KESKO

Kesko's year

2005

Kesko's key store concepts

Contents

Kesko in brief

Kesko is the most versatile provider of trading sector services in the Baltic Sea area. In close cooperation with retailer entrepreneurs and other partners Kesko produces retail and wholesale services that are highly valued by customers. Kesko operates in Finland, Sweden, Norway, the Baltic countries and North-west Russia. Kesko has about 2,200 stores engaged in chain operations in seven countries.

Our core competence areas

- Creating trading concepts and operating systems highly valued by customers
- Generating purchasing, logistics and marketing services
- Management of store chains, particularly entrepreneur chains, and producing support services for them
- Development of store site network
- Use of centralised resources and management of multi-sector operations

Division parent companies

Kesko Food Ltd

Kesko Food operates in the grocery market offering diverse trading sector services to consumers and business customers in Finland and, through the joint venture, in the Baltic countries. It manages and develops K-food store chains in Finland and is responsible for their marketing, purchasing and logistics services, store site network and retailer resources. Kesko Food's subsidiary Kespro Ltd offers delivery sales and wholesale services to HoReCa customers. Kesko Food and the Swedish ICA AB's subsidiary ICA Baltic AB own with equal shares Rimi Baltic AB, which operates in the Baltic grocery market. Pages 20-23.

Rautakesko Ltd

Rautakesko is engaged in the hardware and builders' supplies and interior decoration trade in Finland, Sweden, Norway, the Baltic countries and Northwest Russia. It manages and develops its retail store chains and B-to-B Service in its operating area. Rautakesko is responsible for the chains' concepts, marketing, purchasing and logistics services, store network and retailer resources. Pages 24-27.

Keswell Ltd

Keswell chains specialise 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 chains include well-known furniture, interior decoration, sports, home technology, shoe, optical and department stores that have gained a strong position. Pages 28-31.

VV-Auto Oy

VV-Auto imports and markets Volkswagen, Audi and Seat passenger cars and Volkswagen commercial vehicles in Finland. VV-Auto is also engaged in car retailing and provides after-sales services in its own retail outlets. Pages 32-33.

Konekesko Ltd

Konekesko is a service company specialised in the import and sale of recreational and heavy machinery. In addition to Finland, Konekesko markets Yamarin boats to several European countries, and construction and environmental machines to the Baltic countries through Kesko Agro. Pages 34-35.

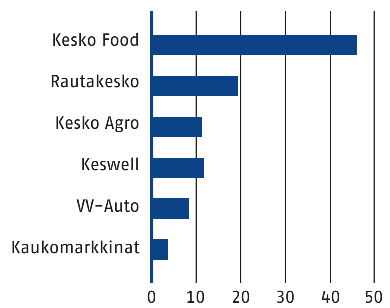
Kesko Agro Ltd

Kesko Agro's K-agriculture chain purchases and sells animal feed, chemicals and machinery to agricultural entrepreneurs and trades in grain with them. Kesko Agro is active in Finland and in the Baltic countries. Pages 36-37.

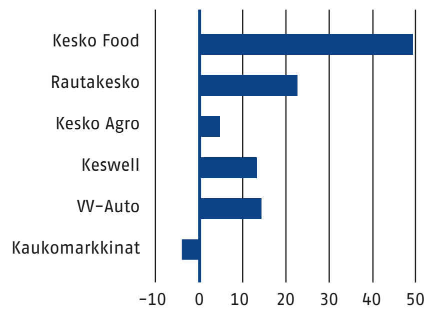
Kaukomarkkinat Oy

Kaukomarkkinat specialises in international technical trading for production and professional usage. Pages 38-39.

Breakdown of net sales by division in 2005, %



Operating profit by division in 2005, %



Year 2005 in brief

Net sales and profit increased

The Group's net sales progressed well, exceeding the growth of competitors in many lines of business. Net sales grew by 10.8%, amounting to EUR 8,322 million. Rautakesko, Keswell and VV-Auto registered the biggest increases. Acquisitions also contributed to the good growth.

Net sales in Finland increased by 3.7% to EUR 6,657 million. Net sales in other countries increased by 52.8% to EUR 1,665 million, representing 20.0% of total net sales.

Non-recurring items excluded, the Group's operating profit was EUR 212.5 million (EUR 201.1 million). It was the best in Kesko's history.

Kesko distributed a dividend of EUR 1.00 per share from the profit for the year 2004 and the Board of Directors proposes to the Annual General Meeting that EUR 1.10 per share be distributed as a dividend for the year 2005.

The total market capitalisation of the company increased by EUR 603.8 million to EUR 2,318.4 million during the year.

Rautakesko joins the European vanguard

Rautakesko expanded its operations considerably by two acquisitions. In July it acquired Norway's Norgros AS, which manages Byggmakker, the country's largest hardware and building materials chain. The acquisition of Stroymaster, a St. Petersburg DIY store chain, was also completed in July. Thanks to these acquisitions and the good sales growth, Rautakesko and its chains rose to the vanguard of European hardware and builders' supplies companies at the annual level.

Home creation services were complemented

Keswell acquired Indoor Group Ltd at the beginning of 2005 and became the market leader in the Finnish furniture trade with its Asko and Sotka store chains. The furniture trade complements the diverse service offering of the K-rauta, Rautia, Kodin Ykkönen, Anttila, K-citymarket and Musta Pörssi chains in home creation.

Kesko Food started rationalisation measures

In 2005, competition increased further in the Finnish grocery trade, resulting in major restructuring in competing groups. Kesko Food responded to the competition by starting several rationalisation measures during the year. At the beginning of the year it sold and rented back its central warehouse property and started a rationalisation programme aiming at savings of over EUR 20 million. In the autumn Kesko Food disclosed that it had made extensive management rearrangements and put its rationalisation measures into practice.

In the Baltic countries, the Rimi Baltic AB joint venture that had been started at the beginning of the year by Kesko Food and Sweden's ICA AB progressed as planned and strengthened its hold in the growing Baltic grocery retail market.

Kesko Food acquired Neste Marketing's 50% holding in Pikoil Oy, which was established in 2003 to operate in the fuel and grocery retail market. As a result of the deal, Kesko Food became the sole owner of the company.

The management was reformed and key development projects were started

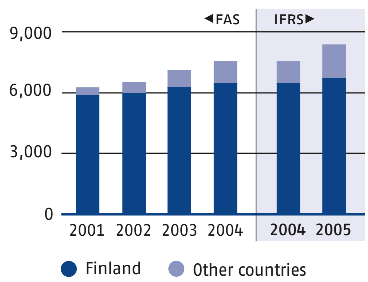
Matti Halmesmäki took up the duties of the President and CEO at the beginning of March. Changes also took place in other key managerial posts of the Corporate Management Board. The Group's top management focused on planning and implementing Group-wide reform and development projects. Key themes addressed by the Corporate Management Board included focusing on customer-oriented operations, emphasising entrepreneurship as a competitive advantage, internationalising Kesko, and thereby increasing Kesko's shareholder value.

Financial highlights

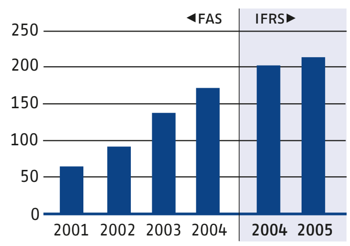
		2005	2004	Change, %
Net sales	EUR million	8,322	7,509	10.8
Operating profit	EUR million	249	251	-0.6
Operating profit excl. non-recurring items	EUR million	213	201	5.7
Profit before taxes	EUR million	239	241	-1.1
Return on invested capital	%	12.5	14.3	-12.9
Return on equity	%	13.0	12.8	1.3
Investments	EUR million	454	192	(..)
Cash flow from operating activities	EUR million	298	213	39,7
Equity ratio	%	42.3	44.2	-4.4
Gearing ratio	%	42.4	37.0	14.6
Personnel (average)		21,603	17,528	23.2
Dividend per share	EUR	1.10*	1.00	10.0
Earnings per share, diluted	EUR	1.87	1.89	-1.4
Equity per share, diluted	EUR	15.35	14.73	4.2

* proposal to the Annual General Meeting
(..) change over 100%

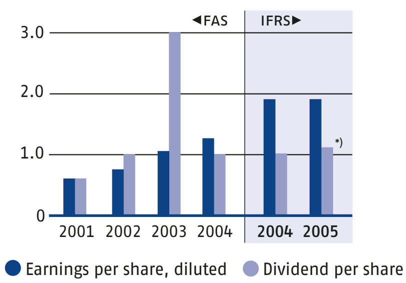
Group net sales, EUR million



Group's operating profit excl. non-recurring items, EUR million



Earnings per share and dividend per share, EUR



*proposal to the Annual General Meeting

Review by the President and CEO

According to the further revisions made to Kesko Group's strategy last year, we can create shareholder value only by exceeding customer expectations in the K-stores. Taking reinvested dividends into account, Kesko's shareholders have received an average annual return of 35% on their investment during the past five years.

The year 2005 was a success for Kesko Group. Our net sales increased by 10.8% to EUR 8,322 million. Our operating profit, excluding non-recurring items, was a historical best for Kesko, reaching EUR 212.5 million. We are particularly pleased with the development in Rautakesko, VV-Auto, Anttila and Konekesko. Keswell strengthened its performance and furniture trade by acquiring the Asko and Sotka chains. Kesko's corporate responsibility, financial communications and internal auditing were given wide recognition last year, too.

The Group's net sales also increased through two acquisitions of Rautakesko: Byggmakker, the leading Norwegian hardware and building materials chain, and the Stroymaster DIY chain in Russia. Operations outside Finland already accounted for more than half of Rautakesko's net sales. Rautakesko's near future target is healthy, strong growth in Russia, the Baltic countries and the Nordic countries. In all, 20% of Group net sales were generated outside Finland.

Kesko Group's clear objective is to achieve the leading position in Finnish trade – an objective that has already been achieved by the K-rauta, Rautia and Intersport chains in their own lines of business. The measures that have been and will be implemented in Kesko Food and the K-food stores aim at better competitiveness and faster-than-market growth.

At the end of the year, Kesko Group had 26,900 employees, of whom nearly one half, i.e. about 12,300, worked outside Finland. Our personnel include 17 different nationalities. The whole K-Alliance employs approximately 50,000 people.

I wish to extend my warmest thanks to all Kesko employees for their diligence, expertise and commitment to our common objectives. The personnel's motivation, competence and job satisfaction are the guarantees of our continued success.
I would also like to thank our shareholders, the K-retailers and their staff, and all our partners for their trust and cooperation during the year 2005.

Helsinki, 15 February 2006

MATTI HALMESMÄKI
President and CEO

Group's operations

Business

Kesko is the most versatile provider of trading sector services in the Baltic Sea area. Kesko produces trading services highly valued by customers by doing retail and wholesale business in close cooperation with retailer entrepreneurs and other partners. Kesko manages retail store chains and develops trading concepts and operating systems. Kesko's business activities in different divisions are carried out by Kesko Food, Rautakesko, Keswell, VV-Auto, Konekesko, Kesko Agro and Kaukomarkkinat. Kesko's main operating areas are Finland, Sweden, Norway, the Baltic countries and Northwest Russia.

Vision

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

Mission

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

Goals

The following goals of the Group guide the setting of the divisions' and chains' goals and objectives and the implementation of strategies.

Most satisfied customers – growing customer value

- Exceeding customer expectations
- The best in industry - leadership in selected markets

Excellent practices, stores and services

- The best practices and performance in the trading sector
- High corporate responsibility

Competent and motivated people

- Management by values
- Systematic development of competencies

Good performance – increasing shareholder value

- Return on equity 12%
- Return on invested capital 12%
- Growth in Finland will exceed market growth
- Proportion of international operations will increase

Values

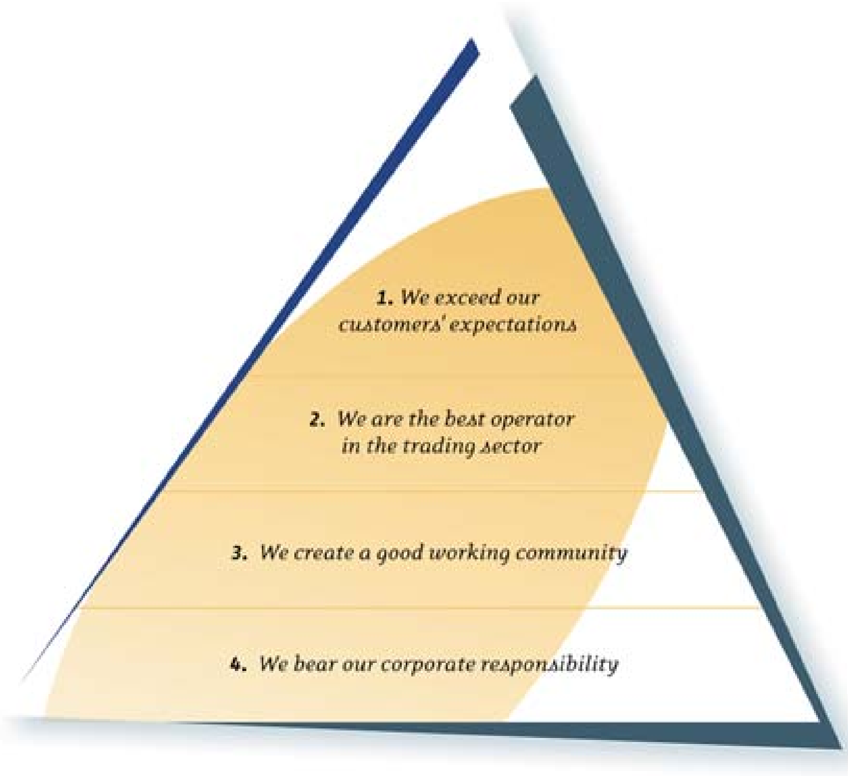
Kesko's values guide operations:

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 his or her 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.



Kesko's strategy

Kesko's strategy emphasises total customer service, entrepreneurship, diversified trading expertise and internationalisation.

Total customer service and entrepreneurship

- Meeting chain-specific customer promises and exceeding customer expectations
- Successful chain concepts and brands combined with good store sites
- A customer loyalty programme providing customer benefits and the K-Plussa card
- Making use of entrepreneurship as a competitive advantage

Customer expectations concerning products and services guide the operations of Kesko and its stores. Alongside products, demand for services related to their use will grow considerably. Satisfied and loyal customers enable Kesko to achieve profitable growth, annual profit targets and growing shareholder value.

Chain-specific customer promises together with strong chain concepts and brands create a basis for efficient chain operations. Chain brands are supported by private labels and suppliers' brands. Success is monitored closely through chain- and store-specific market share, sales and customer satisfaction indicators.

A renewing and comprehensive store network is a key competitive advantage. An increasing number of online trading services for both consumers and professional customers will complement the network of fixed stores.

K-Plussa is the joint customer loyalty system of the K-Alliance. The K-Plussa system gives customers access to the extensive product and service offering of the K-stores and other partners in Finland.

Entrepreneurship has been the basis of the K-Alliance's business from the very beginning. Kesko has developed operating systems together with retailers and created the prerequisites for better customer service through retailer entrepreneurship. Retailers are responsible for their stores' customer satisfaction, leadership and financial performance by implementing the chain concept. Retailer entrepreneurship creates competitive advantage for the chains by meeting customer promises and exceeding customer expectations better than competitors.

Diversification and internationalisation

- Kesko Food aims at growth exceeding that of competitors
- Rautakesko will be one of the biggest European hardware and builders' supplies stores
- Keswell chains will strengthen their position in Finland and expand to the interior decoration and sports trade in the Baltic countries
- VV-Auto will strengthen its position in car retailing
- Konekesko will expand its product and service offering in the recreational and heavy machinery market
- Kesko Agro will achieve market leadership in Finland and the Baltic countries
- Kaukomarkkinat will focus on technical trade in the Baltic Sea area, Russia and China

Diversification is important because the market in Finland and the neighbouring areas is relatively small.

Management of diversification in the trading sector will create the basis for Kesko's operations, allowing for sufficient size, a steady cash flow and risk tolerance as well as a stable and good dividend paying capacity. At Kesko, diversification means trading in different product lines, different market areas and through many distribution channels.

Food trade with steady demand is the largest sector, while more cyclical lines of business, such as hardware and builders' supplies, home and speciality goods, and car trade create opportunities for growth.

Kesko Food will be elevated to market leadership in the Finnish food trade during the next few years. The K-food stores' joint operations will be increased and chain operations intensified in order to offer customers more quality and price benefit. A strong focus will be placed on increasing staff competence and developing retailer entrepreneurship. Competitiveness and profitability will be improved by eliminating unprofitable business and investing in new store sites. All K-food stores will be run by retailer entrepreneurs. Rimi Baltic AB aims at market leadership in the Baltic countries.

Rautakesko's objective is, through greenfielding and company acquisitions, to become one of the biggest European hardware and builders' supplies stores. In Northwest Russia, Rautakesko will expand in new areas in addition to St. Petersburg. In the Baltic countries, the store site network will be expanded

K-food stores' increased joint operations and closer chain operations provide more quality and price benefits for their customers.
Kesko also bears responsibility for the direct and indirect impact of its operations in the sphere of environment and social performance.

particularly in Latvia. Rautakesko's price competitiveness will be strengthened by combining international purchasing power and harmonising the practices of different chains in logistics, information systems and purchasing.

Keswell aims to increase its market shares in Finland and to go international in selected lines of business. In internationalisation the emphasis will be on starting the sports business and expanding the interior decoration business in the Baltic countries. Anttila's distance sales will be developed by integrating Anttila Mail Order and NetAnttila into a multi-channel online department store.

VV-Auto aims to increase the total market share of the brands it represents. The company's own retailing will be strengthened. The focus will be particularly on after-sales services and customer service in each brand.

Konekesko's growth will be boosted by expanding its product and service offering. Konekesko will differentiate from competitors by diversification, strong brands and versatile after-sales services.

Kesko Agro will grow and become the leading agricultural store chain in Finland and the Baltic countries and expand its online solutions.

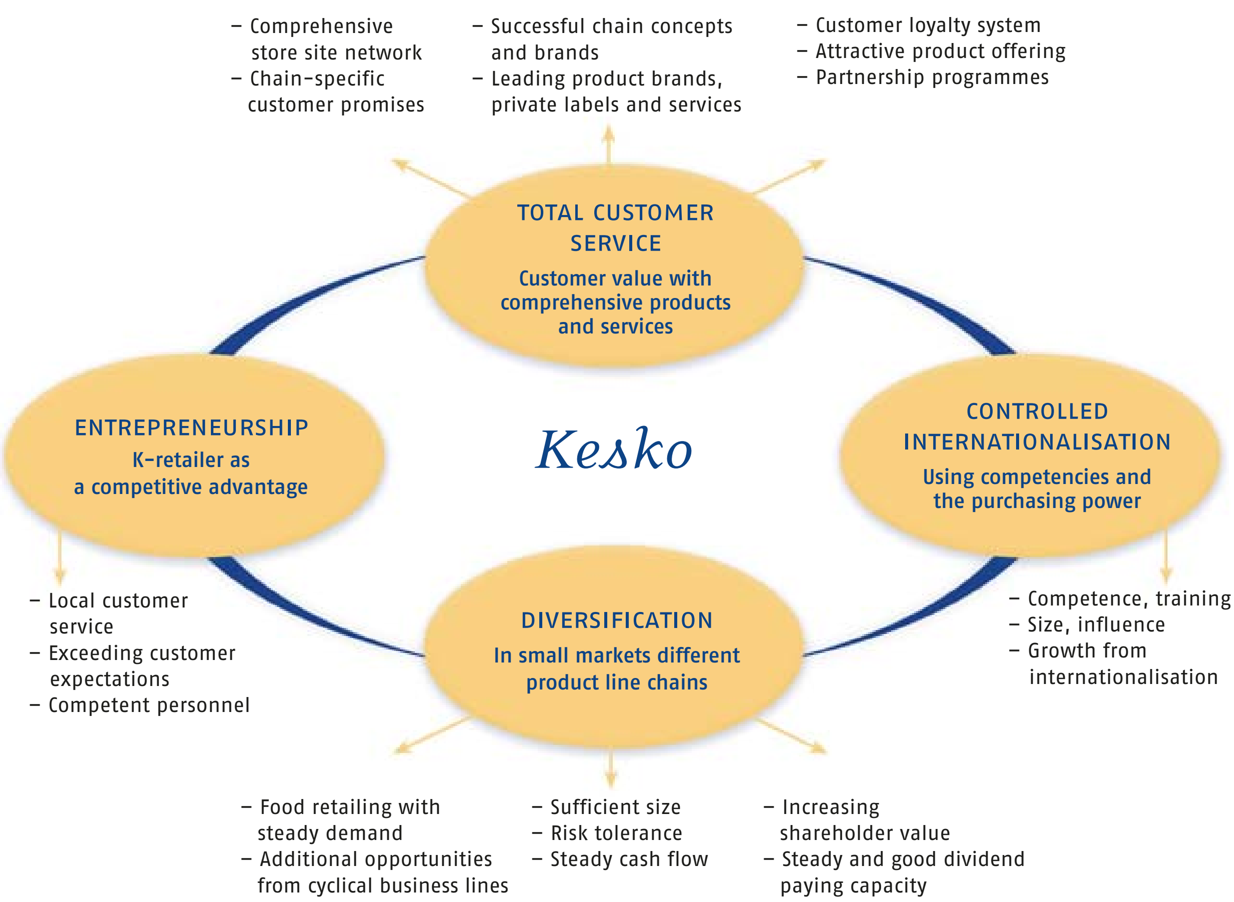
Kaukomarkkinat will specialise in the technical wholesale trade particularly in the Baltic Sea, Russian and Chinese markets. The objective is to achieve market leadership by strengthening core businesses in selected segments of industrial customers.

THE GROUP'S OBJECTIVE IS TO ACHIEVE AND MAINTAIN THE FOLLOWING OBJECTIVES:

FINANCIAL OBJECTIVES

Objective	Target level	Realisation 2005
Growth in net sales	In Finland, growth to exceed that of the market	Realised: Rautakesko Keswell
	Increasing the proportion of sales from outside Finland	growth 5 percentage points
Return on equity	12%	13%
Return on invested capital	12%	13%
Interest-bearing net debt/EBITDA	< 3	2
Equity ratio	40–45%	42%
Economic value added	Internal indicator growing positive EVA	Realised

Kesko's success factors



Intangible key success factors in strategy implementation

In less than ten years, Kesko has evolved from a national wholesaler to a retailing and wholesaling service company operating in seven countries. This has caused significant changes in the company operations. Management of these changes requires the focus of both material and intellectual resources and operations.

Intangible key success factors and focuses of development in accordance with Kesko's strategy are:
- Retailing expertise
- Customer and service expertise
- Store concepts, brands and store sites
- Internationalisation management
- Purchasing and logistics enhancements
- Information management as a guiding force behind trading
- Continuous development of employee competencies
- Synergy benefits of operations

Retailing expertise

According to Kesko's strategy, consumers are Kesko's key customer group. In the present structure, customers are served with three different operating systems.

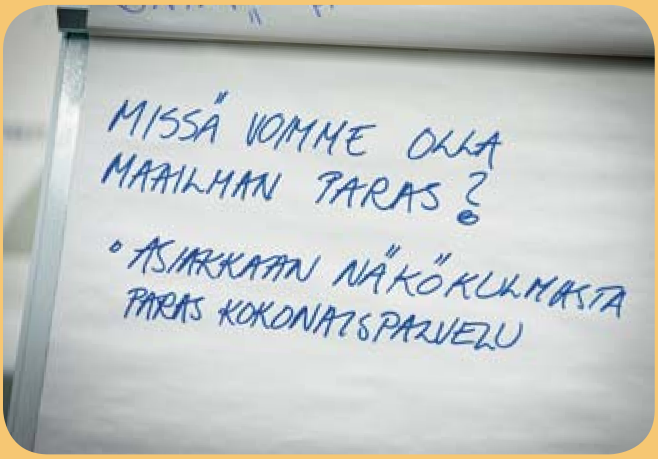
1) Retailing with retailer entrepreneurs

Retailing with retailer entrepreneurs is the principal operating model in the Finnish market. The strategy specified by Kesko Food in 2005 is more clearly than before built on the retailer model; all food stores in Finland will be run by retailer entrepreneurs. Retailer entrepreneurship strategically differentiates Kesko from its competitors and provides a significant competitive advantage. Retailers give a competitive advantage to all chains by meeting customer promises and exceeding customer expectations better than their competitors.

Kesko has sector- and chain-specific agreements with approximately 1,300 K-retailer entrepreneurs. Chain units in Kesko's division parent companies manage the respective chains, select retailers and store sites, and direct chain marketing.

The cooperation system between Kesko and K-retailers, including the various services, has been developed during many decades. This operating system raised the K-Alliance to the position of the leading Finnish trading group during the past three decades and generated hundreds of successful retailer entrepreneurs to this country. The K-retailer model is also one of the most advanced entrepreneur systems by international standards.

Since 1995, chain operations have been improved and intensified gradually in order to improve efficiency. In 2005, a new chain agreement model was developed for K-food retailers, in which the store site fee will be based on gross profit and



Key requirements for the trading sector include understanding and responding to the wishes of the diversified and changing customer base. Kesko's vision is to be the leading provider of services in the trading sector.

"What can we be the best in the world at?
– The best overall service from customer's viewpoint"

the proportion of joint selections and maximum pricing will be gradually increased. The aim is to improve the K-stores' price competitiveness and quality of service.

The continuity of the retailer model in Finland is ensured with an efficient K-retailer trainee programme that generates 70–100 new K-retailers annually. A comprehensive package consisting of finance, accounting, marketing and other store establishment services has been developed to support novice retailers. In 2005, a total of 73 new retailers started their careers and 132 people participated in the K-retailer trainee programme.

In 2005, Kesko had 1,260 K-retailer entrepreneurs as partners. In addition, Kesko had about 250 other retailer partners in the Asko, Sotka, Tähti Optikko, Byggmakker and Senukai chains. Kesko's sales to retailer partners accounted for 40% of Kesko's net sales.

2) Kesko's own retailing

Kesko's own retailing is the principal operating system in Kesko's operations outside Finland. It is also used in Finland in certain product lines and when developing new operating systems.

Enhancing retailing expertise is important to Kesko. As entering new markets or developing new operations requires input and includes risks, Kesko's own retailing is often the only possible way for Kesko to operate.

At the end of 2005 Kesko's own retailing accounted for 31% of net sales.

3) Kesko's wholesaling

In addition to retailing, Kesko is engaged in the wholesale trade, which is very important for increasing goods volumes.

Kesko in the value chain of trade

Kesko's typical wholesale customers include institutional kitchens, building companies, agricultural entrepreneurs and the manufacturing industry. In recent years, various services and prefabrication of products have also increased their share of the wholesale trade.

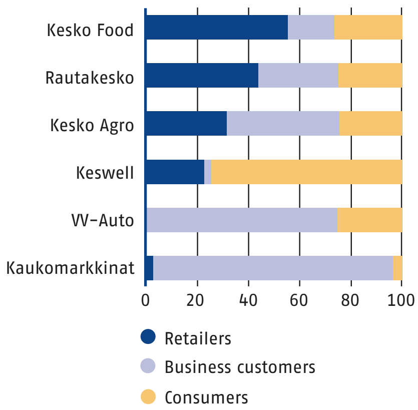
In 2005, the wholesale trade accounted for 29% of net sales.

Customer and service expertise

Key requirements for the trading sector include understanding and responding to the wishes of a diversified and changing customer base. Data management and information technology have provided new opportunities and tools for identifying customers and their purchasing behaviour, which is important for maintaining the right offering. The K-Alliance obtains this information in several ways, such as via the K-Plussa customer loyalty system, various feedback systems and customer surveys.

In addition to the above need for obtaining information, the customer loyalty system is used for encouraging customers to shop regularly at the K-Alliance stores. Loyal customers are rewarded with benefits in the form of services provided by the K-Alliance and other cooperation partners.

Kesko Group's sales by division in 2005, %



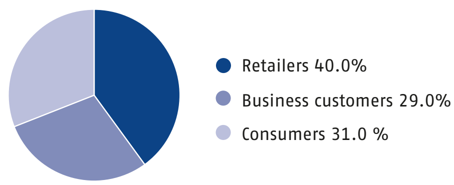
The K-Plussa customer loyalty system has been in use since 1997. It covers about 70% of Finnish households with some 3.3 million cards. In 2005, about 100,000 new households joined the system, and over 150,000 new K-Plussa cards have been supplied. Approximately 90% of the K-Plussa households use their cards regularly each month, and sales to cardholders account for some 75% of the K-Alliance's total retail sales in Finland. K-Plus Oy, the Kesko subsidiary which manages and develops the system, receives over 220 million card transactions per year. K-Plussa is the most comprehensive and diversified customer loyalty system in Finland.

K-Plus Oy reports regularly, on an annual as well as monthly basis, about the development of customer relationships to Kesko's business management. Customer information is complemented with data provided by Finland Post, the Population Register Centre and Statistics Finland. An extensive customer relationship report is produced for the Group management on the development of the Group-, division- and chain-level customer relationships. Customers are segmented according to business needs either with permanent or campaign-specific criteria, which are also used in marketing, network planning and selections planning. In 2005, over four million targeted customer letters were sent on the basis of the K-Plussa customer information.

Chain concepts, brands and store sites

Profiling and differentiation from competitors are important tools in the expanding and tightening competitive environment in the trading sector. As the globalising and harmonising prod-

Kesko Group's sales in 2005



1. K-Plussa is the most comprehensive and diversified customer loyalty system in Finland. Approximately 3.3 million Finns already have a K-Plussa card.

2. Pirkka, Kesko's own private label range, celebrates its 20th anniversary in 2006. In October 2005, Pirkka was selected among the 50 most valuable Finnish brands.

uct offering no longer provides sufficient differentiation, stores must create methods of their own with chain concepts and brands.

At present Kesko operates 27 chain concepts and brands in Finland and other countries. The best-known of them are food store chains: K-citymarket, K-supermarket, K-market and K-extra; home and speciality goods store chains: Anttila, Asko, Sotka, Musta Pörssi and Intersport, and hardware and builders' supplies store chains: K-rauta and Rautia, and Byggmakker (Norway) and Senukai (Lithuania).

Kesko has been a pioneer in building Finnish retail brands. The K-sign was launched as "a symbol of quality" in 1947, when it was introduced in 2,500 K-store windows at the same time.

Kesko has been the name of the company from the very beginning, while Pirkka, the best-known trading sector private label, celebrates its 20th anniversary in 2006. The Pirkka range has grown considerably in recent years and now comprises nearly 1,400 products. Pirkka was selected among the 50 most valued Finnish brands in 2005. Other K-food store private labels are Euro Shopper, Rico and Costa Rica. Sales of private label products have grown in recent years and they now account for about 14% of the K-food stores' retail sales.

The above mentioned Kesko umbrella brands are well-known by nearly all Finns who associate them with the K-Alliance. Kesko has also developed a great number of brands in the different product lines, all known in the sector. Kesko has approximately 650 registered trademarks in total.

Chain operations have been the most successful operating system in the trading sector in recent years. Stores operating with the same chain concept can increase customer satisfaction, operational efficiency and, ultimately, profitability. In the K-Alliance, Kesko is responsible for developing chain concepts, while retailers use them in retailing, optimising the benefits of the chain concept and local adaptation to meet customer needs.

The right store location is one of the essential success factors. A key to the K-Alliance's success has been the store network for whose long-term development Kesko is responsible. Store sites and real estate represent significant material assets (more information on page 19). Their value can be further increased by store site process management, which is an important competence and intellectual capital of Kesko.

Internationalisation management

Rapid international growth has considerably increased Kesko's competencies in foreign operating environments, particularly in the Baltic countries and Russia. At present, Kesko is engaged in retailing in Finland and six other countries.

Expansion has been sought through acquisitions and new establishments. In new international projects, market surveys and risk management play a central role.

Selecting the right acquisitions, their integration, establishing stores and creating organisations represent new key competence areas in internationalisation at Kesko.

Countries outside Finland now account for over 20% of the Group's net sales and about 45% of all employees. Internationalisation has proceeded the most in Rautakesko, where the percentages are 52% and 94% correspondingly.

For Kesko, internationalisation has above all been a pathway to growth. In the restricted Finnish market, the limits of growth have been met in many sectors. International growth has expanded and intensified cooperation with suppliers, which is of decisive importance for competitive ability. Internationalisation also increases Kesko's diversification, which is important for the management of market risks.

Enhancing purchasing and logistics

Combining the purchasing power to achieve economies of scale and low unit costs has been the driving idea behind Kesko's operations from the very start. This has also created diversified partner networks between Kesko and the customers, and Kesko and the suppliers alike.

The purchasing of goods and services has been organised at Kesko in division parent companies and subsidiaries, which meet the customer promises of the store chains concerning selections, prices and quality. Specialised purchasing units work in close cooperation with the chains.

International suppliers in the trading sector are increasingly large and global. Combining the purchasing volume is an im-

1.

1. A good working environment is a prerequisite for excellent performance. Kesko monitors its employees' satisfaction with an annual job satisfaction survey.

2. The Master Assistant training, organised annually by the K-Alliance, is the biggest adult training event in Finland. It culminates in the competition, where active supporters really stick their necks out for their colleagues.

3. The Kesko Staff Club offers versatile recreation for employees. A popular sport at the Katajanokka premises in Helsinki is fitness boxing, which effectively alleviates shoulder pains resulting from working on computer terminals.

portant basic requirement of efficiency. Kesko participates in international purchasing cooperation in various product lines. Purchasing cooperation organisations' duties include aggregating the purchasing volume, selecting suppliers and carrying out purchase negotiations on behalf of member companies. The most important joint purchasing organisations in which Kesko participates include AMS Sourcing BV and Agentrics LCC in the grocery trade, EuroMat in the hardware and builders' supplies trade and ElectronicPartner International in the home technology trade.

The K-Alliance's strengths include adapting the store offering to meet the local demand. K-retailers form an efficient and flexible network of local purchasing. Finnish food retailers in particular play a significant role in complementing store selections with local products.

In 2005, Kesko's purchases from Finnish suppliers totalled approximately EUR 4.7 billion and from other countries about EUR 2.4 billion. Kesko employs about 500 purchasing staff in total.

Kesko's supplier relationships are based on partnerships with selected suppliers. The aim is to find new, more efficient ways of forming and managing selections, pricing and displays and reducing costs throughout the supply chain. The best proven practices have been sought from the world for these operations. These best practices obtained in partner relationships are applied in other supplier relationships in order to achieve corresponding results.

Data management as a guiding force behind trading

Data management has a key position in guiding the flow of merchandise at Kesko and forming customer-oriented selections for stores. The objective is a faster and more faultless goods flow with fewer resources.

Data is collected and put to use at every stage of goods flow guidance starting from the customer's purchasing decision to the manufacturing process of industry.

Category management combines the customer-orientation of various chains and product groups into efficient purchasing operations and effective chain selections. Selections, pricing, product displays and campaigning are planned in various product groups in accordance with the objectives of the chain concept and in cooperation with retailers. The planning of selections also relies on extensive market research and customer feedback.

Kesko's information systems are developed from each business sector's starting-points, making use of the synergy benefits generated by joint Group-level operations.

In less than ten years, Kesko has evolved from a national wholesaler into an international trading sector service company. In this transformation, information management has played a central role. Responsibility for application development and maintenance has been decentralised to division parent companies for the purpose of independent business unit control. The Group's IT Management unit coordinates application development, enabling synergy benefits in system acquisition and development.

The systems Kesko has chosen are largely based on the SAP enterprise resource planning system. Tietokesko has held the principal responsibility for the implementation.

Kesko acquires most information and communication technology services from the market, while retaining the capability to manage and control the development of its services.

Continuous development of personnel competencies

Kesko and the K-Alliance stores have always considered the continuous development of personnel competencies as very important. One indication of this is that Kesko has a training centre of its own, K-instituutti Oy, which specialises in the training of retail store staff, managers and retailers. In 2005, a total of about 11,000 persons participated in the K-instituutti training programmes.

Systematic development of personnel and the focus on essential features will gain increasing importance. Kesko has defined the core competencies of the Group, considered necessary for the implementation of Kesko's business strategies and the chains' customer promises. On the basis of the core competencies, Kesko has defined the critical competence areas that create or strengthen the Group's core competencies and improve competitiveness. These competence areas are strongly highlighted in all personnel development programmes.

2.

3.

Core competencies are:
- Generating superior customer benefit
- Profitable use of our own and our partners' competencies
- Creating an encouraging culture

HR strategy
Kesko's and K-stores' new HR strategic goals were confirmed last year. Their purpose is to express the focal areas in HR operations and thereby strengthen the competitiveness of the retail stores and ensure that the customer promises of the chains are met.

The HR strategic goals are:
- Ensuring that Kesko and the K-Alliance stores have the most competent and motivated personnel in the trading sector. This requires continuous competence development that starts from an induction programme and also supports career opportunities. Diversified duties and opportunities for job rotation generate valuable competence capital for the Group. In 2005, about 500 persons took up a new job inside Kesko Group.
- Ensuring that Kesko and the K-Alliance stores are the most attractive workplaces in the trading sector. In addition to increasing the commitment and job satisfaction of Group employees, the objective is to offer an interesting option to other trading professionals and students.
- Reaching the best productivity of labour in the trading sector. Intensifying competition has greatly increased the importance of labour productivity. Improvements in productivity at Kesko and K-Alliance stores are based on effective operating systems defined for all chains, supporting information technology and personnel competencies.

Management and leadership
Good management ensures that operations are successful and people are motivated. Management in Kesko and the K-Alliance stores is based on the K-Alliance values, ethical principles and management system. The objective of the management system is the long-term and successful development of operations and uniform management practices.

Basic qualifications of management and leadership are acquired by participating in the career-supporting training programmes provided by K-instituutti for superiors and managers.

A development programme for Kesko's management and potential managers started in 2004, with the purpose of ensuring that the company has a sufficient number of high-quality directors now and in the future. The programme consists of the annually changing themes selected on the basis of Kesko's core competencies.

Personal development of key persons is supported by a 12-month self-management programme which complements other development programmes.

Good working community
A good working community is a prerequisite for the wellbeing and excellent performance of employees. The most important and versatile personnel indicator and instrument for the working community development is the job satisfaction survey.
The survey measures satisfaction with one's own job, superior's performance, one's own unit's operations and Kesko's operations.

In 2005, the average total number of Kesko personnel, including joint ventures, was 21,603 (17,528) employees converted into full-time employees. A total of 11,252 (10,307) employees worked in Finland and 10,351 (7,221) in other countries. More information on the personnel is given on page 60.

Information about personnel can also be found in the Corporate Responsibility Report for 2005, which will be published in spring 2006. The report describes HR affairs from the viewpoint of social responsibility.

Synergy benefits from operations
Acquiring economies of scale and synergy benefits by proper centralisation of operations is an essential premise of Kesko's operations.

Kesko's diverse operations and business structure create opportunities for optimal resource management and benefiting from synergies between divisions and chains.
Synergy areas include:
- Investment in information technology
- Chain control and other operating systems
- Store site operations
- Finance
- Competence development
- Purchasing and logistics
- Customer loyalty system

Operating environment

Trends in the trading sector

- Concentration and internationalisation continue in the trading sector.
- Competition for customer loyalty is increasing.
- The number and market share of private label products are increasing.
- Online trading is increasing.
- Consumers' purchasing behaviour is highly fragmented.
- The trading sector's role as a producer of services is strengthening.
- The importance of corporate responsibility and company ethics is increasing.

Trends in the Baltic countries and Russia

- Purchasing power is increasing fast.
- Consumption is modernising as the standard of living rises.
- The share of chain retailing is growing.
- Competition is intensifying.
- The share of food in Russian consumer expenditure is decreasing.
- In Russia, the purchasing power is concentrated on the large cities, particularly in St. Petersburg and Moscow.

Kesko's market areas

Kesko's main operating areas are Finland, Sweden, Norway, the Baltic countries and Northwest Russia. Kaukomarkkinat Oy also operates in Poland and China, for example.

Strong domestic demand has greatly contributed to the maintenance of economic growth in all Kesko's principal market areas in 2005. In Finland, low inflation, low interest rates and the positive development in employment have boosted consumer demand that contributes to growth in retail trade. Private consumption is forecast to grow in Finland by 2-3% annually during the next few years. In the future, the possible slowdown in the growth of households' disposable real income and the expected slight increase in interest rates will influence private consumption in Finland.

Private consumption is expected to rise by 2-4% in Sweden and Norway in 2005-2007. In Sweden, tax reductions, income transfers and low inflation will increase the purchasing power of households. The favourable growth in housing construction also reflects the good development in the economies of Swedish households. In Norway, anticipated rises in interest rates, increasing energy prices and the slowdown in the growth of employment and wages will affect private consumption.

After a rapid growth in 2005, the growth in consumption in the Baltic countries is estimated to stabilise at 5-7% in 2006-2007. Growing wages, low interest rates and an improvement in employment situation have contributed to the consumption opportunities of households.

In Russia, people's purchasing power and propensity to consume are increasing fast particularly in the St. Petersburg and Moscow areas, making the two cities and their neighbouring areas an attractive retail market. The growth of private consumption in Russia varies considerably from one area to another, and the growth rate is estimated to exceed 5% in 2005-2007. The share of food expenditure in terms of households' total consumption is decreasing and more money is left for other consumption.

Competitive environment and competitors

In the retail trade, strong centralisation, formation of chains and internationalisation have continued in all of Kesko's market areas.

1. Finland:
   - 5.3 million consumers
   - All Kesko's divisions
2. Sweden:
   - 9.0 million consumers
   - Hardware and builders' supplies trade and furniture trade
   - Technical trade
3. Norway:
   - 4.6 million consumers
   - Hardware and builders' supplies trade
4. The Baltic countries:
   - 7.1 million consumers
   - Food*, hardware and builders' supplies, agricultural and machinery trade, furniture trade

   *) in food trade a joint venture (Rimi Baltic)
5. Russia, St. Petersburg area:
   - approx. 5 million consumers
   - Hardware and builders' suppliers trade

Kesko Food
Price competition is highlighted in the Finnish grocery trade. Intensified competition has also led to major reorganisation in the sector.

In the Baltic countries, open-air markets and other small-scale retailing are losing ground fast, while Western chain retailing increases. Rapidly improving wages and employment figures are increasing people's consumption opportunities.

Rautakesko
The competitive situation in the Finnish hardware and builders' supplies trade is changing as new domestic competitors are entering the sector and the international chains already operating in the market are expanding.

In Sweden, speciality store intensive trading is losing ground to the foreign chains that have entered the country.

In Norway, business customers play an important role among hardware and builders' supplies stores' clientele, but trading to consumers is also experiencing a rapid growth.

The growing Baltic market is gaining interest among both foreign and national operators.

In Russia, the fast growing hardware and builders' supplies market is clearly divided between DIY chains - newcomers to the market, local hardware stores, open-air markets and speciality stores.

Keswell
The speciality goods trade is concentrating more and more on shopping centres. Hypermarket chains continue to establish new stores, albeit more slowly than in recent years, and seek to increase their market share in the home and speciality goods trade through price competition in particular. New foreign chains are expected to enter the sports trade in particular.

The online trading market will continue to increase at a slower rate in the future, but will still maintain a good rate of growth.

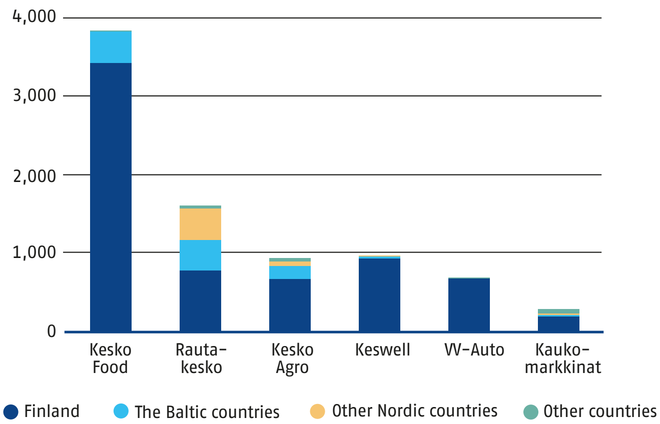
VV-Auto
The European-wide gradual harmonisation of prices will probably continue. The abolition of the location clause regulating the car market may change the structure of various makes' sales networks.

Konekesko
Competition is expected to intensify further in the recreational machinery market when competitors seek to enter the market with aggressive pricing. Market trends for construction and environmental machinery are expected to continue to be stable in Finland. The Baltic market is expected to increase by 5-10%. The truck market is anticipated to remain unchanged.

Kesko Agro
The Finnish agricultural trade market is affected by a strong structural change, causing the number of farms to decrease and their size to grow.

The EU membership of the Baltic countries is anticipated to increase the agricultural trade market in these countries considerably. Competition will remain fierce between both local and international operators.

Kesko's net sales by division and market area in 2005, EUR million



MARKET OUTLOOK FOR 2006

	Total market, EUR billion	Change,%, estimate
Kesko Food	**26.8**	
Finland*	21.4	+2
the Baltics	5.4	>+5
Rautakesko	**14.5**	
Finland	3.7	+5
Sweden and Norway	8.7	+5
the Baltics	1.4	+5-+10
Russia/St. Petersburg	0.7	+15
Keswell	**8.5**	**+2-+3**
Konekesko	**1.3**	
Finland	1.2	+/-0
the Baltics	0.1	+10-+15
Kesko Agro	**2.3**	
Finland	1.7	+1
the Baltics	0.6	+5-+10

*incl. HoReCa market, other grocery distribution channels and Alko

Market shares and main competitors

The market shares are Kesko's own estimates of the retail trade for 2005, unless another source is given. Markets and market shares always depend on definitions, those of product lines and geographical market areas, for instance, and on the data available. The market share estimates presented on this page and elsewhere in the report are based on the best sources and research available.

Food trade

Finland
Market share: K-food stores 34%
Competitors: S Group, Tradeka, Spar Group, Lidl, Stockmann, discounters

HoReCa
Market share: Kespro 19%
Competitors: Meira Nova, Wihuri Metro, Heinon Tukku, manufacturing industry

Estonia
Market share: Rimi Baltic AB about 26%
Competitors: ETK, Selver, S-ryhmä and T-Market (VP Market)

Latvia
Market share: Rimi Baltic AB about 21%
Competitors: Maxima, Saulute (VP Market), Nelda and Mego

Lithuania
Market share: Rimi Baltic AB about 6%
Competitors: Maxima, Saulute (VP Market), Norfa and IKI

Hardware and builders' supplies trade

Finland
Market share: K-rauta and Rautia 35%*
(includes sales to business customers)
Competitors: Starkki, Bauhaus, Puukeskus, Puumerkki, S Group and Värisilmä

* Finnish Hardware Association

Sweden
Market share: K-rauta 4%
Competitors: Optimera, Bauhaus and Silvan

Norway
Market share: Byggmakker 19%
Competitors: Maxbo, Jernia, Byggern, Byggeriet and NKL

Estonia
Market share: K-Rautakesko 20%
Competitors: Ehituse ABC, Espak, Ehitus Servise and Famar-Desi

Latvia
Market share: K-rauta 8%
Competitors: Tapeks, Nells, Reaton and Bergu Nams

Lithuania
Market share: Senukai 25%
Competitors: JSC Vinukas, Eremitazas and IRIS

Russia/St. Petersburg
Market share: Stroymaster 15%
Competitors in St. Petersburg: Maxidom, Dom Laverna and Stroybaza Rybinskaya

Home and speciality goods trade

Finland

Sports trade
Market share: Intersport, Kesport and Anttila 36%
Competitors: Sportia, Top-Sport, Stadium, department stores and hypermarkets and other speciality stores

Home technology trade
Market share: Musta Pörssi and Anttila 20%
Competitors: Expert, Tekniset, Gigantti, Markantalo and other speciality stores

Shoe trade
Market share: K-kenkä, Andiamo, Kenkäexpertti and Anttila 19%
Competitors: other speciality stores, department stores and hypermarkets and sports stores

Department store trade
Anttila, K-citymarket, Kodin Ykkönen*
Competitors: S Group, Tradeka, Stockmann, Ikea, furniture and interior decoration stores

Optical trade
Market share: Tähti Optikko 17%
Competitors: Instru and Silmäasema

Furniture trade
Market share: Asko, Sotka, Kodin Ykkönen 26%
Competitors: Isku, Masku, Ikea, Vepsäläinen and Stemma

Market share estimates for the home and speciality goods trade include the sales of home and speciality goods through Keswell's chains only.
*The market share of the department store trade cannot be calculated.

Car trade

Finland
Market share: Volkswagen passenger cars 10.1%
Competitors: Toyota, Nissan, Ford, Volvo, Peugeot and Opel
Market share: Audi passenger cars 3.1%
Competitors: Mercedes-Benz, BMW, Volvo and Saab
Market share: Volkswagen vans 16.5%
Competitors: Toyota, Ford, Mercedes-Benz and Fiat
Market share: Seat passenger cars 0.9%
Competitors: Alfa Romeo, BMW, Chrysler and Honda

Source: Statistics Finland, the Finnish Vehicle Administration AKE

Machinery trade

Finland
Market share: Konekesko 6–21% depending on product group
Competitors: Otto Brandt (Honda, Polaris), Volvo and Mercedes-Benz trucks

Estonia
Market share: Kesko Machinery 10%
Competitors: Intrac, Ladur, Suomen Rakennuskone Oy subsidiaries and Witractor

Latvia
Market share: Kesko Machinery 15%
Competitors: Intrac, Ladur, Suomen Rakennuskone Oy subsidiaries and Witractor

Lithuania
Market share: Kesko Machinery 12%
Competitors: Intrac, Ladur, Suomen Rakennuskone Oy subsidiaries and Witractor

Agricultural trade

Finland
Market share: K-maatalous 35%
Competitors: S Group (Hankkija-Maatalous, Agrimarket), Yrittäjien Maatalous Oy and Suomen Maataloustukku Oy

Estonia
Market share: Kesko Agro 32%
Competitors:
- agricultural supplies: Kemira Grow How, Farm Plant, Agribalt
- agricultural machinery: Mecro, Tatoli, Sampo Group, Arvi Tammel, Väderstadt, Uhtna Taluteknika and Valtra
- animal husbandry machinery: De Laval

Latvia
Market share: Kesko Agro 25%
Competitors:
- agricultural supplies: Kemira Grow How, Agribalt
- agricultural machinery: Agribalt, Väderstadt, Preiss
- animal husbandry machinery: De Laval

Lithuania
Market share: Kesko Agro 15%
Competitors:
- agricultural supplies: Kemira Grow How, Agrokonzernas, Lit Agra
- agricultural machinery: Rovaltra, Olsen Baltic, LV Group, Lyt Agra, Väderstadt
- animal husbandry machinery: De Laval

Corporate responsibility in Kesko

Kesko's values and goals highlight operational responsibility towards society and other stakeholders. This corporate responsibility includes good corporate governance, economic, social and environmental responsibility, and the work carried out on behalf of product safety and consumer protection. Kesko's objectives include minimising risks, gaining a competitive advantage, rationalising practices and improving profitability. Measuring our performance in terms of responsibility and the subsequent open reporting is an essential part of our corporate responsibility.

