferred income</b>					
essential items included in accrued liabilities and deferred income					
personnel expenses		49.0	42.2	22.7	17.9
advertising expenses		18.3	11.2	13.5	8.4
taxes		31.8	33.6	17.9	23.6
others		26.3	51.3	10.9	25.4
		125.4	138.3	65.0	75.3
<b>Interest-free debt</b>					
deferred tax liabilities		72.4	99.2	64.2	71.8
short-term		701.7	711.1	559.6	530.5
		774.1	810.3	623.7	602.3

## Other notes to the financial statements

EUR million	GROUP		KESKO CORPORATION				
	31.12.1998	31.12.1997	31.12.1998		31.12.1997		
<b>Guarantees and contingent liabilities</b>							
debt for the security of which mortgages have been given							
loans from financial institutions	0.1	0.7					
mortgages given	0.7	1.3					
other long-term debt	45.1	34.0					
mortgages given	55.4	43.4					
trade payables	10.7	2.8	1.8		2.8		
other short-term debt	1.9	1.4	1.9		1.4		
<b>total</b>	<b>12.6</b>	<b>4.2</b>	<b>3.7</b>		<b>4.2</b>		
mortgages given	11.1	11.1	11.1		6.1		
other mortgages	18.1	20.5	4.4		3.6		
<b>debt, total</b>	<b>57.8</b>	<b>38.9</b>	<b>3.7</b>		<b>4.2</b>		
mortgages given, total	85.3	76.2	15.5		9.7		
debt for the security of which shares have been given							
other long-term debt	13.8						
pledged shares	17.0						
trade payables	1.3		1.3				
other short-term debt	10.0	2.9	10.0		2.8		
pledged shares	73.0	73.0	73.0		73.0		
<b>debt, total</b>	<b>25.1</b>	<b>2.9</b>	<b>11.3</b>		<b>2.8</b>		
pledged shares, total	90.0	73.0	73.0		73.0		
<b>Mortgages</b>							
for own debt	85	76	15		10		
on behalf of Group companies			38		20		
on behalf of associated companies							
on behalf of management							
on behalf of shareholders							
on behalf of others							
<b>Pledges</b>							
for own debt	92	82	74		81		
on behalf of Group companies			17				
on behalf of associated companies							
on behalf of management							
on behalf of shareholders							
on behalf of others							
<b>Guarantees</b>							
for own debt	15						
on behalf of Group companies			20		21		
on behalf of associated companies							
on behalf of management							
on behalf of shareholders	1	1	1		1		
on behalf of others	4	5	2		2		
<b>Other contingent liabilities</b>							
for own debt	4	4	1		0		
on behalf of Group companies			49		37		
on behalf of associated companies							
on behalf of management							
on behalf of shareholders							
on behalf of others							
<b>Leasing liabilities</b>							
falling due within one year	0	1	0		0		
falling due after one year	1	1	0		0		
<b>Liabilities arising from derivative instruments</b>							
Value of underlying instruments at 31 Dec.							
Interest rate derivatives							
forward rate agreements		94	-1.2			94	-1.2
option agreements							
bought		25	0.0			17	0.0
written							
interest rate swaps		8	-0.1			8	-0.1
Currency derivatives							
forward exchange contracts	61	0.1	93	1.2	30	0.3	39
option agreements				0			
bought	3	0.0	10	0.2			4
written	2	0.0	1	0.0			0.1
currency swaps							
Equities derivatives							
forward equities derivatives							
option agreements							
bought	1	0.2					
written	1	-0.1					

### Provisions for the sale of real estate

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 effect on the Group's financial position.

## Proposed *distribution of profit*

Net profit for the year shown in the income statement	EUR	91,369,100.18
Retained profit brought forward from previous years	EUR	281,925,767.98
	EUR	<u>373,294,868.16</u>

The Board of Directors proposes that:

A dividend of FIM 4.00 be paid per share, totalling	EUR	60,691,218.74
An amount be reserved for donations at the discretion of the Board of Directors of	EUR	252,281.89
An amount be carried forward as retained profit of	EUR	312,351,367.53
	EUR	<u>373,294,868.16</u>

Helsinki, 17 February 1999

Matti Honkala

Kalervo Haapaniemi

Jouko Tuunainen

Matti Halmesmäki

Juhani Järvi



# Auditors' Report

## TO KESKO CORPORATION'S SHAREHOLDERS

We have examined Kesko Corporation's accounting records, financial statements and administration for the financial period from 1 January to 31 December 1998. The statements prepared by the Board of Directors and the Managing Director include the Report by the Board of Directors, as well as the consolidated income statement and balance sheet, the parent company's income statement and balance sheet, and notes to the financial statements. On the basis of our examination, we give below a report on the financial statements and administration.

The audit has been carried out in accordance with generally accepted auditing standards. The accounting records and the financial statements, including the principles for preparing these statements, their contents and the practice to disclose the financial data, have been audited to obtain reasonable assurance that the financial statements have been correctly prepared. Concerning administration, we have examined the legality of the actions of the Supervisory Board's and Board of Directors' members and the Managing Director 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 Managing Director 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, 4 March 1999

SVH Pricewaterhouse Coopers Oy  
Certified Public Accountants

Pekka Nikula, CPA

Mauno Tervo, CPA

## Statement by the Supervisory Board

The Supervisory Board has reviewed the Kesko Corporation's financial statements for 1998, including the consolidated financial statements, and proposes to the Annual General Meeting that the financial statements be adopted.

The Supervisory Board has also reviewed the Auditors' Report concerning the year of 1998 and has found out that no action is required by the Supervisory Board.

Helsinki, 4 March 1999

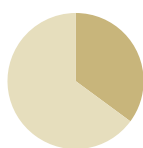
For the Supervisory Board

Matti Kallio  
Chairman

Heikki Takamäki  
Deputy Chairman

# Shares *and* shareholders

## Breakdown of share capital



- Ordinary shares 64.9%
- Exclusive shares 35.1%

On 31 December 1998, Kesko's share capital was FIM 902,134,000 (EUR 151,728,047). The nominal value of each share is FIM 10, and the number of shares is 90,213,400.

According to a decision made by the Board of Directors, the company decreased its share capital by EUR 50,456 in 1998. The decrease corresponded to the total nominal value of the 30,000 shares earlier redeemed by the company. The new share capital was entered into the trade register on 8 April 1998.

Kesko Corporation's shares are divided into exclusive and ordinary shares,

which differ with respect to the votes they carry at the 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.<sup>1</sup>

The purchase of exclusive shares by assignment is subject to an approval clause. Exclusive shares are registered in

### 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 exclusive shares registered in the share register as follows:

1 - 5	shares	1 vote
6 - 10	" "	2 votes
11 - 20	" "	3 votes
21 - 40	" "	4 votes
41 - 65	" "	5 votes
66 - 100	" "	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.

the list of shareholders under the names of retailers and retailing businesses. The shares of other shareholders are registered in the list of shareholders as ordinary shares<sup>1</sup>. At the end of 1998, the number of exclusive shares was 31,690,331 and that of ordinary shares 58,523,069. Ordinary shares are quoted on the Helsinki Exchanges.

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 Corporation at a unit price of EUR 10.01. 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 EUR 2,228,490 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 authorisation 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 23,704 registered shareholders on 31 December 1998.

