

KESKO

Kesko's year
2003



Kesko's vision and mission

Kesko's vision

Kesko is the leading provider of services in the trading sector.

Kesko's mission

Kesko, working together with its partners, creates trading services that are highly valued by customers.

Our business divisions

- Kesko Food Ltd: groceries trade
- Rautakesko Ltd: building and interior decoration supplies trade
- Kesko Agro Ltd: agricultural and machinery trade
- Keswell Ltd: home and speciality goods trade
- Kaukomarkkinat Oy: international technical trade, branded product trade
- VV-Auto Oy: car and spare parts trade

Kesko's main operating areas are Finland, Sweden and the Baltic countries.

Our core competence areas

- creation of new trading systems and store types
- purchasing and logistics services
- marketing
- development of retail store network

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Kesko will publish a separate corporate responsibility report for 2003.

Sales and profit increased strongly in 2003

Net sales and profit again increased markedly

The Group's net sales were EUR 7,070 million, representing a growth of 9.3%. The profit before extraordinary items was EUR 161.6 million, an increase of 47.3%.

Vigorous growth continued in the Baltics

The Group's net sales in foreign countries grew by 54.7%.

Rautakesko acquired a majority in UAB Senuku Prekybos centras (Senukai), the biggest hardware and building supplies company in Lithuania. Rautakesko is now the leader in the Baltic market.

Kesko Food invested heavily in its Baltic store network and the net sales increased markedly. Two new Citymarkets were opened in Estonia and three in Latvia. Kesko Food is the market leader in Estonia.

Agricultural and machinery sales in the Baltic countries also developed favourably. Kesko Agro is the biggest company engaged in agricultural trade in the Baltics. In 2003 a new store was opened in Tartu, Estonia.

Kesko Food and the Swedish ICA AB signed in December a letter of intent to establish a joint venture for the Baltic food market. The aim is to combine the companies' current operations. The parties would both have a 50% ownership in the joint venture.

Investments in Finland continued

The K-food store network was extensively expanded and refurbished. Three K-citymarkets and 8 K-supermarkets were opened

during the year. Store type changes were implemented in 192 outlets. Additionally Pikoil Oy, a joint venture of Kesko Food and Neste Marketing Ltd started operations in July. At the end of the year, there were a total of 46 K-pikkolo neighbourhood stores and K-pikkolo service station stores and a total of 134 store sites.

Kesko Food made a decision to test discount stores in Finland in spring 2004. The objective is to improve the K-Alliance's competitive base by testing a new concept in different parts of the country.

New systems for operations control

Kesko's division parent companies adopted new systems for operations control replacing the old Kesko-level system.

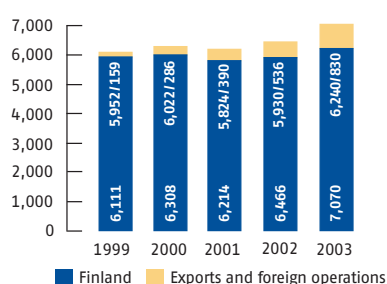
Plusa system reform

The calculation of Plusa points in the biggest customer loyalty programme in Finland was simplified and their use expanded. The number of partners was increased. There are currently about 2.9 million cardholders in 1.6 million Finnish households.

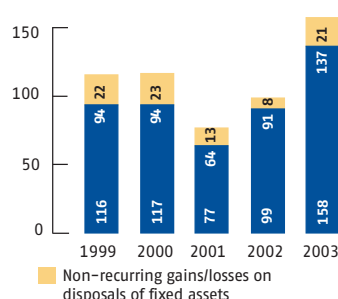
Assurance for Kesko's corporate responsibility report

Kesko's third corporate responsibility report was presented, as previously, in accordance with the guidelines of the Global Reporting Initiative (GRI). For the first time, the report was given an assurance by an independent outside party. The assurance provider was the Sustainability Services unit of PricewaterhouseCoopers Oy, Kesko's auditors.

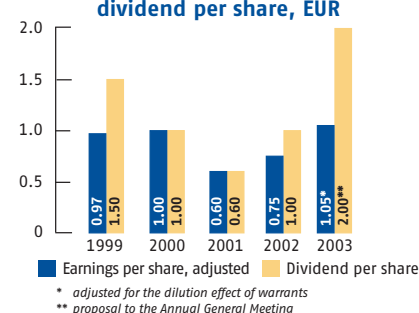
Group's net sales, EUR million



Group's operating profit, EUR million



Earnings per share and dividend per share, EUR



Key figures

	2002	2003	Change, %
Net sales, EUR million	6,466	7,070	9.3
Operating profit, EUR million	99	158	59.5
Profit before extraordinary items, EUR million	110	162	47.3
Return on invested capital, %	7.6	10.9	43.2
Return on equity, %	4.9	7.4	49.8
Investments, EUR million	185	259	39.9
Cash flow from operating activities, EUR million	146	165	12.8
Equity ratio, %	53.3	51.7	-3.1
Gearing ratio, %	13.9	16.2	16.8
Personnel (average)	12,217	15,219	24.6
Dividend per share, EUR	1.00	2.00*	100.0
Earnings per share, EUR	0.75	1.05	40.9
Equity per share, adjusted, EUR	15.02	15.07	0.3

* proposal to the Annual General Meeting

Values take a stand on basic issues

The values that guide Kesko's operations were defined in value discussions with various personnel groups in autumn 2001. The revised four values take a more specific stand on basic issues: customers, competitive situation, working community and corporate responsibility.

Bearing corporate responsibility forms the foundation of Kesko's operations and exceeding customers' expectations is essential to its business operations. In the market, Kesko wants to be the best operator in its sector. A good working community is an important tool in the implementation of commercially and socially important values.

Since spring 2002, the values have been discussed at Kesko in many employee and training events. The President and CEO has also actively participated in discussion about the values. A survey of the perceived importance and implementation of the values was conducted in November-December 2003. Martti Puohiniemi, Doctor of Social Science, carried out the survey.

The key observations of the survey are presented on the following page.

Our working practices

The 'Our working practices' booklet, compiled by Kesko and the K-Retailers' Association in co-operation, gives more detailed information about our values and how every employee can act according to them. The booklet gives practical guidelines on operating practices that will promote the implementation of the principles presented in these values.

Kesko's values and working practices have also been translated from Finnish into other languages used in the Group: Swedish, Estonian, Latvian, Lithuanian, Russian and English. Separate training material is available to support their adoption.

'Our working practices - ethical principles' can also be found on Kesko's Internet pages at www.kesko.fi/inbrief.



1. We exceed our customers' expectations

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

2. We are the best operator in the trading sector

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

3. We create a good working community

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

4. We bear our corporate responsibility

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

Value survey 2003

Values are considered important at Kesko: 75% of survey respondents think that discussion about values is really important. There remains room for improvement though, as only 44% think that the values have been thoroughly discussed from the viewpoint of their own duties.

Working community and customers valued

Kesko employees feel that both the importance and the implementation of all four values exceed the average. When asked about the order of importance, employees rated two values as nearly equally strong: creating a good working community and exceeding customers' expectations. The relation between the importance and the implementation of values is presented in the graph.

Creating a good working community is considered a value whose implementation has been poorer than others. Working communities are continuously improved at Kesko, but corporate culture does not change in a moment. The result also shows how stable values are. Real values change very slowly, after many years of work.

Exceeding customers' expectations is considered nearly as important as creating a good working community. Closer cooperation between Kesko and K-stores has clearly raised the significance of customer-orientation to a new level. Exceeding customers' expectations is also thought to have been implemented relatively well. Two out of three Kesko employees think that this value makes their work interesting.

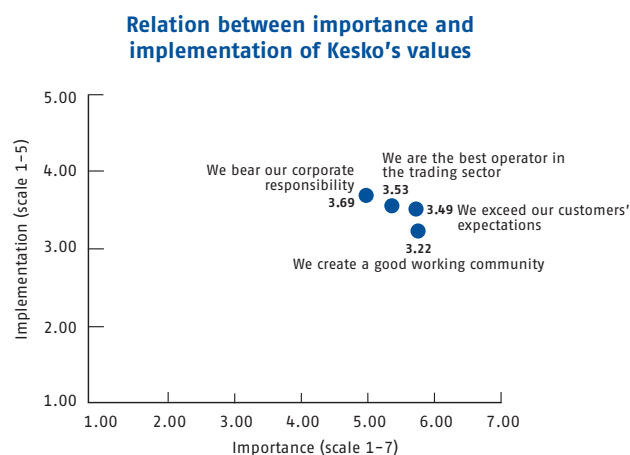
What does 'being the best operator' require?

The value 'We are the best operator in the trading sector' is on the next level in employee estimates. Nearly three out of every four respondents consider it an important value that guides operations. However, this value is often mixed with exceeding customers' expectations. Exceeding expectations alone is no guarantee of being the best. That can be achieved only through actions that are noticed and valued by others besides our own customers.

Bearing corporate responsibility is considered to be the value that is best implemented, but least important. Discussions which were part of the survey revealed that as Kesko has provided good guidelines and standards for operating systems in issues that fall under corporate responsibility, it is easy to operate in accordance with the value - so easy in fact that employees do not necessarily think about the value they are implementing at work. 85 percent of respondents agreed that bearing corporate responsibility is every employee's duty. This proves that Kesko has progressed in this area from speeches to daily work.

The direction and basis of actions crystallised in values

According to the survey, Kesko's four values form two groups. The tip of the value triangle - exceeding customers' expectations and being the best operator in the trading sector - describe the commercial side of Kesko's operations, its rela-



tionship with customers and the market. These two values give a direction to operations.

Bearing corporate responsibility and creating a good working community are rather values that ensure the basis and ethics of operations, as well as staff motivation and well-being.

Compared with previous value surveys, the trend seems good. The most significant change is that the important role of the customer for the entirety of operations has been understood at Kesko better than before. Another significant change is the rise of 'bearing corporate responsibility' to be the value that is implemented best. That also has significance for the whole society where we operate.

Implementation of the value survey

The value survey was conducted in November–December 2003 in Kesko's units in Finland. At the same time, the attitudes of Kesko's employees towards the value process were also measured. The majority of the survey material, about 80%, was collected via the 'Keskonet' intranet and the rest via a mail inquiry. The mail inquiry was sent to those who have no e-mail address, mainly to retail stores and logistics personnel. The inquiry was sent to 6,562 persons in all. The number of responses received was 2,428, making the response rate 37%. Three group discussions were also arranged.

Perceived importance and implementation of Kesko's values

	Importance (1-7)	Implementation (1-5)
(N = 2,320)		
We create a good working community	5.58	3.22
We exceed our customers' expectations	5.55	3.49
We are the best operator in the trading sector	5.22	3.53
We bear our corporate responsibility	4.85	3.69



A year of success

Kesko Group's vision is to become the leading provider of services in the trading sector. This goal obliges us to actively understand the needs of our customers and establish new services. The leading operator promotes the interests of the whole business sector by reforming its operations so that they will also attract consumers and employees in the future.

In accordance with these principles Kesko has specified its strategy for Finland and abroad in order to be able to serve all its customers in as many ways as possible and as competitively as possible.

Achieving the leading position in Finland requires our operations to meet high international quality standards. In order to succeed, Kesko and the whole K-Alliance must be competitive when compared to any international trading company.

In customer relationship management Kesko, K-stores and our partners still have many development opportunities. I am convinced that the joint development efforts of our store chains and Plussa, the widest customer loyalty programme in Finland, will further increase consumers' loyalty towards Kesko and K-stores. In this the Group's promising outlook in electronic commerce is also an important factor.

In Estonia we have gained a strong position in the food, hardware and builders' supplies, agricultural and machinery trade. Our share of the Swedish hardware and builders' supplies trade is also increasing. Our potential in the Baltic food trade will considerably increase if the joint venture with our Swedish partner announced in December becomes reality during the year. Our corporate objective is for international operations to account for over 20% of our net sales in 2005.

We know from experience that our competitiveness equals the level of the best international retail chains. That encourages us to expand and reform store operations in Finland and abroad. Financially Kesko is prepared to face any form of competition in the trading sector.

We play an important role in the daily lives of Finnish citizens. The decisions we make have wide repercussions, which sets particularly high responsibility requirements for our activities. Corporate responsibility and transparent operations are firmly established in the values and daily operations of the Group. Kesko's corporate responsibility report published in 2003 was presented in accordance with the GRI guidelines for the third time. For the first time it was given an assurance by an independent outside party.

Last year Kesko Group exceeded its net sales and profit targets. We can be quite satisfied with such a performance. Both figures were the highest in Kesko's history in terms of euros. The Group's profit before extraordinary items amounted

to EUR 161.6 million. The Board of Directors proposes that EUR 2.00 per share be distributed as dividends, which would be the biggest dividend per share in Kesko's history.

I want to express my thanks to all our customers and shareholders in Finland and abroad. Your confidence in us will encourage us further in the active development of our operations.

My special thanks go to all Kesko employees in Finland and abroad. Thanks to your work Kesko's performance in 2003 was excellent. Every one of you holds a key position in making Kesko the leading provider of services in the trading sector.

Matti Honkala
President and CEO

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“At Kesko, we never compromise on quality,” says Product Manager Nanette Karttunen, who is responsible for apples and pears at Kesko Food.

Divisions in brief

Kesko Food

Kesko Food Ltd operates in the grocery market offering diverse services to consumers and business customers in Finland and the Baltic countries. The key businesses of Kesko Food are the K-food store chain operations in Finland, Kespro Ltd's catering sales to HoReCa customers, and grocery retailing in the Baltic countries. The food trade is the largest of Kesko's divisions, accounting for over a half of the Kesko Group's net sales. Pages 29-32.

Rautakesko

Rautakesko Ltd develops the K-rauta and Rautia chains, its Industrial and Constructor Sales and is responsible for their marketing, purchasing and logistics services, network and retailer resources. In addition to Finland, Rautakesko carries on retail trade in Sweden, Estonia, Latvia and Lithuania and wholesale trade in Russia. Pages 33-35.

Kesko Agro

Kesko Agro Ltd purchases and sells animal feed, chemicals and agricultural machinery, and is involved in the grain trade. In addition to Finland, Kesko Agro is active in all Baltic countries. Kesko Machinery Ltd, a subsidiary of Kesko Agro, purchases and sells through its own network heavy machines for professional and commercial use, as well as motorcycles, snowmobiles, marine engines, boats and boating equipment for consumers through the dealer network. Pages 36-38.

Keswell

Keswell Ltd specialises in the home and speciality goods trade. Keswell develops operating systems and the store network, manages the store chains and is responsible for the purchasing of goods, logistics and chain marketing. Its store concepts are well-known retail concepts which have gained a strong position in Finland. Keswell's subsidiary, Anttila Oy, is one of the biggest retailers in the home and speciality goods trade in Finland. Pages 39-41.

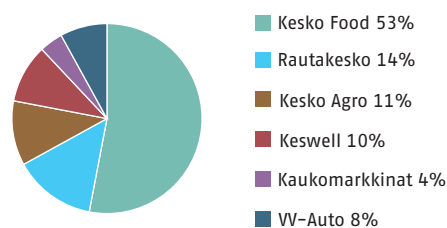
Kaukomarkkinat

Kaukomarkkinat Oy is the leading Finnish trading house operating internationally. It has over 20 subsidiaries or representative offices abroad. Kaukomarkkinat specialises in international technical trading, the import and wholesale of the world's leading branded products as well as the import, manufacture and marketing of high-quality optics. Pages 42-43.

VV-Auto

VV-Auto Oy imports and markets Volkswagen and Audi cars and Volkswagen commercial vehicles. Its subsidiary, Auto-Span Oy, is responsible for importing and marketing Seat cars. In addition, the companies import original spare parts and accessories for the cars and arrange training, in their own training centre, for the personnel of the service and repair workshop network. Pages 44-45.

Breakdown of net sales by division in 2003



Net sales and operating profit by division, EUR million

	2003		2002	
	Net sales	Operating profit	Net sales	Operating profit
Kesko Food	3,766	56.3	3,628	60.5
Rautakesko	995	28.0	735	9.0
Kesko Agro	768	7.4	715	7.4
Keswell	726	3.5	687	-2.9
Kaukomarkkinat	285	6.0	285	7.7
VV-Auto	558	22.3	450	14.4

Efficiency and versatility generate profitability

Kesko's vision and mission (on page 2) highlight the viewpoint of a service company. As profit divisions have been incorporated and the focus shifted to core business operations, the development and production of various trading services has become Kesko's principal business. Specialisation requires the formation of networks and partnerships with other experts in the sector.

Strategy

Growth – the leading market position

Both Kesko's size and its leading position in the trading market generate a competitive advantage. Kesko has a strong market position in Finland and is expanding its operations in the food, hardware and builders' supplies, and agricultural and machinery trade in the Baltic markets, and in the hardware and builders' supplies trade in the Nordic markets, too. The target is to reach the leading market position in all these markets and product lines. In the Baltic food trade, the intention is to combine the present operations with the Swedish ICA AB. Kesko Food Ltd and ICA AB have signed a letter of intent and, if all goes according to plan, the joint venture will start operating in summer 2004.

Operations in Finland are based on the continuous development of store types and store site investments to meet the demand for services. Chain operations and retailer entrepreneurship are key competitive advantages. Special attention is paid to increasing retail store sales by benefiting from the recent revision of chain operations. House brands play a key role in the search for growth, particularly in Kesko Food's operations in Finland.

In the Baltic markets, growth is based on the growing market and on the structural change in retailing, as well as on the fast expansion of Kesko's store network. In Estonia, Kesko's food store network is nearly completed. In Latvia, progress is mainly being made by establishing new stores, and in Lithuania it is through business acquisitions and the establishment of new stores.

The growth of the hardware and builders' supplies trade in both Sweden and Latvia will come mainly from the establishment of new stores. In Estonia, the network of hardware and builders' supplies stores is nearly completed and in Lithuania market leadership has been achieved through a business acquisition.

The frame of the agricultural and machinery store network has already been built in all the Baltic countries and the network will expand throughout the area in the next few years.

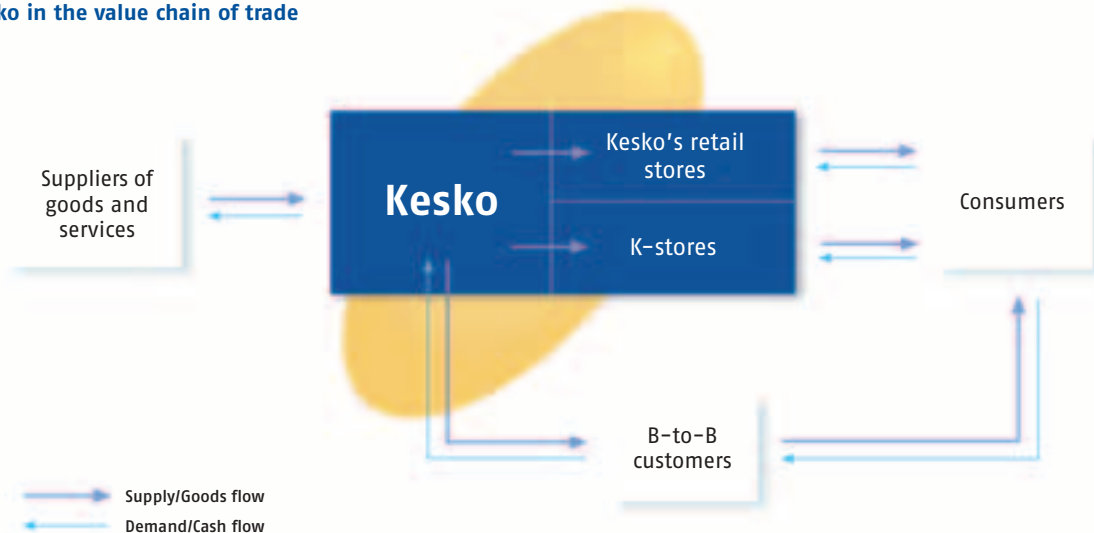
Efficiency – a prerequisite of profitability

The efficiency of the logistical chain is the main competitive factor in the trading sector. The seamless integration of the operations chain and the overall control from customer to supplier necessitates investments in information systems and logistics. In all product lines the management of goods flows is being streamlined with co-operation partners.

The centralisation of purchasing power is also a key efficiency factor in the trading sector. The chains and the professional customer units combine their purchasing power in each product line as far as possible. International purchasing co-operation can benefit from the global merchandise market. Kesko has important international partners in every product line: in the food trade the leading European purchasing alliance AMS and the online trading site WorldWide Retail Exchange, in the hardware trade EuroMat, in the home technology trade EP:International and in the sports trade Intersport.

In recent years Kesko has outsourced many of its support services and concentrated instead on developing the core busi-

Kesko in the value chain of trade



Kesko's strategy

1. Growth

- expansion in the Nordic and Baltic countries, particularly in the food, hardware and builders' supplies, and agricultural and machinery trade
- store site investments to meet the demand for services
- continuous development of store types

2. Efficiency

- overall management of the operations chain, integration of the wholesale and retail trade
- increasing international purchasing co-operation
- concentration on core competencies

3. Versatility

- diversified channels and product lines
- varied selected markets
- wide network of partners in various business sectors

4. Locality

- retailer entrepreneurship and deep customer knowledge
- extensive store network

5. Responsibility

- economic, environmental and social responsibility

ness and trading services appreciated by customers. This improves the efficiency of operations by freeing resources and making available the services and expertise of specialised partners. The incorporation of business sectors has increased efficiency and flexibility in each product line.

Versatility – comprehensive offerings and flexibility

In marketing goods and services Kesko uses several different channels to consumers and professional customers. The key channel is the store network formed by K-retailers, complemented by Kesko's own growing retail operations via the store network and the Internet. Professional customers are also served by means of a modern wholesale company.

In Finland Kesko operates in several different product lines using the mutual synergy benefits between them. Operating in many different markets also creates stability against cyclical fluctuations and changes in demand.

Wide customer, supplier and other co-operation partner networks are a significant advantage and make it possible to benefit from market changes and to react flexibly to changes in demand.

Locality – better customer knowledge and exceeding expectations

Retailer entrepreneurship is a strong competitive advantage of the K-Alliance in Finland. Combined with efficient chain operations it is a superiority factor that enables good customer and market knowledge and the best local service.

A comprehensive store network is the basic foundation of local customer service. Kesko and K-stores have the widest and most versatile store site network in Finland. In new market areas the network is under active construction.



Kesko Agro's Spare Parts Manager Sergejs Gubarevs from Riga demonstrates a Yamaha motorcycle to Jānis Krievins.

Responsibility – long-standing operations and the basis for future operations

Trading is based on confidence between the buyer and the seller. Long-standing operations are only possible if customers have confidence in the products and services offered by the seller and in his operating practices.

Kesko has been a pioneer of responsible operations in Finland. Responsibility for economic operations has been Kesko's most important operating principle throughout its history. Kesko has made a profit and paid dividends in nearly every year of its operations.

Good financial management has also enabled responsible operations in environmental and social issues. In this area Kesko has acted and wants to continue acting as a pioneer in Finland.

Financial targets

Net sales and growth

- In 2004 net sales growth in Finland will at least match market growth.
- Sales growth in the Baltic countries in particular will exceed market growth.
- In 2005 foreign operations will account for over 20% of net sales.

Performance and profitability

- Growing positive economic value added
- Return on equity 10%

Dividend policy

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

Kesko's brands are highly valued and well-known

Kesko focuses on strong brands and on marketing and developing store concepts and trading systems. Strong brands create consumer confidence, help us differentiate from our competitors and ensure competitiveness in the future.

Well-known brands

Some of the chain brands in Finland are clearly linked to the K-emblem and Kesko, thus exploiting the Kesko image of traditional, reliable Finnish store. Some chains, such as Intersport and Kodin Ykkönen, are marketed independently, with their own brands. This is particularly true of the speciality goods trade, where store images must be profiled more closely to specific customer groups.

Positioning is aimed at ensuring chains' competitiveness and creating brands that are as strong as possible and that support the set objectives. In Finland, Kesko and its chains share a strong, positive image of retailer enterprise, good customer service, local operations and customer satisfaction. K-rauta is building a uniform brand not only in Finland but also in Sweden and the Baltic countries. Kesko Food has the Citymarket brand in Estonia and Latvia. It has also one discount store brand in each of these two countries.

More information on the chains is given by respective divisions on pages 28-45.

Benefiting from division expertise

Each chain handles its marketing operations independently. This makes best use of division expertise to meet competitive requirements. K-food stores' joint advertising is co-ordinated by Kesko Food. Actual marketing and brand operations use all modern channels and media depending on which best suit each case and target group.

The most significant recent change in brands has been the reform of Kesko Food's chain concepts. In Finland, the focus has been on building five store chain brands: K-citymarket, K-supermarket, K-market, K-extra and K-pikkolo. The objective is to further enhance K-food stores' recognition level and to strengthen the K-brand's positive image. The reform also makes it possible to better meet consumer needs and improve the efficiency of marketing. In 2003 Kesko Food Ltd and Neste Marketing Ltd established a nationwide chain (Pikoil Oy) that operates in the retail market of liquid fuels and groceries. Its framework consists of the present K-pikkolo and Neste Quick Shop chains. The target is to combine the core expertise of both companies and serve customers in the traffic store market, too.

Plussa and Pirkka

In addition to chain brands, Kesko has a strong customer loyalty brand in Plussa and its own product brands, the best known of which is Pirkka. According to surveys, both Plussa and Pirkka are well-known to all Finns. There are already over 1,200 Pirkka products, and their customer benefit is based on their good price/quality ratio. Kesko's role as a brand maker and marketing company is highlighted by the fact that it sells,

markets and imports thousands of brand products through its division parent companies.

The success of Plussa has relied on successful, long-term marketing and a functioning and versatile customer loyalty system. Plussa is the K-Alliance's supporting brand, which rewards customers for centralising their purchases and unites the product and service provision of the Alliance's chains and partners. Plussa acts as a unifying element throughout the Alliance's marketing, and it is used to deepen the relationship between stores and consumers.

Kesko has been a brand maker for a long time. Kesko and the blue and white K-emblem have become familiar to everybody in Finland over Kesko's 60 plus years of existence. Kesko's store chains, organised by division, are brands in themselves and the Group's strength. Each chain has its own image, customer promise and target group. Chain brands are built on a long-term basis and are, without exception, strong, highly respected and well-known factors in each product line.

The K-emblem was born over 50 years ago. In March 1947, this quality symbol was introduced in about 2,500 K-store windows.



The Plussa customer loyalty programme was launched in November 1997.



The first Pirkka products were introduced in K-stores in 1986.



The aim is to establish a leading market position in the neighbouring areas

An essential part of Kesko's strategy is the expansion in the Baltic and Nordic countries. Kesko is a strong player in the Baltic food trade, hardware and builders' supplies trade, and the agricultural and machinery trade. Rautakesko also operates in Sweden.

Kesko Food

Kesko Food operates six Citymarkets and one Supernetto cash-and-carry outlet in Estonia. In addition, Kesko Food owns Estonia's largest discount store chain, Säätumarket, which has 45 stores. Kesko Food's share of the Estonian food market is currently over 20%.

In Latvia, Kesko Food operates five Citymarkets and 11 Supernetto discount stores. The discount chains in both countries - Supernetto in Latvia and Säätumarket in Estonia - will open new outlets.

At Jüri, Tallinn, Kesko has a 15,000 square metre logistics centre, which supports the building of Kesko Food's own retail store network and acts as a warehouse for imported goods. At the same time, it is also an efficient distribution and export channel for the Estonian food industry.

Kesko Food aims at achieving a 25% share of the total grocery market in the Baltics (value in 2003 estimated at 4.7 billion euros). In December 2003, Kesko Food and the Swedish ICA AB signed a letter of intent to establish a joint venture for the Baltic food market. The aim is to combine the parties' current operations in Estonia, Latvia and Lithuania. Kesko Food and ICA would both have a 50% ownership in the joint venture which would start operating in summer 2004.

Rautakesko

At present, there are 11 K-rauta stores operating in Sweden with a market share of about 3%. The aim is to build a network of about 25 K-rauta stores and to achieve a share of about 10% in the hardware and builders' supplies market.

In Estonia, Rautakesko has four K-rauta outlets and a nationwide wholesale network. Rautakesko is the market leader with a market share of about 20%.

In Latvia, Rautakesko has one K-rauta in Riga and a wholesale network covering the whole country. In Russia, Rautakesko also has a wholesale warehouse in Moscow.

Rautakesko concluded the deal on the acquisition of a majority in Lithuania's largest hardware and building supplies company UAB Senukai Prekybos centras (Senukai) in March 2003. Senukai is the market leader in the Lithuanian building supplies and DIY trade with a market share of about 25%. Senukai's customers include consumers and professional customers alike. Senukai has 10 own Senukai Superstore outlets in Lithuania, where it also operates a nationwide logistics and wholesale network. Senukai also has a network of 50 Partnerships throughout Lithuania and one store of its own in Riga, Latvia. Senukai has a central warehouse in Kaunas.

Rautakesko is the market leader in the Baltic countries and aims at becoming the leading operator in the Nordic countries.

Kesko Agro

Kesko Agro is building a comprehensive agricultural and machinery store chain with regional sales outlets in the Baltic countries. An agricultural and machinery centre has been opened in each state. In 2003, the market share in Estonia was about 27%, in Latvia about 21% and in Lithuania about 9%. In the heavy machinery trade, the market share in Estonia was about 13%, in Latvia about 8% and in Lithuania about 10%.

The agricultural and machinery centres offer animal feed, chemicals and agricultural machines. Additionally, the product ranges include construction, materials handling, garden and recreational machinery. The Estonian centre is situated at Jüri, while the regional sales outlets are in Paide and Tartu.

An agricultural and machinery centre was opened in Riga, Latvia in spring 2001, and in Vilnius, Lithuania in spring 2002. The Latvian regional sales outlets are in Jelgava and in Valmiera. In Lithuania, the centre is located in Kaunas and the sales office at Klaipeda.

The Baltic agricultural and machinery market is expected to grow vigorously. The EU membership is considerably increasing investments in agriculture and machines. In 2002, Kesko Agro became the biggest company operating in the Baltic agricultural market. In 2003 a new regional centre was completed in Tartu, Estonia, and in 2004 an agricultural and machinery centre will be completed in Kaunas, Lithuania.

Keswell

Anttila carries on its mail order business in Finland, Estonia and Latvia. Additionally, there is an Anttila mail order store in Estonia.

Sales Assistant Åsa Hammarsten unloading a consignment at K-rauta in Södertälje, Sweden.



Enhanced chain operations are a competitive asset in a tightening market situation

Major developments in the trading sector

- Concentration and internationalisation in trade are increasing.
- Importance of price competition is increasing.
- Competition for customer loyalty is becoming keener.
- Trading sector's role as a producer of services is strengthening.
- Corporate responsibility and company ethics are becoming increasingly important.
- New operations control systems are improving the efficiency in trade.

Market areas

Kesko Group's main market area is Finland. In accordance with its strategy, the Group has expanded its operations to neighbouring countries: Sweden, Estonia, Latvia, Lithuania and Russia. In addition, Kaukomarkkinat Oy's operating areas include Denmark, Germany, Poland, Hungary, China and Vietnam.

While Finland and Sweden are considerably larger market areas than Estonia, Latvia and Lithuania, they are still small by European standards. What is common to all these countries is their relatively sparse population, concentrated in the largest towns.

Strong domestic demand has maintained economic growth in all of Kesko's market areas in recent years. The low inflation, tax reductions and low interest level have strengthened the growth in consumption in Finland. Private consumption is expected to grow by about 3% per year in Finland during the next few years. In 2003, household consumption was directed to the car trade in particular. Future consumption is expected to divide more evenly between different commodity groups.

Private consumption is expected to increase by about 2% in Sweden, while the consumption growth in the Baltic countries is estimated to stabilise at a level of about 3% in the next few years. The rise in wages, low inflation, improved employment and the increase in credit have contributed to the very rapid growth of private consumption in the Baltic countries.

The EU membership of Estonia, Latvia and Lithuania will open new opportunities for companies operating in these

markets. The harmonisation of legislation and elimination of border formalities will facilitate the operations of present players there, while the membership will lower the threshold for new players entering the area.

Competitive environment

Significant structural and operational changes are taking place in all market areas of the trading sector. Trade is becoming centralised, chains are being formed and international competition is increasing. The most important changes of recent years include internationalisation. The number of foreign players in the Finnish retail trade remains relatively small compared with Sweden, for instance. In the wholesale trade



Trade is concentrating and globalising. Kesko's main market area is Finland, but growth is strong in the Baltics and Sweden.

foreign players account for a large proportion of the Finnish market.

Many international chains that have succeeded in Finland concentrate on a very narrow operating system and uniform store concept, for example the German Lidl in the grocery market and the British Gigantti in the home electronics trade.

Internationalisation is reflected in the focus being on price competition, particularly in the grocery trade. Kesko Food has responded to the development by increasing the number of house brands, improving the efficiency of operations with a new operations control system, and by lowering the prices of a thousand Pirkka products.

A tighter competitive situation highlights the management, control and enhancement of the entire operations chain. It is also important to create store-specific competitive edges and to increase the opportunities for stores to adapt to local circumstances. Enhanced chain operations combined with retailer enterprise provide Kesko with a significant competitive advantage in the Finnish market.

In the Baltic countries, trading continues to move from open-air markets to shopping centres and new food stores. The structural change underway in the trading sector there is creating new opportunities for both local and foreign players.

Trading trends

Customer relationship

Stores face the challenge of responding to customer expectations for easy shopping and individuality. The traditional division of labour between trade and the customer is changing and the competition for customer loyalty is becoming increasingly fierce. The number of various planning and advisory services, for instance, will grow, as will the selection of other auxiliary services offered in connection with trading.

Different, more specifically defined store types are wanted to meet the needs of increasingly demanding customer groups. Some consumers like to shop in hypermarkets offering a wide range of products, while others prefer speciality stores that focus on expert service. Shopping behaviour changes according to the situation and need, which increases the need for the continuous development of store types. These fast developing store types include a store operating in connection

with service stations. Kesko established a joint venture (Pikoil Oy) with Fortum, which aims at a chain of about 200 service station stores in Finland.

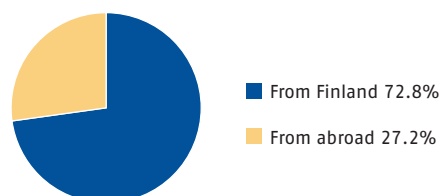
The role of the wholesale trade continues to change fast. Customers expect a comprehensive service, in which the trade is responsible for the entire provision of goods.

The key medium in Kesko Group's customer strategy is the Plusa customer loyalty system. There are about 2.9 million Plusa cardholders in 1.6 million Finnish households (about 65% of households). Near-future targets include improving the system's efficiency in Finland.

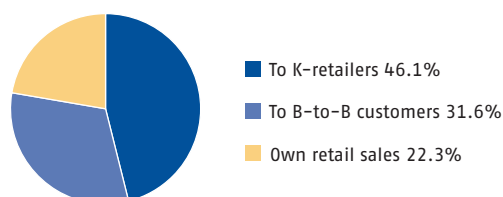
House brands

The number and market share of trading companies' own branded products continue to grow, particularly in the grocery trade. Store chains want to differentiate and strengthen their identity with strong brands of their own, allowing them to cut costs, improve profitability and keep the entire operations process in their hands from product planning all the way to the customer. House brands enable them to manage cost and profit structure, while increasing customer loyalty and better maintaining equality with international operators.