Corporate responsibility is integrated into Kesko's management system and our normal daily activities in the line organisation. The Corporate Responsibility unit that operates under the Corporate Executive Vice President, Corporate Development is responsible for planning, management, coordination and performance reporting. The general corporate responsibility policies are decided by the Board of Directors, which also handles the annual Corporate Responsibility Report. The Corporate Management Board is responsible for other joint practices and policies related to responsibility. Reporting complies with the sustainability guidelines drawn up by the Global Reporting Initiative (GRI). Kesko publishes a separate Corporate Responsibility Report annually.

At the beginning of 2005, Kesko became a GRI Organisational Stakeholder and has a representative in the indicator working group responsible for the new GRI recommendation to be published in autumn 2006.

Top-of-the-world performance

In 2005, Kesko was again successful in many comparisons evaluating companies' responsibility and reporting. In its sustainability index, Dow Jones named Kesko the leading company in the world in the retailing sector, and so did the Ethibel Investment Register. The World Economic Forum listed Kesko among the 100 best companies in the world in sustainable development, and Innovest rated Kesko Food the best company in its global analysis of food & drug retailers. Indexes and evaluations facilitate the work of the investors capitalising on performance in sustainable development.

Like the previous year, Kesko was awarded for the best reporting of corporate responsibility in Finland for 2004, in the competition arranged annually by the Association for Environmental Management and other organisers. PricewaterhouseCoopers Oy has provided an assurance statement for reporting. At the end of 2005 Kesko adopted an online information system for corporate responsibility reporting which will help to further increase the reliability of information and to facilitate data collection and analysis as well as the assurance of reporting.

Economic responsibility

Good financial performance makes it easier to assume environmental and social responsibility, and correspondingly environmental and social responsibility can improve economic performance through rationalisation of practices and promotion of job satisfaction. In the Corporate Responsibility Report, economic per-

1.

2.

ETHIBEL
MEMBER OF THE ETHIBEL INVESTMENT REGISTER

BEST IN CLASS
environmental and social performance
STOREBRAND SRI

Global 100
Most Sustainable Corporations in the World

06
Member of Dow Jones Sustainability Indexes

formance is viewed from the point of stakeholders, including employees, suppliers of goods and services, customers, the state and municipalities, and institutions operating for the public good.

Manufacturing industry an important partner

In 2005, suppliers of goods and services received about 85% or EUR 7.1 billion of the economic benefits Kesko produced. Kesko has about 25,000 active suppliers (from which Kesko's annual purchases exceed EUR 1,000). Approximately 11,000 of these operate in Finland, accounting for 66% of the total purchases, while nearly 8,000 active suppliers operate in the Group's other operating countries. Kesko's investments totalled EUR 454 million, of which EUR 191 million were spent in Finland. Breakdowns of economic benefits from Kesko's operations in Finland by stakeholder group and region and the breakdown of imports by country are given in the Corporate Responsibility Report.

The number of Group employees grew by 4,075 in 2005, and a total of EUR 419 million were paid in wages.

Stable return for shareholders

The annual yield of Kesko's shares has remained high. The average dividend yield (B share) was 4.6% in 2005 and has averaged 10.1% during the past five years. More information on Kesko's shares and shareholders is given on pages 50-56.

Comprehensive store network for customers

Together with the K-retailers, Kesko is responsible for a nationwide store network in Finland. Its services are complemented by a mail order business and e-commerce.

At the end of 2005, there were 1,041 K-food stores in 376 cities and municipalities, out of a total of 432 in Finland. There were 748 K-Alliance speciality stores in Finland. Kesko also had – joint ventures including – 177 food, 20 hardware and builders' supplies, 12 agricultural and 6 furniture stores in the Baltic countries, 147 hardware and builders' supplies and 2 furniture stores in the other Nordic countries, and 5 hardware and builders' supplies stores in Russia.

Sales to the retailers accounted for 40.0% of Kesko's total sales. Kesko's own retail stores accounted for 31.0% of the company's total sales.

Support for the public good

Kesko and its subsidiaries give financial support amounting to approximately EUR 2 million annually to about one hundred organisations and institutions that operate for the public good. When co-operation targets are selected, the emphasis is on socially responsible activities and the promotion of sustainable development.

Major recipients of support in Finland included the Young Finland Association, the Finnish Science Centre Heureka, the Children's Day Foundation, the godparents operations of the University Children's Hospitals, the Finnish UN Association and the Helsinki School of Economics. Kesko had also bilateral cooperation with several organisations, such as WWF Finland and the Pulmonary Association Heli.

1. Being a supporter of the Children's Day Foundation, Kesko speeds up the action in the Linnanmäki amusement park in Helsinki.
2. In 2005, Kesko was again successful in many comparisons evaluating companies' sense of responsibility.

Environmental responsibility

The **direct** impact of Kesko and K-stores on the environment includes emissions in the air in the production of energy used by real estate and in transportation, and the waste generated in warehousing and stores. **Indirect** environmental impact arises from the manufacture, use and disposal of the products sold by Kesko, including their packaging.

Environmental management

All of Kesko's Finnish operations that have a major impact on the environment are certified by the ISO 14001 environmental system. They include Kesko Food's logistics, as well as transport company Kesped Ltd's and Anttila Oy's operations. Cooperation partners in the fields of real estate construction, maintenance and waste management services for Kesko also have a corresponding system in place.

At the end of 2005, 291 K-food stores, 40 K-rauta and Rautia stores and 17 K-maatalous stores fulfilled the requirements of the K-stores' environmental management concept – the K-environmental store diploma. The K-instituutti training centre is responsible for environmental store training, while the audits of K-food stores are carried out by BVQI Finland.

The concept helps the stores improve their energy consumption efficiency and waste management, enhance their selection of environmentally sound products and assist their customers in making sustainable consumption choices. The plan is to expand the concept to cover the operations in the other Nordic and Baltic countries in 2006.

Energy

Energy consumption in office, warehouse and store properties managed by Kesko and the implementation of consumption targets is monitored in Finland by the EnerKey programme. Electricity consumption is monitored in 70% of the real estate; in most of them via remote reading through the telephone network, which makes it possible to react rapidly to any deviations.

In 2005, the combined electricity consumption of Kesko and the K-retailers operating in Kesko's premises in Finland was 734 GWh, an increase of 15% over the previous year. The total consumption of heat was 286 GWh, up by 10%. Kesko bought, on a centralised basis, 70% of the electricity used. The total area of real estate increased by over 8% during the year.

Kesko has signed up to the real estate and construction sector energy saving agreement (KRESS) and, as a result, has reduced the specific energy consumption of properties included in the agreement according to the objectives.

Transport

Kesko has succeeded in improving its transportation in Finland in such a way that the kilometres driven per cubic metre delivered have decreased, which has consequently reduced the relative carbon dioxide emissions. The trend continued in 2005. The distances driven by Kesped and the external transport companies it uses totalled 14.6 million, a decrease of 16% over the previous year. The distances driven by Kesped and carbon dioxide emissions per cubic metre delivered dropped by one third.

Waste management and recycling

In waste management the focus remained on minimising the amount of mixed waste generated and achieving a high recovery rate. As Kesko Food and Keswell have had waste recovery rates of around 90%, there is no longer room for much improvement. The emphasis is on K-environmental stores, where surveys regarding the amount of waste generated and waste recovery were made. The terminal operations of Kesped's return logistics in Vantaa serving K-food stores were outsourced to L&T Oy, which had already been responsible for the waste management of Kesko Food's central warehouses. Recoverable and reusable packaging collected by return logistics at K-stores and customer restaurants totalled about 41 million.

In foreign subsidiaries, too, the most room for improvement is in retail stores, in which the amount of waste generated is many times that of warehouse operations.

The decree on the separate collection, reuse and recycling of waste electronic equipment in Finland came into force in August. Kesko's division parent companies that the decree applies to take care of their importer responsibilities through SER, the community of electrical and electronic equipment producers.

In Finland retail stores do not need to receive old equipment, but they must be able to inform their customers of a separate collection and advise them of the nearest collection point. Kesko's division parent companies together produced the materials needed for training staff and advising customers.

Environmentally sound products

At the end of 2005, Kesko Food offered a selection of about 500 organic products, about 500 products with environmental labelling, and 43 Fair Trade products. Individual K-retailers also sell local organic and other foods to meet their customers' wishes. The selection and marketing policies concerning organic and Fair Trade products and products with environmental labelling are included in the K-food stores' chain concepts. In the Organic Store of the Year competition arranged by Finfood Luomu, the winners were K-citymarket Jumbo of Vantaa in the category of large stores and K-market Härmälä of Tampere in the category of medium-sized stores. Out of the 11 stores in the finals, 7 were K-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 around 90%. A total of 600 tons of impregnated timber was recycled through the K-rauta and Rautia stores.

Social responsibility

Kesko's social responsibility is divided into the **direct** responsibility that applies to its own personnel, and to the **indirect** responsibility that applies to the personnel participating in the production of the merchandise sold by Kesko.

The wellbeing and working conditions of Kesko's own personnel are reflected, for example, in the job satisfaction survey and in the employee turnover, accident, sickness, training and equality statistics. Personnel issues are presented on pages 11–12 and in the Corporate Responsibility Report.

Social quality control of imports

Kesko has implemented the social SA 8000 standard to improve the working conditions of its suppliers working in developing countries. Progress in the implementation of the standard has been slow for the reason that there have been insufficient market resources behind uniform quality requirements. The situation improved in 2005, when the Business Social Compliance Initiative (BSCI), the joint organisation established by European trading chains for social audits gained momentum.

At the end of the year the BSCI had 52 members, including Kesko, which has a representative on the BSCI board. A total of 2,600 supplier audits were either underway or had been completed, mainly in Asia. Over 30 of these were Kesko's suppliers, complementing the existing 24 suppliers with SA 8000 certification. For employees, the contents of the BSCI and the SA 8000 audits are similar and the auditors are the same, but the management system required for the BSCI from the companies is not as thorough as for the SA 8000.

The BSCI arranged informative events for suppliers in China, India, Bangladesh and Turkey, attracting an encouraging number of participants – 800 in China, for example. So far the audits have mainly been made in the clothing, textiles, shoe and toy industries. In 2006 the system will be expanded to cover foodstuffs. Kesko has participated in the expert group developing the BSCI audit approach for primary production.

Product safety

Kesko has worked for product safety – particularly in the food trade – for decades. The Product Research unit of Kesko Food has 20 employees. The unit supervises the operations of the manufacturing companies, analyses product composition and quality, suggests improvements to manufacturers and develops private label Pirkka products in cooperation with contract manufacturers. The unit also controls the quality of certain non-food products and home and speciality goods.

Packaging information is also carefully controlled. For the Group's house brands, Kesko Food has prepared guidelines that exceed the requirements of legislation as to, for example, nutritional values and allergenic ingredients. The country of origin is always marked on imported house brands, and the manufacturer's name and domicile is shown on domestic products.

In 2005, the Product Research unit audited 58 suppliers, of which 29 were Finnish and the remaining from 12 other countries. Most of these companies are suppliers of Kesko's private labels. The improvements suggested mainly related to the planning of production facilities and hygiene. A total of 6,729 food novelties and product development samples, and 1,193 product lot and other self-control samples were analysed. A total of 35 product recalls took place, most of which related to defective quality or taste, or a manufacturing or packaging error. 21 recalls occurred for Kesko Food's private labels.

The Product Research unit participated in the work of the Global Food Safety Initiative of CIES, an association of food retailers and suppliers.

A separate Corporate Responsibility Report will be published at the end of April 2006, both in print and on Kesko's web pages. Orders for the printed report can be made at: www.kesko.fi/material

Real estate operations

The store site network is one of Kesko's strategic competitive factors that provides opportunities for developing business operations and increasing sales and market shares.

The objective of Kesko's real estate activities is to support the Kesko divisions' business by developing store site networks. Each division parent company is responsible for planning its own retail store network, acquiring store sites, making investment decisions and assuming the risks involved across their entire life cycles. The Real Estate Services department is responsible for the management and control of the Group's real estate capital and offers certain centralised real estate services.

Real estate property management

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

- **Strategic properties** are large retail stores which Kesko prefers to own.
- **Standard properties** are premises owned by the Group. They can be sold and leased back for use in the Group's business operations.
- **Realisation properties** are those for which the Group has no further use.
- **Development properties** are those needing further development for their intended use.

Investments

Kesko's real estate investments aim at enabling the creation of trading services valued by customers by anticipating changes in customer behaviour and the operating environment and by maintaining the technical condition of properties. Store site investments are based on the business and network strategies of division parent companies. Kesko invests only in properties needed in its own business operations.

As a result of Kesko's internationalisation, investments outside Finland have become increasingly important. In Finland, the investment focus is shifting from new construction to the expansion and rebuilding of existing stores.

Life cycle affordable and eco-efficient real estate operations

Kesko's construction activity is based on life cycle affordability and eco-efficiency. This means optimising the costs and environmental burden across the entire life cycle of a store site project. The aim is to build business premises with the lowest life cycle costs in the trading sector.

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

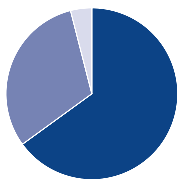
Property maintenance

Maintenance relies on systematisation and predictability. Repair work is scheduled to coincide with the rebuilding necessitated by business operations.

The management and maintenance of real estate owned or leased by Kesko in Finland has been outsourced to YIT Kiinteistötekniikka Oy and Ovenia Oy, which carry out the work in accordance with Kesko's requirements.

Kestra Kiinteistöpalvelut Oy, a subsidiary of Kesko, is responsible for purchasing electricity for the Group in Finland.

Breakdown of owned properties in 2005



OWNED PROPERTIES	Capital, EUR million		Area, m²	
	2005	2004	2005	2004
Finland	781	794	948,000	1,040,000
Other Nordic countries	47	27	48,000	14,000
Baltic countries*	50	88	115,000	159,000
Russia	8	0	0	0
Total	**885**	**909**	**1,111,000**	**1,213,000**

LEASED PROPERTIES	Lease liabilities, EUR million		Area, m²	
	2005	2004	2005	2004
Finland	1,445	1,218	1,845,000	1,532,000
Other Nordic countries	80	35	185,000	71,000
Baltic countries*	84	78	278,000	200,000
Russia	2	0	19,000	0
Total	**1,611**	**1,332**	**2,327,000**	**1,803,000**

* excluding Rimi Baltic AB

Kesko Food

Kesko Food operates in the grocery market offering diverse trading sector services to consumers and business customers in Finland and, through the joint venture, in the Baltic countries. It manages and develops K-food store chains in Finland and is responsible for their marketing, purchasing and logistics services, store site network and retailer resources. Kesko Food's subsidiary Kespro Ltd offers delivery sales and wholesale services to HoReCa customers. Kesko Food and the Swedish ICA AB's subsidiary ICA Baltic AB own with equal shares Rimi Baltic AB, which operates in the Baltic grocery market.

Market

The Finnish grocery retail market totals about EUR 11.8 billion. In recent years, the market has been characterised by intensified price competition. In 2005, the total value of the grocery retail market grew by 2.0%. This was all volume growth because grocery prices remained unchanged. Intensified competition has also led to significant rearrangements in the sector, with business acquisitions affecting the smallest groups - Tradeka, Wihuri and Spar. The K-Alliance has not participated in these arrangements.

In 2005, K-stores' market share in the Finnish grocery trade was about 34%.The growth of the main competitor S Group exceeded the average market growth and it participated in the above business arrangements. The S Group gained market leadership in late 2004.

The total Finnish HoReCa market is about EUR 2.2 billion. Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the HoReCa business. Kespro's largest customer groups include nationwide chains, individual large HoReCa sector businesses and public administration. Kespro's main competitors are Meiranova, Heinon Tukku, Metrotukku and small specialised wholesalers.

The total annual value of the Baltic food market is about EUR 5.2 billion, an increase of over 5% in 2005. The Baltic food market remains in a phase of intensive development. The most characteristic feature is the decline in open-air market and other small-scale retailing and the increase in chain retailing. The overall growth of national economies also increases demand. Rimi Baltic AB, the joint venture between Kesko Food and ICA Baltic AB, is the leading foreign operator in the Baltic market. Its share of the total Baltic food retail market is about 16%. The company holds the strongest position in Estonia and Latvia, while in Lithuania the retail network remains uncompleted. The main competitor in the whole Baltic area is the Lithuanian VP Market.

Kesko Food's strengths

- Well-known K-food store chains and strong private labels in the Finnish market
- K-food stores form the most comprehensive store network in Finland

1. K-supermarkets' versatile grocery selections offer ingredients for everyday and more festive foods alike.

2. K-citymarkets are advantageous and diversified all-family hypermarkets whose offering covers nearly all requirements from food to home and speciality goods.

3. The K-market chain consists of reliable and service-oriented food stores located near customers to provide them with all their daily foods.

- Efficient cooperation with K-retailers in Finland
- Efficient purchasing cooperation, international sourcing (AMS and Agentrics LLC) and logistics
- Operating system that takes environmental issues into account

Finland

In Finland, Kesko Food acts in close chain cooperation with K-food retailers, who are responsible for meeting the store-specific customer promise: better service and quality at low prices. K-food retailers also take care of the efficiency and profitability of their stores, while Kesko Food is responsible for the efficiency and competitiveness of all operations. Key duties include chain management, store concept development, purchasing and logistics services, enhancement of the store network and retailer resources, and chain marketing.

Key retail store chains

The K-food store concepts cater for various consumer needs from hypermarkets to neighbourhood services. Every day approximately 750,000 customers shop at K-food stores.

The key features and customer promises of the K-food store concepts are:

K-citymarkets are versatile, low-priced hypermarkets. Their large selections consist of groceries and home and speciality goods. The K-citymarket chain's customer promise is "Best brands, one-stop shopping at low prices!". There are 53 K-citymarkets.

K-supermarkets' competitive advantages include food expertise as well as wide and versatile selections of fresh products. The K-supermarket chain's customer promise is "A better than average food store". The chain consists of 150 stores.

K-markets are high-quality and reliable food stores in or near the customers' neighbourhoods. Shopping at K-markets is easy and fast. Their offering consists of competitively priced groceries. K-market retailers and their staff ensure friendly service. There are 363 K-markets.

K-extras are neighbourhood stores in which customers can find daily essentials and which focus on personal service. 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. There are 215 K-extras.

The customer promise of the K-market and K-extra chains is "A food store close to you – convenient and reliable".

Kespro Ltd

Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the HoReCa business in Finland. Its customers include hotels, restaurants, catering companies, service station stores, kiosks, bakeries, manufacturing industry and distributors. Kespro's operations focus on comprehensive customer service, finding the best purchasing solutions for customers and helping them to succeed.

Baltic countries

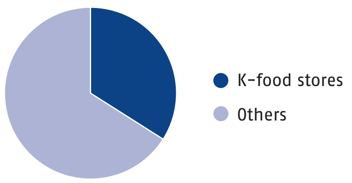
Kesko Food and ICA Baltic AB, which belongs to the Swedish ICA Group, own with equal shares Rimi Baltic AB that commenced trade in the Baltic food market at the beginning of 2005.

Rimi Baltic AB has subsidiaries in Estonia, Latvia and Lithuania with 177 food stores in total operating under Rimi hypermarket, Rimi supermarket, Säästumarket and SuperNetto concepts. The objective is to expand the store network in all Baltic countries.

Pirkka – one of Finland's 50 Superbrands

Kesko Food's own brands are well-known in the Finnish market. In 2005 Pirkka was the only retail trade private label that was selected among the 50 strongest brands in Finland (Super-

Grocery retail sales in Finland in 2005



brands Finland). The strengths of the Pirkka range include the products' low prices, high quality, reliability and degree of domestic origin. Its recognition level among customers is nearly 100%. There are nearly 1,400 Pirkka products. Besides a versatile selection of products for daily needs, the range comprises products for special groups, such as organic, light, gluten-free and lactose-free products. The sales growth of Pirkka products has clearly exceeded that of K-food stores' other sales. Euro Shopper is K-food stores' low-priced alternative, the private label of the European companies cooperating in the AMS sourcing alliance. Cooperation in combining purchasing volumes has generated considerable price benefits. There are over 300 Euro Shopper products.

Other K-food stores' private label products are Rico and Costa Rica. Sales of private label products have increased in recent years to approximately 14% of K-food stores' retail sales.

Year 2005

On 12 October 2005, Kesko Food announced that it will reform its operations and organisation in order to improve K-food stores' customer satisfaction and competitiveness. The reform aims to provide higher quality and service to K-food store customers at low prices. Efficient operations of Kesko Food and its chains provide the prerequisites for K-retailers and their staff to fulfil the chain's customer promise.

Rationalisation negotiations were completed in the spring and other activities for improving the efficiency of operations were started aiming at annual savings of some EUR 20 million in Kesko Food. The negotiations resulted in a reduction of nearly 80 persons through pension and other arrangements. In addition, 73 employees had to be given notice.

Capital spending is enhanced by divesting store sites while making major investments in the retail store network and improving its sales performance. Store site capital is planned to remain at the present level. The most important new stores opened in 2005 were K-citymarkets in Raahe and Nokia, and a K-supermarket in Lauttasaari, Helsinki.

Since February 2004, Kesko Food has been testing Cassa discounters in various parts of Finland. In 2005 the tests were extended to include the suitability of the retailer entrepreneurship in the Cassa concept. Kesko Food will use the experiences and lessons learned from the Cassa testing particularly in stores operating in the neighbourhood market.

Kesko Food's store concepts

K-ALLIANCE'S FOOD STORES

	Number		Sales (incl. VAT), EUR million	
	2005	2004	2005	2004
K-citymarket	53	51	1,615	1,607
K-supermarket	150	153	1,325	1,351
K-market	363	331	1,038	1,036
K-extra	215	344	211	346
Other K-food stores and mobile stores*	260	205	278	206
Finland, total	**1,041**	**1,084**	**4,467**	**4,547**
Rimi Baltic, Estonia	61	54	190	296
Rimi Baltic, Latvia	78	30	204	100
Rimi Baltic, Lithuania	38	–	81	–
Other countries, total**	**177**	**84**	**476**	**396**
Food stores, total	**1,218**	**1,168**	**4,943**	**4,943**

*incl. outlets operating under the K-pikkolo sign (also service stations)
**Rimi Baltic AB: 100% of stores and 50% of sales

Market outlook and objectives of Kesko Food

The growth of the groceries market in Finland will remain moderate due to the low price development. It is estimated that in 2006 the total development in the Finnish grocery trade market will remain at the level of 2005.

Possible changes in legislation concerning opening hours and allowing the sale of alcoholic and pharmacy products in food stores will affect the market development in the future.

The total Baltic grocery market is anticipated to increase by over 5%. The objective of Rimi Baltic is to gain a share of about 25% of the Baltic grocery market in two years.

Kespro's objective is to raise its market share particularly in the HoReCa sector. The keys to this success will include efficient delivery sales and modern order tools, new product categories and flexible and customer-driven logistics solutions.

Kesko Food's target is to strengthen the competitiveness of K-food stores and to achieve faster-than-market growth. Customers are offered a more comprehensive set of food store services with various K-food store concepts. A K-retailer with staff will serve customers at every K-food store. Joint marketing of all K-food stores will also increase.

Kesko Food's net sales and operating profit excluding non-recurring items are anticipated to grow slightly in 2006.

KESKO FOOD

Net sales in 2005	EUR million	Change, %
K-citymarket	1,071	1.7
K-supermarket	783	1.3
K-market and K-extra	758	-5.4
Kespro Ltd	707	-4.6
Rimi Baltic AB Group (50%)	404	59.1
Others	142	(..)
./. eliminations	-35	-
Total	**3,830**	**0.5**

Financial highlights		2005	2004
Net sales	EUR million	3,830	3,812
Operating profit	EUR million	133.8	130.8
Operating profit as % of net sales	%	3.5	3.4
Operating profit excluding non-recurring items	EUR million	90.3	109.2
Operating profit as % of net sales excluding non-recurring items	%	2.4	2.9
Depreciation	EUR million	81.3	77,4
Investments	EUR million	165.4	95.8
Return on net assets	%	13.6	13.2
Personnel average		9,822	7,768
Net assets at 31 Dec.			
Non-current assets	EUR million	995	937
Inventories	EUR million	185	206
Short-term receivables	EUR million	289	306
./. Non-interest-bearing debt	EUR million	-485	-464
./. Provisions	EUR million	-6	-
Net assets	**EUR million**	**978**	**986**

(..) change over 100%

Rautakesko

Rautakesko is engaged in the hardware and builders' supplies and interior decoration trade in Finland, Sweden, Norway, the Baltic countries and North-west Russia. It manages and develops its retail store chains and B-to-B Service in its operating area. Rautakesko is responsible for the chains' concepts, marketing, purchasing and logistics services, store network and retailer resources.

Market

The total retail market of this sector in Rautakesko's operating area is about EUR 13 billion. Retail sales of Rautakesko's chains totalled EUR 2,757 million in 2005 (proforma). Thanks to business acquisitions and the good sales growth, Rautakesko with its chains clearly rose among the top European hardware and builders' supplies companies at the annual level.

Finland

The Finnish retail market in the hardware and builders' supplies sector totals some EUR 3.5 billion. They increased by approximately 6% in 2005 (Finnish Hardware Association). The market share of the K-Alliance's hardware and builders' supplies trade in Finland is approximately 35%.

In Finland, Rautakesko operates the K-rauta and Rautia retail store chains and the B-to-B Service unit for construction companies, industry and other professional customers. The K-rauta chain consists of 40 stores, about 75% of whose customers are consumers. The Rautia chain consists of 105 stores, of which 40 also operate as K-maatalous stores engaged in the agricultural trade. The emphasis in the sales structure of Rautia is placed on building products. All K-rauta and Rautia stores are run by retailer entrepreneurs.

The combined sales (incl. VAT) of the K-rauta and Rautia chains and the B-to-B Service unit in Finland were EUR 1,285 million. Principal competitors are Starkki, Puukeskus, Puumerkki, S Group and Värisilmä.

Sweden

The Swedish hardware and builders' supplies market totals some EUR 3.7 billion, an increase of about 12% in 2005 (Industrifakta, Byggindex and own estimate).

At present, Rautakesko runs 13 K-rauta stores and one retailer-owned store in Sweden. Rautakesko's market share in Sweden is about 4%. Private customers account for around 90% of K-rauta customers. Principal competitors are Bauhaus, Beijer Bygg, Hornbach, Silvan and InterPares.

Norway

The Norwegian hardware and builders' supplies market totals some EUR 4.2 billion, up by 11% in 2005 (TBL, BNL and own estimate).

On 7 July 2005, Rautakesko acquired 98% of Norgros AS of Norway. Norgros manages the Byggmakker hardware and builders' supplies chain of 133 stores, 20 of which are owned by Norgros. Other stores within the chain are owned by retailer entrepreneurs, who have a chain agreement with Norgros. In December 2005, Rautakesko's ownership increased to 99%, because Norgros AS obtained treasury shares through lien. Rautakesko's market share in Norway is about 19%. More than half of all sales go to professional customers. Principal competitors are Maxbo, Optimera and Jernia.

Estonia

The Estonian hardware and builders' supplies market totals some EUR 0.4 billion, an increase of 14% in 2005 (own estimate).

Rautakesko has four stores and a nationwide network of wholesale outlets in Estonia. Non-professional customers account for some 50% of all customers. Rautakesko's market share in Estonia is about 20%. Principal competitors are Ehituse ABC, Ehitus Servise and Espak.

Latvia

The Latvian hardware and builders' supplies market is estimated to total some EUR 0.3 billion, an increase of about 16% in 2005 (CSB and own estimate).

In Latvia, Rautakesko operates three K-rauta stores of its own, one K-rauta partner store and a wholesale network covering the whole country. Rautakesko opened two new stores in 2005. It is estimated that Rautakesko's market share in Latvia has increased to 8%. Thanks to new stores, the proportion of sales to consumer customers is increasing strongly. Principal competitors are Tapeks, Nells, Reaton and Bergu Nams.

Lithuania

The Lithuanian hardware and builders' supplies market totals some EUR 0.4 billion, an increase of 13% in 2005 (own estimate).

In Lithuania, Rautakesko has the majority shareholding in UAB Senuku Prekybos centras, which is the market leader in Lithuania with a share of 25%. The Senukai chain consists of 13 own stores and 76 partnershop stores. Senukai sells to both consumers and business customers. Principal competitors are JSC Vinukas, Eremitazas and IRIS.

Russia

Rautakesko acquired the St. Petersburg Stroymaster DIY stores chain on 28 July 2005. The chain comprises five DIY stores in the St. Petersburg area. The hardware and builders' supplies market in the St. Petersburg area is estimated to total some EUR 0.6 billion, an increase of about 15% in 2005 (own estimate). In addition, Rautakesko operates a wholesale outlet and warehouse in Moscow. Principal competitors in St. Petersburg are Maxidom, Dom Laverna and Stroybaza Rybinskaya.

Strengths

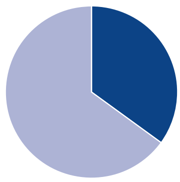
Rautakesko's operations are based on strong chain concepts:

K-rauta is Rautakesko's international concept. Besides Finland, K-rauta operates in Sweden, Estonia and Latvia. K-rauta aims to offer the best total solutions to its customers. In addition to products, K-rauta offers an extensive range of design and assembly services.

The K-rauta concept has inherent strengths that differentiate it from the traditional European DIY concepts. The K-rauta concept has succeeded to combine the service concepts, selections and operating systems for consumer, builder and business customers. Furthermore, the K-rauta chain's competitive advantages include, on average, larger stores than its competitors and attached builders' yards.

Rautia is the largest hardware and builders' suppliers store chain in Finland. Its selections are targeted at builders, renovators and building professionals in particular. Key competitive advantages include comprehensive customer service, knowledge of the local market and the cooperation network. Many

Retail sales of hardware and builders' supplies in Finland in 2005



1. K-rauta stores' services include assembled model bathrooms and kitchens from which customers, assisted by competent salespeople, can choose suitable alternatives.

2. Byggmakker is the leading hardware and builders' supplies store chain in Norway. It serves both private and professional customers.

3. Rautia stores' product selections serve building professionals in particular. A pneumatic BEX nailer is a professional tool.

Rautia stores also complement their range with agricultural items. Rautia promises its customers a service-oriented and expert goods solution for building needs in keeping with the fair and square local Rautia style.

Byggmakker is the largest hardware and builders’ suppliers store chain in Norway. Its characteristic features include reliable, high-quality operations and retailer entrepreneurship. Special strengths include sales of building supplies and professional customer expertise.

The Senukai chain is the market leader in Lithuania. The chain incorporates the Mega Store concept, which offers customers just about every product related to building and living at its stores of over 20,000 m2. The chain’s special focal point is the competence and skills of its personnel.

The Stroymaster chain operates in St. Petersburg. The chain’s special strengths include conveniently located stores that offer a large selection, including international product brands.

Rautakesko’s B-to-B Service customers include building firms, industry and other professional customers. Customers benefit from the integration of the B-to-B Service unit in their purchasing processes: The unit plans, directs and executes jobs related to purchasing, allowing the customer company to concentrate on its core business. The unit’s strengths also include close cooperation with the network of K-rauta and Rautia stores.

Rautakesko combines – operating in the background – the chains’ category management, purchasing, logistics, information system control and network improvements. The synergy benefits and economies of scale thus achieved provide a distinct strength.

Extensive joint training programmes of the chains and Rautakesko strongly contribute to the competencies of the personnel.

Year 2005

Rautakesko’s net sales totalled EUR 1,610 million, an increase of 40.0%. Net sales in Finland amounted to EUR 780 million, up by 6.8%. The net sales of subsidiaries in other countries totalled EUR 830 million, an increase of 97.5%. Companies outside Finland accounted for 51.6% of Rautakesko’s net sales.

Rautakesko’s operating profit was EUR 61.7 million. The growth in operating profit was mainly attributable to the business acquisitions in accordance with the strategy and to the sales increase. Rautakesko’s investments totalled EUR 191.5 million, of which investments outside Finland accounted for 96.1%.

The most important events in 2005 were the acquisitions of Norgros AS of Norway and the Stroymaster chain of St. Petersburg. Nine new stores were opened during the year: two in Finland, two in Latvia, two in Lithuania, two in Sweden and one in Russia. Product lines with the best growth were timber, interior decoration and house packages.

Market outlook and Rautakesko’s objectives

The hardware and builders’ supplies market is anticipated to grow in all countries where Rautakesko operates. In 2006 the growth is expected to be 5% in the Nordic countries and 5-10% in the Baltic countries. In the St. Petersburg area the market is expected to grow by about 15%.

Competition will intensify and store sizes will grow. Demand will increasingly focus on interior decoration, and the proportion of design and assembly services out of total sales will grow. The price image will gain more importance particularly in the Nordic countries.

Rautakesko will continue to grow, e.g. through investments in stores sites and emphasising the K-rauta partner operations. Rautakesko’s chains aim to open 12 new stores in 2006.

A major input for Rautakesko will be extending the operations control system to cover the whole operating area. The targets include logistical efficiency and customer-orientation in operations control.

Strong growth and internationalisation involve country-specific risks and risks related to the management of the whole. Such issues include:

- Market changes and competitiveness
- Awareness of country-specific features including legislation and procedures when establishing new stores
- Successful cooperation with new local subsidiaries
- Implementation of targeted synergy benefits
- Cooperation between subsidiaries in different countries

Risks are managed for instance with detailed risk mapping and analyses, ensuring local knowledge of cooperation partners, sending company experts to target countries and applying corporate governance principles on a systematic basis.

Rautakesko’s net sales and operating profit excluding non-recurring items are expected to grow markedly in 2006.

Rautakesko’s store concepts

K-ALLIANCE'S HARDWARE AND BUILDERS' SUPPLIES STORES

	Number		Sales (incl. VAT), EUR million	
	2005	2004	2005	2004
K-rauta*	40	43	561	530
Rautia*	105	102	464	421
K-customer agreement stores	35	38	53	57
Finland, total	**180**	**183**	**1,078**	**1,008**
K-rauta, Sweden	14	12	154	115
Norgros, Norway	133	–	419	–
K-rautakesko, Estonia	4	4	70	60
K-rauta, Latvia	3	1	44	26
Senukai, Lithuania	13	13	351	295
Stroymaster, Russia	5	–	42	–
Other countries, total	**172**	**30**	**1,080**	**496**
Hardware and builders' supplies stores, total	**352**	**213**	**2,158**	**1,504**

* 1 K-rauta store and 44 Rautia stores also operated as K-maatalous stores.

RAUTAKESKO

Net sales in 2005	EUR million	Change, %
Rautakesko Ltd	786	7.0
K-rauta AB, Sweden	124	35.2
Norgros, Norway (as from 7 July 2005)	269	–
AS Rautakesko, Estonia	60	17.4
A/S Rautakesko, Latvia	37	70.0
Senukai Group, Lithuania	298	19.5
Stroymaster, Russia (as from 28 July 2005)	36	–
ZAO Kestroy, Russia	7	21.1
./. eliminations	-7	–
Total	**1,610**	**40.0**

Financial highlights		2005	2004
Net sales	EUR million	1,610	1,150
Operating profit	EUR million	61.7	49.1
Operating profit as % of net sales	%	3.8	4.3
Operating profit excluding non-recurring items	EUR million	61.5	46.1
Operating profit as % of net sales excluding non-recurring items	%	3.8	4.0
Depreciation	EUR million	20.1	14.8
Investments	EUR million	191.5	46.1
Return on net assets	%	16.5	18.4
Personnel average		5,731	4,319
Net assets at 31 Dec.			
Non-current assets	EUR million	395	213
Inventories	EUR million	165	122
Short-term receivables	EUR million	170	115
./. Non-interest-bearing debt	EUR million	-276	-157
./. Provisions	EUR million	0	–
Net assets	**EUR million**	**454**	**294**

Keswell

Keswell chains specialise 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 chains include well-known furniture, interior decoration, sports, home technology, shoe, optical and department stores that have gained a strong position.

Market

The home and speciality goods trade consists of several product lines in home and leisure goods and clothing. The total market in Keswell's business area is estimated to slightly exceed EUR 8 billion and to increase by 2–3% in 2006.

Market trends include increasingly diversified consumption behaviour and lower customer loyalty. Consumers are increasingly demanding and look for experiences instead of just products alone. Makes and brands will remain important, while seasons and collections change faster than ever.

More importance will be placed on the ethical aspects of consumption. Various services will increase their share of consumption and e-commerce will continue to grow.

The speciality goods business will continue to concentrate on shopping centres. Hypermarket chains will establish new stores at a slower rate than previous years and try to increase their market share in the home and speciality goods trade through price competition in particular. Increasing foreign competition can be expected in the sports trade in particular.

Development in the sector is strongly characterised by the formation of chains. Most of the new ones are efficient, sole proprietor run chains that set clear demands on Keswell chains to improve efficiency.

Concepts undergo fast changes. They are increasingly focused and tightly controlled. Traditional chains have to improve the efficiency of their operations to maintain competitiveness. Keswell too has implemented a chain reform to improve the competitiveness of the chains in the rapidly changing competitive situation. Focal points include customer-driven chain concepts, uniform product selections and efficient business processes.

Keswell's strengths

- Well-known chain concepts in the Finnish home and speciality goods trade
- Nationwide store network in Finland
- Several strong product lines: sports goods, furniture, interior decoration items, home goods, shoes, clothing, home technology, music and movie recordings, optical products
- Expertise in e-commerce

- International purchasing cooperation: Intersport International in the sports trade and EP International in the home technology trade

Department store and distance sales

Anttila

Anttila Group's net sales were EUR 516 million, an increase of 3.4%.

Anttila Oy operates on the basis of three key concepts: Anttila department stores, Kodin Ykkönen department stores for home goods and interior decoration, and distance sales. Anttila carries out distance sales in Finland, Estonia and Latvia. There are 27 Anttila and seven Kodin Ykkönen department stores.

Anttila department stores offer a diverse selection of entertainment, clothing and home goods. They compete between hypermarkets and speciality store chains mainly for customers who value topicality, low prices and diversified selections of department stores. Anttila department stores have established their position as an important department store chain in Finland. Their strengths include a good price image, diverse selections, a comprehensive network, efficiency, competence and good customer service. Anttila's main competitors are other department stores, speciality stores and hypermarkets.

The newest Anttila department store was opened in the Sello shopping centre in Leppävaara, Espoo in September. Concept reforms were carried out in three department stores in 2005.

Kodin Ykkönen is the leading department store chain for interior decoration and home goods in Finland. Its competitors include Ikea and other interior decoration stores. The strengths of Kodin Ykkönen department stores include a superior selection of home goods complemented by special services in interior decoration, the Top Ten consumer electronics department, good customer service and inspiring store interiors.

The Kodin Ykkönen chain consists of seven department stores. The eighth one will be opened in Porttipuisto, Vantaa in spring 2006.

The sales of Kodin Ykkönen department stores totalled EUR 156 million in 2005, an increase of 4.3%.

Anttila's distance sales will be developed by integrating Anttila Mail Order and NetAnttila into a multi-channel online department store. NetAnttila is one of the biggest online department stores in Finland, which offers a large selection of products in entertainment, home goods and clothing. Distance sales strengths include ease of shopping, modernity, several payment options and low prices.

The net sales of Anttila's distance sales unit totalled EUR 74.8 million, an increase of 6.0%.

New foreign operators entering the Finnish market and direct orders from abroad are increasing competition in distance sales. Anttila Oy's subsidiary Anttila AS carries out distance sales in Estonia and Anttila Oy's subsidiary SIA Antti is responsible for distance sales in Latvia. Online sales started in Estonia in October 2005.

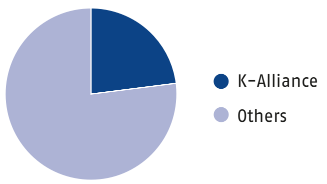
Anttila Group's key objectives include the controlled improvement of performance and increasing the market share in selected product lines.

Furniture and interior decoration trade

Indoor Group's net sales, starting from 22 January 2005, totalled EUR 164 million. The retail sales of the Asko chain in Finland were EUR 89 million, while those of the Sotka chain were EUR 103 million.

Indoor Group, which specialises in the furniture and interior decoration trade, is the leading retailer of furniture in Finland with its chain concepts. The Group consists of Asko and Sotka, two well-known retail store chains that complement each other, Insofa Oy, an assembly unit for upholstered furniture, and subsidiaries in Sweden, Estonia and Latvia.

Retail sales of home and speciality goods in Finland in 2005



1. Anttila department stores' Top Ten music and movie departments are widely known and very comprehensive. Top Ten is also found on the Internet pages of NetAnttila.com.
2. Asko is a well-known brand in the Finnish interior decoration business. Asko stores provides high-quality and trendy goods for demanding customers. Kesko's other home goods and interior decoration store chains are Kodin Ykkönen and Sotka.
3. Intersport is the leading sports store chain in Finland. The staff are trained to help customers choose the right leisure equipment. The reflective Brooks jogging suit is an ideal outfit for dark nights.

Asko is a high-quality, trendy department store for interior decorators. It has a good price-quality ratio and the focus on customers furnishing their second or third homes.

Sotka is a low-price furniture store with the focus on families with children and customers establishing their first homes.

In addition to Asko and Sotka, furniture and interior decoration items are also sold in Keswell by Kodin Ykkönen and Anttila department stores. Their combined market share in the Finnish furniture trade is about 26 %.

Indoor Group's objective is to further strengthen its market leadership in Finland and continue expanding in the Baltic countries and Sweden.

Sports trade

The net sales of Kesko Sports were EUR 126 million, a decrease of 3.4%. The retail sales of the Intersport chain were EUR 221 million, up by 1.3%. The retail sales of Kesport stores were EUR 26 million, up by 3.9%.

Keswell's sports store concepts are Intersport and Kesport.

The **Intersport** chain stores are located in downtown areas or shopping centres and participate in nationwide joint marketing. The concept's strengths include a comprehensive store network, wide selections, and expert, service-oriented staff.

The **Kesport** stores are leading sports stores in smaller rural centres and focus on local marketing.

Intersport is the leading chain in the Finnish sports trade. Its principal competitors include Sportia, Top-Sport and Stadium.

The total market of the sports trade in Finland amounts to about EUR 800 million of which Keswell accounts for approximately 36%. Speciality stores have achieved a large majority of all business.

Foreign competition will continue to increase in the Finnish sports trade. At the same time hypermarkets will expand their operations to smaller market areas and increase their selections of brands and products. This development will lead to harder price competition in the sports trade in Finland.

Kesko Sports will respond to the challenge of competition by developing the Intersport business concept, enhancing international purchasing and marketing cooperation and establishing Budget Sport, a new store format based on cost-effective operations and low prices, during 2006. Intersport's success in Finland and good cooperation with the international Intersport organisation create a framework for internationalisation. Kesko Sports is actively surveying the Baltic sports equipment market with an objective to establish outlets and achieve market leadership in these countries, too, in the near future.

Home technology trade

The total Finnish market for home technology products is about EUR 1,670 million (Source: Kotek - cooperation forum in home

Keswell's store concepts

K-ALLIANCE'S HOME AND SPECIALITY GOODS STORES

	Number		Sales (incl. VAT), EUR million	
	2005	2004	2005	2004
Anttila department stores	27	26	377	368
Kodin Ykkönen department stores for home goods and interior decoration	7	7	156	150
Anttila distance sales (NetAnttila and Mail Order)	–	–	77	87
Intersport	58	58	221	218
Kesport	37	35	26	25
Musta Pörssi	59	59	182	177
K-kenkä	32	29	26	24
Andiamo	19	22	22	23
Kenkäexpertti	51	52	15	16
Asko	29	–	89	–
Sotka	52	–	103	–
Tähti Optikko chain	127	125	44	44
Other home and speciality goods stores	12	15	4	5
Finland, total	**510**	**428**	**1,342**	**1,136**
Anttila mail order, Estonia and Latvia	–	–	19	19
Furniture sales, Sweden, Estonia and Latvia	8	–	25	–
Other countries, total	**8**	**–**	**44**	**19**
Home and speciality goods stores, total	**518**	**428**	**1,386**	**1,155**

technology, the Association of Electronics Wholesalers, GfK Retail & Technology).

The net sales of Kesko Musta Pörssi were EUR 137 million, an increase of 2.6%. The retail sales of the **Musta Pörssi** chain were EUR 185 million, an increase of 4.5%.

The Musta Pörssi chain's principal competitors include other speciality store chains operating in the sector.

Musta Pörssi offers its customers high-quality home technology products and services to aid housework, enhance communications and provide entertainment. Musta Pörssi is a member of the ElectronicPartner International purchasing organisation, which helps to strengthen the Musta Pörssi chain's competitive position in the internationalised and still rapidly changing Finnish market.

Keswell accounts for nearly 20% of the home technology trade in Finland.

Shoe trade

The net sales of Kesko Shoes increased by 1.9% to EUR 25 million. The net sales of the Andiamo and K-kenkä chains totalled EUR 48 million, an increase of 1.3%.

The total shoe trade market in Finland was about EUR 500 million. Keswell accounts for about 19% of the shoe trade in Finland.

KESWELL

Net sales in 2005	EUR million	Change, %
Anttila Group	516	3.4
Indoor Group (as from 22 January 2005)	164	–
Kesko Sports	126	-3.4
Kesko Musta Pörssi	137	2.7
Kesko Shoes	25	1.9
Others	7	–
Total	**975**	**23.0**

Financial highlights		2005	2004
Net sales	EUR million	975	793
Operating profit	EUR million	35.8	33.8
Operating profit of net sales	%	3.7	4.3
Operating profit excluding non-recurring items	EUR million	30.7	24.5
Operating profit as % of net sales excluding non-recurring items	%	3.1	3.1
Depreciation	EUR million	14.4	12.6
Investments	EUR million	55.1	6.0
Return on net assets	%	12.6	13.4
Personnel average		3,255	2,583
Net assets at 31 Dec.			
Non-current assets	EUR million	223	148
Inventories	EUR million	134	113
Short-term receivables	EUR million	118	100
./. Non-interest-bearing debt	EUR million	-147	-120
./. Provisions	EUR million	0	0
Net assets	**EUR million**	**328**	**242**

K-kenkä and Andiamo are the K-Alliance's shoe speciality store chains. They are the market leaders among specialist shoe stores in Finland. Kenkäexpertti shoe stores operate in the smallest towns. Shoe retailing is concentrated on downtown areas and shopping centres, where footwear is sold by hypermarkets, sports stores, department stores and specialist shoe stores.

Tähti Optikko

Tähti Optikko is a chain of branded products in the optical trade in Finland. The chain consists of 127 optical outlets, of which one third are owned by Keswell and two thirds by partners.

The Tähti Optikko optics chain was transferred from Kaukomarkkinat to Keswell at the beginning of 2006.

Year 2005

Keswell's net sales were EUR 975 million, up by 23%. The net sales from operations outside Finland amounted to EUR 41 million, representing 4.2% of Keswell's total net sales. The impact of Indoor Group Ltd, which was acquired in January 2005, on the growth in net sales was 21 percentage points.

Keswell's operating profit was EUR 35.8 million. The operating profit included EUR 5.2 million in gains on the disposal of fixed assets. The operating profit excluding non-recurring items increased by EUR 6.2 million over 2004. It was negatively affected by a lease cancellation cost of EUR 5.1 million related to the Anttila development of the store network.

The most important store site investments were the new Asko and Sotka stores opened in Lommila, Espoo and Roihupelto, Helsinki, and the Anttila department store, the Intersport megastore, K-kenkä shoe store and Musta Pörssi store opened in the Sello shopping centre in Leppävaara, Espoo.

Future outlook and Keswell's objectives

As consumers' confidence in the development of their own finances remains good, no fast changes in consumption demand are expected in the home and speciality goods trade. Inflation is expected to be moderate in the sector. The home and speciality goods trade is anticipated to grow by an average of 2-3% in 2006, and the fastest increase is expected in the home technology and furniture trade. The home technology trade is anticipated to increase by 5-6% and the furniture trade by 4-5%.

Keswell's key objectives include increasing the market share and improving profitability combined with controlled internationalisation in selected business areas.

Growth is sought particularly in the areas of interior decoration and furniture, sports goods and home technology and online trade. Development focuses on improving customer satisfaction and competitiveness by enhancing chain concepts and meeting customer promises. Our aim is to maintain our pioneering position in the online home and speciality goods trade to consumers.

Fierce competition will continue in the home technology trade. The competitive situation in the sports trade is also expected to get tougher due to foreign competition. Weather conditions can inevitably cause variations between monthly sales of sports goods and clothing during each season.

The substantial increase in the total retail selling space in the greater Helsinki area intensified competition in the home and speciality goods trade in late 2005. It is expected that Keswell's net sales will increase and operating profit excluding non-recurring items will improve.

VV-Auto

VV-Auto imports and markets Volkswagen, Audi and Seat passenger cars and Volkswagen commercial vehicles in Finland. VV-Auto is also engaged in car retailing and provides after-sales services in its own car outlets.

Market

In 2005, a total of 148,164 new passenger cars and 14,090 vans were registered in Finland. The passenger car market increased by 3.9%. The change in taxation contributed to a decrease in the number of new commercial vehicles registered by 10.6%. After the 2003 car taxation reform that temporarily boosted car sales in response to accumulated demand, passenger car sales have returned to steady growth.

Volkswagen, VV-Auto's volume brand, has comfortably maintained its second place in the registration statistics, whereas Audi set a new record in registrations for the fifth year in succession.

Volkswagen, Audi and Seat represent strong European brands. Their strengths include a diversified choice of models, fuel efficiency and a high resale value. The brands also maintain market leadership in the diesel passenger car market.

VV-Auto has a strong and competent dealer network. In the dealer and after-sales services network Volkswagen has 40 and Audi 17 outlets. Additionally, there are 21 separate service centres for car maintenance and repair. VV-Auto has two units engaged in the retailing and service of Volkswagen and Audi vehicles: one in Herttoniemi, Helsinki and another in Turku. In terms of number, VV-Auto's own retail outlets accounted for over 15% of the sales of new Volkswagens and Audis in 2005.

Year 2005

VV-Auto's net sales totalled EUR 688.9 million in 2005, up by 9.0% over the previous year. The operating profit increased by EUR 11.4 million to EUR 38.7 million.

The Volkswagen range was extensively revised in 2005, which strengthened the market share towards the end of the year. The new Volkswagen Golf GTI, Passat, Golf Plus, Polo, Bora's successor Jetta and Passat Variant were introduced to the market. The Audi range was complemented with the new Audi A6 Avant, and Seat launched the new Toledo. In 2005 the market share of Volkswagen passenger cars in Finland was 10.1%, Audi had a market share of 3.1% and Seat's share was 0.9%.