The total number of shares registered in a nominee name was 13,698,203, accounting for 15.18% of the share capital. The theoretical number of votes entitled by these shares was 1,367, or 0.38% of the total voting rights.

At 31 December 1998, the members and deputy members of Kesko's Supervisory Board, and the members of the Board of Directors, and the Managing Director held a total of 294,060 shares, representing 0.33% of the total share capital and 0.61% of the total voting rights.

At 31 December 1998, the members and deputy members of Kesko's Supervisory Board, and the members of the Board of Directors, and the Managing Director held a total of 11.32% of the warrants issued by the company, on the basis of which they are entitled to a maximum of 150,000 shares, or 0.17% of the total share capital and 0.004% of the total voting rights.

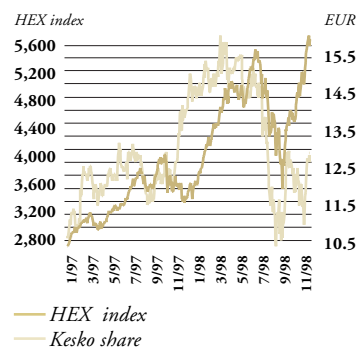
During the financial year, no notifications in accordance with § 2:9 of the Securities Market Act were made to the company.

#### LATEST INCREASES IN SHARE CAPITAL

Year	Subscription period	Subscription terms	Issue EUR thousand	New share capital EUR thousand	Dividend
1985	1.3.-15.4.1985	R 2 for 3 at FIM 12.50	33,637	84,094	1.1.1985
1988	11.4.-27.5.1988	R 1 for 2 at FIM 26	42,047	126,144	1.1.1988
1989	22.5.-30.6.1989	R 1 for 5 at FIM 45	25,228	151,369	1.1.1989
1990	15.1.-20.2.1990	C 200 for 5000 at FIM 68	409	151,778	1.1.1990

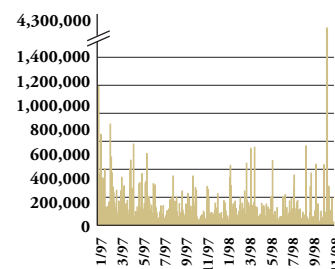
R = rights issue  
C = conversion

#### Trends in Kesko's share price



Kesko's ordinary shares are listed on the Helsinki Exchanges. Kesko's share price decreased by 11.8% during 1998. During the period, the HEX general index rose by 68.5%, while the business sector price index dropped by 6.1%.

#### Number of Kesko's shares traded by month



In 1998, the number of shares traded was 27,978,122 pcs (33,998,521 in 1997).

The value of the shares traded was EUR 382 million (EUR 415 million). At the end of 1998, the market capitalisation based on all of Kesko's shares was EUR 1,154 million, while the market capitalisation of the listed ordinary shares was EUR 748 million.

**THE 20 MAIN SHAREHOLDERS BY NUMBER OF SHARES AT 31 DECEMBER 1998**

	<i>Number of shares</i>	<i>% of shares</i>	<i>% of votes</i>
1 Kesko Pension Fund	3,520,705	3.90	9.38
2 Ilmarinen Mutual Pension Insurance Company	3,350,000	3.71	0.09
3 Vähittäiskaupan Takaus Oy	2,628,533	2.91	7.24
4 The K-Retailers' Association	2,459,239	2.73	6.74
5 The Finnish Local Government Pensions Institution	2,099,800	2.33	0.06
6 Suomi Mutual Life Insurance Company	1,450,000	1.61	0.04
7 Pohjola Non-Life Insurance Company Limited	1,428,500	1.58	0.04
8 Varma-Sampo Mutual Pension Insurance Company	1,361,000	1.51	0.04
9 Valluga-sijoitus Oy	1,338,510	1.48	3.69
10 Paulig Ltd	1,063,320	1.18	0.03
11 Tapiola Mutual Pension Insurance Company	991,300	1.10	0.03
12 A. Ahlstrom Corporation	925,000	1.03	0.03
13 Pohjola Life Insurance Company Ltd	874,100	0.97	0.02
14 Tapiola General Mutual Insurance Company	809,000	0.90	0.02
15 Foundation for Vocational Training in the Retail Trade	768,155	0.85	1.69
16 Pension Foundation Polaris	630,000	0.70	0.02
17 Sampo Life Insurance Company Limited	587,730	0.65	0.02
18 Pension Foundation of Neste	447,800	0.50	0.01
19 Tapiola Mutual Life Insurance Company	400,200	0.44	0.01
20 Pension Foundation of Enso Group, Department B	350,600	0.39	0.01

**THE 20 MAIN SHAREHOLDERS BY NUMBER OF VOTES AT 31 DECEMBER 1998**

	<i>Number of votes</i>	<i>% of votes</i>	<i>Number of shares</i>	<i>% of shares</i>
1 Kesko Pension Fund	34,060	9.38	3,520,705	3.90
2 Vähittäiskaupan Takaus Oy	26,290	7.24	2,628,533	2.91
3 The K-Retailers' Association	24,479	6.74	2,459,239	2.73
4 Valluga-sijoitus Oy	13,390	3.69	1,338,510	1.48
5 Foundation for Vocational Training in the Retail Trade	6,137	1.69	768,155	0.85
6 Lasse Aaltonen Oy	2,801	0.77	322,870	0.36
7 Hannu Aaltonen Oy	1,937	0.53	206,130	0.23
8 Mauri ja Nina Penttinen Ky	1,932	0.53	198,020	0.22
9 A. Toivakka Oy	1,921	0.53	211,450	0.23
10 Ruokajätti Kalevi Sivonen Oy	1,386	0.38	197,500	0.22
11 Vesa Laakso Oy	1,263	0.35	145,600	0.16
12 Kotihalli Oy	1,173	0.32	201,500	0.22
13 Jutor Oy	1,139	0.31	160,000	0.18
14 Sundman & Co - Holding Oy Ab	1,113	0.31	110,802	0.12
15 Pekka Huovila Oy	1,059	0.29	105,430	0.12
16 Järvenpään K-Tavaratalo Kauppamies Oy	1,021	0.28	101,650	0.11
17 K-Grocers' Club of the K-Retailers' Association	1,010	0.28	156,940	0.17
18 K-Tavaratalo Länsitori Simo Lignell Oy	926	0.26	92,120	0.10
19 Veikko Still Oy	924	0.25	91,985	0.10
20 Ruotsalainen Oy	917	0.25	93,570	0.10

**OWNERSHIP STRUCTURE AT 31 DECEMBER 1998**

<i>All shares</i>	<i>Number of shares</i>	<i>% of all shares</i>
Private enterprises	23,579,500	26.14
Public companies	94,830	0.11
Financial and insurance institutions	10,577,330	11.72
General government*	14,911,407	16.53
Non-profit institutions**	4,435,226	4.92
Households	21,912,210	24.29
Foreigners (incl. nominee registrations)	13,822,535	15.32
On waiting list	753,608	0.84
Not transferred to the book-entry securities system	126,754	0.14
Total	90,213,400	100