Group's purchases in 2003



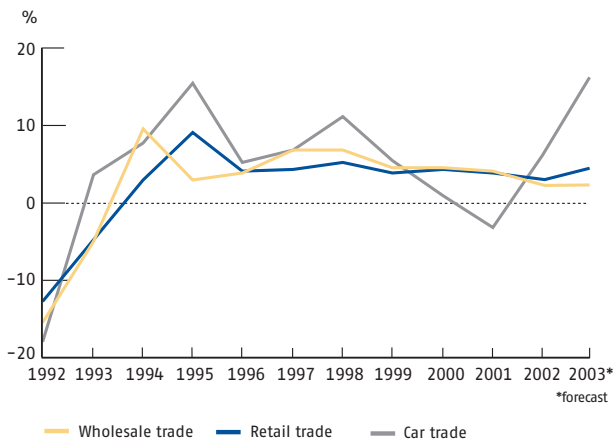
Group's sales in 2003



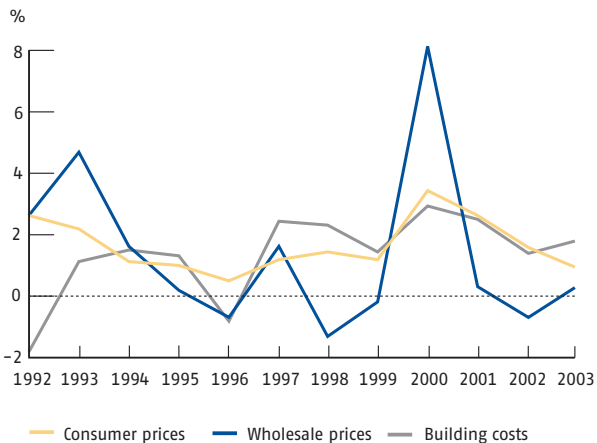
Kesko's net sales by division and market area in 2003, EUR million

Division	Finland	Sweden	Estonia	Latvia	Lithuania	Russia	Other
Grocery trade	3,517		210	36			3
Hardware and builders' supplies trade	674	78	45	21	171	4	2
Agricultural trade	462		34	36	36		8
Machinery trade	162		5	4	4		17
Home and speciality goods trade	703		9	10			4
Car trade	545		10				3
Kaukomarkkinat	202	8	9	3	5	9	49
Total	6,265	86	322	110	216	13	86

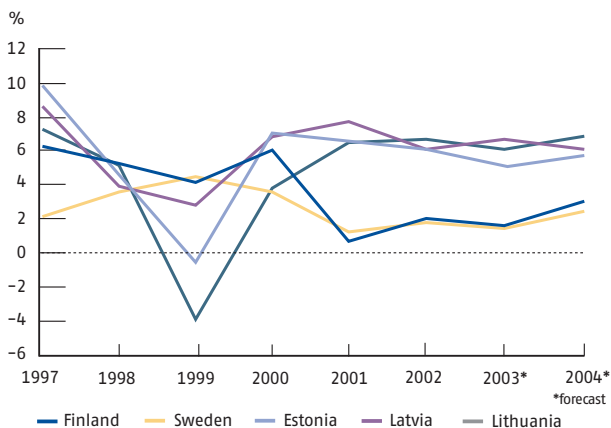
Changes in trade volumes in Finland, 1992–2003



Changes in prices and building costs in Finland, 1992–2003



Annual changes in gross domestic product, 1997–2004



Source: Statistics Finland, Konjunkturinstitutet, BOFIT

Market outlook for 2004

	Total market, EUR billion	Change, %, estimate
Kesko Food	24.8	
Finland	20.0	0–+1
Estonia	1.0	+5–+7
Latvia	1.4	+5–+7
Lithuania	2.4	+4–+6
Rautakesko	9.0	
Finland	3.2	+2–+3
Sweden	4.7	+2
Estonia	0.4	approx. +5
Latvia	0.3	approx. +5
Lithuania	0.4	approx. +5
Kesko Agro	2.3	
Finland	1.7	+1
the Baltics	0.6	+5–+10
Kesko Machinery	1.4	
Finland	1.3	+/-0
the Baltics	0.1	+5–+10
Keswell	7.7	+2–+3

Kesko Food has increased its number of house brands considerably. Kesko's own brands Pirkka, Euro Shopper, Costa Rica and Rico are better displayed in stores and have also been given more shelf space.

Corporate responsibility

Company ethics and corporate responsibility are also further emphasised in the trading sector. An increasing number of consumers are interested in what kind of conditions and on what kind of terms goods are produced across the world, and in what their life-cycle is like from the point of view of the environment. Investors also want more diverse information about company activities for their risk management. Kesko continues its work as a frontrunner in corporate responsibility. In the future, the principles of corporate responsibility will be extended to cover the Baltic countries and Sweden, too. Corporate responsibility is being implemented in the form of economic, social and environmental responsibility, and can be seen in practice in the following examples:

- 'Our working practices' - ethical principles for personnel
- the development and training of personnel: the K-instituutti is one of the most important providers of adult training in Finland
- emphasis on occupational safety and preventive occupational health care
- adoption of the social standard (SA 8000) in the quality control of purchases from developing countries
- versatile development of environmental issues in stores, e.g. K-environmental store diplomas
- further increasing the number of organic products
- improving the energy efficiency of business buildings

- using the core and shell concept in building, in which the business premises (core) can be flexibly modified during the life-cycle of the building (shell)
- a wide and versatile store network

New applications of information technology

Technological developments related to retail operations are changing store operations. New operations control systems are being planned to meet the needs of closer chain management. The resulting improved store technology and operational solutions raise the service level.

Additionally, electronic ordering tools and, if requested, home delivery services are being developed to provide alternatives to traditional shopping trips. Many Finnish consumers still have a negative attitude towards home deliveries and buying groceries on the web. They consider the service expensive and have doubts about the quality of the food.

The majority of Kesko's Internet trading consists of sales to K-retailers and other B-to-B customers. They include the food trade to catering customers developed by Kespro and the web trading sites developed by Rautakesko, Kesko Agro, Kesko Machinery and the Kodin Ykkönen department store for home goods and interior decoration. In addition, NetAnttila is the frontrunner in consumer web trading in Finland.

Legislation

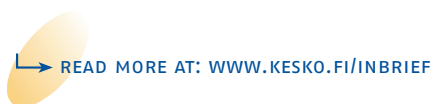
The enforcement of EC competition legislation will be revised on 1 May 2004, when the time for the exemptions systems will be over. The harmonisation of national legislation restricting competition with the EC provisions has also been proposed in

Finland. The renunciation of exemptions will increase companies' responsibility for the legality of their operations, as they have to evaluate themselves the acceptability of their agreements from the point of competitive legislation.

The reduction in car taxation boosted the car trade in 2003 more than expected. The Finnish market is next expecting a reduction in alcohol tax. There is also discussion going on about the reduction of value added tax on food. Many interest groups are also expecting more clear-cut provisions for store opening hours.

Financial market

The financial market situation in the euro area continues to favour private consumption and investments. The all-time low interest level and the strong euro currency increase consumers' purchasing power and lower the capital costs of Kesko, K-retailers and B-to-B customers and, consequently, the investment threshold. The accession of the Baltic countries to the EU on 1 May 2004 has accelerated the corresponding positive development in these countries, which will further improve the growth prospects of Kesko's business in the Baltics.



An early morning delivery to K-supermarket Herkkupätkinä, Vantaa by driver Juha Konttila (left) from Kesped. Juha Hovi, who is responsible for processed foods, receives the goods.

A good working community is an important success factor

In accordance with Kesko's values, we want to exceed our customers' expectations, to be the best operator in the trading sector, to create a good working community and to bear our corporate responsibility. Kesko's personnel principles include the strategy-driven development of competence and leadership based on our values. The personnel principles aim at supporting the achievement of Kesko's goals and vision. Kesko wants to be the most attractive and stimulating employer in the trading sector.

In 2003 the expansion of Kesko Food's, Rautakesko's and Kesko Agro's operations in the Baltic countries increased the number of Kesko personnel in foreign subsidiaries. The biggest increase took place in Lithuania in March, when Rautakesko acquired a majority in the hardware and building supplies company, Senukai, which employs 2,568 persons. At the end of the year, the number of Kesko employees in Finland totalled 12,596 (12,152 in 2002), and 6,815 abroad (3,060 in 2002).

A more detailed review of personnel issues will be given in the 2003 corporate responsibility report, to be published in spring 2004. Kesko's values and value survey are discussed on pages 4-5 of this annual report.

Personnel principles define the direction

Kesko's personnel principles were updated in 2003. They are based on Kesko's values and aim at supporting the implementation of Kesko's vision and strategy, and at establishing the focal areas of personnel operations. The main objectives of personnel principles are:

- Kesko has the competence it needs for the fulfilment of its vision
 - Kesko's leadership is goal-oriented and in conformity with values
 - Kesko is a good and stimulating working community
- The key outlines of the personnel principles have been

specified further and put into more concrete terms in the division parent companies' and business units' own principles and in connection with annual planning. HR (human resources) professionals from the Group management and various divisions make up a team whose purpose is to promote the implementation of the principles by transferring best practices and developing the Group's HR competencies.

Personnel requirements are derived from the business strategy which provides the basis for defining what kind of competencies Kesko needs in order to ensure its competitive advantage. The division parent companies are responsible for the development and training of their employees, while the Group's HR management is responsible for the development of managers and management potential.

Versatile jobs

In recruiting new employees the criteria will focus on job-specific and other related skills, education, experience and development potential. The size and versatility of the Group provide good opportunities for self-development and to move to

Kai Kivelä of Kesko Machinery (left), Janne Tossavainen of Kesped and Teuvo Mattila of Kaukomarkkinat learned how to put out a fire and give first aid at Kesko's national defence course in September 2003. The trainer was Esa Lehtonen of Kesped (right).



increasingly challenging positions. There are roughly as many as 650 different job titles in the Group.

Internationalisation adds to the opportunities to work in different jobs in Kesko Group. About one third of personnel are working abroad and internationality is strongly characteristic of the working environment of many other jobs, too (purchasing, logistics etc.).

Kesko has an efficient in-house job market, proof of which are some 500 annual recruitments inside the Group. External recruitment complements internal mobility. Working at Kesko is also a good stepping stone towards a K-retailer career.

Good and stimulating working community

All Group units make annual self-evaluations using the criteria of the Finnish Quality Prize. This in-house quality competition is an incentive for personnel to continuously improve their working practices.

The K-instituutti training centre's management training ensures the basic qualities of managers and superiors by supporting career progress. This is complemented by other training and by providing important opportunities to gain experience in the various duties of the Group. The systematic evaluation of management practices has been gradually expanded to other supervisory duties.

A good physical, mental and social working environment is a prerequisite for the well-being and good performance of employees. The most important and versatile personnel indicator is the job satisfaction survey, which was expanded to cover all domestic operations fully comparable in 2001. This annual survey measures the

- satisfaction with own job
- satisfaction with superior's performance
- satisfaction with own unit's operations
- satisfaction with Kesko's operations

Besides traditional job satisfaction, the material also gives an opportunity to analyse the implementation of Kesko's values. In 2003 the response rate was 66.5%.

The changes in job satisfaction in Finland are presented in the table below.

The employees' estimations remained at the same levels as the previous year. Commitment to the targets of the unit and the overall satisfaction with superior's performance were considered the best properties. The most important improvement areas included opportunities to influence the development and planning of own work, internal mobility opportunities and the development and training of personnel.

In 2003 a fully comparable survey was also carried out for the second time in all foreign subsidiaries of Kesko Group.

Group's job satisfaction (scale 1-5)

	2001	2002	2003
Own job	3.73	3.72	3.71
Superior's performance	3.82	3.82	3.79
Unit's operations	3.73	3.78	3.76
Kesko's operations	3.60	3.71	3.70

The results will be completed during the first few months of the year and will be reported later in spring in Kesko's corporate responsibility report.

Kesko Employees of the Month in 2003

The selection of an 'Employee of the Month' and a 'Manager of the Year' continued in 2003. They are intended to highlight individuals who set a good example in promoting Kesko's values. During the year, the practice was also expanded to include personnel of foreign subsidiaries. Employees of the Month in 2003 were:

January: Keijo Alatalo, Rent Administration Manager, Kesko Real Estate, Kesko Corporation, Helsinki

February: Suvi Cuny, Research Assistant, Product Research, Category Management and Logistics, Kesko Food Ltd, Helsinki

March: Anu Viikari, Trainer, K-instituutti Oy, Espoo

April: Titta Gröndahl, Communications Officer, Keswell Ltd, Helsinki

May: Silja Janhunen, Product Information Assistant, Product Information, Category management and logistics, Kesko Food Ltd, Helsinki

June: Reijo Määttä, Project Manager, Chain Services, Keswell Ltd, Helsinki

July: Miia Salomaa, Product Manager, Non-food products, Kesko Food Ltd, Helsinki

August: Eva Knuutinen, Catering Manager, Finance, Rautakesko Ltd, Vantaa

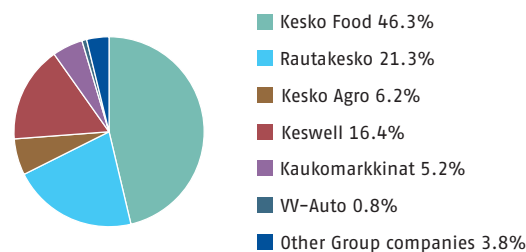
September: Helena Rauhala, Store Site Secretary, Store site operations, Kesko Food Ltd, Tampere

October: Raili Luoma-aho, Cook, Catering services, Administration, Kesko Corporation, Helsinki

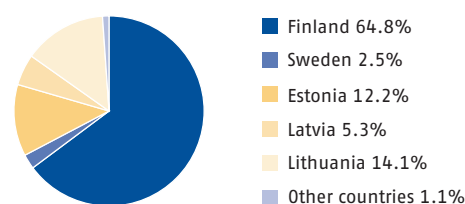
November: Uldis Priekulis, Shop Manager, Citymarket chain, SIA Kesko Food, Kesko Food Ltd, Riga, Latvia

December: Marja Vääntti, Office Clerk/Customer Service Manager, Kodin Ykkönen, Anttila Oy, Oulu

Group's personnel by division in 2003



Group's personnel by country at the end of 2003



Jorma Mykrä, Director, Rautia chain, Rautakesko Ltd, was selected as Manager of the Year.

Kesko personnel have several opportunities to give feedback, even directly to top management. The 'Keskonet' intranet has a channel entitled 'mail to the President and CEO' and a 'direct channel' where employees may, anonymously or with their name, comment on matters related to Kesko.

Equality plan

Kesko Corporation has an equality plan, which was prepared in 1996 and the implementation of which has since been evaluated annually. Its targets include promoting the equal application of women and men to open positions, promoting equal opportunities for women and men in training and advancing in their jobs, increasing the equality in the salary level and eliminating attitudes that make it difficult to reach equality.

The equality plan is available on Kesko's Internet pages www.kesko.fi/inbrief. More detailed 2003 statistics can be found in the corporate responsibility report to be published in spring 2004.

Personnel plans and performance appraisal discussions

The participation of personnel in the planning and development of operations has increased openness and commitment. Each unit draws up an annual plan which includes human resources development, information flow, meeting procedures and performance appraisal discussions.

These discussions between superiors and subordinates focus on setting targets, evaluating the achievement of targets, giving feedback and planning individual development. Implementation of performance appraisal discussions and satisfaction with them are monitored by job satisfaction surveys among other things.

Profit-sharing system

Kesko Corporation and most of its subsidiaries have adopted a profit-sharing system. It has been developed further to emphasise scorecard indicators. Key factors contributing to the bonus are the total performance of the Group and the division, the sales and performance of own unit or their development, and customer satisfaction. In addition, various process indicators may be used. For management, the job satisfaction of personnel is another contributing factor. About EUR 10 million will be paid in bonuses for 2003.

Occupational health service unit

The occupational health service unit mainly focuses on activities that maintain working capabilities. These account for some 40% of operations. The unit improves the well-being of personnel at work with actions that influence individual employees, the working community and the working environment. One of their focal areas is to support the working capacity of ageing and disabled employees. The occupational health service unit carries out an increasing number of working place assessments, guiding them towards the adoption of safe, ergonomic and healthy working methods, enhancing safety at work. The unit has participated in the preparation of induction programmes to teach ergonomic working methods to new and old employees, particularly those doing physical work. Each year about 100 employees participate in rehabilitation programmes initiated and controlled by Kesko's own occupational health service unit. The rehabilitation is implemented and paid for by the Social Insurance Institution. Additionally, Group superiors have participated in a 'job attitude' course run by the Social Insurance Institution. This course prepares superiors to handle the pressure of their job and to enhance the welfare and working capacities of their subordinates. The occupational health service unit also actively participates in labour protection and first aid activities.

Kesko Pension Fund

The Kesko Pension Fund is responsible for the pension insurances of nearly 4,000 employees of Kesko Group. About 1,200

The K-Senior Club of Southwestern Finland visiting the Yläne nature centre. From left, Kaarina Neuvo, Eila Törnblom, Kirsti Karlsson, Heikki Tuominen, Veikko Vormisto, Terhikki Tuomi, and Liisa Vormisto, with back to camera.



of them are members of the Pension Fund's department A - now closed - which provides them with extra benefits. There are about 3,000 Kesko pensioners. The Pension Fund grants 60-100 new pensions annually. The average retirement age has increased slightly since 1996 and is now 57.6 years. Varma Mutual Pension Insurance Company (former Varma-Sampo) is responsible for the retirement pension insurances of subsidiaries' employees.

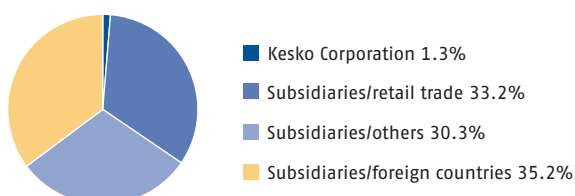
Kesko Sickness Fund

The Kesko Sickness Fund serves nearly 11,000 Kesko Group employees. The Sickness Fund is responsible for paying the benefits provided for in the Sickness Insurance Act.

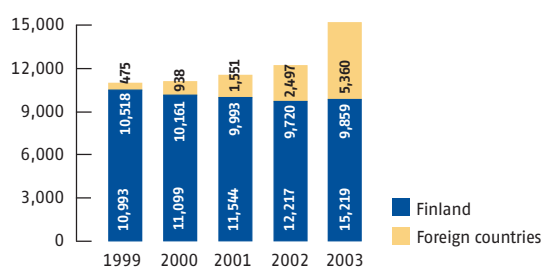
Kesko Staff Club

The Kesko Staff Club arranges recreational activities for personnel in the Finnish units, thus promoting a good company spirit and working capability. In 2003 national sports events arranged by the club were combined into larger meetings in order to attract new club activists. Revised intranet pages were introduced for improved communications. The first physical fitness campaign targeted at all K-Alliance personnel was arranged in spring 2003 in co-operation with the K-Alliance's main partner the Young Finland Association.

Group's personnel structure



Group's personnel, average



Operations of the K-instituutti in 1999-2003

	1999	2000	2001	2002	2003
Net sales, EUR million	4.3	4.4	4.9	3.9	4.3
Number of personnel	57	60	63	48	42
Number of student days	25,372	22,652	22,349	19,096	20,556
Number of students	9,447	6,665	9,180	6,147	8,570

In-house customer satisfaction

The annual in-house customer satisfaction survey was targeted particularly at units which receive no feedback from consumer customers. Segmenting respondents on the basis of the depth of co-operation often helps to analyse results and determine development actions. The average customer satisfaction and differences between units remained at the same level as in the previous year.

K-instituutti

Transforming knowledge into competence

The K-instituutti is the development centre of the K-Alliance. Its key function is to improve the competitiveness of K-Alliance chains by enhancing the competencies of organisations and personnel and by supporting change processes.

Management training provided for Kesko's supervisors, managers and executives along with internationalisation training are the key general management development programmes. The goal is to extend the competence and perspectives of management and to enhance their willingness to change.

Development programmes for the retailing sector include courses for sales staff, store supervisors and entrepreneurs and the K-JET special vocational qualification. K-instituutti is one of the biggest Finnish institutes awarding qualifications in the trading sector. More than half of K-instituutti training is planned and implemented according to customer needs.

In 2003 K-instituutti trained about 8,570 Kesko employees, K-retailers and K-store staff. Competence management systems and tools and their practical implementations were developed further. The objective is to ensure a systematic strategy-based competence development. The resources of K-instituutti's Development Services were strengthened in order to support these goals and Kesko's other change projects.

A programme for the development of Kesko's and its business partners' joint competencies was launched with training sessions attended by personnel from Kesko's supplier companies. Online learning was increasingly included in training programmes.

Corporate responsibility is important in the trading sector

Out of Kesko's four values 'We bear our corporate responsibility' is the one personnel consider the best implemented. More information about the value survey is available on pages 4-5. More accurate reporting and indicators have made the content and significance of corporate responsibility easy to understand, and it has become a natural part of daily work.

Kesko wants to act in a responsible way in its relations with stakeholder groups and society. Following the 'Triple Bottom Line' thinking that has become increasingly widespread internationally, Kesko divides its corporate responsibility into three parts:

- economic responsibility
- social responsibility
- environmental responsibility.

The indicators used are mainly those suggested by the Global Reporting Initiative (GRI) in the international guidelines for reporting on sustainable development. The 'Responsible Business Conduct' by the International Chamber of Commerce ICC is also followed. Kesko had a representative participating in the preparation of these guidelines.

Kesko has no separate system for corporate responsibility management but this is included in the normal annual and long-term planning and quality assessment of Group units. Kesko wants to be a pioneer in many areas of corporate responsibility, such as environmental activities, the social quality control of imports from developing countries, and reporting.

Long-term targets include minimising social and environmental risks, gaining a competitive advantage and improving the profitability of operations.

A separate report for the fourth time

Financial indicators alone are not enough to give a sufficiently versatile picture of company operations to stakeholders, so Kesko has published a separate corporate responsibility report in Finnish and English since 2000. The content of the report follows the GRI guidelines as closely as possible. To increase the reliability of the report, Kesko's accountants have provided a statement of assurance for its data contents since 2002. The assurance assesses the level of implementation as regards the strategy, vision and management principles in the area of corporate responsibility, the procedures used to generate the information, and the accuracy, completeness and balance of presented information.

Reporting is a challenging task for Kesko as the Group consists of exceptionally many divisions and operations have in recent years expanded very quickly to foreign countries. Kesko also evaluates its operations according to their direct and indirect effects: direct effects relate to own operations and indirect effects concern suppliers and other subcontractors.

The report for 2003 will be published in spring 2004.

Breakthrough into sustainable development indexes

The research institutes and analysts who serve investors consider Kesko to have progressed to the category of leading global listed companies in the areas of corporate responsibility and

sustainable development. In 2003 Kesko was included in the Dow Jones STOXX Sustainability Index, the Nordic Sustainability Index, the Kempen SNS Smaller Europe SRI Index and the Ethibel Investment Register. In its global report, Storebrand Investments SRI ranked Kesko the best company in the trading sector.

Indexes and assessments facilitate the work of investors evaluating indicators, therefore reducing investment risks. The weightings of various indexes differ from one another to a certain extent. Storebrand for instance only assesses the results in environmental and social responsibility, whereas in the Dow Jones index financial indicators weigh 42% of the total.

Participation

Active participation in national and international economic and trading sector development is part of corporate responsibility. Kesko has representatives in the following national and international organisations and groups operating in this field:

- Employers' Confederation of Service Industries in Finland (chair)
- Federation of Finnish Commerce and Trade (vice chair in Board)
- Central Chamber of Commerce (vice chair in Board)
- Finnish Business & Society network (Board)
- UNICE, the Union of Industrial and Employers' Confederations of Europe (Council of Presidents)
- Multi Stakeholder Forum on CSR, EU Commission working group on corporate responsibility
- EuroCommerce, the retail, wholesale and international trade representation to the EU (environmental committee and CSR experts)
- UGAL, EU organisation of groups of independent retailers (vice chair)
- International Chamber of Commerce ICC (environmental committee, corporate responsibility committee, National committee of Finland: chair in Board)
- CIES - The Food Business Forum (food safety working group).

Kesko's representatives are also active in several industry and recycling organisations. A more detailed list with www links is available on Kesko's Internet pages at www.kesko.fi/environmentalresponsibility

Economic responsibility

Traditional corporate reporting provides information on the economic performance of a company. The financial indicators of the corporate responsibility report widen the picture of economic responsibility by specifying performance from the viewpoint of other stakeholders in addition to shareholders. Kesko's stakeholder groups include employees, suppliers of goods and services, customers, the state and municipalities, and institutions operating for the public good.

Kesko is an important buyer and employer

Kesko has about 14,500 domestic and 4,500 foreign active suppliers of goods and services. In 2003, Kesko's purchases increased by 9.6% to about EUR 6.2 billion, accounting for nearly 89% of Kesko's net sales. Investments reached an all-time high in 2003, totalling EUR 259 million. Kesko's growth also contributes to the financial growth of its business partners. About 73% of Kesko's purchases come from Finland. A breakdown of purchases by area in Finland and breakdown of imports by country are given in the corporate responsibility report. Information on Kesko's personnel is available on pages 18-21.

Steady profit to shareholders

Good economic performance is the cornerstone of corporate responsibility. Every year since its establishment in 1940, Kesko has made a profit and also distributed dividends, with the exception of 1967. For its shareholders, Kesko has given a good annual return even in hard times. The average dividend yield (B share) during the past five years has been 9.9%. More information on Kesko's shares and shareholders is given on pages 55-61.

Store network

Together with K-retailers, Kesko provides a nationwide and versatile store network in Finland, complemented by mail order and e-commerce. At the end of 2003, there were K-stores in 391 towns and municipalities, out of a total of 446 in Finland. 45.3% of all Finns live no more than one kilometre from a K-food store. The network of Kesko food stores is also very comprehensive in Estonia where the total number is 51.

At the end of 2003 there were a total of 679 K-Alliance speciality stores in Finland. In the Baltic countries Kesko had 15 hardware and builders' supplies stores, and in Sweden 11. There were also 11 agricultural stores in the Baltic countries.



Sales to K-retailers account for 46% of Kesko's total sales. The proportion of Kesko's own retail stores out of its total sales is more than one fifth.

Financial support to the community

Kesko and its subsidiaries give financial support to about one hundred organisations and institutions that operate for the public good. In many cases co-operation is reciprocal: the Finnish Association for Nature Conservation, for example, has acted as an expert in the K-environmental store criteria and Kesko has supported the association's family activity project.

The principles of Kesko's support are based on Kesko's values and the recipients chosen support the implementation of the Group's vision and strategy. Support has been primarily directed at targets that are close to the everyday life of families with children and projects that encourage people of different ages to think, solve problems and create something new. When co-operation targets are selected, the emphasis is on socially responsible activities and support to sustainable development. More information about social support is given in the corporate responsibility report.

Major recipients of Kesko's support are the Young Finland Association and the Finnish Science Centre Heureka. The Children's Olympics, organised by Kesko, attracted over 200,000 participants in summer 2003.

On the basis of applications, Kesko granted awards for the fourth time to persons and institutions who had worked towards sustainable development. Six awards in all were distributed, totalling 25,000 euros.

Environmental responsibility

Kesko's environmental management is based on its environmental policy, the International Chamber of Commerce's principles of sustainable development and the ISO 14001 standard. Kesko's major causes of **direct** environmental impact are the warehousing, handling and transportation of goods, construction and use of real estate, and waste management. Kesko's **indirect** impact on the environment includes environmental damage arising from the manufacture and use of products sold and their packaging.

ISO 14001 environmental system

Kesko's environmental system has been certified in all units with major environmental impact:

- Kesko Food Ltd's logistics
- Kesped Ltd, the transport and forwarding company
- the operations of Anttila Oy's central unit
- 26 Anttila and Kodin Ykkönen department stores in all
- real estate management and maintenance (certificate held by YIT Kiinteistötekniikka Oy, to whom the operations have been outsourced)

Kaukomarkkinat Oy uses an environmental system based on the ISO 14001 standard, but it has not, however, been certified.

Nurse Tarja Pietarinen from the occupational health care unit of the Central Warehouse in Hakkila teaches first aid skills to Category Manager Tapio Laine of Kesko Food.

K-environmental stores

Kesko, the K-Retailers' Association, and the Finnish Association for Nature Conservation have developed an operations model - the K-environmental store diploma - for K-stores' environmental management. The system helps K-stores reduce their environmental load and guide customers towards sustainable consumption. An external auditor estimates how well the detailed requirements of the diploma have been fulfilled. In 2002, the United Nations Environmental Programme UNEP and the International Chamber of Commerce ICC selected the K-environmental store diploma as one of the best sustainable development partnerships in the world. By the end of 2003, there were a total of 221 K-environmental stores, of which 198 were food stores, 21 were hardware and builders' supplies stores, and 2 were agricultural stores.

Eco-efficient construction

In Kesko's building projects, the so-called 'core and shell' model is used. The model allows for several flexible changes in 'core' business operations inside a building during its life cycle. More information about eco-efficient construction is given on page 26 and in the corporate responsibility report.

Energy consumption and emissions

Energy consumption is the key indicator in Kesko's environmental calculations. Energy consumption in real estate is mainly monitored with distance reading by hours, which makes it possible to tackle any faults or problems fast. Kesko buys the required electricity on a centralised basis and also supplies electricity to K-retailers.

In 2003, the combined energy consumption of Kesko and the K-retailers operating in Kesko's premises in Finland was 667 GWh, an increase of 3.5% over the previous year. The total consumption of heat was 306 GWh, an increase of 8.4%. The combined consumption of electricity in foreign premises was 63 GWh, while the consumption of heat totalled 31 GWh. The environmental profile of energy has been calculated on the basis of the total consumption of electricity and heat. Kesko's and K-retailers' combined energy consumption accounted for about 0.3% of the total impact on the Finnish climate, or of total greenhouse emissions.

Kesko has adopted the real estate and construction sector energy saving agreement (KRESS). The target of this agreement is to reduce specific heat consumption by 15% of 1998 levels by the year 2010, and to reverse the trend in specific

From left, Communications Officer Terhi Saranen of Kesko, Marketing Manager Leena Rantalankila of the Young Finland Association, K-retailer Mika Vaajanen, and children Juho Reinikainen, Kiia Rauten and Nora Järvinen at the Raitti kindergarten in Helsinki. Kesko donated 241,000 euros to the Young Finland Association to promote physical exercise among families with children.



electricity consumption downwards by 2005. The results achieved so far indicate that the target will be reached.

In logistics we have in recent years succeeded in decreasing the total number of kilometres driven and, consequently, energy consumption and emissions in relation to the volumes transported. The positive development can be attributed to changes implemented in the distribution network and the systematic optimisation of routes. In 2003, the total distance driven in Kesped distribution transportation was 14.0 million, that is 0.9 million less than in 2002. Partial outsourcing of transport services makes the analysis of changes difficult. Distribution in the Seinäjoki district, amounting to 0.8 million kilometres, was outsourced in 2003.

Environmentally sound products

Sales of organic foods continued to grow. At the end of 2003, Kesko offered a selection of about 450 organic products and about 200 products with environmental labelling. Individual K-retailers also sell organic foods from local producers and other local foods to meet their customers' wishes. All finalists in the Organic Store of the Year 2003 competition arranged by Finfood - the Finnish Food Information Service association - were K-food stores.

Rautakesko offers a wide selection of products with environmental, energy or emission category labelling. The proportion of certified timber out of total timber sales was 90%. A total of 300 tons of impregnated timber was recycled through K-rauta and Rautia stores.

Environmental accounting

In its accounting and financial statements Kesko does not distinguish between environmental costs, profits or investments, because there are no sufficiently clear definitions for their identification available. The cost impacts of environmental activities are, to the extent possible, discussed on the environmental pages of the corporate responsibility report.

Social responsibility

Kesko's social responsibility is - just like environmental responsibility - divided into **direct** responsibility that applies to corporate personnel and to **indirect** responsibility that applies to the purchasing chain. Personnel issues are presented on pages 18-21 and in the separate corporate responsibility report.

About 73% of Kesko's purchases are Finnish products, while 27% are imported goods. Approximately 60% of Kesko's own imports come from the EU. Social quality control is needed above all in those non-EU countries where national working condition legislation or its supervision is insufficient. 35 of the countries Kesko imports from belong to this category, and supervision in them covers about 400 suppliers. In 2003, purchases from these suppliers totalled EUR 118 million, accounting for 1.9% of Kesko's total purchases.

SA 8000 standard

Kesko's buyers making purchases from developing countries have been trained in the international minimum standards of working-life, which provide them with a basis to present the

ethical principles of Kesko's purchasing to their suppliers. However, they cannot be in charge of working conditions control in practice, but must use local, independent experts for that. Kesko's buyers recommend that suppliers use the Social Accountability SA 8000 standard and obtain neutral certification that the terms of the standard are fulfilled. Kesko's partner in auditing affairs is Bureau Veritas Quality International.

More detailed information about social quality control is given in the corporate responsibility report. Progress is slow both globally and among Kesko's suppliers. Companies in developing countries have no experience of using standards and there are too few customers who require independent certification. Any possible improvements needed in working conditions take time. In all, the suppliers in the sphere of Kesko's supervision have about 350,000 employees, of whom certified companies do not yet account for more than about 10%. 310 suppliers in the whole world had obtained the SA 8000 certificate by the end of 2003.

Co-operation necessary

Improvements in working conditions in developing countries are primarily the responsibility of governments and authorities. Companies can speed up this development by creating commercial pressure for compliance with minimum standards. As a small buyer, Kesko cannot single-handedly produce big changes in the export industry of developing countries. The pace of change will only accelerate when all significant buyers want to ensure the background of the products they buy with the help of a social standard and independent auditors.

Co-operation in the trading sector progressed in 2003 both at national and international levels. New members have joined the network of responsible imports chaired by Kesko in the Central Chamber of Commerce. Big German, French and British trading chains have agreed on joint methods of supervision and other co-operation, and the small country-level differences in operating systems have been harmonised at a European level in the EuroCommerce working group. The future European co-operation system will correspond to the SA 8000 standard as to the requirements concerning working conditions and will be based on independent auditing.

The UNICEF project has continued for four years

Since 2000, Kesko has financed a project implemented by UNICEF India preventing the use of child labour in the town of Bhiwandi, near Mumbai. The field workers of the project cooperate with weaving companies, authorities, schools and families. In the last four years, the project has helped more than 1,000 children leave work to attend school either on a part-time or full-time basis.

Kesko also participates in the 'Global Movement for Children' project organised by UNICEF Finland. The funds raised in Finland will be used for the promotion of girls' education in Nepal.

Kesko will publish a separate report on corporate responsibility for 2003. See page 102 for details on ordering publications.

Store site investments abroad continue to increase

The aim of Kesko's real estate operations is to support Kesko's business divisions' growth and interests. Key success factors include cost-efficiency in construction and in the use of real estate, and the ability to flexibly react to fast changing circumstances.

Each division parent company of Kesko is responsible for planning its own retail store network and acquiring store sites. Kesko Real Estate is responsible, on a centralised basis, for the management of real estate properties and liabilities, for the return on real estate capital, and for construction and real estate maintenance.

Real estate property management

For the management of real estate properties and liabilities, the store premises and other real estate are classified as follows:

- **Core properties** are strategically the most important properties. Owning or leasing them aims at securing the basic conditions for conducting business activities.
- **Properties for sale** are either leaseback properties or realisation properties. Leaseback properties are owned by the Group; they can be sold, but leased back for the Group use. Kesko has no further use for realisation properties.
- **Development properties** are those needing further development for their intended use.

The book values of core properties and leaseback properties account for about 90% of the total book value. The share of realisation properties is insignificant.

Investments

The largest real estate investments are made in store premises needed by Kesko Food and Rautakesko.

The need for investment in Finland is primarily based on internal migration and competition. The biggest investments are made in K-citymarket, K-supermarket and K-rauta stores. Numerically, however, most investments are made in the neighbourhood store network, for instance, in K-pikkolo stores.

In order to achieve its internationalisation targets, Kesko has continued making major investments in real estate operations and store site projects in the Baltic countries and Sweden. Investments in foreign store sites account for over 30% of all store site investments.

Eco-efficient construction

Kesko applies an eco-efficient construction model. This means minimising the costs and environmental burden across the entire life cycle of a store site project. The aim is, in co-operation with other operators affecting the life cycle of a building, to create business premises with lower than usual life cycle costs.

The key method in controlling life cycle costs and eco-efficiency is the so-called core and shell concept where a business



Store Manager Juha Suokas (left) and Ari Pärssinen, Store Site Manager of Rautakesko Ltd in front of the entrance to K-rauta Oulunkylä in Helsinki.

building is made up of a long-life real estate shell and a faster changing business core. This enables costs to be allocated either to real estate or to business operations, thus leading to a better control and management of investments.

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

Real estate maintenance

YIT Kiinteistötekniikka Oy is responsible, in accordance with Kesko's requirements, for the management and maintenance of real estate owned or rented by Kesko in Finland.

Kestra kiinteistöpalvelut Oy, a company owned by Kesko, is responsible for purchasing electricity for the Kesko Group. The purchased amount totals about 530 GWh/year.

Information about real estate

Use of premises

	2003	2002
Used by Kesko and retailers	91%	91%
Rented to others	8%	8%
Vacant	1%	1%

Owned premises

	Area, m ²		Capital, EUR million	
	2003	2002	2003	2002
Finland	1,157,000	1,101,000	803	733
Sweden	0	0	11	0
Estonia	104,000	98,000	50	50
Latvia	44,000	30,000	34	23
Lithuania	0	0	0	0
Total	1,305,000	1,229,000	898	806

Leased premises

	Area, m ²		Rent liabilities, EUR million	
	2003	2002	2003	2002
Finland	1,546,000	1,573,000	1,306	1,383
Sweden	75,000	71,000	42	34
Estonia	39,000	23,000	33	30
Latvia	23,000	11,000	35	14
Lithuania	121,000	4,000	39	1
Total	1,804,000	1,682,000	1,455	1,462

Geographic breakdown of properties in Finland in 2003, m²

Southern Finland	1,283,000
Southwestern Finland	379,000
Western Finland	364,000
Eastern Finland	379,000
Northern Finland	298,000
Total	2,703,000

Investments in real estate, EUR million

	2003	2002
Finland		
Investments	111	56
Sales	8	18
Sweden		
Investments	11	2
Sales	0	14
Estonia		
Investments	2	25
Sales	0	1
Latvia		
Investments	14	15
Sales	2	0
Lithuania		
Investments	0	0
Sales	0	0

	Kesko Food	29
	Rautakesko	33
	Kesko Agro	36
	Keswell	39
	Kaukomarkkinat	42
	VV-Auto	44



“All planning starts from the customer,” say Store Planners Jari Salmela and Pia Aaltonen of Kesko Food Ltd’s Retail Store Processes unit.

Kesko Food

Kesko Food Ltd operates in the grocery market offering diverse services to consumers and business customers in Finland and the Baltic countries. The key businesses of Kesko Food are the K-food store chain operations in Finland, Kespro Ltd's catering sales to HoReCa customers, and grocery retailing in the Baltic countries. The food trade is the largest of Kesko's divisions, accounting for over half of Kesko Group's net sales.

Market position and competitive advantages

K-food stores are market leaders in the Finnish grocery trade, as is Kesko Food's subsidiary Kespro in its business area. In the Estonian grocery market Kesko Food is the leader with a 20% market share.