The dealer network focused on the enhancement of after-sales services and sales staff training, with a particular emphasis on the implementation of business premises in line with the concept. By the end of the year all Volkswagen sales people had

1. The Volkswagen range of high-quality commercial cars has practical options for different passenger and freight transportation needs.

2. The Audi Center opened in Herttoniemi, Helsinki in December 2005 is the biggest in Finland.

3. Expertise is highlighted in present service and repair activities.

completed sales training based on the international concept of Volkswagen. New exhibition showrooms specialising in Audi sales were opened in Tampere, Turku and Herttoniemi, Helsinki.

Market outlook and VV-Auto's objectives

The operating environment of the car trade is anticipated to remain stable and the market to increase slightly in 2006. The total market for vans is expected to remain at the level of 2005. A major rise in interest rates would, however, also slow down the car trade

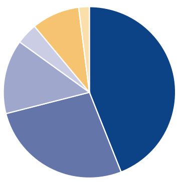
In accordance with EU definitions, Finland too is expected to gradually shift the emphasis in car taxation from the point of purchase towards usage, which is estimated to increase the sales of new cars. Possible tax reforms and their impacts will cause variations in car sales and the price level of used cars.

The European-wide gradual harmonisation of prices will probably continue. The abolition of the location clause regulating the car market may change the structure of various makes' sales network.

VV-Auto aims to increase the market share of the brands it represents during 2006, particularly the market share of Volkswagen passenger cars. In 2006 VV-Auto will also continue to enhance its own retail store network. The Audi and Volkswagen business deal signed with Stockmann Auto Oy Ab will strengthen VV-Auto's position as a car retailer in the Greater Helsinki area.

In 2006, VV-Auto Group's net sales are estimated to increase mainly due to the structural change in sales and the Group's own Audi and Volkswagen retail outlets. The operating profit excluding non-recurring items is expected to remain at a good, although lower level than in 2005.

Breakdown of VV-Auto Oy's sales in 2005

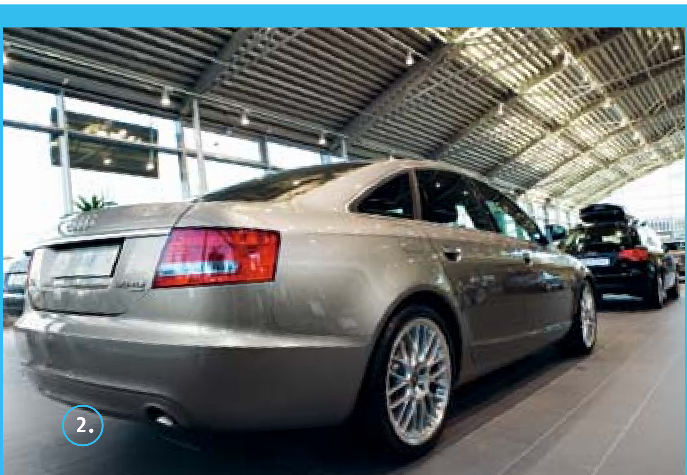


VV-AUTO

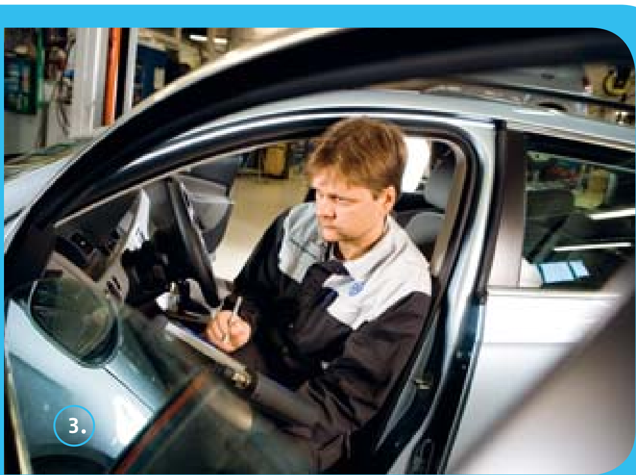
Net sales in 2005	EUR million	Change, %
VV-Auto Group	689	9.0

Financial highlights		2005	2004
Net sales	EUR million	689	632
Operating profit	EUR million	38.7	27.3
Operating profit as % of net sales	%	5.6	4.3
Operating profit excluding non-recurring items	EUR million	38.7	26.1
Operating profit as % of net sales excluding non-recurring items	%	5.6	4.1
Depreciation	EUR million	4.9	4.1
Investments	EUR million	26	15
Return on net assets	%	37.3	32.0
Personnel average		359	264
Net assets at 31 Dec.			
Non-current assets	EUR million	37	26
Inventories	EUR million	113	91
Short-term receivables	EUR million	32	25
./. Non-interest-bearing debt	EUR million	-46	-50
./. Provisions	EUR million	-10	-9
Net assets	**EUR million**	**126**	**82**

	Number		Sales (incl. VAT), EUR million	
K-Alliance's car stores	2005	2004	2005	2004
Helsingin VV-Auto and Turun VV-Auto	2	2	207	129



2.



3.

Konekesko

Konekesko is a service company specialised in the import and sale of recreational and heavy machinery. In addition to Finland, Konekesko markets Yamarin boats to several European countries and construction and environmental machines to the Baltic countries through Kesko Agro.

Market

Konekesko operates in the market of construction and environmental machinery, trucks and buses, and various recreational machines. The Finnish market for recreational machines is about EUR 500 million, for construction and environmental machinery about EUR 400 million, and for trucks and buses about EUR 400 million.

Konekesko's range of recreational machines includes Yamaha motor vehicles and outboard motors, Yamarin and Finnmaster boats, and boating equipment. Exports of Yamarin boats are implemented in cooperation with Yamaha's European organisation. The range of heavy machinery includes New Holland, Case, Manitou, Kubota and LM-Trac construction and environmental machines, and MAN trucks and buses.

The machinery market reacts heavily to general economic development. The strong trend of recent years has considerably increased demand for recreational machines. Correspondingly, changes in fuel prices have an impact on business customers' investment in heavy machinery.

Konekesko's main competitors include other importers of recreational and heavy machinery brands.

Konekesko's strengths

Konekesko differentiates from its competitors with multi-sector operations, strong brands and versatile after-sales services.

Konekesko's Yamarin boat brand is the market leader in reinforced plastic outboard motor boats in the Nordic countries.

Konekesko offers comprehensive after-sales services for all the products that it represents throughout the market area. After-sales services are carried out in cooperation with a network of skilled contract service providers.

Construction and environmental machinery and MAN trucks are marketed through Konekesko's own sales organisation and recreational machines through an extensive dealer network.

Year 2005

In 2005, Konekesko's net sales increased by 17.4% to EUR 198.1 million. Net sales from export operations were EUR 26.3 million and accounted for 13.3% of the total net sales.

The greatest change in recreational machinery was the reorganisation of the Yamarin boat production. In 2005, sales of Finnmaster boats started in the dealer network and Konekesko's own Yamaha Center selling recreational machinery was opened in Vantaa. The new retail concept for recreational machinery was well-received by customers and the Yamaha Center's sales targets were exceeded.

Konekesko started extensive quality improvement efforts in 2005, and the first ISO 9001-2000 quality certificate went to the MAN product group.

The greatest change in the construction machinery was that our principal CNH concentrated on two product brands: Case and New Holland. In late 2005 Konekesko signed an agreement with Ponsse Oyj concerning the distribution of Ponsse products to the Baltic countries.

The warehouse technology business was sold to BT Varastotekniikka Oy. The transaction was completed on 1 January 2006. Konekesko holds a minority interest in the new company. In connection with the transaction, about 70 persons were transferred to BT Varastotekniikka Oy under their previous conditions. In the same context, the BT Group also acquired Kesko Agro's warehouse technology businesses in the Baltic countries.

Market outlook and Konekesko's objectives

The market for recreational machines is estimated to grow slightly in 2006. Market trends for construction and environmental machinery are expected to continue to be stable in Finland. The truck market is anticipated to remain unchanged. The Baltic market for construction and recreational machines is expected to increase by at least 15%.

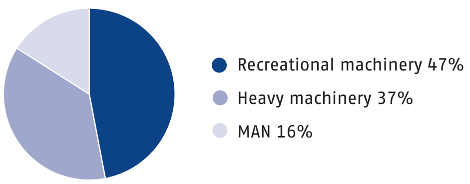
Konekesko's objectives include strengthening its market position by expanding its product and service offering and growing faster market in Finland. Growth is sought in particular from the MAN truck trade, the boat sales and the heavy machinery business in the Baltic countries.

Konekesko will focus strongly on the product development of Yamarin boats and enhancing their production, working in co-operation with its business partners. The comprehension and quality of the after-sales services network will be further improved according to customer needs.

Critical factors for Konekesko's operations include strategic choices of principals and strong market changes.

In the 2005 financial statements, Konekesko is presented as part of Kesko Agro. Starting from 1 January 2006, Konekesko will be considered as an individual division.

Breakdown of Konekesko's net sales in 2005



1. Konekesko Marine's Yamaha dealership network's comprehensive offering for boaters includes many leading brands, such as Yamaha outboard motors, Yamarin boats and Helly Hansen boating textiles.
2. Konekesko imports and markets construction and environmental machinery to contractors, the manufacturing industry and other professional users. The brands Konekesko represents include Case and New Holland construction machinery and Kubota environmental machines.
3. The recreational machines Konekesko offers cover all products of Yamaha Motor Corporation, including snowmobiles.


3.

Kesko Agro

Kesko Agro's K-agriculture chain purchases and sells animal feed, chemicals and machinery to agricultural entrepreneurs and trades in grain with them. Kesko Agro is active in Finland and in all Baltic countries.

Market

In Finland, Kesko Agro and about 100 agricultural stores – K-maatalous stores – form the K-agriculture chain, which has agricultural entrepreneurs as its customers. K-agriculture helps them to efficiently produce the safe and pure foodstuffs that are valued by consumers.

The value of the total Finnish agricultural market has remained nearly unchanged at the level of about EUR 1.9 billion.

At present, the Baltic market is around EUR 0.7 billion and it is estimated to grow annually by 5–10% depending on the product line. The EU membership plays a crucial role in the growth of the Baltic agricultural market.

K-agriculture's main competitor in Finland is the Agrimarket chain. The K-agriculture chain has a market share of about 35%. Product line-specific competitors also include Valtra, Avena and Alfa Laval. Our main competitors in the Baltic countries are country- and segment-specific operators, such as Kemira, Olsen Baltic and Agrokonzernas.

Kesko Agro Eesti AS in Estonia, SIA Kesko Agro Latvija in Latvia and UAB Kesko Agro Lietuva in Lithuania are the Kesko Agro subsidiaries that carry on agricultural trade in the Baltic countries. Agricultural and machinery trading centres are located in Jüri, Estonia, in Riga, Latvia, and in Vilnius and Kaunas, Lithuania. Kesko Agro also has five district centres, and some 50 equipment and spare parts dealers.

In the Baltic countries, Kesko Agro is the market leader in the agricultural and machinery trade. Its market share is about 32% in Estonia, about 25% in Latvia and about 15% in Lithuania.

Strengths

Kesko Agro's strengths include comprehensive product selections, services and after-sales operations. An additional strength in Finland is the network of K-maatalous retailers who are familiar with regional and local circumstances, and in the Baltic countries Kesko Agro enjoys an established position and a comprehensive store network.

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.

Viljaweb is Finland's leading online 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 their Viljaweb pages. In 2005 the web trading place was expanded to include other feed, chemicals and associated items.

The Internet is very important for the trade-in machinery business. Kesko Agro provides a range of around 2,000 trade-in machines at www.vaihtokone.com. The supply covers 60 product groups from snowmobiles to construction machines. Around 30% of customer contacts that lead to a trade-in transaction take place via the Internet.

Year 2005

In 2005 Kesko Agro's net sales were EUR 939.7 million, an increase of 15.6%. In the Baltic countries Kesko Agro's net sales increased by 42% to EUR 236.3 million. Kesko Agro's operating profit was EUR 12.7 million in 2005, an increase of 0.7% over the previous year.

The web trading place for farming customers was expanded in late 2005 to include feed, fertilizers and fuel oil in Finland. 15 new or refurbished stores were opened in Finland and one in the Baltic countries.

Product line management in Kesko Agro's entire market area was strengthened in 2005 with the aim of achieving synergy benefits between the Finnish and Baltic operations.

Market outlook and Kesko Agro's objectives

The structural change in the Finnish agricultural industry will continue. The number of farms will decrease and their size will grow. Some farmers will enhance and increase their production, therefore total agricultural production and investments are expected to remain at the present level. There are about 70,000 farms in Finland at present, and it is estimated that the number of active farms will fall to approximately 40,000 by 2012. In fi-


1.

2.


3.

nancial terms, however, the market is anticipated to remain at about EUR 1.9 billion.

The total agricultural trade market in the Baltic countries will increase by about 5-10% annually. Likewise, investments in the basic infrastructure of agriculture, in machinery and equipment will continue steadily thanks to the EU membership of the Baltic countries.

Kesko Agro aims to become the leading agricultural store chain in Finland and the Baltic countries, to expand and develop online trade solutions, and to improve financial performance and the use of capital.

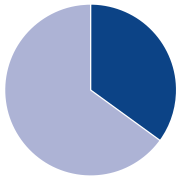
The risks facing the agricultural trade are considered to include decisions concerning the EU agricultural policy and the ensuing changes in the market. The expansion of the EU to the East will present new risks for the Finnish agricultural market. High demands on the efficiency of operations are set in low-margin mass product categories. As a capital-intensive sector, agriculture also presents some specific risks to the trading sector.

It is expected that Kesko Agro's net sales will decrease as a result of the disposal of warehouse technology business and operating profit excluding non-recurring items will drop in 2006.

KESKO AGRO

Net sales in 2005	EUR million	Change,%
Kesko Agro Ltd	496	4.5
Konekesko Ltd	198	17.4
SIA Kesko Agro Latvija	83	55.6
Kesko Agro Eesti AS	60	16.8
UAB Kesko Agro Lietuva	100	49.4
Others	43	-
./. eliminations	-40	-
Total	**940**	**15.6**

Retail sales of agricultural supplies in Finland in 2005



Financial highlights*		2005	2004
Net sales	EUR million	940	813
Operating profit	EUR million	12.7	16.4
Operating profit of net sales	%	1.4	2.0
Operating profit excluding non-recurring items	EUR million	12.6	13.3
Operating profit as % of net sales excluding non-recurring items	%	1.3	1.6
Depreciation	EUR million	5.3	1.5
Investments	EUR million	7.2	11.0
Return on net assets	%	6.6	9.4
Personnel average		1,143	1,011
Net assets at 31 Dec.			
Non-current assets	EUR million	56	68
Inventories	EUR million	164	145
Short-term receivables	EUR million	106	92
./. Non-interest-bearing debt	EUR million	-131	-114
./. Provisions	EUR million	-1	-1
Net assets	**EUR million**	**194**	**190**

* Konekesko is presented as part of Kesko Agro. Starting from 1 January 2006, Konekesko will be considered as an individual division

K-ALLIANCE'S AGRICULTURAL STORES

	Number		Sales (incl. VAT), EUR million	
	2005	2004	2005	2004
K-maatalous*	99	100	592	688
Finland, total	**99**	**100**	**592**	**688**
Kesko Agro Eesti	5	5	62	60
Kesko Agro Latvija	4	5	79	61
Kesko Agro Lietuva	3	3	83	75
Other countries, total	**12**	**13**	**224**	**196**
Agricultural stores, total	**111**	**113**	**816**	**884**

* 1 K-maatalous store also operated as a K-rauta store and 44 as Rautia stores.

4.

1. Farmers can do all their grain trading at Vilja-web, K-maatalous chain's online marketplace.

2. K-agriculture participates in the most important agricultural events. In addition to traditional agricultural equipment, GPS positioning devices were also presented at the Vilja 2005 exhibition.

3. Kesko Agro represents well-known agricultural machinery brands, such as Massey-Ferguson tractors.

4. Kesko Agro's store concepts.

Kaukomarkkinat

Kaukomarkkinat specialises in international technical trading for production and professional usage.

Market

In addition to Finland, the principal market areas of Kaukomarkkinat include the other Nordic countries, the Baltic countries, Poland, China and Russia – particularly the areas in and around St. Petersburg and Moscow. Kaukomarkkinat has five offices in Finland and over 20 in other countries. The most important customer groups are the manufacturing industry, public and private utilities and corporations. It is estimated that in 2005 the total market grew by 3% in Finland and the other Nordic countries, and by 6% in Russia and China.

Kaukomarkkinat's main competitors include other distributors operating in technical trading and manufacturers' own sales organisations. Competition is characterised by the globalisation of both the key customers and principals and the resulting special demands on operations. Parties involved in the production of services increase in number as customers globalise and outsource some of their non-core operations.

Kaukomarkkinat supplies machines, equipment, raw materials, accessories and various related services for production or professional usage. Besides product sales, Kaukomarkkinat plays an increasing role as a supplier of systems, concepts and solutions, and continuously develops new added-value services for its principals and customers.

Kaukomarkkinat's core operations consist of the trade in industrial raw materials, including various plastic raw materials, chemicals, industrial lubricants, raw materials for the rubber industry and the terminal services for liquid chemicals in Hamina. Core operations also include raw materials, machines and equipment for the bakery, meat and convenience food industries as well as packaging systems and tapes.

Kaukomarkkinat also supplies machines, equipment, raw materials and electronics to the forest, process and energy industries. Kaukomarkkinat is engaged in project business in the Far East, where it is also responsible for the surveillance of Kesko's interests in goods purchasing.

Strengths

Kaukomarkkinat also strengthens its core operations in its market area with business acquisitions, aiming at market leadership in selected segments. Internal synergy between various product lines and cooperation networks will be used for the benefit of all product groups, including particularly cooperation opportunities offered by the organisation in China.
The basis of the operations and major strengths include:
- Strong position in core business divisions
- Thorough knowledge of the market and the sector
- Strong expertise and competence
- Leading principals in selected core business divisions
- Ability to serve stakeholder groups in the whole Baltic Sea area

Risks

A major risk factor related to the business is the transfer of key customers' decision-making and operations outside the market area of Kaukomarkkinat. Rearrangements of principals' business divisions and possible changes in their strategies may also have an impact on the operations of Kaukomarkkinat. Concentration on strong core competencies also provides a competitive advantage in the changing market situation.

Strongly developing Russian and Chinese markets continue to involve major political and financial risks in addition to risk factors resulting from operating practices and cultural differences. The commitment of local employees in offices outside Finland in particular is of crucial importance.

Year 2005

Kaukomarkkinat Group's net sales amounted to EUR 290.4 million in 2005, a decrease of 3.9% over the previous year. Net sales in Finland amounted to EUR 193 million. Net sales from other countries were EUR 98 million, accounting for 34% of the total.

1. Telko Oy of Kaukomarkkinat supplies raw materials for the food, plastic and chemical industries. Telko supplies plastic raw material, such as special polyamides to Fiskars.

2. Packaging solutions are part of Telko Oy's core business.

3. LT-Kone Oy supplies machines and equipment for the bakery and food industry. Pictured is the baking oven in K-supermarket store in Kamppi, Helsinki.

Operating profit excluding non-recurring items was EUR 2.8 million (EUR 9.9 million). Profit performance was negatively affected by unprofitable raw materials trade in China and consumer electronics trade in Finland, and costs from discontinuing business operations. Investments totalled EUR 5.8 million, of which operations outside Finland accounted for EUR 1.9 million or 33%.

The extensive reorganisation of Kaukomarkkinat Group began in 2005. According to plan, the Group divested a great part of its consumer goods business that does not belong to its core operations, including the watch trade and the Pioneer, Yamaha and KEF consumer electronics. In addition to the representation of Yamaha, the Tähti Optikko chain of optical outlets was also transferred within Kesko Group into Keswell Ltd.

The reorganisation of the Group divisions has been completed, and with its new business line and network cooperation structure, Kaukomarkkinat is increasingly effective.

Market outlook and Kaukomarkkinat's objectives

The total market for tehcnical trading will not increase in Finland and other Western industrialised countries, whereas fast growth will continue in the rapidly developing Baltic Sea area, and in Russia and in China.

Kaukomarkkinat is eliminating all non-core operations from its value chains as trading margins are inevitably shrinking.

Besides increasing profitability, Kaukomarkkinat aims at market leadership in its core business operations of technical trade. Growth is sought primarily outside Finland.

The network of offices will be enhanced and strengthened particularly in the Baltic Sea area and in Russia. At the same time, service offering and operating systems will be developed to enable Kaukomarkkinat to act globally.

A major risk factor related to the business is the transfer of key customers' decision-making and operations outside the market area of Kaukomarkkinat. Possible changes in principals' business divisions and strategies may also have an impact on the operations of Kaukomarkkinat. Concentration on strong core competencies also provides a competitive advantage in the changing market situation. Strongly developing Russian and Chinese markets continue to involve major political and financial risks in addition to risk factors resulting from cultural differences.

In 2006, the market in the Nordic countries will grow moderately, by some 3%, but a rapid growth (over 6%) is expected to continue in Russia and China. Kaukomarkkinat's net sales are anticipated to decline and operating profit excluding non-recurring items to improve in 2006.

KAUKOMARKKINAT

Net sales in 2005	EUR million	Change,%
Kaukomarkkinat Group	290	-3.9

Financial highlights		2005	2004
Net sales	EUR million	290	302
Operating profit	EUR million	-11.2	14.7
Operating profit of net sales	%	-3.9	4.9
Operating profit excluding non-recurring items	EUR million	2.8	9.9
Operating profit as % of net sales excluding non-recurring items	%	1.0	3.3
Depreciation	EUR million	3.1	4.0
Investments	EUR million	5.8	6.0
Return on net assets	%	6.2	15.2
Personnel average		765	773
Net assets at 31 Dec.			
Non-current assets	EUR million	60	67
Inventories	EUR million	25	32
Short-term receivables	EUR million	34	34
./. Non-interest-bearing debt	EUR million	-37	-31
./. Provisions	EUR million	0	0
Net assets	**EUR million**	**82**	**102**

2.

3.

Corporate Governance Statement

Decision-making

Group structure

Kesko Group comprises the parent company, Kesko Corporation, and its subsidiaries. The most important subsidiaries of Kesko Group are Kesko Food Ltd, Rautakesko Ltd, Keswell Ltd, VV-Auto Oy, Konekesko Ltd, Kesko Agro Ltd and Kaukomarkkinat 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 publicly traded companies, Kesko Corporation's Articles of Association, and the rules and regulations of the Helsinki Stock Exchange. In addition, Kesko Corporation complies with the Corporate Governance Recommendation for Listed Companies published jointly by the Helsinki Stock Exchange, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers, which entered into force on 1 July 2004 (Corporate Governance Recommendation) with the exception of the terms of office of Board members.

General Meetings

The highest decision-making power in Kesko Corporation is exercised by the company's shareholders at the General Meeting, convened as a rule once a year. The General Meeting is convened by Kesko Corporation's Board of Directors. The General Meeting usually handles the matters placed on the agenda by the Board of Directors.

Major matters subject to the decision-making power of a General Meeting include amendments to the Articles of Association, increases or decreases in the share capital, decisions on the number of the Board members, the election of all Board members an decisions on their fees, the election of the auditor, the adoption of the financial statements, and the distribution of profit.

Shareholders are invited to a General Meeting by a notice published in at least two nationwide newspapers and listing the matters on the agenda. The notice and the proposals of Kesko Corporation's Board of Directors 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 announced in the invitation to the meeting. Shareholders may attend the meeting themselves or through an authorised representative. Each shareholder or representative may have one assistant at the meeting. Minutes are taken at the General Meeting and are made available to shareholders for inspection two (2) weeks afterwards. The decisions made by the General Meeting are also published in a stock exchange release immediately after the meeting.

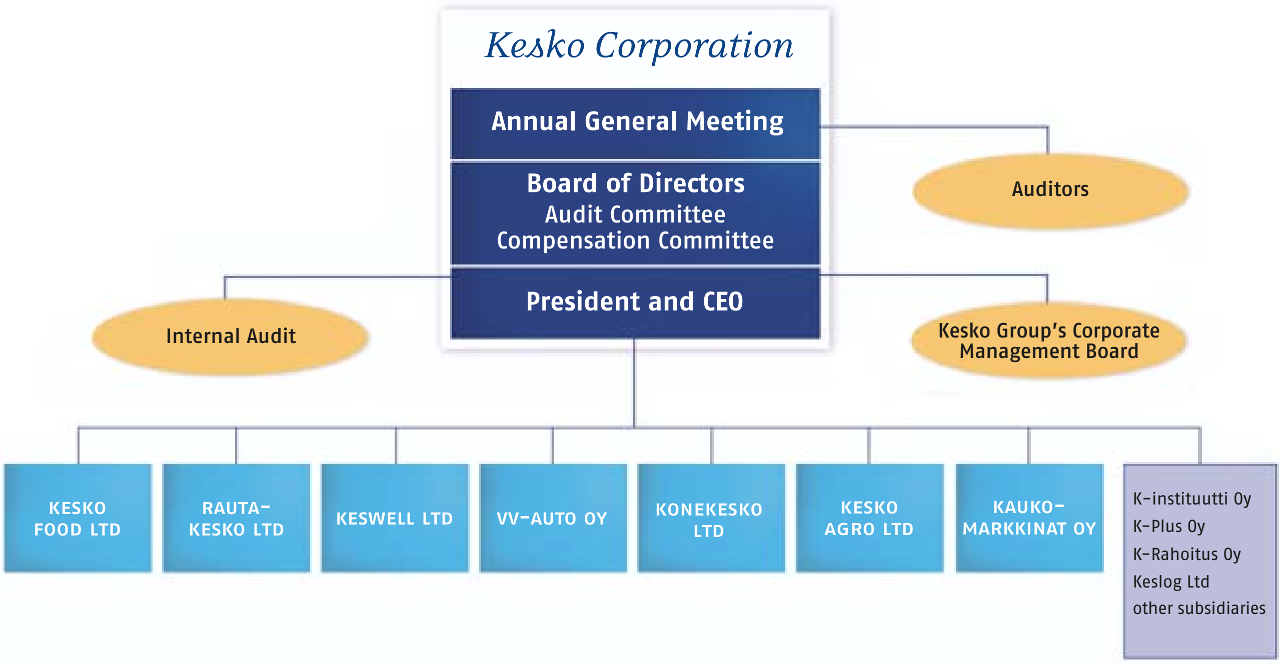
The company has two share series, A and B, which differ as to the votes to which they give entitlement. Each A share entitles its holder to ten (10) votes and each B share to one (1) vote at a General Meeting. When votes are taken, the proposal supported by more than half of the votes will normally be the decision of the General Meeting.

Board of Directors

Composition and term

According to the Articles of Association, Kesko Corporation's Board of Directors consists of a minimum of five (5) and a maximum of eight (8) members. According to the Articles of Association, the term of office of each Board member is three (3) years

Kesko Group's corporate governance structure



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 Board of Directors elects a Chairman and a Deputy Chairman from among its members.

Deviation from the Corporate Governance recommendation

The terms of the members of Kesko Corporation's Board of Directors deviate from the term of one year given in item 12 of the Corporate Governance Recommendation for Listed Companies. A General Meeting makes decisions on all amendments concerning the Articles of Association. A shareholder, which, related societies included, represents over 10% of all voting rights given by Kesko Corporation's shares, has informed the company's Board of Directors that it considers the term of three years good from the viewpoint of the company's long-term development and has seen no need for shortening the term of office set in the Articles of Association. No proposals concerning the term have been made to the Board of Directors by any other major shareholders.

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. Kesko Corporation's Board of Directors has 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, Kesko Corporation's Board of Directors handles and decides on all matters that are financially, commercially or fundamentally significant for the Group's operations.

According to the rules of procedure, the responsibilities of Kesko Corporation's Board of Directors include:

- making decisions on Group strategy and confirming strategies for the 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 capital expenditure, 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 or her remuneration
- appointing the Deputy Managing Director
- appointing the Managing Directors of Kesko Food Ltd, Rautakesko Ltd, Kesko Agro Ltd and Keswell Ltd
- confirming Kesko's values.

Meeting practice, evaluation of independence and self-assessment

Kesko Corporation's 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. The Board of Directors evaluates the independence of the Board members of the company and its major shareholders in accordance with the Corporate Governance Recommendation. In addition the Board of Directors regularly assesses its operations and working procedures by carrying out a self-assessment once a year.

Audit Committee and Compensation Committee

Kesko Corporation's Audit Committee and Compensation Committee both consist of three (3) members. The Board of Directors has confirmed written rules of procedure for the Committees that lay down their key duties and operating policies.

The Audit Committee prepares for the Board of Directors matters relating to the monitoring of financial position, the supervision and control of reporting and the risk management of Kesko Group. The Audit Committee monitors the development of the Group's financial position and financing and supervises its financial reporting. The Committee also evaluates the adequacy of internal auditing and risk management and handles the plans and reports of the internal audit. Additionally, the Committee prepares the election of external auditors for the Board of Directors. The Committee also evaluates the quality and independence of Kesko Group's external auditing, and other expert services of the firms of auditors used by the company.

The duties of the Compensation Committee include the preparation of the compensation and other benefits of the company's President and CEO and his Deputy, the preparation of the compensation matters of other Group management, and the preparation of the appointment matters of the President and CEO, his Deputy and other company management, and the assessment of their successors. Other duties of the Compensation Committee include the preparation of matters concerning other compensation systems.

The Committees have no independent decision-making power, but the Board makes decisions based on the preparations made by the 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 company's 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 Deputy to the President and CEO assumes responsibility for the duties of the President and CEO in such cases where the President and CEO is prevented from performing them. The Board of Directors elects the President and CEO and his Deputy.

Corporate Management Board

Kesko Group has a Corporate Management Board, the Chairman of which is Kesko's President and CEO and the members of which are the Corporate Executive Vice President, Deputy to the President and CEO; the Presidents of Kesko Food Ltd, Keswell Ltd and Rautakesko Ltd; the Chairman of the Boards of Kesko Agro Ltd and Konekesko Ltd; Senior Vice President, Chief

Financial Officer; Senior Vice President, Human Resources; and Senior Vice President, 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 Kesko's President and CEO, 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.

Subsidiary management

Board members of the major subsidiaries are elected from among the management of Kesko Group. The 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 authorities determined by Kesko Corporation's Board of Directors.

Auditing

According to the Articles of Association, Kesko Corporation has a minimum of one (1) and a maximum of three (3) 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 present the statutory auditors' report to Kesko Corporation's shareholders in connection with the company's financial statements and regularly report to the Audit Committee of Kesko Corporation's Board of Directors and to the Board.

Group-wide financial reporting

The implementation of financial objectives is monitored via Group-wide financial reporting. The reports include implemented data, the developments compared to the previous year and up-to-date forecasts for the next 12 months. The accumulation of economic value added is monitored via monthly internal reporting. Information about the Group's financial situation is given by Interim Reports and the financial statements release. The Group's sales figures are published in a stock exchange release each month.

Further information about Kesko's corporate governance

More detailed information about Kesko's corporate governance principles is available on Kesko's Internet pages where they are updated regularly to correspond to the changes that have taken place. Kesko's Internet pages are published in Finnish and English, and most of them also in Swedish.

Corporate governance – information at 31 December 2005

Board of Directors and fees

Kesko Corporation's Annual General Meeting held on 31 March 2003 elected eight (8) members to the Board of Directors. Their term, as prescribed in the Articles of Association, started on 31 March 2003 and will expire at the close of the 2006 Annual General Meeting. After two members had resigned from the Board of Directors, the Annual General Meeting held on 30 March 2005 confirmed the number of Board members to be seven (7) and elected one new member, whose term will, like that of all other members, expire at the close of the 2006 Annual General Meeting. After the amendment, Kesko Corporation's Board of Directors consists of Chairman Heikki Takamäki, Deputy Chairman Matti Kavetvuo and members Pentti Kalliala, Eero Kasanen, Maarit Näkyvä, Kari Salminen and Keijo Suila. Kesko Corporation has given no guarantees or other contingent liabilities for its Board members. The members of the Board of Directors, their education, employment histories and main positions of trust, and the fees paid to them are presented under the heading 'Board of Directors' on pages 46-47.

In 2005 Kesko Corporation's Board of Directors convened 11 times. The average attendance percentage, a figure that illustrates the participation of the Board members in the work of the Board, was about 97%.

Based on a decision made at the 2005 Annual General Meeting, the monthly and meeting fees paid in 2005 to the members of Kesko Corporation's Board of Directors and to the members of the Board of Directors' Committees, 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 and
- fee per meeting for each participant EUR 420.

In addition, Kesko Corporation's Board members are entitled to daily allowances and compensation for travelling expenses in accordance with the general travel rules of Kesko Corporation.

The meeting fee of EUR 420 per meeting and compensation for travelling expenses in accordance with the general travel rules of Kesko Corporation are paid to the members of the Board of Directors' Committees for their work in the Committees.

The fees to Kesko Corporation's Board members have been paid as monetary compensation. The monthly and meeting fees paid to Kesko Corporation's Board members in 2005 totalled EUR 241,020.00, of which fees paid to the Audit Committee members accounted for EUR 8,400.00 and the fees paid to the Compensation Committee members for EUR 3.780.00. The breakdown of fees by member is presented under the heading 'Board of Directors' on pages 46-47.

Evaluation of independence

Kesko Corporation's Board of Directors evaluated the independence of the Board members of the company and its shareholders, in accordance with item 18 of the Corporate Governance Recommendation, most recently on 30 March 2005. On the basis of the evaluation, the following persons were found to be independent of the company: Matti Kavetvuo, Deputy Chairman of the Board of Directors and Eero Kasanen, Maarit Näkyvä and Keijo Suila, Board members. The following persons were dependent on the company: Heikki Takamäki, Chairman of the Board of Directors, and Pentti Kalliala and Kari Salminen, Board members. Pentti Kalliala, Kari Salminen and Heikki Takamäki are K-retailers, who have a chain agreement with a Kesko Group company. All members of Kesko Corporation's Board of Directors were independent of significant shareholders of the company as referred to in the Corporate Governance Recommendation.

Audit Committee

The Chairman of the Audit Committee of the Board of Directors was Matti Kavetvuo with Eero Kasanen and Maarit Näkyvä as members. The Audit Committee met 8 times in 2005.

Compensation Committee

The Chairman of the Compensation Committee of the Board of Directors was Heikki Takamäki with Pentti Kalliala and Keijo Suila as members. The Compensation Committee met 3 times in 2005.

Managing Director and Deputy Managing Director

The personal data, employment histories and main positions of trust of Managing Director Matti Halmesmäki, who has acted as President and CEO since 1 March 2005, and Corporate Executive Vice President Juhani Järvi, Deputy to the President and CEO, are presented under the heading 'Corporate Management Board' on pages 48-49.

Salaries, bonuses and other benefits of the Managing Director and his Deputy

In 2005, the salaries, bonuses and fringe benefits paid to President and CEO Matti Halmesmäki totalled EUR 424,760.00 of which regular salaries accounted for EUR 341,880.00, the 2004 bonus paid under the performance-based bonus system for EUR 67,500.00 and fringe benefits for EUR 15,380.00.

In 2005, the salaries, bonuses and fringe benefits paid to his Deputy, Juhani Järvi, totalled EUR 220,783.93, of which regular salaries accounted for EUR 163,841.99, the 2004 bonus paid under the performance-based bonus system for EUR 45,600.00 and fringe benefits for EUR 11,341.94.

The President and CEO's bonus for 2004 equalled his regular salaries for about 2 months, while his Deputy's bonus equalled his regular salaries for about 2.8 months. Kesko Corporation's Board of Directors will make a decision on the 2005 bonuses in spring 2006.

Holdings of the President and CEO and his Deputy in securities issued by Kesko Corporation and the key terms of their employment are presented under the heading 'Corporate Management Board' on pages 48-49.

Salaries, bonuses and other benefits of the Corporate Management Board

Starting from 17 March 2005, the Chairman of the Corporate Management Board was Matti Halmesmäki, Kesko's President and CEO, and the members were Corporate Executive Vice President Juhani Järvi, Deputy to the President and CEO and; Terho Kalliokoski, President of Kesko Food Ltd; Jari Lind, President of Rautakesko Ltd; Matti Laamanen, President of Keswell Ltd; Pekka Lahti, the Chairman of the Boards of Directors of Kesko Agro Ltd and Konekesko Ltd, as well as Arja Talma, Senior Vice President, CFO; Riitta Laitasalo, Senior Vice President, Human Resources; and Paavo Moilanen, Senior Vice President, Corporate Communications (starting from 13 October) of Kesko Corporation.

In 2005, the members of the Corporate Management Board, excluding the President and CEO and his Deputy, received EUR 833,536.30 in salaries, EUR 68,693.40 in fringe benefits and EUR 164,116.60 in bonuses.

The members of the Corporate Management Board, their education, employment histories, main positions of trust, their holdings of securities issued by Kesko Corporation and the key terms of their employment are presented under the heading 'Corporate Management Board' on pages 48-49.

Auditing

The 2005 Annual General Meeting of Kesko Corporation elected one auditor for the company: Authorised Public Accountants PricewaterhouseCoopers Oy, with Pekka Nikula, APA, as the auditor with principal responsibility.

The fees paid in 2005 to firms that belong to the PricewaterhouseCoopers chain in Finland and other countries for auditing Kesko Group companies totalled EUR 939,030, while the fees paid for consulting services totalled EUR 676,610. In some Kesko Group companies, auditing is carried out by auditors other than those belonging to the PricewaterhouseCoopers chain. The total amount of auditing fees paid to all auditors amounted to EUR 1,094,830 in 2005.

Insider administration

Kesko's insider regulations

On 22 September 2005, Kesko Corporation's Board of Directors confirmed Kesko Corporation's insider regulations for permanent and project-specific insiders. These regulations have taken into account the amendments that entered into force on 1 July 2005 and the standard on insider holdings and insider registers issued by the Financial Supervision Authority in August 2005. The contents of the regulations also correspond with the insider rules of the Helsinki Stock Exchange which entered into force on 1 January 2006. Kesko's insider regulations have been distributed to all insiders.

Kesko's permanent insiders and insider registers

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

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

Insider administration

The Corporate Legal Affairs unit monitors the compliance with insider regulations and maintains the company's insider registers in cooperation with the Finnish Central Securities Depository Ltd. It sends, at regular intervals, permanent public insiders an extract of the information in the insider register and monitors the permanent insiders' compliance with trading restrictions. Kesko Corporation's permanent insiders must not acquire or transfer securities issued by the company, including securities or derivatives entitling to them during 21 days prior to publication of Interim Reports and during 28 days prior to publication of annual financial statements. These dates of publication are announced annually in advance by stock exchange release. Furthermore, the persons involved in possible insider projects are not allowed to trade in such securities or derivatives contracts during the project.

Stock exchange communications

The General Counsel is responsible for ensuring that the rules related to stock exchange information are observed at Kesko. The Group's Senior Vice President, CFO is responsible for the financial contents of stock exchange information, while the Corporate Executive Vice President is responsible for investor information. The Corporate Communications unit produces Group-level communications material and is responsible for providing stock exchange and financial information.

Risk management

Organisation of risk management

At Kesko, risk management is part of the Group's management system. Responsibility for the practical implementation of risk management lies with the Group's division parent companies and units which have appointed persons responsible for risk management.

In 2005 a new Corporate Risk Management unit was formed from the Corporate Security unit to develop risk management in the Group. The Corporate Risk Management unit:

- steers, develops and supervises the K-Alliance's comprehensive risk management and its application in practice
- is responsible for developing and maintaining risk management tools and introducing best practices to the Group
- steers, advises and assists in the implementation of risk management actions
- is responsible for risk management reporting
- is responsible for risk management training and increasing risk awareness in the K-Alliance.

Kesko has also established a risk management steering group, the Chairman of which is the President and CEO, and the members of which are the General Counsel, the Senior Vice President, CFO, the Audit Executive, representatives of the divisions and the Chief Risk Officer. The steering group promotes the implementation of the K-Alliance's risk management in all of Kesko's divisions as part of the company's management system.

Risk identification and assessment

Kesko's management system is used to plan and manage the operations of Kesko Group in order to achieve the goals set. The management system creates a uniform terminology and practice that is used in the same way throughout Kesko Group.

Part of the management system is risk mapping, which Kesko's division parent companies and units use to assess the risks related to their operations and the sufficiency of the necessary control methods. A separate risk analysis is also made at the preparation phase of major projects.

The purpose of risk assessments is to ensure that sufficient action is taken to manage risks. On the basis of the risk definitions of the divisions and units, the Corporate Risk Management unit assesses the management of the entire Group's business risks and reports to Kesko's President and CEO and Board of Directors.

Key risks

The following risks and their management have been included in the risk analyses made in Kesko Group's subsidiaries and units.

Strategic risks

A failure in defining strategies and objectives clearly and communicating them to the personnel would adversely affect customer satisfaction, sales and profit. The clarity and understandability of the strategy is also important for investors and business partners. The management system has a key position in defining and communicating strategies and objectives.

Insufficient management of customer, market and competition information would adversely affect the clarity of the strategy, operating concepts and objectives. Kesko collects and analyses customer, market and competition information at the Group, division and chain levels. This information is used in planning the strategy and operations.

The challenges of internationalisation management include different cultures and business practices, and operating environments that change faster than in Finland. Finnish retail trade operating processes and control practices cannot always be introduced as such outside Finland. Integrating the operations of acquired businesses and achieving synergy benefits requires careful planning, sufficient resources and the ability to implement plans.

Risks related to the customer promise

Kesko's challenges include increasing customer loyalty by enhancing the attraction of retail concepts and the operational efficiency of activities in a changing competitive situation. Due to the retailer business concept and related legislation, Kesko's chain control is looser than that of competitors, which can make it more difficult to implement the necessary measures. Retailership is strengthened as a competitive asset by, for example, further developing cooperation and revising chain agreements.

Customer satisfaction requires the continuous improvement of operations. Customer satisfaction, efficiency and profitability are interdependent. Deficiencies in the management of other risk areas impair customer satisfaction, efficiency and profitability, the company's position in the market and the share price.

Risks related to personnel

Failures in leadership or in recruiting, developing, motivating and ensuring the permanency of competent personnel can become a major obstacle to achieving targeted profits. Enthusiastic employees and a good working community can be achieved by regularly listening to the opinions of the personnel, monitoring job satisfaction and internal customer satisfaction and by good leadership. The common ethical principles of Kesko and the K-retailers (Our Working Practices), training provided by the K-instituutti, the K-stores' Master Assistant training and managerial training are all important means of ensuring competence and responsibility.

Risks related to legislation

Compliance with and the supervision of legislation and regulations concerning business operations, security and health is a basic requirement. Deficiencies in these matters can lead to significant financial losses and damage to the corporate image. The changing interpretations of competition legislation with respect to retailer chain management, information management and joint purchasing of goods can decrease the competitiveness of Kesko and the K-stores compared with other chains.

Kesko uses compliance and legal audit programmes to ensure compliance with all the regulations that affect the operations of the company. Personnel training increases familiarity with these regulations and compliance with them. Kesko maintains open discussion with legislators and authorities about the operating requirements of the trading sector. The safety, quality and origins of the products sold by Kesko are monitored through self-control and in-company product research.

Risks related to operations

Deficiencies related to the overall control of Kesko's and the K-stores' common operations can considerably impair the K-Alliance's competitiveness and consumer-customer satisfaction with retail stores' range of products and services. Overall control of the entire operations chain is essential in order to optimise efficiency in purchasing, logistics and retailing. New division-specific enterprise resource planning systems have been introduced in recent years. Good efficiency management requires continuous monitoring of budgets, monitoring tools for logistics and information management, and deviation reports.

Trading sector operations rely on extensive information technology systems and networks. Any factor preventing or limiting their use could cause major losses in sales and profit. Successful operation depends on trustworthy business partners, reliable systems, proper documentation and back-up systems.

Trading also involves a high risk of wastage. Wastage can result from wrong purchases, spoilage of goods, theft or fraudulent activities affecting the purchasing and selling chain. A Group-level project is underway which aims to improve wastage management by, for example, duplicating the best practices of divisions.

Security actions and preparation for different risk situations play a key role in preventing damage and accidents. Insurance is obtained to cover business risks, to compensate for financial losses caused by major damage and to promote defined human resource policies.

Correct and open information related to operations and brands and efficient communications are essential for a listed company which operates widely with consumers on a daily basis. Any possible deficiencies concerning operations and related communications can result in financial losses and impair the corporate image of Kesko and the K-Alliance. In its communications, Kesko aims at open and continuous discussion with its stakeholders. Kesko's crisis communications aim at speed and reliability.

Management of financial risks

With respect to financial risks, the Group observes a uniform financial policy that has been approved by the Board of Directors. The Audit Committee of the Board of Directors controls compliance with this policy and the Group's financial situation. The Corporate Treasury unit is responsible centrally for Group funding, liquidity management, relations with providers of finance, and the management of financial risks.

Financial risks include the currency risk, the interest rate risk, the liquidity risk, the credit risk and commodity risks. Further information about them is available in Note 40 of the financial statements, 'Financial risk management' on pages 105–107.

Internal audit

Kesko uses the internal audit policies confirmed by the Audit Committee of Kesko Corporation's Board of Directors, which are based on the principles of good auditing, widely accepted internationally.

Internal control is an essential part of corporate governance and management. In a listed company, the Board of Directors and the Managing Director are responsible for organising internal control. The Board of Directors is accountable to investors and the Managing Director to the Board of Directors. The chain of responsibilities continues throughout Kesko's organisation so that the direct subordinates of the President and CEO report to him, and each Kesko employee is accountable for the internal control of his/her area of responsibility to his/her immediate superior. Duties of the Group's Internal Audit Department include supporting Kesko Corporation's President and CEO, Board of Directors and management in their task of control.

The operating policies of Kesko's Internal Audit Department have been defined in the charter confirmed by the Audit Committee. The department is subject to the Group's President and CEO and Audit Committee of the Board of Directors, and it reports its observations and recommendations to the management of the audited unit, to the President and CEO, the Audit Committee and the auditors.

The Internal Audit Department is responsible for the independent corporate assessment and assurance functions required of a listed company. These functions cover all divisions, units and operations of the Group. The function is to systematically assess and ensure the efficiency of risk management, monitoring, and governance and management in Kesko Group. Assessment viewpoints include the profitability and efficiency of operations, the reliability of information on finance and operations, the legality of operations and the safeguarding of assets.

Kesko's auditing and assurance is risk-based. Key focal points include auditing and assuring the reporting system, information system controls, operational business activities and retail operations, as well as operations outside Finland.

In compliance with the international IIA's (Institute of Internal Auditors) professional standards, an external competent auditor or auditing group carries out external quality assurance in the Internal Audit Department at least once every five years. According to the quality assurance audit carried out in 2005, Kesko's Internal Audit Department complies in the main with the international professional and ethical standards of the sector.

In December 2005, Kesko became the first company in Finland to receive the international IIA Recognition of Commitment. The recognition was awarded for the commitment and achievements of Kesko's Internal Audit Department in enhancing the competence of internal auditors, the department's operations and the whole profession. Kesko's Internal Audit Department includes five employees with the international Certified Internal Auditor (CIA) exams.

Board of Directors on 31 December 2005

1. Heikki Takamäki
2. Matti Kavetvuo
3. Pentti Kalliala
4. Eero Kasanen
5. Maarit Näkyvä
6. Kari Salminen
7. Keijo Suila

Chairman
(Chairman of the Compensation Committee)

Heikki Takamäki

b. 1947.
Domicile: Tampere, Finland.

Principal occupation: Retailer, K-rauta Rauta-Otra Nekala.
Main employment history: Kesport-Intersport retailer 1995–1999. K-rauta retailer since 1979.
Board member since: 1 January 2001.
Main simultaneous positions of trust: –
Fees in 2005: EUR 51,900.00.
Kesko shares and share options held on 1 January 2005: 104,470 A shares and 42,120 B shares held by him or his company. No share options.
On 31 December 2005: 104,470 A shares and 42,120 B shares held by him or his company. No share options.

Deputy Chairman
(Chairman of the Audit Committee)

Matti Kavetvuo

b. 1944, M.Sc. (Tech.), B.Sc. (Econ.).
Domicile: Helsinki, Finland.

Principal occupation: –
Main employment history: Instrumentarium Corporation: President and CEO 1979–1984, Orion Corporation: President and CEO 1985–1991, Valio Ltd: President and CEO 1992–1999, Pohjola Group plc: Managing Director 2000–2001.
Board member since: 31 March 2003.
Main simultaneous positions of trust: Metso Corporation: Chairman of the Board of Directors, Orion Corporation: Chairman of the Board of Directors, Suominen Corporation: Chairman of the Board of Directors, Alma Media Corporation: Deputy Chairman of the Board of Directors, KCI Konecranes Plc: member of the Board of Directors, Marimekko Corporation: member of the Board of Directors, Perlos Corporation: member of the Board of Directors.
Fees in 2005: EUR 36,780.00.
Kesko shares and share options held on 1 January 2005: 2,000 B shares. No share options.
On 31 December 2005: 2,000 B shares. No share options.

Pentti Kalliala
b. 1948.
(member of the Compensation Committee)
Domicile: Raisio, Finland.

Principal occupation: Retailer, K-supermarket Raisio Center.
Main employment history: K-food retailer 1980–1992. K-supermarket retailer since 1992.
Board member since: 31 March 2003.
Main simultaneous positions of trust: 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 Tilipalvelu VTP Oy: Vice Chairman of the Board of Directors, Commercial Employers' Association: deputy member of the Board of Directors, Employers' Confederation of Service Industries (PT): Supervisory Board member, the Federation of Finnish Commerce: member of the Board of Directors.
Fees in 2005: EUR 30,300.00.
Kesko shares and share options held on 1 January 2005: 84,060 A shares and 106,200 B shares held by him or his company.
No share options.
On 31 December 2005: 88,560 A shares and 111,200 B shares held by him or his company.
No share options.

Eero Kasanen
b. 1952, Dr.Sc. (Econ.), Doctor of Business Administration.
(member of the Audit Committee)
Domicile: Helsinki, Finland.

Principal occupation: Rector, Helsinki School of Economics.
Main employment history: Professor at the Helsinki School of Economics since 1989. Rector of the Helsinki School of Economics since 1996.
Board member since: 1 January 2001.
Main simultaneous positions of trust: Elcoteq SE: member of the Board of Directors, Finland Post Corporation: Chairman of the Board of Directors, Kaleva Mutual Insurance Company: member of the Board of Directors, Helsinki School of Economics Holding Oy: 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.
Fees in 2005: EUR 31,560.00.
Kesko shares and share options held on 1 January 2005: No shares. No share options.
On 31 December 2005: No shares. No share options.