<i>Exclusive shares</i>	<i>Number of shares</i>	<i>% of exclusive shares</i>	<i>% of all shares</i>
Private enterprises	17,318,321	54.65	19.20
Public companies	0	0.00	0.00
Financial and insurance institutions	1,338,510	4.22	1.48
General government*	3,406,825	10.75	3.78
Non-profit institutions**	895,623	2.83	0.99
Households	7,843,233	24.75	8.69
Foreigners (incl. nominee registrations)	72,850	0.23	0.08
On waiting list	753,608	2.38	0.84
Not transferred to the book-entry securities system	61,361	0.19	0.07
<b>Total</b>	<b>31,690,331</b>	<b>100.00</b>	<b>35.13</b>
<i>Ordinary shares</i>	<i>Number of shares</i>	<i>% of ordinary shares</i>	<i>% of all shares</i>
Private enterprises	6,261,179	10.70	6.94
Public companies	94,830	0.16	0.11
Financial and insurance institutions	9,238,820	15.79	10.24
General government*	11,504,582	19.66	12.75
Non-profit institutions**	3,539,603	6.05	3.92
Households	14,068,977	24.04	15.60
Foreigners (incl. nominee registrations)	13,749,685	23.49	15.24
On waiting list	0	0.00	0.00
Not transferred to the book-entry securities system	65,393	0.11	0.07
<b>Total</b>	<b>58,523,069</b>	<b>100.00</b>	<b>64.87</b>

\* General government includes municipalities, provincial administration of Åland, employment pension institutions, social security funds etc.

\*\* Non-profit institutions include foundations awarding scholarships, organisations safeguarding interests of another party, charitable associations etc.

#### **DISTRIBUTION OF SHARE OWNERSHIP AT 31 DECEMBER 1998**

<i>All shares</i>	<i>Number of shares</i>	<i>Number of shareholders</i>	<i>% of all shareholders</i>	<i>Total of shares</i>	<i>% of all shares</i>
1 - 100	5,035	5,035	21.44	260,001	0.29
101 - 500	8,093	8,093	34.46	2,186,176	2.42
501 - 1,000	3,783	3,783	16.11	2,904,595	3.22
1,001 - 5,000	4,970	4,970	21.16	11,059,315	12.26
5,001 - 50,000	1,466	1,466	6.24	18,820,651	20.86
50,001 -	138	138	0.59	54,102,300	59.97
<b>Total</b>	<b>23,485</b>	<b>23,485</b>	<b>100.00</b>	<b>89,333,038</b>	<b>99.02</b>
On waiting list				753,608	0.84
Not transferred to the book-entry securities system				126,754	0.14
<b>Grand total</b>				<b>90,213,400</b>	<b>100.00</b>
<i>Exclusive shares</i>	<i>Number of shares</i>	<i>Number of shareholders</i>	<i>% of holders of exclusive shares</i>	<i>Total of exclusive shares</i>	<i>% of exclusive shares</i>
1 - 100	478	478	10.58	24,834	0.08
101 - 500	741	741	16.40	208,998	0.66
501 - 1,000	639	639	14.14	525,138	1.66
1,001 - 5,000	1,766	1,766	39.08	4,357,747	13.75
5,001 - 50,000	840	840	18.59	10,978,731	34.64
50,001 -	55	55	1.22	14,779,914	46.64
<b>Total</b>	<b>4,519</b>	<b>4,519</b>	<b>100.00</b>	<b>30,875,362</b>	<b>97.43</b>
On waiting list				753,608	2.38
Not transferred to the book-entry securities system				61,361	0.19
<b>Grand total</b>				<b>31,690,331</b>	<b>100.00</b>
<i>Ordinary shares</i>	<i>Number of shares</i>	<i>Number of shareholders</i>	<i>% of holders of ordinary shares</i>	<i>Total of ordinary shares</i>	<i>% of ordinary shares</i>
1 - 100	5,165	5,165	24.94	266,111	0.45
101 - 500	7,959	7,959	38.43	2,131,510	3.64
501 - 1,000	3,416	3,416	16.49	2,592,493	4.43
1,001 - 5,000	3,452	3,452	16.67	7,173,570	12.26
5,001 - 50,000	638	638	3.08	7,918,271	13.53
50,001 -	81	81	0.39	38,375,721	65.57
<b>Total</b>	<b>20,711</b>	<b>20,711</b>	<b>100.00</b>	<b>58,457,676</b>	<b>99.89</b>
On waiting list				0	0.00
Not transferred to the book-entry securities system				65,393	0.11
<b>Grand total</b>				<b>58,523,069</b>	<b>100.00</b>

# Administration *and management*

## Supervisory Board



*Kesko's Supervisory Board in 1998. Seated from left (front): Authorised Members Kalevi Sivonen, Heikki Takamäki, Matti Kallio, Eero Ahonen and Risto Peltokangas.*

### **FUNCTIONS AND POSITION**

According to Kesko Corporation's Articles of Association, the functions of the Supervisory Board are

- 1) to supervise company administration,
- 2) to make its statement on the financial statements and the auditors' report,
- 3) to elect the Managing Director and other members of the Board of Directors, and to determine their salaries and benefits,
- 4) to make decisions on matters concerning the considerable contraction or expansion of the company's operations, or a substantial change in the company's organisation, and
- 5) to decide on calling a General Meeting.

The Supervisory Board meets at the request of the Chairman as often as this is considered necessary or when the Board of Directors so requires. The Supervisory Board usually meets three times a year.

### **ELECTION PROCEDURE**

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. The Supervisory Board elects a Chairman and a Deputy Chairman from among its members.

### **WORKING COMMITTEE**

The Supervisory Board elects annually from among its members a Working Committee, whose function is to prepare, together with the Board of Directors, the most significant matters to be decided by the Supervisory Board. The Working Committee consists of five members. Until 31 December 1998, the Working Committee members were called Authorised Members of the Supervisory Board.

### **SALARIES AND BENEFITS**

The fee annually paid to the Chairman of the Supervisory Board is EUR 11,773 and that paid to the Deputy Chairman is EUR 8,409. A fee of EUR 420 is paid to the Supervisory Board members for a meeting. The total amount of fees paid to the Supervisory Board members in 1998 is stated in the notes to financial statements on page 45.

## SUPERVISORY BOARD IN 1998

Name and year of birth	Year when term expires	Store/company
<b>CHAIRMAN</b>		
Kallio Matti (A), 1945	2000	Kotihalli Oy, Vantaa
<b>DEPUTY CHAIRMAN</b>		
Takamäki Heikki (A), 1947	2000	Heikki Takamäki Oy, Tampere
<b>MEMBERS</b>		
Ahonen Eero (A), 1942	1998	Veljekset Ahonen Eero Ahonen Ky, Pudasjärvi
Hiltunen Leena, 1955	2001	Ruhtinansalmen kauppa Ky, Ruhtinansalmi
Hämäläinen Kari, 1952	1999	Jutor Oy, Kuopio
Hämäläinen Veikko, 1949	1999	Maatalous-rauta Hämäläinen Oy, Jämsä
Kalliala Pentti, 1948	2001	Kalliala Pentti Oy, Kaarina
Karppinen Eija, 1953	1999	T:mi Aimo ja Eija Karppinen, Kittilä
Karvinen Matti, 1952	1999	Aslakin kauppa Oy, Espoo
Keskinen Simo, 1946	1999	Simo Keskinen Oy, Turku
Kuivalainen Antti, 1944	1998	Antsu Oy, Kuusamo
Kuusiniemi Hannu, 1959	1998	Marita ja Hannu Kuusiniemi Oy, Kerava
Martikainen Jukka, 1952	1999	Sport Mart Oy, Kuopio
Mörk Christer, 1948	1999	Kokkomarket Mörk Oy, Kokkola
Peltokangas Risto (A), 1948	2000	Risto Peltokangas Oy, Seinäjoki
Peltola Reijo, 1948	1998	Ruokamies Oy, Lahti
Pesälä Pertti, 1945	1999	Pesälä Oy, Espoo
Puhakka Matti, 1944	1999	Hämeenkylässen ruokakauppa Ky, Turku
Rinne Jyrki, 1950	1999	Jyrki Rinne Ky, Lohja
Sivonen Kalevi (A), 1949	2001	Ruokajätti Kalevi Sivonen Oy, Helsinki
Vuorenmaa Simo, 1948	1999	Simo Vuorenmaa Oy, Ilmajoki