Kesko Food's strengths

- the K-food store chains are the best-known brands in Finnish retailing
- the supply of K-food stores covers different customer groups
- K-food stores form the most comprehensive store network in Finland
- the ability to exploit the synergy advantages of the retail and catering trade in Finland and the Baltic countries
- strong co-operation with K-retailers in Finland
- international purchasing co-operation
- strong house brands in the Finnish market
- expertise in environmental trading

Finland

In Finland, Kesko Food acts in close chain co-operation with K-food retailers and is responsible for store concept development, purchasing and logistics services, the network, chain marketing and retailer resources.

Store chains

K-citymarkets are versatile, low-priced stores in the hypermarket size category, with an area of about 10,000 m². Large selections consist of groceries and home and speciality goods.

K-supermarkets are 'better than your average food stores'. Their special strengths include food expertise as well as wide and versatile selections of fresh foods.

K-markets are neighbourhood stores located in suburbs and municipal centres, offering a good selection of groceries at competitive prices.

K-extras are neighbourhood stores which focus on personal service and in which customers can find the products they need daily. Additionally, as the name implies, many K-extras located in the countryside offer extra services, such as the sale of agricultural and builders' supplies, fuel distribution, lottery and postal services.

K-pikkolos are neighbourhood stores located in urban centres or in connection with Neste service stations. They have long opening hours and offer, besides basic groceries, versatile food solutions with an emphasis on ready-to-eat and take-away products. K-pikkolos and Neste service stations form a chain that operates in the grocery and fuel retail market, run by Pikoil Oy. The company, which was established in 2003, is owned fifty-fifty by Kesko Food Ltd and a Fortum subsidiary, Neste Marketing Ltd.

There are about 1,100 K-food stores in Finland. In 2003, their estimated market share in Finland was 36%.

Kesko Food will test discounters in various parts of Finland in 2004. Cassa stores are operated by Kesko Food and have no K-retailers. Decisions on the length of the pilot period and on continuation activities will be made later in 2004.

Kesko Food's own brands are well-known in the Finnish market. The most important of them is Pirkka, with a recognition level of nearly 100%. There are over 1,200 Pirkka products. The Rico range consists of imported fruit and vegetables. Euro Shopper is K-food stores' low-priced alternative, which includes about 300 basic groceries and non-food products. Costa Rica is K-food stores' own coffee brand.



From left, District Manager Timo Iwendorff, Food Master Jarmo Kytölä and Retailer Mauri Penttinen discuss the offerings of the 'Wild Game Week' at K-supermarket Yliveto.

Logistics in Finland

Kesko Food's logistics guides the majority of K-food stores' flow of goods, using both direct deliveries and a network of warehouses and terminals. In Finland, the main warehouses and terminals are in Vantaa, Turku and Tampere. Processed and frozen foods and non-food products are stored in Vantaa, while fresh foods that require refrigerated space are stored in Turku. Fruit and vegetables are stored in all three localities.

The main warehouses are complemented by local regional terminals, through which most meat industry products and the majority of the K-market, K-extra and K-pikkolo chains' and Kespro Ltd's goods flows are directed. In forwarding and transportation, Kesko Food relies mainly on services provided by Kesped Ltd, a Kesko subsidiary.

Kespro Ltd

Kespro Ltd, a Kesko Food subsidiary, offers customer delivery and cash-and-carry services in Finland. Its customers include restaurants, staff restaurants, service station stores, kiosks, bakeries and industry. Kespro is the leading company in its business area in Finland. Kespro has developed a new wholesale concept (a new generation wholesale outlet) to complement its traditional customer delivery and cash-and-carry services. The new outlet offers customers all groceries, alcohol and home goods on one order and one delivery.

Kespro has 17 cash-and-carry outlets and six sales units throughout Finland. Kespro's Menu range consists of about 360 products. For several years, their sales growth has exceeded average development in the HoReCa business.

SAP operations control system

Kesko Food has begun a gradual adoption of the SAP operations control system. Its introduction will be implemented at Kesko Food, K-food stores, Citymarket Oy and Kespro. The transfer of Kesko Food's basic information and the warehouse pilot were started in November-December 2003. The first warehouse was linked to the control system in January 2004. The new retail information system will be adopted in K-food stores during 2004-2006.

Over 10,000 employees in all will be trained to use the SAP system at Kesko Food and in K-stores. In 2003 there were about 5,150 training days, attended by over 1,400 persons.

Baltic operations

In the Baltics, Kesko Food is engaged in the grocery retail trade with hyper/supermarket and discounter concepts. The company has actively expanded in Estonia and Latvia with market leadership as their target in the Baltic countries.

On 19 December 2003, Kesko Food and the Swedish ICA AB signed a letter of intent to establish a joint venture for the Baltic food market. The aim is to combine the parties' current operations in Estonia, Latvia and Lithuania. Kesko Food and ICA would both have a 50% ownership in the joint venture. The joint venture would start operating in summer 2004.

The planned arrangement supports Kesko Food's and ICA's strategies for strong growth and profitability in the Baltic coun-

Trainee Andre Eding fills up the shelves with juice at the Citymarket in Tallinn, Estonia.



tries. According to the letter of intent the joint venture aims to reach the leading position in the Baltic food market and a 25% market share in three years. The objective is to expand the store network in all Baltic countries. The arrangement is expected to gain synergy benefits in purchasing, store network development and logistics.

In 2003 the combined net sales of ICA's and Kesko Food's Baltic operations amounted to about EUR 550 million, with their market share totalling about 15%. The total value of the Baltic food market was about EUR 4.7 billion, representing a growth of over 5% on the previous year.

Estonia

In Estonia, Kesko Food operates four Citymarkets in Tallinn, one in Pärnu and one in Tartu. In addition, the company owns Estonia's largest discount store chain, Säästumarket, which has

Kesko Food

Net sales in 2003	EUR million	Change, %
Citymarket Chain Unit	1,013	9.7
Supermarket Chain Unit	759	3.1
Neighbourhood Chain Unit	896	-7.5
Kespro Ltd	771	1.9
Kesko Food, Estonia	210	31.0
SIA Kesko Food, Latvia	36	105.4
Others	2	-
./.. eliminations	79	-
Total	3,766	3.8

EUR million	2003	2002
Operating profit	56.3	60.5
Depreciation	34.8	37.7
Investments (gross)	75.5	71.2
Return on net assets, %	20	24

Net assets at 31. Dec., EUR million		
Non-current assets	214.8	215.6
Stocks	187.1	199.3
Receivables	352.5	250.3
./.. Interest-free liabilities	-464.8	-404.2
./.. Provisions	-	-
Net assets	289.8	261.1
Personnel average in 2003		7,042

K-Alliance's food stores in 2003

	Number		Sales, (incl. VAT) EUR million	
	2003	2002	2003	2002
K-citymarket	50	47	1,544	1,404
K-supermarket	146	136	1,363	1,310
K-market	344	272	1,088	985
K-extra	371	277	377	250
K-pikkolo	46	28	74	49
Other K-food stores and mobile stores	153	364	111	468
Finland, total	1,110	1,124	4,557	4,466
Citymarket, Estonia	6	4	69	24
Säästumarket, Estonia	44	44	146	122
Supernetto, Estonia	1	2	13	22
Citymarket, Latvia	5	2	32	18
Supernetto, Latvia	11	1	9	2
Foreign countries, total	67	53	269	187
Food stores, total	1,177	1,177	4,826	4,654

over 40 stores. Kesko Food also runs one Supernetto cash-and-carry outlet in Estonia.

Kesko has a 15,000 m² logistics centre in Jüri, Tallinn. The centre supports the building of Kesko's own retail store network and acts as a warehouse for imported goods. At the same time it is also an efficient distribution and export channel for the Estonian food industry. Kesko Food's market share of the Estonian food trade is about 20%.

Latvia

In Latvia, Kesko Food operates five Citymarkets and several Supernetto discounters.

International purchasing co-operation

Kesko Food works in co-operation with the leading European food chains in AMS (AMS Marketing Service BV), and is a partner in the WorldWide Retail Exchange. The WWRE is a business-to-business web marketplace bringing synergy benefits to its partners via international purchasing co-operation.

Operating environment and future outlook

Objectives of Kesko Food

- strengthening K-food stores' market leadership in Finland
 - growth exceeding business average in all markets
 - improving profitability
- in the Baltic countries, strong growth is sought
 - the target is a share of about 25% of the grocery market

Kespro Ltd aims to increase its market share of the HoReCa business (hotels, restaurants, catering) in particular. Key areas include expanding the network of new generation wholesale outlets, flexible and customer-oriented logistics solutions, a pioneering position in ordering tools, and increasing the offerings of fresh products and alcohol, in particular.

International development in the grocery trade has been characterised by the strong formation of chains, mergers and alliances, for example in purchasing co-operation. The centralisation of purchases is important when international suppliers are growing in size and decreasing in number.

In most European countries food markets are growing slowly. In Finland the growth estimate for the next few years is about 2%.

The structural change of the Finnish retail trade is continuing. The importance of large outlets will continue to increase due to competition and internal migration. The extension of opening hours for stores of under 400 m² has improved their sales.

Potential new product categories will be of great importance for the sales growth of stores. Kesko Food's target is to bring wines and over-the-counter medicines to grocery stores in Finland. Liberalising opening hours and decreasing the value added tax on food would improve the operational basis of grocery retailing.

As competition in the Finnish grocery market is changing, the importance of price as a selection criterion is emphasised. In addition to prices, consumers value diverse selections as well as such food-related aspects as pleasure, delicacy and ease. The same consumer acts in different ways in different situations. Kesko Food is meeting these changing consumer needs by actively developing its product and service concepts.

K-food stores are actively developing their expertise in responsibility, too. All K-food chains all over Finland include K-environmental stores. In these stores, selections for a better environment have also been made easier for the customer: they offer a wide choice of organic and environmental products, their employees have been trained to answer customers' questions, and environment-related material is available in-store.

In the Baltic countries, the grocery market is growing strongly (by 5-8% per year) while demand is shifting from open-air markets to modern stores. At the same time, the share of store chains is also growing vigorously, but it still remains much smaller than in Finland, for example. Changes in consumer behaviour in the Baltic countries are also fast and consumers are very quick to adopt new ideas.

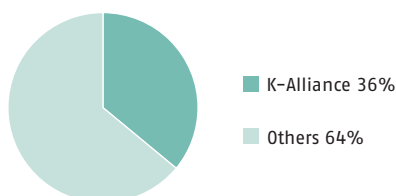
Kesko Food's future growth prospects derive from its stronger position in the Finnish market, its improvement in profitability and its expansion in the Baltic countries. The operating profit is expected to continue to improve slightly thanks to the new operating system. The expansion in the Baltic countries will create a basis for higher profit.

Year 2003

Kesko Food's net sales amounted to EUR 3,766 million. The net sales from Baltic operations totalled EUR 245 million and accounted for 6.5% of net sales. Kesko Food's operating profit was EUR 56.3 million. The main factors contributing to the decrease in the whole year's operating profit were an increase in marketing investments in domestic business operations, the costs of building new systems for operations control and investments in store sites during the first half-year.

Kesko Food's total investments were EUR 75.5 million, of which investments in retail stores accounted for EUR 54.0

Grocery retail sales in Finland in 2003 (estimate)



million. About 31% of all investments were made in Baltic operations.

In 2003 K-citymarkets were opened at Leppävaara (Espoo), Malmi (Helsinki) and Kaakkuri (Oulu), and K-supermarkets were opened at Vuoksenniska (Imatra), Kurikka, Laitila, Hirvensalo (Turku), Nikkilä (Sipoo), Kittilä, Hyrylä (Tuusula) and Mäntsälä. Store type changes were implemented in 192 outlets.

Pikoil Oy, a joint venture of Kesko Food Ltd and Neste Marketing Ltd (a Fortum Corporation subsidiary) operating in the service station store market started operations at the beginning of July. By the end of the year, there were a total of 46 K-pikkolo neighbourhood stores and K-pikkolo service station stores and the company had a total of 134 store sites.

In spring 2004 Kesko Food will start testing discount stores in Finland. The objective is to improve the K-Alliance's competitive base by testing a new concept in different parts of the country.

Kesko Food's grocery trade grew much more in the Baltic countries than in Finland, by a total of 38.2%. In 2003 two new Citymarkets were opened in Estonia and three in Latvia. At the end of the year the Säästumarket chain in Estonia included 44 discounters and there were 11 SuperNetto stores in Latvia.

On 19 December 2003 Kesko Food Ltd and the Swedish ICA AB signed a letter of intent to establish a joint venture for the Baltic food market. The aim is to combine the parties' current operations in Estonia, Latvia and Lithuania.

According to estimates for 2004, the total Finnish food trade market will grow by less than 0.5%. The total Baltic market is estimated to grow by about 5%. In 2004 Kesko Food's net sales and operating profit are estimated to grow in comparison with the year 2003.

Kesko Food's store concepts in Finland



Kesko Food's store concepts in the Baltic countries



Rautakesko

Rautakesko Ltd develops the K-rauta and Rautia chains and Industrial and Constructor Sales and is responsible for their marketing, purchasing, logistics services, network and retailer resources. In addition to Finland, Rautakesko carries on retail trade in Sweden, Estonia, Latvia and Lithuania and wholesale trade in Russia.

The hardware and builders' supplies trade is one of Kesko's focal areas. Rautakesko's aim is to become the leading hardware and builders' supplies operator in the Nordic and Baltic countries.

Market position and competitive advantages

Rautakesko's strengths

- the K-rauta and Rautia chain concepts and the strong market position of Industrial and Constructor Sales
- direct purchase connections with domestic and foreign suppliers
- a comprehensive network in Finland
- strong main product lines:
 - building materials
 - interior decoration
 - house technology and electricity
 - tools, small hardware items, yard and garden
- in Finland, retailer entrepreneurship is a special strength of Rautakesko

Finland

The combined market share of the K-rauta and Rautia stores and the Industrial and Constructor Sales unit is about 35% in Finland.

There are 43 K-rauta stores operating in Finland. They have a wide selection of goods, including, in addition to building materials, products for interior decoration and gardening. According to its customer promise, K-rauta also provides ideas and solutions, emphasising the role of service alongside the products themselves.

The Rautia chain includes 102 stores, whose main competitive advantage is knowledge of local market conditions. Rautia is the most comprehensive hardware and builders' supplies store chain in Finland. The products offered by the Rautia stores are targeted at builders, renovators and professional customers in particular. In addition, many Rautia stores complement their service offer with, for instance, agricultural trading to meet local needs.

The customers of Rautakesko's Industrial and Constructor Sales unit are building firms, industry and other professional customers. The customer benefit is derived from the integration in customers' purchasing processes: the Industrial and Constructor Sales unit plans, guides and implements jobs

From left, District Sales Manager Timo Halonen, System Specialist Eero Makkonen, Project Manager Henri Koskinen and District Sales Managers Kari Vatanen and Jukka Viita-aho at the SAP training for Rautakesko's Industrial and Constructor Sales.

related to the purchasing process of the customer company, allowing it to concentrate on its core business. Advantages also include co-operation with the extensive network of K-rauta and Rautia stores, which enables local and flexible purchases.

Sweden

At present, there are 11 K-rauta stores operating in Sweden, and the next one will be opened in Sundsvall in spring 2004. A wide and versatile choice of products and overall service packages offered to customers are competitive advantages of the K-rauta stores.

The Baltic countries

In Estonia, Rautakesko is the market leader with four retail stores and nationwide wholesale operations. Rautakesko's market share in Estonia is about 20%.

In Latvia Rautakesko has one K-rauta in Riga and a wholesale network that covers the whole country.

In March 2003, Rautakesko acquired a majority in Lithuania's largest hardware and building supplies company UAB Senuku Prekybos centras from Augustinas Rakauskas and his





family. Senukai is the market leader in the Lithuanian building supplies and DIY (Do It Yourself) trade with a market share of about 25%. In 2003, Senukai's net sales totalled over EUR 196 million. Senukai's customers include consumers and professional customers alike. During the last few years, Senukai's growth and profitability have been good.

Russia

In Russia, Rautakesko has a wholesale outlet and warehouse in Moscow.

Operating environment and future outlook

Objectives of Rautakesko

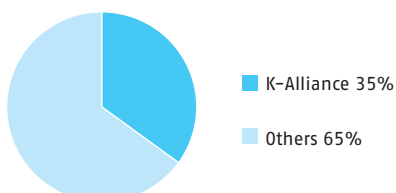
- market leader in the Nordic and Baltic countries

Focal areas

International competition is increasing in Finland, and the hardware and builders' supplies trade will also become internationalised in the Nordic and Baltic countries. Increasing competition is expected to give impetus to the whole business sector. By growing its net sales Rautakesko aims at improving competitiveness, customer satisfaction and profitability. The growth will be strong in Sweden and the Baltic countries in particular.

- lowering of costs by improving chain operations and by adopting new operating systems: co-operation with the Finland Post Corporation in warehousing operations and with Puukeskus Oy in purchasing are examples of this; as well

Retail sales of hardware and builders' supplies in Finland in 2003 (estimate)



Sales Assistant Žaneta Balioniene showing shower faucets to Giedre Pratužiene at the Senukai hardware and builders' supplies department store in Vilnius, Lithuania.

- as co-operation with Onninen Oy for outsourcing warehousing in hepac purchases for business implemented earlier
- improvement of competitiveness by increasing purchasing volumes, growing direct purchasing connections and own imports and by developing new product areas
- revising the chains' information systems to improve chain and information management
- development of e-commerce with chain stores, B-to-B customers and small contractors

Rautakesko

Net sales in 2003	EUR million	Change, %
Rautakesko Ltd	679	10.7
K-rauta AB, Sweden	78	15.4
AS Rautakesko, Estonia	45	13.5
A/S Rautakesko, Latvia	21	18.8
Senukai Group (13.3.-31.12.)	171	-
ZAO Kestroy, Russia	4	-11.0
./. eliminations	-3	-
Total	995	35.4

EUR million	2003	2002
Operating profit	28.0	9.0
Depreciation	10.5	5.9
Investments (gross)	37.4	14.2
Return on net assets, %	32	12
Net assets at 31. Dec., EUR million		
Non-current assets	49.8	29.8
Stocks	96.5	45.8
Receivables	98.4	65.0
./. Interest-free liabilities	-141.3	-67.0
./. Provisions	0.0	0.0
Net assets	103.4	73.6
Personnel average in 2003		3,241

Finland

The rather low level of household and business debt, stable interest rates and internal migration all contribute to an improved outlook. Construction will be concentrated in centres of growth. The total market of hardware and builders' supplies is approximately EUR 5.4 billion and it is not expected to expand in a short term. In the area of construction, the emphasis of growth is on repair, renovation and the building of yards and gardens.

Both K-rauta and Rautia stores will be renovated so that both chains will operate with renovated stores in 2004. Retailer reserves will be strengthened with a special training programme. A focal area of the Industrial and Constructor Sales is the development of e-commerce and, in co-operation with the K-rauta and Rautia stores, the development of the service concept. About 4,500 products can be ordered through the extranet intended for professional customers.

Sweden

The aim is to have a network of about 25 K-rauta stores in Sweden, increasing the market share to about 10%.

The Baltic countries

The target is strengthening the market leadership in the Baltic countries.

Year 2003

In 2003 Rautakesko's net sales amounted to EUR 995 million. In Finland, the net sales were EUR 674 million. The net sales of foreign subsidiaries were EUR 319.0 million.

About 32% of Rautakesko's net sales came from foreign countries. Rautakesko's operating profit in 2003 was EUR 28.0 million. In Finland, the operating profit increased due to sales growth and more efficient chain operations. The performance was affected by costs related to the implementation of a new information system. The operating profit of foreign subsidiaries was boosted mostly by Senukai's operating profit of EUR 16.5 million for about nine and a half months. The operating profit of Swedish operations turned positive.

Rautakesko's investments totalled EUR 37.4 million, of which store site investments were EUR 33.6 million and 96% were abroad.

The sales of Rautakesko's Industrial and Constructor Sales unit increased by 18.1%. The sales of Rautakesko's chains in Finland clearly exceeded competitors' sales growth.

In Finland new K-rauta stores were opened in Järvenpää and Lielähti, Tampere. One of the foreign subsidiaries opened a new K-rauta in Pärnu, Estonia.

Since March 2003, Rautakesko has held a majority in Lithuania's biggest hardware and building supplies company UAB Senuku Prekybos centras. The acquisition made Rautakesko the market leader in the Baltic countries. The company has exceeded the set targets. Senukai's net sales are included in Rautakesko's figures as from 13 March 2003.

The total hardware and builders' supplies market is expected to grow in Finland and Sweden in 2004 by about 3-4% and in the Baltic countries by about 6-7%. Rautakesko's net sales are anticipated to increase in 2004 and its operating profit to remain at a good level.

Rautakesko's store concepts in Finland



Rautakesko's store concepts in Sweden and the Baltic countries



K-Alliance's hardware and builders' supplies stores in 2003

	Number		Sales, (incl. VAT) EUR million	
	2003	2002	2003	2002
K-rauta*	43	44	487	452
Rautia*	102	102	397	367
K-customer agreement stores	44	47	60	60
Finland, total	189	193	944	878
K-rauta, Sweden	11	11	98	86
K-rauta, Estonia	4	4	53	47
K-rauta, Latvia	1	1	27	21
Senukai, Lithuania	10	0	203	0
Foreign countries, total	26	16	381	154
Hardware and builders' supplies stores, total	215	209	1,325	1,032

* 2 K-rauta stores and 43 Rautia stores also operate as K-agriculture stores.

Kesko Agro

Kesko Agro Ltd purchases and sells animal feed, chemicals and machinery, and is involved in the grain trade. In addition to Finland, Kesko Agro is active in all Baltic countries. Kesko Machinery Ltd, a subsidiary of Kesko Agro, purchases and sells through its own network heavy machines for professional and commercial use, and through the dealer network motorcycles, snowmobiles, marine engines, boats and boating equipment for consumers.

Market position and competitive advantages

Agricultural trade

Kesko Agro's strengths

- comprehensive product selection, services and after-sales operations
- K-agriculture retailers that are familiar with regional and local circumstances

The K-agriculture chain's customers are farmers. Kesko Agro and 100 agricultural stores form the K-agriculture chain. The K-Alliance's share of the Finnish agricultural market is about 35%.

The best-known product brands represented by Kesko Agro include Deutz-Fahr, Massey Ferguson and Same tractors, Claas combines and forage harvesters, and Tume and Elho agricultural implements.

Kesko Agro Eesti AS in Estonia, SIA Kesko Agro Latvia in Latvia and UAB Kesko Agro Lietuva in Lithuania are the Kesko Agro Ltd subsidiaries that carry on agricultural and machinery trade in the Baltic countries. In Estonia, Kesko Agro has

The Heavy Machinery Unit's Manager, Girėnas Vinkevičius (right), of Kesko Machinery, Vilnius discussing Fiat Kobelco machines with Jonas Varkalys.

five, in Latvia four and in Lithuania two outlets of its own, complemented by a total of about 50 spare parts and equipment dealers in the Baltic countries.

Machinery trade

Kesko Machinery's strengths

- nation-wide sales and service network for each product line in Finland
- strong brand products and leading international principals

Kesko Machinery Ltd markets, through its own sales organisation, lorries, construction machines, lift trucks, warehouse equipment, as well as industrial and environmental machines for contractors, industry and other professional users. Yamaha motorcycles, mopeds, quad bikes and snowmobiles are marketed through the dealer network specialised in them. Yamaha outboard engines, Yamarin boats and other boating products are also marketed through specialised stores. Over 70% of Yamarin sales are directed to other Nordic countries. Kesko Machinery organises a maintenance and spare parts service covering the whole market area for the products it represents.

The best-known brands of Kesko Machinery are MAN lorries, Case, Fiat-Kobelco and Kobelco construction machines, BT and Hyster lift trucks, Manitou telescoping handlers,



Mecalux warehousing equipment, Kubota mini tractors and rider mowers, LM-Trac municipal machines, Yamaha motorcycles, mopeds, quad bikes, snowmobiles and outboard engines, and Yamarin boats.

In addition to Yamaha outboard engines, Kesko Machinery has also represented Yamaha motorcycles, mopeds, quad bikes and snowmobiles since the beginning of July 2003, when the Yamaha business operations of Arwidson Oy were transferred to Kesko Machinery.

Operating environment and future outlook

Objectives of Kesko Agro and Kesko Machinery

- growing into the leading agricultural and machinery store chain in Finland and the Baltic countries
- developing and expanding the e-commerce solutions, which have started well
- improving the financial result through growth

Kesko Agro

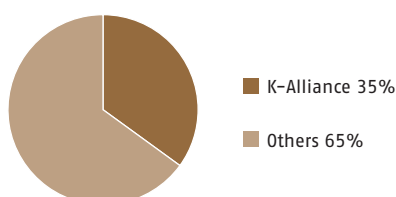
The Finnish agricultural market has remained at the level of about EUR 1.7 billion. The size of farms will increase, while their number will continue to decrease over the coming years. Some farmers, however, are intensifying their production strongly, which is why agricultural production and investments are expected to remain at their present level.

The online trading channel for spare parts - the spare parts web service - is used by the chain customers of Kesko Agro and Kesko Machinery, i.e., the K-agriculture, K-rauta and Rautia stores, as well as the dealers and service network of spare parts and recreational machines. The supply covers all the product brands represented by Kesko Agro and Kesko Machinery including their spare parts: about 1,100,000 items in total.

The service also includes the grain web, Finland's leading marketplace for the grain trade. It provides farmers with grain trade management tools, such as real time price and market information. Customers may do all their grain trading over these pages, buy grain or make counter-offers for special lots.

The Internet is very important for the trade-in machinery business. Kesko Agro provides a service at www.vaihtokone.com where customers can choose from a range of around 2,000 trade-in machines. The supply covers 60 product groups from snowmobiles to construction machines. Around 30% of cus-

Retail sales of agricultural products in Finland in 2003 (estimate)



Veli-Matti and Mikko Päivärinta from Nivala and Tractor Salesman Kauko Kestilä (right) of Kesko Agro at the Kone-foorum exhibition in Tampere.

tomers contacts that lead to a trade-in transaction take place via the Internet.

Kesko Agro has agricultural and machinery trading centres in Jüri, Estonia, in Riga, Latvia and in Vilnius, Lithuania. District centres and the dealer network trading in equipment and spare parts ensure that services cover the whole of the Baltic countries. Kesko Agro is the largest company in the Baltics carrying on agricultural trade.

Kesko Machinery

The demand for heavy machinery follows economic trends in industry and construction, so machinery investments are not yet forecast to increase significantly. Sale of recreational machines has grown at the pace of the overall consumer demand. The expanded product selection of recreational machines in particular will improve Kesko Machinery's growth potential.

Year 2003

In 2003 the Kesko Agro Group's net sales were EUR 768 million. The net sales of foreign subsidiaries totalled EUR 118.4 million, which was 15.4% of total net sales. The Group's operating profit was EUR 7.4 million despite the costs arising from information systems development, the expansion of operations in Lithuania and the opening of new or refurbished stores.

Investments totalled EUR 11.2 million, about 23% of which were in foreign projects.

Towards the end of the year the sales of agricultural trade in Finland remained lower than expected. This was mainly due to prolonged negotiations on agricultural subsidies, which

is why Finnish farmers were cautious in their investment decisions. Grain trade was affected by the postponement of export deliveries of grain to 2004 as a result of delayed export subsidies. Kesko Agro's market share in the Finnish tractor trade increased by 5.0 percentage points to 15.8%.

Kesko Machinery Ltd's net sales were EUR 161.2 million, an increase of 1.2% over the previous year. Kesko Machinery's product selection concentrates on heavy machinery and recreational machinery.

Agricultural and machinery sales in the Baltic countries have progressed better than expected and the operating profit was clearly positive. Kesko Agro is the biggest company

engaged in agricultural trade in the Baltics. In 2003 a new store was opened in Tartu, Estonia.

The total agricultural market is estimated to grow in Finland by 1.5% in 2004. The Baltic market is anticipated to grow by 5-10%. Kesko Agro's net sales and operating profit are anticipated to increase in 2004.

Kesko Agro

Net sales in 2003	EUR million	Change, %
Kesko Agro Ltd	462	-0.6
Kesko Machinery Ltd	161	1.2
K-maatalousyhtiöt Oy	172	10.2
Kesko Agro Eesti AS	39	36.1
SIA Kesko Agro Latvia	41	42.5
UAB Kesko Agro Lietuva	41	188.0
./. eliminations	-148	-
Total	768	7.5

EUR million	2003	2002
Operating profit	7.4	7.4
Depreciation	2.9	2.1
Investments (gross)	11.2	4.4
Return on net assets, %	7	9

Net assets at 31 Dec., EUR million		
Non-current assets	17.1	9.6
Stocks	131.7	109.8
Receivables	84.7	80.2
./. Interest-free liabilities	-107.2	-107.3
./. Provisions	-0.9	-0.7
Net assets	125.5	91.6
Personnel average in 2003		940

Kesko Agro's store concepts in Finland



Kesko Agro's store concepts in the Baltic countries



K-Alliance's agricultural stores in 2003

	Number		Sales, (incl. VAT) EUR million	
	2003	2002	2003	2002
K-agriculture*	101	102	567	568
Finland, total	101	102	567	568
Kesko Agro Eesti	5	5	44	34
Kesko Agro Latvia	4	3	46	32
Kesko Agro Lietuva	2	1	45	17
Foreign countries, total	11	9	135	83
Agricultural stores, total	112	111	702	651

* 2 K-agriculture stores also operate as K-rauta stores and 43 as Rautia stores.

Keswell

Keswell Ltd specialises in the home and speciality goods trade. Keswell develops operating systems and the store network, manages the store chains and is responsible for the purchasing of goods, logistics and chain marketing. Its store concepts are well-known retail concepts which have gained a strong position in Finland. Keswell's subsidiary Anttila Oy is one of the biggest retailers in the home and speciality goods trade in Finland.

Market position and competitive advantages

Keswell's strengths

- well-known chain concepts for the home and speciality goods trade in Finland
- a nationwide store network in Finland
- several strong product lines: home technology, sports goods, shoes, clothes, home goods, interior decoration items, music and movie recordings
- expertise in the mail order business supports e-commerce
- international purchasing co-operation - Intersport International in the sports trade and EP:International in the home technology trade

Cosmetics Department Sales Assistant Pauliina Päivinen (left) and Selection Manager Tuula Huovinen study new products at the Anttila department store in Helsinki.

Anttila

Anttila Oy, which is the biggest subsidiary of Keswell, concentrates on the home and speciality goods trade with four concepts: the Anttila department stores, Kodin Ykkönen, the Anttila mail order business and www.netanttila.com. There are 26 Anttila department stores located in various parts of Finland. There are seven Kodin Ykkönen department stores for home goods and interior decoration. NetAnttila is the best-known online store in Finland. Anttila carries out its mail order business in Finland, Estonia and Latvia.

Anttila became the first Finnish retail company to adopt an environmental system based on the ISO 14001 standard. The system will be certified in all Anttila and Kodin Ykkönen department stores and in the Hämeenkylä distribution centre gradually by the end of the year 2004. So far certificates





K-Alliance's Master Assistant competition culminated at the K-Team event in Turku. In the picture, from left, are Raija Vinho, Jari Vinho and Päivi Ämmälä from Kenkäexpertti, Eura.

have been awarded to 28 outlets and centres. Anttila is a member of the international IGDS group (Intercontinental Group of Department Stores).

Sports trade

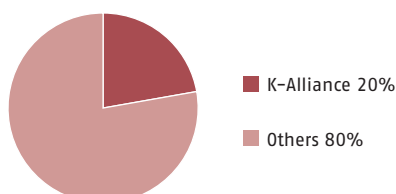
Intersport and Kesport are two different store formats. The Intersport stores are located in urban centres or shopping centres and have nationwide marketing. The Kesport stores are smaller, leading sports stores in rural centres which focus on local marketing.

Keswell develops sports store formats in co-operation with Intersport International. Keswell Ltd's subsidiary, Interwell Oy, is a retail company operating in the sports business. It has eight stores. The Intersport and Kesport stores in Keswell are all served by the Kesko Sports chain unit. The Intersport chain is the market leader in the Finnish sports trade.

Home technology trade

Musta Pörssi is one of the best-known home technology chains in Finland. It has two store concepts: Musta Pörssi and Musta Pörssi Maailma. Musta Pörssi Maailma stores are bigger and operate in the largest Finnish market areas where they offer wider product assortments and selections than traditional Musta Pörssi stores. Musta Pörssi is a member of the ElectronicPartner: International purchasing organisation. This co-

Retail sales of home and speciality goods in Finland in 2003 (estimate)



operation strengthens Musta Pörssi's competitive position in the fast changing and internationalising Finnish market.

Keswell Ltd's subsidiary, Jättipörssi Oy, a retail company operating in the home technology business, has 16 Musta Pörssi stores. Kesko Musta Pörssi is the chain unit that serves the Musta Pörssi stores in Keswell. The unit also imports and markets many brands, such as Salora, Daewoo, Ahma, Fuji and Eltax.

Academica Oy is a pioneer in Finland in offering business customers a total service for information technology products. Academica Oy continues its investment in on-line business-to-business commerce.

Shoe trade

K-kenkä and Andiamo are the K-Alliance's shoe store chains. Kenkäexpertti stores operate in the smallest towns.

Andiamo focuses on trendy consumers, while K-kenkä mainly serves consumers who appreciate classic styles and comfort. Motorfeet Ltd, a retail company operating in the shoe business, is owned by Keswell Ltd and has four stores. Kesko Shoes is the chain unit that serves the K-kenkä and Andiamo chains in Keswell.

Operating environment and future outlook

Keswell's objectives

- increasing the market share
- growth is sought, in particular, from the interior decoration, sports and home technology trade and from e-commerce
- more competitiveness and profitability through the chain reform
- to be a pioneer in the electronic trading of home and speciality goods to consumers

The home and speciality goods business is characterised by a great emphasis on chain operations and the increased number

Keswell

Net sales in 2003	EUR million	Change, %
Anttila Group	458	4.8
Kesko Sports	117	7.5
Kesko Musta Pörssi	121	19.0
Kesko Shoes	24	-9.0
Others	6	-
Total	726	5.7

EUR million	2003	2002
Operating profit	3.5	-2.9
Depreciation	11.6	12.4
Investments (gross)	5.3	7.5
Return on net assets, %	2	-2

Net assets at 31. Dec., EUR million		
Non-current assets	53.6	60.0
Stocks	123.4	107.6
Receivables	97.3	93.3
./.. Interest-free liabilities	-111.7	-97.1
./.. Provisions	0.0	0.0
Net assets	162.6	163.8

Personnel average in 2003	
	2,496

and market share of international chains in Finland. Home and speciality goods trading will continue to centralise in growth centres. Hypermarket chains keep expanding and their share of the home and speciality goods business will increase.

Concepts are renewed quickly, they are more accurately defined than before, and are tightly controlled. Traditional chains have to improve the efficiency of their operations in order to remain competitive.

Through the chain reform, Keswell Ltd has improved the competitiveness of its chains in a quickly changing competition environment. The focal areas are customer-oriented chain concepts, uniform goods selections and efficient business operating processes.

Consumption patterns are diversifying and customer loyalty is weakening as consumers become more demanding and seek experiences along with products. The importance of trademarks and brands will remain at a high level. Seasons and ranges will change faster. Ethical consumption is increasing and in the home and speciality goods trade, too, customers are more and more interested in where and how goods have been produced. Various intangible services will increase their share of consumption. Electronic trading will continue to grow further.

Year 2003

In 2003 Keswell's net sales totalled EUR 726 million. The net sales of foreign operations amounted to EUR 22.7 million, representing 3.1% of net sales. Investments totalled EUR 5.3 million.

The net sales of the Anttila Group totalled EUR 458.4 million. In 2003 the sales of the Kodin Ykkönen department stores for home goods and interior decoration increased by 6.2%, while the sales of the Anttila department stores grew by 4.3%. Anttila's distance trade sales (mail order and NetAnttila) increased by 6.0% to EUR 77.8 million. The operating profit of Anttila and related Group items was EUR 9.0 million, a growth of EUR 7.2 million over the previous year.

The net sales of Kesko Sports amounted to EUR 117.2 million. The retail sales of the Intersport store chain grew by 2.4%. The sales of sports clothes and exercise equipment registered the biggest increases. The sales of the Kesport stores grew by 6.3% owing to an increase in the number of stores. The total

sports retail sales dropped by an estimated 3% on the previous year.

The net sales of Kesko Musta Pörssi amounted to EUR 121.0 million. The retail sales of the Musta Pörssi chain increased by 12.5%. The increase was partly due to the higher number of stores and partly to the high level of sales in wide screen televisions, digital and information technology products. The retail sales of home technology were up by an estimated 9% over the previous year.

The net sales of Kesko Shoes totalled EUR 24.5 million. The retail sales of the Andiamo chain remained at the level of the previous year, while the retail sales of the K-kenkä chain dropped by 1.2%. The sales of the Kenkäexpertti stores increased by 1.2%. The whole of shoe retail sales in Finland decreased by an estimated 2% over the previous year.

The total Finnish home and speciality goods market is estimated to grow by 2-3% in 2004. Keswell's net sales and operating profit are anticipated to increase.