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

Principal occupation: Executive Vice President, Head of Retail and Private Banking, Sampo Bank plc.
Main employment history: Unitas Bank Ltd.: Director 1990–1995, Merita Bank Ltd.: Director 1995–1996, Merita Fund Management Ltd: President 1996–1997, Leonia Bank plc: member of the Board of Directors 1998–2000. Sampo plc's Executive Vice President since 2001. Sampo Bank plc's Executive Vice President since 15 October 2005.
Board member since: 1 January 2001.
Main simultaneous positions of trust: Sampo Bank plc's Board member.
Fees in 2005: EUR 31,560.00.
Kesko shares and share options held on 1 January 2005: No shares. No share options.
On 31 December 2005: No shares.
No share options.

Kari Salminen
b. 1957.
Domicile: Helsinki, Finland.

Principal occupation: Retailer, K-citymarket Myyrmäki, Vantaa.
Main employment history: Kesko Lappeenranta: several department manager level duties 1980–1989, K-supermarket Aisakello, Orimattila: retailer 1990–1995, K-citymarket Myyrmäki, Vantaa: retailer 1996-
Board member since: 30 March 2005.
Main simultaneous positions of trust: K-Food Retailers' Club: Deputy Chairman of the Board of Directors, K-Retailers' Association: member of the Board of Directors and Chairman of the K-citymarket Chain Executive Committee, K-instituutti Oy: member of the Board of Directors.
Fees in 2005: EUR 21,780.00.
Kesko shares and share options held on 30 March 2005: 358,760 A shares and 210 B shares held by him or his company.
No share options.
On 31 December 2005: 358,760 A shares and 210 B shares held by him or his company.
No share options.

Keijo Suila
b. 1945, B.Sc. (Econ.).
(member of the Compensation Committee)
Domicile: Helsinki, Finland.

Principal occupation: -
Main employment history: Huhtamäki Oyj: President of Leaf Europe 1985–1988; President of Leaf Group 1988–1998; Huhtamäki Oy: Executive Vice President 1992–1998. Finnair Oyj: President and CEO 1999–2005.
Board member since: 1 January 2001.
Main simultaneous positions of trust: Elisa Corporation: Chairman of the Board of Directors, the Finnish Cultural Foundation: Supervisory Board member, the Finnish Fair Corporation: Supervisory Board Deputy Chairman, the Confederation of Finnish Industry and Employers Foundation: member of the Board of Directors, Confederation of Finnish Industries EK: member of the Board of Directors, AEA - Association of European Airlines: member of the Board of Directors.
Fees in 2005: EUR 29,880.00.
Kesko shares and share options held on 1 January 2005: No shares. No share options.
On 31 December 2005: No shares.
No share options.

The term of each Board member will expire at the close of the Annual General Meeting 2006.

Corporate Management Board *on 31 December 2005*

1. Matti Halmesmäki
2. Juhani Järvi
3. Terho Kalliokoski
4. Jari Lind
5. Matti Laamanen
6. Pekka Lahti
7. Riitta Laitasalo
8. Arja Talma
9. Paavo Moilanen

Matti Halmesmäki

b. 1952, M.Sc. (Econ.), LL.M.
Kesko Corporation's Managing Director and Kesko Group's President and CEO, Chairman of the Corporate Management Board.
Domicile: Helsinki, Finland.
Other major duties: Confederation of Finnish Industries EK: Deputy Chairman of the Board of Directors, the Finnish Fair Corporation: member of the Board of Directors, the Federation of Finnish Commerce: member of the Board of Directors, Varma Mutual Pension Insurance Company: Supervisory Board member, Luottokunta: Supervisory Board member, Foundation for Economic Education: member of the Board of Directors, Finnish Business and Policy Forum EVA: member, Helsinki Chamber of Commerce: Delegation member, Helsinki School of Economics: Advisory Board member, the Association for Promoting Voluntary National Defence of Finland: Delegation member, the Association for the Finnish Cultural Foundation: member.
Also since 1 January 2006: The Central Chamber of Commerce in Finland: Board member, ICC Finland – the Finnish Section of International Chamber of Commerce: Executive Board member, Savonlinna Opera Festival Patrons' Association: member of the Board of Trustees.
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 of Directors 1989-2000. President of Rautakesko Ltd and Kesko Agro Ltd 2001-2004. Kesko Corporation's Managing Director and Kesko Group's President and CEO since 1 March 2005.
Kesko shares and share options held on 1 January **2005**: 21,000 D and 21,000 E share options.
On 31 December 2005: 31,500 E and 42,000 F share 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.
Corporate Management Board member since:
1 January 2001.

Juhani Järvi

b. 1952, M.Sc. (Econ.).
Corporate Executive Vice President, Deputy to the President and CEO.
Domicile: Helsinki, Finland.
Other major duties: SATO Corporation: member of the Board of Directors, Luottokunta: member of the Board of Directors, Rimi Baltic AB: Chairman of the Board of Directors, Excellence Finland: Advisory Board member.
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, Corporate Executive Vice President, Finance and Administration CFO 1998–2000, Corporate Executive Vice President, CFO 2001–2005, Corporate Executive Vice President, Deputy to the President and CEO since 17 March 2005.
Kesko shares and share options held on 1 January 2005: 50,000 B, 21,000 D and 21,000 E share options.
On 31 December 2005: 21,000 E and 21,000 F share options.
Retirement age and benefits: General retirement age and pensionable salary based on Employees' Pensions Act.
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.
Corporate Management Board member since: 1 January 2001

Terho Kalliokoski

b. 1961, M.Sc. (Econ.).
President of Kesko Food Ltd.
Domicile: Kirkkonummi, Finland
Other major duties: the Association of Finnish Advertisers: member of the Board of Directors.
Also since 1 January 2006: the Federation of Finnish Commerce: member of the Board of Directors
Employment history: employed by Kesko Corporation since 1985: Project Planner, Store Site Office (Helsinki) 1985–1987, Investment Manager, Real Estate Department (Helsinki) 1988–1990, Financial Manager, Northern Finland (Oulu) 1990–1995, Retail Services Manager, Grocery Retail Services (Oulu) 1995–1996, Sales Director, Supermarket Chain Unit (Oulu) 1996–1997, District Director, Northern Finland (Oulu) 1998–2002, Senior Vice President, Kesko Real Estate (Helsinki), 2002–2005. President of Kesko Food Ltd since 1 May 2005.
Kesko shares and share options held on 17 March 2005: 10,500 D and 10,500 E share options.
On 31 December 2005: 10,500 E and 21,000 F share options.
Retirement age and benefits: 62 years. Full pension is 66% of the pensionable salary
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.
Corporate Management Board member since: 17 March 2005.

Jari Lind

b. 1958, Engineer.
President of Rautakesko Ltd.
Domicile: Vantaa, Finland.
Other major duties: –
Employment history: employed by Kesko Corporation since 1990: Rautakesko, Purchase Logistics Director 2000–2001, Vice President for the K-rauta chain and B-to-B Service 2002–2004. Rautakesko Ltd's President since 1 March 2005.
Kesko shares and share options held on 1 March 2005: 10,500 D and 10,500 E share options.
On 31 December 2005: 10,500 E and 21,000 F share options.
Retirement age and benefits: 62 years. Full pension is 66% of pensionable salary.
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.
Corporate Management Board member since: 1 March 2005.

Matti Laamanen

b. 1948, M.Sc. (Econ.), LL.M.
President, 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, District Director in Jyväskylä 1991–1993, Managing Director of the K-retailers' Association 1993–1997, Managing Director of Kauppiaitten Kustannus Oy 1995–2000, Kesko Ltd: director of the Media unit 1997–1998, director of the E-commerce unit 1999-2000. President of Keswell Ltd since 15 December 2000.
Kesko shares and share options held on 1 January 2005: 1,000 B shares and 21,000 D and 21,000 E share options.
On 31 December 2005: 1,000 B shares and 21,000 D, 21,000 E and 21,000 F share 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.
Corporate Management Board member since: 1 January 2001.

Pekka Lahti

b. 1955, M.Sc. (Agr.).
Chairman of the Boards of Kesko Agro Ltd and Konekesko Ltd, VV-Auto Oy's President (since 1 February 2006).
Domicile: Vantaa, Finland.
Other major duties: –
Employment history: employed by Kesko Corporation since 1981: Vice President, Kesko Machinery 2000, Managing Director of Konekesko Ltd 2001–2005 and President of Kesko Agro Ltd 2005. Chairman of the Boards of Kesko Agro Ltd and Konekesko Ltd since 1 November 2005
Kesko shares and share options held on 1 March 2005: 10,500 D and 10,500 E share options.
On 31 December 2005: 10,000 D, 10,500 E and 21,000 F share options.
Retirement age and benefits: 62 years. Full pension is 66% of pensionable salary.
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.
Corporate Management Board member since: 1 March 2005

Riitta Laitasalo

b. 1955, M.Sc. (Econ.).
Senior Vice President, Human Resources.
Domicile: Espoo, Finland.
Other major duties: –
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 2000–2005. Senior Vice President, Human Resources since 30 March 2005.
Kesko shares and share options held on 1 January 2005: 30,600 B, 21,000 D and 21,000 E share options.
On 31 December 2005: 21,000 D, 21,000 E and 21,000 F share 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.
Corporate Management Board member since: 1 January 2001.

Arja Talma

b. 1962, M.Sc. (Econ.), eMBA.
Senior Vice President, CFO.
Domicile: Helsinki, Finland.
Other major duties: –
Employment history: KPMG Wideri Oy Ab: APA 1992–2001, partner 2000–2001. Oy Radiolinja Ab: Executive Vice President, Finance and Administration 2001–2003. Employed by Kesko Corporation since 2004: Vice President, Corporate Controller. Senior Vice President, CFO since 17 March 2005.
Kesko shares and share options held on 17 March 2005: 10,500 D and 10,500 E share options.
On 31 December 2005: 10,500 D, 10,500 E and 21,000 F share options.
Retirement age and benefits: General retirement age and pensionable salary based on Employees' Pensions Act.
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.
Corporate Management Board member since: 17 March 2005.

Paavo Moilanen

b. 1951, Business College Graduate.
Senior Vice President, Corporate Communications.
Domicile: Espoo, Finland.
Other major duties: Kaleva Mutual Insurance Company: Supervisory Board member.
Employment history: employed by Kesko Corporation since 1974: Kajaani District Director 1986–1989; Jyväskylä District Director 1989–1991; Seinäjoki District Director 1991–1995; Director of the Neighbourhood Store Chain Unit 1995–1996; Director of the Speciality Goods Division 1996–1997, Vice President, Builders' and Agricultural Supplies Division 1998–2000, Managing Director of the K-Retailers' Association 2000–2005. Kesko Group: Senior Vice President, Corporate Communications since 13 October 2005.
Kesko shares and share options held on 13 October 2005: No shares. No share options.
On 31 December 2005: 10,500 E share options.
Retirement age and benefits: Retirement age 60 years. Full pension is 66% of the pensionable salary.
Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.
Corporate Management Board member since: 13 October 2005.

Detailed information on Kesko Corporation's shares and the share options held by the management is given under heading "Shares and shareholders" on pages 50–56 of this report.

Shares and shareholders

Dividend policy

Kesko Corporation will distribute at least half of its earnings per share as dividends, taking however the company's financial position and operating strategy into account.

Proposed dividends for the year 2005

Kesko Corporation's Board of Directors proposes to the Annual General Meeting that EUR 106,484,593.60 be distributed as dividends from the net profit for the year 2005, or EUR 1.10 per share, representing 58.8% of earnings per share. During the past five years, 140.7% of earnings per share, on the average, have been distributed as dividends.

Basic information on the shares at 31 December 2005

A share
- symbol: KESAV (OMX)
- ISIN code: FI0009007900
- voting rights per share: 10 votes
- taxable value per share (2005): EUR 16.60
- number of shares: 31,737,007
- market value: EUR 768 million

B share
- symbol: KESBV (OMX)
- ISIN code: FI0009000202
- voting rights per share: 1 vote
- taxable value per share (2005): EUR 16.39
- number of shares: 64,746,919
- market value: EUR 1,551 million

Book counter value of both shares: EUR 2.00
Trading unit of both share series: 100 shares
Total share capital: EUR 192,967,852
Total number of shares: 96,483,926
Voting rights carried by all shares: 382,116,989
Market capitalisation: EUR 2,318 million.

Share series and share capital

Kesko Corporation's share capital is divided into A shares and B shares. On 31 December 2005, the company's share capital was EUR 192,967,852. 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 2005, the total number of shares was 96,483,926, of which 31,737,007 (32.9%) were A shares and 64,746,919 (67.1%) were B shares. The book counter value of the share 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 2005, the number of votes entitled by A shares was 83.1% and the number of votes entitled by B shares was 16.9% of the total voting rights.

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, and
- 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

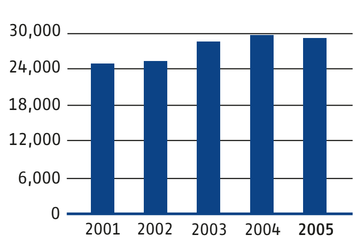
Authorisations of the Board of Directors and company shares

In 2005 the Board of Directors had no authorisation to increase the share capital, or to acquire or assign company shares. Kesko Corporation or any of its subsidiaries held no shares of Kesko Corporation.

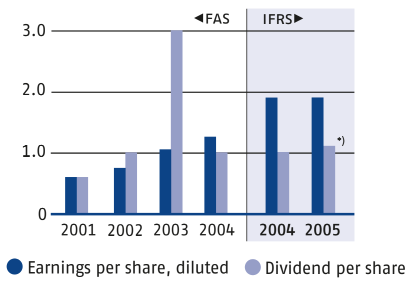
Shareholders

According to the register of Kesko Corporation's shareholders kept by the Finnish Central Securities Depository Ltd, there were 29,339 shareholders at the end of 2005 (29,801 at the end of 2004). The total number of shares registered in a nominee name

Number of Kesko shareholders at 31.12.

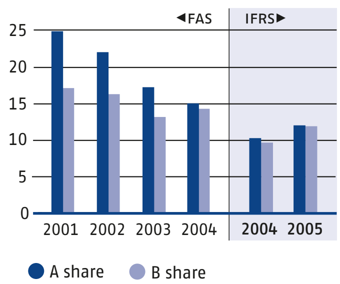


Earnings per share and dividend per share, €



*proposal to the Annual General Meeting

Share prices per earnings, P/E, at 31.12., diluted



was 26,049,438, accounting for 27.0% of the share capital. The number of votes entitled by these shares was 26,816,958, or 7.0% of the total voting rights. A list of Kesko Corporation's largest shareholders, updated monthly, is available on the Internet at www.kesko.fi/investors.

Year 2000 share option scheme

The Annual General Meeting of 10 April 2000 approved a share option scheme for the top and middle management as part of the management's incentive programme. There were two classes of share options issued gratuitously, B share options and C share options. There were 3,825,000 B share options (KESBVEW100, ISIN code FI0009601835) and 2,015,000 C share options (KESBVEW200, ISIN code FI0009601843) issued, i.e. a total of 5,840,000 share options. When the scheme was announced it comprised nearly 600 persons.

Each B and C share option entitles to the subscription of one new Kesko B share. The share subscription period for B share options began on 1 November 2002 and for C share options on 1 November 2003, and shall end on 31 March 2006 for all share options.

The original share subscription price for B share option was the trade volume weighted average price of a Kesko B share on the Helsinki Stock Exchange of March 2000 with an addition of 15 percent (EUR 15.97), and for C share option the corresponding weighted average of March 2001 with an addition of 15 percent (EUR 12.71). In accordance with the terms and conditions of the share option scheme, from the share subscription price shall be deducted the amount of the dividend per share distributed after the above period for the determination of the subscription price has ended but before the date of subscription for shares.

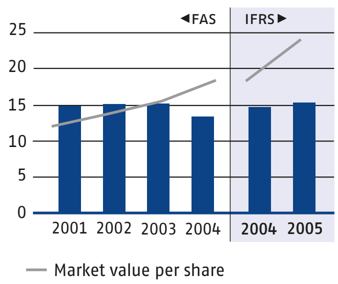
At the end of 2005, the B share subscription price with B share options was EUR 7.87 and with C share options EUR 6.11. Dividend rights of the shares subscribed for with the share options and other shareholder rights shall take effect when the increase of the share capital has been entered in the Trade Register.

This share 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 in consequence of subscriptions. The shares subscribed for under the share option scheme account for 5.91% of the share capital and 1.52% for all votes, presuming that all issued share options are used.

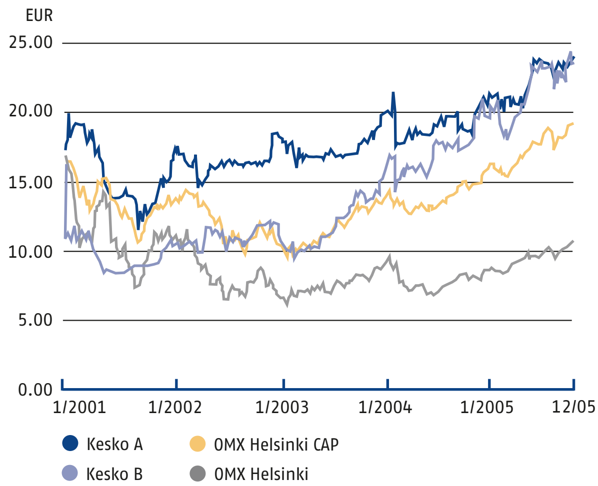
Year 2003 share option scheme

On 31 March 2003, the Annual General Meeting resolved to gratuitously issue a total of 1,800,000 share options to the management of Kesko Group as well as to a wholly-owned subsidiary of

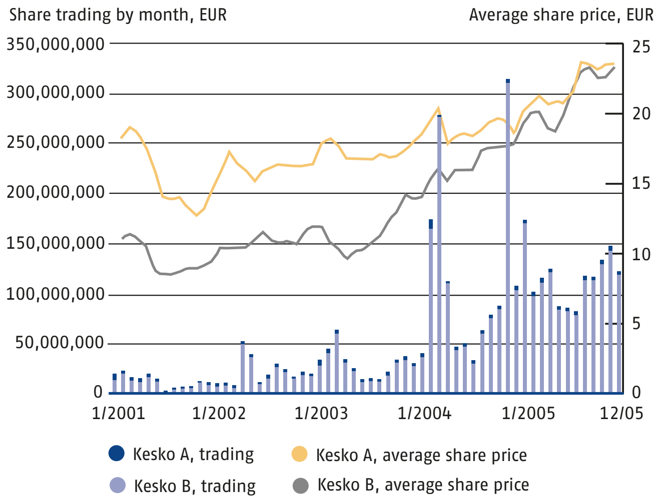
Equity per share, €, 31.12., diluted



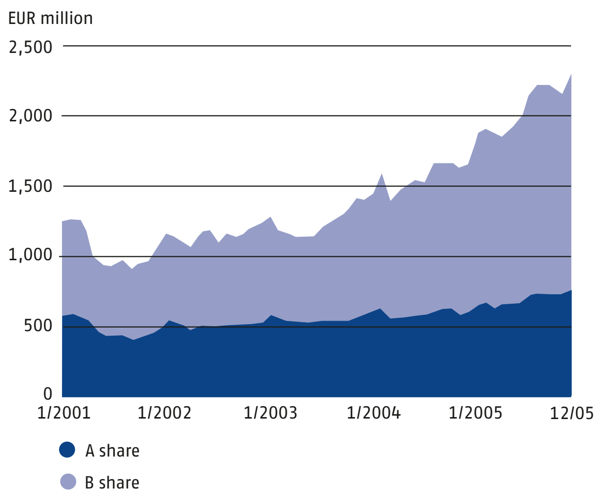
Price trends of Kesko A and B shares



Trading of Kesko A and B shares



Market capitalisation of Kesko



Kesko Corporation. A deviation was made from the shareholders' pre-emptive right to subscription since the share options form a part of the incentive and commitment programme for the management. The scheme comprises approximately 50 persons.

Each share option entitles its owner to subscribe for one new Kesko Corporation B share. The share options were marked with symbols 2003D (KESBVEW103, ISIN code FI0009609317), 2003E (KESBVEW203, ISIN code FI0009609325) and 2003F (KESBVEW303, ISIN code FI0009609333) in units of 600,000 share options each.

The share subscription periods shall be:

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

The original share subscription price for share option 2003D was the trade volume weighted average price of a Kesko B share on the Helsinki Stock Exchange between 1 to 30 April 2003 (EUR 9.63), for share option 2003E the corresponding price between 1 to 30 April 2004 (EUR 15.19) and for share option 2003F, the corresponding price between 1 to 30 April 2005 (EUR 19.08). From the prices of shares subscribed for with share options shall be deducted the amount of the dividend per share distributed after the period for the determination of the subscription price has ended but before the date of subscription for shares.

At the end of 2005, the subscription price of a B share subscribed for with share option 2003D was EUR 5.63, with share option 2003E EUR 13.19 and with share option 2003F EUR 19.08. The subscription period of shares began with share option 2003D on 1 April 2005, will begin with share option 2003E on 1 April 2006 and with share option 2003F on 1 April 2007. Dividend rights of the shares and other shareholder rights shall take effect when the increase of the share capital has been entered in the Trade Register.

Under this share option scheme a total of 1,800,000 new 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 share option scheme account for 1.82% of the share capital and 0.47% for all votes, if all issued share options are used.

Subscription of shares with options

The B share options issued in 2000 were listed on the Helsinki Stock Exchange on 1 November 2002 and the year 2000 C share options on 3 November 2003. The 2003D share options were listed on the Helsinki Stock Exchange on 1 April 2005.

In 2005, the share capital was raised seven times corresponding to share subscriptions made with the share options: in February by EUR 2,656,500, in May by EUR 912,390, in June by EUR 536,600, in August by EUR 172,676, in September by EUR 588,700, in November by EUR 97,960 and in December by EUR 321,942 i.e. by EUR 5,286,768 in all. The corresponding share subscriptions were 1,328,250; 456,195; 268,300; 86,338; 294,350; 48,980 and 160,971 respectively i.e. 2,643,384 in all. The share capital increases were registered in the Trade Register on 15 February, 4 May, 8 June, 3 August, 28 September, 2 November and 20 December 2005.

In addition, 94,900 new B shares were subscribed for with the year 2000 B and C share options at the end of December 2005 and registered in February 2006 together with the shares subscribed for in January 2006.

By 30 December 2005, 3,489,852 B shares had been subscribed for with the year 2000 B share options and correspondingly 1,773,174 B shares with the C share options, i.e. a total of 5,263,026 B shares. By 30 December 2005, 195,400 B shares had been subscribed for with the 2003D share options. The shares have been included in the main list of the Helsinki Stock Exchange for public trading, the most recent ones starting from 14 February 2006.

Share of issued options of share capital and votes

Presuming that shares are subscribed for with all of the 7,640,000 share options issued under the year 2000 and the year 2003 schemes, the shares subscribed for with the share options will account for 7.74% of share capital and 1.99% of all votes. In consequence of the subscriptions made with the share options, the total number of company shares may increase to 98,760,400, corresponding to a share capital of EUR 197,520,800. In addition, the voting rights carried by all shares may increase to 384,393,463 votes.

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

Shares and share options held by management

At the end of 2005, the members of Kesko Corporation's Board of Directors, the Managing Director and the Deputy Managing Director and the corporations under their control, held 551,790 Kesko Corporation A shares and 155,530 Kesko Corporation B shares, i.e. a total of 707,320 shares which represented 0.73% of the company's total share capital and 1.48% of its voting rights.

At the end of 2005, Kesko Corporation's Managing Director and Deputy Managing Director held a total of 115,500 Kesko Corporation share options, which represented 0.12% of the company's total share capital and 0.03% of voting rights, presuming that shares have been subscribed with all of these share options.

Detailed information on shares and share options held by the members of the Corporate Management Board at the beginning and at the end of 2005 is given on pages 48–49.

No members of the Board of Directors held share options at the end of the year 2005.

Trading in Kesko's shares and share options in 2005

Kesko Corporation's shares are listed on the OMX Helsinki Stock Exchange. Key information about share and share option trading in 2005 is given in the tables and graphs on this double page spread. The trends of both shares' prices followed relatively closely the Helsinki Stock Exchange index trends throughout the year; during the year the A share rose by 28% and the B share by 33%. Trading in the B share remained relatively active, though the number of shares traded decreased in 2005 compared with the previous year.

The price performance of the B and C share options was good, but the number traded decreased due to share subscriptions.

At the end of the year, the market value of A shares was EUR 767.7 million and that of B shares EUR 1,550.7 million. The total market capitalisation of the company was EUR 2,318.4 million, an increase of EUR 603.8 million during the year.

Flagging notifications

Kesko Corporation did not receive any flagging notifications during 2005. The company has not been informed of any agreements relating to its share ownership or the exercising of its voting rights.

Up-to-date information on shares and shareholders available at www.kesko.fi

Prices and trading of Kesko's A and B shares, the year 2000 B and C share options and 2003D share options on the Helsinki Stock Exchange in 2005

SHARE	Share price, € 31.12.2004	Share price, € 31.12.2005	Change, %	Lowest price, €	Highest price, €	Trading volume 1,000 pcs	Total value, EUR million
A share	18.90	24.19	28.0	18.61	24.60	1,301	28.5
B share	17.95	23.95	33.4	17.80	24.44	65,726	1,382.7
2000B share option	9.45	15.99	69.2	9.10	16.15	853	10.1
2000C share option	10.50	17.75	69.0	10.00	17.80	405	5.5
2003D share option	–	18.30	–	12.48	18.50	226	3.6

During the year, OMXHelsinki All Share Index rose by 31.3%, OMXHelsinkiCAP Index by 30.1% and the Helsinki Stock Exchange Consumer Staples Index by 28.6%.

THE LATEST CHANGES IN SHARE CAPITAL

Year	Registration date	Subscription terms	Change	New share capital
2002	21.5.2002	S 1 for 1 at €10.01	€1,814,000	€182,240,800
2003	19.12.2003	S 1 for 1 at €11.87 B share option S 1 for 1 at €10.11 C share option	€140,200	€182,381,000
2004	6.2.2004	S 1 for 1 at €10.11 C share option	€48,600	€182,429,600
2004	4.5.2004	S 1 for 1 at €9.87 B share option S 1 for 1 at €8.11 C share option	€1,072,380	€183,501,980
2004	4.8.2004	S 1 for 1 at €9.87 B share option S 1 for 1 at €8.11 C share option	€156,200	€183,658,180
2004	31.12.2004	S 1 for 1 at €9.87 B share option S 1 for 1 at €8.87 B share option S 1 for 1 at €7.11 C share option	€4,022,904	€187,681,084
2005	15.2.2005	S 1 for 1 at €8.87 B share option S 1 for 1 at €7.11 C share option	€2,656,500	€190,337,584
2005	4.5.2005	S 1 for 1 at €7.87 B share option S 1 for 1 at €6.11 C share option S 1 for 1 at €5.63 D share option	€912,390	€191,249,974
2005	8.6.2005	S 1 for 1 at €7.87 B share option S 1 for 1 at €6.11 C share option S 1 for 1 at €5.63 D share option	€536,600	€191,786,574
2005	3.8.2005	S 1 for 1 at €7.87 B share option S 1 for 1 at €6.11 C share option S 1 for 1 at €5.63 D share option	€172,676	€191,959,250
2005	28.9.2005	S 1 for 1 at €7.87 B share option S 1 for 1 at €6.11 C share option S 1 for 1 at €5.63 D share option	€588,700	€192,547,950
2005	2.11.2005	S 1 for 1 at €7.87 B share option S 1 for 1 at €6.11 C share option S 1 for 1 at €5.63 D share option	€97,960	€192,645,910
2005	20.12.2005	S 1 for 1 at €7.87 B share option S 1 for 1 at €6.11 C share option S 1 for 1 at €5.63 D share option	€321,942	€192,967,852
2006	13.2.2006	S 1 for 1 at €7.87 B share option S 1 for 1 at €6.11 C share option S 1 for 1 at €5.63 D share option	€640,500	€193,608,352

S = subscription with share options

10 LARGEST SHAREHOLDERS BY NUMBER OF SHARES AT 31.12.2005

	Number of shares, pcs	% of shares	% of votes
1 Kesko Pension Fund	3,438,885	3.56	9.00
2 The K-Retailers' Association	3,091,139	3.20	7.99
3 Vähittäiskaupan Takaus Oy	2,628,533	2.72	6.88
4 Valluga-sijoitus Oy	1,340,439	1.39	3.51
5 Varma Mutual Pension Insurance Company	1,143,353	1.19	0.30
6 Ilmarinen Mutual Pension Insurance Company	1,125,400	1.17	0.29
7 Oy The English Tearoom Ab	1,008,400	1.05	0.26
8 Foundation for Vocational Training in the Retail Trade	885,675	0.92	1.87
9 Tapiola Mutual Pension Insurance Company	464,500	0.48	0.12
10 Sigrid Juselius Foundation	409,110	0.42	0.11
10 largest shareholders, total	**15,535,434**	**16.10**	**30.33**

BREAKDOWN OF SHARE OWNERSHIP BY SHAREHOLDER CATEGORY AT 31.12.2005

All shares	Number of shares	% of all shares
Non-financial corporations and housing corporations	24,757,183	25.66
Financial and insurance corporations	3,858,628	4.00
General Government*	8,353,378	8.66
Households	27,441,713	28.44
Non-profit institutions serving households**	5,849,806	6.06
Rest of the world	173,780	0.18
Nominee registered	26,049,438	27.00
Total	**96,483,926**	**100**

A shares	Number of shares	% of A shares	% of all shares
Non-financial corporations and housing corporations	18,620,086	58.67	19.3
Financial and insurance corporations	1,340,439	4.22	1.39
General Government*	3,444,445	10.85	3.57
Households	6,966,709	21.95	7.22
Non-profit institutions serving households**	1,274,792	4.02	1.32
Rest of the world	5,256	0.02	0.01
Nominee registered	85,280	0.27	0.09
Total	**31,737,007**	**100**	**32.89**

B shares	Number of shares	% of B shares	% of all shares
Non-financial corporations and housing corporations	6,137,097	9.48	6.36
Financial and insurance corporations	2,518,189	3.89	2.61
General Government*	4,908,933	7.58	5.09
Households	20,475,004	31.62	21.22
Non-profit institutions serving households**	4,575,014	7.07	4.74
Rest of the world	168,524	0.26	0.17
Nominee registered	25,964,158	40.1	26.91
Total	**64,746,919**	**100**	**67.11**

*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 various charitable associations.

10 LARGEST SHAREHOLDERS BY NUMBER OF VOTES AT 31.12.2005

	Number of votes	% of votes	Number of shares, pcs	% of shares
1 Kesko Pension Fund	34,388,850	9.00	3,438,885	3.56
2 The K-Retailers' Association	30,543,740	7.99	3,091,139	3.20
3 Vähittäiskaupan Takaus Oy	26,285,330	6.88	2,628,533	2.72
4 Valluga-sijoitus Oy	13,404,390	3.51	1,340,439	1.39
5 Foundation for Vocational Training in the Retail Trade	7,160,943	1.87	885,675	0.92
6 Ruokacity Myyrmäki Oy	3,587,600	0.94	358,760	0.37
7 The K-Food Retailers' Club	3,008,800	0.79	300,880	0.31
8 Ruokajätti Kalevi Sivonen Oy	2,378,800	0.62	237,880	0.25
9 Heimo Välinen Oy	2,300,000	0.60	230,000	0.24
10 A. Toivakka Oy	1,934,500	0.51	211,450	0.22
10 largest, total	**124,992,953**	**32.71**	**12,723,641**	**13.18**

BREAKDOWN OF SHARE OWNERSHIP BY NUMBER OF SHARES OWNED AT 31.12.2005

All shares

Number of shares	Number of shareholders	% of shareholders	Shares total	% of shares
1 - 100	6,141	20.93	383,013	0.40
101 - 500	10,755	36.66	3,090,002	3.20
501 - 1,000	4,892	16.67	3,850,427	3.99
1,001 - 5,000	5,764	19.65	13,021,290	13.50
5,001 - 10,000	942	3.21	6,650,997	6.89
10,001 - 50,000	706	2.41	14,212,154	14.73
50,001 - 100,000	87	0.30	6,247,655	6.48
100,001 - 500,000	40	0.14	8,638,806	8.95
500,001 -	12	0.04	40,389,582	41.86
Total	**29,339**	**100**	**96,483,926**	**100**

A shares

Number of shares	Number of shareholders	% of holders of A shares	A shares total	% of A shares
1 - 100	796	15.84	43,671	0.14
101 - 500	1,036	20.61	282,112	0.89
501 - 1,000	706	14.05	576,687	1.82
1,001 - 5,000	1,623	32.29	4,109,422	12.95
5,001 - 10,000	420	8.36	2,911,716	9.18
10,001 - 50,000	389	7.74	7,896,987	24.88
50,001 - 100,000	42	0.84	2,868,122	9.04
100,001 - 500,000	9	0.18	1,892,892	5.96
500,001 -	5	0.10	11,155,398	35.15
Total	**5,026**	**100**	**31,737,007**	**100**

B shares

Number of shares	Number of shareholders	% of holders of B shares	B shares total	% of B shares
1 - 100	5,998	22.77	373,887	0.58
101 - 500	10,472	39.76	3,005,032	4.64
501 - 1 000	4,455	16.91	3,479,560	5.37
1,001 - 5,000	4,477	17.00	9,643,195	14.89
5,001 - 10,000	528	2.00	3,809,032	5.88
10,001 - 50,000	340	1.29	6,863,775	10.60
50,001 - 100,000	41	0.16	3,076,687	4.75
100,001 - 500,000	22	0.08	5,575,770	8.61
500,001 -	7	0.03	28,919,981	44.67
Total	**26,340**	**100**	**64,746,919**	**100**

SHARE CAPITAL AND SHARES

		2001 FAS	2002 FAS	2003 FAS	2004 FAS	2004 IFRS	2005 IFRS
Share capital	EUR million	180	182	182	188	188	193
Number of shares at 31 Dec.	1,000 pcs	90,213.4	91,120.4	91,190.5	93,840.5	93,840.5	96,483.9
Adjusted number of shares at 31 Dec.	1,000 pcs	90,213.4	91,120.4	91,190.5	93,840.5	93,840.5	96,483.9
Adjusted average number of shares during the year,	1,000 pcs	90,213.4	90,807.3	91,435.8	93,134.9	93,134.9	97,215.5
of which A shares	%	35	35	35	34	34	33
of which B shares	%	65	65	65	66	66	67
Market capitalisation, A shares	EUR million	476	520	578	600	600	768
Market capitalisation, B shares	EUR million	602	718	825	1,115	1,115	1,551
Number of shareholders at 31 Dec.	pcs	25,057	25,485	28,761	29,801	29,801	29,339
Share turnover							
A share	EUR million	20	15	22	23	23	29
B share	EUR million	139	249	349	1,368	1,368	1,383
Share turnover							
A share	million pcs	1	1	1	1	1	1
B share	million pcs	14	23	31	83	83	66
Turnover rate							
A share	%	3.9	3.0	4.0	3.8	3.8	4.1
B share	%	24.3	38.6	51.7	133.6	133.6	101.5
Change in share turnover							
A share	%	-37.5	-23.3	32.4	-3.5	-3.5	7.6
B share	%	-6.7	60.3	34.0	158.5	158.5	-24.0
Share price at 31 Dec.							
A share	€	15.00	16.40	18.20	18.90	18.90	24.19
B share	€	10.30	12.10	13.88	17.95	17.95	23.95
Average share price							
A share	€	16.57	16.26	17.46	19.12	19.12	21.93
B share	€	9.79	10.92	11.38	16.49	16.49	21.04
Highest share price during the year							
A share	€	20.00	17.70	18.55	21.50	21.50	24.60
B share	€	11.80	12.28	14.66	18.27	18.27	24.44
Lowest share price during the year							
A share	€	11.50	14.40	16.00	15.70	15.70	18.61
B share	€	8.10	9.75	9.35	13.58	13.58	17.80
Earnings per share, diluted	€	0.60	0.75	1.05	1.26	1.89	1.87
Earnings per share, basic	€	0.60	0.75	1.06	1.28	1.92	1.89
Equity per share, diluted	€	14.78	15.02	15.07	13.34	13.34	15.35
Dividend per share	€	0.60	1.00	3.00	1.00	1.00	1.10*
Payout ratio	%	98.7	134.4	285.7	79.4	52.9	58.8*
Cash flow from operating activities per share, adjusted	€	2.29	1.60	1.80	2.06	2.29	3.07
Price per earnings ratio (P/E), A share, diluted		24.82	21.96	17.17	14.96	10.12	11.86
Price per earnings ratio (P/E), B share, diluted		17.04	16.21	13.09	14.21	9.50	11.74
Dividend yield, A share	%	4.0	6.1	16.5	5.3	5.3	4.6*
Dividend yield, B share	%	5.8	8.3	21.6	5.6	5.6	4.6*
Yield of A share	%	8.6	9.9	11.4	14.3	14.3	16.7
Yield of B share	%						
For the last five financial years	%	6.1	2.8	8.9	14.7	14.7	25.9
For the last ten financial years	%	11.0	12.8	10.7	13.0	13.0	16.3

*proposal to the Annual General Meeting

Report by the Board of Directors

The Group's net sales in the year 2005 were EUR 8,321.7 million, up 10.8% on the the previous year (EUR 7,508.5 million). The operating profit was EUR 249.3 million (EUR 250.8 million). Non-recurring items excluded, the operating profit was EUR 212.5 million (EUR 201.1 million). The Group's profit before taxes was EUR 238.6 million (EUR 241.3 million). Non-recurring items excluded, the profit before taxes was EUR 201.8 million (EUR 191.7 million). Earnings per share were EUR 1.87 (EUR 1.89). Equity per share was EUR 15.35 (EUR 14.73).

Net sales and profit

Net sales in 2005

The Group's net sales in 2005 were EUR 8,322 million, which is 10.8% up on the previous year (EUR 7,509 million). The Group's net sales increased by 3.7% in Finland and by 52.8% in other countries.

Exports and foreign operations accounted for 20.0% (14.5%) of net sales. The net sales of Indoor Group Ltd, acquired by Keswell Ltd, are included in the figures as of 22 January 2005 and its impact on Keswell's growth was 20.7 percentage points. The net sales of Norgros AS and those of the Stroymaster chain acquired by Rautakesko Ltd in July are included in the figures as of 7 July 2005 and 28 July 2005 respectively. Norgros' impact on Rautakesko's growth was 23.4 percentage points and Stroymaster's 3.1 percentage points.

Net sales by division, EUR million

	2005	2004	Change, %
Kesko Food, Finland	3,417	3,468	-1.5
Kesko Food, other countries*	413	344	20.0
Kesko Food, total	**3,830**	**3,812**	**0.5**
Rautakesko, Finland	780	730	6.8
Rautakesko, other countries*	830	420	97.5
Rautakesko, total	**1,610**	**1,150**	**40.0**
Kesko Agro, Finland	672	621	8.2
Kesko Agro, other countries*	268	192	39.6
Kesko Agro, total	**940**	**813**	**15.6**
Keswell, Finland	934	770	21.2
Keswell, other countries*	41	23	83.7
Keswell, total	**975**	**793**	**23.0**
VV-Auto, Finland	675	619	9.1
VV-Auto, other countries*	14	13	2.8
VV-Auto, total	**689**	**632**	**9.0**
Kaukomarkkinat, Finland	192	203	-5.4
Kaukomarkkinat, other countries*	98	99	-0.7
Kaukomarkkinat, total	**290**	**302**	**-3.9**
Other units - eliminations	-12	7	-
Finland, total	6,657	6,419	3.7
Other countries, total*	1,665	1,090	52.8
Group, total	**8,322**	**7,509**	**10.8**

* exports and net sales in countries other than Finland

Profit for 2005

The Group's profit before taxes for the review period was EUR 238.6 million (EUR 241 million), representing 2.9% of net sales (3.2%). Operating profit was EUR 249.3 million (EUR 251 million).

The operating profit has been increased by a net total of EUR 36.8 million (EUR 49.6 million) in gains and losses from disposal of fixed assets and operations, and impairment charges. In the previous year, an income amount of EUR 41.2 million was included in non-recurring items relating to the amendment of the IFRS interpretation of disability pension benefits under the Employees' Pensions Act (TEL), and the decrease of Kesko Pension Fund's pension liabilities as a result of the reform of the Finnish TEL system. Profit expectations relating to Kaukomarkkinat for the next few years will remain at a lower level than in the previous years. Consequently a non-recurring amount of EUR 16.9 million in impairment loss on the goodwill of its operations, EUR 32.9 million, has been included in the financial statements. The gains from disposal of fixed assets include EUR 45.5 million from the disposal of real estate by Kesko to Nordisk Renting Oy in January.

Consequently, the operating profit excluding non-recurring items was EUR 11.4 million higher than in the previous year. VV-Auto and Rautakesko in particular improved their profits, excluding non-recurring items, whereas the profits of Kesko Food and Kaukomarkkinat were smaller than in the previous year. In addition to VV-Auto's and Rautakesko's good organic growth, the profit increase is attributable to acquisitions realised during the accounting period, contributing to the operating profit excluding non-recurring items by EUR 21.4 million. The profit was negatively affected by costs of EUR 7.6 million from changes carried out in Kesko Food's store network, a lease cancellation cost of EUR 5.1 million related to the development of Keswell's store network, and by a cost of EUR 4.7 million arising from pension arrangements made at rationalisation negotiations in Kesko Food completed in May. In addition, the home and speciality goods selection of Citymarket Oy was revised and the valuation principles of its inventories were specified.

Earnings per share (diluted) were EUR 1.87 (EUR 1.89). Equity per share was EUR 15.35 (EUR 14.73)

The primary segments presented in the IFRS financial statements are the Kesko Group divisions, namely Kesko Food, Rautakesko, Kesko Agro, Keswell, VV-Auto and Kaukomarkkinat. In deviation from the figures reported during 2004, the operating profit from real estate operations, organised as an intra-Group service unit, has been allocated to those divisions to which it is directly attributable. This change in reporting practice is part of the transfer of profit responsibility for real estate to the division parent companies throughout the lifecycle of the real estate. After this change, common operations include the costs of the corporate management and centralised support functions.

Operating profit by division, EUR million

	2005	2004	Change
Kesko Food	133.8	130.8	3.0
Rautakesko	61.7	49.1	12.6
Kesko Agro	12.7	16.4	-3.7
Keswell	35.8	33.8	2.0
VV-Auto	38.7	27.3	11.4
Kaukomarkkinat	-11.2	14.8	-26.0
Common operations	-22.2	-21.4	-0.8
Group's operating profit	**249.3**	**250.8**	**-1.5**
Net financial income and expenses	-12.2	-11.2	-1.0
Associates	1.5	1.7	-0.2
Profit before taxes	**238.6**	**241.3**	**-2.7**

Operating profit by division excluding non-recurring items, EUR million

	2005	2004	Change
Kesko Food	90.3	109.2	-18.9
Rautakesko	61.5	46.1	15.4
Kesko Agro	12.6	13.3	-0.7
Keswell	30.7	24.5	6.2
VV-Auto	38.7	26.1	12.6
Kaukomarkkinat	2.8	9.9	-7.1
Common operations	-24.1	-28.0	3.9
Total	**212.5**	**201.1**	**11.4**

Group indicators by quarter

	10-12/2004	1-3/2005	4-6/2005	7-9/2005	10-12/2005
Net sales, EUR million	1,955	1,795	2,118	2,166	2,242
Change in net sales, %	4.1*	2.7	9.4	15.9	14.7
Operating profit, EUR million	94	72	70	66	42
Operating profit, %	4.8	4.0	3.3	3.0	1.9
Financial income/expense, EUR million	-4	-4	-3	-2	-2
Profit before taxes, EUR million	89	69	66	64	39
Profit before taxes, %	4.6	3.8	3.1	3.0	1.7
Return on invested capital, %	21.1	14.6	13.9	12.9	8.3
Return on equity, %	18.2	16.4	15.1	13.8	7.9
Equity ratio, %	44.2	40.4	41.9	41.1	42.3
Investments, EUR million	50.7	150.2	61.2	178.7	63.4
Earnings per share, EUR	0.67	0.59	0.53	0.48	0.27
Equity per share, EUR	14.73	14.08	14.64	15.08	15.35

*comparative year 2003 net sales in compliance with FAS

Divisions' net sales by quarter, EUR million

	10-12/2004	1-3/2005	4-6/2005	7-9/2005	10-12/2005
Kesko Food	1,005	871	990	957	1,012
Rautakesko	275	269	360	506	475
Kesko Agro	189	184	284	234	237
Keswell	258	207	212	247	309
VV-Auto	138	195	196	155	142
Kaukomarkkinat	81	71	79	69	71
Common operations – eliminations	9	-2	-3	-2	-4
Group's net sales	1,955	1,795	2,118	2,166	2,242

Divisions' operating profits by quarter, EUR million

	10-12/2004	1-3/2005	4-6/2005	7-9/2005	10-12/2005
Kesko Food	49.4	54.3	25.4	32.4	21.6
Rautakesko	7.8	4.4	15.8	25.7	15.7
Kesko Agro	2.5	-0.1	14.4	1.4	-2.9
Keswell	28.8	3.6	4.1	2.6	25.5
VV-Auto	6.2	11.5	13.7	8.7	4.8
Kaukomarkkinat	6.1	4.1	1.8	1.2	-18.2
Common operations	-6.6	-5.8	-5.3	-6.1	-5.0
Group's operating profit	94.2	72.0	69.9	65.9	41.6

Divisions' operating profits excl. non-recurring items, by quarter, EUR million

	10-12/2004	1-3/2005	4-6/2005	7-9/2005	10-12/2005
Kesko Food	29.5	12.1	25.9	32.2	20.1
Rautakesko	6.2	4.3	15.8	25.7	15.6
Kesko Agro	-0.4	-0.3	14.5	1.4	-2.9
Keswell	19.8	-0.6	2.8	3.1	25.5
VV-Auto	5.0	11.5	13.7	8.7	4.8
Kaukomarkkinat	1.6	-0.3	1.8	2.8	-1.4
Common operations	-10.9	-4.5	-7.4	-6.8	-5.6
Group's operating profit	50.8	22.2	67.1	67.0	56.1

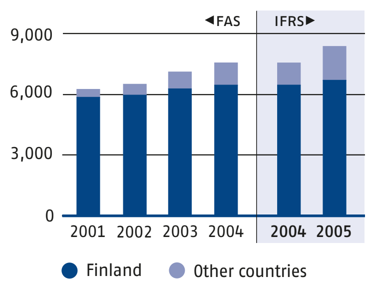
Investments

The Group's investments totalled EUR 453.5 million (EUR 192.3 million), which is 5.4% (2.6%) of net sales. Investments in retail store sites amounted to EUR 141 million. Investments in acquisitions were EUR 261 million, of which EUR 70.0 million was used to acquire Rimi Baltic AB shares, EUR 41.8 million to acquire Indoor Group Ltd shares, EUR 122.2 million to acquire Norgros AS shares and EUR 20.1 million to acquire the Stroymaster chain. The Group's other investments were EUR 52 million. Investments in foreign operations represented 59.7% of total investments.

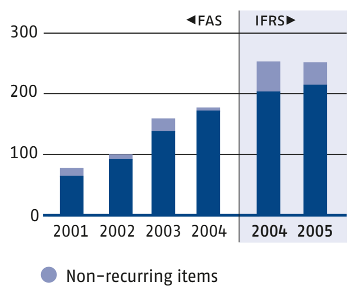
Investments by division, EUR million

	2005	2004	Change
Kesko Food	165.4	95.8	69.6
Rautakesko	191.5	46.1	145.4
Kesko Agro	7.2	11.0	-3.8
Keswell	55.1	6.1	49.0
VV-Auto	26.0	15.3	10.7
Kaukomarkkinat	5.8	5.7	0.1
Common operations	2.5	12.3	-9.8
Group, total	**453.5**	**192.3**	**261.2**

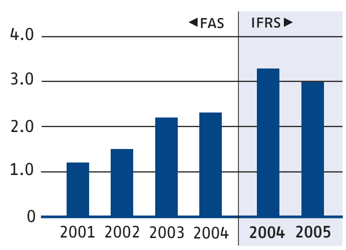
Group's net sales, EUR million



Group's operating profit, EUR million



Group's operating profit as % of net sales



Finance

Cash flow from operating activities developed strongly to EUR 298.0 million (EUR 213.2 million), while cash flow from investing activities totalled EUR -194.0 million (EUR -106.0 million).

At the end of the period, the equity ratio was 42.3% (44.2%). Interest-bearing net debt was EUR 640 million (EUR 521 million). Liquid funds totalled EUR 114.6 million (EUR 148.5 million).

The Group's net financial expenses were EUR 12.2 million (EUR 11.2 million). They included net interest from finance leases amounting to EUR -7.9 million (EUR -8.6 million). The increase in financial expenses was due to an increase in debt resulting from dividend payments in the previous year and acquisitions in 2005. The increase was slowed by the good cash flow from operating activities.

Personnel

During the period under review, the average number of personnel in Kesko Group, including joint ventures, was 21,603 (17,528) converted into full-time employees. There was an increase of 4,075 employees over the corresponding period of the previous year. In Finland, the average increase was 945 employees, while outside Finland it was 3,130.

Rimi Baltic AB, a joint venture of Kesko Food and Sweden's ICA AB, started operating at the beginning of 2005. The reduction in the average number of Kesko Food's personnel (by -2,050) was mainly due to transfers to Rimi Baltic. As of the beginning of 2005, 50% (4,104) of Rimi Baltic AB's employees are included in the number of Kesko Group's personnel. The whole of Pikoil Oy personnel was included in the average number of Kesko Food employees as of 1 November 2005.

Rautakesko continued an intensive expansion of operations outside Finland. The biggest increase in the number of personnel was registered in Lithuania where the average number of employees of Rautakesko's Senukai increased by 761 compared with the previous year. Operations in Sweden and Latvia also continued to expand. Business acquisitions expanded Rautakesko's operations to Norway (Norgros, average personnel 258) and Russia (Stroymaster, average personnel 93).

Keswell's personnel increased mainly as a result of the acquisition of Indoor Group Ltd. Its impact is 690 persons on average. The average number of VV-Auto employees increased by nearly 100 due to the acquisition of Helsingin VV-Auto Oy.

The number of personnel was distributed by business division as follows:

Average personnel

	1-12/2005	1-12/2004	Change
Kesko Food	5,718	7,768	-2,050
Rautakesko	5,731	4,319	1,412
Kesko Agro	1,143	1,011	132
Keswell	3,255	2,583	672
VV-Auto	359	264	95
Kaukomarkkinat	765	773	-8
Others	528	557	-29
Group companies, total	17,499	17,275	224
Kesko Food's joint ventures	4,104	253	3,851
Kesko Group, total	21,603	17,528	4,075

At the end of December 2005, the total number of personnel was 26,978 (22,146), of whom 14,707 (13,602) worked in Finland and 12,271 (8,544) in other countries. Compared with the end of December 2004, there was an increase of 1,105 employees in Finland, and 3,727 in other countries.