(A) = Authorised Member

(The name was changed to Working Committee on 1 January 1999)

## DEPUTY MEMBERS

Aaltonen Hannu, 1962	1999	Hannu Aaltonen Oy, Lahti
Hakala Jari, 1955	1999	Jarintori Jari Hakala Oy, Toijala
Heinola Pekka, 1949	1999	Market Onnipekka Heinola Oy, Nakkila
Hägglom Dan, 1959	1999	Hägglom Dan Oy, Vaasa
Kannos Ari, 1944	2001	Pyörä ja Urheilu Kannos Oy, Kouvola
Korpisaari Olavi, 1940	1999	Olavi Korpisaari Oy, Riihimäki
Lehtinen Pekka, 1945	2001	Lehtinen Pekka ja Hilikka Oy, Turenki
Maarala Eero, 1952	1999	Eero's Handel, Eero ja Monica Maarala Kb, Parainen
Mämmelä Arja, 1948	1999	Arja ja Matti Mämmelä Oy, Raahe
Nieminen Väinö, 1943	1998	Ruokakivelä Niemiset Ay, Keuruu
Nyppeli Veijo, 1942	2000	Veijo Nyppeli Oy, Tampere
Reijonen Kalle, 1946	1999	Rauta-Kalle Oy, Joensuu
Särkilahti Tapio, 1955	1999	T & R Särkilahti Oy, Oulu
Viinamäki Kalevi, 1962	2000	T:mi Kalevi Viinamäki, Pori
Wallin Timo, 1959	2001	K-valinta Riitta ja Timo Wallin Ky, Mäntsälä

More detailed information on the Supervisory Board's members and deputy members is available from Kesko Corporation's headquarters at the address Kesko Corporation / Secretaries of the Board of Directors, P.O.B. 135 (Satamakatu 3, Helsinki), FIN-00016 Kesko.

## SUPERVISORY SYSTEM

The company's Board of Directors bears the highest responsibility for the supervision of accounting and financial management. The main function of statutory auditing is to verify that the financial statements show a true and fair view of the Group's performance and financial status for each financial period. In addition, auditors report regularly to the Board of Directors on the routine auditing of administration and operations.

There is an Internal Auditing department in the company, and its function is to evaluate the adequacy, appropriateness and efficiency of the supervision system determined by the management.

The company uses an efficient and versatile reporting system for financial activities, and there is a clearly defined decision-making system for investments used in the organisation.

## AUDITORS

The company has a minimum of one and a maximum of three auditors elected by the Annual General Meeting.

Auditors in 1998

\* SVH Pricewaterhouse Coopers Oy, Certified Public Accountants, Auditor with principal responsibility, Pekka Nikula, B.Sc.(Econ.), CPA

\* Mauno Tervo, B.Sc.(Econ.), CPA

## Board of Directors

Kesko Corporation's Board of Directors forms the company's highest operating management. It manages and supervises Kesko Group's operations as the Board of a listed company and makes fundamental and financially significant decisions concerning the Group. The Board of Directors sets the Group's goals, is responsible for the Group's financial performance and the development of the value of the company's share, and supervises the operations of the profit divisions. The main conditions for the employment relationship of the Managing Director and other members of the Board of Directors have been defined in writing.

### ELECTION PROCEDURE AND TERM

According to the Articles of Association, the Board of Directors is formed of a Managing Director and at least four but no more than eight other members. The Managing Director acts as the Chairman of the Board of Directors and is called the Chief Executive Officer. The Supervisory Board elects members to the Board of Directors for four accounting periods at a time, with the term of all members expiring at the end of the same accounting period. The term of the present members of the Board of Directors terminates on 31 December 1999. A member of the Board of Directors must resign from his position when he reaches 60 years of age.

### SALARIES AND BENEFITS

The members of the Board of Directors do not receive any extra compensation for their membership. Rather, this is included in the salaries



*Kesko's Board of Directors: seated from left Matti Honkala and Kalervo Haapaniemi. Back row from left Juhani Järvi, Jouko Tuunainen and Matti Halmesmäki.*

already paid by Kesko Corporation on the basis of normal employment contracts. In addition, the members of the Board of Directors receive the fringe benefits normally provided to Kesko Corporation'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. The total amount of the salaries paid to the members of the Board of Directors in 1998 have been stated in the notes to the financial statements on page 45. The terms for the bonds with warrants and the number of the company's shares owned by the Board members are specified on page 55.

### THE BOARD OF DIRECTORS ON 1 JANUARY 1999

#### *Matti Honkala, b. 1945, Chairman and CEO.*

B.Sc.(Econ.). Employed by Kesko since 1966, Director of Kesko's central warehouse and district office 1978-1985, a member of the Board of Directors from 1986, appointed as Deputy Chief Executive in 1997 and Chairman and CEO from 1 May 1998. His responsibilities include the duties determined for a Managing Director in the Companies Act and the managing of the Board of Directors' work as its Chairman. Other major duties: Luottokunta, a member of the Board of Directors from 1997; Sampo Life Insurance Company Limited, a member of the Supervisory Board from 1997; Merita Bank plc, a member of the Supervisory Board from 1998; Sampo Insurance Company plc, a member of the Supervisory Board from 1998; Varma-Sampo Mutual Pension Insurance Company, a member of the Supervisory Board from 1998; Helsinki Telephone Corporation, a member of the Supervisory Board from 1998; the Finnish Fair Corporation, a member of the Board of Directors from 1999; the Service Employers, Chairman of the Board of Directors from 1999.

#### *Kalervo Haapaniemi, b. 1947, Deputy Chief Executive.*

M.Sc.(Econ.). Employed by Kesko since 1996, appointed as Vice President responsible for the Foodstuffs Division in 1997, a member of the Board of Directors from 1 April 1998, Deputy Chief Executive from 1 September 1998 responsible for foodstuffs trade. Tuko Oy's Executive Vice President 1996-1997. Managing Director of Suomen Spar Oy 1993-1996.

#### *Jouko Tuunainen, b. 1945, Executive Vice President.*

B.Sc.(Econ.). Employed by Kesko since 1966, Director responsible for the Hardware Department and central warehouse 1976-1983, a member of the Board of Directors from 1983, and from 1 April 1998 responsible for resource management. Other major duties: Radiolinja Oy, a member of the Board of Directors from 1998; Sato-Yhtymä Oy, a member of the Board of Directors from 1998.