Keswell's store concepts



K-Alliance's home and speciality goods stores in 2003

	Number		Sales, (incl. VAT) EUR million	
	2003	2002	2003	2002
Anttila department stores	26	26	340	327
Kodin Ykkönen department stores for home goods and interior decoration	7	7	138	130
Anttila mail order business and NetAnttila	-	-	78	73
Intersport	58	57	196	191
Kesport	30	30	22	21
Musta Pörssi	58	53	161	143
K-kenkä	30	31	23	23
Andiamo	24	23	24	24
Kenkäexpertti	55	54	16	16
Other home and speciality goods stores	16	17	5	5
Home and speciality goods stores, total	304	298	1,003	953

Kaukomarkkinat

Kaukomarkkinat Oy is the leading Finnish trading house operating internationally. It has over 20 subsidiaries or representative offices abroad. Kaukomarkkinat specialises in international technical trading, the import and wholesale of the world's leading branded products as well as the import, manufacture and marketing of high-quality optics.

Market position and competitive advantages

Strengths of Kaukomarkkinat

- Finland's leading expertise in technical trading in several sectors
- the strategy for international operations is to concentrate on market areas that require special expertise and local knowledge, where manufacturers' threshold for establishing sales companies of their own is high
- major operations in China and other countries of the Far East, in Russia, Poland and increasingly around the whole rim of the Baltic Sea
- represents well-known consumer goods brands in Finland

International technical trading

International technical trading is the largest business sector of Kaukomarkkinat and one of its strongest areas of expertise. In recent years, Kaukomarkkinat has become Finland's

leading operator in several sectors of technical trading. The key product lines in technical trading include machines, raw materials and accessories for the food, forest, electronics, plastics, building materials and packaging industries.

Telko Oy markets raw materials, accessories, machines, equipment and necessary maintenance, spare parts and installation services to Finnish industry. Telko also has expanded its operations to other Nordic countries and the Baltics. Leipuri Tukku is the leading supplier of raw materials, machinery and equipment for bakeries in the Finnish market. It has also achieved a strong position in the Baltic countries, Poland

The packaging machines for Reilu rye bread are supplied by Kaukomarkkinat's LT-Kone Oy. In the picture, from left, are Sales Manager Jari-Pekka Kiiski of LT-Kone and Bakery Manager Jarmo Lappi and Packager Juri Mandrygin from Fazer's Oululainen bakery, Lahti.



and Russia. Kauko Electronics supplies production automation machinery, measuring and testing equipment, components and video surveillance systems for the manufacturing industry.

Branded goods

Kaukomarkkinat imports the world's leading branded products to Finland. The three main business sectors are home electronics, sports and watches. The best-known brands include adidas, Citizen, Panasonic, and Technics. Consumer electronics are sold in the Baltics and watches in Sweden. Adidas Suomi Oy is responsible for the sale of adidas products in Finland and in the Baltics. Kaukomarkkinat and adidas each own half of the company.

Tähti-Optikko is a chain of branded products in the optical trade. A third of outlets are owned by Kaukomarkkinat and two thirds by partners. The chain operates nation-wide and has around 130 optical businesses.

Operating environment and future outlook

Objectives of Kaukomarkkinat

- to be the leading supplier in its product lines and to serve all customers impartially
- to grow profitably and to maintain the leading position in its areas of expertise

The situation in Russia is improving the outlook for international trade. If the Russian economy continues to develop favourably it will provide opportunities for a significant

increase in trading. China's membership of the World Trade Organisation will improve the operating environment in China, where Kaukomarkkinat has been operating for over 50 years already.

Digital pictures and sound will boost the sales of consumer electronics over the coming years. Matsushita/Panasonic is the world's largest manufacturer of consumer electronics and one of the leading manufacturers of wide screen and digital televisions and DVD equipment.

The aim is to increase the market share of the Tähti Optikko chain through new partnerships and acquisitions of existing optical outlets.

Year 2003

In 2003 the Kaukomarkkinat Group's net sales amounted to EUR 285 million. The operating profit was EUR 6.0 million, a decrease of 21.5% over the previous year. Investments totalled EUR 3.6 million.

The net sales of Consumer Electronics and Telko registered the biggest increases. Exports of telecommunications products dropped from the previous year and the deliveries scheduled for the end of last year in trading with China were postponed to this year because of the danger of the SARS epidemic.

In June, Kaukomarkkinat acquired ASM Sweden AB of Sweden. The deal expands the sales of Telko's packaging technology and tapes to cover all the Nordic countries.

In 2004 the net sales and operating profit of Kaukomarkkinat are expected to develop positively.

Kaukomarkkinat

Net sales in 2003	EUR million	Change, %
Kaukomarkkinat Group	285	0.0
EUR million	2003	2002
Operating profit	6.0	7.7
Depreciation	5.9	6.3
Investments (gross)	3.6	9.6
Return on net assets, %	7	8
Net assets at 31. Dec., EUR million		
Non-current assets	50.6	54.3
Stocks	34.4	32.2
Receivables	41.7	40.2
./. Interest-free liabilities	-33.7	-34.5
./. Provisions	-0.4	-0.4
Net assets	92.6	91.7
Personnel average in 2003		796

Optics chain of Kaukomarkkinat



Optics chain of Kaukomarkkinat

	Number		Sales, (incl. VAT) EUR million	
	2003	2002	2003	2002
Tähti Optikko	128	120	42	39

VV-Auto

VV-Auto Oy imports and markets Volkswagen and Audi cars and Volkswagen commercial vehicles. Its subsidiary, Auto-Span Oy, is responsible for importing and marketing Seat cars. In addition, the companies import original spare parts and accessories for the cars and arrange training, in their own training centre, for the personnel of the service and repair workshop network.

A network of independent dealers with a total of 56 sales outlets is responsible for sales to consumers. There are also 17 service centres for car maintenance and repair.

Since the beginning of November 2003, VV-Auto's subsidiary Turun VV-Auto Oy has acted as the Volkswagen and Audi dealer in the city of Turku.

Market position and competitive advantages

Sales of new cars were brisk throughout 2003, boosted by the car tax reform. The total number of new cars registered increased by 26% over the previous year to 147,405 cars. The number of new vans registered remained at the level of the previous year.

Strengths of VV-Auto

- represents strong European product brands
- a wide choice of brands and a diversified choice of models
- leadership in the diesel car market
- a strong dealer network

The Volkswagen range has retained its position among the top brands of both cars and commercial vehicles in Finland. In 2003, a total of 16,956 Volkswagen cars were registered, reaching a market share of 11.5%. Registrations of Volkswagen vans amounted to 1,919, and their market share was 15.0%. In 2003 Volkswagen made an all-time sales record in Finland. For Audi, 2003 was also a record year: 3,617 new Audis were registered and their market share reached 2.5%. Seat's market share was 1.3%.

VV-Auto's spare parts and accessories sales grew by 11.5% over the previous year. Besides increased car sales, the growth was attributable to the increased service capacity of the dealer network.

A joint environmental programme between VV-Auto and the Central Organisation for Motor Trade and Repairs has been implemented by Volkswagen and Audi dealers. Apart from a few exceptions, the VV-Auto Group's car range already meets the EU4 emission requirements which will become effective in 2006.

Operating environment and future outlook

Objectives of VV-Auto

- each brand among the leading brands in respective competitive group
- adaptation of international concepts in the Finnish market
- expert service and improved customer satisfaction through brand-specific sales network

Audits of the Volkswagen quality system have been continued in the dealer network.

Challenges for the near future include the requirements specified in the scrapping directive for cars to be removed from circulation, and the implementation of recycling in Finland.

The Volkswagen range will expand in the spring when the new Volkswagen Caddy will be launched on the market. Newcomers to the Audi range will be the Audi A6 Sedan and the five-door Audi A3 Sportback.

Year 2003

In 2003, the net sales of the VV-Auto Group totalled EUR 558 million, representing an increase of 24.0%. The operating profit was EUR 22.3 million. Investments totalled EUR 8.3 million.

The general positive mood in the Finnish car trade is expected to continue in 2004. VV-Auto's net sales and operating profit are estimated to remain at a good level.



VW-Auto Oy's District Managers Jussi Lång and Mia Miettinen exchange ideas on the new Volkswagen Touran multi-purpose vehicle.

VW-Auto

Net sales in 2003	EUR million	Change, %
VW-Auto Group	558	24.0
EUR million	2003	2002
Operating profit	22.3	14.4
Depreciation	3.4	3.1
Investments (gross)	8.3	7.6
Return on net assets, %	32	29
Net assets at 31 Dec., EUR million		
Non-current assets	22.5	23.2
Stocks	99.5	56.3
Receivables	17.6	11.1
./. Interest-free liabilities	-41.8	-32.4
./. Provisions	-8.4	-7.0
Net assets	89.3	51.2
Personnel average in 2003		127

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“Security is part of all corporate operations,” says Security Director Juha Pietarinen.

Risk management

Management of business risks

Kesko maintains and develops the management system used by itself and the K-store chains. The management system, which is based on quality management and process management, includes risk mapping, a method by which Kesko's division parent companies and units can assess the risks related to their respective operations and the sufficiency of the necessary control methods. These risk assessments support strategy development work and decision-making.

The aim of the risk assessments is to ensure that sufficient action is taken to manage risks. The risk mapping system, introduced in Kesko in 2002, is being expanded and developed each year. The Group's Internal Audit uses the risk definitions

made by the divisions and units to assess the management of business risks throughout the Group, and submits related reports to Kesko's Board of Directors.

The key risks identified in the risk analyses are related to the Group's significant plans and projects in progress, such as the impact of chain operations, internationalisation and the operations control systems, and the ensuing challenges in organisational control, data management and competence.

The 'Operating environment' section of this annual report on pages 14-17 deals with the major changes underway in the trading sector and Kesko's response to them. The operating environments affecting the Kesko Group's divisions are analysed in the respective reviews on pages 28-45.



The risk map used by Kesko's divisions and units and by the K-Alliance's store chains includes those risk areas that are judged to be the most critical for operations and the achievement of strategic targets. More detailed risk factors are defined for each risk area.

Management of financial risks

The Group's long-term funding has been arranged through the parent company, and intra-Group loans are mainly used for providing finance to subsidiaries. In the companies in which there is a significant outside shareholding Kesko Corporation has only given guarantees for financing liabilities in proportion to Kesko Group shareholding. Kesko Corporation's Treasury is responsible for the management of Kesko Group's financial risks. The Group companies' cash flows are netted by the internal bank and the Group accounts, and the Treasury 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 duration for loans granted by financial institutions was 1.9 years and for liquid funds (cash, commercial papers and certificates of deposit) 0.4 months. The duration for loans is allowed to vary between one (1) and three (3) years.

Exchange rate risk

The Group's exchange rate risks are either translation risks that relate to foreign subsidiaries or transaction risks that arise from trade debts. Due to the fast product turnover that is typical of the grocery trade, the exchange rate exposure relating to purchases cannot grow to a considerable level. The subsidiaries and commercial units make decisions on the extent of hedging their exposure. The currencies mainly causing this risk include the US dollar, the Swedish krona, the Danish krone and the Estonian kroon. Forward exchange contracts and option agreements are used to hedge exchange rate exposure in these currencies. The business units carry out their hedging operations together with the Treasury, which hedges risk positions using market transactions within the limits confirmed for each currency.

Kesko's foreign subsidiaries are located outside the euro area. On 31 December 2003, the counter value of the foreign subsidiaries' equity and subordinated loans was EUR 74.6 million (EUR 44.3 million in 2002). The major currency positions are in Swedish krona, Estonian kroon, Latvian lat and Lithuanian lit. The balance sheet exposure related to the foreign subsidiaries has been mainly hedged with foreign currency denominated 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 any time. The liquid funds form a cash portfolio which shall amount to at least EUR 30 million on average, with the duration being not longer than two (2) months. If the liquid funds exceed EUR 30 million, a separate investment policy has been defined for them.

At the end of 2003, the Group's liquid funds and investments totalled EUR 85.6 million. On the balance sheet date, the counter value of the committed non-current credit limits available was EUR 222 million.

Credit risk

Financial instruments also cover the risk of counter parties failing to fulfil their obligations. Currency and interest rate derivative contracts are made only with those domestic and foreign banks that have good creditworthiness. Likewise, liquid funds are invested, within the limits confirmed, in objects with good creditworthiness. The investment objects and the limits determined for them are adjusted annually.

Credit ratings

Kesko Corporation has not considered it necessary to obtain a credit rating in the company's present financial situation.

Corporate governance statement

Group structure

Kesko Group comprises the parent company, Kesko Corporation, and its subsidiaries. The parent companies of the most important subgroups are Kesko Food Ltd, Rautakesko Ltd, Kesko Agro Ltd, Keswell Ltd, Kaukomarkkinat Oy and VV-Auto Oy.

Applicable laws and regulations

Kesko Corporation is a Finnish limited liability company which, in its decision-making and administration, complies with the Finnish Companies Act, other regulations concerning public companies and Kesko Corporation's Articles of Association. In addition, Kesko Corporation complies with the recommendations made in 1997 by the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers on the governance of listed companies, and the insider regulations prepared by the Helsinki Exchanges, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers.

General Meetings

The highest decision-making power in Kesko Corporation is exercised by the company's shareholders at the General Meetings convened by the company's Board of Directors. These meetings consist of Annual General Meetings and Extraordinary General Meetings.

The Annual General Meeting must be held by the end of June each year and handles the matters that fall under its authority according to the Articles of Association as well as other possible proposals to a General Meeting. Kesko Corporation's Annual General Meeting has usually been held during March-April.

When considered necessary, an Extraordinary General Meeting is convened to handle a specific proposal made to a General Meeting.

Usually, a General Meeting handles the matters placed on the agenda by the Board of Directors. According to the Finnish Companies Act, a shareholder may present a written request to the company's Board of Directors to place a matter on the agenda of the next General Meeting. If a shareholder or shareholders holding at least 10% of all shares, or the company's auditor, request that a specific matter be handled at a General Meeting, the Board of Directors shall without delay convene the General Meeting to handle the requested matter.

Major matters subject to the decision-making power of a General Meeting include:

- amendments to the Articles of Association
- increases and decreases in the share capital
- decisions on the number, election and fees of all Board members of the company
- the adoption of the financial statements
- the distribution of profit.

The names of persons to be nominated for the Board of Directors are published in the notice to convene the General Meeting or, if the notice has already been delivered, are notified in another way prior to the General Meeting, provided they have given their written consent to be elected to this post and are supported by shareholders with at least 20% of all the voting rights to which the company's shares give entitlement.

Attendance

Shareholders are invited to a General Meeting by a notice published in at least two Finnish nationwide newspapers and listing the matters on the agenda. The notice and the Board of Directors' proposals to the General Meeting are also published in a stock exchange release and posted on the company's Internet pages. Those wishing to attend the General Meeting must notify their intention in advance within the time frame announced in the invitation to the meeting. Shareholders may attend the meeting themselves or through an authorised representative. Each shareholder or representative may also have one assistant at the meeting. Minutes are taken at the General Meeting and are made available to shareholders for inspection two weeks afterwards. The decisions made by the General Meeting are also published in a press release immediately after the meeting.

Decision-making

The company has two share series, A and B, which differ as to the votes to which they give entitlement. Each A share entitles its holder to ten votes and each B share to one vote at a General Meeting. When votes are taken, the proposal supported by more than half of the votes will normally be the decision of the General Meeting or, in the case of a tie, the chairman will have the casting vote. According to the Finnish Companies Act, however, there are several matters, such as an amendment to the Articles of Association or a decision on a rights offering, in which any decision requires a defined larger majority in relation to the number of shares and the votes to which they give entitlement.

Kesko Corporation's Articles of Association have no redemption clauses or voting limitations. The company is not aware of any shareholder agreements concerning the use of voting rights in the company, or of any agreements limiting the surrender of company shares.

Board of Directors

Composition and term

According to the Articles of Association, Kesko Corporation's Board of Directors consists of a minimum of five and a maximum of eight members. According to the Articles of Association, the term of each Board member is three (3) years with the term starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual

General Meeting after the election. The General Meeting elects all members of the Board of Directors. The Articles of Association set no upper age limit on Board members, nor limit the number of terms members may serve, nor restrict in any other way the decision-making power of the General Meeting in electing Board members. The Board of Directors elects a Chairman and a Deputy Chairman from among its members.

Duties

The function of Kesko Corporation's Board of Directors is to duly arrange the company's management, operations and accounting, and to supervise the company's financial management. At its meeting on 15 April 2003, Kesko Corporation's Board of Directors confirmed the written rules of procedure that specify the Board of Directors' duties, matters to be handled, meeting practice and decision-making process. According to the rules of procedure, the Board of Directors handles and decides on matters that are financially, commercially or fundamentally significant for the Group's operations.

According to the rules of procedure, the matters handled by the Board of Directors include:

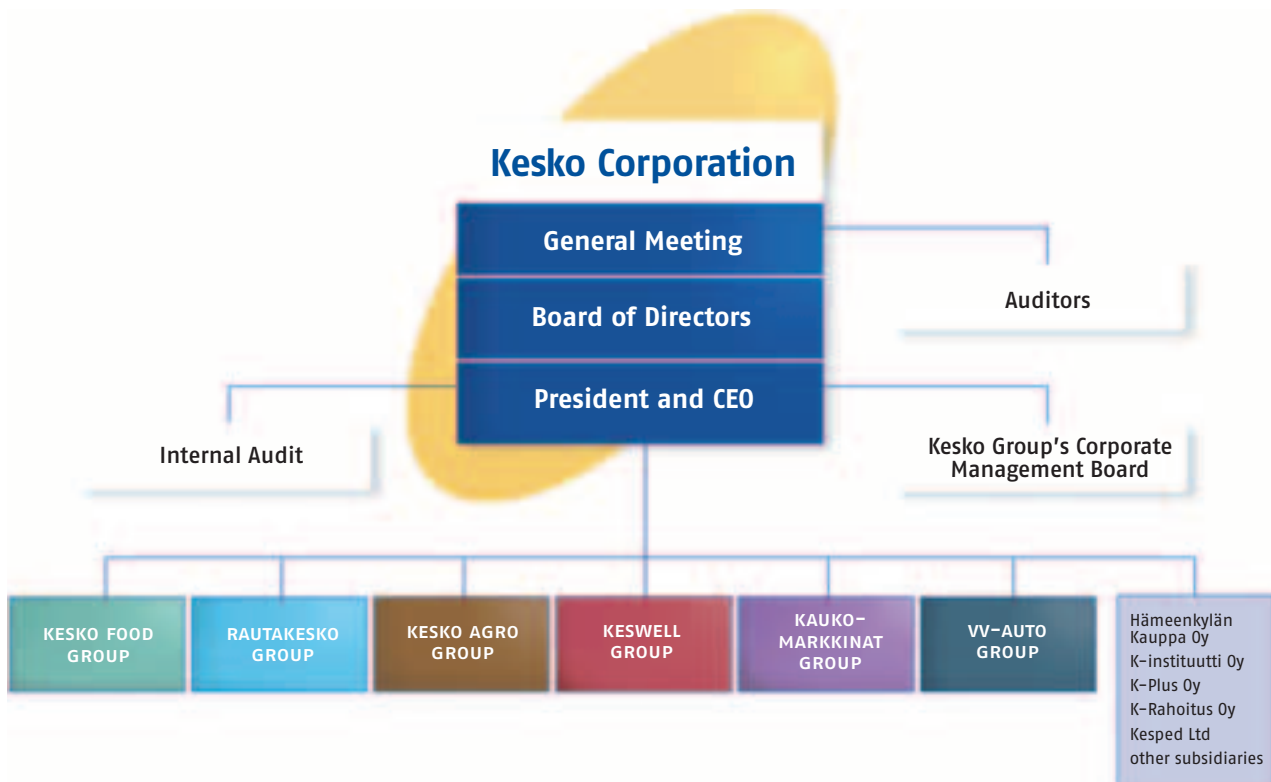
- making decisions on Group strategy and confirming strategies for divisions
- making decisions on Group structure and organisation
- handling and adopting interim reports, consolidated financial statements and the annual report

- confirming the Group's operating plan, budget and investment plan
- making decisions on strategically or financially important individual investments, company acquisitions, disposals or other arrangements, and contingent liabilities
- confirming the Group's risk management and reporting practice
- confirming the Group's insurance policy
- approving the Group's financing policy
- making decisions on reward and incentive schemes for Group management
- establishing a dividend policy and being responsible for the development of shareholder value
- appointing the company's Managing Director and determining his remuneration
- appointing the Deputy Managing Director
- appointing the Presidents of Kesko Food Ltd, Keswell Ltd, Rautakesko Ltd and Kesko Agro Ltd
- confirming Kesko's values
- handling the corporate responsibility report
- other duties determined for the Board of Directors in the Companies Act or otherwise.

Decision-making

The Board of Directors is always obliged to act in the company's interests and in such a way that its operations are not sus-

Kesko Group's corporate governance structure



ceptible to producing unjustified advantage to any shareholder or other party at the cost of the company or another shareholder. A Board member is disqualified from participating in the handling of a matter between the Board member and the company. The chairman of the Board of Directors is responsible for convening the Board meetings and for the meeting procedure. When votes are taken, the majority opinion will be the Board's decision and, in the case of a tie, the chairman will have the casting vote. In an election, a tie will be decided by drawing lots.

Meeting practice

The Board of Directors meets about 10 times a year. The Board of Directors has not distributed any special areas of focus in terms of business monitoring to its members. At meetings, matters are presented by Kesko Corporation's Managing Director or, at his request, by another person in Kesko Group's management. According to the Board of Directors' rules of procedure, the President and CEO ensures that the company provides the Board with sufficient information to assess the operations and financial situation of the Group, supervises the implementation of Board decisions and reports to the Board on any deficiencies or problems in implementation. The secretary to the Board of Directors is Kesko Group's General Counsel. The Board of Directors regularly assesses its operations and working procedures by carrying out a self-assessment once a year.

Board of Directors' fees and other benefits

The Annual General Meeting decides the fees and compensation for costs to be paid to the members of the Board of Directors.

Year 2003

Kesko Corporation's Annual General Meeting held on 31 March 2003 elected eight members to the Board of Directors. Their term started on 31 March 2003 and will expire at the close of the 2006 Annual General Meeting. Among the Board members elected at the 2003 General Meeting, Pentti Kalliala, Heikki Takamäki and Jukka Toivakka are K-retailers in normal business relations with the Kesko Group. Kesko Corporation's President and CEO Matti Honkala is a member of the Board of Directors. Kesko Corporation has given no guarantees or other contingent liabilities for its Board members. The members of the Board of Directors and the fees paid to them for 2003 are presented on pages 62-63.

In 2003, the Board of Directors convened 10 times. The average attendance percentage, a figure that illustrates the participation of the Board members in the work of the Board, was about 94 percent in 2003.*

* The attendance percentage has been calculated by comparing the number of meetings held during the year and the number of Board members attending them with a hypothetical situation in which there are no absences from meetings.

Based on a decision made at the 2003 Annual General Meeting, the monthly and meeting fees paid in 2003 to the members of the Board, with the exception of persons employed by the company, were:

- monthly fee for the Chairman EUR 3,800
- monthly fee for the Deputy Chairman EUR 2,400
- monthly fee for each Board member EUR 2,000
- fee per meeting for each participant EUR 420

In addition, the members of the Board are entitled to daily allowances and compensation for travelling expenses in accordance with the general travel rules of Kesko Corporation. Neither the monthly nor the meeting fees of Kesko Corporation Board members are paid to Kesko Corporation's Managing Director.

The monthly and meeting fees paid to Kesko Corporation Board members in 2003 totalled EUR 218,490.00. The breakdown of fees by member is presented on pages 62-63.

No warrants or Kesko's own shares were given to the members of the Board of Directors as a reward for their work on the Board. Warrants were given to the President and CEO, who is a Board member, as part of the Kesko Group's management reward system.

Committees

Kesko Corporation's Board of Directors has established no committees.

Managing Director and Deputy Managing Director

Kesko Corporation has a Managing Director who is known as the President and CEO. His duty is to manage the company's activities in accordance with the Board of Directors' instructions and rules and to inform the Board of Directors about the development of the company's business and financial situation. He is also responsible for arranging the company's day-to-day administration and ensuring that the financial administration of the company has been arranged reliably.

The President and CEO primarily presents matters in Board meetings and is responsible for preparing draft solutions. The President and CEO may, when he finds it suitable, choose to delegate the presenting of a matter or the preparation of a draft proposal to a member of Group management. The Board of Directors elects the Managing Director and the Deputy Managing Director and decides on the Managing Director's fees and other terms of employment. The Managing Director's and the Deputy Managing Director's terms of employment have been agreed on in writing. The Managing Director and the Deputy Managing Director are not elected for a certain term, but are elected indefinitely until further notice is given.

Year 2003

Kesko Corporation's President and CEO was Matti Honkala and his deputy was Kesko Food's President Kalervo Haapaniemi.

Salaries, bonuses and fringe benefits

In 2003, the salaries, bonuses and fringe benefits paid to President and CEO Matti Honkala totalled EUR 562,446.00, of which regular salaries accounted for EUR 424,066.00, the 2002 bonus paid under the profit-sharing system for EUR 124,460.00 and fringe benefits for EUR 13,920.00.

The salaries, bonuses and fringe benefits benefits paid to his deputy, Kalervo Haapaniemi, in 2003 for his position as Kesko Food's Managing Director totalled EUR 332,528.00, of which regular salaries accounted for EUR 275,144.00, the 2002 bonus paid under the profit-sharing system for EUR 42,384.00 and fringe benefits for EUR 15,000.00.

The President and CEO's bonus for 2002 equalled his regular salaries for 3.6 months and his deputy's bonus equalled his regular salaries for 1.9 months. Kesko's Board of Directors will make a decision on the 2003 bonuses in spring 2004.

Stock options

As part of the management's reward programme, the President and CEO and his deputy had earlier been given B and C warrants issued in 2000, and in 2003 they were given D warrants. The number of D warrants given to the President and CEO is 42,000 and those given to his deputy 21,000. The B, C and D warrants owned by them are presented on pages 64-65.

At the end of 2003, President and CEO Matti Honkala had 100,000 B warrants, 50,000 C warrants and 42,000 D warrants. His deputy Kalervo Haapaniemi had 50,000 B warrants, 25,000 C warrants and 21,000 D warrants.

The company has no such incentive programme by which the company rewards its management with company shares.

Retirement age and benefits

The Managing Director's retirement age is 60 years, with his full pension being 66% of the pensionable salary**.

The retirement age of the Deputy Managing Director is 60 years, with his pension being 60% of the pensionable salary. A six-month notice period is needed to terminate the employment contracts of the Managing Director or the Deputy Managing Director. If the company terminates the employment, they are, in addition to the salaries for the period of notice, entitled to a severance pay corresponding to 18 months' salary.

Corporate Management Board

Kesko Group has a Corporate Management Board, the Chairman of which is Kesko Corporation's President and CEO and the members of which are the Presidents of the major division parent companies, the Corporate Executive Vice President responsible for Finance and the Senior Vice Presidents responsible for Administration and Corporate Communications.

The Corporate Management Board has no authority based on legislation or the Articles of Association. The Corporate Management Board is an advisory body appointed by the Managing Director of Kesko Corporation, which is responsible for dealing with Group-level development projects and Group-level principles and practices. In addition, the Corporate Management Board is informed about the Group's and the division parent companies' business plans, profit performance and matters that are handled by Kesko Corporation's Board of Directors, and it also participates in the preparation of these matters. The Corporate Management Board meets 8-10 times a year.

Year 2003

The Chairman of the Corporate Management Board was Kesko Corporation's President and CEO Matti Honkala and the members were Kesko Food Ltd's President Kalervo Haapaniemi, Rautakesko Ltd's and Kesko Agro Ltd's President Matti Halmesmäki, Keswell Ltd's President Matti Laamanen, Kesko Corporation's Senior Vice President, Corporate Communications, Erkki Heikkinen, Corporate Executive Vice President, CFO Juhani Järvi, and Senior Vice President, Administration, Riitta Laitasalo.

In 2003, the members of the Corporate Management Board, excluding the Managing Director and the Deputy Managing Director, received EUR 880,883.40 in salaries, EUR 59,830.00 in fringe benefits and EUR 112,523.20 in bonuses under the profit-sharing system.

All members of the Corporate Management Board have been given B and C warrants issued in 2000 and D warrants issued in 2003. The stock options held by them at present are specified on pages 64-65.

Kesko's Board of Directors makes decisions on the salary benefits of those subgroup presidents who are members of the Corporate Management Board. As for other members, decisions are made by their superiors. Kesko's Board of Directors makes decisions on the basis and maximum amounts of the bonuses given to all Corporate Management Board members as well as on the numbers of warrants.

The retirement age of the Corporate Management Board members varies from 60 years to 65 years and their pensions from 60% to 66% calculated from the pensionable salary. A six-month notice period is needed to terminate their employment contracts. In addition to the salaries for the period of notice, they are entitled to a severance pay corresponding to 6-18 months' salary. The members of the Corporate Management Board and the shares and stock options held by them are presented on pages 64-65.

Subsidiary management

Board members of the major subsidiaries are elected from among the management of the Kesko Group. The chairman of the Boards of Kesko Food Ltd, Rautakesko Ltd, Kesko Agro Ltd and Keswell Ltd is Kesko Corporation's President and CEO. The

**The Finnish pension is determined on the basis of the so-called pensionable salary, calculated from all of the person's salaries, bonuses and fringe benefits, but not from the income from warrants given as a reward on the basis of the person's job.

most important duties of the subsidiary boards include defining the company strategy, operating plan and budget, and making decisions on investments, company acquisitions and contingent liabilities within the limits determined by Kesko Corporation's Board of Directors.

Management's bonus system

Kesko Corporation's Board of Directors has accepted a profit-sharing system for the Group's top management. The maximum amounts of the bonus vary depending on the profit impact of the job up to amounts corresponding to a salary of 2-6 months. The management's profit-sharing system encompasses about 50 executives of Kesko Group.

Auditing

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 position for the financial year. Kesko Corporation's financial year is the calendar year.

The auditor is obliged to audit the correctness of the company's accounting and closing of accounts for the financial year and to give the General Meeting an auditors' report. In addition, the Finnish law requires that the auditor also monitors the lawfulness of company administration. The auditor gives reports to the Board of Directors at least once a year.

Auditor

According to the Articles of Association, Kesko Corporation has a minimum of one and a maximum of three auditors elected by the Annual General Meeting. The term of an auditor is the company's financial year and an auditor's duties terminate at the close of the Annual General Meeting following the election. The auditors shall be auditors or firms of auditors authorised by the Central Chamber of Commerce. The auditors of the companies of Kesko Group come mainly from firms of auditors that belong to the PricewaterhouseCoopers chain or are auditors employed by them.

Year 2003

The 2003 Annual General Meeting of Kesko Corporation elected one auditor for the company: Authorised Public Accountants PricewaterhouseCoopers Oy, with APA Pekka Nikula as the auditor with principal responsibility.

The fees paid to the authorised public accountants (including firms that belong to the PricewaterhouseCoopers chain in Finland and abroad) for auditing Kesko Group companies totalled EUR 864,000 and the fees paid for consulting services totalled EUR 491,000.

Financial reporting of the Group

Implementation of financial targets is monitored through Group-wide financial reporting. The reports include actual results, plans and up-to-date forecasts for the current year. Accumulation of financial added value is monitored by monthly

internal reporting. Sales figures for the Group are published in monthly stock exchange releases.

Internal auditing and risk management

The company has an Internal Audit unit that is subject to the President and CEO and whose function is to evaluate and ensure the adequacy, appropriateness and efficiency of the Group's risk management, control and administrative processes. Kesko Corporation's Board of Directors has confirmed the operating principles of risk management and internal control and the guidelines for internal audit to be applied in the Group.

Appropriate insurance is taken in case of property damage, consequential loss or liability damage risks arising from business operations.

Insiders

According to the Securities Markets Act, persons in the following positions are considered to be Kesko Corporation's permanent insiders: members of Kesko Corporation's Board of Directors, the Managing Director and his deputy, and auditors, including an auditor from a firm of auditors with principal responsibility for the company. In addition, Kesko Corporation's permanent insiders include persons who are working, at the time in question, in such jobs determined by the Board of Directors in which they receive insider information on a regular basis. The list of Kesko Corporation's insiders and their holdings of shares and stock options, updated monthly, is on Kesko's web pages.

Insider administration

On 1 March 2000, Kesko Corporation's Board of Directors confirmed Kesko Corporation's insider regulations, which include rules for permanent and project-specific insiders, and the insider organisation and procedures defined for the company. These insider regulations have been distributed to all insiders. The company has documented practices on the administration and secrecy of insider projects. The contents of the company's insider regulations correspond to those of the Helsinki Exchanges, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers dated on 28 October 1999.

The Corporate Legal Affairs unit monitors compliance with insider regulations by, for instance, sending the insiders an extract of the information in the insider register for them to check at regular intervals and monitoring the insiders' compliance with trading restrictions. Kesko Corporation's insider regulations prohibit trading with company shares, or securities giving entitlement to them, by permanent insiders, by persons under their guardianship or by corporations controlled by them during 14 days prior to publication of financial results.

Kesko Corporation's insider register is held by the Finnish Central Securities Depository Ltd. Up-to-date ownership information on insiders is available from the premises of HEXGate in Helsinki, address Fabianinkatu 14, at the street level. The

company also maintains a list of permanent insiders on its web pages.

Principles of investor relations

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

In its investor communications, Kesko follows the principle of impartiality and publishes all investor information on the Internet pages in Finnish, Swedish and English. Kesko publishes its annual report as a printed publication in Finnish, Swedish and English.

The annual financial statements release and three interim reports are also published as part of the TradeMaker stakeholder magazine which is mailed to all shareholders. In addition, the company maintains a mailing list of other persons to whom the annual report and the TradeMaker magazine are sent. Those who wish their names to be entered on the mailing list may fill in a form at the Material Service at Kesko's Internet site or the coupons in the printed publications. Kesko's stock exchange and press releases can be ordered by e-mail through the Material Service.

Kesko arranges press conferences for analysts and the media at the time of announcing the annual and interim results or other significant news, and holds Capital Market Days on various themes 1-2 times a year. Kesko observes a two-week period of silence before publishing information on its results. At other times, we will be happy to answer the enquiries of analysts and investors by phone or e-mail, or at the investor meetings arranged.

Kesko's communications policy

The purpose of Kesko Group communications is to promote the business of the parent company and its subsidiaries by taking the initiative in providing stakeholders with correct information on Group goals and operations. The responsibility for Group communications lies with the President and CEO, Senior Vice President, Corporate Communications and the members of the Corporate Management Board, each in his/her respective field. The responsibility for communications in the subsidiaries lies with the Managing Directors or, as needed, the Chairmen of the Boards. The responsibility for implementing regional stakeholder activities and communications lies

with the District Directors. The Corporate Communications unit, headed by a Senior Vice President, who reports to the President and CEO, produces Group communications material, including stock exchange releases.

The Corporate Communications unit is responsible for the financial contents of investor information. The Corporate Management Board co-ordinates the development of the Group's overall corporate image.

Communications principles

The communications of the Kesko Group and its subsidiaries shall be self-initiated and active, and shall support business. The principles to be followed in providing information are openness, topicality and truthfulness. No comments are made on confidential or unfinished business, nor on competitors' affairs. Information on the whole Kesko Group is given by the President and CEO, Senior Vice President, Corporate Communications and the members of the Corporate Management Board. The Managing Directors of subsidiaries and the Directors of business units are responsible for the external and internal communications of their own units.

Updating corporate governance

The updated Kesko corporate governance statement can be read at www.kesko.fi. Kesko Corporation's Internet pages are published in Finnish and English, and most of them also in Swedish.

The new recommendation issued by HEX Plc, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers on the corporate governance of listed companies will come into force on 1 July 2004. Decisions of the General Meeting and amendments to the Articles of Association possibly required for compliance with the recommendation can, however, be made at the 2005 Annual General Meeting. Kesko Corporation will make the decisions relating to compliance with the recommendation within the framework of the implementation provisions and will report any possible deviations from the recommendation.

 [READ MORE AT: WWW.KESKO.FI/INVESTORINFORMATION](http://WWW.KESKO.FI/INVESTORINFORMATION)

Shares and shareholders

Dividend policy

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

Proposed dividends for the year 2003

Kesko Corporation's Board of Directors proposes to the Annual General Meeting that EUR 182,429,600 be distributed as dividends from the net profit for the year 2003, or EUR 2.00 per share, representing 190.5% of earnings per share. During the past five years, 135.4% of earnings per share, on the average, have been distributed as dividends.

Share series and share capital

Kesko Corporation's share capital is divided into A share series and B share series. On 31 December 2003, the company's share capital was EUR 182,381,000. The minimum share capital is EUR 100,000,000 and the maximum EUR 400,000,000, within which limits the share capital can be increased or decreased without amending the Articles of Association.

The minimum number of A shares is one (1) and the maximum number two hundred and fifty million (250,000,000), while the minimum number of B shares is one (1) and the maximum number two hundred and fifty million (250,000,000), provided that the total number of shares is at minimum two (2) and at maximum four hundred million (400,000,000).

On 31 December 2003 the total number of shares was 91,190,500, of which 31,737,007 (34.8%) were A shares and 59,453,493 (65.2%) were B shares. The book counter value of the shares is EUR 2.00.

Each A share entitles the holder to 10 votes and each B share to 1 vote. Both shares give the same dividend rights. On 31 December 2003 the votes to which A shares entitle accounted for 84.2% and the votes to which B shares entitle accounted for 15.8% of the total number of votes.

The shares are included in the book-entry securities system held by the Finnish Central Securities Depository Ltd.