Personnel at 31 Dec.*

	31.12.2005	31.12.2004	Change
Kesko Food	8,032	10,012	-1,980
Rautakesko	6,995	5,203	1,792
Kesko Agro	1,178	1,059	119
Keswell	4,403	3,624	779
VV-Auto	394	347	47
Kaukomarkkinat	784	812	-28
Others	536	624	-88
Group companies, total	22,322	21,681	641
Kesko Food's joint ventures	4,656	465	4,191
Kesko Group, total	26,978	22,146	4,832

* total number of employees, including part-time employees

Market review

In 2006, the growth of the Finnish economy will be accelerated by consumption, increased investment activity and positive export development. The Finnish economy is expected to grow by approximately 3.6% in 2006. It is forecast that private consumption expenditure will increase by 2.7% and investments by 4.5%. House building investment is estimated to grow by 3.5%. The increase in consumer prices is forecast to reach 1.5% (ETLA, The Research Institute of the Finnish Economy).

ETLA forecasts that the volume of Finnish retail trade will grow by 3.5% and the volume of wholesale trade by about 4% in 2006.

According to the preliminary data of Statistics Finland, in January-November 2005 the volume of Finnish retail trade increased by 4.9% over the corresponding period of the previous year. The increase in wholesale trade was also 4.9% over the same period.

Statistics Finland's consumer survey of January 2006 shows that the growth of Finnish consumers' confidence which started in October 2005 levelled off in January. Consumers' estimates of the development of Finland's economy improved, their expectations concerning their own financial situation and saving possibilities remained unchanged, but their views on unemployment turned slightly pessimistic.

The strong growth of the Baltic economies will continue in 2006. According to forecast, they will grow by 6-7% during the year. Private consumption is estimated to grow by 4.5% in Estonia, by about 4% in Latvia and by about 5% in Lithuania. Consumer prices are forecast to increase by 2.7% in Estonia, by 4% in Latvia and by 2.3% in Lithuania (Nordea). The Baltic retail trade is forecast to continue its strong growth in 2006.

This year the Swedish economy is forecast to grow by 3.2% and private consumption by about 3%. The increase in consumer prices is anticipated to settle at 1.2% (Nordea). Total building investments are forecast to continue increasing at a rate of about 4% this year (Sveriges Byggindustrier).

The Norwegian economy is forecast to grow by 2.5% and private consumption by about 2.3% in 2006. Consumer price inflation is anticipated to be 1.4% (Nordea). Good growth in the market for building supplies is expected to continue.

In Russia, the growth of national economy, consumption and investment activity is forecast to be quite brisk in 2006. Retail trade will grow rapidly, especially in St. Petersburg and Moscow, but also in other big cities. Households will have more money to spend on the maintenance of homes, gardens and countryside houses.

The market and outlook for each of Kesko's business divisions are discussed in the business area reviews of this financial statements release.

Divisions

Kesko Food

In January-December, Kesko Food Group's net sales amounted to EUR 3,830 million, an increase of 0.5%. Kesko's share of the net sales of the joint venture, Rimi Baltic AB, was EUR 404 million, representing 10.5% of Kesko Food's net sales. Kesko Food's fourth quarter net sales were EUR 1,012 million, up 0.6% over the corresponding period of the previous year.

Kesko Food's operating profit was EUR 133.8 million (EUR 130.8 million). The operating profit was increased by a net total of EUR 43.5 million (EUR 21.5 million) in gains and losses from disposal of fixed assets and operations mainly relating to the sale of the central warehouse and some retail store premises in January. In the previous year, an income amount of EUR 17.7 million was included in non-recurring items relating to the amendment of the IFRS interpretation of disability pension benefits under the Employees' Pensions Act (TEL), and the decrease of Kesko Pension Fund's pension liabilities as a result of the reform of the Finnish TEL system. The operating profit excluding non-recurring items was EUR 18.9 million less than in the previous year. The result of the year was negatively affected by the costs of changes in the store network, by a cost arising from pension arrangements made at rationalisation negotiations in Kesko Food completed in May, by the revision of Citymarket Oy's home and speciality goods selection, and by the specification of the valuation principles of its inventories. On the other hand, the result was improved by savings in IT management costs achieved by renewing the enterprise resource planning system. Kesko Food's investments totalled EUR 165.4 million, of which investments in store sites and acquisitions accounted for EUR 103.7 million. Investments outside Finland accounted for 52.6% of all investments.

According to the Finnish Food Marketing Association, the retail sales of its member companies increased by 0.3% in January-November. The total Finnish grocery market is estimated to have grown by about 2.0% during 2005. Grocery prices remained unchanged during 2005 (Statistics Finland).

During the year, the total retail sales of the K-food stores in Finland dropped by 2.1%, totalling EUR 4,443 million (incl. VAT). The retail sales of the K-citymarket chain increased by 0.2% to EUR 1,610 million (incl. VAT) and those of the K-supermarket declined by 0.9% to EUR 1,336 million (incl. VAT). The retail sales of other K-food stores declined by 5.3% to EUR 1,497 million (incl. VAT). Owing to the differing local and regional markets and competitive situations, there are major differences between the retail sales trends of the chains and individual K-food stores. There were 1,087 K-food stores at the end of the year 2005.

The net sales of Kespro Ltd, which provides services for the catering, kiosk, service station and restaurant trade, were EUR 707 million (EUR 742 million), a decrease of 4.6%. The total market in Finland in this sector is estimated to have remained unchanged.

Kesko Food acquired Neste Marketing's 50% holding in Pikoil Oy. As a result of the transaction, Kesko Food became the sole owner and manager of Pikoil as of the beginning of November. The purpose of the transaction is to improve Pikoil's operating conditions. It has been operating at a loss. Pikoil, established in 2003 to operate in the liquid fuel and grocery retail market, was previously owned on a fifty-fifty basis by Kesko Food Ltd and Neste Marketing Ltd.

In order to improve the K-food stores' customer satisfaction and competitiveness, Kesko Food announced in October that it will reform its operations and organisation. The aim of the reform is to offer K-food store customers better service and quality at affordable prices. In the future, there will be a retailer in every K-food store, which means that 100 new K-retailers will be needed. All Cassa and K-pikkolo stores will also be run by retailers.

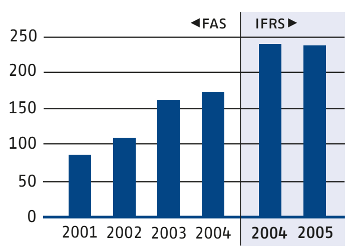
The management of the K-food stores has now been concentrated into three units from the previous six. They are K-citymarket (53 stores), K-supermarket (150 stores) and K-market (incl. K-extra, K-pikkolo and Cassa stores, 884 in all). In addition there is a unit for the chains' joint operations.

Logistical improvements will mainly focus on enhancing the operational conditions for logistics control as a whole. As of the beginning of 2006, Kesko Food's warehouse production was transferred to Kesped Ltd, the company responsible for Kesko Corporation's transport and terminal operations. In the same context, Kesped was transferred to Kesko Food's operational control and renamed Keslog Ltd. This arrangement did not have any immediate effects on personnel.

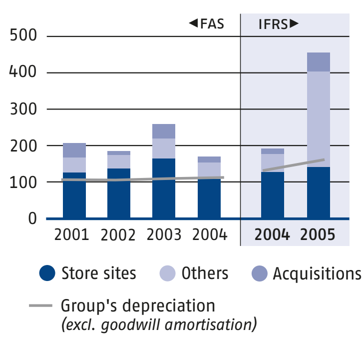
Rationalisation negotiations were completed and other measures aimed at enhancing operations were launched in the spring. They are expected to generate annual savings of approximately EUR 20 million for Kesko Food. As a result of the negotiations, the personnel was reduced by nearly 80 employees through pension solutions and other arrangements. In addition, notice had to be served to 73 employees.

Capital will be used more efficiently by selling store sites while making significant investments in the retail store network and improving its sales performance. The most important

Group's profit before taxes, EUR million



Group's investments, EUR million



new retail stores that were opened in 2005 include K-citymarkets in Raahe and Nokia and a K-supermarket in Oulunsalo, at Runosmäki in Turku and at Kamppi and Lauttasaari in Helsinki.

As a replacement for the current chain agreement, Kesko Food has offered retailers new agreements in which the store site fee is based on the store's gross profit instead of net sales as in the earlier agreements. By the end of January 2006, about 90% of retailers had signed the new agreement.

At the beginning of 2005, Rimi Baltic AB, a joint venture owned 50/50 by Kesko Food Ltd and ICA Baltic AB, a company belonging to the Swedish ICA Group, started operating. Operations have proceeded according to plan. The owner parties transferred their grocery operations in Estonia, Latvia and Lithuania to the joint venture. Rimi Baltic operates hypermarket, supermarket and discounter concepts. The company currently runs 177 stores and intends to develop and expand the store network in all operating countries. The objective is to achieve leadership in the Baltic food market.

It is estimated that in 2006 the total growth of the grocery trade market will remain at the previous year's level in Finland. The total Baltic grocery market is anticipated to increase by over 5%.

Kesko Food's net sales and operating profit excluding non-recurring items are anticipated to grow slightly in 2006.

Rautakesko

In January-December, Rautakesko Group's net sales amounted to EUR 1,610.3 million, an increase of 40.0%. In Finland, the net sales were EUR 780.0 million, an increase of 6.8%. The net sales of foreign subsidiaries were EUR 829.0 million, an increase of 98.1%. About 51.8% of Rautakesko Group's net sales came from foreign subsidiaries. Rautakesko Group's net sales in the fourth quarter were EUR 475.5 million, an increase of 73.1%.

Rautakesko Group's operating profit for January-December was EUR 61.7 million (EUR 49.1 million) and included EUR 0.2 million (EUR 3.0 million) in non-recurring items. The result was improved by the incorporation of Norgros and Stroymaster in the Rautakesko Group. The result was weakened by the initiation costs of store sites in countries outside Finland. Rautakesko's investments totalled EUR 191.5 million, of which 91.6% was outside Finland.

At the end of 2005, the K-rauta chain in Finland comprised 40 stores and the Rautia chain 105 stores. The sales of the K-rauta chain increased by 5.8% to EUR 561 million (incl. VAT) and those of the Rautia chain by 10.2% to EUR 464 million (incl. VAT). The biggest sales growth was recorded from wood, interior decoration and house technology products, and small machinery. The total sales growth of the K-rauta and Rautia chains in Finland is estimated to have exceeded that of competitors (Finnish Hardware Association, Statistics Finland). The sales of Rautakesko B-to-B Service increased by 7.9%.

Rautakesko operates 13 K-rauta stores in Sweden, 4 outlets in Estonia and 3 in Latvia. In Lithuania, UAB Senuku Prekybos centras (Senukai), in which Rautakesko is the majority owner, operates 13 Senukai stores and 76 Partnershops.

On 28 July 2005, Rautakesko Ltd acquired the St. Petersburg DIY store chain Stroymaster. The chain includes five DIY stores in the St. Petersburg city area. Kesko published stock exchange releases concerning the Stroymaster project on 30 July 2004, 17 March 2005 and 28 July 2005.

On 7 July 2005, Rautakesko Ltd acquired 98% of Norway's Norgros AS, a company managing the Byggmakker chain of hardware and building materials stores. The chain comprises 133 stores, 20 of which are owned by Norgros. The other stores of the chain are owned by retailer-entrepreneurs who have signed a chain agreement with Norgros. Kesko published stock exchange releases about the matter on 6 June 2005, 15 June 2005 and 7 July 2005. In December 2005, Kesko's ownership interest increased to 99%, because Norgros AS obtained treasury shares through lien.

The hardware and builders' supplies market is anticipated to grow in all countries in which Rautakesko operates. In 2006, the growth in the Nordic countries will be 5%, and 5-15% in the Baltic countries. Growth expectation in the St. Petersburg is about 15%.

It is expected that Rautakesko's net sales and operating profit excluding non-recurring items will grow markedly in 2006.

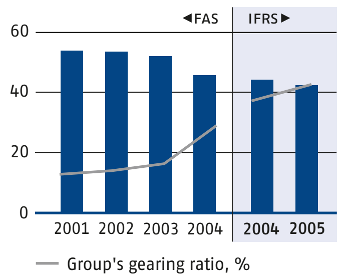
Kesko Agro

In 2005, Kesko Agro Group's net sales were EUR 939.7 million, an increase of 15.6%. The net sales of foreign subsidiaries totalled EUR 236.3 million, which was 25.5% of total net sales. Kesko Agro Group's operating profit was EUR 12.7 million. The profitability of operations in Finland was at the year 2004 level with improvement recorded in Konekesko and deterioration in Kesko Agro. The operating profit of Baltic operations increased compared to the level of the previous year. Investments totalled EUR 7.2 million, 37.3% of which was in foreign projects.

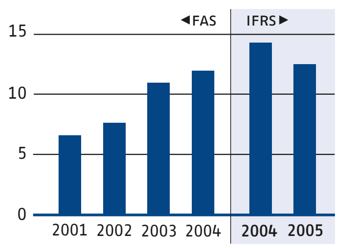
Kesko Agro Ltd's net sales were EUR 495.7 million, up 4.5%, despite the price level of grain and animal feed being lower than in the previous year. Tractor sales developed favourably and the market share strengthened. Kesko Agro started marketing Multiva soil cultivators and trailers and Lemken soil cultivators in Finland.

The net sales of Konekesko Ltd were EUR 198.1 million, an increase of 17.4% over the previous year. The total market has developed positively. Konekesko started marketing New Holland construction machinery in Finland and the Baltic

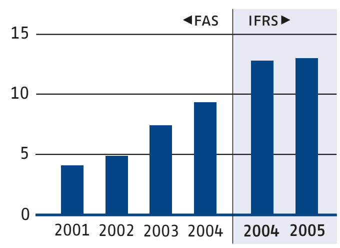
Group's equity ratio, %



Group's return on invested capital, %



Group's return on equity, %



countries, and signed an agreement to start marketing Ponsse forest machines in the Baltic countries. Konekesko Ltd's profitability has remained good.

Konekesko Ltd has signed an agreement to sell its warehouse technology operations in Finland and the Baltic countries to Sweden's BT Industries AB, which will establish a subsidiary in Finland with Konekesko holding a minority interest. The transaction was completed on 1 January 2006.

It is estimated that Finland's total agricultural trade market will remain at the level of 2005. The total Baltic market is anticipated to grow by about 5-10%.

It is expected that Kesko Agro's net sales will decrease as a result of the disposal of warehouse technology business and that the operating profit excluding non-recurring items will drop in 2006.

Keswell

Keswell Group's net sales totalled EUR 975.0 million, an increase of 23.0%. The net sales of foreign operations amounted to EUR 41.2 million, representing 4.2% of total net sales. The main reason for net sales growth was the acquisition of Indoor Group Ltd on 21 January 2005. Its impact on the growth in Keswell's net sales was 20.7 percentage points. Keswell's operating profit was EUR 35.8 million, which included EUR 5.2 million in gains from the disposal of fixed assets. The operating profit excluding non-recurring items increased by EUR 6.2 million over the previous year mainly as a result of the acquisition of Indoor and Anttila's profit increase. It was negatively affected by a lease cancellation cost of EUR 5.1 million related to the development of the Anttila store network. Investments totalled EUR 55.1 million.

The net sales of Anttila Group totalled EUR 516 million, an increase of 3.4%. The sales of the Kodin Ykkönen department stores for home goods and interior decoration increased by 4.3%, and those of the Anttila department stores by 2.6%. Anttila's distance sales were up by 6.0%, due to the good performance of NetAnttila.

Indoor Group Ltd's net sales, starting from 22 January 2005, were EUR 164 million. The sales of the Asko furniture store chain in Finland totalled EUR 89 million (incl. VAT), while those of the Sotka furniture store chain totalled EUR 103 million (incl. VAT). The net sales of the furniture trade in the Baltic countries and Sweden totalled EUR 27 million.

The net sales of Kesko Sports amounted to EUR 126.0 million, a decrease of 3.4%. The retail sales of the Intersport store chain were EUR 221 million (incl. VAT), an increase of 1.3%. The sales of Kesport stores rose by 3.9% to EUR 26 million (incl. VAT).

The net sales of Kesko Musta Pörssi amounted to EUR 137.3 million, up 2.7%. The retail sales of the Musta Pörssi chain increased by 4.5% to EUR 185 million (incl. VAT).

The net sales of Kesko Shoes increased by 1.9%, totalling EUR 25.1 million. The retail sales of the Andiamo and K-kenkä chains increased by 1.3% to EUR 48 million (incl. VAT). The sales of Kenkäexpertti stores dropped by 4.3% to EUR 15 million (incl. VAT).

Keswell's major store site investments included the opening of new Asko and Sotka stores at Lommila, Espoo and Roihupelto, Helsinki, an Anttila department store, Intersport Megastore, K-kenkä and Musta Pörssi store in the Sello shopping centre at Leppävaara, Espoo, and an Anttila department store and a Musta Pörssi store at Kamppi, Helsinki.

It is estimated that the total home and speciality goods trade market in Finland will grow by 2-3% in 2006. It is expected that Keswell's net sales will increase and that its operating profit excluding non-recurring items will grow.

VV-Auto

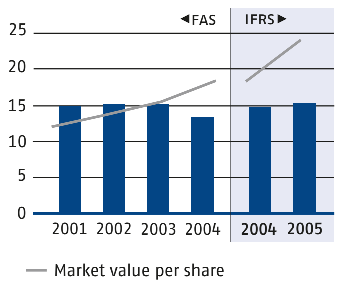
VV-Auto Group's net sales totalled EUR 688.9 million, up by 9.0%. The operating profit was EUR 38.7 million (EUR 27.3 million), an increase of EUR 11.4 million over the corresponding period of the previous year, which is mainly attributable to improved gross profit and an increase in the group's own retailing. Investments totalled EUR 26.0 million.

Registrations of new passenger cars totalled 148,164 in Finland, an increase of 3.9% from the previous year. Registrations of new vans were down by 10.6% compared with the previous year, totalling 14,090. The drop in the registrations of new vans was partly due to the fact that in 2004 some passenger cars were registered as vans (as so-called dual-use cars) because of a significant tax benefit gained.

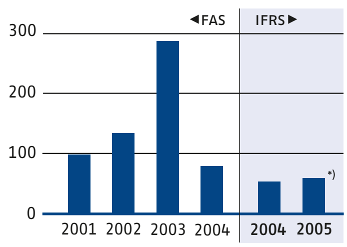
There were 14,902 registrations of Volkswagen passenger cars, equivalent to a market share of 10.1%. The new models introduced towards the end of the year increased the market share. The number of Volkswagen vans registered was 2,318 and the market share was 16.5%. Registrations of Audis increased to 4,563, which was 6.2% more than in the comparison period, and the market share was 3.1%. The registrations of new Seat passenger cars totalled 1,311 and the market share was 0.9%.

It is estimated that Finland's total market for passenger cars will increase slightly in 2006 compared with the previous year, whereas the total market for vans is expected to remain at the year 2005 level. In 2006, VV-Auto Group's net sales are forecast to increase mainly due to the structural change in sales and the Group's own Audi and Volkswagen retail outlets. The operating profit excluding non-recurring items is expected to remain at a good, although lower level than in 2005.

Equity per share, EUR, at 31 Dec., diluted

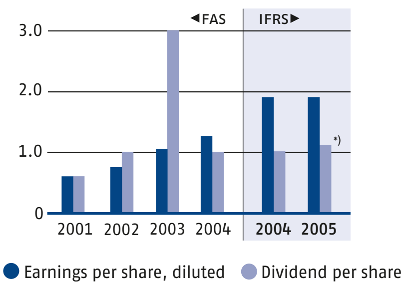


Payout ratio, %



*proposal to the Annual General Meeting

Earnings per share and dividend per share, EUR



*proposal to the Annual General Meeting

Kaukomarkkinat

Kaukomarkkinat Group's net sales for January-December amounted to EUR 290.4 million, down 3.9% on the previous year (EUR 302.1 million). Net sales in Finland were EUR 192 million. Net sales in foreign countries were EUR 98 million, representing 34% of total net sales. Total invoicing including commission-based agency operations was EUR 443 million.

Kaukomarkkinat's operating profit in January-December was EUR -11.1 million (EUR 14.8 million). It was down by a net result of EUR 14.3 million in gains from the disposal of real estate, and impairment charges. The impairment charges include a non-recurring amount of EUR 16.9 million in impairment loss on the goodwill of Kaukomarkkinat's operations. The impairment has been recognised because profit expectations relating to Kaukomarkkinat for the next few years will remain at a lower level than in the previous years. Operating profit excluding non-recurring items was EUR 2.8 million (EUR 9.9 million). The decline was mainly due to losses from the raw materials trade with China, the loss-making consumer electronics trade in Finland and costs of discontinuing operations. Investments totalled EUR 5.8 million, EUR 1.9 million of which, or 33% in foreign operations.

In January, Kaukomarkkinat sold the share capital of KM-Kello Oy and the watch business of Kauko Time AB. The representation of Pioneer consumer electronics was also disposed of at the beginning of the year. In March, Kaukomarkkinat acquired NMT Prekyba UAB, a Lithuanian specialist wholesaler for the bakery industry. In the autumn, the representation of Yamaha consumer electronics, and the Tähti Optikko chain as from 1 January 2006 were transferred to Keswell. In addition, it has been agreed that the representation of Panasonic consumer electronics will be discontinued as from 1 April 2006, and the operations of Kauko-Wines will be sold on 1 April 2006.

In 2006, the market in the Nordic countries will grow moderately, at a rate of some 3%, but a rapid growth (over 6%) is expected to continue in Russia and China. Kaukomarkkinat's net sales are anticipated to decline and operating profit excluding non-recurring items to increase in 2006.

Changes in Group structure

Rimi Baltic AB, a joint venture of Kesko Food Ltd and ICA Baltic AB, started operating at the beginning of 2005. More information about this was given in the interim report for the first 3 months. The arrangement has no material impact on the Group's profit for the review period.

On 21 January 2005, Keswell Ltd acquired the whole stock of Indoor Group Ltd. Indoor Group engages in the furniture trade in Finland, Sweden, Estonia and Latvia. Indoor Group's share of Keswell's net sales was EUR 164 million. Indoor Group contributed operating profit of EUR 8.7 million to Keswell for the accounting period.

On 7 July 2005, Rautakesko Ltd acquired a 98% interest in Norgros AS, the owner of the Norwegian Byggmakker chain of hardware and building materials stores. The acquisition price is NOK 952 million (EUR 120 million) at the maximum, of which the part depending on the success of Norgros' operations in 2005-2008 is NOK 236 million (EUR 30 million) at the maximum. Norgros accounted for EUR 269 million of Rautakesko's net sales and for EUR 10.5 million of its operating profit.

On 28 July 2005, Rautakesko Ltd acquired Stroymaster chain's share capital from the St. Petersburg Teks group. The price is EUR 19.6 million at the maximum, of which the part tied to the results for the first 12 months is EUR 6.9 million at the maximum. The chain accounted for EUR 36 million of Rautakesko's net sales and for EUR 2.2 million of its operating profit.

On 1 November 2005, Kesko Food acquired Neste Marketing's 50% holding in Pikoil Oy, in which it already held a 50% interest. Pikoil engages in liquid fuel and grocery retailing. The additional 50% interest contributed net sales of EUR 10.8 million and operating profit excluding non-recurring items of EUR -0.6 million to Kesko Food.

For all business acquisitions made during the review period, the cost of acquired balance sheet items to be allocated in compliance with the IFRS3 has been completely recognised.

Annual General Meeting

Kesko Corporation's Annual General Meeting held on 30 March 2005 adopted the financial statements for 2004, discharged those accountable from liability, decided to distribute a dividend of EUR 1.00 per share and to approve the Board's proposal on amendment of the terms and conditions of the year 2000 stock option scheme. The meeting also elected Kari Salminen as a new Board member to replace Matti Honkala and Jukka Toivakka who had resigned from the Board. More information about the decisions of the Annual General Meeting was published in a stock exchange release on the same day and in the interim report for the first 3 months.

A total of EUR 95,168,792.00 was paid to shareholders as dividends on 11 April 2005.

Corporate governance

Matti Halmesmäki, M.Sc. (Econ.), LL.M., took office as Kesko Corporation's Managing Director and Kesko Group's President and CEO on 1 March 2005.

Many changes have taken place in the management of the parent companies of the major sub-groups fully owned by Kesko Group. The changes were announced in stock exchange releases on 9 February 2005, 28 February 2005, 17 March 2005, 24 March 2005, 28 July 2005, 9 September 2005 and 11 October 2005.

On 17 March 2005, Kesko Corporation's Board of Directors established a Compensation Committee, in addition to the Audit Committee, which had been established on 29 April 2004. This was announced in a stock exchange release on 17 March 2005. Matti Kavetvuo acts as the Chairman of the Audit Committee with Eero Kasanen and Maarit Näkyvä as its members. Heikki Takamäki acts as the Chairman of the Compensation Committee with Pentti Kalliala and Keijo Suila as its members. These appointments of the Committee members, made by the Board of Directors at its organisational meeting after the Annual General Meeting, were announced in a stock exchange release on 30 March 2005.

As a result of the changes that have taken place in the management of Kesko Group and its major sub-group parent companies, Kesko Group's Management Board has comprised, since 13 October 2005, Chairman Matti Halmesmäki, Managing Director of Kesko Corporation and President and CEO of Kesko Group, and the other members Juhani Järvi, Deputy to the President and CEO and Corporate Executive Vice President; Terho Kalliokoski, President of Kesko Food Ltd; Matti Laamanen, President of Keswell Ltd; Jari Lind, President of Rautakesko Ltd; Pekka Lahti, President of VV-Auto Oy; Riitta Laitasalo, Senior Vice President, Human Resources; Arja Talma, Senior Vice President, CFO and Paavo Moilanen, Senior Vice President, Corporate Communications. The changes in the Corporate Management Board were announced in stock exchange releases on 9 February 2005, 17 March 2005 and 11 October 2005.

Shares and the securities market

At the end of the year 2005, Kesko Corporation's share capital totalled EUR 192,967,852. The number of A shares was 31,737,007, i.e. 32.9% of all shares, and the number of B shares was 64,746,919, i.e. 67.1% of all shares. The total number of shares was 96,483,926.

In 2005, the share capital was increased seven times with an aggregate amount of EUR 5,286,768 as a result of 2,643,384 shares subscribed for pursuant to share options. The increases were entered in the Trade Register on 15 February, 4 May, 8 June, 3 August, 28 September, 2 November and 20 December 2005.

The price of a Kesko A share was EUR 18.90 at the end of 2004 and EUR 24.19 at the end of 2005, an increase of 28.0%. The price of a Kesko B share was EUR 17.95 at the end of 2004 and EUR 23.95 at the end of 2005, an increase of 33.4%. During the year 2005, the Helsinki Stock Exchange All Share index (OMX Helsinki) rose by 31.3%, the weighted OMX Helsinki CAP index by 30.1%, and the Consumer Staples Index by 28.6%.

At the end of 2005, the market capitalisation of A shares was EUR 767.7 million, while that of B shares was EUR 1,550.7 million. Their combined market capitalisation was EUR 2,318.4 million, an increase of EUR 603.8 million from the beginning of the year. During the review period, 1.3 million A shares were traded on the Helsinki Stock Exchange at a total value of EUR 28.5 million, while 65.7 million B shares were traded at a total value of EUR 1,382.7 million.

During the period, 0.8 million listed year 2000 B share options were traded at a total value of EUR 10.1 million, while 0.4 million year 2000 C share options were traded at a total value of EUR 5.5 million and 0.2 million symbol 2003D share options of the year 2003 share option plan at a total value of EUR 3.6 million. The 2003D share options were included on the main list of the Helsinki Stock Exchange for public trading on 1 April 2005.

Flagging notifications

Kesko Corporation did not receive any flagging notifications during the review period.

Main events

At the beginning of 2005, Rimi Baltic AB, a joint venture owned 50/50 by Kesko Food Ltd and ICA Baltic AB, part of Sweden's ICA Group, started operating (stock exchange release on 3 January 2005).

On 21 January 2005, Keswell Ltd acquired Indoor Group Ltd. The Market Court dismissed the appeal made by Piscina Oy (stock exchange releases on 21 January and 21 December 2005).

On 25 January 2005, Kesko sold its central food warehouse property at Hakkila, Vantaa, the main office building of Kaukomarkkinat at Kilo, Espoo, and 16 food store properties in different parts of Finland to Nordisk Renting Oy (stock exchange release on 25 January 2005).

On 9 February 2005, the Finnish Competition Authority petitioned the Market Court for a sanction of EUR 100,000 to be imposed on Kesko Corporation. The proposal by the Finnish Competition Authority is related to the maximum pricing of groceries in the horizontal K-market and K-neighbourhood store chains belonging to the K-Grocers' Club in 1997-2000, and in the K-extra chain in 1999-2000. The matter is pending in the Market Court (stock exchange release on 9 February 2005).

On 17 March 2005, Kesko Corporation's Board of Directors approved an agreement by which Rautakesko Ltd, a Kesko Corporation subsidiary, acquired the total share capital of the company that owned Stroymaster, a St. Petersburg DIY store chain. Kesko received the approval of the Russian competition authorities for the transaction at the end of July. The exchange was completed on 28 July 2005 (stock exchange releases on 17 March 2005 and 28 July 2005).

In April Kesko Food Ltd decided to improve its operational efficiency with the aim of increasing the competitiveness of the K-food stores. Due to these arrangements, rationalisation negotiations were carried out. These activities aim at annual savings of over EUR 20 million. This year, as part of the process Kesko Food offers retailers new agreements to enhance chain co-operation. In October it was decided that chain operation will be intensified and co-operation between chains in purchasing, marketing and logistics will be increased markedly. The management of the K-food stores is concentrated into three units from the previous six, namely K-citymarket, K-supermarket and K-market (all the other K-food stores incl. K-extra, K-pikkolo and Cassa stores). In addition, the K-food stores' service and price competitiveness will be markedly improved as a result of Kesko Food's more efficient control of the operations chain from customers to suppliers (stock exchange releases on 6 April 2005, 25 May 2005 and 12 October 2005).

On 7 July 2005, Kesko Corporation's subsidiary Rautakesko Ltd received the approval of the Norwegian competition authorities for the acquisition of Norgros AS, the owner of the Norwegian Byggmakker chain of hardware and building materials stores. The other conditions of the transaction have also been fulfilled. The exchange was implemented on 7 July 2005. After bidding, Rautakesko gained a holding of 98% of the company. The acquisition price is NOK 952 million (EUR 120 million) at the maximum, of which the part depending on the success of Norgros' operations in 2005-2008 is NOK 236 million (EUR 30 million) at the maximum (stock exchange release on 7 July 2005).

On 20 July 2005, Kesko received a notification that Kiinteistö Oy Lahden Lyhytkatu 1 in the City of Lahti has requested arbitration on its demand that Kesko Corporation should adjust the annual interest rate of 13% in the loan agreement signed between the real estate company and Kesko in 1991 to correspond with the average 3-month Euribor interest rate. The adjustment is demanded retroactively for the previous 10 years and also for the remaining loan period. Kesko contests the real estate company's demand as totally groundless (stock exchange release on 20 July 2005).

On 17 August 2005, the court of arbitration ruled that Kesko Corporation must pay retroactive additional rents, penalty interests and legal expenses to Kapiteeli Plc plus part of the expenses and fees of the court of arbitration totalling approximately EUR 3.8 million in the case concerning the dispute over the rental agreement of the Ruoholahti shopping centre in Helsinki (stock exchange releases on 29 April 2005 and on 17 August 2005).

In September, for the third year in succession, Kesko was included in the Dow Jones sustainability indexes. This year the work done by Kesko for corporate responsibility was rated the best in the sector (retailing) both in the European (DJSI STOXX) and the world (DJSI World) indexes. Previously, Kesko had not been included in the world index. Kesko's performance has improved in all areas of responsibility (press release on 7 September 2005).

In October Kesko Corporation was awarded for the fourth time for the best overall reporting of environmental and corporate responsibility in Finland. Previously Kesko ranked first in 2001, 2002 and 2004. In 2003 Kesko came in second (press release on 12 October 2005).

In December, Kesko Group announced that it had initiated negotiations about the sale and leaseback of some 100 real estate properties located in Finland. The premises are currently used by Kesko's division parent companies and their total area is about 200,000 m². The sale is aimed at enhancing the Group's capital spending. The transaction is planned for conclusion during 2006 (stock exchange release on 5 December 2005) and negotiations are in progress. The real estate to be sold has been specified to include nearly 80 properties owned by Kesko Group in addition to mainly grocery and hardware and builders' supplies store properties owned by the Kesko Pension Fund, which are intended to be leased back for Kesko's division parent companies.

In January 2006, a Kesko Corporation subsidiary, VV-Auto Oy and its retailing company Helsingin VV-Auto Oy agreed to acquire the Volkswagen and Audi businesses from Stockmann Auto Oy Ab starting from 1 March 2006. The implementation of the deal is subject to the approval by the Finnish Competition Authority. The acquisition will strengthen VV-Auto's position in car retailing (stock exchange release on 21 January 2006).

Adoption of the IAS/IFRS standards

Kesko Corporation adopted the International Financial Reporting Standards (IFRSs) on 1 January 2005. Kesko has prepared its first complete IFRS financial statements for the year 2005. On 6 April 2005, Kesko published a stock exchange release presenting the comparative information for 2004 in compliance with the IFRSs. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) approved for adoption by the European Union and valid at 31 December 2005, together with their respective IFRIC and SIC Interpretations.

The transition to IFRS improved Kesko's profit for the 2004 financial year by EUR 58 million compared with that based on Finnish Accounting Standards (FAS). The operating profit increased by EUR 75 million, which includes a non-recurring item of EUR 41 million relating to retirement benefit plans included in the result for the fourth quarter of 2004. Total non-recurring items in 2004 were EUR 44.4 million higher under IFRS than under FAS. The consolidated balance sheet total increased by EUR 342 million following the adoption of IFRS.

Environmental factors

In April 2006, Kesko will publish a separate corporate responsibility report which analyses the Group's performance in economic, social and environmental responsibility. The most significant risks and uncertainties are presented in the Annual Report. The notes to the financial statements describe the Group's financial risks and their management.

Kesko Corporation's financial targets and dividend policy

As a result of the adoption of IFRS, Kesko Corporation revised its financial targets and dividend policy to take account of the changes in financial indicators due to the new reporting standards. The targets were announced on a separate stock exchange release on 6 April 2005.

Outlook for the future

The aim is that Kesko Group's total net sales for the first six months of 2006 will grow by over 10%. Due to the expansion of operations and business re-arrangements, the Group's sales will grow more strongly in other countries than in Finland.

During the first six months of the year, Kesko Food's sales growth is estimated to exceed last year's growth, while the sales growth of Rautakesko, Keswell and VV-Auto is expected to exceed market growth. The development of machinery and technical trade will decelerate due to the divestment of certain operations decided upon.

Kesko Group's profitability will remain good. It is expected that its operating profit for the first six months of the year excluding non-recurring items will attain the level of the previous year.

Proposal for profit distribution

Group's distributable earnings are	EUR 942,088,509.60
Parent's distributable earnings are	EUR 683,038,003.09
of which net profit for the period is	EUR 129,042,536.39

The Board of Directors proposes to the Annual General Meeting that the distributable earnings be used as follows:

to be paid to shareholders as dividends EUR 1.10 per share	EUR 106,484,593.60
to be reserved for charitable donations at the discretion of the Board of Directors	EUR 300,000.00
to be carried forward as retained earnings	EUR 576,253,409.49

Helsinki, 7 February 2006

Kesko Corporation

Board of Directors

Income statement

Consolidated income statement, IFRS

		2005		2004	
1 Jan. – 31 Dec.	Note	EUR million	%	EUR million	%
Net sales		**8,321.7**	100.0	**7,508.5**	100.0
Cost of sales		–7,136.8	–85.6	–6,510.0	–86.7
Gross profit		**1,184.9**	14.2	**998.5**	13.3
Other operating income	3, 5	569.3	6.8	488.5	6.5
Staff cost	6	–500.2	–6.0	–385.5	–5.1
Depreciation and impairment charges	5, 10, 11	–160.8	–1.9	–132.2	–1.8
Operating expenses	4, 5	–843.9	–10.1	–718.6	–9.6
Operating profit		**249.3**	3.0	**250.7**	3.3
Financial income	7	24.8	0.3	35.3	0.5
Financial expenses	7	–37.0	–0.4	–46.5	–0.6
Total financial income and expenses	7	–12.2	–0.1	–11.2	–0.1
Income from associates		1.5	0.0	1.8	0.0
Profit before taxes		**238.6**	2.9	**241.3**	3.2
Income tax	8	–49.4	–0.6	–56.4	–0.8
Net profit for the period		189.2	2.3	184.9	2.5
Attributable to:					
Equity holders of the parent company		181.3		176.3	
Minority interest		7.9		8.6	
		189.2		184.9	
Earnings per share for profit attributable to the equity holders of the parent company:					
Basic, EUR	9	1.89		1.92	
Diluted, EUR	9	1.87		1.89	
Average number of shares					
Basic		95,745,745		91,801,233	
Diluted		97,215,498		93,134,910	

Balance sheet

Consolidated balance sheet, IFRS

	Note	31 Dec. 2005 EUR million	%	31 Dec. 2004 EUR million	%
ASSETS					
Non-current assets					
Intangible assets	10	307.6		164.4	
Tangible assets	11	1,142.6		1 209.9	
Interests in associates	12	29.4		28.0	
Available-for-sale investments	13	11.6		12.6	
Long-term receivables	14, 15	114.4		72.4	
Deferred tax assets	16	4.4		1.2	
Pension assets	17	209.9		195.6	
Total non-current assets		**1,819,9**	50.7	**1,684.1**	52.6
Current assets					
Inventories	18	785.9		709.5	
Trade receivables and other non-interest-bearing receivables	19	686.9		608.2	
Interest-bearing receivables	20	65.3		44.8	
Available-for-sale investments	21	38.3		91.7	
Cash on hand and balances with banks (cash and cash equivalents)	22	76.3		56.7	
Total current assets		1,652.7	46.1	1,510.9	47.2
Assets held for sale	23	116.4	3.2	5.3	0.2
Total assets		**3,589.0**	100.0	**3,200.3**	100.0
EQUITY AND LIABILITIES					
Equity attributable to parent's equity holders					
Share capital	24	193.0		187.7	
Issue of share capital		0.7		11.3	
Share premium	25	188.7		170.2	
Other reserves	25	245.7		245.7	
Translation differences		-3.7		-6.7	
Revaluation surplus	25	-0.4		-	
Retained earnings		857.3		773.8	
		1,481.3	41.3	**1,382.0**	43.2
Minority interest		**26.6**	0.7	**24.6**	0.8
Total equity		**1,507.9**	42.0	**1,406.6**	44.0
Non-current liabilities					
Pension obligations	17	3.6		1.6	
Interest-bearing long-term borrowings	26, 27	479.5		425.3	
Non-interest-bearing long-term liabilities		21.2		18.3	
Deferred tax liabilities	16	124.9		102.3	
Provisions	28	19.6		20.6	
Total non-current liabilities		**648.8**	18.1	**568.1**	17.8
Current liabilities					
Interest-bearing short-term borrowings		275.1		244.0	
Trade payables	29	734.3		605.2	
Other non-interest-bearing liabilities	29	168.0		155.0	
Tax liabilities	29	16.6		27.8	
Accrued expenses	29	228.9		189.1	
Provisions		6.9		4.5	
Total current liabilities		**1,429.8**	39.8	**1,225.6**	38.3
Total liabilities		**2 078.6**	57.9	**1,793.7**	56.0
Liabilities relating to assets held for sale	23	2.5	0.1	-	
Total equity and liabilities		**3,589.0**	100.0	**3,200.3**	100.0

Cash flow statement

Consolidated cash flow statement, IFRS

EUR million	Note	2005	2004
Cash flow from operating activities			
Profit before tax		238.6	241.3
Adjustments:			
Planned depreciation		136.6	130.9
Financial income and expenses		12.2	11.2
Other adjustments	39	-46.1	-49.5
		102.7	92.6
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		-13.1	-50.3
Inventories increase (-)/decrease (+)		-3.3	-75.5
Current non-interest-bearing liabilities, increase (-)/decrease (+)		46.3	70.3
		29.9	-55.5
Interest paid		-31.1	-25.1
Interest received		14.8	13.4
Dividends received		2.3	2.6
Taxes paid		-59.5	-56.1
		-73.5	**-65.2**
Net cash from operating activities		**297.7**	**213.2**
Cash flow from investing activities			
Acquisition of subsidiary, net of cash acquired	36	-132.0	-16.6
Acquisition of associate		-12.7	-0.1
Purchase of other investments		-1.4	0.0
Purchases of tangible and intangible assets		-167.2	-155.3
Loans granted		-40.5	-3.0
Disposal of subsidiary less cash and cash equivalents at date of disposal	37	36.6	3.7
Disposal of associate		2.4	2.6
Proceeds from sale of other investments		1.5	3.5
Proceeds from sale of tangible and intangible assets		119.8	59.2
Net cash used in investing activities		**-193.5**	**-106.0**
Cash flow from financing activities			
Proceeds from short-term borrowings		-	15.5
Repayments of short-term borrowings		-4.6	-
Proceeds from long-term borrowings		-	193.0
Repayments of long-term borrowings		-6.7	-
Repayments of finance lease liabilities		-15.2	-17.5
Current interest-bearing receivables, increase (-)/decrease (+)		-20.7	0.5
Dividends paid		-95.2	-273.7
Share capital increase		10.1	33.3
Others		0.0	-1.8
Net cash used in financing activities		**-132.3**	**-50.7**
Change in cash and cash equivalents		-28.1	56.5
Cash and cash equivalents at 1 January		143.3	87.6
Translation difference adjustment		-0.6	-0.8
Cash and cash equivalents at 31 December	38	114.6	143.3

Statement of changes in equity

Consolidated statement of changes in equity

EUR million	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY								
	Share capital	Issue of share capital	Share premium	Other reserves	Currency translation differences	Revaluation surplus	Retained earnings	Minority interest	Total equity
Balance at 31 December 2003 (FAS)	**182.4**	**0.2**	**150.6**	**246.8**	**-1.5**		**796.0**		**1,374.5**
Effects of the adoption of IFRS									
IAS 1 Presentation of financial statements				-1.7	-4.3		6.0	35.0	35.0
IAS 12 Income taxes							-41.0		-41.0
IAS 17 Leases							-37.0		-37.0
IAS 19 Employee benefits (pensions)			0.5				142.5		143.0
IAS 31 Joint ventures and associates							10.0		10.0
IAS 36 Impairment of assets							-6.0		-6.0
Restated equity at 1 January 2004	**182.4**	**0.2**	**151.1**	**245.1**	**-5.8**	**0.0**	**870.5**	**35.0**	**1,478.5**
Currency translation differences							0.5	-0.1	**0.4**
Cost of options granted			1.9						**1.9**
Sale of treasury shares			0.3						**0.3**
Items recognised directly in equity			2.2				0.5	-0.1	**2.6**
Profit for the period							176.3	8.6	**184.9**
Total recognised income and expenses for the period							**176.3**	**8.6**	**184.9**
Dividend							-273.6	-6.4	**-280.0**
Shares subscribed with options	5.3		16.9						**22.2**
Change in minority interest								-12.5	**-12.5**
Other changes		11.1		0.6	-0.9		0.2		**11.0**
Balance at 31 December 2004	**187.7**	**11.3**	**170.2**	**245.7**	**-6.7**	**0.0**	**773.9**	**24.6**	**1,406.7**
Effects of the adoption of IAS 32 and IAS 39						-7.3	**0.5**		**-6.8**
Restated equity at 1 January 2005	**187.7**	**11.3**	**170.2**	**245.7**	**-6.7**	**-7.3**	**774.4**	**24.6**	**1,399.9**
Currency translation differences				**0.0**	**3.0**		**-4.2**		**-1.2**
Cost of options granted			**3.2**						**3.2**
Cash flow hedges:									
hedge gains allocated to equity						**6.8**			**6.8**
Taxes reported in equity									**0.0**
Items recognised directly in equity			3.2		3.0	6.8	-4.2		8.9
Net profit for the period							181.3	7.9	**189.2**
Total recognised income and expenses for the period			**3.2**		**3.0**	**6.8**	**177.1**	**7.9**	**198.1**
Dividend							-95.2	-6.0	**-101.2**
Shares subscribed with options	5.3	-10.6	15.3						**10.0**
Other changes				0.1			0.9		**1.0**
Balance at 31 December 2005	**193.0**	**0.7**	**188.7**	**245.8**	**-3.7**	**-0.4**	**857.3**	**26.5**	**1,507.9**

Further information about share capital is given in Note 24 and about reserves in Note 25.
The revaluation surplus will dissolve by the year 2019.

Distributable funds

Distributable funds

EUR million	31 Dec. 2005	31 Dec. 2004
Other reserves	245.8	245.4
Retained earnings	676.0	597.6
Net profit for the period	181.3	176.3
Depreciation reserve and untaxed reserves recognised in equity	-160.6	-169.2
Other items	-0.4	-6.4
Distributable funds	942.1	843.7

Notes to the consolidated financial statements

Basic information on the company

Kesko Group is the most versatile provider of trading sector services in the Baltic Sea area. Kesko operates in Finland, Sweden, Norway, the Baltic countries and Russia. Kesko's operations are divided into six lines of business, namely Kesko Food operating in the grocery trade, Rautakesko in the hardware and builders' supplies trade, Kesko Agro in the agricultural and machinery trade, Keswell in the home and speciality goods trade, VV-Auto in car importing and marketing, and Kaukomarkkinat in the international technical and raw materials trade. The Group has operations in 13 countries.

The Group's parent company, Kesko Corporation, is a Finnish public limited company constituted in accordance with the laws of Finland. The company's business ID is 0109862-8, it is domiciled in Helsinki and its registered address is Satamakatu 3, FI-00016 Kesko. Copies of Kesko Corporation's financial statements and the consolidated financial statements are available at Kesko Corporation, Satamakatu 3, Helsinki, FI-00016 Kesko.

Accounting policies for consolidated financial statements

General information

Kesko's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) valid at 31 December 2005 approved for adoption by the European Union, together with their respective IFRIC and SIC Interpretations. Accounting standards not yet effective have not been adopted voluntarily.

The Group started to prepare the consolidated financial statements in accordance with the IFRSs from 1 January 2005 by applying IFRS 1: First Time Adoption of International Financial Reporting Standards. The date of transition was 1 January 2004. The differences resulting from the adoption of the IFRSs are presented in the reconciliation statement included in the financial statements. The comparative figures for 2004 have been restated to comply with IFRS principles with the exception of IAS 32 and IAS 39, in which cases the 2004 information has been prepared in accordance with Finnish accounting practice. Kesko Group adopted IAS 32 and IAS 39 from the beginning of 2005. The effects of their adoption have been reported in a separate reconciliation statement and in the consolidated statement of changes in equity.

All amounts in the consolidated financial statements are in millions of euros and are based on original cost, unless otherwise stated in the accounting policies. Assets held for sale are reported at the lower of their carrying amount or their fair value, net of the cost of sale. The goodwill from business combinations effected prior to 1 January 2004 equals the carrying amount calculated under the previous accounting practice and is used as the deemed cost. The designation of these costs or the accounting treatment has not been restated in preparing the opening balance sheet.

Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires certain estimates and assumptions about the future that affect the reported amounts of assets and liabilities, contingent liabilities, and income and expense. The actual results may differ from these estimates and assumptions. Furthermore, the application of accounting policies is based on the management's discretion. The estimates mainly relate to assumptions used in retirement benefit calculations and the measurement of goodwill and other assets.

Consolidation principles

Subsidiaries

The consolidated financial statements combine the financial statements of Kesko Corporation and all subsidiaries controlled by the Group. Control exists when the Group owns more than 50% of the voting rights of a subsidiary or otherwise exerts control. Control refers to the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Acquired subsidiaries are consolidated from the date on which the Group gains control until the date on which control ceases. Potential voting rights exist when instruments can be exercised for this purpose during a certain period, and this is taken into account in assessing the conditions for gaining control. The main subsidiaries are listed in Note 30.

The identified assets of an acquiree are carried at fair value. Internal shareholdings are eliminated by using the acquisition cost method. All intra-group transactions, receivables and payables, unrealised gains and internal distribution of profits are eliminated in preparing the consolidated financial statements. Unrealised losses are not eliminated, if the loss is due to impairment of an asset. Minority interests are separated from the subsidiary's net profit for the period and disclosed separately in the Group's equity.

Associates

Associates are entities in which the Group owns 20–50% of the voting rights, or otherwise has significant influence, but not control. Associates are consolidated by using the equity method. A share of an associate's net profit for the period corresponding to the Group's ownership interest is disclosed separately in the consolidated financial statements. The Group's share of an associate's post-acquisition net profit is added to the acquisition cost of the associate's shares in the consolidated balance sheet. Conversely, the Group's share of an associate's net losses is deducted from the acquisition cost of the shares. If the Group's share of an associate's losses is in excess of the carrying amount, the part in excess is not deducted unless the Group has undertaken to fulfil the associate's obligations. Unrealised gains between the Group and associates are eliminated in proportion to the Group's ownership interest. Dividends received from an associate are deducted from the Group's result and the cost of the shares. An investment in an associate includes the goodwill generated by the acquisition. Goodwill is not amortised. The main associates are listed in Note 12.

Joint ventures

Joint ventures are entities in which the Group and another party exercise joint control by virtue of contractual arrangements. The Group's interests in joint ventures are consolidated proportionally on a line-by-line basis. The consolidated financial statements disclose the Group's share of a joint venture's assets, liabilities, income and expense. The joint ventures are listed in Note 31.

Mutual real estate companies

In compliance with IAS 31, mutual real estate companies are consolidated as assets under joint control on a line-by-line basis in proportion to ownership.

Foreign currency items

The consolidated financial statements are presented in euros, which is both the functional currency of the Group's parent company and the reporting currency. On initial recognition, the figures relating to the result and financial position of Group entities located outside the euro zone are recorded in the functional currency of their operating environment.

Foreign currency transactions are recorded in euros by applying the exchange rate at the date of the transaction. Foreign currency receivables and liabilities are translated into euros using the closing rate. Profits and losses from foreign currency transactions and from receivables and liabilities are recognised in the income statement. Foreign exchange gains and losses from operating activities are included in the respective items above operating profit. Foreign exchange gains and losses from foreign currency loans and from forward exchanges and options hedging cash flows are included in financial income and expense.

The income statements of Group entities operating outside the euro zone have been translated into euros at the average rate of the reporting period, and the balance sheets at the closing rate. The translation difference resulting from the use of different rates is recognised in equity. The translation differences arising from the elimination of the acquisition cost of subsidiaries outside the euro zone, and the hedging result of net investments made in them, are recognised in equity. In connection with the disposal of a subsidiary, translation differences are disclosed in the income statement as part of gains or losses from disposal.