#### *Matti Halmesmäki, b. 1952, Executive Vice President.*

M.Sc.(Econ.), LL.M. Employed by Kesko since 1980, appointed as Director of the Accounting and Office Administration Department in 1985, a member of the Board of Directors from 1989, and from 1 April 1997 responsible for speciality goods trade.

#### *Juhani Järvi, b. 1952, Executive Vice President, CFO*

M.Sc.(Econ.). Employed by Kesko from 1 September 1998. Responsible for finance and administration. Chief Financial Officer of Patria Industries Oyj 1997-1998. Wärtsilä Diesel North America, Inc.'s Chief Financial Officer 1994-1997.

The responsibilities of the Board of Directors' members have been confirmed by the Supervisory Board.

Chairman and CEO Eero Kinnunen (b. 1937) retired on 30 April 1998. Deputy Chief Executive Timo Karake (b. 1941) retired on 31 August 1998.



# Directors

## KESKO CORPORATION'S DIRECTORS ON 1 MARCH 1999

### FOODSTUFFS DIVISION

#### Vice President

Neighbourhood Chain Unit	<b>Harri Sivula</b> Antti Puhakka
Superstore Chain Unit	Jaakko-Pekka Vehmas
Citymarket Chain Unit	Matti Kautto
Kespro	Ari Virnes
Kesko Fruit and Vegetables	Antti Palomäki
Fresh Foods	Esko Pihlström
Groceries	Aila Hirvoila
Retail Services	Jukka Sipilä
Logistics	Timo Lehtinen
Office Administration	Aatos Kivelä
Carrols Oy	Kari Kivikoski, MD
Citymarket Oy	Matti Kautto, MD
K-Plus Oy and K-Luotto Oy	Eijja Jantunen, MD
Finnish Rich Coffee Ltd	Aila Hirvoila, MD
Viking Coffee Ltd	Raimo Ilveskero, MD

### HOME AND SPECIALITY GOODS DIVISION

#### Vice President

Kesko Clothing & Shoes	<b>Matti Kotola</b> Juha Ahtinen
Kesko Leisure Goods	Jussi Mikkola
Retail Services and Office Administration	Pasi Mäkinen
Anttila Chain Unit	Matti Leminen
Academica Oy	Juha Mäntylä, MD
Aleksi 13 Oy	Tuomo Rantalankila, MD
Anttila Oy	Matti Leminen, MD
Motorfeet Ltd and Tremont Oy	Juha Ahtinen, MD

### BUILDERS' AND AGRICULTURAL SUPPLIES DIVISION

#### Vice President

Kesko Hardware and Builders' Supplies	<b>Paavo Moilanen</b> Simo Manner
Kesko Agriculture and Machinery	Kimmo Vilppula
Industrial and Constructor Sales	Jari Peltonen
Office Administration and Logistics	Jouko Björkman
Retail Services	Matti Vatanen
Kesko Svenska AB/K-rauta	Juha Mustakangas, MD
Kesthom Oy	Jari Peltonen, MD
K-maatalousyhtiöt Oy	Jouni Oksanen, MD

### RESOURCE DIVISION

#### Vice President

Information Management	<b>Heikki Valkjärvi</b> Eero Vesterinen
Kesko Real Estate	Risto Lassila
Hämeenkylässä Kauppa Oy	Erkki Heikonen, MD
Kesped Ltd	Timo Kortelainen, MD
Kestra Kiinteistöpalvelut Oy	Risto Lassila, MD
K-linkki Oy	Niila Rajala, MD
Tietokesko Oy	Osmo Kimmo, MD

### FINANCE AND ADMINISTRATION DIVISION

#### Vice President

Corporate Accounting and Office Administration	<b>Riitta Laitasalo</b> Paavo Rönkkö
Finance	Heikki Ala-Seppälä
Personnel	Kyösti Pärssinen
K-instituutti Oy	Timo Karkola, MD
K-konerahoitus Oy	Seppo Kettunen, MD
Sincera Oy	Heikki Ala-Seppälä, MD

### KAUKOMARKKINAT OY

Kari Ansio, MD

### VV-AUTO OY/AUTO-SPAN OY

Erkki Sillantaka, MD

### OTHER SUBSIDIARIES

Kauppiainien Komedia Oy	Ari Laitinen, MD
Kauppiainien Kustannus Oy	Matti Laamanen, MD
MK-mainos Oy	Kari Soininen, MD

### UNITS OF CORPORATE ADMINISTRATION

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

## Subsidiaries

Company	Managing Director	Personnel, average	Net sales, EUR million
<b>FOODSTUFFS DIVISION</b>			
<i>Carrols Oy</i> Engaged in the fast food restaurant business in Finland and the neighbouring areas.	<i>Kari Kivikoski</i>	607	39
<i>Citymarket Oy</i> A retail company responsible for the non-food trade of 34 Citymarket hypermarkets. Until 31 December 1998, K-yhtiöt Oy Citymarkets.	<i>Matti Kautto</i>	1,815	304
<i>Kesko Eesti A/S</i> Engaged in the grocery and non-food trade in Tallinn, Estonia.	<i>Timo Hämälä</i>	52	14
<i>Kesko Export Ltd/ZAO Kesfood</i> Markets and sells mainly Kesko's own brands in Russia.	<i>Ari Svensk</i>	17	2
<i>K-Luotto Oy</i> A credit card company that manages the Plussa payment cards and K-cards.	<i>Eija Jantunen</i>	16	4
<i>K-Cash &amp; Carry Ltd</i> A wholesaler selling groceries and non-food articles.	<i>Ari Virnes</i>	466	310
<i>K-Plus Oy</i> Responsible for the centralised implementation of the customer loyalty programme of the K-Alliance.	<i>Eija Jantunen</i>	48	59
<i>Finnish Rich Coffee Ltd</i> A coffee marketing company.	<i>Aila Hirvoila</i>	14	3
<i>Viking Coffee Ltd</i> Roasts coffee for the Finnish, Swedish, Estonian and Norwegian markets.	<i>Raimo Ilveskero</i>	48	49
<b>HOME AND SPECIALITY GOODS DIVISION</b>			
<i>Academica Oy</i> Sells information technology equipment and services.	<i>Juha Mäntylä</i>	47	14
<i>Aleksi 13 Oy</i> A department store chain specialising in the retailing of shoes, bags, clothing and cosmetics.	<i>Tuomo Rantalankila</i>	208	36
<i>Anttila Oy</i> Engaged in the department store business and mail order sales.	<i>Matti Leminen</i>	2,134	520
<i>Kesko Svenska AB/Aleksi 13</i> Engaged in the shoe store business in Sweden.	<i>Juha Mustakangas</i>	22	2
<i>Motorfeet Ltd</i> Represents and imports high-quality branded shoes.	<i>Juha Ahtinen</i>	10	5
<i>Tremont Oy</i> Engaged in the wholesale trade of home and speciality goods. Will start operations in 1999.	<i>Juha Ahtinen</i>	-	-