The right to receive funds distributed by the company and to subscribe to shares when the share capital is increased belongs only to those

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

Authorisations of the Board of Directors

In 2003 the Board of Directors had no authorisation to increase

Basic information on the shares at 31 December 2003

A share

- symbol: KESAV (HEX)
- number of shares: 31,737,007
- voting rights per share: 10 votes
- taxable value per share: EUR 12.53

B share

- symbol: KESBV (HEX)
- number of shares: 59,453,493
- voting rights per share: 1 vote
- taxable value per share: EUR 9.65

Book counter value of both shares: EUR 2.00

Trading unit of both share series: 100 shares

Total share capital: EUR 182,381,000

Total number of shares: 91,190,500

Voting rights carried by all shares: 376,823,563

the share capital, or to acquire or assign the company's shares. At the end of December 2003, Kesko Corporation's subsidiary Jättipörssi Oy held 34,400 Kesko Corporation A shares. The counter value of these shares totalled EUR 68,800, and they accounted for under 0.04% of all shares and under 0.1% of all votes. On 11 February 2004 Jättipörssi Oy disposed of all of the shares.

Shareholders

According to the register of Kesko's shareholders kept by the Finnish Central Securities Depository Ltd, there were 28,761 shareholders at the end of 2003 (25,485 at the end of 2002). The total number of shares registered in a nominee name was 15,191,112, accounting for 16.66% of the share capital. The number of votes entitled by these shares was 15,274,668, or 4.05% of the total voting rights.

A list of Kesko's largest shareholders can be found on the Internet at www.kesko.fi/investorinformation.

Shares held by Kesko's management

The members of Kesko's Board of Directors whose term began on 31 March 2003, the Managing Director and the Deputy Managing Director and the corporations under their control, held at the end of December 2003 a total of 512,300 Kesko shares, which represented 0.56% of the company's share capital and 1.00% of its voting rights.

Year 2000 stock option scheme

The Annual General Meeting of 10 April 2000 approved a stock option scheme for the top and middle management as part of the management's incentive programme. There were two classes of warrants issued, B warrants and C warrants, both without consideration. The number of B warrants issued (KESBVEW100) was 3,825,000 and the number of C warrants issued (KESBVEW200) was 2,015,000, i.e. a total of 5,840,000 warrants.

Each B and C warrant entitles to the subscription of one B share of Kesko. The share subscription period for B warrants

began on 1 November 2002 and for C warrants on 1 November 2003, and shall end on 31 March 2006 for all warrants.

The share subscription price for B warrant shall be the trade volume weighted average price of Kesko's B share on the Helsinki Exchanges of March 2000 with an addition of 15% (EUR 15,97), and for C warrant the corresponding weighted average of March 2001 with an addition of 15% (EUR 12,71). From the share subscription price shall be deducted the amount of the dividend per share distributed after the period for the determination of the share subscription price has ended but before the date of subscription for shares.

After the distribution of dividends for 2002, the B share subscription price with B warrants is EUR 11.87 and with C warrants EUR 10.11. The shares subscribed with B and C warrants entitle to dividends for the financial period during which they were subscribed and paid. When the scheme was announced it comprised nearly 600 persons.

This stock option scheme entitles to the subscription of a total of 5,840,000 B shares, and may increase the company's share capital by a maximum of EUR 11,680,000.

Subscription of shares with warrants

The B warrants issued in 2000 were included in the main list of the Helsinki Exchanges on 1 November 2002 and the year 2000 C warrants on 3 November 2003. By 10 December 2003, a total of 22,800 B shares had been subscribed with B warrants and a total of 47,300 with C warrants, or 70,100 in all. A corresponding increase of EUR 140,200 in the share capital was entered in the Trade Register on 19 December 2003 and the new B shares were included in the main list of the Helsinki Exchanges for public trading with old B shares on 22 December 2003.

In addition, a total of 24,300 Kesko's B shares were subscribed with C warrants under the year 2000 stock option

scheme between 11 and 31 December 2003. The corresponding increase in share capital, EUR 48,600, was entered in the Trade Register on 6 February 2004.

Year 2003 stock option scheme

On 31 March 2003 the Annual General Meeting resolved to gratuitously issue a total of 1,800,000 stock options to the management of the Kesko Group as well as to a wholly-owned subsidiary of Kesko Corporation. A deviation is made from the shareholders' pre-emptive right to subscription since the stock options form a part of the incentive and commitment programme for the management. The terms and conditions of the management's stock option scheme 2003 were published in full in the attachment of a stock exchange release about the decisions of the Annual General Meeting published on 31 March 2003.

Each stock option entitles its owner to subscribe for one Kesko Corporation B share. The stock options shall be marked with symbols 2003D, 2003E and 2003F in units of 600,000 stock options each. The share subscription periods shall be:

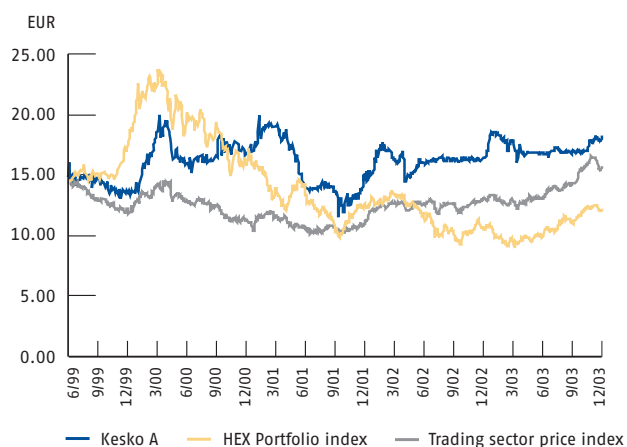
- for stock option 2003D 1 April 2005 - 30 April 2008,
- for stock option 2003E 1 April 2006 - 30 April 2009 and
- for stock option 2003F 1 April 2007 - 30 April 2010.

The share subscription price for stock option 2003D shall be the trade volume weighted average quotation of Kesko's B share on the Helsinki Exchanges between 1 April and 30 April 2003, for stock option 2003E it shall be the trade volume weighted average quotation of Kesko's B share on the Helsinki Exchanges between 1 April and 30 April 2004 and for stock option 2003F, the trade volume weighted average quotation of Kesko's B share on the Helsinki Exchanges between 1 April and 30 April 2005. From the share subscription price of stock options shall, as per the dividend record date, be deducted the amount of the dividend

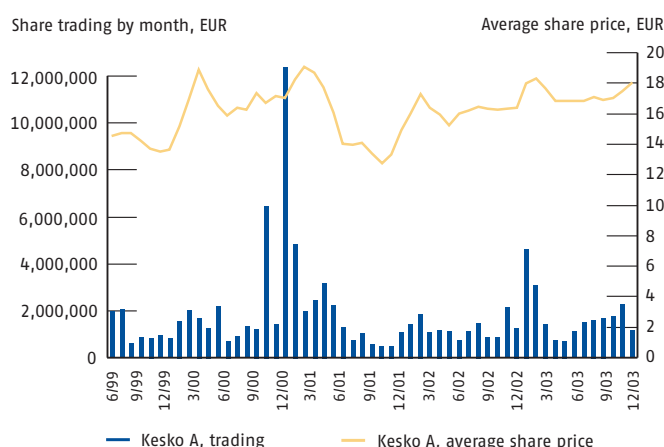
Prices of Kesko's A and B shares and B and C warrants, and trading on the HEX Helsinki Exchanges in 2003

Share	Share price, € 31.12.2002	Share price, € 31.12.2003	Change, %	Lowest price, €	Highest price, €	Trading volume, 1,000 pcs	Total value, M€	Turnover rate, %
Kesko A	16.40	18.20	11.0	16.00	18.55	1,252	21.9	3.9
Kesko B	12.10	13.88	14.7	9.35	14.66	30,687	349.1	51.6
Kesko B warrant	-	2.32	-	0.86	2.70	1,375	2.8	34.4
Kesko C warrant	-	3.75	-	3.50	4.45	406	1.6	20.1

Trends in Kesko's A share price



Kesko's A share trading by month



decided after the beginning of the period for determination of the subscription price but before share subscription.

At the end of 2003 the subscription price of a B share subscribed for with stock option 2003D was EUR 9.63 and the subscription period will begin on 1 April 2005.

Under this stock option scheme a total of 1,800,000 B shares can be subscribed for and Kesko Corporation's share capital may be increased by a maximum of EUR 3,600,000 as a result of the subscriptions.

The shares subscribed for under the year 2003 stock option scheme account for 1.82% of the share capital and for 0.47% all votes, presuming that all issued warrants are used. Dividend rights of the shares and other shareholder rights shall commence when the increase of the share capital has been entered in the Trade Register.

Share of issued stock options of share capital and votes

Presuming that shares are subscribed for with all of the 7,640,000 stock options issued under the year 2000 and the year 2003 schemes, the stock options account for 7.74% of the share capital and 1.99% of all votes.

The company has no other convertible bonds or bonds with warrants in issue.

Stock options held by Kesko's management

At the end of December 2003 Kesko's Managing Director and Deputy Managing Director held a total of 288,000 Kesko stock options, which represented 0.29% of the company's share capital and 0.07% of all voting rights, presuming that shares have been subscribed for with all issued stock options. In addition to the Managing Director, no other Board member held stock options at the end of the year 2003.

Detailed information on shares and stock options held by the management at the beginning and the end of 2003 is given on pages 62-65.

Trading in Kesko's shares in 2003

Kesko Corporation's shares are listed on the HEX Helsinki Exchanges and traded in euros. Kesko's share prices and trading volumes can be monitored at www.kesko.fi. Key information about the share trading in 2003 is given in the tables and graphs on this double page spread.

The trading sector index rose by 20.2% during the year, while the HEX general index increased by 4.4% and the HEX portfolio index by 16.2%.

At the end of 2003, the market value of A shares was EUR 577.6 million and that of B shares EUR 852.2 million, with the total market capitalisation of the company being EUR 1,402.8 million.

Flagging notifications

On 30 January 2003 Kesko Corporation received a notification stating that the share of Kesko Corporation's share capital administered by Silchester International Investors Limited had decreased on 23 January 2003 to 3.17% and the share of voting rights to 0.77%. According to the notification, Silchester International Investors Limited is entitled to use the voting rights related to the shares.

On 16 February 2004 Kesko Corporation was notified that, on 13 February 2004, the combined share of the K-Retailers' Association, its branch clubs and the Foundation for Vocational Training in the Retail Trade in Kesko Corporation's voting rights had increased to 10.08% and to 4.47% of share capital.

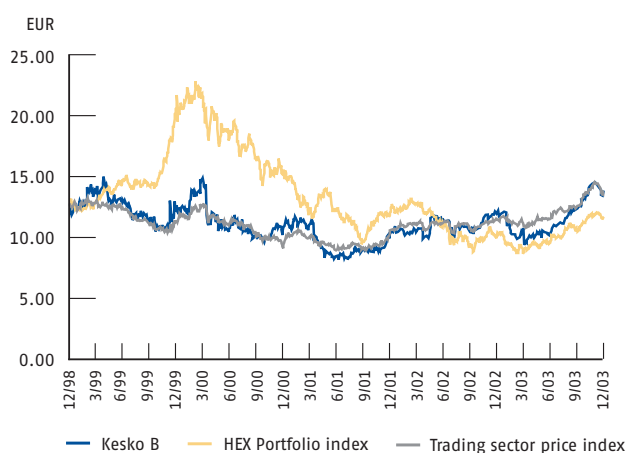
Kesko has not been informed of any agreements relating to its share ownership or the exercising of its voting rights.

The latest changes in share capital

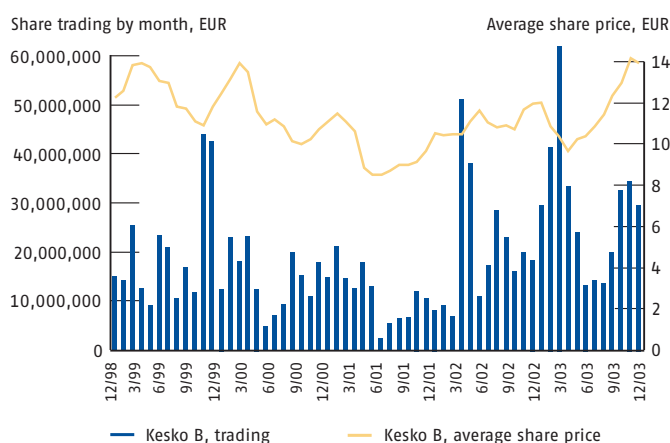
Year	Subscription period	Subscription terms	Change	New share capital
1998	8.4.	FIM -300,000		FIM 902,134,000
1999	31.5.	EUR 28,700,000		EUR 180,426,800
2002	1.12.1999-30.4.2002	S 1 for 1 at EUR 10.01	EUR 1,814,000	EUR 182,240,800
2003	22.12.2003	S 1 for 1 at EUR 11.87 B warrant and S 1 for 1 at EUR 10.11 C warrant	EUR 140,200	EUR 182,381,000
2004	9.2.2004	S 1 for 1 at EUR 10.11 C warrant	EUR 48,600	EUR 182,429,600

S = subscription with warrants EUR 1 = FIM 5.94573

Trends in Kesko's B share price



Kesko's B share trading by month



20 largest shareholders by number of shares at 31 December 2003

	Number of shares	% of shares	% of votes
1 Kesko Pension Fund	3,404,485	3.74	9.04
2 The K-Retailers' Association	2,781,139	3.05	7.28
3 Vähittäiskaupan Takaus Oy	2,628,533	2.88	6.98
4 Valluga-sijoitus Oy	1,340,439	1.47	3.56
5 Varma Mutual Pension Insurance Company	1,318,353	1.45	0.35
6 Ilmarinen Mutual Pension Insurance Company	1,124,500	1.23	0.30
7 Sampo Life Insurance Company Limited	1,024,930	1.12	0.27
8 Oy The English Tearoom Ab	1,008,400	1.11	0.27
9 Tapiola Mutual Pension Insurance Company	1,000,000	1.10	0.27
10 The Finnish Local Government Pension Institution	914,600	1.10	0.24
11 Foundation for Vocational Training in the Retail Trade	819,655	0.90	1.73
12 Tapiola General Mutual Insurance Company	735,300	0.81	0.20
13 The State Pension Fund	730,000	0.80	0.19
14 Mutual Fund Pohjola Finland Value	450,000	0.49	0.12
15 Fortum Pension Foundation	439,800	0.48	0.12
16 Kaleva Mutual Insurance Company	394,000	0.43	0.10
17 Tapiola Mutual Life Insurance Company	354,000	0.39	0.09
18 Suomi Mutual Life Insurance Company	350,000	0.38	0.09
19 Pension Foundation Polaris	340,000	0.37	0.09
20 Pohjola Non-Life Insurance Company Limited	325,000	0.36	0.09
20 largest shareholders, total	21,483,134	23.56	31.38

20 largest shareholders by number of votes at 31 December 2003

	Number of votes	% of votes	Number of shares	% of shares
1 Kesko Pension Fund	34,044,850	9.04	3,404,485	3.74
2 The K-Retailers' Association	27,443,740	7.28	2,781,139	3.05
3 Vähittäiskaupan Takaus Oy	26,285,330	6.98	2,628,533	2.88
4 Valluga-sijoitus Oy	13,404,390	3.56	1,340,439	1.47
5 Foundation for Vocational Training in the Retail Trade	6,500,743	1.73	819,655	0.90
6 Ruokacity Myyrmäki Oy	2,845,000	0.76	284,500	0.31
7 Ruokajätti Kalevi Sivonen Oy	2,438,800	0.65	297,880	0.33
8 A. Toivakka Oy	1,934,500	0.51	211,450	0.23
9 Mauri ja Nina Penttinen Oy	1,931,600	0.51	198,020	0.22
10 Hannu Aaltonen Oy	1,832,100	0.49	286,080	0.31
11 K-Food Retailers' Club	1,828,660	0.49	234,040	0.26
12 Heimo Välinen Oy	1,800,000	0.48	180,000	0.20
13 Laakso Vesa Oy	1,611,000	0.43	161,100	0.18
14 Varma Mutual Pension Insurance Company	1,318,353	0.35	1,318,353	1.45
15 Pokela Oy Iso Omena	1,147,000	0.30	114,700	0.13
16 Ilmarinen Mutual Pension Insurance Company	1,124,500	0.30	1,124,500	1.23
17 Matti Himberg Oy	1,121,000	0.30	143,600	0.16
18 Sundman & Co - Holding Oy Ab	1,108,020	0.29	110,802	0.12
19 CM Yliveto Oy	1,050,000	0.28	150,000	0.16
20 Sampo Life Insurance Company Limited	1,024,930	0.27	1,024,930	1.12
20 largest shareholders, total	131,794,516	35.00	16,814,206	18.45

Ownership structure at 31 December 2003

All shares	Number of shares	% of all shares	
Private enterprises	26,593,733	29.16	
Public companies	29,358	0.03	
Financial and insurance institutions	6,392,977	7.01	
General government*	10,625,574	11.65	
Non-profit institutions**	5,090,760	5.58	
Households	27,127,230	29.75	
Foreigners (incl. nominee registrations)	15,330,868	16.81	
Total	91,190,500	100.00	

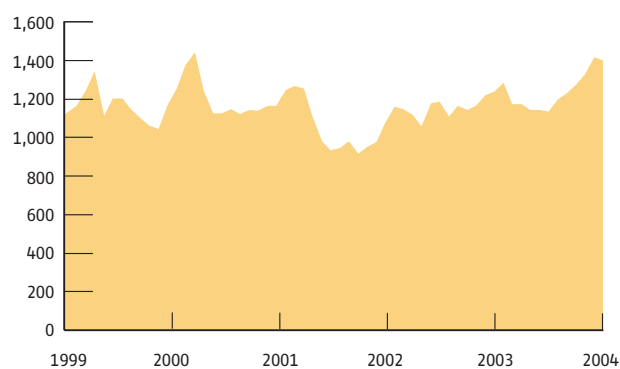
A shares	Number of shares	% of A shares	% of all shares
Private enterprises	18,721,134	58.99	20.53
Public companies	3,000	0.01	0.00
Financial and insurance institutions	1,340,537	4.22	1.47
General government*	3,410,045	10.74	3.74
Non-profit institutions**	1,020,798	3.22	1.12
Households	7,227,866	22.77	7.93
Foreigners (incl. nominee registrations)	13,627	0.04	0.01
Total	31,737,007	100.00	34.80

B shares	Number of shares	% of B shares	% of all shares
Private enterprises	7,872,599	13.24	8.63
Public companies	26,358	0.04	0.03
Financial and insurance institutions	5,052,440	8.50	5.54
General government*	7,215,529	12.14	7.91
Non-profit institutions**	4,069,962	6.85	4.46
Households	19,899,364	33.47	21.82
Foreigners (incl. nominee registrations)	15,317,241	25.76	16.80
Total	59,453,493	100.00	65.20

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

** Non-profit institutions include foundations awarding scholarships, organisations safeguarding certain interests, and charitable associations.

Market capitalisation of Kesko, EUR million



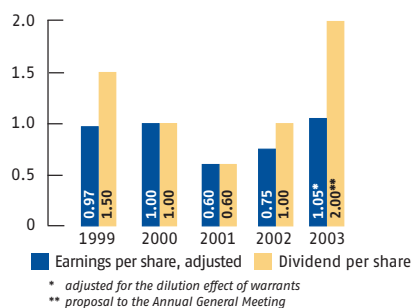
Distribution of share ownership at 31 December 2003

All shares				
Number of shares	Number of shareholders	% of all shareholders	Shares, total	% of shares
1 - 100	5,812	20.21	350,889	0.38
101 - 500	10,392	36.13	2,976,100	3.26
501 - 1,000	4,896	17.02	3,858,548	4.23
1,001 - 5,000	5,828	20.26	13,217,420	14.49
5,001 - 50,000	1,686	5.86	21,733,929	23.83
50,001 -	147	0.51	49,053,614	53.79
Total	28,761	100.00	91,190,500	100.00

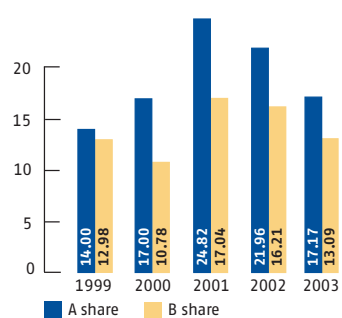
A shares				
Number of shares	Number of shareholders	% of holders of A shares	A shares, total	% of A shares
1 - 100	755	15.05	39,747	0.13
101 - 500	985	19.64	269,575	0.85
501 - 1,000	694	13.84	566,978	1.79
1,001 - 5,000	1,680	33.49	4,216,330	13.29
5,001 - 50,000	850	16.95	11,448,760	36.07
50,001 -	52	1.04	15,195,617	47.88
Total	5,016	100.00	31,737,007	100.00

B shares				
Number of shares	Number of shareholders	% of holders of B shares	B shares, total	% of B shares
1 - 100	5,719	22.14	344,744	0.58
101 - 500	10,155	39.31	2,903,364	4.88
501 - 1,000	4,497	17.41	3,521,906	5.92
1,001 - 5,000	4,496	17.40	9,730,026	16.37
5,001 - 50,000	887	3.43	11,227,713	18.88
50,001 -	80	0.31	31,725,740	53.36
Total	25,834	100.00	59,453,493	100.00

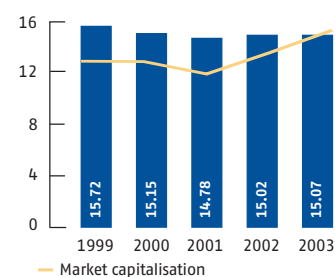
Earnings per share and dividend per share, EUR



Price per earnings ratio (P/E), at 31.12., adjusted



Equity per share, EUR, at 31.12., adjusted



Share capital and shares

	1999	2000	2001	2002	2003
Share capital, EUR million	180	180	180	182	182
Number of shares at 31 Dec., 1,000 pcs	90,213.4	90,213.4	90,213.4	91,120.4	91,190.5
Adjusted number of shares at 31 Dec., 1,000 pcs	90,213.4	90,213.4	90,213.4	91,120.4	91,190.5
Adjusted average number of shares during the year, 1,000 pcs	90,213.4	90,213.4	90,213.4	90,807.3	91,435.8
of which exclusive/A shares, %	35	35	35	35	35
of which ordinary/B shares, %	65	65	65	65	65
Market capitalisation, EUR million, A shares	432	538	476	520	578
Market capitalisation, EUR million, B shares	736	629	602	718	825
Number of shareholders at 31 Dec.	23,235	24,496	25,057	25,485	28,761
Share turnover, EUR million					
A share	8	33	20	15	22
B share	248	177	139	249	349
Share turnover, million pcs					
A share	1	2	1	1	1
B share	20	15	14	23	31
Turnover rate, %					
A share	1.8	6.2	3.9	3.0	4.0
B share	34.8	26.1	24.3	38.6	51.7
Change in share turnover, %					
A share		241	-37.5	-23.3	32.4
B share	-27.2	-25.1	-6.7	60.3	34.0
Share price at 31 Dec., EUR					
A share	13.60	16.95	15.00	16.40	18.20
B share	12.60	10.75	10.30	12.10	13.88
Average share price, EUR					
A share	14.22	16.85	16.57	16.26	17.46
B share	12.18	11.59	9.79	10.92	11.38
Highest share price during the year, EUR					
A share	16.00	19.90	20.00	17.70	18.55
B share	15.45	14.99	11.80	12,28	14.66
Lowest share price during the year, EUR					
A share	12.50	13.50	11.50	14.40	16.00
B share	10.50	9.61	8.10	9.75	9.35
Earnings per share, adjusted for the dilution effect, EUR	0.97	1.00	0.60	0.75	1.05
Earnings per share, undiluted, EUR	0,97	1.00	0.60	0.75	1.06
Equity per share, adjusted, EUR	15.72	15.15	14.78	15.02	15.07
Dividend per share, EUR	1.50	1.00	0.60	1.00	2.00*
Dividend as % of earnings	153.5	99.7	98.7	134.4	190.5
Cash flow from operations per share, adjusted, EUR	2.94	1.42	2.29	1.60	1.80
Price per earnings ratio (P/E), A share, adjusted	14.00	17.00	24.82	21.96	17.17
Price per earnings ratio (P/E), B share, adjusted	12.98	10.78	17.04	16.21	13.09
Dividend yield, %, A share	11.0	5.9	4.0	6.1	11.0
Dividend yield, %, B share	11.9	9.3	5.8	8.3	14.4
Yield of A share (from 1 June 1999), %		18.3	8.6	9.9	11.4
Yield of B share, %					
For the last five financial years	10.2	9.8	6.1	2.8	8.9
For the last ten financial years	5.7	8.2	11.0	12.8	10.7

* proposal to the Annual General Meeting

Board of Directors on 31 December 2003



Kesko's Board of Directors on 31 December 2003 from left: Eero Kasanen, Matti Kavetvu, Jukka Toivakka, Keijo Suila, Maarit Näkyvä, Pentti Kalliala, Matti Honkala and Heikki Takamäki.

Chairman

Heikki Takamäki, b. 1947

Retailer, Rauta-Otra Nekala.

Domicile: Tampere, Finland.

Other major duties: Vähittäiskaupan Tilipalvelu VTP Oy: member of the Board of Directors.

Employment history: Kesport-Intersport retailer 1995-1999. K-rauta retailer since 1979.

Kesko Corporation's shares and stock options held on 1 January 2003: A total of 89,470 A shares and 37,120 B shares held either by him or his company. No options. On 31 December 2003: A total of 94,470 A shares and 42,120 B shares held either by him or his company. No options.

Fees in 2003: EUR 43,890.

Deputy Chairman

Matti Kavetvu, b. 1944

M.Sc. in Technology, B.Sc. (Econ.).

Domicile: Helsinki, Finland.

Other major duties: The Finnish Fair Corporation: member of the Supervisory Board, Fair Foundation: member of the Board of Directors, Workidea Ltd: chairman of the Board of Directors, Marimekko Corporation: member of the Board of Directors, IK Industri Kapital: Advisory Committee, Alma Media Corporation: member

of the Board of Directors, Finland Post Corporation: member of the Supervisory Board, KCI Konecranes Plc: member of the Board of Directors, Suominen Corporation: chairman of the Board of Directors, Merivaara Ltd: member of the Board of Directors, Perlos Corporation: member of the Board of Directors, Lännen Tehtaat plc: member of the Board of Directors, Metso Corporation: chairman of the Board of Directors.

Employment history: Orion Corporation: President and CEO 1985-1991, Valio Ltd: President and CEO 1992-1999, Pohjola Group plc: Managing Director 2000-2001.

Kesko Corporation's shares and stock options held on 31 March 2003: 2,000 B shares. No options. On 31 December 2003: 2,000 B shares. No options.

Fees in 2003: EUR 25,380 (member of the Board of Directors and Deputy Chairman as from 31 March 2003).

Matti Honkala, b. 1945

B.Sc. (Econ.).

Kesko Corporation's President and CEO.

Domicile: Kauniainen, Finland.

Other major duties: Employers' Confederation of Service Industries (PT): chairman of the Board of Directors, UNICE Council of Presidents: member, the Finnish Fair Corporation: member of the Board of Directors, Varma-Sampo Mutual Pension Insurance Company:

Supervisory Board chairman, Sampo Life Insurance Company Limited: Supervisory Board chairman, Luottokunta: Supervisory Board chairman, the Federation of Finnish Commerce and Trade: deputy chairman of the Board of Directors, the Central Chamber of Commerce: deputy chairman of the Board of Directors, Finpro ry: Supervisory Board member, the International Chamber of Commerce (ICC); National Committee of Finland: vice chairman of the Board of Directors, UGAL: member of the Board of Directors, the Research Institute of the Finnish Economy (ETLA): member of the Board of Directors of the association of the sponsoring organisations, Finnish Business and Policy Forum EVA: vice chairman.

Employment history: employed by Kesko Corporation since 1966: Uusimaa District Director 1980-1982, Lahti District Director 1982-1985, Executive Vice President, Retail Support 1986-1989, Executive Vice President, Administration and External Relations 1989-1997, Deputy Chairman 1997-1998. President and CEO since 1998. **Kesko Corporation's shares and stock options** held on 1 January 2003: 2,000 B shares, 100,000 B options and 50,000 C options. On 31 December 2003: 2,000 B shares, 100,000 B options, 50,000 C options and 42,000 D options.

Fees in 2003: No Board member fees. Salary information is given in the corporate governance statement, pp. 51-52.

Pentti Kalliala, b. 1948

Retailer, the Raisio Center K-supermarket.
Domicile: Raisio, Finland.

Other major duties: K-Retailers' Association: chairman, Foundation for Vocational Training in the Retail Trade: chairman of the Board of Directors, SV-kauppiaskanava Oy: chairman of the Board of Directors, Vähittäiskaupan Takaos Oy: deputy chairman of the Board of Directors, Vähittäiskaupan Tilipalvelu VTP Oy: deputy chairman of the Board of Directors, Lounais-Suomen Osuuspankki Bank's regional committee, Paimio: chairman, Commercial Employers' Association: deputy member of the Board of Directors, Employers' Confederation of Service Industries (PT): Supervisory Board member.

Employment history: K-food retailer 1980-1992. K-supermarket retailer since 1992.

Kesko Corporation's shares and stock options held on 31 March 2003: 74,060 A shares and 86,200 B shares held either by him or his company. No options. On 31 December 2003: 74,060 A shares and 86,200 B shares held either by him or his company. No options.

Fees in 2003: EUR 21,780 (member of the Board of Directors as from 31 March 2003).

Eero Kasanen, b. 1952

Dr.Sc. (Econ.), Doctor of Business Administration.
Rector of the Helsinki School of Economics.
Domicile: Helsinki, Finland.

Other major duties: Elcoteq Network Oyj: member of the Board of Directors, Kaleva Mutual Insurance Company: member of the Board of Directors, Holding Oy of Helsinki School of Economics: chairman of the Board of Directors, the Research Foundation of the OKOBANK Group: member of the Board of Directors, the National Theatre of Finland: member of the Board of Directors, the Emil Aaltonen Foundation: member of the Board of Directors.

Employment history: Professor at the Helsinki School of Economics since 1989. Rector of the Helsinki School of Economics since 1996.

Kesko Corporation's shares and stock options held on 1 January 2003: No shares. No options. On 31 December 2003: No shares. No options.

Fees in 2003: EUR 27,270.

Maarit Näkyvä, b. 1953

M.Sc. (Econ.).

Sampo plc's Executive Vice President, Head of Retail and Private Banking.

Domicile: Kirkkonummi, Finland.

Other major duties: Sampo Bank plc: deputy chairman of the Board of Directors.

Employment history: Unitas Bank Ltd.: Director 1990-1995, Merita Bank Ltd.: Director 1995-1996, Merita Fund Management Ltd: President 1996-1997, Leonia Bank plc: member of the Board of Directors 1998-2000. Sampo plc's Executive Vice President since 2001.

Kesko Corporation's shares and stock options held on 1 January 2003: No shares. No options. On 31 December 2003: No shares. No options.

Fees in 2003: EUR 27,270.

Keijo Suila, b. 1945

B.Sc. (Econ.).

Finnair Oyj's President and CEO.

Domicile: Helsinki, Finland.

Other major duties: Employers' Confederation of Service Industries (PT): member of the Board of Directors, Elisa Corporation: chairman of the Board of Directors, the Finnish Cultural Foundation: Supervisory Board member, the Finnish Fair Corporation: Supervisory Board deputy chairman, Sampo Life Insurance Company Limited: Supervisory Board member.

Employment history: Huhtamäki Oyj: President of Leaf Europe 1985-1988, President of Leaf Group 1988-1998, Executive Vice President of Huhtamäki Oy 1992-1998. Finnair Oyj: President and CEO since 1999.

Kesko Corporation's shares and stock options held on 1 January 2003: No shares. No options. On 31 December 2003: No shares. No options.

Fees in 2003: EUR 28,770.

Jukka Toivakka, b. 1962

M.Sc. (Econ.).

Retailer, the Mikkeli K-citymarket.

Domicile: Mikkeli, Finland.

Other major duties: -

Employment history: Volvo-Auto Oy Ab: Finance Manager 1987-1990, the Maksimatti CM-department store: retailer 1991-1994. K-citymarket retailer since 1994.

Kesko Corporation's shares and stock options held on 1 January 2003: 191,450 A shares and 20,000 B shares held either by him or his company. No options. On 31 December 2003: 191,450 A shares and 20,000 B shares held either by him or his company. No options.

Fees in 2003: EUR 27,270.

In accordance with the Articles of Association, the term of each Board member started at the close of the Annual General Meeting 2003 will expire at the close of the Annual General Meeting 2006.

Kesko Corporation's Board members until 31 March 2003:

Matti Kallio, Chairman, b. 1945

Domicile: Helsinki, Finland.

Fees in 2003: EUR 10,950.

Kalevi Sivonen, b. 1949

Retailer, the Itäkeskus K-citymarket

Domicile: Vantaa, Finland.

Fees in 2003: EUR 5,910.

Corporate Management Board on 31 December 2003



Kesko's Corporate Management Board on 31 December 2003 from left: Matti Laamanen, Riitta Laitasalo, Kalervo Haapaniemi, Erkki Heikkinen, Matti Halmesmäki, Juhani Järvi and Matti Honkala.

Matti Honkala, b. 1945

B.Sc. (Econ.). Kesko Corporation's President and CEO.

Domicile: Kauniainen, Finland.

Other major duties: Employers' Confederation of Service Industries (PT): chairman of the Board of Directors, UNICE Council of Presidents: member, the Finnish Fair Corporation: member of the Board of Directors, Varma-Sampo Mutual Pension Insurance Company: Supervisory Board chairman, Sampo Life Insurance Company Limited: Supervisory Board chairman, Luottokunta: Supervisory Board chairman, the Federation of Finnish Commerce and Trade: deputy chairman of the Board of Directors, the Central Chamber of Commerce: deputy chairman of the Board of Directors, Finpro ry: Supervisory Board member, the International Chamber of Commerce (ICC); National Committee of Finland: vice chairman of the Board of Directors, UGAL: member of the Board of Directors, the Research Institute of the Finnish Economy (ETLA): member of the Board of Directors of the association of the sponsoring organisations, Finnish Business and Policy Forum EVA: vice chairman.

Employment history: employed by Kesko Corporation since 1966: Uusimaa District Director 1980-1982, Lahti District Director 1982-1985, Executive Vice President, Retail Support 1986-1989, Executive Vice President, Administration and External Relations 1989-1997, Deputy Chairman 1997-1998, President and CEO since 1998. Member of the Board of Directors in 1986-1998 and chairman in 1998-2000, member of the Board of Directors since 2001.

Kesko Corporation's shares and stock options held on 1 January 2003: 2,000 B shares, 100,000 B options and 50,000 C options. On 31 December 2003: 2,000 B shares, 100,000 B options, 50,000 C options and 42,000 D options.

Retirement age and benefits: 60 years. Full pension is 66% of the pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 18 months salary.

Kalervo Haapaniemi, b. 1947

M.Sc. (Econ.). President of Kesko Food Ltd, deputy to President and CEO. Domicile: Espoo, Finland.

Other major duties: Luottokunta, member of the Board of Directors; Publicis International Oy, member of the Board of Directors, Association of Finnish Advertisers, deputy chairman of the Board of Directors.

Employment history: Spar Finland plc: Managing Director 1993-1996, Tuko Oy: member of the Board of Directors 1993-1997, Tuko Oy: Chief Executive Officer, Tuko Oy: Executive Vice President 1996-1997. Employed by Kesko Corporation since 1997: Vice President, Foodstuffs Division 1997-1998, member of the Board of Directors responsible for foodstuffs trade 1998-2000, Deputy Chief Executive 1998-2000. Kesko Food Ltd's President and deputy to Kesko Corporation's President and CEO since 2001.

Kesko Corporation's shares and stock options held on 1 January 2003: 50,000 B options and 25,000 C options. On 31 December 2003: 50,000 B options, 25,000 C options and 21,000 D options.

Retirement age and benefits: 60 years. Full pension is 60% of the pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 18 months salary.

Matti Halmesmäki, b. 1952

M.Sc. (Econ.), LL.M. President of Rautakesko Ltd and Kesko Agro Ltd. Domicile: Helsinki, Finland.

Other major duties: -

Employment history: employed by Kesko Corporation since 1980: Director of the Accounting and Office Administration Department 1985-1989, Executive Vice President, Finance and Accounting 1989-1993, Executive Vice President, Agricultural and Builders' Supplies Division 1993-1995, Executive Vice President, Speciality Goods Division 1995-1996, Managing Director of Tuko Oy 1996-1997, Executive Vice President, Speciality Goods Trade 1997-2000. Member of Kesko Corporation's Board in 1989-2000. President of Rautakesko Ltd and Kesko Agro Ltd since 2001.

Kesko Corporation's shares and stock options held on 1 January 2003: 50,000 B options and 25,000 C options. On 31 December 2003: 50,000 B options and 21,000 D options.

Retirement age and benefits: 60 years. Full pension is 66% of the pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 18 months salary.

Erkki Heikkinen, b. 1949

M.A. Senior Vice President, Corporate Communications. Domicile: Helsinki, Finland.

Other major duties: the Foundation for Vocational Training in the Retail Trade: member of the Board of Directors, Association for Finnish Work: member of the Board of Directors.

Employment history: employed by Kesko Corporation since 1975: Kajaani District Director 1983-1986, Lahti District Director 1986-1989, Helsinki District Director 1989-1994. Senior Vice President, Corporate Communications since 1994.