As of 1 January 2004, the goodwill arising from the acquisition of foreign units and the fair value adjustments of assets and liabilities made upon their acquisition have been treated as assets and liabilities of these foreign units and translated into euros at the closing rate. The goodwill and fair value adjustments of acquisitions made prior to 1 January 2004 have been recorded in euros.

Financial assets

As of 1 January 2005, the Group has applied IAS 32 Financial Instruments: Disclosure and Presentation, and IAS 39 Financial Instruments: Recognition and Measurement. The Group used the exemption of the transitional provisions and recognised financial assets and liabilities in 2004 in accordance with Finnish accounting practice. The effects of the adoption of IAS 32 and IAS 39 are disclosed in a separate reconciliation statement and in the consolidated statement of changes in equity.

IAS 39 classifies investments in four categories: 1) financial assets at fair value through profit or loss, 2) available-for-sale financial assets, 3) loans and receivables, and 4) held-to-maturity investments. Kesko Group classifies investments on the basis of why they were originally acquired.

Purchases and sales of investments are recognised using the 'regular way' method.

1) Financial assets at fair value through profit or loss

All of the Group's derivatives are classified as investments at fair value through profit or loss, if they do not qualify for hedge accounting. All derivatives are carried at fair value using prices quoted in active markets. The fair value changes of derivatives hedging purchases and sales are recognised in other operating income or expenses. With respect to derivatives hedging financial items, the fair value changes are recognised in financial items, unless the derivative has been designated as a hedging instrument according to IAS 39.

2) Available-for-sale financial assets

At present, Kesko Group's financial assets are classified as available-for-sale financial assets and changes in their fair value are recognised in equity. When available-for-sale financial assets are sold, the cumulative change in fair value is transferred from equity and recognised in the income statement. Available-for-sale financial assets have been measured at fair value at the balance sheet date. The fair values of financial assets quoted in an active market are determined on the basis of their market values. Financial assets not quoted in an active market are carried at cost, because their fair value cannot be reliably measured. Cash and cash equivalents include cash on hand and balances with banks. Cash and cash equivalents on the face of the consolidated balance sheet also include amounts relating to the retail operations of division parent companies, used as cash floats in stores, or to be transferred to the respective companies.

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within twelve months from the balance sheet date, or unless their sale is necessitated by the need to raise working capital. If available-for-sale financial assets are expected to be realised within the following twelve months, they are classified as current assets.

Changes in the fair value of available-for-sale financial assets are recognised in equity. The impairment of fair value is recognised in profit or loss when the assets are sold, or when there is evidence of material or continued impairment of the assets.

Impairment losses of equity investments related to available-for-sale financial assets are not reversed through the income statement.

3) Loans and receivables
Loans and other receivables are non-derivative assets with fixed or measurable payments. The Group's loans and other receivables include trade receivables and K-rahoitus Oy's interest-bearing financial receivables. They are recognised at amortised cost using the effective interest method.

4) Held-to-maturity investments
At present, the Group does not have any held-to-maturity investments.

Financial liabilities

Financial liabilities have initially been recognised at cost, net of transaction costs. In the financial statements, financial liabilities are measured at amortised cost using the effective interest rate method.

Derivative financial instruments and hedge accounting

When acquired, derivative financial instruments are carried at cost and subsequently they are measured at fair value at the balance sheet date. The changes in the fair value of derivatives that do not fulfil the requirements of IAS 39 are disclosed in the income statement. The hedging result of instruments hedging currency risks related to trading is recognised in other operating income or expenses. The portion of derivatives hedging financial transactions to be recognised in the income statement is included in financial items.

When entered into, derivative contracts are treated either as hedges of the exposure to changes in the fair value of receivables or liabilities, or in the case of currency risk, as cash flow hedges, as hedges of net investments in a foreign entity, or as derivative contracts that do not meet hedge accounting criteria.

At the beginning of hedge accounting, the relationship between the item being hedged and the hedging instrument, as well as the objectives of the Group's risk management are documented. The effectiveness of the hedging relationship is tested regularly and the effective portion is charged against the change in the fair value of the hedged items in the translation differences in equity, or in the revaluation surplus. The effective portion of the instruments hedging cash flow, such as long-term credit facilities, is charged against the change in the fair value in the equity hedging reserve.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised. Any cumulative gain or loss existing in equity remains in equity until the forecast transaction has occurred.

Measurement principles

The fair value of forward agreements is determined by reference to the market price of the balance sheet date. The fair value of interest rate swaps is calculated on the basis of the present value of future cash flows using the market prices at the balance sheet date. The fair value of forward exchanges is determined by measuring the forward contracts at the forward rate of the balance sheet date. Currency options are measured by using the counterparty's price quotation, but the Group verifies the price with the help of the Black-Scholes method. Electricity derivatives are measured at fair value using the market quotations of the balance sheet date.

Hedging a net investment in a foreign entity

The Group applies hedge accounting in accordance with IAS 39 to hedge foreign currency net investments in foreign units. Forward exchanges or foreign currency loans are used as hedging instruments. Spot price changes in forward exchanges are recognised as translation differences under equity, and changes in the interest rate difference are recognised as income under financial items. The interest rate differences of foreign currency loans are stated as translation differences under equity. When a foreign entity is disposed of or wound up, the accumulated gains or losses from hedging instruments are recognised in profit or loss.

Embedded derivatives

The Group has prepared process descriptions to identify embedded derivatives and applies fair value measurement. Fair value is determined using the market prices of the measurement date and the value change is recognised in the income statement.

Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets and liabilities of an entity at the date of the acquisition. The goodwill of entities acquired prior to 1 January 2004 is reported in accordance with the previous accounting practices and the carrying amount is used as the deemed cost. The classification and accounting treatment of business combinations entered into prior to 1 January 2004 has not been adjusted in preparing the consolidated IFRS opening balance sheet.

Goodwill is not amortised but tested annually for impairment and at any time if there is an indicator of impairment. For testing purposes goodwill is allocated to cash generating units. Goodwill is measured at original cost and the share acquired prior to 1 January 2004 at deemed cost net of impairment. Any negative goodwill is immediately recognised as income in accordance with IFRS 3.

Intangible assets with indefinite useful lives are not amortised. They are tested annually for impairment. These intangible assets include trademarks capitalised upon acquisition. The costs of intangible rights with definite useful lives are stated in the balance sheet and recognised as expense during their useful lives. Such intangible assets include software licences and customer relationships to which acquisition cost has been allocated upon acquisition.

The estimated useful lives are:

Computer software and licences	3–5 years
Customer relationships	10 years

Research and development

The cost of research and development activities is recognised as an expense in the income statement. The Group has not had such development expense which, under certain conditions, should be recognised as an asset and written off during its useful life in accordance with IAS 38.

Computer software

The labour costs and other immediate expenditure of persons employed by the Group, working on development projects related to the acquisition of new computer software, are capitalised as part of the software cost. In the balance sheet computer software is included in intangible assets and its cost is written off during the useful life of the software. Software maintenance expenditure is recognised as an expense when it is incurred.

Tangible assets (fixed assets)

Property, plant and equipment mainly comprise land, buildings, machinery and equipment. Property, plant and equipment are carried at original cost net of planned depreciation and any impairment. The property, plant and equipment of acquired subsidiaries are measured at fair value at the date of acquisition.

The machinery and equipment of buildings are treated as separate assets and any significant expenditure related to their replacement is capitalised. Subsequent expenditure relating to a fixed asset is only added to the carrying amount of the asset when it is probable that future economic benefits relating to the asset will flow to the enterprise and that the cost of the asset can be reliably measured. Other repair, service and maintenance expenditure of fixed assets is recognised as an expense when incurred.

Property, plant and equipment are written off on a straight-line basis during their estimated useful lives.

The most common estimated useful lives are:

Buildings	10-40 years
Components of buildings	8-10 years
Machinery and equipment	3- 8 years
Cars and transport equipment	5 years

The residual value, useful lives and depreciation methods applied to fixed assets are reviewed at least at the end of each accounting period. If the estimates of useful life and the expected pattern of economic benefits are different from previous estimates, the change in the estimate is accounted for in accordance with IAS 8.

The depreciation of a property, plant and equipment ceases when the asset is classified as held for sale in accordance with IFRS 5. Land is not depreciated.

Gains and losses from sales and disposals of fixed assets are recognised in the income statement and presented as other operating income and expense.

Investment properties

Investment properties are properties held by the enterprise mainly to earn rentals or for capital appreciation. The Group does not hold real estate classified as investment properties.

Impairment

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of goodwill and intangible assets with indefinite useful lives is assessed every year whether or not there is indication of impairment.

The recoverable amount is the higher of an asset's net selling price less the costs of disposal, and its value in use. Often it is not possible to assess the recoverable amount for an individual asset. Then, as in the case of goodwill, the recoverable amount is determined for the cash generating unit to which the goodwill or asset belongs. The recoverable amount of available-for-sale financial assets is the fair value based on either the market price or the present value of cash flows.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The impairment loss is disclosed in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been an increase in the reassessed recoverable amount. The reversal of an impairment loss of an asset should not exceed the carrying amount of the asset without an impairment loss recognition. For goodwill, a recognised impairment loss is not reversed under any circumstances.

Leases

In accordance with IAS 17, leases that substantially transfer all the risks and rewards incident to ownership to the Group are classified as finance leases. An asset leased under a finance lease is recognised in the balance sheet at the lower of its fair value at the inception date and the present value of minimum lease payments. The rental obligations of finance leases are recorded in interest-bearing liabilities in the balance sheet. Lease payments are allocated between the interest expense and the liability. Finance lease assets are amortised over the shorter of the useful life and the lease term.

Leases in which assets are leased out by the Group, and substantially all the risks and rewards incident to ownership are transferred to the lessee, are also classified as finance leases. Assets leased under such contracts are recognised as receivables in the balance sheet and are stated at present value. The financial income from finance leases is determined so as to achieve a constant periodic rate of return on the remaining net investment for the lease term.

Leases in which risks and rewards incident to ownership are not transferred to the lessee are classified as operating leases. Lease payments related to them are recognised in the income statement on a straight-line basis over the lease term.

In sale and leaseback transactions the sale price and the future lease payments are normally interdependent. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognised as income. Instead it is deferred and amortised over the lease term. If a sale and leaseback transaction results in an operating lease and the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately unless the loss is compensated by future lease payments at below market price, in which case the loss is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used. If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value is recognised immediately.

Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. The cost is primarily assigned by using the weighted average cost formula. The cost of certain classifications of inventory is assigned by using the FIFO formula. The cost of an acquired asset comprises all costs of purchase including freight. The cost of self-constructed goods comprise all costs of conversion including direct costs and allocations of variable and fixed production overheads. In 2005, the Group introduced measurement principles for each product group based on storage times of inventories.

Trade receivables

Trade receivables are recognised at original invoice amount. The Group has adopted a uniform practice for the impairment of trade receivables based on maturity. An impairment is recognised if there is objective evidence of impairment loss. Losses on loans and advances are recognised as an expense in the income statement. The Group has established a uniform basis for the determination of impairment of trade receivables based on the time receivables have been outstanding.

Assets held for sale and discontinuing operations

Non-current assets held for sale, assets included in the disposal group classified as held for sale and assets related to discontinuing operations which have been classified as held for sale are measured at the lower of carrying amount and fair value less estimated selling expenditure. After an asset has been classified as held for sale, or if it is included in the disposal group, it is not depreciated. If the classification criterion is not met, the classification is reversed and the asset is measured at the lower of carrying amount prior to the classification less depreciation and impairment, and recoverable amount. A non-current asset held for sale and assets included in the disposal group classified as held for sale are disclosed separately from the other asset items. Also liabilities included in the disposal group of assets held for sale are disclosed separately from other liabilities in the balance sheet.

The Group has classified certain real estate properties removed from business use as available-for-sale assets. These also include real estate about whose sale and leaseback negotiations have been initiated and the deal is intended for completion at the beginning of 2006. Assets included in the disposal group classified as held for sale also include the asset and liability items related to the warehouse technology operations sale concluded at the beginning of 2006. At present the Group does not have discontinuing operations referred to in IFRS 5.

Provisions

A provision is recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and that a reliable estimate can be made of the amount of the obligation. Provision amounts are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The provision is reversed when the probability of an outflow of economic benefits no more exists. Changes in provisions are recorded in the income statement in the same item in which the provision was originally recognised. The Group's provisions mainly relate to warranties given to products sold by the Group, and to onerous leases.

A warranty provision is recognised when a product fulfilling the terms is sold. The provision amount is based on historical experience about the level of warranty expenses. Leases become onerous if the leased premises become vacant, or if they are subleased at a rate lower than the original. A provision is recognised for an estimated loss from vacant lease premises over the remaining lease term, and for losses from subleased premises.

Pension plans

The Group operates several pension plans classified either as defined contribution plans or defined benefit plans. The contributions payable under defined contribution plans are recognised as an expense in the income statement of the period in which they incur.

In defined benefit plans, after the Group has paid the amount for the period, an excess or deficit may result. The pension obligation represents the present value of future cash flows from payable benefits. The present value of pension obligations has been calculated using the Project Unit Credit Method. The assets corresponding to the obligation of the retirement benefit plan are carried at fair values at the balance sheet date. Actuarial gains and losses are recognised in the income statement for the average remaining service lives of the employees participating in the plan to the extent that they exceed 10 percent of the higher of the present value of the defined benefit plans and the fair value of assets belonging to the plan.

The retirement benefits arranged with the Kesko Pension Fund under the Employees' Pension Act, and additional retirement benefits are treated as defined benefit plans. All actuarial gains and losses are recognised in the IFRS opening balance sheet at the transition date as allowed by IFRS 1. In addition, the pension plan operated by the Group in Norway is treated as a defined benefit plan.

In 2004, the liabilities resulting from disability benefits of pension insurance under the Employees' Pensions Act arranged with an insurance company are treated as defined benefit plans in accordance with the interpretation of that time. These disability benefits were rearranged as defined contribution plans as of the beginning of 2006. The effect of the change was reported for the last quarter of 2004.

Share-based payments

The share options issued as part of the Group management's incentive and commitment programme are measured at fair value at the issue date and expensed on a straight-line basis over the vesting period. The expenditure determined at the issue date is based on the Group's estimate of the number of options it expects to vest at the end of the vesting period. The fair value of the options has been calculated using the Black-Scholes option pricing model. The options are expensed over the vesting period. In accordance with the implementing provisions of IFRS 2, options granted prior to 7 November 2002 have not been recognised in the income statement.

Revenue recognition policies

Net sales include the sale of products, services and energy. For net sales, sales revenue is adjusted by indirect taxes, sales adjustment items and the exchange differences of foreign currency sales.

Revenue from the sale of goods is recognised when the significant risks of ownership of the goods have transferred to the buyer, and it is probable that the economic benefits associated with the transaction will flow to the Group. Normally revenue from the sale of goods can be recognised at the time of delivery of the goods. Revenue from the rendering of services is recognised after the service has been rendered and when a flow of economic benefits associated with the service is probable. The revenue and costs of construction contracts are recognised as revenue and expenses by reference to the stage of completion of the contract when the total contract revenue can be measured reliably. Interest is recognised as revenue on a time proportion basis. Dividends are recognised as revenue when the right to receive payment is established.

Other operating income and expenses

Other operating income includes income other than that associated with the sale of goods or services, such as rent income, store site and chain fees and various service fees and commissions. Profits and losses from the sale and disposal of fixed assets are recognised in the income statement and disclosed in other operating income and expense. Other operating income and expense also include realised and unrealised profits and losses from derivatives hedging currency risks of trade.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs have not been capitalised as part of asset costs. Directly attributable transaction costs clearly associated with a certain borrowing are included in the original amortised cost of the borrowing and amortised to interest expense by using the effective interest method.

Income taxes

The taxes disclosed in the consolidated income statement recognise the Group companies' taxes on current net profits on an accrual basis, prior period tax adjustments and changes in deferred taxes. The Group companies' taxes are calculated from the taxable profit of each company determined by local jurisdiction.

Deferred tax assets and liabilities are recognised in accordance with the liability method for all temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred tax has not been calculated on goodwill insofar as goodwill impairment losses are not deductible. Deferred tax on subsidiaries' undistributed retained earnings has not been recognised insofar as it is probable that the difference will not reverse in the foreseeable future.

Deferred tax is calculated using tax rates enacted by the balance sheet date, and if the rates change, at the new rate expected to apply. A deferred tax asset is recognised to the extent that it is probable that it can be utilised against future profit. The Group's deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority.

The most significant temporary differences arise from measurement at fair value of asset items in connection with defined benefit plans, fixed assets (depreciation difference, finance lease), financial assets and derivative instruments and acquisitions.

Dividend distribution

The dividend proposed by the Board to the Annual General Meeting has not been deducted from equity. Instead dividends are recognised on the basis of the decision of the Annual General Meeting.

New IFRS standards and interpretations

In 2005, the IASB (International Accounting Standards Board) published the following standards, amendments to standards, and interpretations whose application will become mandatory in 2006 or later. They will be adopted by Kesko during the 2006 accounting period, except for IFRS 7 which will be adopted starting from 1 January 2007.

Standards:
IFRS 7, Financial Instruments: Disclosures, and IAS 1 (Amendment). The amended standard imposes new requirements on the notes to the financial instruments. It requires qualitative and quantitative information to be disclosed on the company exposure to the risks arising from financial instruments, including specified minimum requirements concerning notes on credit risk, liquidity risk and market risk, and the requirement to present a market risk sensitivity analysis. The amended IAS 1 standard requires additional notes to be included in the disclosure of the company's assets and their management. The Group's management estimates that the most important changes relate to the presentation of qualitative analyses and the sensitivity analysis in the notes.

IAS 19 (Amendment): Employee benefits. The amendment permits actuarial gains and losses to be recognised directly in equity. It also affects the notes concerning multi-employer benefit plans and employee benefits. The Group's management estimates that the change will not have any significant impact on the consolidated financial statements.

IAS 21 (Amendment): Net investment in a Foreign Operation
The amendment clarifies and changes the requirements of the standard concerning receivables from a foreign entity or liabilities to it. These are now treated as part of the entity's net investment in the foreign operation. These items may be in any currency and they may exist between the reporting company and a subsidiary, or between subsidiaries. According to the estimate of the Group's management, this change will not have any significant effect.

IAS 39 (Amendment): Cash flow Hedge Accounting in Forecast Intra-group Transactions. The amendment permits a highly probable currency risk between Group companies to be designated as a hedged item in the consolidated financial statements. The Group's management estimates that the change will not have any significant effect on the consolidated financial statements.

IAS 39 (Amendment): The Fair Value Option
The amendment permits an item of financial assets or liabilities to be classified as at fair value through profit or loss if, as a result, more significant information is disclosed, or it is justified because it reduces complexity, or makes measurement more reliable. The adoption of the amendment is voluntary and the decision is made at initial recognition. The Group will not change the classification criteria in its future financial statements.

IFRS 39 and IFRS 4 (Amendment): Financial Guarantee.
The amendment relates to the treatment of guarantee contracts made outside the Group. These contracts should initially be recognised at fair value and subsequently at the higher of outstanding contractual payments, or the amount of money required to settle the guarantee payment. The Group's management estimates that this amendment will not have any significant effect on the consolidated financial statements.

IFRIC 6, Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment. According to the interpretation, participation in a specific market during a measurement period produces an obligation. According to preliminary estimates, the interpretation will not have any significant impact on the Group's financial statements.

The following new standards and interpretations taking affect in 2006 are not likely to have an effect on the consolidated financial statements.

IFRS 1 (Amendment), Fist-Time Adoption of IFRS and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
IFRS 6, Exploration for and Evaluation of Mineral Resources
IFRIC 4, Determining whether an Arrangement Contains a Lease
IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies
IFRIC 8, Scope of IFRS 2
IAS 39, Financial Instruments: Recognition and Measurement
IFRS 4, Insurance Contracts
Interpretations:
IFRIC 6, Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

Transition to IFRS reporting

As stated in the note concerning the accounting policies of the consolidated financial statements, the Group adopted the IFRS (International Financial Reporting Standards) during 2005. Before the adoption of the IFRS, Kesko Group's consolidated financial statements were prepared in accordance with the Finnish Accounting Standards (FAS).

The transition to IFRS has changed the reported financial statements, their notes and accounting policies compared to previous financial statements. The policies stated in the note concerning the accounting policies of the consolidated financial statements have been applied to the preparation of the financial statements for the period ended on 31 December 2005, to comparative figures for the period ended 31 December 2004, and to the opening IFRS balance sheet at 1 January 2004.

Kesko applied IFRS 1 (First-time Adoption of IFRS) and used the exemptions it granted as regards standards IFRS 3, IAS 16, IAS 19, IAS 32 and IAS 39.

The reconciliations and specifications presented hereinafter illustrate the differences between reporting in accordance with the IFRS and in accordance with the FAS for the year 2004 and at the transition date of 1 January 2004.

Kesko Group adopted the IAS 32 and IAS 39 standards as from 1 January 2005. The adjustments from the last day of the comparative period ended 31 December 2004 to the opening balance sheet of the first IFRS accounting period are presented below in a separate reconciliation.

Equity reconciliation

EUR million		31 Dec. 2004	1 Jan. 2004
Equity in accordance with FAS		1,252	1,375
Effects of IFRS adoption:			
IAS 1	Presentation of financial statements	25	35
IAS 12	Income taxes	-51	-41
IAS 17	Leases	-37	-37
IAS 19	Employee benefits	194	142
IAS 31	Interests in joint ventures	11	10
IAS 36	Impairment of assets	-5	-6
IFRS 2	Share-based payment	1	0
IFRS 3	Business combinations	15	0
Others		2	1
Equity in accordance with IFRS		1,407	1,479

Reconciliation of net profit for the period

EUR million		2004
Net profit in accordance with FAS		118
IAS 12	Income taxes	-10
IAS 17	Leases	0
IAS 19	Employee benefits	52
IAS 31	Interests in joint ventures	1
IAS 36	Impairment of assets	1
IAS 38	Intangible assets	1
IFRS 2	Share-based payment	-2
IFRS 3	Business combinations	15
Total adjustments		58
Net profit in accordance with IFRS		176

Consolidated income statement 1 Jan.–31 Dec. 2004

EUR million	Note	FAS	IFRS	Effect
Net sales		7,516.6	7,508.5	-8.1
Cost of sales		-6,513.8	-6,510.0	3.8
Gross profit		**1,002.8**	**998.5**	**-4.3**
Other operating income		484.9	488.5	3.6
Operating expenses		-1,310	-1,233.6	76.4
Other operating expenses		-3.8	-2.7	1.1
Operating profit		173.9	250.7	76.8
Financial income		34.9	35.3	0.4
Financial expenses		-37.7	-46.5	-8.8
Total financial income and expenses		-2.8	-11.2	-8.4
Income from associates		0.2	1.8	1.6
Profit before tax		171.3	241.3	70.0
Income taxes		-46.6	-56.4	-9.8
Net profit for the period		124.7	184.9	60.2
Distribution				
to parent's equity holders		116.1	176.3	60.2
to minority		8.6	8.6	0.0
		124.7	184.9	60.2

Earnings per share for profit attributable to the equity holders of the parent company:		
Basic, EUR	1.28	1.92
Diluted, EUR	1.26	1.89

Average number of shares	
Basic	91,801,233
Diluted	93,134,910

Consolidated balance sheet

EUR million	Note	FAS 31 Dec. 2004	IFRS 31 Dec. 2004	Effect	FAS 31 Dec. 2003	IFRS 31 Dec. 2003	Effect
ASSETS							
Non-current assets							
Intangible assets		201.6	164.4	-37.2	223.2	165.6	-57.6
Tangible assets		1,027.0	1,209.9	182.9	1,013.5	1,221.1	207.6
Investments		64.0	40.6	-23.4	68.4	29.9	-38.5
Loans and receivables		52.7	73.6	20.9	48.5	76.2	27.7
Pension assets			195.6	195.6		166.9	166.9
Total		1,345.3	1,684.1	338.8	1,353.6	1,659.7	306.1
Current assets							
Inventories		722.1	709.5	-12.6	677.3	668.5	-8.8
Trade receivables		519.1	517.6	-1.5	503.5	503.3	-0.2
Other non-interest-bearing receivables		89.1	90.6	1.5	96.1	95.3	-0.8
Interest-bearing receivables		39.0	44.8	5.8	41.1	42.7	1.6
Available-for-sale investments		86.6	91.7	5.1	22.9	27.7	4.8
Cash on hand and balances with banks (cash and cash equivalents)		56.9	56.7	-0.2	62.8	64.7	1.9
Total		1,512.8	1,510.9	-1.9	1,403.7	1,402.2	-1.5
Available-for-sale non-current assets			5.3			7.2	7.2
Total assets		**2,858.1**	**3,200.3**	**342.2**	**2,757.3**	**3,069.1**	**311.8**
EQUITY AND LIABILITIES							
Equity attributable to parent's equity holders							
Share capital		187.7	187.7	0.0	182.4	182.4	0.0
Issue of share capital		11.3	11.3	0.0	0.2	0.2	0.0
Share premium		167.9	170.2	2.3	150.6	151.1	0.5
Other reserves		246.8	245.7	-1.1	246.8	245.1	-1.7
Revaluation surplus		–	–	–	–	–	–
Translation differences		–	-6.7	-6.7	–	-5.8	-5.8
Retained earnings		638.6	773.8	135.2	754.0	870.5	116.5
		1,252.3	1,382.0	129.7	1,334.0	1,443.5	109.5
Minority interest		39.5	24.6	-14.9	40.5	35.0	-5.5
Total equity		1,291.8	1,406.6	114.8	1,374.5	1,478.5	104.0
Long-term liabilities							
Pension obligations		–	1.6	1.6	0.0	24.7	24.7
Interest-bearing long-term liabilities		287.9	425.3	137.4	102.7	236.7	134.0
Non-interest-bearing long-term liabilities		0.1	18.3	18.2	0.8	20.5	19.7
Deferred tax liabilities		48.7	102.3	53.6	61.6	103.8	42.2
Provisions		20.6	20.6	0.0	9.2	10.1	0.9
Total long-term liabilities		357.3	568.1	210.8	174.3	395.8	221.5
Current liabilities							
Short-term interest-bearing borrowings		228.0	244.0	16.0	212.3	231.4	19.1
Trade payables		627.5	605.2	-22.3	607.0	600.5	-6.5
Other non-interest-bearing liabilities		131.9	155.0	23.1	189.3	128.1	-61.2
Tax liabilities		27.8	27.8	0.0	35.5	35.3	-0.2
Accrued liabilities		189.3	189.1	-0.2	149.4	185.5	36.1
Provisions		4.5	4.5	0.0	15.0	14.0	-1.0
Total current liabilities		1,209.0	1,225.6	16.6	1,208.5	1,194.8	-13.7
Total equity and liabilities		**2,858.1**	**3,200.3**	**-342.2**	**2,757.3**	**3,069.1**	**-311.8**

Notes to the reconciliations of equity at 1 January 2004 and at 31 December 2004, and of net profit for the period 1 January.–31 December 2004

1) Employee benefits (pension plans)
The Group's pension plans are classified either as defined contribution plans or defined benefit plans. The contributions payable under defined contribution plans have been recognised as an expense in the period in which they are incurred. The pension insurances under the Employees' Pensions Act (TEL) arranged with an insurance company are mainly defined contribution plans. The non-current liabilities of the opening balance sheet included EUR 24 million in pension obligations from disability benefits of pension insurances arranged with insurance companies, and EUR 1 million in other benefit obligations. As a result of the amendment of the calculation base of the Finnish earnings-related pension schemes, the disability benefits of insurances arranged with insurance companies will transfer to defined contribution plans at the beginning of 2006. The effect was disclosed in the profit for the last quarter of 2004 by recognising a non-recurring item of EUR 23 million from disability benefits. At the end of 2004, the obligations remaining from disability benefits of pension insurances under the Employees' Pensions Act and from liabilities for the benefits of other insurances totalled EUR 2 million.

The retirement benefits under the Employees' Pensions Act arranged with the Kesko Pension Fund and additional pension benefits are treated as defined benefit plans. All actuarial gains and losses were recognised in the opening balance sheet at the transition date as allowed by IFRS 1. The amount of pension assets in the opening balance sheet was EUR 167 million corresponding to the amount by which the fair value of the Kesko Pension Fund's assets exceeded the liabilities arising from the plans. At the end of 2004, pension assets under defined benefit plans totalled EUR 196 million and their growth by EUR 29 million increases the operating profit for 2004. EUR 18 million of the growth in pension assets is attributable to the non-recurring decrease in pension liabilities resulting from amendments in pension legislation and the Pension Fund rules, and have been recognised for the last quarter of 2004.

For 2004, the total effect of IFRS treatment on Kesko's different pension plans increased the operating profit by EUR 52 million, which included a non-recurring item of EUR 41 million.

2) Leases (finance lease)
Leases meeting the criteria of IAS 17 have been classified as finance leases and recognised in the balance sheet. The tangible assets of the opening balance sheet included a total of EUR 89 million in buildings financed by leases and EUR 38 million in other tangible assets. The lease obligations of finance leases have been recognised in the interest-bearing liabilities of the balance sheet. At the end of 2004, tangible assets included finance lease assets to a total value of EUR 118 million.

The settled lease payments have been apportioned between the finance charge and the reduction of the outstanding liability. Finance lease assets are depreciated over the shorter of their useful lives and lease terms. At the end of 2004, the interest-bearing liabilities of the balances sheet included a total of EUR 158 million in finance lease liabilities. The Group's receivables from assets leased out under finance leases totalled EUR 32 million.

3) Share-based payments (management's share option plans)
The share options issued as part of the management's incentive and commitment programme have been measured at fair value at the issue date. The fair value of the share options has been calculated using the Black-Scholes option pricing model. The value assigned at the issue date is recognised as expense in the income statement on a straight-line basis within the vesting period. For the year 2004, EUR 2 million of share-based payments were recognised as an expense.

4) Goodwill (IFRS 3, business combinations)
The goodwill arising from business combinations entered into prior to the IFRS adoption date included in the opening balance sheet equals the carrying amount according to the FAS. According to IFRS 3, goodwill is not amortised. Goodwill has been tested for impairment. The change in goodwill amortisation practice ensuing from the IFRSs increases the year 2004 profit by EUR 15 million.

5) Income taxes
Deferred tax assets and liabilities have been recognised for all temporary differences between the taxable values and carrying amounts of liabilities. Deferred taxes have been calculated at tax bases effective on balance sheet date. Deferred tax assets and liabilities have been reported at net values in compliance with IAS 12. The opening IFRS balance sheet included a deferred tax liability of EUR 41 million relating to IFRS differences. At the beginning of 2005, the Finnish corporate tax rate decreased by three percentage points, which has been taken into account in the deferred tax liabilities for the second quarter of 2004. The most significant deferred tax liabilities result from defined benefit plans. At the end of 2004, deferred liabilities totalled EUR 102 million, which is EUR 53 million in excess of the FAS balance sheet at the corresponding date.

6) Intangible assets (capitalised expenditure)
In the IFRS balance sheet, capitalised modernisation costs of leased premises are included in tangible assets. The modernisation costs capitalised according to the FAS are reported in intangible assets as capitalised expenditure. At the end of 2004, tangible assets included EUR 57 million in modernisation costs included in the intangible assets of the FAS balance sheet.

7) Impairment
In compliance with IAS 36, the opening IFRS balance sheet recognised an impairment of EUR 6 million. The impairment was allocated to tangible assets decommissioned by the Group. During the last quarter of 2004, an impairment of EUR 0.5 million was made on decommissioned fixed assets. Of the impairment recorded in the opening balance sheet, 0.8 million euros was allocated to the Keswell segment. The other impairments were not allocated to the assets of business segments.

8) Income from associates
The IFRS income statement reports the total income from associates after operating profit. In the FAS income statement, the income from real estate associates and associates engaged in business operations is reported before operating profit.

Reconciliation of the effects of the adoption of the IAS 32 and IAS 39 at 1 January 2005

IAS 32 and IAS 39 were first adopted for the period starting from 1 January 2005.
This has resulted in changes from the previously applied FAS, particularly as regards the measuring of investments and accounting of derivatives. Consequent adjustments in various balance sheet items and earnings per share are specified in the following table and the notes to the financial statements.

EUR million	Note	1 Jan. 2005	31 Dec. 2004	Effect
ASSETS				
Non-current assets				
Intangible assets		164.4	164.4	–
Tangible assets		1,209.9	1,209.9	–
Interest in associates		28.0	28.0	–
Available-for-sale investments		12.6	12.6	–
Non-current receivables		72.4	72.4	–
Deferred tax assets	1	3.9	1.2	2.7
Pension assets		195.6	195.6	–
Total non-current assets		**1,686.8**	**1,684.1**	2.7
Current assets				
Inventories	2	709.5	714.6	-5.1
Trade receivables		517.6	517.6	–
Other non-interest-bearing receivables		90.6	90.6	–
Interest-bearing receivables		44.8	44.8	–
Available-for-sale investments	2	92.3	86.6	5.7
Cash on hand and balances with banks (cash and cash equivalents)		56.7	56.7	–
Total		1,511.4	1,510.8	0.6
Non-current assets held for sale		5.3	5.3	–
Total current assets		**1,516.8**	**1,516.2**	0.6
				–
Total assets		**3,203.6**	**3,200.3**	3.3

EUR million	Note	1 Jan. 2005	31 Dec. 2004	Effect
EQUITY AND LIABILITIES				
Equity attributable to parent's equity holders				
Share capital		199.0	199.0	–
Share premium		170.2	170.2	–
Other reserves		245.7	245.7	–
Revaluation surplus	1	-7.3	–	-7.3
Translation differences		-6.7	-6.7	–
Retained earnings	1	774.4	773.8	0.5
		1,375.3	**1,382.0**	-6.8
Minority interest		**24.6**	**24.6**	–
Total equity		**1,399.9**	**1,406.6**	-6.8
Long-term liabilities				
Pension obligations		1.6	1.6	–
Interest-bearing non-current liabilities	1	424.7	425.3	-0.6
Non-interest bearing non-current liabilities	1	28.6	18.3	10.4
Deferred tax liabilities	1, 2	102.6	102.3	0.3
Provisions		20.6	20.6	–
Total non-current liabilities		**578.1**	**568.1**	10.1
Current liabilities				
Short-term interest-bearing borrowings		244.0	244.0	–
Trade payables		605.2	605.2	–
Other non-interest bearing liabilities		155.0	155.0	–
Current tax liabilities		27.8	27.8	–
Accrued liabilities		189.1	189.1	–
Provisions		4.5	4.5	–
Total		1,225.6	1,225.6	–
Liabilities classified as held-for-sale		–	–	
Total current liabilities		**1,225.6**	**1,225.6**	–
Total liabilities		**1,803.7**	**1,793.7**	10.1
Total equity and liabilities		**3,203.6**	**3,200.3**	3.3
Earnings per share for profit attributable to parent's equity holders:				
Basic, EUR		1.92	1.92	–
Diluted, EUR		1.89	1.89	–

The adoption of IAS 32: Financial instruments: the information disclosed in the financial statements and IAS 39 Financial instruments:recognition and measurement did not have any significant effect on Kesko Corporation's figures.

The changes are mainly attributable to:
1) IFRS changes resulting from the measurement of interest rate derivative instruments of the US private placement loan arrangement
2) Transfer of a subsidiary's share portfolio to available-for-sale investments, measurement at fair value

Statement of significant changes in the cash flow statement

No significant differences exist between cash flow statements prepared in accordance with the IFRS and the FAS.

NOTES TO THE INCOME STATEMENT

NOTE 1

Segment information

Business segments have been determined as the primary reporting format and geographical segments as the secondary reporting format. The business segments are based on the Group's internal organisation and internal financial reporting.

Inter-segment pricing is based on the fair market price.

Each segment's income statement is presented as far as operating profit. Segment assets and liabilities consist of items used by each segment in its operating activities or which can justifiably be allocated to it. Segment assets comprise intangible assets (including goodwill), tangible assets, inventories, trade receivables, and deferred revenue and other accruals associated with operating activities. Segment liabilities consist of trade payables, accrued liabilities and provisions. The Group's real estate assets, revenue and costs have been allocated to the segments. The division parent companies have profit responsibility for real estate during their whole lifecycles.

Business segments

The business segments comprise the Group's business divisions.

Kesko Food operates in the grocery market offering diverse trading sector services to consumers and business customers in Finland and, through the joint venture, in the Baltic countries. It manages and develops K-food store chains in Finland and is responsible for their marketing, purchasing and logistics services, store site network and retailer resources. Kesko Food's subsidiary Kespro Ltd offers delivery sales and wholesale services to HoReCa customers. Kesko Food and the Swedish ICA AB's subsidiary ICA Baltic AB own with equal shares Rimi Baltic AB, which operates in the Baltic grocery market.

Rautakesko is engaged in the hardware and builders' supplies and interior decoration trade in Finland, Sweden, Norway, the Baltic countries and Northwest Russia. It manages and devel-

Business segments 2005

EUR million	Kesko Food	Rauta-kesko	Kesko Agro	Keswell	VV-Auto	Kauko-markkinat	Other operations and unallocated items*	Total
External sales	3,882.8	1,639.7	943.0	983.9	707.4	292.8	256.3	8,705,9
Inter-segment sales							-270.4	-270.4
Adjustment items	-52.7	-29.4	-3.3	-8.9	-18.5	-2.4	1.4	-113.8
Net sales	3,830.1	1,610.3	939.7	975.0	688.9	290.4	-12.7	8,321.7
Other operating income	393.6	74.4	7.6	62.5	0.5	5.2	321.2	865.0
Other inter-segment income	-1.4	-0.2	-1.5	-1.0	-0.1	0.0	-291.5	-295.7
Total other operating income	392.2	74.2	6.1	61.5	0.4	5.2	29.7	569.3
Segment operating profit	133.8	61.7	12.7	35.8	38.7	-11.2	-23.5	248.0
Unallocated items								1,3
Operating profit	**133.8**	**61.7**	**12.7**	**35.8**	**38.7**	**-11.2**	**-23.5**	**249.3**
Operating profit excluding non-recurring items	**90.3**	**61.5**	**12.6**	**30.7**	**38.7**	**2.8**	**-24.1**	**212.5**
Financial income and expenses								-12.2
Income from associates								1.5
Income taxes								-49.4
Net profit for the period								**189.2**
Other information								
Segment assets	1,373.3	719.9	317.3	470.6	179.7	71.3	109.1	3,241.2
Assets held for sale	3.5		4.6				108.2	116.3
Interests in associates							29.4	29.4
Unallocated assets							201.2	201.2
Total consolidated assets	**1,376.8**	**719.9**	**321.9**	**470.6**	**179.7**	**71.3**	**448.8**	**3 589.0**
Segment liabilities	486.2	270.9	131.0	146.7	55.2	36.7	68.1	1,194.8
Liabilities related to assets held for sale			3.8					3.8
Unallocated liabilities							882.5	882.5
Total consolidated liabilities	**486.2**	**270.9**	**134.8**	**146.7**	**55.2**	**36.7**	**950.6**	**2,081.1**
Investments	165.4	191.5	7.2	55.1	26.0	5.8	2.5	453.5
Depreciation	81.3	20.1	5.3	14.3	5.0	3.0	7.6	136.6
Impairment	4.2					18.4	1.6	24.2

*incl. eliminations

ops its retail store chains and B-to-B Service in its operating area. Rautakesko is responsible for the chains' concepts, marketing, purchasing and logistics services, store network and retailer resources.

Kesko Agro's K-agriculture chain purchases and sells animal feed, chemicals and machinery to agricultural entrepreneurs and trades in grain with them. Kesko Agro is active in Finland and in all Baltic countries. Konekesko Ltd, a Kesko Agro subsidiary, is a service company specialised in the import and sale of recreational and heavy machinery. In addition to Finland, Konekesko markets Yamarin boats to several European countries and construction and environmental machines to the Baltic countries through Kesko Agro.

Keswell chains specialise 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 chains include well-known furniture, interior decoration, sports, home technology, shoe, optical and department stores that have gained a strong position.

VV-Auto imports and markets Volkswagen, Audi and Seat passenger cars and Volkswagen commercial vehicles in Finland. VV-Auto is also engaged in car retailing and provides after-sales services in its own car outlets.

Kaukomarkkinat specialises in international technical trading for production and professional usage. In addition to Finland, the principal market areas of Kaukomarkkinat include the other Nordic countries, the Baltic countries, Russia and China.

Other operations presented in association with unallocated items include jointly used intra-Group support functions.

Business segments 2004

EUR million	Kesko Food	Rauta-kesko	Kesko Agro	Keswell	VV-Auto	Kauko-markkinat	Other operations and unallocated items*	Total
External sales	3,873.8	1,173.8	816.4	798.9	649.9	304.3	255.3	7,872.4
Inter-segment sales							-249.6	-249.6
Adjustment items	-61.5	-23.4	-3.8	-6.1	-17.9	-2.2	0.6	-114.3
Net sales	**3,812.3**	**1,150.4**	**812.6**	**792.8**	**632.0**	**302.1**	**6.3**	**7,508.5**
Other operating income	349.9	57.1	8.1	42.9	0.9	1.2	315.8	775.9
Other inter-segment income	-1.2	0.2	-1.3	-0.7	-0.1	0.0	-284.3	-287.4
Total other operating income	**348.7**	**57.3**	**6.8**	**42.2**	**0.8**	**1.2**	**31.5**	**488.5**
Segment operating profit	130.8	49.1	16.4	33.8	27.3	14.7	-20.8	251.3
Unallocated items								-0.6
Operating profit	**130.8**	**49.1**	**16.4**	**33.8**	**27.3**	**14.7**	**-20.8**	**250.7**
Operating profit excluding non-recurring items	**109.2**	**46.1**	**13.3**	**24.5**	**26.1**	**9.9**	**-28.0**	**201.1**
Financial income and expenses								-11.2
Income from associates								1.8
Income taxes								-56.4
Net profit for the period								**184.9**
Other information								
Segment assets	1,349.8	445.6	294.3	360.1	140.8	130.7	158.9	2,880.2
Assets held for sale				0.8			4.5	5.3
Interests in associates							28.0	28.0
Unallocated assets							286.8	286.8
Total consolidated assets	**1 349.8**	**445.6**	**294.3**	**360.9**	**140.8**	**130.7**	**478.2**	**3,200.3**
Segment liabilities	506.9	208.4	182.0	168.9	110.8	34.4	-207.6	1,003.8
Liabilities related to assets held for sale								
Unallocated liabilities							789.8	789.8
Total consolidated liabilities	**506.9**	**208.4**	**182.0**	**168.9**	**110.8**	**34.4**	**582.2**	**1,793.6**
Investments	95.8	46.1	11.0	6.1	15.3	5.7	12.3	192.3
Depreciation	77.4	14.8	1.5	12.6	4.2	3.9	16.5	130.9
Impairment			0.8				0.5	1.3

*incl. eliminations

Geographical segments

The geographical segments comprise the four economically distinct geographical areas in which the Group is active: Finland, the other Nordic countries, the Baltic countries and other countries.

The net sales of the geographical segments are presented according to the location of customers, while assets are presented according to the location of assets.

Geographical segments 2005

EUR million	Finland	Other Nordic countries	Baltic countries	Other countries	Elimi-nations	Total
Net sales	6,748.5	428.4	1,074.7	70.2	-0.1	8,321.7
Segment assets	2,486.0	260.6	447.2	30.3	364.9	3,589.0
Investments	182.8	130.2	120.3	20.2		453.5

Geographical segments 2004

EUR million	Finland	Other Nordic countries	Baltic countries	Other countries	Elimi-nations	Total
Net sales	6,536.8	115.1	852.1	33.3	-28.8	7,508.5
Segment assets	2,388.6	131.3	352.0	9.0	319.7	3,200.3
Investments	147.5	2.0	42.7	0.1		192.3

NOTE 2

Acquisitions and disposals

Acquisitions in 2005

Indoor Group

In January 2005, Keswell Ltd, a Kesko Corporation subsidiary, acquired the share capital of Indoor Group Ltd. Indoor Group engages in furniture trade in Finland, Sweden, Estonia and Latvia. Indoor Group is the leader of the Finnish furniture market with its Asko and Sotka store chains.

During the 11-month period, Indoor Group contributed net sales of EUR 164.1 million and operating profit of EUR 8.7 million to Kesko Group. If Indoor Group had been consolidated from the beginning of the financial year, its contribution to the Group net sales for 2005 would have been EUR 169.8 million and to the operating profit EUR 7.6 million.

For determining the acquired goodwill amount, the goodwill included in the Indoor Group assets was reallocated. The goodwill amount of EUR 13.2 million is attributable to the expansion of the furniture trade and related synergy benefits.

Purchase consideration

EUR million	
Cash paid	41.1
Costs relating to the acquisition	1.2
Total purchase consideration	42.3
Fair value of net assets acquired	29.1
Goodwill	13.2

Analysis of net assets acquired

EUR million	Fair value	Acquiree's carrying amount
Cash and cash equivalents	0.0	0.0
Intangible assets	40.2	28.0
Property, plant and equipment	28.2	22.7
Inventories	25.5	23.2
Receivables	12.0	9.6
Non-interest-bearing liabilities	-26.1	-26.1
Pension obligations	-0.2	0.0
Interest-bearing liabilities	-42.6	-38.9
Deferred tax liabilities (net)	-7.9	-2.5
Net assets acquired	29.1	16.0
Minority acquired	0.0	0.0
Fair value of net assets acquired	29.1	
Purchase consideration settled in cash	42.3	
Cash and cash equivalents in subsidiary acquired	0.0	
Cash outflow on acquisition	42.3	

Norgros Group

On 7 July 2005, Rautakesko Ltd, a Kesko Corporation subsidiary, acquired 98% of the shares of Norway's Norgros AS. In December 2005, Rautakesko Ltd increased its ownership interest to 99%. Norgros AS manages the chain of 133 Byggmakker hardware and builders' supplies stores. It owns 20 stores while the other stores of the chain are owned by retailer-entrepreneurs who have signed a chain agreement with Norgros.

During the 6-month period, Norgros contributed net sales of EUR 268.9 million and operating profit of EUR 10.5 million to Kesko Gorup. If Norgros had been consolidated from the beginning of the financial year, its contribution to the Group net sales for 2005 would have been EUR 530.0 million and to the operating profit EUR 13.1 million.

The goodwill amount of EUR 48.9 million is attributable to the expansion into a new market.

Purchase consideration
EUR million

Cash paid	120.9
Costs relating to the acquisition	1.3
Total purchase consideration	122.2
Fair value of net assets acquired	73.3
Goodwill	48.9

Analysis of net assets acquired

EUR million	Fair value	Acquiree's carrying amount
Cash and cash equivalents	20.8	20.8
Intangible assets	59.8	2.3
Property, plant and equipment	21.4	16.1
Inventories	26.7	26.5
Receivables	56.2	56.5
Non-interest-bearing liabilities	-66.4	-66.3
Pension obligations	-2.1	-0.7
Interest-bearing liabilities	-25.3	-25.3
Deferred tax liabilities (net)	-17.6	0.7
Net assets acquired	73.5	31.6
Minority acquired	0.2	0.2
Fair value of net assets acquired	73.3	
Purchase consideration settled in cash	122.2	
Unsettled balance	30.0	
Cash and cash equivalents in subsidiary acquired	20.8	
Cash outflow on acquisition	71.4	

Stroymaster Group

On 28 July 2005, Rautakesko Ltd, a Kesko Corporation subsidiary, acquired the share capital of the Stroymaster chain from the St. Petersburg Teks Group. Stroymaster is one of the major DIY (Do-It-Yourself) chains in the St. Petersburg area. At the end of 2005, the chain included five DIY stores in the St. Petersburg city area.

During the 6-month period, Stroymaster Group contributed net sales of EUR 35.6 million and operating profit of EUR 2.2 million to Kesko Group. Stroymaster group's contribution to the Group's net sales and operating profit for the first six months of the financial year cannot be reliably estimated, because the Stroymaster group was only incorporated during the year 2005.

The goodwill amount of EUR 14.0 million is attributable to the expansion into a new market.

Purchase consideration
EUR million

Cash paid	18.6
Costs relating to the acquisition	1.5
Total purchase consideration	20.1
Fair value of net assets acquired	6.1
Goodwill	14.0

Analysis of net assets acquired

EUR million	Fair value	Acquiree's carrying amount
Cash and cash equivalents	1.2	1.2
Intangible assets	0.0	0.0
Property, plant and equipment	0.8	1.0
Inventories	7.0	6.3
Receivables	4.8	4.8
Non-interest-bearing liabilities	-7.5	-7.5
Pension obligations	0.0	0.0
Interest-bearing liabilities	0.0	0.0
Deferred tax liabilities (net)	-0.2	0.0
Net assets acquired	6.1	5.8
Minority acquired	-	-
Fair value of net assets acquired	6.1	
Purchase consideration settled in cash	20.1	
Unsettled balance	6.9	
Cash and cash equivalents in subsidiary acquired	1.2	
Cash outflow on acquisition	12.0	

Pikoil Oy

On 1 November 2005, Kesko Food Ltd, a Kesko Corporation subsidiary, acquired Neste Marketing's 50% interest in Pikoil Oy. As a result of the deal, Kesko Food Ltd became the sole owner. Pikoil Oy was established in 2003 and owned it on a fifty-fifty basis by Kesko Food Ltd and Neste Marketing Ltd. Pikoil Oy engages in liquid fuels and grocery retailing and operates 63 service stations with grocery store, 35 service stations with restaurant and 36 K-pikkolo neighbourhood stores.

The 50% interest increase in Pikoil Oy contributed net sales of EUR 10.8 million and operating profit of EUR -0.6 million to Kesko Group in 2005.

If the additional acquisition of Pikoil had been consolidated from the beginning of the financial year 2005, its contribution to the Group net sales for 2005 would have been EUR 125.8 million and EUR -2.8 million to its operating profit.

The goodwill from the additional acquisition was recognised as an expense in 2005.

Purchase contribution
EUR million

Cash paid	4.0
Total purchase contribution	4.0
Fair value of net assets acquired	0.3
Goodwill	3.7

Analysis of net assets acquired

EUR million	Fair value	Acquiree's carrying amount
Cash and cash equivalents	2.9	2.9
Intangible assets	0.0	0.0
Property, plant and equipment	16.7	16.7
Inventories	4.4	4.7
Receivables	2.8	2.8
Non-interest bearing liabilities	13.0	26.5
Pension obligations	0.0	0.0
Interest-bearing liabilities	13.3	13.3
Deferred tax liabilities (net)	0.0	0.0
Net assets acquired	0.6	
Minority acquired	0.3	
Fair value of net assets acquired	0.3	
Purchase consideration settled in cash	4.0	
Cash and cash equivalents in subsidiary acquired	-3.6	
Cash outflow on acquisition	0.4	

Acquisitions in 2004
In 2004, Kesko Group made no significant acquisitions. Acquisitions mainly consisted of real estate companies (EUR 15.3 million) and other minor subsidiaries (EUR 1.3 million).