Company	Managing Director	Personnel, average	Net sales, EUR million
<b>BUILDERS' AND AGRICULTURAL SUPPLIES DIVISION</b>			
<i>Kesko Eesti A/S/Agro</i> Engaged in the agricultural trade in Estonia.	<i>Timo Hämälä</i>	14	2
<i>Kesko Svenska AB/K-rauta</i> Engaged in the retailing of hardware and builders' supplies in Sweden.	<i>Juha Mustakangas</i>	94	12
<i>Kesthom Oy/ZAO Kestroy</i> Engaged in the wholesale trade of hardware and builders' supplies in Russia.	<i>Jari Peltonen/Leena Paju</i>	37	5
<i>K-maatalousyhtiöt Oy</i> Engaged in the retailing of agricultural products, light machinery and hardware items.	<i>Jouni Oksanen</i>	174	126
<b>RESOURCE DIVISION</b>			
<i>Hämeenkyllän Kauppa Oy</i> Engaged in the management and leasing of real estate.	<i>Erkki Heikonen</i>	4	45
<i>Kesped Ltd</i> Transport and forwarding company.	<i>Timo Kortelainen</i>	161	79
<i>Kestra Kiinteistöpalvelut Oy</i> Responsible for the technical maintenance of the properties owned and rented by Kesko.	<i>Risto Lassila</i>	28	28
<i>K-linkki Oy</i> Provides information technology services to the K-retailers.	<i>Niila Rajala</i>	47	17
<i>Tietokesko Oy</i> Supports Kesko's business operations by providing information technology services.	<i>Osmo Kimmo</i>	170	32
<b>FINANCE AND ADMINISTRATION DIVISION</b>			
<i>K-instituutti Oy</i> A training centre for the trading sector.	<i>Timo Karkola</i>	47	3
<i>K-konerahoitus Oy</i> Provides hire purchase finance for agricultural and construction machinery and consumer goods.	<i>Seppo Kettunen</i>	4	2*
<i>Sincera Oy</i> Security investment company.	<i>Heikki Ala-Seppälä</i>	-	14
<b>KAUKOMARKKINAT</b>			
<i>Kaukomarkkinat Oy</i> The biggest and most diversified Finnish trading house, engaged in international trade.	<i>Kari Ansio</i>	757	276
<b>VV-AUTO</b>			
<i>VV-Auto Oy/Auto-Span Oy</i> Importer of cars and commercial vehicles manufactured by the Volkswagen Group.	<i>Erkki Sillantaka</i>	97	392
<b>OTHER SUBSIDIARIES</b>			
<i>Kauppiaiden Komedia Oy</i> Maintains and develops in-store TV media operations.	<i>Ari Laitinen</i>	28	5
<i>Kauppiaitten Kustannus Oy</i> Publishes the customer magazines of the K-Alliance.	<i>Matti Laamanen</i>	20	13
<i>MK-mainos Oy</i> An authorised advertising and media agency.	<i>Kari Soininen</i>	56	31

\* Net financial margin.

## K-stores

Kesko develops store concepts and operating models. Its profit divisions develop store types and the store network. The K-retailers are independent entrepreneurs who are entitled to use the K-logo or other marketing symbols of the K-Alliance. In their entrepreneurial capacity, the K-retailers are responsible for customer satisfaction and the profitable performance of their stores. The K-retailers are Kesko's shareholders and members of the K-Retailers' Association.

At the end of the year, there were 1,871 K-retailers, compared with 1,860 in the previous year. Including the retailers, the K-stores employed 24,093 persons, 10,531 of whom were part-time employees. The K-Retailers' Association is responsible, together with Kesko, for cooperation among the K-retailers and for the improvement of their operating environment.

At the end of the year, there were 2,119 K-stores. In 1997, the figure was 2,159. In addition, there were 65 K-mobile stores, compared with 78 in the previous year.

K-retailers also operated under cooperation agreements in 802 store sites and premises controlled by Kesko. 336 of these were owned by Kesko and 466 were leased by Kesko and rented on to the K-retailers.

The total sales of the K-stores amounted to EUR 6.48 billion, an increase of 4.9% on the previous year. In retail prices, the sales of the K-Alliance, Carrols and Tähti Optikko included, totalled EUR 6.54 billion.

The sales by K-stores operating under cooperation agreements in store premises and sites owned or held under lease by Kesko totalled EUR 4.5 billion.

The K-stores' purchases from Kesko amounted to EUR 3.1 billion excluding VAT, an increase of 8.9% on the previous year.

### STORE TYPES OF THE K-ALLIANCE

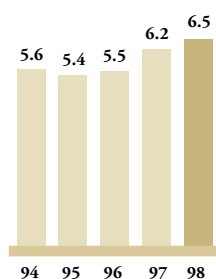


## K-STORES AND THEIR SALES IN 1998 (INCL. VAT)

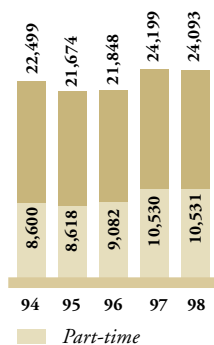
K-stores	Number	% of total number	% of sales	Sales in 1998, EUR million
Citymarket hypermarkets	38	1.7	17.2	1,111
K-superstores	84	3.8	13.1	851
K-supermarkets	218	10.0	13.3	862
K-neighbourhood stores	337	15.4	8.3	538
K-extra stores	441	20.2	4.9	314
K-mobile stores	65	3.0	0.4	28
Rimi stores	33	1.5	0.8	50
Other grocery stores	138	6.3	1.4	91
<b>Grocery stores, total</b>	<b>1,354</b>	<b>62.0</b>	<b>59.4</b>	<b>3,845</b>
Anttila department stores	29	1.3	9.2	596
Anttila Kodin Ykkönen department stores	4	0.2	0.8	55
Kesport-Intersport stores	90	4.1	3.0	193
Musta Pörssi stores for home technology	74	3.4	2.3	151
Vaatehuone fashionwear stores	62	2.8	1.0	64
K-kenkä shoe stores	80	3.7	0.7	44
Andiamo shoe stores	32	1.5	0.5	30
Aleksi 13 Finland	15	0.7	0.6	42
Aleksi 13 Sweden	4	0.2	0.0	3
Nicky & Nelly stores for children's wear	26	1.2	0.2	10
Academica stores	3	0.1	0.1	9
Other home and speciality goods stores	90	4.1	0.5	30
<b>Home and speciality goods stores, total</b>	<b>509</b>	<b>23.3</b>	<b>18.9</b>	<b>1,227</b>
K-rauta stores for hardware and builders' supplies	75	3.4	6.6	430
Rautia hardware stores	94	4.3	4.0	258
K-rauta-maalalous stores for hardware and agricultural products	55	2.5	4.5	294
K-maalalous stores for agricultural products	65	3.0	5.6	362
Other stores for hardware and agricultural products	28	1.3	0.7	44
K-rauta Sweden	4	0.2	0.2	16
<b>Stores for hardware and agricultural products, total</b>	<b>321</b>	<b>14.7</b>	<b>21.7</b>	<b>1,405</b>
<b>All K-stores, total</b>	<b>2,184</b>	<b>100</b>	<b>100</b>	<b>6,477</b>
Carrols	60			54
Tähti Optikko	100			6 <sup>1)</sup>

<sup>1)</sup>The first stores were opened in September. At the end of 1998, the chain included a total of 100 stores.