Kesko Corporation's shares and stock options held on 1 January 2003: 100 B shares and 25,600 B options and 25,000 C options. On 31 December 2003: 100 B shares and 25,600 B options, 25,000 C options and 21,000 D options.

Retirement age and benefits: 60 years. Full pension is 66% of the pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months salary.

Juhani Järvi, b. 1952

M.Sc. (Econ.). Corporate Executive Vice President, CFO. Domicile: Helsinki, Finland.

Other major duties: Citycon Oyj: member of the Board of Directors, the Federation of Finnish Commerce and Trade: chairman of the Methods of Payment Committee, chairman of the Taxation Committee, Vähittäiskaupan Takaus Oy: chairman of the Board of Directors.

Employment history: Oy Wärtsilä Ab/Metra Oy Ab: Wärtsilä, Vice President, Corporate Controller 1989-1990, Metra, Vice President, Corporate Planning 1990-1991, Sanitec Ltd., Senior Vice President, CFO 1991-1993, Wartsila Diesel North America, Inc., USA, Vice

President, CFO 1994-1997, Patria Industries Oyj: Senior Vice President, CFO 1997-1998. Employed by Kesko Corporation since 1998: member of the Board of Directors, Executive Vice President, CFO 1998-2000. Corporate Executive Vice President, CFO since 2001.

Kesko Corporation's shares and stock options held on 1 January 2003: 50,000 B options and 25,000 C options. On 31 December 2003: 50,000 B options, 25,000 C options and 21,000 D option.

Retirement age and benefits: 65 years. Full pension is 60% of the pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months salary.

Matti Laamanen, b. 1948

M.Sc. (Econ.), LL.M. President of Keswell Ltd. Domicile: Kerava, Finland.

Other major duties: -

Employment history: employed by Kesko Corporation since 1976: Managing Director of Musta Pörssi companies 1984-1986, director of the Home Electronics Department 1987-1991, Jyväskylä District Director 1991-1993, Managing Director of the K-retailers' Association 1993-1997, Managing Director of Kauppiaitten Kustannus Oy 1995-2000, director of the Media unit 1997-1998, director of the E-commerce unit 1999-2000. President of Keswell Ltd since 2001.

Kesko Corporation's shares and stock options held on 1 January 2003: 1,000 B shares and 28,400 B options and 25,000 C options. On 31 December 2003: 1,000 B shares and 28,400 B options, 25,000 C options and 21 000 D options.

Retirement age and benefits: 60 years. Full pension is 66% of the pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months salary.

Riitta Laitasalo, b. 1955

M.Sc. (Econ.). Senior Vice President, Administration. Domicile: Espoo, Finland.

Other major duties: the Commercial Employers' Association in Finland: member of the Board of Directors.

Employment history: employed by Kesko Corporation since 1979: Personnel Director 1995-1997, Vice President, Accounting and Finance Division 1997-1998, Vice President, Finance and Administration Division 1998-1999. Senior Vice President, Administration since 2000.

Kesko Corporation's shares and stock options held on 1 January 2003: 30,600 B options and 25,000 C options. On 31 December 2003: 30,600 B options, 25,000 C options and 21,000 D options.

Retirement age and benefits: 60 years. Full pension is 66% of the pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months salary.

Detailed information on Kesko Corporation's options held by the management is given in the shares and shareholders section, pages 55-61.

Management

Kesko Corporation's Board of Directors and Corporate Management Board are presented on pages 62–65.

District Directors

Southern Finland: District Director Timo Huurtola, b. 1955, Business College Graduate
Eastern Finland: District Director Pertti Rusanen, b. 1952, Business College Graduate
Southwestern Finland: District Director Olli Setänen, b. 1956, M.Sc. (Econ.)
Western Finland: District Director Jaakko Jussila, b. 1950, M.Sc. (Econ.)
Northern Finland: District Director Jari K. Saarinen, b. 1962, M.Sc. (Econ.)

Kesko Food Ltd

President Kalervo Haapaniemi, b. 1947, M.Sc. (Econ.)
 Category management and logistics processes:
Executive Vice President Harri Sivula, b. 1962, M.Sc. (Admin.)
 Customer relationship process: Vice President Jaakko-Pekka Vehmas, b. 1961, M.Sc. (Econ.)
 Retail store and K-chain retailer processes: Vice President Jukka Sipilä, b. 1956, M.Sc. (Econ.)
 Business support processes: Vice President Aatos Kivelä, b. 1955, LL.M., M.Sc. (Econ.)
 K-market and K-extra chains: Vice President Eija Jantunen, b. 1962, M.Sc. (Econ.)
 K-supermarket chain: Vice President Ari Vimes, b. 1961, M.Sc. (Econ.)
 K-citymarket chain: Vice President Kari Kivikoski, b. 1959, M.Sc. (Econ.)
 Baltic operations: Vice President Seppo Hämäläinen, b. 1968, M.Sc. (Econ.)

SUBSIDIARIES

Cassa Oy: Managing Director Mika Rautiainen, b. 1962, M.Sc. (Econ.)
Citymarket Oy: Managing Director Kari Kivikoski, b. 1959, M.Sc. (Econ.)
Kespro Ltd: Managing Director Minna Laakkonen, b. 1961, B.Sc.
Kinnisvaravalduse AS/Kadaka Säästumarket AS: Managing Director Raimo Ilveskero, b. 1949, M.Sc. (Econ.)
Kesko Food AS: Managing Director Raimo Ilveskero, b. 1949, M.Sc. (Econ.)
SIA Kesko Food: Managing Director Henrijs Fogels, b. 1963, Doctor, MBA

Rautakesko Ltd

President Matti Halmesmäki, b. 1952, LL.M., M.Sc. (Econ.)
Executive Vice President Simo Manner, b. 1949, B.Sc. (Econ.)
 K-rauta chain and Industrial and Constructor Sales: Vice President Jari Lind, b. 1958, Engineer
 Rautia chain: Vice President Jorma Mykrä, b. 1946, Agricultural Technician

Retail Services: Vice President Jouko Björkman, b. 1956, LL.M.
 Finance and Administration: Vice President Matti Mettälä, b. 1963, LL.M.
 International projects: Vice President Matti Vatanen, b. 1949, M.Sc. (Econ.)

SUBSIDIARIES

AS Rautakesko: Managing Director Raul Kadaru, b. 1961, Economist
A/S Rautakesko: Managing Director Artis Bitenieks, b. 1966, Architect
UAB Senuku Prekybos centras: Managing Director Arturas Rakauskas, b. 1972
K-rauta AB: Managing Director Mikael Forss, b. 1965, M.Sc. (Econ.)
ZAO Kestroy: Managing Director Ilkka Sinkkonen, b. 1964, Construction Engineer

Kesko Agro Ltd

President Matti Halmesmäki, b. 1952, LL.M., M.Sc. (Econ.)
Executive Vice President Kimmo Vilppula, b. 1952, Business College Graduate
 Agricultural Product Lines: Vice President Juha Nuutila, b. 1962, M.Sc. (Agr. & For.)
 K-agriculture chain: Chain Director Antti Ollila, b. 1965, M.Sc. (Agr. & For.)
SUBSIDIARIES
Kesko Machinery Ltd: Managing Director Pekka Lahti, b. 1955, M.Sc. (Agr.)
K-maatalousyhtiöt Oy: Managing Director Janne Eriksson, b. 1964, Agricultural College Graduate
UAB Kesko Agro Lietuva: Managing Director Erlandas Jakubonis, b. 1969, Engineer
Kesko Agro Eesti A/S: Managing Director Tõnu Kelder, b. 1963, Economist
SIA Kesko Agro Latvia: Managing Director Peteris Stupans, b. 1961, B.Sc.

Keswell Ltd

President Matti Laamanen, b. 1948, LL.M., M.Sc. (Econ.)
 Kesko Sports: Vice President Jussi Mikkola, b. 1955, M.Sc. (Econ.)
 Kesko Musta Pörssi: Vice President Martti Toivanen, b. 1961, M.Sc. (Econ.)
 Kesko Shoes: Vice President Leena Havikari, b. 1958, Business College Graduate
 Chain Services: Vice President Pasi Mäkinen, b. 1959, M.Sc. (Econ.)

SUBSIDIARIES

Academica Oy: Managing Director Jaakko Ryttilä, b. 1959, LL.M.
Anttila Oy: Managing Director Matti Leminen, b. 1951, B.Sc. (Econ.)
Interwell Oy: Managing Director Juha Nurminen, b. 1963, Business College Graduate
Jättipörssi Oy: Managing Director Arto Rasi, b. 1962, Business College Graduate

Motorfeet Oy: Managing Director Kati Tersa, b. 1970, B.Sc. (Econ.)

Kaukomarkkinat Oy

President Hannu Närhi, b. 1944, M.Sc. (Econ.)

VV-Auto Oy

President Erkki Sillantaka, b. 1946, M.Sc. (Agr.)

Other subsidiaries

Kesped Ltd: Managing Director Mika Salmijärvi, b. 1965, Engineer
K-Plus Oy: Managing Director Niila Rajala, b. 1964, Business College Graduate (IT)

Finance

Executive Vice President, CFO Juhani Järvi, b. 1952, M.Sc. (Econ.)
Accounting: Vice President, Corporate Controller Arja Talma, b. 1962, M.Sc. (Econ.), eMBA
Treasury: Treasurer Heikki Ala-Seppälä, b. 1957, M.Sc. (Econ.)
Legal Affairs: General Counsel Anne Leppälä-Nilsson, b. 1953, LL.M., B.Sc. (Econ.)
IT Management: Vice President, Corporate CIO Eero Vesterinen, b. 1950, M.Sc.
Kesko Real Estate: Senior Vice President Terho Kalliokoski, b. 1961, M.Sc. (Econ.)
Strategic Development: Vice President Lasse Mitronen, b. 1958, D.Sc. (Econ.)
 Director, Projects, Tapio Erme, b. 1956, LL.M., MBA
SUBSIDIARIES
K-Rahoitus Oy: Managing Director Jouni Järvinen, b. 1958, Agricultural College Graduate
Hämeenkyllän Kauppa Oy: Managing Director Jukka Anttila, b. 1961, M.Sc. (Econ.)
Sincera Oy: Managing Director Heikki Ala-Seppälä, b. 1957, M.Sc. (Econ.)

Administration

Senior Vice President Riitta Laitasalo, b. 1955, M.Sc. (Econ.)
Human Resources: Vice President Kyösti Pärssinen, b. 1947, M.Sc. (Econ.)
SUBSIDIARIES
K-instituutti Oy: Managing Director Kari Heiskanen, b. 1958, LL.M.

Corporate Communications and External Relations

Senior Vice President Erkki Heikkinen, b. 1949, M.A., B.A.

Internal Audit

Vice President, Chief Audit Executive Asko Ihalainen, b. 1946, LL.M.

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“Every employee is appreciated at Kesko,” says Executive Assistant Päivi Ahlgren of Kesko’s Legal Affairs.

Kesko and IFRS financial statements

From 2005, publicly traded companies in the EU area must prepare their consolidated financial statements in accordance with international IAS/IFRS standards. A regulation to this effect came into force in autumn 2002. As the reform of financial reporting standards progresses, the IAS standards (International Accounting Standards) will be replaced by IFRS standards (International Financial Reporting Standards).

In summer 2003 a transition standard IFRS 1 was issued, which sets out the procedures to be followed when adopting IFRS for the first time. The EC Commission adopted the IAS/IFRS standards in the autumn. Standards continue to be revised and reformed and the standards to be used in 2005 will be finalised in spring 2004.

Kesko will prepare its first IFRS financial statements for 2005. Kesko's consolidated financial statements to be published for the year 2004 will be prepared in accordance with current Finnish accounting practice.

Adoption of IAS/IFRS regulation

The groundwork for preparing the financial statements according to the IFRS standards was started at Kesko in 2002. During 2003, the impacts of the changes in accounting practices were surveyed, and the Group's accounting and reporting instructions were revised. Training of the organisation has been begun and other

preparations for the new accounting standards are being implemented so that comparative data for the 2005 Group reporting can be produced for each quarter of 2004.

Kesko will prepare its first complete IFRS financial statements for the year 2005. According to current knowledge, the main changes in accounting principles concern the treatment of finance leases (IAS 17) and retirement benefit plans (IAS 19). With regard to the opening IFRS balance sheet prepared for the transition day of 1 January 2004, Kesko will provide information on the most important effects that the changes in accounting principles will have on the financial figures. This information will be given in the interim report for the first quarter of 2004.

Report by the Board of Directors

In 2003 the Group's net sales were EUR 7,070 million, which is 9.3% more than in the previous year (EUR 6,466 million). The Group's profit before extraordinary items was EUR 161.6 million (EUR 109.7 million). Earnings per share were EUR 1.05 (EUR 0.75). Equity per share was EUR 15.07 (EUR 15.02).

Market review

According to advance information, the volume of Finnish wholesale sales, adjusted for the number of trading days, increased by 3.1% during January-November compared with the corresponding period in the previous year, while the volume of retail sales increased by 4.0% (Statistics Finland).

The whole year's growth in 2003 exceeded the expectations of the first months of the year. According to estimates, the retail trade volume increased by about 4% during the year. In 2004 both wholesale and retail trade are expected to grow by 2.5-3.0% (Research Institute of the Finnish Economy).

Signs of acceleration in the growth rate of the Finnish economy became visible during the latter half of the year. According to the estimate of the Research Institute of the Finnish Economy, the GDP grew by 1.3% in 2003 and the growth is forecast to reach a rate of 2.7% in 2004. It is estimated that in 2003, the increase in private consumption even slightly exceeded expectations and was about 3%. In 2004 private consumption is forecast to grow by 2.7%. The real purchasing power of consumers is estimated to have increased in 2003 by slightly less than 3%. Private investment declined in 2003 but is forecast to pick up gradually this year. In 2003 the average inflation was 0.9% and is likely to remain at around 1% in 2004 (Research Institute of the Finnish Economy).

Statistics Finland's consumer survey of January shows that consumers are confident about their own financial situation and the future of the Finnish economy.

Net sales by division

	2003 EUR million	2002 EUR million	Change, %
Kesko Food, Finland	3,517	3,442	2.2
Kesko Food, foreign countries*	249	186	34.2
Kesko Food, total	3,766	3,628	3.8
Rautakesko, Finland	674	604	11.6
Rautakesko, foreign countries*	321	131	145.1
Rautakesko, total	995	735	35.4
Kesko Agro, Finland	624	613	1.7
Kesko Agro, foreign countries*	144	102	42.1
Kesko Agro, total	768	715	7.5
Keswell, Finland	703	665	5.7
Keswell, foreign countries*	23	22	5.9
Keswell, total	726	687	5.7
VV-Auto, Finland	545	434	25.5
VV-Auto, foreign countries*	13	16	-17.1
VV-Auto, total	558	450	24.0
Kaukomarkkinat, Finland	205	204	0.4
Kaukomarkkinat, foreign countries*	80	81	-1.1
Kaukomarkkinat, total	285	285	0.0
Other units - eliminations	-28	-34	-
Finland, total	6,240	5,930	5.2
Foreign countries, total*	830	536	54.7
Group total	7,070	6,466	9.3

* Exports and net sales abroad

Strong economic growth in the Baltic countries is continuing. According to estimate, the Estonian economy grew in 2003 by about 5% and the Latvian and Lithuanian economies by 6-7%. The GDP growth forecast for 2004 for Estonia is 5-6% and 6-7% for Latvia and Lithuania (BOFIT). Heavy domestic demand in all Baltic states maintains the relatively brisk retail trade growth in all of them.

According to estimate, the Swedish GDP grew in 2003 by 1.5%, private consumption by about 2% and consumer prices also by about 2%. In 2004 the GDP growth rate is estimated to be slightly over 2%. Building investments dropped in 2003 and are forecast to continue a slight decline this year. Construction markets are expected to begin to grow in 2005 (Konjunkturinstitutet).

Net sales and profit

Net sales in 2003

The Group's net sales in 2003 were EUR 7,070 million, which is 9.3% more than in the previous year (EUR 6,466 million). The increase was attributable mostly to foreign operations and Rautakesko's and VV-Auto's domestic operations. The Group's net sales increased by 5.2% in Finland and by 54.7% abroad.

In 2003 exports and foreign operations accounted for 11.7% (8.3%) of net sales. Rautakesko's subsidiary, UAB Senuku Prekybos centras (Senukai), acquired from Lithuania is included in the figures starting from 13 March 2003 and its impact on Rautakesko's growth was 23.3 percentage points.

Profit in 2003

The Group's profit before extraordinary items and taxes was EUR 161.6 million (EUR 109.7 million), representing 2.3% of net sales (1.7%). The operating profit was EUR 157.6 million (EUR 98.8 million). Kesko Food's profit dropped because of major investments in marketing, information systems and store sites made during the first half of the year. Non-recurring costs totalled about EUR 9.1 million. The other divisions, except for Kaukomarkkinat and Kesko Agro, increased their profits.

The operating profit includes profits and losses from sales of fixed assets and business operations and value adjustments to a total net value of EUR 20.8 million (EUR 8.1 million).

Operating profit by division

	2003 EUR million	2002 EUR million	Change, %
Kesko Food	56.3	60.5	-6.9
Rautakesko	28.0	9.0	210.7
Kesko Agro	7.4	7.4	-0.7
Keswell	3.5	-2.9	217.9
VV-Auto	22.3	14.4	54.5
Kaukomarkkinat	6.0	7.7	-21.5
Common operations	34.1	2.7	-
Group's operating profit	157.6	98.8	59.5
Associated companies	0.3	0.4	-25.6
Net financial income	3.7	10.5	-64.8
Profit before taxes	161.6	109.7	47.3

The Group's financial income and expenses were EUR 4.0 million (EUR 10.9 million).

Earnings per share (adjusted for the dilution effect of warrants) were EUR 1.05 (EUR 0.75). Equity per share was EUR 15.07 (EUR 15.02).

The operating profit from real estate is included in the operating profit of common operations. It also includes the net expenses or income of other common operations, as well as Group items such as corporate management expenses and amortisation of goodwill on consolidation. Senukai's contribution to Rautakesko's operating profit was EUR 16.5 million for about nine and a half months.

Investments

The Group's investments totalled EUR 259.0 million (EUR 185.1 million), which is 3.7% (2.9%) of net sales. Investments in retail stores and acquisitions amounted to EUR 205.5 million. The Group's other investments were EUR 53.5 million. Investments in foreign business operations represented 30.2% of total investments.

Finance

Cash flow from operating activities was EUR 164.5 million (EUR 145.8 million), while cash flow from investing activities was EUR -120.5 million (EUR -110.4 million). At the end of the period, the equity ratio was 51.7% (53.3%). Interest-bearing net debt was EUR 229.0 million (EUR 192.8 million). Liquid funds totalled EUR 85.6 million (EUR 173.2 million).

Personnel

The Group's average number of employees in 2003 was 15,219 (12,217) (converted into full-time employees), distributed by business division as follows:

	2003	2002	31.12. 2003*
Kesko Food	7,042	6,264	9,240
Rautakesko	3,241	1,189	4,076
Kesko Agro	940	812	1,009
Keswell	2,496	2,455	3,516
VV-Auto	127	113	197
Kaukomarkkinat	796	802	797
Others	577	582	576
Total	15,219	12,217	19,411

* total number of personnel including part-time employees

The expansion of Kesko Food's, Rautakesko's and Kesko Agro's operations in the Baltic countries increased the number of Kesko's personnel in these countries. The biggest increase took place in Lithuania in March, when Rautakesko acquired a majority in the hardware and building supplies company, Senukai, which employs 2,753 persons. The impact on the average figures for the whole year is 2,044 persons. The establishment of new K-citymarket department stores and the conversion of two Anttila department stores

into K-citymarkets increased the number of Kesko Food's employees in Finland. At the end of December, the Group employed 6,815 persons abroad (3,060).

A co-operation procedure was carried out in Citymarket Oy in the autumn, as a result of which the personnel was reduced by 143 employees, 78 of whom had to be made redundant. The negotiations were necessitated by the introduction of a new operating system. The home and speciality goods business was re-organised into three product lines instead of the former five.

Divisions

Kesko Food

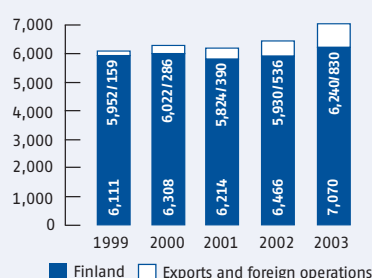
Kesko Food's net sales amounted to EUR 3,766 million, an increase of 3.8%. The net sales from Baltic operations totalled EUR 245 million and accounted for 6.5% of net sales. Kesko Food's operating profit was EUR 56.3 million (EUR 60.5 million). The operating profit for the fourth quarter was EUR 21.1 million (EUR 12.3 million). The main factors contributing to the decrease in the whole year's operating profit were an increase in marketing investments in domestic business operations, the costs of building new systems for operations control and investments in store sites during the first half-year. Kesko Food's total investments were EUR 75.5 million, of which investments in retail stores accounted for EUR 54.0 million. About 31% of all investments were made in Baltic operations.

Growth slowed down in the Finnish grocery trade in 2003. The Finnish grocery market is estimated to have grown by about 3%, although the sales of traditional chains did not increase by more than 1.3%, according to the Finnish Food Marketing Association. The slowdown was mainly attributable to intensifying price competition and growth in the sales share of retail operators' own brands. According to Statistics Finland, product prices in food store selections rose by an average of 0.8% in 2003. During the year, the retail sales of the K-food stores in Finland grew by 2.0%, amounting to EUR 4,557 million. Owing to the differing local and regional markets and competitive situations, there were great differences in the retail sales growth of the chains and individual K-food stores. In terms of euros, the K-citymarket chain's sales increase of EUR 140 million represented the biggest growth, by 10.0%, of which 9.7% was generated by grocery sales. The big growth percentages in the sales of the K-extra and the K-market chains are attributable to changes in chains and the opening of new stores increased sales in the K-pikkolo chain.

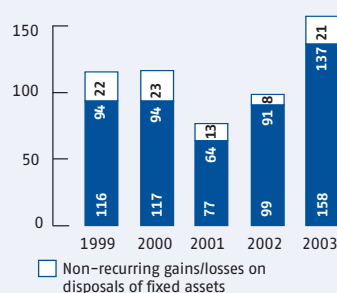
Kesko Food continued to invest in the development of the K-food store network. In 2003 K-citymarkets were opened at Leppävaara (Espoo), Malmi (Helsinki) and Kaakkuri (Oulu), and K-supermarkets were opened at Vuoksenniska (Imatra), Kurikka, Laitila, Hirvensalo (Turku), Nikkilä (Sipoo), Kittilä, Hyrylä (Tuusula) and Mäntsälä. Store type changes were implemented in 192 outlets. 1,110 K-food stores were operating at the end of the year.

Pikoil Oy, a joint venture of Kesko Food Ltd and Neste Marketing Ltd (a Fortum Corporation subsidiary) operating in the traffic

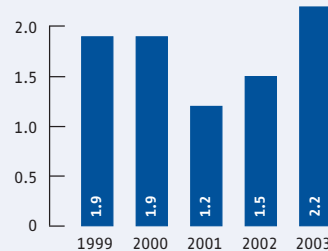
Group's net sales, EUR million



Group's operating profit, EUR million



Group's operating profit as % of net sales



station store market started operations at the beginning of July. The business is running according to plan. By the end of the year, there were a total of 46 K-pikkolo neighbourhood stores and K-pikkolo service station stores and the company had a total of 134 store sites. In the future all of the chain's food stores will operate under the K-pikkolo sign, while the service stations will continue selling their oil products under the Neste sign.

In spring 2004 Kesko Food will start testing discount stores in Finland. The objective is to improve the K-Alliance's competitive base by testing a new concept in different parts of the country.

Kesko Food's grocery trade grew much more in the Baltic countries than in Finland, by a total of 38.2%. In Estonia net sales increased by 31.0% and in Latvia by 105.4%. In 2003 two new Citymarkets were opened in Estonia and three in Latvia. The expansion of the SuperNetto discount chain in Latvia was assisted by a long-term rental agreement with the Latvian SIA Ilga-Sigulda according to which the six stores of the Globuss chain will be converted into SuperNetto discounters. At the end of the year the Säästumarket chain in Estonia included 44 discounters and there were 11 SuperNetto stores in Latvia.

On 19 December 2003 Kesko Food Ltd and the Swedish ICA AB signed a letter of intent to establish a joint venture for the Baltic food market. The aim is to combine the parties' current operations in Estonia, Latvia and Lithuania. Kesko Food Ltd and ICA AB would both have a 50% ownership in the joint venture.

The net sales of Kespro Ltd, which provides services for the catering, kiosk, service station and restaurant trade, were EUR 771 million (EUR 756 million). The total market in this sector remained at the level of the previous year. The sales of service stations, kiosks and other similar retailing customers decreased.

According to estimates for 2004, the total Finnish food trade market will grow by less than 0.5%. The total Baltic market is estimated to grow by about 5%. In 2004 Kesko Food's net sales and operating profit are estimated to grow in comparison with the year 2003.

Rautakesko

In 2003 Rautakesko's net sales amounted to EUR 995 million, an increase of 35.4%. In Finland, the net sales were EUR 674 million, an increase of 11.6%. The net sales of foreign subsidiaries were EUR 319.0 million, an increase of 147.0%. About 32% of Rautakesko's net sales came from foreign countries. During the last quarter of the year, the net sales in Finland grew by 19.9% and by 200.4% abroad.

Rautakesko's operating profit in 2003 was EUR 28.0 million (EUR 9.0 million). In Finland, the operating profit increased due to sales growth and more efficient chain operations. The performance was affected by costs related to the implementation of a new information system. The operating profit of foreign subsidiaries was boosted mostly by Senukai's operating profit of EUR 16.5 million for about nine and a half months. The operating profit of Swedish operations turned positive.

Rautakesko's investments totalled EUR 37.4 million, of which store site investments were EUR 33.6 million and 96% were abroad.

In Finland the volume of new construction dropped by 6% over the previous year (Statistics Finland 1-10/2003). A high proportion of households continue to have plans for home renovations and repairs with about one third planning a renovation or a major overhaul within the next six months.

At the end of the year 2003, the K-rauta chain included 46 stores, while the Rautia chain included 101 outlets in Finland. The sales of the K-rauta stores grew by 8.3% and the sales of the Rautia stores by 11.4%. Building supplies and house sales recorded the biggest growth. The sales of Rautakesko's Industrial and Constructor Sales unit increased by 18.1%. The sales of Rautakesko's chains in Finland clearly exceeded competitors' sales growth.

In Finland new K-rauta stores were opened in Järvenpää and Lielähti, Tampere. One of the foreign subsidiaries opened a new K-rauta in Pärnu, Estonia.

Since March 2003, Rautakesko has held a majority in Lithuania's biggest hardware and building supplies company UAB Senuku Prekybos centras. The acquisition made Rautakesko the market leader in the Baltic countries. The company has exceeded the set targets. Senukai's net sales are included in Rautakesko's figures as from 13 March 2003. There are 10 K-rauta stores in Sweden, 4 in Estonia and 1 in Latvia.

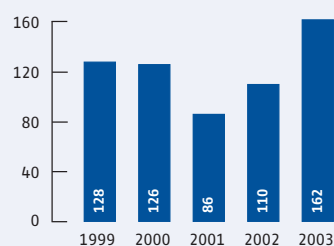
The total hardware and builders' supplies market is expected to grow in Finland and Sweden in 2004 by about 3-4% and in the Baltic countries by about 6-7%. Rautakesko's net sales are anticipated to increase in 2004 and its operating profit to remain at a good level.

Kesko Agro

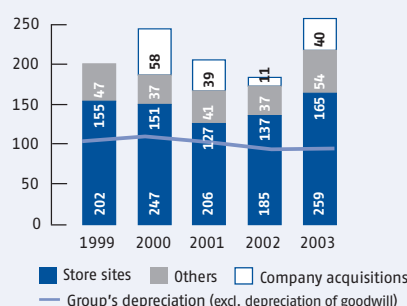
In 2003 the Kesko Agro Group's net sales were EUR 768 million, an increase of 7.5%. The net sales of foreign subsidiaries totalled EUR 118.4 million, which was 15.4% of total net sales. The Group's operating profit was EUR 7.4 million (EUR 7.4 million) despite the costs arising from information systems development, the expansion of operations in Lithuania and the opening of new or refurbished stores. Investments totalled EUR 11.2 million, about 23% of which were in foreign projects.

Kesko Agro Ltd's net sales were EUR 462.0 million. Towards the end of the year the sales of agricultural trade in Finland remained lower than expected. This was mainly due to prolonged negotiations on agricultural subsidies, which is why Finnish farmers were cautious in their investment decisions. Grain trade was affected by the postponement of export deliveries of grain to 2004 as a result of delayed export subsidies. Kesko Agro's market share in the Finnish tractor trade increased by 5.0 percentage points to 15.8%. K-maatalousyhtiöt Oy is planned to merge with its parent company Kesko Agro Ltd at the beginning of July 2004. At the end of the year there were 100 K-agricultural stores of which 21 were operated by K-maatalousyhtiöt Oy.

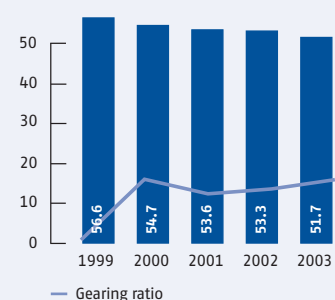
Group's profit before extraordinary items, EUR million



Group's investments, EUR million



Group's equity ratio and gearing ratio, %



Kesko Machinery Ltd's net sales were EUR 161.2 million, an increase of 1.2% over the previous year. Kesko Machinery's product selection concentrates on heavy machinery and recreational machinery. In accordance with this strategy Kesko Machinery acquired the Yamaha business operations of Oy Arwidson Ab. Kesko Machinery's garden machine trade was transferred to Rautakesko. A new MAN lorry centre will be opened in spring 2004 in Espoo.

Agricultural and machinery sales in the Baltic countries have progressed better than expected and the operating profit was clearly positive. Kesko Agro is the biggest company engaged in agricultural trade in the Baltics. In 2003 new stores were opened in Tartu, Estonia and Kaunas, Lithuania.

The total agricultural market is estimated to grow in Finland by 1.5% in 2004. The Baltic market is anticipated to grow by 5-10%. Kesko Agro's net sales and operating profit are anticipated to increase in 2004.

Keswell

In 2003 Keswell's net sales totalled EUR 726 million, an increase of 5.7%. The net sales of foreign operations amounted to EUR 22.7 million, representing 3.1% of net sales. During October-December Keswell's net sales increased by 8.8%. In 2003 Keswell's operating profit was EUR 3.5 million, which was EUR 6.4 million bigger than in the previous year. The operating profit in October-December was EUR 16.5 million (EUR 12.3 million). Investments totalled EUR 5.3 million.

The net sales of the Anttila Group totalled EUR 458.4 million, an increase of 4.8%. In October-December the net sales grew by 7.8%. In 2003 the sales of the Kodin Ykkönen department stores for home goods and interior decoration increased by 6.2%, while the sales of the Anttila department stores grew by 4.3%. Anttila's distance trade sales (mail order and NetAnttila) increased by 6.0% to EUR 77.8 million. The operating profit of Anttila and related Group items was EUR 9.0 million, a growth of EUR 7.2 million over the previous year.

The net sales of Kesko Sports amounted to EUR 117.2 million, an increase of 7.5%. The retail sales of the Intersport chain grew by 2.4%. The sales of sports clothes and exercise equipment registered the biggest increases. The sales of the Kesport stores grew by 6.3% owing to an increase in the number of stores. The total sports retail sales dropped by an estimated 3% on the previous year.

The net sales of Kesko Musta Pörssi amounted to EUR 121.0 million, up by 19.0%. The retail sales of the Musta Pörssi chain increased by 12.5%. The increase was partly due to the higher number of stores and partly to the high level of sales in wide screen televisions, digital and information technology products. The retail sales of home technology were up by an estimated 9% over the previous year.

The net sales of Kesko Shoes decreased by 9.0%, totalling EUR 24.5 million. The retail sales of the Andiamo chain remained at the level of the previous year, while the retail sales of the K-kenkä chain

dropped by 1.2%. The sales of the Kenkäexpertti stores increased by 1.2%. The whole of shoe retail sales in Finland decreased by an estimated 2% over the previous year.

The total Finnish home and speciality goods market is estimated to grow by 2-3% in 2004. Keswell's net sales and operating profit are anticipated to increase.

VV-Auto

In 2003, the net sales of the VV-Auto Group totalled EUR 558 million, representing an increase of 24.0%. The operating profit was EUR 22.3 million (EUR 14.4 million). Investments totalled EUR 8.3 million.

The trade in new cars was brisk in Finland in 2003. Registrations of new cars increased by 26.0% over the previous year, but registrations of new vans remained at the same level.

The market share of the cars imported in 2003 by the VV-Auto Group was 15.3%. The registrations of Volkswagen and Audi cars reached an all-time record. The number of Volkswagens registered grew by 39% and the market share was 11.5%. The number of Audis registered increased by 31% and the market share was 2.5%. The increase in Seat registrations was 24% and the market share was 1.3%. Volkswagen's market share in the van trade was 15.0%.

At the end of September, a soon-to-be-established subsidiary of VV-Auto acquired the business operations of the Volkswagen-Audi dealer in Turku. The new company, Turun VV-Auto Oy, started operations at the beginning of November.

The general positive mood in the Finnish car trade is expected to continue in 2004. VV-Auto's net sales and operating profit are estimated to remain at a good level.

Kaukomarkkinat

In 2003, the Kaukomarkkinat Group's net sales amounted to EUR 285 million, which is the same as in the previous year. The operating profit was EUR 6.0 million (EUR 7.7 million), a decrease of 21.5% over the previous year. Investments totalled EUR 3.6 million.

The net sales of Consumer Electronics and Telko registered the biggest increases. Exports of telecommunications products dropped from the previous year and the deliveries scheduled for the end of last year in trading with China were postponed to this year because of the danger of the SARS epidemic.

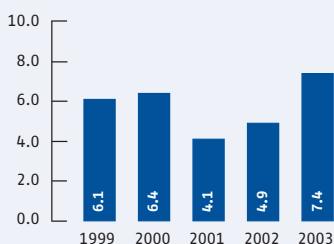
In June, Kaukomarkkinat acquired ASM Sweden AB of Sweden. The deal expands the sales of Telko's packaging technology and tapes to cover all the Nordic countries.

In 2004, the net sales of Kaukomarkkinat are anticipated to remain at the current level and the operating profit is expected to decrease slightly.

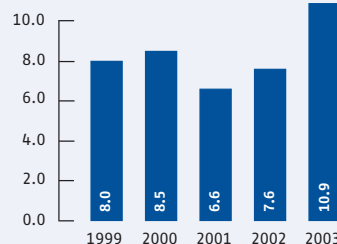
Decisions by the Annual General Meeting

Kesko Corporation's Annual General Meeting held on 31 March 2003 adopted the financial statements for 2002, discharged those

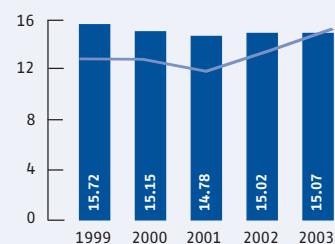
Group's return on equity, %



Group's return on invested capital, %



Equity per share, EUR, 31.12., adjusted



— Market capitalisation

accountable from their responsibilities, decided to pay a dividend of EUR 1.00 per share and approved the Board of Directors' proposal of a stock option programme for the management. Pentti Kalliala, Eero Kasanen, Matti Kavetvuo, Maarit Näkyvä, Keijo Suila, Heikki Takamäki, Jukka Toivakka and Matti Honkala were elected as members of the Board of Directors.

In its first meeting, the Board of Directors elected Heikki Takamäki as the Chairman and Matti Kavetvuo as the Deputy Chairman of the Board. According to the Articles of Association, the term of each Board member is three years, with the term starting at the close of the General Meeting electing the member and expiring at the close of the third Annual General Meeting after the election (2006).

Shares and equities market

Kesko Corporation's share capital is EUR 182,381,000, with 34.8% of the share capital consisting of A shares and 65.2% of B shares.

The price of the company's A share was EUR 16.40 at the end of 2002 and EUR 18.20 at the end of 2003, an increase of 11.0%. The price of the company's B share was EUR 12.10 at the end of 2002 and EUR 13.88 at the end of 2003, an increase of 14.7%.

During the period under review, the HEX general index increased by 4.4% and the HEX portfolio index by 16.2%, while the trading sector price index increased by 20.2% during the year.

At the end of the year 2003, the market capitalisation of A shares was EUR 578 million and that of B shares EUR 825 million, i.e. the total market capitalisation of all shares was EUR 1,403 million.

In 2003, 1.3 million A shares with a total value of EUR 21.9 million and 30.7 million B shares with a total value of EUR 349.1 million were traded on the Helsinki Exchanges.

B warrants included in the year 2000 stock option scheme were listed on the Helsinki Exchanges on 1 November 2002 and C warrants on 3 November 2003. During the year 2003, by 10 December, 22,800 B shares had been subscribed with B warrants and 47,300 with C warrants, a total of 70,100 shares. The corresponding increase of EUR 140,200 in share capital was entered in the Trade Register on 19 December 2003 and the new B shares have been traded on the main list of the Helsinki Exchanges with the old B shares as from 22 December 2003.