Disposals of subsidiaries in 2005 and 2004

Disposals of subsidiaries in 2005

Disposal of subsidiaries to Rimi Baltic AB

At the beginning of 2005, Kesko Food Ltd, a Kesko Corporation subsidiary, and ICA Baltic AB of Sweden's ICA Group set up a joint venture to which they transferred their grocery trade operations in Estonia, Latvia and Lithuania. In connection with the exchange, Kesko Food Ltd sold its subsidiaries Kesko Food AS, Kinnisvaravalduse AS and SIA Kesko Food and related real estate companies engaged in the grocery trade in Estonia and Latvia to Rimi Baltic AB. An analysis of these disposals is presented below.

Net assets of business units disposed of

EUR million	2005	2004
Intangible assets	29.9	
Property, plant and equipment	71.9	
Inventories	22.3	
Receivables	11.5	
Non-interest-bearing liabilities	-47.7	
Pension obligations	0	
Interest-bearing liabilities	-25.8	
Deferred tax liabilities (net)	0	
	62.1	
Gain/loss on disposal	11.5	
Total disposal consideration	73.6	
Received in cash	77.6	
Received in shares	-55.5	
Cash and cash equivalents in business unit disposed of	-4.1	
Cash inflow on disposal	18.0	

Other business unit disposals
Kesko Corporation has sold many real estate companies and Kaukomarkkinat Oy has sold KM Kello Oy's share capital, which have no significant effect on Kesko's consolidated figures.

Disposal of business units in 2004
In 2004, Kesko Group had no significant business unit disposals.

NOTE 3

Other operating income

EUR million	2005	2004
Sales of services	398.3	395.0
Rent income	40.7	36.2
Gains on disposal of tangible assets	64.2	12.7
Gains from derivatives	2.2	–
Others	63.9	44.6
Total	569.3	488.5

Impairment losses
During the period, an impairment loss of EUR 24.2 million (EUR 1.3 million) was recognised as an expense in the income statement. EUR 3.6 million of the impairment amount is attributable to real estate and real estate shares. EUR 3.7 million of the goodwill from the acquisition of Pikoil Oy's shares (50%) has been recognised as an expense when incurred. An impairment loss of EUR 16.9 million on the goodwill of Kaukomarkkinat's operations has been recorded. The impairment loss is analysed in Note 10 Intangible assets.

Impairment losses or their reversals have not been recognised directly in equity.

NOTE 4

Operating expensess

EUR million	2005	2004
Rent expenses	-282.1	-213.5
Marketing costs	-217.1	-200.5
Occupancy costs of real estate and store sites	-91.3	-96.3
Data communications costs	-80.1	-83.2
Other trading expenses	-170.0	-122.4
Total	-840.6	-715.9
Other operating expenses		
Losses from disposal of tangible assets	-2.0	-2.7
Losses from derivative instruments*)	-1.3	–
Total	-3.3	-2.7
Total operating expenses	-843.9	-718.6

*) includes revaluations of embedded derivatives

The Group does not have research and development activities referred to in IAS 38.

NOTE 5

Non-recurring items

EUR million	2005	2004
Pension costs	–	41.2
Gains on disposal of real estate and shares	64.1	11.0
Losses on disposal of real estate and shares and impairment	-5.2	-2.0
Goodwill impairment losses	-20.6	–
Others	-1.5	-0.6
Total	36.8	49.6

Extraordinary transactions that are not related to ordinary activities are treated as non-recurring items and allocated to segments. These include gains and losses on disposal of real estate, shares and operations, as well as impairment. Additionally in 2004, non-recurring items also included the effects of amendments to the Finnish pension legislation on the Group profit.

NOTE 6

Staff costs, number of employees and management's salaries

EUR million	2005	2004
Salaries and fees	-419.3	-352.8
Social security costs	-39.2	-35.7
Pension costs	-38.6	4.9
Defined benefit plans	10.2	50.4
Defined contribution plans	-48.8	-45.5
Share options granted	-3.1	-1.9
Total	-500.2	-385.5

Management's employee benefits and loans are disclosed in Note 41, Related party transactions.

Salaries and fees of Group companies' Managing Directors and Boards of Directors

Salaries of Managing Directors (Incl. fringe benefits)	7.0	5.8
Fees of Board members	0.3	0.3
Total	7.3	6.1

Average number of Group employees

Kesko Food	5,718	7,768
Rautakesko	5,731	4,319
Kesko Agro	1,143	1,011
Keswell	3,255	2,583
VV-Auto	359	264
Kaukomarkkinat	765	773
Other entities	528	557
Group companies, total	17,499	17,275
Joint ventures	4,104	253
Total Kesko Group	21,603	17,528

NOTE 7

Financial income and expenses

EUR million	2005	2004
Financial income		
Dividend yield	2.3	3.6
Interest income	16.2	14.2
Measurement income	3.6	17.5
Gains on available-for-sale investments	2.7	0.0
Total	24.8	35.3
Financial expensess		
Interest expenses	-31.0	-27.7
Measurement losses	-5.5	-18.7
Losses on available-for-sale investments	0.0	-
Other financial expensess	-0.5	-0.1
Total	-37.0	-46.5
Total financial income and expenses	-12.2	-11.2

Measurement income and losses include changes in the value of derivatives and foreign currency loans to which hedge accounting is not applied.

Financial expenses include EUR 9.3 million (EUR 10.7 million) in interests recognised as an expense for the period. Financial income includes EUR 1.5 million (EUR 1.5 million) in rents relating to finance leases reported as income for the period.

Exchange rate differences recognised in the income statement

EUR million	2005	2004
Net sales	0.5	0.1
Purchases and other expenses	0,9	0.0
Financial income and expenses	-2.1	0.0
Total	-0.7	0.1

NOTE 8

Income taxes

Income taxes in income statement

EUR million	2005	2004
Tax based on taxable profit for the period	-58.7	-58.0
Taxes from previous periods	4.6	-1.1
Deferred taxes	4.7	2.7
Total	-49.4	-56.4

Reconciliation between tax expense recognised in the income statement and tax calculated at domestic rate (26%):

EUR million	2005	2004
Profit before tax	238.6	241.3
Tax at parent's rate (26%/29%)	-62.0	-70.0
Effect of foreign subsidiaries' different tax rates	3.4	1.9
Effect of income not subject to tax	9.6	1.2
Effect of expenses not deductible for tax purposes	-9.0	-2.8
Utilisation of previously unrecognised tax losses	6.6	4.0
Effect of income from associates	2.9	0.5
Effect of Group eliminations	-10.0	3.7
Effect of Group dividend tax refund	-	4.5
Tax from prior periods	4.6	-1.1
Deferred taxes	4.7	2.7
Others	0.2	-1.0
Taxes in the income statement	**-49.4**	**-56.4**

In 2004, the corporation tax rate was 29% in Finland. At the beginning of 2005, it decreased to 26%.

NOTE 9

Earnings per share

Basic earnings per share is calculated by dividing the parent's net profit or loss for the period attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of all shares to assume conversion of all potentially dilutive shares. The Group operates a share option scheme with a dilutive effect, which increases the number of shares. The share options have a dilutive effect when their share subscription price is lower than the fair value of a share. The dilutive effect is the number of shares which has to be issued without consideration, because the Group could not use the assets received from the exercise of the share options to issue an equal number of shares at fair value. The fair value of a share is based on the average share price during the period.

	2005	2004
Profit for the period attributable to parent's equity holders, EUR million	181.3	176.3
Number of shares		
Weighted average of outstanding shares	95,745,745	91,801,233
Effect of issued options	1,469,753	1,333,677
Diluted weighted average of outstanding shares	97,215,498	93,134,910
Basic earnings per share (EUR)	1.89	1.92
Diluted earnings per share (EUR)	1.87	1.89

NOTES TO THE BALANCE SHEET

NOTE 10

Intangible assets

EUR million	Goodwill	Trademarks	Other intangible assets	Pre-payments	Total 2005
Cost					
Cost at 1 January 2005	190.7		85.1	4.5	280.3
Translation differences	-0.7				-0.7
Additions	92.2		13.4	1.4	107.0
Acquisition of subsidiary		88.3	26.6		114.9
Disposals	-40.1		-7.6	-0.1	-47.8
Transfers between items			0.9	-2.9	-2.0
Cost at 31 December 2005	242.1	88.3	118.4	2.9	451.7
Accumulated amortisation					
Accumulated amortisation at 1 January 2005	-82.1		-33.8		-115.9
Translation differences					
Accumulated amortisation of disposals and transfers	12.4		5.2		17.6
Amortisation for the period			-25.2		-25.2
Impairment	-20.6				-20.6
Accumulated amortisation at 31 December 2005	-90.3		-53.8		-144.1
Carrying amount at 1 January 2005	108.6		51.3	4.5	164.4
Carrying amount at 31 December 2005	**151.8**	**88.3**	**64.6**	**2.9**	**307.6**

					Total 2004
Cost					
Cost at 1 January 2004	189.1		73.2	15.8	278.1
Translation differences					
Additions	2.3		19.3	5.3	26.9
Acquisition of subsidiary	-0.3		0.3		
Disposals	-0.4		-9.3		-9.7
Transfers between items			1.6	-16.6	-15.0
Cost at 31 December 2004	190.7		85.1	4.5	280.3
Accumulated amortisation					
Accumulated amortisation at 1 January 2004	-82.5		-30.0		-112.5
Translation differences					
Accumulated amortisation of disposals and transfers	0.4		14.7		15.1
Amortisation for the period			-18.5		-18.5
Impairment					
Accumulated amortisation at 31 December 2004	-82.1		-33.8		-115.9
Carrying amount at 1 January 2004	106.6		43.2	15.8	165.6
Carrying amount at 31 December 2004	**108.6**		**51.3**	**4.5**	**164.4**

> Note 10, Intangible assets

Goodwill by segment

EUR million	Intangible assets * 2005	Goodwill 2005	Discount rate (WACC) ** 2005	Goodwill 2004	Discount rate (WACC) ** 2004
Kesko Food					
the Baltic countries	10.2	9.9	7.0%	27.5	8.0 %
Rautakesko					
the other Nordic countries	39.1	48.6	7.5%		
the Baltic countries		18.2	8.5%	18.3	9.0 %
Others		14.0	12.5%		
Keswell					
Finland	39.0	37.2	6.0%	24.0	6.5 %
Kesko Agro					
Finland		3.8	6.5%	3.8	7.0 %
Kaukomarkkinat					
Finland		15.7	6.0%	32.4	6.5 %
the other Nordic countries		1.4	6.0%	1.4	6.5 %
the Baltic countries		1.3	7.5%	0.1	6.5 %
Common operations		1.7		1.1	
Total	88.3	151.8		108.6	

*intangible assets with indefinite useful lives
** after tax

The useful lives of trademarks (brands) included in intangible assets have been classified as indefinite because no foreseeable limit to the period over which they are expected to generate net cash inflows for the Group can be seen. Trademarks are part of assets purchased in connection with acquiistions. Intangible assets with indefinite lives are tested annually for possible impairment.

Impairment test for goodwill and intangible assets

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by the management covering a period of 3-5 years. The key assumptions used for the plans are total market development and profitability, product and service selection, pricing and changes in store network. Cash flows beyond the period are extrapolated using mainly 1-2% growth rates. The pre-tax discount rate applied is WACC determined for each business division and country and adjusted for tax effects in connection with the impairment test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, borrowing cost and target capital structure.

The EUR 3.7 million goodwill generated from the acquisition of a 50% holding in Pikoil Oy has been recognised as an expense. No impairment charges arose from the impairment test.

Impairment losses

During the period, an aggregate amount of EUR 20.6 million in goodwill impairment was recognised as an expense in the income statement. The goodwill impairment of EUR 20.6 million arising from the acquisition of Pikoil Oy Shares (50%) on November 2005 was expensed upon acquisition. The goodwill was generated in connection with the dissolution of the joint venture. The expense recognition was allocated to the Kesko Food segment.

An impairment loss of EUR 32.9 million on the goodwill of Kaukomarkkinat's operating activities has beeen reported in the financial statements and disclosed as a non-recurring item. According to the Group's strategy definition, Kaukomarkkinat will concentrate on the technical wholesale trade. As a result, it has discontinued several representations of branded products and consumer electronics. It is estimated that Kaukomarkkinat's operating activities in the coming years will be significantly limited and its profitability will be weakened until the operating costs are adjusted to the current scope over a longer period of time. Therefore there will be a lower level of profit expectations relating to Kaukomarkkinat. Kaukomarkkinat is the business segment to which the impairment has been charged.

NOTE 11

Tangible assets

EUR million	Land and water	Buildings	Machinery and equipment	Other tangible assets	Prepayments and purchases in progress	Total 2005
Cost						
Cost at 1 January 2005	197.2	1,186.2	457.1	17.4	19.6	1,877.4
Translation differences	-0.1	-0.5	-0.6		-0.2	-1.4
Additions	19.0	62.8	87.3	3.4	13.7	186.2
Acquisition of subsidiary	5.9	85.8	61.0	4.8	2.6	160.1
Disposals	-19.2	-116.9	-91.4	-0.8	-0.6	-228.9
Transfers between items	-17.8	-67.1	-3.6	3.1	-16.3	-101.7
Cost at 31 December 2005	185.0	1,150.3	509.8	27.9	18.7	1,891.7
Accumulated depreciation						
Accumulated depreciation at 1 January 2005	-1.5	-392.2	-267.5	-6.5		-667.7
Translation differences		0.0	0.3			0.3
Accumulated depreciation of disposals and transfers		13.7	22.1	-1.3	-1.5	33.0
Depreciation for the period		-45.0	-63.5	-2.9		-111.4
Impairment	-1.0	-1.7	-0.3	-0.2		-3.2
Accumulated depreciation at 31 December 2005	-2.5	-425.3	-308.9	-10.9	-1.5	-749.1
Carrying amount at 1 January 2005	195.7	794.0	189.6	10.98	19.55	1,209.88
Carrying amount at 31 December 2005	**182.6**	**725.0**	**200.9**	**17.0**	**17.2**	**1,142.6**
						Total 2004
Cost						
Cost at 1 January 2004	191.6	1,147.6	440.0	16.7	33.0	1,828.9
Translation differences	-0.5	-1.4	-0.4		-0.1	-2.4
Additions	15.5	50.8	82.4	1.6	17.8	168.1
Acquisition of subsidiary	2.2	4.3	0.1			6.6
Disposals	-13.8	-56.0	-68.5	-1.9		-140.2
Transfers between items	2.2	40.9	3.5	1.0	-31.1	16.5
Cost at 31 December 2004	197.3	1,186.2	457.1	17.4	19.6	1,877.5
Accumulated depreciation						
Accumulated depreciation at 1 January 2004	-1.3	-357.4	-243.1	-6.0		-607.8
Translation differences			0.1			0.1
Accumulated depreciation of disposals and transfers		8.3	43.7	0.9		52.8
Depreciation for the period		-42.8	-68.2	-1.4		-112.4
Impairment	-0.2	-0.3				-0.5
Accumulated depreciation at 31 December 2004	-1.5	-392.2	-267.5	-6.5		-667.8
Carrying amount at 1 January 2004	190.3	790.2	196.9	10.7	33.0	1,221.1
Carrying amount at 31 December 2004	**195.8**	**794.0**	**189.6**	**11.0**	**19.6**	**1,209.9**

Tangible assets include assets leased under finance leases as follows:

2005 EUR million	Buildings	Machinery and equipment	Other tangible assets	Total
Cost	134.7	69.4	0.1	204.2
Accumulated depreciation	-53.6	-32.6	-0.1	-86.3
Carrying amount	81.1	36.8	0.0	117.9
2004				
Cost	131.6	62.9	0.1	194.6
Accumulated depreciation	-46.2	-30.2	-0.1	-76.5
Carrying amount	85.4	32.7	0.0	118.1

NOTE 12

Investments in associates

EUR million	2005	2004
Carrying amount at 1 January	28.0	29.9
Share of profit for the period	1.5	1.8
Additions	0.9	1.4
Disposals	-1.0	-5.1
Translation differences	0.0	0.0
Carrying amount at 31 December	29.4	28.0

Price quotations of associates have not been published.

The Group's associates, their aggregate assets, liabilities, net sales and profit/loss:

EUR million 2005	Assets	Liabilities	Net sales	Profit/ loss	Ownership interest, %
Tietokesko Oy, Helsinki	11.2	3.2	37.3	4.2	20.0
Valluga-sijoitus Oy, Helsinki	22.1	3.4	0.9	1.5	39.0
Vähittäiskaupan Takaus Oy, Helsinki	44.1	0.2	0.9	2.6	34.0
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	3.3	2.6	7.8	-0.2	30.0
Others	31.4	16.8	43.8	1.7	
Total	112.1	26.2	90.7	9.8	
2004					
Tietokesko Oy, Helsinki	15.0	6.3	52.5	6.3	20.0
Valluga-sijoitus Oy, Helsinki	22.2	5.0	1.1	4,1	39.0
Vähittäiskaupan Takaus Oy, Helsinki	41.6	0.2	1.2	8.2	34.0
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	2.4	1.6	7.8	-0.1	30.0
Others	38.2	24.3	39.6	1.0	
Total	119.4	37.4	102.2	19.5	

NOTE 13

Long-term available-for-sale investments

Available-for-sale investments include unquoted shares primarily measured at cost, because their fair values are not reliably available.

EUR million	2005	2004
Carrying amount at 1 January	12.6	16.6
Additions	0.2	0.0
Disposals	-0.9	-3.2
Changes in fair value	-0.3	-0.8
Carrying amount at 31 December	11.6	12.6

In 2005, EUR 2.6 million of gains from disposal of available-for-sale investments were recognised in financial items.

NOTE 14

Long-term receivables

EUR million	2005 Carrying amounts	Fair values	2004 Carrying amounts
Non-interest-bearing non-current receivables	5.7	5.7	0.5
Finance lease receivables	22.7	22.7	26.5
Loan receivables from associates	14.9	14.9	1.1
Other non-current receivables	71.1	71.1	44.3
Total	114.4	114.4	72.4

The fair value of long-term receivables is estimated to nearly equal their carrying amount.

NOTE 15

Finance lease receivables

EUR million	2005	2004
Finance lease receivables fall due as follows:		
Not later than one year	5.9	6.6
Later than one year and not later than five years	20.5	22.7
Later than five years	4.7	8.5
Gross investment in finance leases	**31.1**	**37.8**
Present value of minimum lease receivables:		
Not later than one year	4.8	5.0
Later than one year and not later than five years	18.2	19.5
Later than five years	4.5	7.0
Aggregate present value of finance lease receivables	**27.5**	**31.5**
Unearned financial income	**3.6**	**6.3**

A significant part of finance lease receivables is attributable to store fixtures leased by Kesko Food Ltd from finance companies and subleased to chain companies. During the lease term, the lease item is used as collateral. After the initial lease term, the lessee may extend the lease over low-cost extension periods. The agreement with the finance company includes a lease limit of EUR 60 million. The lease terms are 3-8 years. The finance lease receivables also include Konekesko Ltd's warehouse forklift leases whose average term is 5 years.

NOTE 16

Deferred taxes

Changes in deferred taxes during 2005:

EUR million	31 Dec. 2004	Charged/ credited to the income statement	Charged to equity	Exchange rate differences	Subsidiaries acquired/ disposed of	31 Dec. 2005
Deferred tax assets						
Margin included in inventories	2.7	-0.7			0.1	2.1
Finance lease assets	4.5	0.2			0.1	4.8
Provisions	6.4	-0.6				5.8
Pensions	0.5	1.0			0.1	1.6
Confirmed losses	0.1	0.5			2.8	3.4
Others	12.4	-0.3	1.4		1.3	14.8
Total	26.6	0.1	1.4	0.0	4.4	32.5
Deferred tax liabilities						
Accumulated depreciation differences	62.4	-2.9			2.1	61.6
Changes in Group structure	7.4	-1.4			23.4	29.4
Pensions	50.9	3.7				54.6
Others	7.1	-4.2	1.4		3,2	7.5
Total	127.8	-4.8	1.4	0.0	28.7	153.1
Net deferred tax liability	101.2					120.6

Balance sheet division:	2005	2004
Deferred tax assets	4.4	1.2
Deferred tax liabilities	124.9	102.3

> Note 16, Deferred taxes

Changes in deferred taxes during 2004:

EUR million	31 Dec. 2003	Charged/ credited to the income statement	Charged to equity	Exchange rate differences	Subsidiaries acquired/ disposed of	31 Dec. 2004
Deferred tax assets						
Margin included in inventories	2.6	0.1				2.7
Finance lease assets	4.2	0.3				4.5
Provisions	6.5	–0.1				6.4
Pensions	7.3	–6.8				0.5
Confirmed losses	0.1	0.0				0.1
Others	14.3	–1.9				12.4
Total	35.0	–8.4				26.6
Deferred tax liabilities						
Accumulated depreciation differences	72.0	–9.6				62.4
Change in Group structure	10.4	–4.0			1.0	7.4
Pensions	48.4	2.5				50.9
Others	7.2	–0.1				7.0
Total	138.0	–11.2				127.8
Net deferred tax liability	103.0					101.2

Balance sheet division:	2004	2003
Deferred tax assets	1.2	0.8
Deferred tax liabilities	102.3	103.8

At 31 December 2005, the Group had EUR 16.4 million of unused tax losses not recognised as carry-forwards, because it is probable that the Group will not be able to accumulate an equivalent taxable profit against which the losses could be used.

Confirmed losses not recognised as tax assets expire as follows:

2006	2007	2008	2009	2010	2010–	Total
0.1	1.6	1.8	1.2	1.4	10.3	16.4

The consolidated financial statements do not recognise deferred tax liabilities for the undistributed earnings of subsidiaries and associates, because the distribution of profit is at the discretion of the Group, and is not probable in the near future. At 31 December 2005, the amount of such earnings was not significant.

NOTE 17

Pension assets

The Group operates several retirement plans. In Finland, employees' pension insurance is partly arranged with insurance companies and partly by the Kesko Pension Fund, whose department A granting additional benefits was closed on 9 May 1998. Pension plans arranged with the Kesko Pension Fund have been treated as defined benefit plans. Towards the end of 2004, the Ministry of Social Affairs and Health approved amendments to the calculation principles of the disability pension of the Finnish earnings-related pension scheme. As a result, Kesko recognised revenues of EUR 18.1 million for this obligation for 2004. The remaining EUR 3.4 million was recognised as revenue in 2005.

Among the retirement plans of foreign subsidiaries, the plan with a pension company in Norway is treated as a defined benefit plan. Retirement plans in other foreign subsidiaries are arranged in accordance with local regulations and practices. They do not include any significant retirement plans.

	2005		2004
EUR million	Finland	Norway	Finland
Present value of unfunded obligations			
Present value of funded obligations	-426.9	-9.2	-420.6
Fair value of plan assets	628.7	7.4	608.2
Unrecognised actuarial profits (-) and losses (+)	8.1	-0.5	8.1
Unrecognised past service cost			
Net assets in the balance sheet	209.8	-2.3	195.6
Costs recognised in the income statement:			
Current service cost	-6.7	-0.8	-9.1
Interest cost	-20.9	-0.4	-22.5
Expected return on plan assets	36.3		36.3
Change	3.2	0.1	
Actuarial profits (-) and losses (+)			
Past service cost			
Effect of curtailment and settling of obligations			18.0
Total	11.8	-1.1	22.7
Change in the net assets recognised in the balance sheet:			
Net assets at 1 January	195.6	-2.1	167.1
Contributions to funds	2.4	0.8	5.8
Benefits paid from funds		0.1	
Expense charged in the income statement	11.8	-1.1	22.7
Effect of settling and curtailment of obligations			
Net assets at 31 December	209.8	-2.3	195.6

In 2005, the return on assets included in the plan was EUR 85.5 million (in 2004 EUR 37.3 million).

Principal actuarial assumptions used:	2005		2004
	Finland	Norway	Finland
Discount rate	5.00%	5.00%	5.00%
Expected return on plan assets	6.00%	6.00%	6.00%
Future salary increase assumptions	3.50%	3.00%	3.50%
Inflation	2.00%	2,00%	2.00%
Expected average remaining service life	13–15		13–15
Plan assets, EUR million			
Kesko Corporation shares included in fair value	83.2		65.0
Real estate leased and primarily subleased to retailers by Kesko Corporation, included in fair value	242.2		243.1

NOTE 18

Inventories

EUR million	2005	2004
Goods	782.5	707.1
Prepayments	3.4	2.4
Total	785.9	709.5
Write-down of inventories for the period has been recorded to correspond to their net realisable value	24.6	10.2

NOTE 19

Trade receivables and other current non-interest-bearing receivables

EUR million	2005	2004
Trade receivables	583.2	517.6
Other non-interest-bearing receivables		
Non-interest-bearing loan and other receivables	29.8	15.1
Deferred revenue and other accruals	73.9	75.5
Total other non-interest-bearing receivables	103.7	90.6
Total current non-interest-bearing receivables	686.9	608.2

A total amount of EUR 2.9 million (EUR 4.3 million) in losses on loans and advances was recognised in the income statement.

Deferred revenue and other accruals mainly include amortisation of marketing revenue, rebates and staff costs.

The fair value of current trade receivables and loan receivables is assumed to nearly equal the carrying amount based on their short maturity, or because their fair values cannot be reliably determined.

NOTE 20

Current interest-bearing receivables

EUR million	2005	2004
Trade receivables	–	–
Interest-bearing loan and other receivables	60.5	37.8
Finance lease receivables	4.8	5.0
Interest-bearing receivables from associates	–	2.0
Total current interest-bearing receivables	65.3	44.8

Based on the short duration of current interest-bearing receivables, their fair value is estimated to nearly equal their carrying amount.

NOTE 21

Available-for-sale investments

EUR million	2005	2004
Carrying amount at 1 January	91.8	27.7
Changes	-53.5	64.0
Changes in fair value	–	–
Carrying amount at 31 December	38.3	91.7

Available-for-sale current investments include commercial papers and other money market investments.

NOTE 22

Cash and cash equivalents

EUR million	2005	2004
Cash on hand and balabces with banks	76.3	56.7
Total	76.3	56.7

NOTE 23

Assets classified as held-for-sale and related liabilities

Assets held for sale

EUR million	2005	2004
Land	21.8	–
Buildings and real estate shares	85.1	5.3
Equipment	6.3	–
Inventories	1.3	–
Receivables	1.9	–
Total	116.4	5.3

Some retail store properties used for the Group's business operations have become vacant because they are no longer needed for the purpose they were acquired for. Buyers for such properties are being actively sought. The carrying amounts of real estate withdrawn from active use have been reduced by EUR 2.3 million so that they will correspond to their recoverable amount. Assets classified as held-for-sale include vacant retail store properties and real estate shares totalling EUR 3.5 million (EUR 5.3 million).

Kesko Group has initiated negotiations to sell and lease back approximately 80 properties located in Finland. These properties have been classified as non-current assets held for sale and included in assets held for sale.

The assets included in the warehouse technology operations of Konekesko Ltd's and Kesko Agro Ltd's Baltic subsidiaries have been classified as a group of assets held for sale. The sale of warehouse technology operations was decided in 2005 and implemented at the beginning of 2006.

Liabilities included in held-for-sale disposal group

EUR million	2005	2004
Trade payables	2.2	–
Deferred liabilities	0.3	–
Total	2.5	–

Liabilities included in disposal group relate to the sale of warehouse technology operations.

NOTE 24

Changes in share capital

Share capital	Number of shares A	Number of shares B	Number of shares Total	Share capital EUR million	Share premium EUR million	Total EUR million
At 1 January 2004	31,737,007	59,453,493	91,190,500	182.4	150.6	333.0
Exercise of share options	–	2,650,042	2,650,042	5.3	16.9	22.2
Sale of treasury shares					0.4	0.4
At 31 December 2004	31,737,007	62,103,535	93,840,542	187.7	167.5	355.2
Exercise of share options	–	2,643,384	2,643,384	5.3	15.4	20.7
At 31 December 2005	31,737,007	64,746,919	96,483,926	193.0	182.9	375.9
Number of votes	317,370,070	64,746,919	382,116,989			

In 2005, the share capital was increased seven times as a result of share subscriptions pursuant to share options: by EUR 2,656,500 in February, by EUR 912,390 in May, by EUR 536,600 in June, by EUR 172,676 in August, by EUR 588,700 in September, by EUR 97,960 in November and by EUR 321,942 in December. The corresponding numbers of shares subscribed for were 1,328,250; 456,195; 268,300; 86,338; 294,350; 48,980 and 160,971. The increases were entered in the Trade Register respectively on 15 February, 4 May, 8 June, 3 August, 28 September, 2 November and 20 December 2005.

In addition, at the end of December 2005, 94,900 new B shares were subscribed for with year 2000 B and C share options to be registered in February 2006 together with shares subscribed for in January 2006.

All issued shares have been fully paid. The maximum number of A shares is 250 milllion and the maximum number of B shares is also 250 million. One A share entitles the holder to 10 votes and one B share to 1 vote.

The par value of the shares is EUR 2.
Information on share-based payments is given in Note 34.

Dividends
After the balance sheet date, the Board proposed that EUR 1.10 per share be distributed as dividends.

NOTE 25

Reserves

Share premium
The amount exceeding the par value of shares received by the enterprise in connection with share subscription, gains on sale of treasury shares, and in some cases unraised amounts from sale of unsubscribed shares are recognised in the share premium account. The share premium includes the premium received on exercise of share options.

Other reserves
The other reserves have mainly been created and accumulated as a result of decisions by the Annual General Meeting.

Revaluation surplus
The revaluation surplus includes the fair value changes of derivative instruments hedging available-for-sale investments and cash flow.

Translation differences
Translation differences arise from the consolidation of the results of foreign operations. Also gains and losses arising from net investment hedges in foreign entities are included in translation differences provided that hedge accounting requirements are fulfilled.

NOTE 26

Interest-bearing liabilities

EUR million	2005 Carrying amounts	Fair values	2004 Carrying amounts
Non-current			
Private placement bonds	101.2	112.9	100.4
Loans from financial institutions	192.2	193.6	135.5
Pension loans	28.6	28.9	33.6
Other long-term loans	13.5	13.5	16.8
Finance lease liabilities	144.0	144.2	139.0
Total non-current interest-bearing liabilities	479.5	493.1	425.3
Current			
Next year's repayments of loans from financial institutions	16.1	16.1	11.0
Next year's repayments of pension loans	5.0	5.0	4.9
Next year's repayments of other non-current loans	187.8	187.8	155.1
Next year's repayments of finance lease liabilities	19.3	19.3	18.8
Other current interest-bearing liabilities	46.9	46.9	54.2
Total current interest-bearing liabilities	275.1	275.1	244.0

The following discount rates have been used for calculating fair value:
Loans from financial institutions and other long-term loans 2.4-4.9%.
Pension loans 4%.

Major finance leases have been discounted using a rate which would be adopted by the Group if it entered into a corresponding agreement. The fair value of current interest-bearing liabilities is estimated to nearly equal their carrying amount.

Repayment schedule of long-term liabilities at 31 December 2005

EUR million	31 December 2005	2007	2008	2009	2010	2011-
Private placement bonds	101.2	0.0	0.0	0.0	0.0	101.2
Loans from financial institutions	192.2	17.7	18.1	17.3	2.8	136.3
Pension loans	28.6	4.9	4.9	4.9	4.9	8.8
Others	13.5	13.5	-	-	-	-

NOTE 27

Finance lease liabilities

EUR million	2005	2004
The maturity of finance lease liabilities is as follows:		
Not later than 1 year	26.4	30.2
Later than 1 year and not later than 5 years	87.4	79.8
Later than 5 years	108.7	114.0
Total minimum lease payments	**222.5**	**224.0**
Present value of minimum lease payments:		
Not later than 1 year	19.3	20.1
Later than 1 year and not later than 5 years	62.4	54.0
Later than 5 years	81.6	83.7
Total present value of minimum lease payments	**163.3**	**157.8**
Accumulating finance costs	**59.2**	**66.2**
Expected sublease rentals	**32.6**	**30.1**

Finance lease liabilities mainly relate to real estate leases. Kesko Group has leased large retail outlets under long-term leases. Most of the lease payments are tied to interest rates and most leases include a call option. In addition, the Group has leased machines and equipment under finance leases.

NOTE 28

Provisions

EUR million	Onerous leases	Warranty provisions	Other provisions	Total
Provisions at 1 January 2005	12.0	10.3	2.7	25.0
Exchange rate differences	–	–	–	0.0
Additional provisions	3.1	1.3	5.8	10.2
Unused amounts reversed	-0.8	-0.3	-2.9	-4.0
Charged to consolidated income statement	14.3	11.3	5.6	31.2
Used amounts	-4.4	-0.3	0.0	-4.7
Provisions at 31 December 2005	9.9	11.0	5.6	26.5
Analysis of total provisions				
Non-current	7.0	9.0	3.6	19.6
Current	2.9	2.0	2.0	6.9

Provisions for onerous leases mainly relate to lease liabilities of premises vacated from Group operations, and to net losses of rent of subleased premises. Warranty provisions have been recorded for vehicles and machines sold by Group companies. The provision amount is based on experience from realised warranty obligations in previous years. Other provisions mainly relate to discontinued operations.

NOTE 29

Trade payables and other current non-interest-bearing liabilities

EUR million	2005	2004
Trade payables	734.3	605.2
Other current non-interest-bearing liabilities	168.0	155.0
Tax liabilities	16.6	27.8
Accruals and deferred income	228.9	189.1
Total current non-interest-bearing liabilities	1,147.8	977.1

Accruals and deferred income are mainly due to the timing of purchases, additional purchase prices and staff costs.

NOTE 30

Major subsidiaries

Name	State of registration	Ownership interest, %	Voting power, %
K-Instituutti Oy	Finland	90.0	90.0
K-Plus Oy	Finland	100.0	100.0
K-Rahoitus Oy	Finland	100.0	100.0
Kaukomarkkinat Oy	Finland	100.0	100.0
Kesped Ltd	Finland	100.0	100.0
Keswell Ltd	Finland	100.0	100.0
Kesko Agro Ltd	Finland	100.0	100.0
Kesko Food Ltd	Finland	100.0	100.0
Rautakesko Ltd	Finland	100.0	100.0
VV-Auto Oy	Finland	100.0	100.0

A complete analysis of Group companies is included in the confirmed financial statements.

NOTE 31

Significant ownership interests in joint ventures and jointly controlled assets

The Group has a 50% ownership interest in Rimi Baltic AB, a joint venture established at the beginning of 2005, engaging in the grocery trade in Estonia, Latvia and Lithuania. In 2004 the Group had a 50% ownership interest in Pikoil Oy. The Group owns its total share capital as from 1 November 2005. The following figures correspond to the Group's 50% interest in the joint ventures' assets and liabilities, sales and profit included in the consolidated balance sheet and income statement.

EUR million	2005	2004
Joint ventures		
Non-current assets	34.0	5.3
Current assets	62.9	3.4
	96.9	8.7
Long-term liabilities	33.5	6.0
Current liabilities	72.2	8.3
	105.7	14.3
Net assets	8.8	-5.6
Income	412.9	34.3
Expenses	421.9	38.9
Profit after tax	-9.0	-4.7
Average number of joint ventures' employees	4,104	253

Jointly controlled assets
(mutual real estate companies)
The following figures represent the Group's interest in the jointly controlled assets and liabilities, revenue and profit included in the consolidated balance sheet and income statement.

Non-current assets	50.5	52.4
Current assets	1.6	2.4
	52.1	54.8
Long term liabilities	31.4	34.5
Current liabilities	4.2	4.3
	35.6	38.8
Net assets	16.5	16.0
Income	4.3	7.0
Expenses	3.9	6.7
Profit after tax	0.4	0.3

NOTE 32

Contingent liabilities

Commitments

EUR million	2005	2004
Collateral given for own commitments		
Pledges	58	71
Mortgages	27	27
Guarantees	106	62
Other commitments and contingent liabilities	70	68
Collateral given for shareholders		
Guarantees	1	1
Collateral given for others		
Other commitments and contingent liabilities	15	14
Guarantees	22	5

NOTE 33

Operating leases

Group as the lessee

Minimum lease payments under non-cancellable operating lease agreements:

EUR million	2005	2004
Not later than 1 year	258.7	211.7
Later than 1 year and not later than 5 years	873.4	734.0
Later than 5 years	508.5	490.5
Total	1,640.6	1,436.2
Future minimum lease payments under non-cancellable subleases	58.3	67.7
Lease and sublease payments charged to the income statement during the year:		
Minimum lease payments	221.7	192.7
Changing lease payments	1.5	0.0
Sublease payments	17.3	18.8

The income statement for 2005 includes EUR 282.1 million (EUR 213.5 million) in lease expenditure under operating leases.

For its operating activities Kesko leases retail and logistics premises. Most of the leases are index-linked and in conformity with local market practise.

Group as the lessor

Minimum lease payments based on non-cancellable operating leases:

EUR million	2005	2004
Not later than 1 year	31.3	25.0
Later than 1 year and not later than 5 years	43.7	37.0
Later than 5 years	26.9	25.0
Total	101.9	87.0
Aggregate changing lease payments charged to the income statement	0.4	-

Kesko leases premises to entrepreuners other than K-retailers in order that the total service offer of a store site supports its profit generation potential. Such premises typically include so-called store entrance stores at large retail outlets.

NOTE 34

Share-based payment

The Group operates option plans as part of the management's incentive and commitment arrangements. Options granted after 7 November 2002 with a vesting period starting from 1 January 2005 have been recognised in the financial statements in accordance with IFRS 2, Share-based payments. Each share option gives its holder the right to purchase one Kesko Corporation B share at a price and during the period specified in the terms of the option plan. The options are forfeit if the employee leaves the company before the end of the vesting period.

Year 2000 option plan

The Annual General Meeting of 10 April 2000 approved a share option scheme for top and middle management as part of the management's incentive and commitment programme. There were two classes of share options issued for no consideration - B options and C options. There were 3,825,000 B options (KESBVEW100) and 2,015,000 C options (KESBVEW200) issued, i.e. a total of 5,840,000 options. Each B and C option entitles the holder to buy one Kesko Corporation B share. The exercise period for B options began on 1 November 2002 and for C options on 1 November 2003 and the expiry date is 31 March 2006 for both options.

The original exercise price per share of a B option was equal to the weighted average price of a Kesko Corporation B share on the Helsinki Stock Exchange in March 2000 plus 15% (EUR 15.97), and for a C option the corresponding weighted average of March 2001 plus 15% (EUR 12.71). In accordance with the terms and conditions of the option plan, the exercise price shall be reduced by the amount of dividend per share distributed after the end of the above period for the determination of the exercise price, but before the exercise date.

At the end of 2005, the exercise price per share of a B option was EUR 7.87 and that of a C option EUR 6.11. Dividend rights and other shareholder rights shall take effect after the increase in share capital has been entered in the Trade Register. At its inception, the option plan covered nearly 600 employees.

Under the option plan a total of 8,840,000 new B shares can be bought and as a result, Kesko Corporation's share capital may be increased by a maximum of EUR 11,680,000. The shares bought under the option plan account for 5.91% of the share capital and 1.52% of all votes if all options granted are exercised.

Year 2003 option plan

On 31 March 2003, the Annual General Meeting resolved to issue a total of 1,800,000 share options with no consideration to the management of Kesko Group as well as to a wholly-owned subsidiary of Kesko Corporation. A deviation was made from the shareholders' pre-emptive subscription rights since the share options form a part of the incentive and commitment programme for the management. Each option entitles its holder to buy one Kesko Corporation B share. The options are marke with the symbols 2003D, 2003E and 2003F in units of 600,000 options each.

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

The original exercise price per share of option 2003D was equal to the weighted average price of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April–30 April 2003 (EUR 9.63), that of option 2003E between 1 April–30 April 2004 (EUR 15.19) and that of option 2003F between 1 April–30 April 2005 (EUR 19.08). The exercise prices are reduced by the amounts of dividends per share distributed after the end of the above period for the determination of the exercise price, but before the exercise date. At the end of 2005, the exercise price per B share of option 2003D was EUR 5.63 and that of option 2003E was EUR 13.19 and the exercise period starts on 1 April 2006. At the end of 2005, the exercise price per B share of option 2003F was EUR 19.08 and the exercise period starts on 1 April 2007. The option plan covers approximately 50 employees. Under the option plan a total of 1,800,000 new B shares can be bought and as a result, Kesko Corporation's share capital may be increased by a maximum of EUR 3,600,000. The shares bought under the year 2003 option plan account for 1.82% of the share capital and 0.47% of all votes if all options granted are exercised. Dividend rights and other shareholder rights shall take effect after the increase in share capital has been entered in the Trade Register.

> Note 34, Share-based payment

Share options during the period 1 January 2005 – 31 December 2005

	Options 2000		Options 2003		
Issue date	10 April 2000		31 March 2003		
Instrument	Options		Options		
Target group	Key employees		Management		
	2000B	2000C	2003D	2003E	2003F
Original number of options	3,825,000	2,015,000	600,000	600,000	600,000
Number of shares per option	1	1	1	1	1
Original exercise price per share	15.97 EUR	12.71 EUR	9.63 EUR	15.19	19.08
Dividend adjustment	Yes	Yes	Yes	Yes	Yes
Exercise price at 31 Dec. 2003	11.87 EUR	10.11 EUR	9.63 EUR	15.19 EUR	–
Exercise price at 31 Dec. 2004	8.87 EUR	7.11 EUR	6.63 EUR	14.19 EUR	–
Exercise price at 31 Dec. 2005	7.87 EUR	6.11 EUR	5.63 EUR	13.19 EUR	19.08 EUR
Vesting date	1.11.2002	1.11.2003	1.4.2005	1.4.2006	1.4.2007
Expiry date	31.3.2006	31.3.2006	30.4.2008	30.4.2009	30.4.2010
Remaining exercise period, years	0.2	0.2	2.3	3.3	4.3
Plan participants at end of period	98	156	36	49	47

2005	Options 2000		Options 2003			Total	Weighted exercise price
	2000B	2000C	2003D	2003E	2003F		
At 1 Jan. 2005							
Options granted at beginning of period	3,817,022	2,007,015	577,500	567,000		6,968,537	8.61 EUR
Options available for grant at beginning of period	7,978	13,115	25,912	33,000	600,000	680,005	
Shares subscribed with options at beginning of period	2,622,027	1,426,365				2,720,142	
Options outstanding at beginning of period	1,194,995	575,520	574,088	567,000		4,239,853	8.93 EUR
Movements during period							
Options granted during period				51,000	600,000	651,000	18.62 EUR
Options returned during period				42,000	21,000	63,000	15.15 EUR
Shares subscribed with options during period	867,825	346,809	195,400			2,738,284	7.32 EUR
Average price weighted by grant date trading volume *)	21.04 EUR	21.04 EUR	21.62 EUR				
Options lapsed during period							
At 31 Dec. 2005							
Options granted at end of period	3,817,022	2,007,015	577,500	618,000	600,000	7,619,537	8.55 EUR
Options expected to vest				576,000	579,000	1,155,000	
Granted options sold (by original holder)	3,489,456	1,702,259	201,000			5,392,715	
Options available for grant at end of period	7,978	13,115	25,912	24,000	21,000	92,005	
Shares subscribed with options at end of period	3,489,852	1,773,174	195,400			5,458,426	
Options outstanding at end of period	327,170	228,711	378,688	576,000	579,000	2,089,569	11.84 EUR

*) for 2000B and 2000C: year 2005 trade-volume-weighted average price of B share, and for 2003D: the trade-volume-weighted average price of B share between April-December 2005

2004	Options 2000		Options 2003			Total	Weighted exercise price
	2000B	2000C	2003D	2003E	2003F		
At 1 Jan. 2004							
Options granted at beginning of period	3,786,622	1,904,815	546,000			6,237,437	11.14 EUR
Options available for grant at beginning of period	38,378	110,185	54,000	600,000	600,000	1,402,563	
Shares subscribed with options at beginning of period	22,800	71,600				94,400	
Options outstanding at beginning of period	3,763,822	1,833,215	546,000			6,143,037	11.15 EUR
Movements during period							
Options granted during period	30,400	102,200	31,500	567,000		731,100	12.65 EUR
Options returned during period		5,130	3,412			8,542	6.92 EUR
Shares subscribed with options during period	2,599,227	1,354,765				2,625,742	8.14 EUR
Average price weighted by grant date trading volume *)	16.49 EUR	16.49 EUR					
Options lapsed during period							
At 31 Dec. 2004							
Options granted at end of period	3,817,022	2,007,015	577,500	567,000		6,968,537	8.61 EUR
Options expected to vest			574,088	567,000		1,141,088	
Granted options sold (by original holder)	2,969,056	1,374,538				4,343,594	
Options available for grant at end of period	7,978	13,115	25,912	33,000	600,000	680,005	
Shares subscribed with options at end of period	2,622,027	1,426,365				2,720,142	
Options outstanding at end of period	1,194,995	575,520	574,088	567,000		4,239,853	8,93 EUR

*) year 2004 trade-volume-weighted average price of B share

Fair value measurement

For the purpose of measuring the fair value of options, Kesko Corporation has consulted Alexander Corporate Finance Oy. The fair value of options has been determined by using the Black-Scholes option pricing model. The fair value of options measured at the grant date has been expensed over the vesting period. In compliance with IFRS, options granted prior to 7 November 2002 vesting prior to 1 January 2005 have not been recognised as an expense in the financial statements. The fair value of Kesko Corporation 2000B and 2000C options has not been determined and they are not included in expense recognition. During the period 1 January-31 December 2005, the share options had an impact of EUR 3.1 million (EUR 1.9 million) on the Group's profit.

Black-Scholes model assumptions	Granted in 2005	Granted in 2004	All options
Number of options granted	651,000	598,500	1,795,500
B share average (weighted) price	19.64 EUR	15.43 EUR	15.31 EUR
Average (weighted) exercise price	18.62 EUR	14.83 EUR	14.62 EUR
Expected average (weighted) volatility	23.7%	28.7%	25.9%
Average (weighted) exercise period	4.9 years	4.9 years	4.9 years
Average (weighted) risk-free interest rate	2.8%	3.3%	3.0%
Number of options returned (weighted average)	3.9%	6.2%	4.5%
Total fair value, EUR	3,589,036	2,898,049	8,102,818

The expected volatility of a Kesko B share has been estimated based on historic volatility using weekly changes over a period of time corresponding to the option's exercise period. The risk-free interest rate used is the government zero coupon bond interest rate at the measurement date with a maturity equalling the option exercise period.

NOTES TO THE CASH FLOW STATEMENT

NOTE 35

Non-cash flow related investments

EUR million	2005	2004
Total purchases of fixed assets of	453.5	192.3
which settlement in cash	341.9	172.6
Settlement of prior period investments	-13.3	-2.3
Investments financed by finance lease or other borrowing	124.9	22.0

NOTE 36

Acquisitions

The table shows major acquisitions in 2005.

- Keswell Ltd, a Kesko Corporation subsidiary, acquired the shares of Indoor Group Ltd on 21 January 2005.
- Rautakesko Ltd, a Kesko Corporation subsidiary, acquired 98% of the shares of Norway's Norgros AS.
- Rautakesko Ltd, a Kesko Corporation subsidiary, acquired the shares of the Stroymaster chain.
- Kesko Food Ltd, a Kesko Corporation subsidiary, acquired 50% of Pikoil Oy's shares from Neste Marketing Ltd.

In addition, minor acquisitions were made by retail companies and minor subsidiaries with a total cash flow of EUR 5.1 million.

In 2004, Kesko Group made no major acquisitions. Acquisitions were primarily made by real estate companies and other minor subsidiaries with a total cash flow of EUR 16.6 million.

EUR million	2005	2004
Cash flow from acquisitions		
Cost of company acquisitions	150.2	16.6
Non-cash transactions		
Issue of share capital/other unquoted shares	37.8	
Total acquisition price	188.0	16.6
Assets acquired		
Cash on hand and balances with banks	23.5	
Intangible assets	100.0	
Tangible assets	58.7	
Inventories	62.1	
Receivables	76.0	
Non-interest-bearing borrowings	-106.3	
Pension obligations	-2.3	
Interest-bearing borrowings	-74.4	
Deferred taxes (net)	-26.2	
Minority interest	-1.7	
Fair value of acquired net assets	109,3	
Goodwill	78.7	
Total acquisition price	188.0	
Net of:		
Unsettled acquisition price	-37.8	
Cash on hand and balances with banks	-23.5	
Cash flow from acquisitions	126.8	

NOTE 37

Company disposals

At the beginning of year 2005, Kesko Food Ltd, a Kesko Corporation subsidiary, and ICA Baltic AB, a company belonging to the Swedish ICA Group, established a joint venture, Rimi Baltic AB to which the owner parties transferred their grocery operations in Estonia, Latvia and Lithuania. In connection with the arrangement, Kesko Food Ltd sold its subsidiaries, Kesko Food AS, Kinnisvaravalduse AS and SIA Kesko Food engaging in the grocery trade in Estonia and Latvia, and its related real estate companies to Rimi Baltic AB.

In addition, the Group disposed of several real estate companies, and Kaukomarkkinat sold the shares of KM Kello Oy. Their combined contribution to the cash flow was EUR 18.6 million.

In 2004, the Group made no significant company disposals.

EUR million	2005	2004
Cash flow from disposals		
Gain on disposal	77.6	3.6
Shares	-55.5	
Cash and cash equivalents	-4.1	
Net cash flow from disposal	18.0	3.6
Assets disposed of		
Intangible assets	29.9	
Property, plant and equipment	71.9	
Inventories	22.3	
Receivables	11.5	
Non-interest-bearing borrowings	-47.7	
Interest-bearing borrowings	-25.8	

NOTE 38

Financial assets

EUR million	2005	2004
Short-term money market investments	38.3	86.6
Cash on hand and balances with banks	76.3	56.7
Total	114.6	143.3

The EUR 5.1 million share portfolio included in available-for-sale financial assets is not included in financial assets in the comparative year 2004 cash flow statement.

NOTE 39

Adjustments to cash flows from operating activities

Adjustments are made for non-cash transactions of income statement or for items presented elsewhere in the cash flow statement:

EUR million	2005	2004
Change in provisions	1.4	0.9
Income from associates	-1.5	-1.8
Impairment	24.2	1.3
Non-recurring gains on disposal of tangible assets	-64.2	-10.9
Non-recurring losses on disposal of tangible assets	1.9	3.8
Others	-7.9	-42.8
Total	-46.1	-49.5

NOTE 40

Financial risk management

With respect to financial risks, the Group observes a uniform financial policy that has been approved by the Board of Directors. Compliance with this policy and the Group's financial situation are controlled by the Audit Committee of the Board of Directors. The Corporate Treasury unit is centrally responsible for Group funding, liquidity management, relations with finance providers and the management of financial risks. In the main, the Group's funding is arranged through the parent company, and the Corporate Treasury arranges intra-Group loans for the financing of subsidiaries in their local currencies. For companies with significant external ownership, the Group has not guaranteed financial liabilities in excess of its ownership interest.