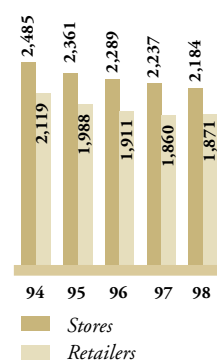
Sales by K-stores,  
EUR billion



Personnel of K-stores



Number of K-stores and  
K-retailers



# Addresses

## KESKO CORPORATION

[WWW.KESKO.FI](http://WWW.KESKO.FI)

### CORPORATE ADMINISTRATION

Satamakatu 3, Helsinki  
P.O.B. 135, FIN-00016 Kesko  
Tel. +358 10 5311  
Fax +358 9 174 398  
E-mail: first name.surname@kesko.fi  
Corporate Communications, Legal Affairs, Corporate Planning, Internal Auditing

### DISTRICT CENTRES

	Address	Telephone	Fax
Southern Finland	Jokiniementie 31, P.O.B. 152, FIN-01301 Vantaa	+358 10 5311	+358 10 532 8608
Western Finland	Jokipohjantie 28, P.O.B. 330, FIN-33101 Tampere	+358 10 5311	+358 10 532 5443
Eastern Finland	Päivärannantie 18, P.O.B. 46, FIN-70701 Kuopio	+358 10 5311	+358 10 532 9020
Northern Finland	Äimäkuja 2, P.O.B. 16, FIN-90401 Oulu	+358 10 5311	+358 10 533 0572
Turku distribution centre	Rydönnotko 1, P.O.B. 116, FIN-20101 Turku	+358 10 5311	+358 10 532 1664

### FOODSTUFFS DIVISION

Vice President Harri Sivula  
Neighbourhood Chain Unit, Superstore Chain Unit, Citymarket Chain Unit, Kespro,  
Fresh Foods, Groceries, Retail Services, Office Administration  
Satamakatu 3 (Helsinki), P.O.B. 135, FIN-00016 Kesko  
Tel. +358 10 5311  
Fax +358 10 532 3471  
Kesko Fruit and Vegetables, Logistics  
Jokiniementie 31, P.O.B. 152, FIN-01301 Vantaa  
Tel. +358 10 5311  
Fax +358 9 873 5544 Kesko Fruit and Vegetables, +358 10 532 8517 Logistics

### SUBSIDIARIES

	Address	Telephone	Fax
Carrols Oy	Isonniitynkuja 2 E, FIN-02270 Espoo	+358 1053 060	+358 10 532 4471
Citymarket Oy	Satamakatu 3, P.O.B. 135, FIN-00016 Kesko	+358 10 5311	+358 9 175 571
Finnish Rich Coffee Ltd	Tikkurilantie 5, P.O.B. 269, FIN-01301 Vantaa	+358 10 5311	+358 10 532 8919
K-Cash & Carry Ltd	Kruunuvuorenkatu 5, P.O.B. 135, FIN-00016 Kesko	+358 10 5311	+358 9 634 169
Kesko Eesti A/S	Peterburi mnt 63 A, P.O.B. 3074, EE0090 Tallinn	+372 6 652 935	+372 6 652 929
Kesko Export Ltd	Kanavakatu 3 A, P.O.B. 135, FIN-00016 Kesko	+358 10 5311	+358 10 532 3411
K-Plus Oy and K-Luotto Oy	Satamakatu 3, P.O.B. 135, FIN-00016 Kesko	+358 10 5311	+358 9 698 6952
Viking Coffee Ltd	Tikkurilantie 5, P.O.B. 269, FIN-01301 Vantaa	+358 10 5311	+358 9 873 4034

## HOME AND SPECIALITY GOODS DIVISION

Vice President Matti Kotola  
Kesko Clothing & Shoes, Anttila Chain Unit, Kesko Home, Retail Services and Office Administration  
Valimotie 17, FIN-00380 Helsinki  
Tel. +358 10 5343  
Fax +358 10 533 9108  
Kesko Leisure Goods  
Satamakatu 3, Helsinki, P.O.B. 135, FIN-00016 Kesko  
Tel. +358 10 5311  
Fax +358 9 176 780

### SUBSIDIARIES

	Address	Telephone	Fax
Academica Oy	Isonniitynkuja 2, FIN-02270 Espoo	+358 10 5343	+358 10 534 6490
Aleksi 13 Oy	Aleksanterinkatu 13, FIN-00100 Helsinki	+358 9 131 441	+358 9 174 640
Anttila Oy	Valimotie 17 (Helsinki) P.O.B. 1060, FIN-00016 Kesko	+358 10 5343	+358 10 534 0109
Kesko Svenska AB/Aleksi 13	Järlaleden 21, S-131 34 Nacka	+46 8 442 7913	+46 8 714 8817
Motorfeet Ltd	Fabianinkatu 7, FIN-00130 Helsinki	+358 9 668 9180	+358 9 628 188
Tremont Oy	Valimotie 17, FIN-00380 Helsinki	+358 10 5343	+358 10 533 9278

## BUILDERS' AND AGRICULTURAL SUPPLIES DIVISION

Vice President Paavo Moilanen  
Kesko Hardware and Builders' Supplies, Kesko Agriculture and Machinery, Office Administration and Logistics, Retail Services  
Tikkurilantie 10, P.O.B. 54, FIN-01301 Vantaa  
Tel. +358 10 5311  
Fax +358 9 873 5975  
Industrial and Constructor Sales  
Kankiraudantie 6, Helsinki; P.O.B. 54, FIN-01301 Vantaa  
Tel. +358 10 5311  
Fax +358 10 532 0630  
Training and experimental farm of the K-Alliance  
Hahkialantie 30, FIN-14700 Hauho  
Tel. +358 3 615 01  
Fax +358 3 615 0230

### SUBSIDIARIES

	Address	Telephone	Fax
Kesko Eesti A/S/Agro	Peterburi mnt 63 A, EE-0014 Tallinn	+372 6 652 965	+372 6 652 995
Kesko Svenska AB	Bagarbyvägen 61, S-191 34 Sollentuna	+46 8 625 6960	+46 8 625 6998
Kesthom Oy	Kankiraudantie 6, P.O.B. 54, FIN-01301 Vantaa	+358 10 5311	+358 10 532 0630
ZAO Kestroy	Ul. Skladochnaja 6/3, 127018 Moskva	+7 095 289 1197	+7 095 234 0599
K-maatalousyhtiöt Oy	Ainontie 5 A, FIN-01630 Vantaa	+358 10 5311	+353 10 533 9535

## RESOURCE DIVISION

Vice President Heikki Valkjärvi  
Kesko Real Estate, Information Management, Logistics Management, Risk Management  
Satamakatu 3 (Helsinki), P.O.B. 135, FIN-00016 Kesko  
Tel. +358 10 5311  
Fax +358 10 532 3481

### SUBSIDIARIES

	Address	Telephone	Fax
Hämeenkyän Kauppa Oy	Satamakatu 3, P.O.B. 135, FIN-00016 Kesko	+358 10 5311	+358 10 532 3425
Kesped Ltd	Jokiniementie 31, P.O.B. 47, FIN-01301 Vantaa	+358 10 5311	+358 10 532 7021
Kestra Kiinteistöpalvelut Oy	Satamakatu 3, P.O.B. 135, FIN-00016 Kesko	+358 10 5311	+358 10 532 3466
K-linkki Oy	Ylä-malmintori 6 A, FIN-00700 Helsinki	+358 10 5311	+358 10 532 3443
Tietokesko Oy	Kruunuvuorenkatu 4, P.O.B. 135, FIN-00016 Kesko	+358 10 5311	+358 9 665 628