In addition, a total of 24,300 Kesko's B shares were subscribed with C warrants under the year 2000 stock option scheme between 11 and 31 December 2003. The corresponding increase in share capital will be entered in the Trade Register according to plan on 6 February 2004.

At the end of 2003, Jättipörssi Oy, a Kesko Corporation subsidiary, held 33,400 Kesko Corporation's A shares with a total counter value of EUR 66,800 representing less than 0.04% of all shares and 0.1% of all voting rights.*

Flagging notifications

On 30 January 2003, Kesko Corporation received a notification stating that the proportion of Kesko Corporation's share capital admin-

istered by Silchester International Investors Limited had dropped on 23 January 2003 to 3.17% and the proportion of all voting rights to 0.77%.

Adoption of the IAS/IFRS standards

The groundwork for preparing the financial statements according to the IFRS standards was started at Kesko in 2002. During 2003, the impacts of the changes in accounting practices were surveyed, and the Group's accounting and reporting instructions were revised. Training of the organisation has been begun and other preparations for the new accounting standards are being implemented so that comparative data for the 2005 Group reporting can be produced for each quarter of 2004.

Kesko will prepare its first complete IFRS financial statements for the year 2005. According to current knowledge, the main changes in accounting principles concern the treatment of finance leases (IAS 17) and retirement benefit plans (IAS 19). With regard to the opening IFRS balance sheet prepared for the transition day of 1 January 2004, Kesko will provide information on the most important effects that the changes in accounting principles will have on the financial figures. This information will be given in the interim report for the first quarter of 2004.

Main events

On 7 February 2003, Kesko Food sold the business operations and property of its subsidiary, Viking Coffee Ltd, to Gustav Paulig Ltd. The deal did not include Kesko Food's own brands, the most important of which is the Costa Rica coffee brand.

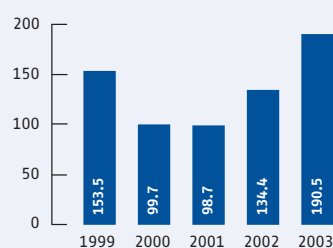
On 18 February 2003, Kesko Corporation sold the site of its main office building located in Katajanokka at Satamakatu 3 to Kiinteistö Oy Ankkurikatu 5, a real estate company owned by Kesko Pension Fund. The selling price was EUR 14.5 million and the recorded book gain amounted to EUR 13.4 million.

On 29 April 2003, Kesko Corporation was notified of a claim for damages by Kapiteeli Oy in a dispute concerning the rental agreement of the Ruoholahti shopping centre in Helsinki. Kapiteeli Oy demands that Kesko Corporation pay for additional costs of the building project and unpaid rent totalling approximately EUR 3.4 million. The company also demands that Kesko Corporation pay, from February 2003, an additional rent per year for the remaining 9 years of the lease, the amount of which will be specified by them later on. The claim includes all damages and legal expenses with the legal amount of interest. Kesko Corporation contests all of Kapiteeli's demands as groundless.

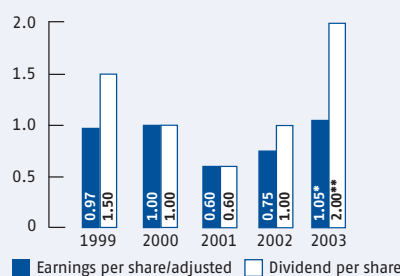
On 7 May 2003, Kesko Corporation's Board decided to distribute warrants issued by the Annual General Meeting to the members of Kesko Group's management and to Sincera Oy, a subsidiary wholly owned by Kesko Corporation.

On 21 May 2003, Kesko published its third corporate responsibility report. It is presented, as previously, in accordance with the

Dividend per earnings, %



Earnings per share and dividend per share, EUR



* The correct number of Kesko Corporation's A shares held by Jättipörssi Oy is 34,400 and their counter value is EUR 68,800. A corrective stock exchange release in this matter was published on 10 February 2004.

* adjusted for the dilution effect of warrants
** proposal to the Annual General Meeting

guidelines of the Global Reporting Initiative (GRI). For the first time, the report has been given an assurance by an independent outside party. The assurance provider was the Sustainability Services unit of PricewaterhouseCoopers Oy, Kesko's auditors.

On 3 June 2003, Kesko Corporation and four former Musta Pörssi retailers signed conciliation agreements to the effect that the retailers abandon their actions against Kesko. The Musta Pörssi retailers, who had been given notice by Kesko in 2001, had primarily demanded that Kesko be obliged to pay a total of about EUR 1.66 million in compensation for the notices they claimed were contrary to their contracts, and for related matters.

Interwell Oy, a subsidiary of Keswell Ltd, acquired the sports business operations of Rea Rintamäki Oy. As a result of the deal, Interwell took over Rintamäki's stores in Oulu, Seinäjoki and Lapua as of 1 August 2003. The employees of Rea Rintamäki Oy were transferred under their previous conditions to Interwell Oy. The annual sales of the three Rintamäki Oy stores total about 17 million euros and the company employs about 100 persons.

By decisions made on 12 September 2003, the Tax Office for Major Corporations imposed income taxes, a tax increase and additional taxes on Kesko Corporation, totalling EUR 11.1 million. These residual tax decisions relate to the taxation years 1997-2000. The residual taxes were included in the income statement for the 2003 financial year. Kesko Corporation has lodged an appeal with the rectification committee of the Tax Office for Major Corporations against the residual tax decisions.

The K-Alliance's customer loyalty programme Plussa transferred all its customer service operations to Elisa as from 19 September 2003 in consequence of a service agreement signed between K-Plus Oy and ElisaCom Oy. The 20 employees of K-Plus Oy were transferred under their previous conditions to Elisa.

On 26 September 2003, the bank account of SIA Kesko Agro Latvia, a subsidiary of Kesko Agro Ltd, revealed unauthorised transfers of assets outside the company to the value of about EUR 2.9 million. The account is in a/s Latvijas Unibanka, a subsidiary of Skandinaviska Enskilda Banken AB. Approximately EUR 1.3 million of the unauthorised asset transfers, which had remained in the possession of the bank, were returned to the company. The Latvian police are investigating the matter. The company has also started its own investigation of the matter.

The co-operation procedure initiated in August in Citymarket Oy, a Kesko Food subsidiary, ended on 15 October 2003. The personnel were reduced by a total of 143, of which 78 had to be given notice. The co-operation procedure was initiated because the home and speciality goods business of Citymarket Oy was organised in three product lines instead of the former five.

On 31 October 2003, Kesko Corporation, its subsidiary K-Plus Oy and Nordea Rahoitus Suomi Oy signed an agreement which

aims at long-term co-operation in the production and development of payment and credit card services related to the K-Alliance's Plussa customer loyalty programme. Related to this co-operation, Kesko Corporation sold its subsidiary K-Luotto Oy to Nordea Rahoitus Suomi Oy.

On 3 November 2003, a total of 2,015,000 Kesko Corporation's C warrants issued under the year 2000 stock option scheme were included on the main list of the Helsinki Exchanges. Each C warrant entitles its holder to subscribe for one B share of Kesko Corporation during the period 1.11.2003-31.3.2006 at a subscription price corresponding to the trade volume weighted average price of Kesko's B share on the Helsinki Exchanges during March 2001 with an addition of fifteen (15) per cent and, on the other hand, with a deduction of the amount of the dividend per share distributed and distributable after 31 March 2001. At present, the share subscription price with a C warrant is EUR 10.11 per share.

On 11 November 2003, Kesko Corporation and its subsidiaries Center-yhtiöt Oy and Hämeenkyllän Kauppa Oy sold on the stock exchange all the shares they owned in property investment company Citycon Oyj. Together they held 18.8% of Citycon Oyj's share capital before the disposal. The selling price was about EUR 30 million. The transaction has no essential effect on Kesko's profit for the year 2003.

During the year 2003, Kesko's division parent companies adopted new systems for operations control. The new division-specific information systems were implemented to replace the old Kesko-level system.

Future outlook

International competition in trading is continuing to intensify in Finland in most product lines. The chain operations of Kesko and the K-retailers will be developed further, particularly in purchasing, information management and marketing.

Kesko Food is continuing its active price marketing in Finland and is testing the discounter format. Price marketing will become increasingly important in the food trade and several home and speciality goods lines in 2004.

The net sales growth of the Group's divisions in Finland is forecast to at least match the market growth presented in the market review. Thanks to business acquisitions and the expansion of operations, international sales are expected to grow by about 40% during the first half-year, especially in the Baltic countries.

The Group's steady profit performance will continue during the first half-year although strained by heavy investments in information systems, the retail store network and the development of retailing concepts. Kesko Group's operating profit excluding non-recurring items for the first half-year is estimated to be at the level of the previous year.

Proposal for the distribution of profit

The Group's distributable reserves are	EUR 867,416,172.04
The parent company's distributable reserves are	EUR 794,340,359.40
of which the net profit for the financial year is	EUR 122,639,021.39
The Board of Directors proposes to the Annual General Meeting that the distributable reserves be used as follows:	
To be paid to shareholders as dividends EUR 2.00 per share	EUR 182,429,600.00
To be reserved for charitable donations at the discretion of the Board of Directors	EUR 250,000.00
To be carried forward as retained earnings	EUR 611,660,759.40

Income statement

Income statement	Note	Group				Kesko Corporation			
		2003		2002		2003		2002	
		EUR million	%	EUR million	%	EUR million	%	EUR million	%
Net sales	1	7,070.2	100.0	6,466.4	100.0	12.4	100.0	14.8	100.0
Other operating income	2	482.1	6.8	430.8	6.7	332.2	2,682.5	282.6	1,906.2
Materials and services	3	-6,168.6	87.2	-5,671.6	87.7	-0.1	0.9	-1.7	11.7
Personnel expenses	4, 5	-390.5	5.5	-348.4	5.4	-12.9	104.3	-11.7	78.6
Depreciation and value adjustments	6, 13, 14, 15	-110.0	1.6	-107.7	1.7	-28.4	229.5	-28.7	193.4
Other operating expenses	7	-726.3	10.3	-672.6	10.4	-273.5	2,208.6	-252.8	1,705.4
Share of profits/losses of associated companies		0.6	0.0	1.9	0.0	-		-	
Operating profit		157.6	2.2	98.8	1.5	29.6	239.3	2.5	17.1
Share of profits/losses of associated companies	8	0.3	0.0	0.4	0.0	-		-	
Financial income and expenses	8	3.7	0.1	10.5	0.2	49.9	403.3	26.6	179.1
Profit before extraordinary items		161.6	2.3	109.7	1.7	79.6	642.6	29.1	196.2
Extraordinary items	9	-		-		94.3	761.4	71.0	479.2
Profit before appropriations and taxes		161.6	2.3	109.7	1.7	173.9	1,404.0	100.1	675.4
Appropriations	10	-		-		4.3	34.6	6.8	45.4
Profit before taxes		161.6	2.3	109.7	1.7	178.1	1,438.6	106.9	720.8
Income taxes	12	-57.6	0.8	-41.6	0.6	-55.5	448.2	-32.2	216.9
Minority interest		-7.9	0.1	-0.3	0.0	-		-	
Net profit for the financial year		96.1	1.4	67.8	1.0	122.6	990.4	74.7	503.9

Balance sheet

Balance sheet 31.12.

	Note	Group				Kesko Corporation			
		2003		2002		2003		2002	
		EUR million	%	EUR million	%	EUR million	%	EUR million	%
ASSETS									
Non-current assets									
Intangible assets	13								
Goodwill		92.3		85.5		-		-	
Other capitalised expenditure		115.2		75.0		22.7		22.2	
Advance payments and construction in progress		15.8		27.5		6.5		6.6	
		223.2	8.1	188.0	7.2	29.2	1.5	28.8	1.5
Tangible assets	14								
Land and water		195.8		165.8		122.5		112.5	
Buildings		610.6		541.5		387.7		364.3	
Machinery and equipment		164.2		154.5		12.2		12.2	
Other tangible assets		10.0		7.0		7.1		5.1	
Advance payments and construction in progress		32.8		20.6		22.9		11.0	
		1,013.5	36.8	889.4	33.8	552.5	28.5	505.1	26.8
Investments	15								
Holdings in Group companies		-		-		672.8		680.5	
Receivables from Group companies		-		-		0.7		0.1	
Holdings in participating interests		41.8		40.9		30.0		32.1	
Receivables from participating interests		1.6		2.0		-		-	
Other shares and similar rights of ownership		25.0		92.7		18.6		17.4	
Other receivables		0.0		9.4		-		9.2	
		68.4	2.5	145.0	5.5	722.1	37.3	739.3	39.3
Current assets									
Stocks									
Finished products/goods		677.3	24.6	554.4	21.1	-		-	
Receivables									
Long-term receivables									
Trade receivables	16	0.1		0.1		-		-	
Receivables from Group companies		-		-		291.3		-	
Receivables from participating interests		9.3		16.3		9.1		16.2	
Loan receivables		39.2		36.6		-		-	
Other receivables		-		-		0.0		-	
		48.5	1.8	53.0	2.0	300.5	15.5	16.2	0.9
Short-term receivables									
Trade receivables	16	503.5		490.2		3.8		8.5	
Receivables from Group companies		-		-		267.6		400.7	
Receivables from participating interests		4.2		17.3		1.9		16.4	
Loan receivables		38.1		42.4		5.1		8.3	
Other receivables		24.5		15.9		2.9		0.7	
Prepayments and accrued income		70.6		59.6		19.0		11.4	
		640.8	23.2	625.4	23.8	300.3	15.5	446.0	23.7
Marketable securities									
Other marketable securities		22.9	0.8	130.6	5.0	22.9	1.2	130.5	6.9
Cash on hand and at bank		62.8	2.3	42.8	1.6	7.7	0.4	16.3	0.9
Assets		2,757.3	100.0	2,628.6	100.0	1,935.1	100.0	1,882.2	100.0

		Group				Kesko Corporation			
		2003		2002		2003		2002	
Note		EUR million	%	EUR million	%	EUR million	%	EUR million	%
LIABILITIES									
Shareholders' equity 17									
		182.4		182.2		182.4		182.2	
		0.2		0.0		0.2		0.0	
		150.6		150.0		150.6		150.0	
		1.3		1.9		0.6		1.1	
		Other reserves							
		245.5		249.4		243.4		243.4	
		698.3		717.5		428.3		445.0	
		96.1		67.8		122.6		74.7	
		1,374.5	49.8	1,368.8	52.1	1,128.1	58.3	1,096.4	58.3
Minority interest									
		40.5	1.5	22.9	0.9	-		-	
Appropriations									
	13, 14, 15	-		-		201.9		206.2	
	18	Untaxed reserves							
		-		-		-		-	
		-		-		201.9	10.4	206.2	11.0
Provisions									
	11, 19	24.2	0.9	19.1	0.7	11.9	0.6	9.5	0.5
Liabilities									
	20, 23	61.6	2.2	58.3	2.2	-		-	
Non-current liabilities 21, 23									
		-		-		-		-	
		0.2		0.2		-		-	
		64.0		106.0		18.3		14.1	
		38.5		22.5		-		-	
		0.8		1.8		-		-	
		103.4	3.8	130.5	5.0	18.3	0.9	14.1	0.7
Current liabilities 22, 23									
		19.9		12.3		3.2		-	
		4.9		2.8		-		-	
		20.0		19.4		0.0		0.1	
		607.0		539.0		4.9		12.3	
		-		-		478.7		364.8	
		19.1		22.9		14.0		18.6	
		297.2		286.2		42.1		140.7	
		184.9		146.4		31.9		19.5	
		1,153.1	41.8	1,029.0	39.1	574.9	29.7	556.0	29.5
Liabilities									
		2,757.3	100.0	2,628.6	100.0	1,935.1	100.0	1,882.2	100.0

Cash flow statement

Cash flow statement	Group		Kesko Corporation	
	2003	2002	2003	2002
EUR million				
Cash flow from operating activities				
Operating profit	157.6	98.8	29.6	2.5
Adjustments to operating profit				
Depreciation according to plan	96.5	97.3	28.4	28.9
Other adjustments	6.1	16.3	-17.9	8.0
Change in working capital				
Short-term trade receivables, increase/decrease (-/+)	-56.2	35.5	11.3	26.1
Stocks, increase/decrease (-/+)	-88.5	-43.7	-	-
Interest-free short-term debt, increase/decrease (+/-)	93.4	-42.9	-7.5	-50.5
	-51.3	-51.1	3.8	-24.4
Interests paid and other payments	-16.6	-11.6	-21.7	-28.2
Interests received	14.1	15.9	23.5	29.5
Dividends received	7.4	5.4	34.3	18.1
Taxes paid	-49.4	-25.2	-35.7	-15.3
Cash flow from operating activities	164.5	145.8	44.4	19.1
Cash flow from investing activities				
Investments in tangible and intangible assets	-217.8	-164.1	-81.9	-43.8
Capital gains from tangible and intangible assets	35.1	45.5	26.0	14.4
Other investments	0.0	0.0	0.0	0.0
Capital gains from other investments	68.7	1.6	7.8	0.6
Loans granted	-	-	-	-
Repayment of loan receivables	15.0	9.0	8.6	9.0
Subsidiaries acquired	-28.1	-23.1	-25.3	-20.8
Subsidiaries disposed	7.2	22.4	7.2	6.7
Associated companies acquired	-2.1	-1.9	-0.8	-1.8
Associated companies disposed	1.5	0.2	1.3	-
Fixed assets transferred in merger	-	-	13.2	-
Cash used in investing activities	-120.5	-110.4	-44.0	-35.7
Cash flow from financing activities				
Raising of short-term loans	0.0	5.9	14.4	14.4
Repayment of short-term loans	-24.0	-	-	-
Raising of long-term loans	0.0	60.1	4.2	10.9
Repayment of long-term loans	-38.2	-	-	-
Increase (-)/decrease (+) of short-term receivables	16.6	-42.9	145.1	21.9
Increase (-)/decrease (+) of long-term receivables	4.5	35.5	-284.3	5.1
Dividends paid	-91.1	-54.1	-91.1	-54.1
Group contributions received and paid	-	-	94.3	71.0
Increase in share capital	1.0	9.1	1.0	9.1
Others	0.0	-2.7	-0.2	-2.0
Cash used in financing activities	-131.2	10.9	-116.6	76.3
Change in liquid funds	-87.6	46.3	-116.2	59.7
Liquid funds at 1 January	173.2	126.9	146.8	87.1
Liquid funds at 31 December	85.6	173.2	30.6	146.8

Notes to the financial statements

PRINCIPLES USED FOR PREPARING FINANCIAL STATEMENTS

Extent of consolidated financial statements

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

A copy of Kesko Corporation's financial statements and the consolidated financial statements is available from Kesko Corporation, Satamakatu 3, FI-00016 Kesko, Finland.

Principles of consolidation

Internal shareholdings

The Group's internal shareholding has been eliminated by using the acquisition cost 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 is amortised according to plan. In the Group, goodwill is amortised over 5-15 years.

Internal business transactions and margins

All Group's internal business transactions, unrealised margins arising from internal deliveries, internal receivables and debt and internal 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 the minority interests.

Translation differences

Foreign Group companies' income statements have been translated into Finnish currency at the average exchange rate during the financial year and balance sheets 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 Kesko'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 and the associated companies that carry on business operations, based on the Group's share of ownership, has been stated as a separate item before operating profit. The share of profits/losses of Vähittäiskaupan Takaus Oy and the Valluga-sijoitus Group has been stated as a separate item after operating profit.

Changes in the Group structure

During the financial year, the share capital of ASM Sweden Ab and a majority shareholding in the Lithuanian UAB Senuku Prekybos centras were acquired, and Turun VV-Auto Oy and KM-Kello Oy were established. In addition, three real estate companies were established and the share capitals of or majority shareholdings in four real estate companies acquired. During the financial year, the share capitals of K-Luotto Oy and two real estate companies were sold.

Kauppiaitten Kustannus Oy, Lappeenrannan Pörssipartneri Oy and two real estate companies were dissolved. Center-yhtiöt Oy and Patria Media Oy were merged with Kesko Corporation.

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	15-33 years
Fixtures and fittings	8 years
Machinery and equipment	8 years
or machinery and equipment purchased since 1999	25% reducing balance method
Transportation fleet	5 years
Information technology equipment	3-5 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 amortised over fifteen years on a straight line basis. Other goodwill is amortised over 5-10 years. The times for depreciation have been determined on the basis of the stability of business and the sector's future outlook. Consolidation differences allocated to fixed assets items are included in expenses following the principles applied to acquisition costs of these items. Depreciation according to plan with the change in depreciation reserve comply with the Finnish tax legislation.

The change in depreciation reserve has been treated as appropriations in the parent company. The depreciation reserve has been included in deferred tax liability and shareholders' equity in the Group.

Valuation of stocks

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

Valuation of financial assets

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

Foreign currencies

Items denominated in foreign currencies have been translated into Finnish currency at the average exchange rate of the European Central Bank 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.

Derivative contracts**Interest rate derivative contracts**

Cash flows arising from interest rate derivative agreements are recognised during the financial year as interest income or expenses, according to the maturity date. In the financial statements, open forward agreements, futures, options and swaps are stated at market values. Unrealised revaluation is not stated as income. Any valuation losses are included in interest expenses.

Currency derivative contracts

The forward exchange contracts are valued at the average exchange rate of the European Central Bank on the balance sheet date. The rate differences arising from forward exchange contracts used to hedge purchases of goods are treated in the income statement as purchase adjustment items, and concerning the forward exchange contracts used to hedge financial items, as financial items.

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 statements as foreign exchange profit or loss.

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.

Commodity derivatives

The Group uses electricity derivatives to balance the energy costs of the Group and K-retailers. The price risk of electricity is viewed at the time span of three years. As for the derivatives hedging the price of electricity supplied during the financial year, changes in value are included in the adjustments to purchases. Unrealised profits and losses from the agreements hedging future purchases are not included in the income statement.

Pension costs

Annual pension costs are included in personnel expenses in the income statement. Kesko Pension Fund provides Kesko Corporation's and some subsidiaries' personnel with pension benefits. The Fund's A department, which provides supplementary pension benefits, was closed on 9 May 1998.

Pension insurance companies provide pension benefits to the employees of other Group subsidiaries.

The job-based retirement age agreed for a number of directors and other superiors in the Group is 60 or 62 years.

Provisions

Provisions stated in the balance sheet include items bound to by agreements or otherwise, but remain unrealised.

Changes in provisions are included in the income statement. Rent liabilities for vacant rented premises no longer used for the Group business operations, as far as agreements ending during the following year are concerned, as well as the losses resulting from renting the premises to outsiders, are included in provisions.

Comparability of the information in the parent company's income statement and balance sheet

In the parent company's previous year's income statement the division of the profits and losses arising from foreign currency transactions has been changed to correspond the division of the financial year. Profits and losses arising from foreign currency transactions have been included in the financing items. During the financial year, the parent company's division into long-term and short-term receivables from Group companies in the balance sheet was changed.

Notes to the income statement	Group		Kesko Corporation	
EUR million	2003	2002	2003	2002
1. Net sales				
by division				
Kesko Food	3,766	3,628	-	-
Rautakesko	995	735	-	-
Kesko Agro	768	715	-	-
Keswell	726	687	-	-
VV-Auto	558	450	-	-
Kaukomarkkinat	285	285	-	-
Others - eliminations	-28	-34	12	15
Total	7,070	6,466	12	15
Foreign operations				
Kesko Food	249	186	-	-
Rautakesko	321	131	-	-
Kesko Agro	144	102	-	-
Keswell	23	21	-	-
VV-Auto	13	16	-	-
Kaukomarkkinat	80	81	-	-
Others - eliminations	0	1	-	-
Total	830	538	-	-
2. Other operating income				
Services income	381.3	353.1	-	0.0
Profits on sales of real estate and shares	20.8	7.5	19.7	2.9
Rent income	34.9	33.7	291.1	279.7
Others	45.1	36.5	21.4	0.0
Total	482.1	430.8	332.2	282.6
3. Materials and services				
Materials and goods				
Purchases during the financial year	6,159.9	5,622.4	0.1	0.2
Variation in stocks	-89.6	-42.8	-	-
External services	98.3	92.0	0.0	0.0
Total	6,168.6	5,671.6	0.1	0.2
4. Information concerning personnel and administrative body members				
Average number of personnel, by division				
Kesko Food	7,042	6,264	-	-
Rautakesko	3,241	1,189	-	-
Kesko Agro	940	812	-	-
Keswell	2,496	2,455	-	-
VV-Auto	127	113	-	-
Kaukomarkkinat	796	802	-	-
Others	577	582	195	206
Total	15,219	12,217	195	206

Notes to the income statement	Group		Kesko Corporation	
EUR million	2003	2002	2003	2002
5. Personnel expenses				
Salaries and fees	315.8	281.1	9.7	9.2
Social security expenses				
Pension expenses	43.2	42.0	1.5	1.6
Other social security expenses	31.5	25.3	1.7	0.8
Total	390.5	348.4	12.9	11.6
Salaries and fees to the management				
Salaries to Managing Directors	5.3	4.3	0.5	0.4
Salaries to the members of Boards of Directors	0.2	0.2	0.2	0.2
Total	5.5	4.5	0.7	0.6
6. Depreciation and value adjustments				
Depreciation according to plan	96.5	97.3	28.4	28.9
Value adjustments, non-current assets	0.3	-1.1	-	-0.2
Amortisation of goodwill	13.2	11.5	-	-
Total	110.0	107.7	28.4	28.7
7. Other operating expenses				
Rent expenses	224.0	218.2	198.3	201.3
Marketing expenses	206.4	186.8	1.9	2.3
Maintenance of real estate and store sites	98.6	88.8	38.3	31.8
Data communications expenses	84.4	74.9	8.7	6.9
Losses on sales of real estate and shares	3.4	1.5	1.9	0.2
Other operating expenses	109.5	102.4	24.4	10.3
Total	726.3	672.6	273.5	252.8
8. Financial income and expenses				
Share of profits/losses of associated companies	0.3	0.4	-	-
Dividend income				
From Group companies	-	-	45.9	23.8
From participating interests	-	-	1.5	0.9
From others	7.4	7.1	0.9	0.8
Dividend income, total	7.4	7.1	48.3	25.5
Interest income from investments held as non-current assets				
From others	0.4	1.3	0.4	1.3
Other interest and financial income				
From Group companies	-	-	18.9	24.0
From others	25.0	24.1	13.0	12.9
Interest income, total	25.4	25.4	32.3	38.2
Interest and other financial expenses				
To Group companies	-	-	-14.5	-22.8
To others	-29.1	-22.0	-16.2	-15.9
Interest expenses, total	-29.1	-22.0	-30.7	-38.7
Total	4.0	10.9	49.9	25.0
9. Items included in extraordinary income and expenses				
Contributions from Group companies	-	-	103.6	87.3
Contributions to Group companies	-	-	-9.3	-16.3
Total	-	-	94.3	71.0

Notes to the income statement	Group		Kesko Corporation	
EUR million	2003	2002	2003	2002
10. Appropriations				
Difference between depreciation according to plan and depreciation in taxation	-	-	4.3	6.7
Total	-	-	4.3	6.7
11. Changes in provisions				
Rent expenses for vacant business premises	1.7	7.9	1.8	9.1
Guarantee losses	0.0	-0.2	-	-
Guarantee provisions	1.6	2.4	-	-
Supplementary pension liabilities	0.0	0.0	-	-
Expenses for discontinued business operations	0.0	-1.0	-	-0.9
Other changes	1.7	-0.5	0.6	0.2
Total	5.0	8.6	2.4	8.4
12. Income taxes				
Income taxes on extraordinary items	-	-	-27.3	-20.6
Income taxes on operating activities	-53.1	-45.4	-28.2	-11.6
Change in deferred tax liability	-4.4	3.8	-	-
Total	-57.5	-41.6	-55.5	-32.2

Notes to the balance sheet	Group		Kesko Corporation	
EUR million	2003	2002	2003	2002
13. Intangible assets				
Goodwill				
Acquisition cost at 1 January	134.4	128.9	-	-
Increases	19.9	6.5	-	-
Decreases	-1.0	-1.0	-	-
Acquisition cost at 31 December	153.3	134.4	-	-
Accumulated depreciation at 1 January	48.9	38.2	-	-
Accumulated depreciation on decreases and transfers	-1.1	-0.8	-	-
Depreciation for the financial year	13.2	11.5	-	-
Accumulated depreciation at 31 December	61.0	48.9	-	-
Book value at 31 December	92.3	85.5	-	-
Other capitalised expenditure				
Acquisition cost at 1 January	159.7	164.7	44.7	40.1
Increases	39.6	16.2	3.4	4.1
Decreases	-23.0	-22.5	-3.1	-0.5
Transfers between items	22.2	1.3	3.6	1.0
Acquisition cost at 31 December	198.5	159.7	48.6	44.7

Notes to the balance sheet	Group		Kesko Corporation	
EUR million	2003	2002	2003	2002
Accumulated depreciation at 1 January	84.7	79.3	22.5	16.8
Accumulated depreciation on decreases and transfers	-21.8	-14.3	-1.4	-0.3
Depreciation for the financial year	20.4	19.7	4.9	6.0
Accumulated depreciation at 31 December	83.3	84.7	26.0	22.5
Book value at 31 December	115.2	75.0	22.6	22.2
Advance payments				
Acquisition cost at 1 January	27.5	6.2	6.6	0.0
Increases	9.9	22.3	3.0	6.6
Decreases	-	-0.8	-	-
Transfers between items	-21.6	-0.2	-3.1	-
Acquisition cost at 31 December	15.8	27.5	6.5	6.6
Book value at 31 December	15.8	27.5	6.5	6.6
14. Tangible assets				
Land and water				
Acquisition cost at 1 January	164.2	154.3	111.9	107.0
Increases	33.0	15.6	12.7	4.6
Decreases	-3.2	-6.3	-2.3	-0.3
Transfers between items	0.8	0.6	0.1	0.6
Acquisition cost at 31 December	194.8	164.2	122.4	111.9
Revaluation	1.0	1.6	0.1	0.6
Book value at 31 December	195.8	165.8	122.5	112.5
Buildings				
Acquisition cost at 1 January	780.1	731.6	522.6	501.1
Increases	94.6	55.3	40.7	16.8
Decreases	-15.1	-32.8	-10.1	-7.1
Transfers between items	13.2	26.0	5.2	11.8
Acquisition cost at 31 December	872.8	780.1	558.4	522.6
Accumulated depreciation at 1 January	253.1	224.8	158.3	140.7
Accumulated depreciation on decreases and transfers	-2.6	0.4	-5.0	-0.9
Depreciation for the financial year	26.4	27.9	17.4	18.5
Accumulated depreciation at 31 December	276.9	253.1	170.7	158.3
Revaluation	14.7	14.5	-	-
Book value at 31 December	610.6	541.5	387.7	364.3
Machinery and equipment				
Acquisition cost at 1 January	341.3	304.0	24.6	22.3
Increases	70.2	53.6	3.1	1.5
Decreases	-38.7	-24.2	-0.2	-0.1
Transfers between items	5.2	7.9	0.6	0.9
Acquisition cost at 31 December	378.0	341.3	28.1	24.6
Accumulated depreciation at 1 January	186.8	143.8	12.4	8.6
Accumulated depreciation on decreases and transfers	-21.6	-5.8	-0.1	0.0
Depreciation for the financial year	48.6	48.8	3.6	3.8
Accumulated depreciation at 31 December	213.8	186.8	15.9	12.4
Book value at 31 December	164.2	154.5	12.2	12.2

Notes to the balance sheet	Group		Kesko Corporation	
EUR million	2003	2002	2003	2002
Other tangible assets				
Acquisition cost at 1 January	11.7	11.9	8.3	6.7
Increases	4.3	1.8	2.0	1.0
Decreases	-0.2	-0.8	-0.2	-0.1
Transfers between items	0.1	-1.2	0.8	0.7
Acquisition cost at 31 December	15.9	11.7	10.9	8.3
Accumulated depreciation at 1 January	4.7	5.0	3.2	2.6
Accumulated depreciation on decreases and transfers	0.1	-1.3	-0.1	0.0
Depreciation for the financial year	1.1	1.0	0.7	0.6
Accumulated depreciation at 31 December	5.9	4.7	3.8	3.2
Book value at 31 December	10.0	7.0	7.1	5.1
Advance payments and construction in progress				
Acquisition cost at 1 January	20.7	30.6	11.0	17.0
Increases	32.0	35.4	19.2	9.1
Decreases	0.0	-10.9	-	-
Transfers between items	-19.9	-34.4	-7.3	-15.1
Acquisition cost at 31 December	32.8	20.7	22.9	11.0
Book value at 31 December	32.8	20.7	22.9	11.0
Revaluation of non-current assets				
Land and water	1.0	1.6	0.1	0.6
Buildings	14.7	14.5	-	-
Shares and similar rights of ownership	0.5	0.6	0.5	0.5
	16.2	16.7	0.6	1.1

Revaluation refers to land, buildings and shares whereby the whole value is estimated to have increased permanently to a level which essentially exceeds the acquisition cost. The tax liability included in revaluation has not been stated, as its realisation in the near future is not probable.

15. Investments

Holdings in Group companies

Acquisition cost at 1 January	-	-	747.7	738.0
Increases	-	-	26.7	20.8
Decreases	-	-	-36.7	-11.3
Transfers between items	-	-	2.4	0.2
Acquisition cost at 31 December	-	-	740.1	747.7
Accumulated depreciation at 1 January	-	-	67.3	67.3
Value adjustments	-	-	-	-
Accumulated depreciation on decreases and transfers	-	-	-	-
Accumulated depreciation at 31 December	-	-	67.3	67.3
Revaluation	-	-	0.0	0.1
Book value at 31 December	-	-	672.8	680.5
Holdings in participating interests				
Acquisition cost at 1 January	40.5	38.3	31.8	30.2
Increases	2.9	1.9	1.7	1.8
Share of profits/losses for the financial year	2.6	1.4	-	-
Decreases	-1.5	-0.8	-1.4	-
Transfers between items	-3.0	-0.3	-2.4	-0.2
Acquisition cost at 31 December	41.5	40.5	29.7	31.8

Notes to the balance sheet	Group		Kesko Corporation	
	2003	2002	2003	2002
EUR million				
Accumulated depreciation at 1 January	-	-	-	-
Accumulated depreciation on decreases and transfers	-	-	-	-
Accumulated depreciation at 31 December	-	-	-	-
Revaluation	0.3	0.4	0.3	0.3
Book value at 31 December	41.8	40.9	30.0	32.1
Other shares and similar rights of ownership				
Acquisition cost at 1 January	96.7	96.6	18.3	18.7
Increases	0.0	0.5	8.9	0.0
Decreases	-70.8	-0.6	-8.8	-0.4
Transfers between items	0	0.2	-	-
Acquisition cost at 31 December	25.9	96.7	18.4	18.3
Accumulated depreciation at 1 January	4.2	5.3	1.1	1.4
Accumulated depreciation on decreases and transfers	-3.4	0.0	-1.1	-
Value adjustments	0.3	-1.1	-	-0.3
Accumulated depreciation at 31 December	1.1	4.2	0.0	1.1
Revaluation	0.2	0.2	0.2	0.2
Book value at 31 December	25.0	92.7	18.6	17.4

Shares in listed companies

The Citycon Oyj and SanomaWSOY Oyj shares previously owned were sold during the financial year.

Group companies

	Group shareholding, %	Parent company shareholding, %
Hämeenkyliän Kauppa Oy, Helsinki (Group)	100.0	100.0
K-instituutti Oy, Helsinki	90.0	90.0
K-Plus Oy, Helsinki	100.0	100.0
K-Rahoitus Oy, Helsinki	100.0	100.0
Kaukomarkkinat Oy, Espoo (Group)	100.0	100.0
Kesped Ltd, Helsinki (Group)	100.0	100.0
Kestra Kiinteistöpalvelut Oy, Helsinki	100.0	100.0
Keswell Ltd, Helsinki (Group)	100.0	100.0
Kesko Agro Ltd, Helsinki (Group)	100.0	100.0
Rautakesko Ltd, Helsinki (Group)	100.0	100.0
Kesko Food Ltd, Helsinki (Group)	100.0	100.0
Sincera Oy, Helsinki	100.0	100.0
VV-Auto Oy, Helsinki (Group)	100.0	100.0

Associated companies

	Group shareholding, %	Parent company shareholding, %
Tietokesko Oy, Helsinki	20.0	20.0
Valluga-sijoitus Oy, Helsinki	39.0	39.0
Vähittäiskaupan Takaus Oy, Helsinki	34.4	34.4
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	30.0	30.0

Complete specifications of the Group companies are included in the official balance book of the corporation.

At the end of December 2003, Jättipörssi Oy, a subsidiary of Kesko Corporation held 34,400 Kesko Corporation's shares. The total counter value of these shares is EUR 68,800, representing less than 0.04% of all shares and less than 0.1% of all voting rights.