## FINANCE AND ADMINISTRATION DIVISION

Vice President Riitta Laitasalo  
Corporate Accounting and Office Administration, Finance, Investor Relations, Personnel, Pension Insurance and Occupational Health Services  
Satamakatu 3 (Helsinki), P.O.B. 135, FIN-00016 Kesko  
Tel. +358 10 5311  
Fax +358 10 532 3481

### SUBSIDIARIES

	Address	Telephone	Fax
K-instituutti Oy	Siikajärventie 88-90, FIN-02860 Espoo	+358 10 5311	+358 9 863 8571
K-konerahoitus Oy	Tikkurilantie 10, P.O.B. 54, FIN-01301 Vantaa	+358 10 5311	+358 10 532 0556
Sincera Oy	Satamakatu 3, P.O.B. 135, FIN-00016 Kesko	+358 10 5311	+358 9 666 131

## KAUKOMARKKINAT

	Address	Telephone	Fax
Kaukomarkkinat Oy	Kutojantie 4, P.O.B. 40, FIN-02631 Espoo	+358 9 5211	+358 9 521 6641

## VV-AUTO

	Address	Telephone	Fax
VV-Auto Oy/Auto-Span Oy	Hitsaajankatu 7 B, P.O.B. 80, FIN-00811 Helsinki	+358 9 758 31	+358 9 758 3267

## OTHER SUBSIDIARIES

	Address	Telephone	Fax
Kauppiaiden Komedia Oy	Hiomotie 10, FIN-00380 Helsinki	+358 9 5492 8520	+358 9 553 061
Kauppiaitten Kustannus Oy	Kanavakatu 3, P.O.B. 135, FIN-00016 Kesko	+358 10 5311	+358 10 533 6235
MK-mainos Oy	Kruunuvuorenkatu 4, P.O.B. 135, FIN-00016 Kesko	+358 10 5311	+358 9 657 243









# Additional information *on Kesko for investors*

## KEY CONTACT PERSONS FOR INVESTOR RELATIONS

Juhani Järvi, Executive Vice President,  
Chief Financial Officer  
Telephone: +358 1053 22209  
Fax: +358 9 657 465  
E-mail: juhani.jarvi@kesko.fi

Riitta Laitasalo, Vice President  
Finance and Administration Division  
Telephone: +358 1053 22060  
Fax: +358 1053 23481  
E-mail: riitta.laitasalo@kesko.fi

Jukka Pokki, Investor Relations Manager  
Investor Relations  
Telephone: +358 1053 22645  
Fax: +358 1053 23481  
E-mail: jukka.pokki@kesko.fi

## ADDITIONAL INFORMATION ON KESKO FOR INVESTORS AVAILABLE AT THE FOLLOWING BANKS AND BROKERAGE FIRMS

AG Private Bankers Ltd, Helsinki  
Telephone: +358 9 7514 5300  
Fax: +358 9 7514 5301

Credit Suisse First Boston, London  
Telephone: +44 171 888 1199  
Fax: +44 171 888 2894

Leonia Bank plc, Helsinki  
Telephone: +358 20 425 11  
Fax: +358 20 425 2608

Aktia Savings Bank plc, Helsinki  
Telephone: +358 10 247 5000  
Fax: +358 10 247 6376

D.Carnegie AB, Helsinki  
Telephone: +358 9 618 711  
Fax: +358 9 6187 1219

Mandatum Securities Ltd, Helsinki  
Telephone: +358 9 166 721  
Fax: +358 9 632 565

Alfred Berg UK Ltd, London  
Telephone: +44 171 786 0811  
Fax: +44 171 920 9127

Den Danske Bank, Copenhagen  
Telephone: +45 3344 2997  
Fax: +45 3344 0940

Merita Securities Ltd, Helsinki  
Telephone: +358 9 123 41  
Fax: +358 9 612 1145

Aros Securities Ltd, Helsinki  
Telephone: +358 9 173 371  
Fax: +358 9 622 1511

Dresdner Kleinwort Benson Securities  
Ltd, London  
Telephone: +44 171 475 2474  
Fax: +44 171 475 2695

Opstock Ltd, Helsinki  
Telephone: +358 9 404 65  
Fax: +358 9 404 2679

Cazenove & Co, London  
Telephone: +44 171 214 7663  
Fax: +44 171 606 9205

Enskilda Securities AB, Helsinki  
Telephone: +358 9 6162 8900  
Fax: +358 9 6162 8769

Evli Securities Plc, Helsinki  
Telephone: +358 9 476 690  
Fax: +358 9 634 382

Chevroux de Virieu, Helsinki  
Telephone: +358 9 6969 2969  
Fax: +358 9 6969 2968

Impivaara Securities Ltd, London  
Telephone: +44 171 284 3937  
Fax: +44 171 284 3938

Svenska Handelsbanken, Helsinki  
Telephone: +358 10 444 2425  
Fax: +358 10 444 2578

Conventum Securities Limited, Helsinki  
Telephone: +358 9 549 930  
Fax: +358 9 5499 3333

# Information *for shareholders*

## **KEY DATES IN 1999**

Annual General Meeting record date	7 April 1999
Closing date for registering in the Annual General Meeting	7 April 1999
The Annual General Meeting	12 April 1999
Decisions by the Annual General Meeting published	12 April 1999
Dividend record date (proposal by the Board of Directors)	15 April 1999
Dividends payable from (proposal by the Board of Directors)	22 April 1999
Interim report for the first 4 months of the year	10 June 1999
Interim report for the first 8 months of the year	13 October 1999

The sales figures of the Group will be published monthly.

## **REGISTERING IN THE ANNUAL GENERAL MEETING**

The Annual General Meeting of Kesko Corporation will be held in the Helsinki Fair Centre's congress wing, Rautatietäläisenkatu 3, on 12 April 1999 at 13.00 hours. Shareholders wishing to attend the Annual General Meeting should notify Kesko Corporation/Legal Affairs by letter to P.O.B. 135, FIN-00016 Kesko, by fax to +358 1053 23480, by telephone to +358 1053 23211, or by email to [katja.virtanen@kesko.fi](mailto:katja.virtanen@kesko.fi), not later than 7 April 1999 at 16.00 hours.

## **FINANCIAL PUBLICATIONS**

The annual report is published in Finnish, Swedish and English.

Summaries of the annual report in German and French are published in May.

Interim reports are published in Finnish, Swedish and English.

Investor magazine, giving financial information about Kesko, is published in Finnish and English in February, June and October.

These publications, monthly sales figures and other key releases are also published in the Group's web site at <http://www.kesko.fi>

Kesko also publishes a separate environmental report in Finnish and English in June.

The publications may be ordered from:

Kesko Corporation/Corporate Communications

P.O.B. 135

FIN-00016 Kesko

Tel: +358 1053 22404

Fax: +358 9 174 398

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

## **CHANGE OF ADDRESS**

Shareholders should notify the bank in which they have a book-entry securities account of any change of address.