Notes to the balance sheet	Group		Kesko Corporation	
EUR million	2003	2002	2003	2002
Other receivables				
Citycon Oyj, subordinated loan	-	9.2	-	9.2
Others	-	0.2	-	-
Total	-	9.4	-	9.2
16. Receivables				
Receivables from Group companies				
Investments				
Receivables	-	-	0.7	0.1
Long-term receivables				
Loan receivables	-	-	291.3	0.0
Short-term receivables				
Trade receivables	-	-	3.6	11.7
Loan receivables	-	-	261.5	388.7
Prepayments and accrued income	-	-	2.5	0.3
Total	-	-	267.6	400.7
Total	-	-	559.6	400.8
Receivables from participating interests				
Investments				
Subordinated loans	1.6	2.0	-	-
Long-term receivables				
Loan receivables	9.3	16.2	9.1	16.2
Short-term receivables				
Trade receivables	2.4	0.9	0.1	0.1
Loan receivables	1.8	16.1	1.8	16.1
Prepayments and accrued income	0.0	0.4	0.0	0.2
Total	4.2	17.4	1.9	16.4
Total	15.1	35.6	11.0	32.6
Prepayments and accrued income				
Marketing income	4.5	5.4	-	-
Discounts	15.4	14.1	-	-
Personnel expenses	1.7	2.4	-	0.0
Taxes and corporation tax credit	17.4	11.4	15.2	7.4
Others	31.6	26.3	3.8	3.9
Total	70.6	59.6	19.0	11.3

Notes to the balance sheet	Group		Kesko Corporation	
EUR million	2003	2002	2003	2002
17. Shareholders' equity				
Share capital at 1 January	182.2	180.4	182.2	180.4
Subscriptions with warrants	0.2	1.8	0.2	1.8
Share capital at 31 December	182.4	182.2	182.4	182.2
Share issue, use of warrants at 1 January	0.0	0.0	0.0	0.0
Increase	1.0	9.1	1.0	9.1
Transfer to share capital	-0.2	-1.8	-0.2	-1.8
Transfer to share premium account	-0.6	-7.3	-0.6	-7.3
Share issue, use of warrants at 31 December	0.2	0.0	0.2	0.0
Share premium account at 1 January	150.0	142.7	150.0	142.7
Subscriptions with warrants	0.6	7.3	0.6	7.3
Share premium account at 31 December	150.6	150.0	150.6	150.0
Revaluation reserve at 1 January	1.9	1.9	1.1	1.1
Change in revaluation reserve	-0.6	0.0	-0.5	-
Revaluation reserve at 31 December	1.3	1.9	0.6	1.1
Other reserves at 1 January	249.4	249.4	243.4	243.4
Change in other reserves	-3.9	0.0	-	-
Other reserves at 31 December	245.5	249.4	243.4	243.4
Retained earnings at 1 January	785.3	772.3	519.7	499.3
Distribution of dividends	-91.1	-54.1	-91.1	-54.1
Transfer to donations	-0.3	-0.3	-0.3	-0.3
Adjustment for associated companies	2.1	1.0	-	-
Translation differences	-1.5	-1.4	-	-
Transfer from other reserves	3.9	0.0	-	-
Retained earnings at 31 December	698.4	717.5	428.3	445.0
Profit for the financial year	96.1	67.8	122.6	74.7
Shareholders' equity, total	1,374.5	1,368.8	1,128.1	1,096.4

Increase in share capital

In 2003, the Corporation's share capital entered in the Trade Register increased by EUR 140,200. By 10 December 2003, a total of 22,800 B shares had been subscribed with B warrants and a total of 47,300 with C warrants, or 70,100 in all. A corresponding increase of EUR 140,200 in the share capital was entered in the Trade Register on 19 December 2003. In addition, a total of 24,300 Kesko B shares were subscribed with C warrants under the year 2000 stock option scheme between 11 and 31 December 2003.

Notes to the balance sheet	Group		Kesko Corporation	
EUR million	2003	2002	2003	2002
Distributable reserves				
Other reserves	245.1	249.2	243.4	243.4
Retained earnings	698.3	717.5	428.3	445.0
Profit for the financial year	96.1	67.8	122.6	74.7
Share of depreciation reserve and untaxed reserves included in shareholders' equity	-166.4	-167.7	-	-
Group entries	-5.4	-5.4	-	-
Other items	-0.3	-0.3	-	-
Total	867.4	861.1	794.3	763.1
Breakdown of parent company's share capital	pcs	counter value, EUR	EUR million	
A shares	31,737,007	2	63.5	
B shares	59,453,493	2	118.9	
Total	91,190,500		182.4	
Voting rights given by shares	votes			
A share	10			
B share	1			

Year 2003 stock option scheme

On 31 March 2003 the Annual General Meeting resolved to gratuitously issue a total of 1,800,000 stock options to the management of the Kesko Group and to a wholly-owned subsidiary of Kesko Corporation. A deviation is made from the shareholders' pre-emptive right to subscription since the stock options form a part of the incentive and commitment programme for the management. The terms and conditions of the management's stock option scheme 2003 were published in full in the attachment of a stock exchange release about the decisions of the Annual General Meeting published on 31 March 2003.

Each stock option entitles its owner to subscribe for one Kesko Corporation B share. The stock options shall be marked with symbols 2003D, 2003E and 2003F in units of 600,000 stock options each. The share subscription periods shall be:

- for stock option 2003D 1 April 2005 – 30 April 2008,
- for stock option 2003E 1 April 2006 – 30 April 2009 and
- for stock option 2003F 1 April 2007 – 30 April 2010.

The share subscription price for stock option 2003D shall be the trade volume weighted average quotation of Kesko's B share on the Helsinki Exchanges between 1 April and 30 April 2003, for stock option 2003E it shall be the trade volume weighted average quotation of Kesko's B share on the Helsinki Exchanges between 1 April and 30 April 2004 and for stock option 2003F, the trade volume weighted average quotation of Kesko's B share on the Helsinki Exchanges between 1 April and 30 April 2005. From the share subscription price of stock options shall, as per the dividend record date, be deducted the amount of the dividend decided after the beginning of the period for determination of the subscription price but before share subscription.

At the end of 2003 the subscription price of a B share subscribed for with stock option 2003D was EUR 9.63 and the subscription period will begin on 1 April 2005. Under this stock option scheme a total of 1,800,000 B shares can be subscribed for and Kesko Corporation's share capital may be increased by a maximum of EUR 3,600,000 as a result of the subscriptions.

The shares subscribed for under the year 2003 stock option scheme account for 1.82% of the share capital and for 0.47% of all votes, presuming that all issued warrants are used. Dividend rights of the shares and other shareholder rights shall commence when the increase of the share capital has been entered in the Trade Register.

Year 2000 stock option scheme

The Annual General Meeting of 10 April 2000 approved a stock option scheme for the top and middle management as part of the management's incentive programme. There were two classes of warrants issued, B warrants and C warrants, both without consideration. The number of B warrants issued (KESBVEW100) was 3,825,000 and the number of C warrants issued (KESBVEW200) was 2,015,000, i.e. a total of 5,840,000 warrants.

Share of issued stock options of share capital and votes

Presuming that shares are subscribed for with all of the 7,640,000 stock options issued under the year 2000 and the year 2003 schemes, the stock options account for 7.74% of the share capital and 1.99% of all votes. The company has no other convertible bonds or bonds with warrants in issue.

Authorisation by Board of Directors

The Board of Directors has no authorisation concerning an issue of rights, convertible bonds or warrants.

Notes to the balance sheet	Group		Kesko Corporation	
EUR million	2003	2002	2003	2002
18. Appropriations				
Depreciation reserve	-	-	201.9	206.2
Total	-	-	201.9	206.2
19. Provisions				
Rent expenses for vacant business premises	11.2	9.5	11.1	9.3
Guarantee losses	0.1	0.1	-	-
Guarantee provisions	9.3	7.7	-	-
Supplementary pension liabilities	0.4	0.4	-	-
Other provisions	3.2	1.5	0.8	0.2
Total	24.2	19.2	11.9	9.5
20. Deferred tax liabilities and assets				
Deferred tax assets caused by timing differences	12.0	16.1	-	-
Deferred tax liabilities	-	-	-	-
caused by appropriations	-71.4	-72.0	-	-
caused by timing differences	-2.2	-2.4	-	-
Total	-61.6	-58.3	-	-
21. Non-current liabilities				
Debt falling due later than within five years				
Loans from financial institutions	20.5	19.9	-	-
Pension loans	13.9	11.5	-	-
Total	34.4	31.4	-	-
Bonds with warrants (Tuko Oy) 1994-2001	0.2	0.2	-	-
Subordinated loan issued by Hämeenkylä Kauppa Oy (formerly Tuko Oy). The subscription period for shares ended in 2001.				
22. Current liabilities				
Debt to Group companies				
Advances received	-	-	-	1.2
Trade payables	-	-	0.3	0.1
Other debt	-	-	475.6	362.2
Accruals and deferred income	-	-	2.8	1.3
Total	-	-	478.7	364.8
Debt to participating interests				
Advances received	0.5	0.0	-	0.0
Trade payables	3.6	2.6	0.2	0.0
Other debt	14.3	18.6	13.8	18.6
Accruals and deferred income	0.7	1.7	-	0.0
Total	19.1	22.9	14.0	18.6
Accruals and deferred income				
Marketing	5.1	4.2	-	-
Payments for services	9.1	9.7	-	0.0
Discounts	27.5	13.2	-	-
Personnel expenses	61.6	56.5	2.4	2.2
Taxes	35.4	25.2	25.9	13.2
Others	46.2	37.6	3.6	4.1
Total	184.9	146.4	31.9	19.5

Other notes to the financial statements	Group		Kesko Corporation	
EUR million	2003	2002	2003	2002
23. Interest-free debt				
Deferred tax liability	61.6	58.3	-	-
Long-term liabilities	0.0	-	-	-
Short-term liabilities	941.8	793.4	41.1	46.2
Total	1,003.4	851.7	41.1	46.2
24. Securities given and contingent liabilities				
Debt for the security of which mortgages have been given				
Loans from financial institutions	1.1	1.1	-	-
Mortgages given	0.7	0.6	-	-
Trade payables	4.9	6.9	-	1.4
Other short-term debt	0.8	3.2	0.1	0.0
Total	5.7	10.1	0.1	1.4
Mortgages given	16.8	16.8	16.8	16.8
Other mortgages	2.0	2.0	2.0	2.0
Debt, total	6.8	11.2	0.1	1.4
Mortgages given, total	19.5	19.4	18.8	18.8
Debt for the security of which shares have been given				
Other short-term debt	0.9	3.8	0.9	3.8
Pledged shares	16.0	15.5	16.0	15.5
Debt, total	0.9	3.8	0.9	3.8
Pledged shares, total	16.0	15.5	16.0	15.5
Real estate mortgages				
For own debt	21	27	19	19
Chattel mortgages				
For own debt	-	0	-	-
Pledges				
For own debt	42	19	17	17
Guarantees				
For own debt	61	38	-	-
For Group companies	-	-	133	151
For associated companies	1	1	-	-
For shareholders	1	1	1	1
For others	2	2	2	2
Other contingent liabilities				
For own debt	94	65	50	38
For others	12	10	-	-
Leasing liabilities				
Falling due within a year	19	14	0	0
Falling due later	41	33	1	1

Other notes to the financial statements	Group				Kesko Corporation				
	EUR million	2003	market value	2002	market value	2003	market value	2002	market value
Liabilities arising from derivative instruments									
Value of underlying instruments at 31 Dec.									
Interest rate derivatives									
Forward and future contracts	6	-0.1	9	0.0	6	-0.1	9	0.0	
Interest rate swaps	21	-0.1	11	0.0	21	-0.1	22	0.0	
Currency derivatives									
Forward and future contracts	125	0.7	114	-0.7	147	1.8	138	0.4	
Electricity derivatives									
Purchase agreements	7	-0.3	-	-	14	0.0	-	-	

Provisions for the sale of real estate

Price adjustment mechanisms in 2007 are connected with the sales of the real estate 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.

Major trials pending

Cases pending at Helsinki District Court:

1. Eight former Citymarket retailers primarily demand that Kesko Corporation be obliged to pay a total of EUR 13.7 million in compensation for notices they claim to be contrary to their contracts. Their alternative demand is that, if notices are found to be according to contract, the condition of notice be modified in such a way that the reasonable period of notice is 24 months instead of the 6 months currently stated. And if this is the case, they also demand compensation for 18 months of lost profits: a total amount of about EUR 10.2 million. Additionally the retailers demand that Kesko be obliged to compensate them for damages caused by the increase in wholesale prices, which they regard as groundless, to a total of about EUR 0.9 million. All compensations and legal expenses are claimed subject to penalty interest in delay.
2. Four former Andiamo retailers primarily demand that Kesko Corporation be obliged to pay a total of about EUR 0.9 million in compensation for notices they claim to be contrary to their contracts. Their alternative demand is that, if notices are found to be according to contract, the condition of notice be modified in such a way that the reasonable period of notice is 24 months instead of the 6 months currently stated. And if this is the case, they also demand compensation for 18 months of lost profits: a total amount of about EUR 0.6 million. Additionally the retailers demand that Kesko be obliged to reimburse them for marketing money to a total of about EUR 0.09 million. All compensations and legal expenses are claimed subject to penalty interest in delay.
3. One former K-market retailer primarily demands that Kesko Corporation be obliged to pay a total of about EUR 0.2 million in compensation for notices he claims to be contrary to his contracts. His alternative demand is that, if the notice is found to be according to contract, the condition of notice be modified in such a way that the reasonable period of notice is 24 months instead of the 6 months currently stated. And if this is the case, he also demands compensation for 18 months of lost profits: a total amount of about EUR 0.1 million. Additionally the retailer demands that Kesko be obliged to compensate him for the losses caused by a groundless change in the terms of goods trading to a total of about EUR 0.03 million. All compensations and legal expenses are claimed subject to penalty interest in delay.

Kesko Corporation has contested all these summons and claims as groundless.

The proceedings continue at Helsinki District Court.

There is a case pending at the arbitration court in which:

1. Kapiteeli Oy demands that, in a dispute concerning the rental agreement of the Ruoholahti shopping centre, Kesko Corporation pay for additional costs of the building project and unpaid rent totalling about EUR 3.4 million and pay, from February 2003, an additional rent for the remaining 9 years of lease, the amount of which will be specified by them later on. The claim includes all damages and legal expenses with the legal amount of interest. Kesko Corporation has contested the claims as groundless.

Key indicators by quarter

Group's key indicators by quarter

	1-3/ 2002	4-6/ 2002	7-9/ 2002	10-12/ 2002	1-3/ 2003	4-6/ 2003	7-9/ 2003	10-12/ 2003
Net sales, EUR million	1,450	1,690	1,632	1,695	1,549	1,827	1,816	1,878
Change in net sales, %	1.3	6.6	6.2	2.0	6.9	8.1	11.3	10.8
Operating profit, EUR million	12.2	34.4	28.4	23.7	20.0	44.1	48.0	45.5
Operating profit, %	0.8	2.0	1.7	1.4	1.3	2.4	2.6	2.4
Financial income/expenses, EUR million	0.2	7.1	2.6	1.1	-0.0	6.3	-2.2	-0.0
Profit before extraordinary items, EUR million	12.4	41.5	31.0	24.9	20.0	50.4	45.7	45.5
Profit before extraordinary items, %	0.9	2.5	1.9	1.5	1.3	2.8	2.5	2.4
Return on invested capital, %	4.2	11.0	8.2	7.0	5.8	12.4	11.9	12.4
Return on equity, %	2.6	7.7	6.6	3.0	3.5	10.0	8.0	9.0
Equity ratio, %	52.8	52.6	53.4	53.3	47.5	48.6	49.8	51.7
Investments, EUR million	33.3	47.0	42.2	62.6	69.7	60.6	53.9	74.8
Earnings per share, EUR	0.10	0.29	0.25	0.11	0.12	0.34	0.27	0.31
Equity per share, EUR	14.88	14.67	14.92	15.02	14.13	14.49	14.76	15.07

Divisions' net sales by quarter

	1-3/ 2002	4-6/ 2002	7-9/ 2002	10-12/ 2002	1-3/ 2003	4-6/ 2003	7-9/ 2003	10-12/ 2003
EUR million								
Kesko Food	811	926	914	977	837	953	959	1,017
Rautakesko	153	222	198	161	181	280	281	253
Kesko Agro	154	216	166	179	169	237	179	183
Keswell	146	150	168	222	153	151	180	242
VV-Auto	126	119	119	86	145	161	139	113
Kaukomarkkinat	70	65	73	78	70	62	77	76
Common operations - eliminations	-10	-8	-6	-8	-6	-17	1	-6
Group's net sales	1,450	1,690	1,632	1,695	1,549	1,827	1,816	1,878

Divisions' operating profit by quarter

	1-3/ 2002	4-6/ 2002	7-9/ 2002	10-12/ 2002	1-3/ 2003	4-6/ 2003	7-9/ 2003	10-12/ 2003
EUR million								
Kesko Food	9.3	21.1	17.8	12.3	7.9	9.1	18.3	21.1
Rautakesko	-1.7	7.8	5.8	-2.9	0.4	10.9	12.2	4.6
Kesko Agro	1.6	8.2	1.1	-3.5	0.6	9.3	1.3	-3.8
Keswell	-11.6	-4.2	0.5	12.3	-10.3	-2.8	0.1	16.5
VV-Auto	5.1	3.8	4.3	1.3	5.8	6.3	5.3	4.9
Kaukomarkkinat	2.5	0.7	3.2	1.2	1.0	-0.4	3.8	1.7
Common operations	7.0	-3.0	-4.3	3.0	14.6	11.7	7.0	0.5
Group's operating profit	12.2	34.4	28.4	23.7	20.0	44.1	48.0	45.5

Group in figures

	1999	2000	2001	2002	2003
Income statement					
Net sales, EUR million	6,111	6,308	6,214	6,466	7,070
Change in net sales, %	2	3.2	-1.5	4.1	9.3
Other operating income, EUR million	292	336	399	431	482
Materials and services, EUR million	5,359	5,553	5,439	5,672	6,169
Personnel expenses, EUR million	317	316	333	348	390
Personnel expenses as % of net sales	5.2	5	5.3	5.4	5.5
Depreciation and value adjustments, EUR million	113	119	115	108	110
Other operating expenses, EUR million	496	540	651	673	726
Share of profits/losses of associated companies, EUR million	-2	1	2	2	1
Operating profit, EUR million	116	117	77	99	158
Operating profit as % of net sales	1.9	1.9	1.2	1.5	2.2
Financial income and expenses, EUR million	12	9	9	11	4
Profit before extraordinary items, EUR million	128	126	86	110	162
Profit before extraordinary items as % of net sales	2.1	2.0	1.4	1.7	2.3
Profit before taxes, EUR million	124	126	86	110	162
Profit before taxes as % of net sales	2.0	2.0	1.4	1.7	2.3
Income taxes, EUR million	39	34	30	42	58
Minority interest, EUR million	0	-1	-1	0	8
Net profit for the financial year, EUR million	85	91	55	68	96
Net profit for the financial year as % of net sales	1.4	1.4	0.9	1.0	1.4
Balance sheet					
Intangible assets, EUR million	133	149	182	188	223
Tangible assets, EUR million	865	883	875	889	1,013
Investments, EUR million	126	153	151	145	68
Stocks, EUR million	492	536	510	554	677
Receivables, EUR million	683	772	722	678	690
Marketable securities, EUR million	232	30	49	131	23
Cash on hand and at bank, EUR million	39	47	78	43	63
Share capital, EUR million	180	180	180	182	182
Shareholders' equity, total, EUR million	1,432	1,380	1,347	1,369	1,374
Minority interest, EUR million	16	16	16	23	41
Provisions, EUR million	16	12	11	19	24
Liabilities, EUR million	1,106	1,162	1,193	1,218	1,318
Balance sheet total, EUR million	2,570	2,570	2,567	2,629	2,757
Cash flow					
Cash flow from operating activities, EUR million	268	129	209	146	165
Interest-bearing liabilities, EUR million	289	305	300	366	315
Interest-bearing net debt, EUR million	18	227	173	193	229
Key indicators					
Return on equity, %	6.1	6.4	4.1	4.9	7.4
Return on invested capital, %	8.0	8.5	6.6	7.6	10.9
Equity ratio, %	56.6	54.7	53.6	53.3	51.7
Gearing ratio, %	1.3	16.3	12.7	13.9	16.2
Investments, EUR million					
Investments as % of net sales	3.3	3.9	3.3	2.9	3.7
Personnel					
Average number of personnel during the financial year	10,993	11,099	11,544	12,217	15,219
Number of personnel at 31.12., incl. part-time employees	12,968	13,361	14,988	15,212	19,411

Calculation of key indicators

Return on equity (ROE), %	=	$\frac{\text{profit before extraordinary items less income taxes}}{\text{shareholders' equity + minority interest (average during the year)}} \times 100$
Return on invested capital (ROI), %	=	$\frac{\text{profit before extraordinary items + interest and other financial expenses}}{\text{balance sheet total less interest-free debt (average during the year)}} \times 100$
Return on net assets (RONA), %	=	$\frac{\text{operating profit}}{\text{net assets (= balance sheet total less liquid assets less interest-free debt less provisions) average}} \times 100$
Equity ratio, %	=	$\frac{\text{shareholders' equity + minority interest}}{\text{balance sheet total less advances received}} \times 100$
Debt to equity ratio, %	=	$\frac{\text{liabilities + provisions}}{\text{balance sheet total less advances received}} \times 100$
Gearing ratio, %	=	$\frac{\text{interest-bearing liabilities less marketable securities less cash on hand and at bank}}{\text{shareholders' equity + minority interest}} \times 100$
Cash flow from operating activities	=	operating profit + depreciation and value adjustments ± change in working capital ± financial income and expenses less income taxes
Market capitalisation	=	share price on balance sheet date x number of shares
Earnings per share	=	$\frac{\text{profit before extraordinary items less income taxes ± minority interest}}{\text{average adjusted number of shares}}$
Equity per share	=	$\frac{\text{shareholders' equity}}{\text{adjusted number of shares}}$
Dividend as % earnings	=	$\frac{\text{dividend per share}}{\text{earnings per share}} \times 100$
Price per earnings ratio (P/E)	=	$\frac{\text{share price on balance sheet date}}{\text{earnings per share}}$
Dividend yield, %	=	$\frac{\text{dividend per share}}{\text{share price on balance sheet date}} \times 100$
Cash flow from operating activities per share	=	$\frac{\text{cash flow from operating activities}}{\text{average number of shares}}$
Yield of A share and B share	=	change in share price + annual dividend yield

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 2003. 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 are free of material misstatement. Concerning administration, we have examined the legality of the actions of the 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 Group and the parent company. The financial statements, including the consolidated financial statements, can be adopted. The members of the parent company's Board of Directors and the Managing Director can be discharged from their responsibilities for the financial period audited by us. The proposal of the Board of Directors concerning distributable reserves is in compliance with the Companies Act.

Helsinki, 25 February 2004

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pekka Nikula
APA

Glossary

In this glossary, we have compiled some key commercial and financial terms that appear in this annual report.

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

Assortment is the number of product groups sold for different purposes (e.g. food, clothing, shoes, cosmetics, books and domestic appliances). The assortment can be wide, such as in department stores, or narrow, such as in speciality stores.

Cash flow from operations is the amount of cash generated from actual business operations.

Certification is an audit carried out by an independent third party to verify the compliance of operating systems with certain criteria (e.g. with an ISO standard).

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

Chain Executive Committee is a body elected by retailers from their midst. It can make proposals and give opinions to the chain unit in matters concerning chain co-operation.

Chain planning groups are groups that plan different areas of chain operations. They include chain retailers, their personnel and chain unit representatives.

Chain selection in the K-Alliance is that part of a selection which is the same in all stores of the chain. The chain unit makes decisions concerning the selection.

Chain unit is the Kesko unit responsible for store chain operations and chain concept development in the K-Alliance. It has decision-making power in matters concerning the chain.

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

Debt to equity ratio is liabilities divided by the total assets.

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

Dividend yield is the dividend per share divided by the market value of the share.

Equity ratio is shareholders' equity divided by the total assets.

Fair trade is a form of international trade, illustrated by a formalised parrot logo. The logo indicates that business is carried out directly with small producers of the third world without intermediaries. Producers receive a guaranteed price for their products that is usually significantly higher than the world market price. They are also given guarantees of long contracts and opportunities for advance financing.

Gearing ratio is net interest-bearing liabilities divided by shareholders' equity.

Global Reporting Initiative (GRI) is an international independent organisation that has developed three-dimensional guidelines for sustainability reporting. The organisation collaborates with the United Nations Environmental Programme (UNEP), the Coalition of Environmentally Responsible Economies (CERES) and a great number of specialised organisations. The guidelines cover the measurement of not only the environmental performance of companies, but also their social and economic performance.

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

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

Home and speciality goods stores include clothing, shoe, sports, home technology, and home goods and interior decoration stores.

Hypermarket is a retail store selling a wide variety of goods mainly on the self-service principle. Its sales area exceeds 2,500 m². In a hypermarket, food accounts for less than half of the total area, but sales focus on groceries (food and other everyday items).

Hypermarket centre is usually located on one level. The hypermarket accounts for over 50% of the total business premises.

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

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

K-Retailers' Association is a body that looks after the interests of the K-retailers. Its key function is to promote and strengthen the conditions for the entrepreneurial activities of K-retailers. All the K-retailers - about 1,380 - are members of the K-Retailers' Association.

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

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

New establishment refers to new store sites or business premises.

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

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

Price per earnings ratio (P/E) is the share's market value divided by the company's net earnings per share.

Retail park is a centre consisting of speciality stores. Its typical location is outside urban centres.

Retail trade refers to sales to consumer customers.

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

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

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

Small store and **kiosk** are grocery stores whose sales area is less than 100 m².

Social Accountability International (SAI) is a non-profit organisation that aims to improve working conditions up to international minimum standards. Working with various non-governmental and professional organisations, companies, universities and certification institutes, the organisation has developed the SA 8000 standard to ensure that minimum requirements are met.

Store-specific selection in the K-Alliance is that part of the selection of a store that is adapted for the special needs of the local market.

Supermarket is a grocery store that focuses on food sales and works on a self-service principle. Its sales area is at least 400 m², with food accounting for over half of the total sales area.

Trading house is a company that offers its principals sales services and international trading in various forms. A company that is engaged in imports, exports or trading between third countries in products manufactured by other companies can be considered as a trading house.

Village store is a grocery store with a sales area of less than 400 m², located in a sparsely populated area. In Finland, stores situated outside areas subject to town planning have been free from opening hours restrictions since 1990.

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

Major stock exchange and press releases

In addition to regularly providing information about financial performance, Kesko published monthly stock exchange releases on the Group's sales. Other major stock exchange and press releases of Kesko Corporation and its divisions in 2003 are listed below. All releases are available at www.kesko.fi/pressinfo.

PR 13.1.2003: The K-citymarket chain added 1,000 new products to its selections and another 1,000 products were given fixed low prices.

PR 24.1.2003: Kesko's web pages won the competition for Finnish listed companies.

PR 29.1.2003: Kesko Machinery Ltd bought Arwidson's Yamaha business operations.

PR 29.1.2003: Kesko won the Finnish companies disclosure and financial reports 2002 evaluation.

SER 5.2.2003: Kesko's Board of Directors proposed a stock option scheme for the management at the Annual General Meeting.

PR 7.2.2003: Kesko Food sold its coffee roastery to Gustav Paulig Ltd.

SER 18.2.2003: Kesko sold the site of its main office building to the Kesko Pension Fund.

SER 13.3.2003: Rautakesko acquired a majority shareholding in UAB Senuku Prekybos centras, Lithuania's largest hardware and building supplies company.

PR 17.3.2003: The prices of the Pirkka products - over 1,000 in all - dropped in all K-food stores.

PR 17.3.2003: In its global report, Storebrand of Norway ranked Kesko as the most responsible company in the trading sector.

SER 31.3.2003: Kesko Corporation's Annual General Meeting adopted the financial statements for 2002, discharged those accountable from their responsibilities, decided to pay a dividend of EUR 1.00 per share and approved the Board of Directors' proposal of the stock option scheme for the management. Pentti Kalliala, Eero Kasanen, Matti Kavetvuo, Maarit Näkyvä, Keijo Suila, Heikki Takamäki, Jukka Toivakka and Matti Honkala were elected as members of the Board of Directors.

SER 31.3.2003: Kesko Corporation's Board of Directors elected Heikki Takamäki as its Chairman and Matti Kavetvuo as its Deputy Chairman.

SER 29.4.2003: Kapiteeli Oy claimed damages from Kesko in a court of arbitration in the dispute concerning the rental agreement of the Ruoholahti shopping centre in Helsinki.

SER 7.5.2003: Kesko Corporation's Board of Directors decided on the distribution of the stock options issued on 31 March 2003.

SER 3.6.2003: Kesko Corporation and four former Musta Pörssi retailers signed conciliation agreements to the effect that the retailers abandon their actions against Kesko.

PR 16.6.2003: Keswell Ltd's subsidiary Interwell Oy acquired Rea Rintamäki Oy's sports business operations.

PR 17.6.2003: Kesko Food Ltd opened new Citymarkets in Liepaja and Ventspils, Latvia in June. The SuperNetto discount chain was also expanded with two new stores.

PR 26.6.2003: Pikoil Oy, a joint venture of Fortum subsidiary Neste Marketing Ltd and Kesko Food Ltd started operations at the beginning of July.

PR 21.8.2003: The home and speciality goods operations of Citymarket Oy, a Kesko Food subsidiary, will be reorganised. Co-operation procedures were initiated at K-citymarket hypermarkets' home and speciality goods departments.

PR 1.9.2003: Pirkka, the most widely distributed magazine in Finland, celebrated its 70th anniversary.

SER 8.9.2003: Kesko Corporation was included in the European Dow Jones sustainable development index.

SER 16.9.2003: By residual tax decisions made on 12 September 2003, the Tax Office for Major Corporations imposed income taxes, a tax increase and additional taxes on Kesko Corporation, totalling EUR 11.1 million.

PR 23.9.2003: The Young Finland Association and the K-Alliance signed a three-year co-operation agreement for 2004-2006.

PR 25.9.2003: Kesko granted EUR 25,000 in awards for sustainable development.

SER 26.9.2003: The bank account of SIA Kesko Agro Latvia, a subsidiary of Kesko Agro Ltd, revealed unauthorised transfers of assets outside the company to the value of about EUR 2.9 million.

PR 30.9.2003: Kesko Food expanded its Citymarket chain in Estonia. Two new Citymarkets were opened in Tallinn in October.

PR 1.10.2003: Kesko Corporation was included in the sustainable development index initiated in co-operation by the Dutch investment companies Kempen Capital Management and SNS Asset Management.

PR 29.10.2003: Kesko donated EUR 241,000 to the Young Finland Association to promote the physical exercise of families with children.

SEN 31.10.2003: Kesko Corporation's C warrants issued under the year 2000 stock option scheme were included on the main list of the Helsinki Exchanges on 3 November 2003.

PR 3.11.2003: Kesko Food made a long-term rental agreement with the Latvian SIA Ilga-Sigulda concerning the stores of the Globuss chain.

PR 4.11.2003: K-food stores succeeded extremely well in the Organic Store of the Year 2003 competition arranged by Finfood Luomu, winning all categories.

SER 11.11.2003: Kesko Corporation and its subsidiaries Center-yhtiöt Oy and Hämeenkyän Kauppa Oy sold all the shares they held in property investment company Citycon Oyj.

PR 26.11.2003: Kesko Food opened the fifth Citymarket in Jelgava, Latvia.

PR 28.11.2003: K-Alliance's customer loyalty system Plussa was reformed.

SER 19.12.2003: Kesko Food Ltd and the Swedish ICA AB signed a letter of intent to establish a joint venture for the Baltic food market.

SER 23.12.2003: The Finnish Competition Authority extended the validity of the exemptions granted to Kesko Food's store chains and Pirkka product pricing in 2001 until 30 April 2004.

SER = stock exchange release, SEN = stock exchange notification
PR = press release

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Tel. +358 10 5311, fax +358 1053 23479

SUBSIDIARIES**K-instituutti Oy**

Siikajärventie 88-90, FI-02860 Espoo
Tel. +358 10 5311, fax +358 9 863 8571
www.k-instituutti.fi

**Corporate Communications
and External Relations**

Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 10 5311, fax +358 9 174 398

Internal Audit

Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 1053 22046, fax +358 1053 22126

Central Warehouse

Central Warehouse 1
(home and speciality goods), Tikkurilantie 5,
P.O.B. 145, FI-01301 Vantaa
tel. +358 10 5311, fax +358 1053 27505

Central Warehouse 2
(groceries), Jokiniementie 31, P.O.B. 152,
FI-01301 Vantaa
tel. +358 10 5311, fax +358 1053 28517

Hämeenkylässä Warehouse
(Anttila), Ainontie 5, FI-01630 Vantaa
tel. +358 10 5343, fax +358 1053 39499

Service numbers

Plusa customer service
Mon-Fri 8.00-21.00, Sat 8.00-18.00,
Sundays when stores open 12.00-21.00,
local time +358 800 0 5588

Kesko Food's consumer service
Mon-Fri 9.00-13.00, local time
+358 800 0 1000

Information for shareholders

Schedule for financial publications and other key dates in 2004

Financial statements for 2003 released	4 February 2004
Financial statements and annual report for 2003	15 March 2004
Annual General Meeting 2004	29 March 2004
Interim report for the first 3 months of 2004	29 April 2004
Interim report for the first 6 months of 2004	30 July 2004
Interim report for the first 9 months of 2004	29 October 2004

In addition, the Group's sales figures and the K-Alliance's retail sales are published monthly.

Annual General Meeting

The Annual General Meeting of Kesko Corporation will be held in the Helsinki Fair Centre's congress wing, Rautatieläisenkatu 3, on 29 March 2004 at 13.00 hrs.

All shareholders entered in the register of Kesko Corporation shareholders kept by the Finnish Central Securities Depository Ltd on 19 March 2004 (Annual General Meeting record date) are entitled to attend the Annual General Meeting.

Shareholders wishing to attend the meeting should notify not later than 23 March 2004 at 16.00

- by letter to Kesko Corporation/Legal Affairs
FI-00016 Kesko
- by fax to +358 1026 22727
- by telephone to +358 1053 23211
- by e-mail to kesko@yhteyspalvelut.elisa.fi
- or through the Internet pages at www.kesko.fi/investor-information

Notifications must be received by the end of the notification period.

More information about the Annual General Meeting, attendance and decision-making are given on pages 49-54 in the corporate governance statement.

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

Payment of dividends

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of EUR 2.00 per share be paid for 2003. The dividend will be paid to all shareholders entered in the register of Kesko Corporation shareholders kept by the Finnish Central Securities Depository Ltd on 1 April 2004 (record date for payment of dividend). Registration practice takes three banking days, so the dividends are paid to those who hold the shares at the close of the date of the Annual

General Meeting on 29 March 2004. Dividends for shares traded on the date of the Annual General Meeting are paid to buyers.

According to the Board of Directors' proposal the payment of dividends starts on 8 April 2004.

Financial publications

The annual report and interim reports are published in Finnish, Swedish and English. No separate printed interim reports are published but they instead come out as special sections of TradeMaker magazine.

The TradeMaker magazine is published in Finnish and English in February, May, August and November.

The annual report, interim reports, monthly sales figures and other key releases are also published on the Group's Internet pages at www.kesko.fi/pressinfo.

Kesko also publishes a separate corporate responsibility report in Finnish and English.

Publications may be ordered from

Kesko Corporation/Corporate Communications
Satamakatu 3
FI-00016 Kesko
Tel. +358 1053 22404
Fax +358 9 174 398
Internet: www.kesko.fi/materialservice

Change of address

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

Information about Kesko for investors

Investor relations

Satamakatu 3, FI-00016 Kesko

Juhani Järvi

Corporate Executive
Vice President, CFO
Tel. +358 1053 2209
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juhani.jarvi@kesko.fi

Jukka Pokki

Investor Relations Manager
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Principles of investor relations

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

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

The Internet and printed material

Kesko publishes its annual report as a printed publication in Finnish, Swedish and English. The annual financial statements release and three interim reports are also published as part of the TradeMaker stakeholder magazine which is mailed to all shareholders. In addition, the company maintains a mailing list of other persons to whom the annual report and TradeMaker magazine are sent. Those who wish their names to be entered on the mailing list may fill in the material service form at Kesko's Internet site or the coupons in the printed publications. Kesko's stock exchange and press releases can be ordered by e-mail through the material service at the Internet site.

Press conferences and period of silence

Kesko arranges press conferences for analysts and the media at the time of announcing the annual and interim results or other significant news, and holds Capital Market Days on various themes 1-2 times a year.

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

The brokerage firms analysing Kesko

ABN AMRO Alfred Berg, Helsinki

Tel. +358 9 228 321
Fax +358 9 2283 2283
tia.lehto@alfredberg.fi

Aktia Savings Bank plc, Helsinki

Tel. +358 10 247 6581
Fax +358 10 247 6827
paavo.ahonen@aktia.fi

Conventum Securities Ltd, Helsinki

Tel. +358 9 2312 3314
Fax +358 9 2312 3335
kalle.karppinen@conventum.fi

Crédit Agricole Indosuez Cheuvreux, London

Tel. +44 207 621 5172
Fax +44 207 621 5101
fhoyer@indocdy.com

Danske Securities, Helsinki

Tel. +358 20 175 4332
Fax +358 20 175 4303
ari.jarvinen@danskecurities.com

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Fax +358 10 444 2578
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Impivaara Securities Ltd, London

Tel. +44 207 284 3937
Fax +44 207 284 3938
impivaara@pomor.com

Mandatum Stockbrokers Ltd, Helsinki

Tel. +358 1023 64707
Fax +358 9 651 093
pia.maljanen@mandatum.fi

Nordea Securities Oyj, Helsinki

Tel. +358 9 123 41
Fax +358 9 1234 0310
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KESKO

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