Currency risk

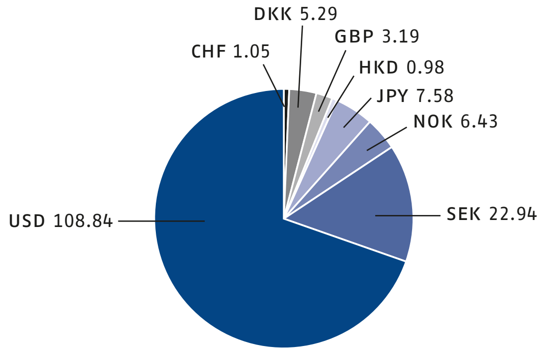
The Group's balance sheet is exposed to translation risks in connection with investments in subsidiaries outside the euro-zone. This balance sheet exposure has been hedged by using currency-denominated loans and forward exchanges if the translation risk is in excess of EUR 1 million. The most significant balance sheet exposure positions are in Latvian lat, Norwegian krone, Estonian kroon, Swedish krona, Russian rouble and Lithuanian lit. The Group has not hedged currency-denominated goodwill, whose countervalue was EUR 66 million at 31 December 2005.

For translation risk management, the Group uses hedge accounting in accordance with IAS 39. Hedges must fulfil the standard's requirements for appropriate documentation and effectiveness both when the hedge is entered into and thereafter. Hedge effectiveness is constantly monitored. Hedging instruments include forward exchanges and foreign-currency denominated loans. Changes in the spot rates of forward exchange contracts are recognised in equity for hedges that have been found effective. The effects of basis point movements are recognised in financial items in the income statement. When a currency-denominated loan is used as a hedging instrument, the effective portion of the hedge is recognised in equity and the ineffective portion in the income statement. The hedging instrument results recognised in equity are recorded in the income statement when a foreign operation is sold or wound up.

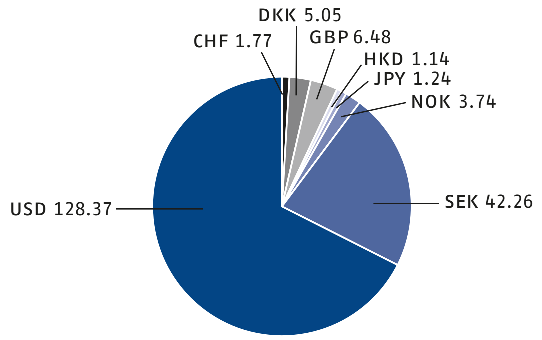
Kesko Corporation's USD-denominated private placement credit facility has been hedged against currency risks and interest rate risk by using hedge accounting. The hedge instruments include currency and interest rate swaps for the same amount and maturity as the loan. Consequently, the loan is entirely hedged against currency and interest rate risk.

International purchasing activity exposes the Group to transaction risks relating to several foreign currencies. Due to the fast turnover of some products, the exposure related to their purchases cannot grow to a significant level. The percentage of hedging is decided separately by each relevant subsidiary and business unit. Transaction risk exposures mainly concern the US dollar, Swedish krona and UK pound sterling. Business units carry out their hedging operations together with the Corporate Treasury, which hedges risk positions using market transactions within the limits confirmed for each currency.

Foreign currency purchases in 2005, EUR million



Foreign currency purchases in 2004, EUR million



The Group's foreign subsidiaries also buy currency independently for commercial purchases.Such purchases do not, however, constitute a significant part of total purchases.

The Group does not apply hedge accounting in accordance with IAS 39 to hedging commercial currency risks. In initial recognition, derivative instruments are recorded at cost and at subsequent measurement they are recognised at fair value. Value changes of currency derivatives used to hedge purchases and sales are recognised in other operating income or expenses.

Interest rate risk

Changes in interest rate level affect the Group's interest expenses. The interest rate level correlates negatively with private consumer demand and investment demand, which is why financial results in a rising interest rate environment are affected by higher interest expenses while the demand for products and services slackens.

Translation risk and hedging at 31 December 2005

EUR million	Latvia	Norway	Estonia	Sweden	Russia	Lithuania	Others	Total
Equity exposed to translation risk*)	5.8	39.6	25.1	4.9	8.6	22.2	2.4	108.6
Hedging derivatives	2.9	6.3	0.8	1.1	7.0	11.3		29.4
Hedging loans		25.0	3.1			6.1		34.2
Open position	2.9	8.3	21.2	3.8	1.6	4.8	2.4	45.0

*) equity excl. allocated goodwill

> Note 40, Financial risk management

Maturity schedule of interest-bearing loans

EUR million	Used at 31 Dec.	Available	Total	2006	2007	2008	2009	2010 and later
Loans from financial institutions	208.6		208.6	17.6	20.2	15.4	14.5	140.9
Private placement bonds (USD)	101.2		101.2					101.2
Pension loans	33.6		33.6	4.9	4.9	4.9	4.9	14.0
Finance lease liabilities	163.3		163.3	19.3	16.5	16.5	15.0	96.0
Liabilities to K-retailers	105.9		105.9	105.9				
Other interest-bearing borrowing	84.5		84.5	71.0	13.5			
Committed credit limits		305.0	305.0					
Commercial papers	57.5	332.5	390.0	57.5				
Total	754.6	637.5	1 392.1	276.2	55.1	36.8	34.4	352.1

Interest rate hedging is used to equalise the effects of interest rate movements on the profits for different financial periods.

Interest rate risks are centrally managed by the Corporate Treasury which adjusts loan duration using interest rate derivative instruments. The target duration is three years and it is allowed to vary between one and a half (1½) and four (4) years. The realised duration during the period was 3 years on average.

Liquidity risk

Liquidity risk management aims at maintaining sufficient liquid assets and credit lines in order to guarantee the availability of sufficient funding for the Group's operating activities at all times. Liquid assets 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. The aim is to invest liquidity consisting of cash and cash equivalents in the money market by using efficient combinations of return and risk. At regular intervals, the Group's management approves the instruments and limits for each investment. At the end of 2005, the Group's liquid assets totalled EUR 38.3 million and the average duration for the year was 1 month. The cash portfolio included commercial papers and bank deposits.

In December, Kesko and certain bansk signed a syndicated credit facility for EUR 150 million with a maturity of seven years. At the balance sheet date, the total counter value of committed long-term credit facilities available was EUR 305 million. In addition to the Group's euro-denominated uncommitted credit lines available, there is a reserve of commercial paper programmes denominated in Estonian kroon, Lithuanian lit and Latvian lat with a total counter value of EUR 390 million.

Liabilities to K-retailers consist of two types of interest-bearing receivables payable by Kesko Group companies to K-retailers: retailers' advance payments to Kesko and retailers' chain reimbursements. Chain reimbursements are subsequent rebates granted to retailers and their terms vary from one store chain to another. All chain retailers have the same terms applicable to advance payments and chain reimbursements.

Private placement bonds, pension loans and the amount of EUR 72.1 million of loans from financial institutions have fixed rates and the effective interest cost represents 5.1%. At the end of period, the average rate of loans from financial institutions with floating interest rates, liabilities to retailers and other interest-bearing liabilities was 2.6%. Most of the loans are euro-denominated, private placement bonds are USD-denominated, and loans from financial institutions include NOK-denominated loans corresponding to EUR 25.0 million , LVL-denominated loans corresponding to EUR 24.4 million and LTL-denominated loans corresponding to EUR 22.5 million.

Credit risk

The business companies of the Group's division parent companies are responsible for credit risks related to receivables from customers. They prepare and maintain a documented credit policy. In Finland, the main part of the Group's business activities is carried out together with retailers. According to the retailer agreements, retailers lodge bank overdrafts as collateral against their trade payables to the relevant Kesko subsidiaries.

Group companies apply a uniform practice to measuring overdue receivables. A receivable is written off when there is objective evidence of impairment.

Among Group divisions Kesko Agro has the biggest customer finance needs. K-rahoitus Oy, a Kesko Corporation subsidiary, provides interest-bearing financing to Kesko Agro's and Konekesko's professional customers in Finland and the Baltic countries. At the end of the period, K-rahoitus Oy's interest-bearing financial receivables totalled EUR 133.5 million (EUR 88.1 million). The subsidiary's effect on the Group's net interests during the period was positive at EUR 3.2 million (EUR 3.1 million).

Financial credit risk

Financial instruments also cover the risk of counterparties failing to settle their obligations. Kesko only makes currency and interest rate derivative contracts with those domestic and foreign banks that have good creditworthiness. Liquid funds are invested annually, within the limits confirmed, in objects with good creditworthiness.

Credit ratings

For the present, Kesko Corporation has not applied for a credit rating, because it has not been considered necessary in the company's present financial situation.

Commodity risks

The Group uses electricity derivatives to level out energy costs. The electricity price risk is evaluated for three-year periods. The value changes of derivatives hedging the price of electricity supplied during the period are included in the adjustment items of purchases. Hedge accounting is applied to contracts hedging future purchases. The effective portion of derivatives that meet hedge accounting criteria are recognised in translation differences in equity and the ineffective portion in the income statement.

Fair values of derivative financial instruments

EUR million	Positive fair value (carrying amount)	Negative fair value (carrying amount)	Net fair value
2005			
Interest rate swaps	0.2	-5.5 **	-5.3
Forward exchanges	1.4 */**	-0.5	0.8
Currency options (bought)	0.0	0.0	0.0
Electricity derivatives	4.8	-0.1	4.8

Par values of derivative financial instruments EUR million	31.12.2005 Par value	31.12.2004 Par value
Interest rate swaps	308.6 **	215.8
Forward exchanges	252.2 */**	240.6
Currency options (bought)	4.2	5.1
Electricity derivatives	23.4	20.5

*) Derivative financial instruments also include forward exchanges used to hedge net investments in foreign entities with a fair value of EUR 0.0 million and a nominal value of EUR 28.7 million.

**) Derivative financial instruments include interest rate swaps relating to a currency-denominated loan arrangement with a nominal value of EUR 208.8 million and a fair vaue of EUR -5.4 million, and currency swaps with a nominal value of EUR 100.4 million and a fair value of EUR 1.3 million.

NOTE 41

Related party transactions

The Group's related parties include its directors (the Board of Directors, the Managing Director and the Corporate Management Board), subsidiaries, associates, joint ventures and the Kesko Pension Fund. Subsidiaries, joint ventures and associates are listed in the official balance book of the company.

The following transactions were carried out with related parties:

Sales of goods and services

EUR million	2005	2004
Sales of goods		
Associates	0.2	0.5
Board of Directors and management	38.9	33.8
	39.1	34.3
Sales of services		
Associates	3.2	4.8
Board of Directors and management	6.3	4.7
Kesko Pension Fund	1.1	1.2
	10.6	10.7

The related party transactions disclosed include those transactions with related parties that are not eliminated in the consolidated financial statements. The Group's joint venture Rimi Baltic AB is consolidated in proportion to the ownership interest.

Among associates consolidated using the equity method, Tietokesko Oy sells information technology services to Group companies. A property owned by Valluga-Sijoitus Oy has been leased for the Group's use. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to the K-Alliance's retail companies. The other associates mainly include business property companies which have leased their premises and real estate to Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interest.

Three members of Kesko's Board of Directors act as K-retailers. Group companies sell goods and services to enterprises controlled by them.

The Kesko Pension Fund is a separate legal entity which manages and holds in trust part of the pension assets of the Group's employees in Finland. Pension assets include Kesko Corporation shares representing 3.6% of its total shares. Real estate and premises owned by the Pension Fund have been leased to Kesko Group which has subleased most of them to retailers. In 2005, Kesko Group paid a total amount of EUR 23.2 million (EUR 26.6 million) in contributions to the Pension Fund.

The sales of goods and services to related parties have been carried out on general market terms and conditions and at market prices.

> Note 41, Related party transactions

Purchases of goods and services

EUR million	2005	2004
Purchases of goods		
Associates	11.5	24.6
Board of Directors and management	1.7	0.0
Total	13.2	24.6
Purchases of services		
Associates	26.8	46.8
Board of Directors and management	0.1	0.1
Total	26.9	46.9

Operating expenses include compensation for a premature surrender of a home and speciality goods business in the amount of EUR 1.5 million paid to a member of the Board. Relating to the surrender of business, fixed assets priced in accordance with the chain agreement and inventories were purchased from the Board member. The total amount paid for the assets and in compensation was EUR 3.2 million.

In addition, other operating expenses include rents paid by Kesko Group to the Kesko Pension Fund, in a total amount of EUR 12.6 million (EUR 11.8 million).

Board of Directors' remuneration

EUR thousands	2005	2004
Members of the Board of Directors		
Heikki Takamäki, Chairman	51.9	49.4
Matti Kavetvuo, Deputy Chairman	36.8	34.3
Pentti Kalliala	30.3	27.8
Eero Kasanen	31.6	28.6
Maarit Näkyvä	31.6	29.5
Kari Salminen (from 30 March 2005)	21.8	–
Keijo Suila	29.9	27.8
Jukka Toivakka (until 30 March 2005)	7.3	27.8

Matti Honkala, Kesko Corporation's Managing Director until 28 February 2005, was a member of the Board of Directors until 28 February 2005. He received no fees for Board membership.

Salaries and fees of Managing Director, Deputy Managing Director and Corporate Management Board

EUR thousands	2005	2004
Matti Honkala, Managing Director (until 28 February 2005)	330.1	606.2
Matti Halmesmäki, Managing Director (from 1 March 2005)	424.8	–
Kalervo Haapaniemi, Deputy Managing Director (until 17 March 2005)	133.1	346.9
Juhani Järvi, Deputy Managing Director (from 17 March 2005)	220.8	–
Corporate Management Board (other members)	1,174.6	1,183.8

Other top management employee benefits

Share-based payments

In 2005, as part of the management's reward system, Managing Director Matti Halmesmäki was granted 10,500 year 2003 E options and 42,000 year 2003 F options, and Deputy Managing Director Juhani Järvi was granted 21,000 year 2003 F options. At 31 December 2005, the Managing Director held a total of 73,500 options and the Deputy Managing Director held a total of 42,000 options. In 2005, the other Corporate Management Board members were granted a total of 126,000 year 2003 F options and a total of 10,500 E options. At 31 December 2005, the other Corporate Management Board members held a total of 399,500 options. The options of Corporate Management Board members have the same terms and conditions and vesting periods as the other options included in the management's option plans.

Retirement benefits

The retirement age of the Managing Director is 60 years and his full retirement benefit is 66% of his pensionable salary. The retirement age and pensionable salary of the Deputy Managing Director are determined on the basis of the Employees' Pensions Act (TEL). The retirement benefits of the other Corporate Management Board members are determined on the basis of the Employees' Pensions Act (TEL), or based on a separate agreement, in which case the retirement age varies between 60 and 62 years, and the full retirement benefit is 66% of the pensionable salary.

Termination benefits

The notice period of Managing Director and Deputy Managing Director is 6 months. Severance compensation paid in addition to the salaries for the notice period corresponds to 12 months' salary. The notice period of the other Corporate Management Board members is 6 months and severance compensation paid in addition to the salaries for the notice period corresponds to 6-12 months' salary.

Financial income

EUR million	2005	2004
Associates	0.2	0.4
	0.2	0.4

Financial expenses

EUR million	2005	2004
Associates	–	0.9
Board of Directors and management	0.3	0.4
	0.3	1.3

Vähittäiskaupan Takaus Oy, a Kesko associate, grants Kesko collateral against trade payables on behalf of K-retailers' enterprises and K-retailer entrepreneurs. In the comparison year, Kesko paid the costs resulting from future collateral (commercial credit collateral) grants (EUR 0.3 million).

Trade receivables

EUR million	2005	2004
Associates	0.6	0.4
Board of Directors and management	3.0	2.6
	3.6	3.0

Three members of Kesko's Board of Directors act as K-retailers. At the balance sheet date, the receivables resulting from sales by Kesko to enterprises controlled by them totalled EUR 3.0 million EUR 2.6 million). The receivables are covered by the commercial credit collateral granted by Vähittäiskaupan Takaus Oy, a Kesko associate. The maximum amount of the collateral is always limited to the realisable value of the counter-guarantee granted by the K-retailer's enterprise and the K-retailer entrepreneur. At the end of the period, the value of the counter-guarantee was EUR 5.8 million (EUR 4.6 million).

Other current liabilities

EUR million	2005	2004
Associates	4.1	3.4
Board of Directors and management	0.5	0.4
	4.6	3.8

Other current liabilities include EUR 0.5 million (EUR 0.4 million) in chain reimbursement liabilities payable to enterprises controlled by the three Kesko Board members acting as K-retailers. Chain reimbursements are paid on criteria related to the amount of realised annual sales and the quality of operations.

OTHER NOTES 42

Major litigations pending

The following legal claims are pending:

1. Eight former K-citymarket retailers demanded at the Helsinki District Court that Kesko Corporation be obliged to pay a total of EUR 13.7 million in compensation for notices they claimed to be contrary to their contracts. Their alternative demand was that, if notices were found to be according to contract, the condition of notice be modified in such a way that the reasonable period of notice would be 24 months instead of the 6 months stated. And if this were the case, they also demanded compensation for 18 months of lost profits: a total amount of about EUR 10.2 million. Additionally the retailers demanded that Kesko be obliged to compensate them for damages caused by the increase in wholesale prices, which they regarded as groundless, to a total of about EUR 0.9 million. All compensations and legal expenses were claimed subject to penalty interest in delay.
   On 26 March 2004, the Helsinki District Court totally dismissed the actions. The District Court ordered the claimants to pay Kesko's legal costs. However, the District Court's decision is not binding. The claimants have appealed against it to the Helsinki Court of Appeal, where the case is pending.

2. Four former Andiamo retailers demand at the Helsinki District Court 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 demands at the Helsinki District Court 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 actions and claims as groundless. The cases are pending at the Helsinki District Court and the Helsinki Court of Appeal.

There is an action pending at the arbitration court in which:

1. Kiinteistö Oy Lahden Lyhytkatu 1, owned on a 50/50 basis by Kesko Corporation and a Lahti businessman, requests arbitration on its demand that Kesko Corporation adjust the annual interest rate of 13% in the loan agreement signed between the real estate company and Kesko in 1991 to correspond with the average 3-month Euribor interest rate. The adjustment is demanded retroactively for the previous 10 years and also for the remaining loan period to a total amount of EUR 10.2 million. Kesko has contested all of the real estate company's demands as groundless.

Kesko Corporation has presented a counter claim in which it demands that the amount of lease rental determined in the lease signed at the same time as the loan agreement be correspondingly arbitrated for the period 1 April 1995 – 18 October 2004.

There is a matter pending at the Market Court:

1. The Finnish Competition Authority has petitioned the Market Court for a sanction of EUR 0.1 million to be imposed on Kesko Corporation. The proposal is related to the maximum pricing of groceries in the horizontal K-market and K-neighbourhood store chains belonging to the K-Grocers' Club in 1997-2000, and in the K-extra chain in 1999-2000. Kesko has submitted a response to the Market Court. The matter is pending at the Market Court.

Events after the balance sheet date

In January 2006, VV-Auto Oy and its retailing company Helsingin VV-Auto Oy agreed to acquire the Volkswagen and Audi businesses from Stockmann Auto Oy Ab as of 1 March 2006. Implementation of the deal is subject to the approval of the Finnish Competition Authority. The acquisition includes the sales and after-sales services of Volkswagen and Audi in Helsinki, Espoo and Vantaa. The debt-free price is about EUR 28 million which includes the Audi property in Espoo and the Volkswagen property in Vantaa. The cost and potential goodwill cannot be determined until the acquisition date of 1 March 2006.

Group in figures

		2001 FAS	2002 FAS	2003 FAS	2004 FAS	2004 IFRS	2005 IFRS
Net sales	EUR million	6,214	6,466	7,070	7,517	7,509	8,322
Change in net sales	%	-1.5	4.1	9.3	6.3	6.2	10.8
Staff cost	EUR million	333	348	390	437	386	500
Staff cost as % of net sales	%	5.3	5.4	5.5	5.8	5.1	6.0
Depreciation and impairment charges	EUR million	115	108	110	125	132	161
Operating profit	EUR million	77	99	158	176	251	249
Operating profit as % of net sales	%	1.2	1.5	2.2	2.3	3.3	3.0
Operating profit excl. non-recurring items	EUR million	64	91	137	171	201	213
Operating profit as % of net sales excl. non-recurring items	%	1.0	1.4	1.9	2.3	2.7	2.6
Financial income and expenses	EUR million	9	11	4	-3	-11	-12
Income from associates	EUR million	2	2	1	1	2	2
Profit before taxes, EUR million	EUR million	86	110	162	173	241	239
Profit before taxes as % of net sales	%	1.4	1.7	2.3	2.3	3.2	2.9
Income tax	EUR million	30	42	58	47	56	49
Minority interest	EUR million	-1	0	8	8	9	8
Net profit for the period	EUR million	55	68	96	118	176	181
Net profit for the period as % of net sales	%	0.9	1.0	1.4	1.6	2.3	2.2
Investments	EUR million	206	185	259	170	192	454
Investments as % of net sales	%	3.3	2.9	3.7	2.3	2.6	5.4
Average number of personnel during the period		11,544	12,217	15,219	17,528	17,528	21,603
Number of personnel at 31.12., incl. part-time employees		14,988	15,212	19,411	22,146	22,146	26,978
Return on equity	%	4.1	4.9	7.4	9.3	12.8	13.0
Return on invested capital	%	6.6	7.6	10.9	11.9	14.3	12.5
Equity ratio	%	53.6	53.3	51.7	45.5	44.2	42.3
Gearing ratio	%	12.7	13.9	16.2	28.8	37.0	42.4
Earnings per share, diluted	EUR	0.60	0.75	1.05	1.26	1.89	1.87
Earnings per share, basic	EUR	0.60	0.75	1.06	1.28	1.92	1.89
Equity per share, adjusted	EUR	14.78	15.02	15.07	13.34	14.73	15.35
Dividend per share	EUR	0.60	1.00	3.00	1.00	1.00	1.10*
Payout ratio	%	98.7	134.4	285.7	79.4	52.9	58.8*
Cash flow from operating activities per share, adjusted	EUR	2.29	1.60	1.80	2.06	2.29	3.07
Price per earnings ratio (P/E), A share, adjusted		24.82	21.96	17.17	14.96	10.12	11.86
Price per earnings ratio (P/E), B share, adjusted		17.04	16.21	13.09	14.21	9.50	11.74
Dividend yield, A share	%	4.0	6.1	16.5	5.3	5.3	4.6*
Dividend yield, B share	%	5.8	8.3	21.6	5.6	5.6	4.6*
Yield of A share	%	8.6	9.9	11.4	14.3	14.3	16.7
Yield of B share							
For the last five financial years	%	6.1	2.8	8.9	14.7	14.7	25.9
For the last ten financial years	%	11.0	12.8	10.7	13.0	13.0	16.3

* proposal to the Annual General Meeting

Calculation of indicators

Return on equity, % (ROE) $= \dfrac{\text{profit before extraordinary items – income taxes}}{\text{shareholders' equity + minority interest (average during the year)}} \times 100$

Return on invested capital, % (ROI) $= \dfrac{\text{profit before extraordinary items + interest expense and other finance costs}}{\text{balance sheet total – non-interest-bearing liabilities (average during the year)}} \times 100$

Return on net assets, % (RONA) $= \dfrac{\text{operating profit}}{\text{net assets (= balance sheet total – cash and cash equivalents – non-interest-bearing liabilities – provisions), average}} \times 100$

Equity ratio, % $= \dfrac{\text{shareholders' equity + minority interest}}{\text{balance sheet total – advances received}} \times 100$

Debt to equity ratio, % $= \dfrac{\text{debt + provisions}}{\text{balance sheet total – prepayments received}} \times 100$

Gearing ratio, % $= \dfrac{\text{interest-bearing debt – marketable securities – cash on hand and balances with banks}}{\text{shareholders' equity + minority interest}} \times 100$

Cash flow from operating activities = operating profit + depreciation and impairment charges ± change in net working capital ± financial income and expenses – income taxes

Earnings per share, diluted $= \dfrac{\text{profit before extraordinary items – income taxes ± minority interest}}{\text{average number of shares, diluted and adjusted for share issue}}$

Equity per share $= \dfrac{\text{shareholders' equity}}{\text{adjusted number of shares}}$

Payout ratio, % $= \dfrac{\text{dividend per share}}{\text{earnings per share}} \times 100$

Price per earnings ration, (P/E) $= \dfrac{\text{price at balance sheet date}}{\text{earnings per share}}$

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

Market capitalisation = price at balance sheet date x number of shares

Cash flow from operating activities per share $= \dfrac{\text{cash flow from operating activities}}{\text{average number of shares}}$

Yield of A share and B share = price change + annual dividend yield

Parent's income statement (FAS)

	1.1.–31.12.2005	1.1.–31.12.2004
Net sales	**16,316,866.10**	**13,243,903.52**
Other operating income	351,211,845.14	309,397,943.27
Materials and services	3,539.11	–11,494.98
Personnel expenses	–11,647,292.50	–14,806,064.70
Depreciation and value adjustments	–26,701,963.45	–29,071,377.01
Othe operating expenses	–274,977,684.00	–255,184,066.29
Operating profit	**54,205,310.40**	**23,568,843.81**
Financial income and expenses	1,376,054.38	17,044,368.59
Profit before extraordinary items	**55,581,364.78**	**40,613,212.40**
Extraordinary items	104,024,000.00	133,799,260.00
Profit before appropriations and taxes	**159,605,364.78**	**174,412,472.40**
Appropriations	11,420,442.60	9,503,527.97
Profit before taxes	**171,025,807.38**	**183,916,000.37**
Income tax	–41,983,270.99	–54,897,701.07
Net profit for the period	**129,042,536.39**	**129,018,299.30**

Parent's cash flow statement (FAS)

	1.1.–31.12.2005	1.1.–31.12.2004
Cash flow from operating activities		
Operating profit	55,581,364.78	40,613,212.40
Adjustments to operating profit:		
Depreciation according to plan	26,219,513.37	29,071,377.01
Financial income and expenses	-1,376,054.38	-17,044,368.59
Other adjustments	-42,055,764.29	-4,346,354.09
	38,369,059.48	**48,293,866.73**
Change in working capital		
Interest-free short-term trade receivables, increase/decrease (-/+)	5,971,147.67	-6,499,666.54
Interest-free short-term debt, increase/decrease (+/-)	-6,568,421.76	3,934,935.91
	-597,274.09	-2,564,730.63
Interests paid	-24,665,444.64	-20,371,906.47
Interests received	20,644,565.97	19,416,819.83
Dividends received	6,346,241.72	13,463,282.70
Taxes paid	-52,267,114.45	-45 645 679,00
	-49,941,751.40	-33,137,482.94
Cash flow from operating activities	**-12,169,966.01**	**12,591,653.16**
Cash flow from investing activities		
Subsidiary acquired	-124,739.03	-15,284,019.26
Associated company acquired	-815,575.04	-116,880.33
Investments in tangible and intangible assets	-39,505,876.54	-48,134,051.53
Loans granted		-36,942,800.41
Repayment of loan receivables	29,206,935.86	
Subsidiary disposed	16,916,625.80	3,650,875.53
Associated company disposed	2,420,797.00	1,929,330.00
Proceeds from other investments	766,509.25	543,443.19
Proceeds from sale of tangible and intangible assets	74,399,828.70	40,839,481.42
Cash flow from investing activities	**83,264,506.00**	**-53,514,621.39**
Cash flow from financing activities		
Raising of short-term loans	96,470,743.84	0.00
Repayment of short-term loans	0.00	-46,478,781.05
Raising of long-term loans	20,437,276.17	175,147,815.99
Increase/decrease (-/+) of short-term receivables	-262,962,623.91	91,796,738.97
Dividends paid	-95,168,792.00	-273,644,400.00
Group contributions received and paid	104,024,000.00	133,799,260.00
Increase in shareholders' equity	10,048,887.74	33,305,912.64
Others	217,447.95	-991,396.14
Cash flow from financing activities	**-126,933,060.21**	**112,935,150.41**
Change in liquid funds	**-55,838,520.22**	**72,012,182.18**
Liquid funds at 1 January	**102,606,543.13**	**30,594,360.95**
Liquid funds at 31 December	**46,768,022.91**	**102,606,543.13**

Parent's balance sheet (FAS)

	31.12.2005	31.12.2004
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Other capitalised expenditure	13,789,999.57	15,096,077.56
Advance payments and construction in progress	410,533.98	1,977,978.10
	14,200,533.55	17,074,055.66
Tangible assets		
Land and water	121,525,733.80	124,776,895.88
Buildings	388,278,609.29	391,596,084.40
Machinery and equipment	10,652,241.70	10,199,467.04
Other tangible assets	9,504,761.39	7,820,946.00
Advance payments and construction progress	1,529,693.37	13,235,813.74
	531,491,039.55	547,629,207.06
Investments		
Holdings in Group companies	663,880,984.01	684,994,125.62
Receivables from Group companies	–	698,401.44
Holdings in participating interests	29,403,144.91	29,588,508.11
Other shares and similar rights of ownership	17,199,121.56	18,233,067.33
	710,483,250.48	733,514,102.50
CURRENT ASSETS		
Receivables		
Long-term		
Receivables from Group companies	307,514,024.60	329,421,998.06
Receivables from participating interests	1,384,378.68	7,984,939.64
Other receivables	–	–
	308,898,403.28	337,406,937.70
Short-term		
Trade receivables	2,007,640.24	1,742,548.06
Receivables from Group companies	438,199,739.42	185,450,318.81
Receivables from participating interests	7,104,818.61	1,067,842.94
Loan receivables	3,061,603.30	925,933.22
Other receivables	241,072.13	1,239,722.52
Prepayments and accrued income	2,366,471.36	10,921,982.46
	452,981,345.06	201,348,348.01
Marketable securities		
Other marketable securities	38,274,841.39	86,642,718.92
Cash on hand and at bank	8,493,181.52	15,963,824.21
Total assets	**2,064,822,594.83**	**1,939,579,194.06**

	31.12.2005	31.12.2004
LIABILITIES		
Shareholders' equity		
Share capital	192,967,852.00	187,681,084.00
Share issue	732,607.00	11,318,785,50
Share premium account	182,896,184.61	167,547,886.37
Revaluation reserve	283,487.25	327,720.67
Other reserves	243,415,795.55	243,415,795.55
Retained earnings	310,579,671.15	277,030,163.85
Profit for the financial year	129,042,536.39	129,018,299.30
	1,059,918,133.95	1,016,339,735.24
Appropriations		
Depreciation reserve	180,968,938.20	192,389,380.80
Provisions		
Other provisions	8,932,367.00	13,296,972.21
Liabilites		
Non-current		
Private placement bonds	100,418,410.04	100,418,410.04
Loans from financial institutions	113,501,626.36	93,064,350,19
	213,920,036.40	193,482,760.23
Current		
Loans from financial institutions	10,900,000.00	3,195,582.43
Advances received	208,014.98	16 672,08
Trade payables	1,851,523.32	1,966,796.12
Debt to Group companies	471,048,143.08	416,779,757.93
Debt to participating interests	32,260,923.32	29,205,671.63
Other debt	73,888,751.88	45,406,363.95
Accruals and deferred income	10,925,762.70	27,499,501.44
	601,083,119.28	524,070,345.58
Total liabilities	**2,064,822,594.83**	**1,939,579,194.06**

Notes to the parent's financial statements

Principles used for preparing the parent's financial statements

Kesko Corporation's financial statements have been prepared in compliance with the Finnish Accounting Standards (FAS).

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

Land has not been depreciated. The total of depreciation according to plan and 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.

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 financial instruments

Interest rate derivative contracts

Cash flows arising from interest rate derivative contracts are recognised during the financial year as interest income or expenses, according to the maturity date. In the financial statements, open forward agreements, futures, options and swaps are stated at market values. Unrealised revaluation is not stated as income. Any valuation losses are included in interest expenses.

Currency derivative contracts

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 are treated as financial items. If a derivative instrument has been used to hedge a foreign-currency-denominated asset, the value change has been recognised against that of the asset item.

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.

Commodity derivatives

The Group uses electricity derivatives to balance the energy costs of the Group and its 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 plans

The Kesko Pension Fund provides Kesko Corporation's personnel with pension benefits. The Fund's A department, which provides supplementary pension benefits, was closed on 9 May 1998. 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 well as the losses resulting from renting the premises to outsiders, are included in provisions.

Income tax

Income tax includes the taxes for the period based on the profit for the period, and taxes payable for prior periods, or tax refunds.

NOTES TO THE INCOME STATEMENT

EUR million	2005	2004
1. Other operating income		
Profits on sales of real estate and shares	44.3	8.5
Rent income	306.6	300.6
Others	0.3	0.3
Total	351.2	309.4
2. Average number of personnels		
Kesko Corporation	179	197
Total	179	197
3. Personnel expenses		
Salaries and fees	10.0	10.8
Social security expenses		
Pension expenses	1.3	1.8
Other social security expenses	0.3	2.2
Total	11.6	14.8
Salaries and fees to the management		
Managing Director and his deputy	0.8	0.6
Members of Board of Directors	0.2	0.2
Total	1.0	0.8

An analysis of the management's salaries and fees is included in the notes to the consolidated financial statements.

EUR million	2005	2004
4. Depreciation and value adjustments		
Depreciation according to plan	26.2	29.1
Value adjustments, non-current assets	0.5	–
Total	26.7	29.1
5. Other operating expenses		
Rent expenses	226.2	203.3
Marketing expenses	1.6	1.9
Maintenance of real estate and store sites	21.1	31.8
Data communications expenses	11.5	9.7
Losses on sales of real estate and shares	6.2	2.4
Other operating expenses	8.4	6.1
Total	275.0	255.2
6. Financial income and expenses		
Dividend income		
From Group companies	3.1	14.4
From participating interests	1.1	1.5
From others	2.1	3.0
Dividend income, total	6.3	18.9
Other interest and financial income		
From Group companies	19.6	19.2
From others	8.0	19.3
Interest income, total	27.6	38.5
Interest and other financial expenses		
To Group companies	-12.9	-13.4
To others	-19.6	-27.0
Interest expenses, total	-32.5	-40.4
Total	1.4	17.0
7. Items included in extraordinary income and expenses		
Contributions from Group companies	129.4	144.3
Contributions to Group companies	-25.4	-10.5
Total	104.0	133.8
8. Appropriations		
Difference between depreciation according to plan and depreciation in taxation	11.4	9.5
Total	11.4	9.5
9. Changes in provisions		
Rent expenses for vacant business premises	-3.0	0.8
Other changes	-1.3	0.6
Total	-4.3	1.4
10. Income taxes and deferred taxes		
Income taxes on extraordinary items	-27.1	-38.8
Income taxes on operating activities	-14.9	-16.1
Total	-42.0	-54.9

Deferred taxes

Deferred tax liabilities and assets have not been included in the balance sheet. The amounts are not significant.

NOTES TO THE BALANCE SHEET

EUR million	2005	2004
11. Other capitalised expenditure		
Acquisition cost at 1 January	40.8	48.6
Increases	0.9	1.2
Decreases	-1.5	-14.1
Transfers between items	1.6	5.1
Acquisition cost at 31 December	41.8	40.8
Accumulated depreciation at 1 January	25.7	26.0
Accumulated depreciation on decreases and transfers	-1.2	-5.4
Depreciation for the financial year	3.5	5.1
Accumulated depreciation at 31 December	28.0	25.7
Book value at 31 December	13.8	15.1
Advance payments		
Acquisition cost at 1 January	2.0	6.5
Increases		0.2
Decreases	-0.8	–
Transfers between items	-0.8	-4.7
Acquisition cost at 31 December	0.4	2.0
Book value at 31 December	0.4	2.0
12. Tangible assets		
Land and water		
Acquisition cost at 1 January	124.7	122.4
Increases	2.5	6.9
Decreases	-6.3	-6.1
Transfers between items	0.6	1.5
Acquisition cost at 31 December	121.5	124.7
Revaluation	0.0	0.1
Book value at 31 December	121.5	124.8
Buildings		
Acquisition cost at 1 January	572.9	558.4
Increases	32.2	24.1
Decreases	-48.7	-25.2
Transfers between items	8.0	15.6
Acquisition cost at 31 December	564.4	572.9
Accumulated depreciation at 1 January	181.3	170.7
Accumulated depreciation on decreases and transfers	-23.9	-8.5
Depreciation for the financial year	18.7	19.1
Accumulated depreciation at 31 December	176.1	181.3
Revaluation	–	–
Book value at 31 December	388.3	391.6

EUR million	2005	2004
Machinery and equipment		
Acquisition cost at 1 January	27.4	28.1
Increases	3.4	2.0
Decreases	-2.1	-3.6
Transfers between items	0.5	0.9
Acquisition cost at 31 December	29.2	27.4
Accumulated depreciation at 1 January	17.2	15.9
Accumulated depreciation on decreases and transfers	-1.6	-2.5
Depreciation for the financial year	3.0	3.8
Accumulated depreciation at 31 December	18.6	17.2
Book value at 31 December	10.6	10.2
Other tangible assets		
Acquisition cost at 1 January	12.4	10.9
Increases	2.5	1.1
Decreases	-0.4	-0.5
Transfers between items	0.4	0.9
Acquisition cost at 31 December	14.9	12.4
Accumulated depreciation at 1 January	4.6	3,8
Accumulated depreciation on decreases and transfers	-0.2	-0.2
Depreciation for the financial year	1.0	1.0
Accumulated depreciation at 31 December	5.4	4.6
Book value at 31 December	9.5	7.8
Advance payments and construction in progress		
Acquisition cost at 1 January	13.2	22.9
Increases	0.0	9.5
Decreases	-1.3	-0.1
Transfers between items	-10.4	-19.1
Acquisition cost at 31 December	1.5	13.2
Book value at 31 December	1.5	13.2
Revaluation of non-current assets		
Land and water	0.0	0.1
Shares and similar rights of ownership	0.3	0.2
	0.3	0.3

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.

13. Investments

Holdings in Group companies		
Acquisition cost at 1 January	752.3	740.1
Increases	4.7	15.7
Decreases	-25.7	-3.5
Acquisition cost at 31 December	731.3	752.3
Accumulated depreciation at 1 January	67.3	67.3
Value adjustments	0.1	-
Accumulated depreciation at 31 December	67.4	67.3
Book value at 31 December	663.9	685.0

EUR million	2005	2004
Holdings in participating interests		
Acquisition cost at 1 January	29.5	29.7
Increases	0.9	0.1
Decreases	-1.1	-0.3
Acquisition cost at 31 December	29.3	29.5
Revaluations	0.1	0.1
Book value at 31 December	29.4	29.6
Other shares and similar rights of ownership		
Acquisition cost at 1 January	18.0	18.4
Increases	-	0,0
Decreases	-1.0	-0.4
Acquisition cost at 31 December	17.0	18.0
Accumulated depreciation on decreases and transfers	0.3	-
Value adjustments	-0.3	-
Accumulated depreciation at 31 December	0.0	-
Revaluation	0.2	0.2
Book value at 31 December	17.2	18.2

Kesko Corporation's ownership interests in other companies as at 31 December 2005 are presented in the notes to the consolidated financial statements.

During the period, among subsidiaries directly owned by Kesko Corporation, changes took place in real estate companies only. Three new real estate companies were established. A total of ten real estate companies were sold, seven of which to other Group companies and three outside the Group.

14. Receivables

Receivables from Group companies		
Long-term receivables		
Loan receivables	305.8	329.4
Subordinated loans	1.7	0.7
Long-term receivables, total	307.5	330.1
Short-term receivables		
Trade receivables	8.0	8.8
Loan receivables	429.0	174.6
Prepayments and accrued income	1.2	2.0
Short-term receivables, total	438.2	185.4
Total	745.7	515.5
Receivables from participating interests		
Long-term receivables		
Loan receivables	1.4	8.0
Short-term receivables		
Trade receivables	0.2	0.0
Loan receivables	6.9	1.1
Short-term receivables, total	7.1	1.1
Total	8.5	9.1
Prepayments and accrued income		
Taxes and corporation tax credit	-	5.5
Others	2.4	5.4
Total	2.4	10.9

EUR million	2005	2004
15. Shareholders' equity		
Share capital at 1 January	187.7	182.4
Subscriptions with options	5.3	5.3
Share capital at 31 December	193.0	187.7
Share issue, exercise of options at 1 January	11.3	0.2
Increase	10.1	33.3
Transfer to share capital	-5.3	-5.3
Transfer to share premium account	-15.4	-16.9
Share issue, exercise of options at 31 December	0.7	11.3
Share premium account at 1 January	167.5	150.6
Subscriptions with options	15.4	16.9
Share premium account at 31 December	182.9	167.5
Revaluation reserve at 1 January	0.3	0.6
Change in revaluation reserve	0.0	-0.3
Revaluation reserve at 31 December	0.3	0.3
Other reserves at 1 January	243.4	243.4
Other reserves at 31 December	243.4	243.4
Retained earnings at 1 January	406.0	550.9
Distribution of dividends	-95.1	-273.6
Transfer to donations	-0.3	-0.3
Retained earnings at 31 December	310.6	277.0
Profit for the financial year	129.0	129.0
Shareholders' equity, total	1,059.9	1,016.3

Increase in share capital

In 2005, the share capital was increased seven times as a result of share subscriptions pursuant to options: by EUR 2,656,500 in February, by EUR 912,390 in May, by EUR 536,600 in June, by EUR 172,676 in August, by EUR 588,700 in September, by EUR 97,960 in November and by EUR 321,942 in December. The corresponding numbers of shares subscribed for were 1,328,250; 456,195; 268,300; 86,338; 294,350; 48,980 and 160,971. The increases were entered in the Trade Register respectively on 15 February, 4 May, 8 June, 3 August, 28 September, 2 November and 20 December 2005.

In addition, at the end of December 2005, 94,900 new B shares were subscribed for with year 2000 B and C options to be registered in February 2006 together with shares subscribed for in January 2006.

Distributable reserves		
Other reserves	243.4	243.5
Retained earnings	310.6	277.0
Profit for the financial year	129.0	129.0
Total	683.0	649.5

Breakdown of parent company's share capital	pcs	counter value, EUR	EUR million
A shares	31,737,007	2	63.5
B shares	64,746,919	2	129.5
Total	96,483,926		193.0

Voting rights given by shares:	number of votes
A share	10
B share	1

Year 2000 and 2003 share option plans

The Annual General Meeting of 10 April 2000 approved a share option plan for the top and middle management as part of the management's incentive programme. There were two classes of share options issued gratuitously, B options and C options. There were 3,825,000 B options (KESBVEW100) and 2,015,000 C options (KESBVEW200) issued, i.e. a total of 5,840,000 options. Each option entitles to the subscription of one Kesko Corporation B share.

On 31 March 2003, the Annual General Meeting resolved to gratuitously issue a total of 1,800,000 share options to the management of the Kesko Group as well as to a wholly-owned subsidiary of Kesko Corporation. A deviation was made from the shareholders' pre-emptive right to subscription since the options form a part of the incentive and commitment programme for the management. Each option entitles its owner to subscribe for one Kesko Corporation B share. The options shall be marked with symbols 2003D, 2003E and 2003F in units of 600,000 options each.

Share of issued options of share capital and votes

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

The company has no other options, 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 options valid at the moment.

EUR million	2005	2004

16. Appropriations

Depreciation reserve	181.0	192.4
Total	181.0	192.4

17. Provisions

Rent expenses for vacant business premises	8.9	12.0
Other provisions	–	1.3
Total	8.9	13.3

18. Non-current liabilities

Debt falling due later than within five years		
Private placement bonds	100.4	100.4
Loans from financial institutions	100.0	75.0
Total	200.4	175.4

On 10 June 2004, Kesko Corporation issued a private placement of USD 120 million in the US. The arrangement consists of three bullet loans: a 10-year loan (USD 60 million), a 12-year loan (USD 36 million) and a 15-year loan (USD 24 million). Kesko has hedged the loan by using currency and interest rate swaps, as a result of which the loan capital totals EUR 100.4 million and the fixed capital-weighted average interest rate is 5.4%.

19. Current liabilities

Debt to Group companies		
Advances received	0.0	0.0
Trade payables	0.2	0.2
Other debt	469.6	413.7
Accruals and deferred income	1.2	2.9
Total	471.0	416.8
Debt to participating interests		
Trade payables	0.2	0.2
Other debt	32.0	29.0
Accruals and deferred income	0.0	–
Total	32.2	29.2
Accruals and deferred income		
Personnel expenses	2.4	2.9
Taxes	4.4	20.0
Others	4.1	4.6
Total	10.9	27.5

20. Interest-free debt

Short-term liabilities	16.6	36.8
Total	16.6	36.8

OTHER NOTES

EUR million	2005	2004

21.Securities given and contingent liabilities

Debt for the security of which mortgages have been given		
Other short-term debt	0.2	0.2
Total	0.2	0.2
Mortgages given	16.8	16.8
Other mortgages	0.8	0.8
Debt, total	0.2	0.2
Mortgages given, total	16.8	17.6
Debt for the security of which shares have been given		
Other short-term debt	1.0	1.1
Pledged shares	13.5	16.0
Debt, total	1.0	1.1
Pledged shares, total	13.5	16.0
Real estate mortgages		
For own debt	17	18
Pledges		
For own debt	14	17
Guarantees		
For Group companies	224	122
For shareholders	1	1
For others	2	2
Other contingent liabilities		
For own debt	53	49
Leasing liabilities		
Falling due within a year	0	0
Falling due later	0	1

Liabilities arising from derivative instruments

Value of underlying instruments at 31 Dec.

	2005	Fair value	2004	Fair value
Interest rate derivatives				
Forward and future contracts	100	0.1	0.0	0.0
Interest rate swaps	209	-5.4	216	-15.5
Currency derivatives				
Forward and future contracts	173	-0.6	257	-10.9
Option agreements				
Bought	4	0.0	5	0.0
Written	6	0.0	7	-0.1
Currency swaps	100	1.3	–	–
Commodity derivatives				
Electricity derivatives	46.0	0.0	35	0.0

Audit report

To the shareholders of Kesko Corporation

We have audited the accounting records, the financial statements and the administration of Kesko Corporation for the period 1.1 -31.12.2005. The Board of Directors and the Managing Director have prepared the report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that include the parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements and on the administration of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration is to examine that the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies' Act.

Consolidated financial statements

In our opinion the consolidated financial statements give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company's financial statements and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable funds is in compliance with the Companies' Act.

Helsinki, 9 February 2006

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pekka Nikula
Authorised Public Accountant

Major stock exchange and press releases

Major stock exchange releases and press releases of Kesko Corporation and its divisions in 2005 are listed below. In addition to providing regular information on financial performance, Kesko publishes a monthly stock exchange release on the Group's sales. All releases are available at www.kesko.fi/media.

January 2005

SER 3.1. Kesko Food's and ICA's joint venture starts operating in the Baltic countries
PR 3.1. K-citymarkets and K-supermarkets reduce prices again
PR 20.1. Kesko's online pages are ranked second among Finnish listed companies
SER 21.1. Indoor Group Ltd is transferred to Kesko's ownership
SER 25.1. Kesko sells real estate
PR 26.1. Kesko is again ranked third in the "Company disclosure and financial reports" competition
SER 31.1. Advance information on financial statements: Kesko posts record profit before extraordinary items of EUR 173 million

February 2005

SER 9.2. Financial statements for 2004: Profit before extraordinary items is EUR 172.9 million
SER 9.2. Changes in Kesko Corporation's Board of Directors
SER 9.2. Finnish Competition Authority proposes a sanction on Kesko for maximum pricing
SER 9 2. New Presidents for Rautakesko Ltd and VV-Auto Oy
SER 28.2. Changes in Kesko subsidiaries' Boards of Directors

March 2005

PR 8.3. Kesko Food and UPM to test electronic price displays in Helsinki
SER 17.3. Changes in Kesko Food's and Kesko's management
SER 17.3. Rautakesko to acquire St. Petersburg DIY chain Stroymaster
SER 17.3. Kesko's Board of Directors establishes a Compensation Committee
SER 24.3. Boards of Directors of Kesko's division parent companies
SER 30.3.2005 Decisions made by Kesko Corporation's Annual General Meeting

April 2005

SER 6.4. Kesko Corporation's comparative data is in compliance with IFRS
SER 6.4. Kesko Corporation's revised financial targets and dividend policy
SER 6.4. Kesko Food improves efficiency and reforms its organisation
PR 20.4. Pirkka snack carrots are the Finnish Food Product of the Year
SER 28.4. Interim report 1.1.-31.3.2005: Pre-tax profit is EUR 68.9 million

May 2005

SER 25.5. Kesko Food's rationalisation negotiations are completed
PR 30.05. K-Alliance provides summer jobs for almost 4,600 young people in Finland
PR 31.5. Anttila launches digital online music store
PR 31.5. Kesko presents scholarships to 42 talented young athletes and art students

June 2005

SER 6.6. Rautakesko negotiates on acquisition of Norwegian hardware and building materials chain
PR 13.6. Two new K-rauta stores are opened in Riga, Latvia
SER 15.6. Rautakesko to acquire controlling interest in Norway's Norgros AS

July 2005

SER 7.7. Rautakesko concludes acquisition of Norgros
SER 20.7. Housing corporation Koy Lahden Lyhytkatu 1 demands compensation from Kesko
SER 28.7. Rautakesko concludes acquisition of Stroymaster
SER 28.7. New President for Kesko Agro Ltd
SER 28.7. Interim report 1.1.-30.6.2005: Pre-tax profit is EUR 135.4 million (EUR 93.2 million)

August 2005

SER 17.8. Arbitration decision in dispute between Kesko and Kapiteeli

September 2005

PR 7.9. Kesko is world's best in its sector in the Dow Jones sustainability index
SER 9.9. Ralf Klärich is appointed President of Kaukomarkkinat Oy
PR 30.9. Kesko Food acquires Neste Marketing's holding in Pikoil

October 2005

PR 7.10. Konekesko sells its warehouse technology business to BT
SER 11.10. Paavo Moilanen is appointed Kesko Group's Senior Vice President, Corporate Communications
PR 12.10. Kesko is awarded for best corporate responsibility reporting in Finland for fourth time
SER 12.10. Kesko Food reforms its operations and organisation
PR 14.10. Pirkka is only store private label selected for "Superbrands Finland" book
SER 27.10. Interim report 1.1.-30.9.2005: Pre-tax profit is EUR 199.6 million (EUR 152.4 million)

November 2005

PR 4.11. Tähti Optikko chain is transferred to Keswell
PR 8.11. Aatos Kivelä is appointed Konekesko's President

December 2005

SER 5.12. Kesko negotiates on sale of real estate
SER 21.12. Market Court dismisses appeal by Piscina Oy
PR 30.12. Kaukomarkkinat's Nordica A/S is named "Super Company of the Year" in Sweden

SER = stock exchange release, PR = press release

Glossary

In this glossary we have compiled a list of some key terms used in the Annual Report.

After-sales marketing refers in the car and machinery trade in particular to after-sales activities, such as maintenance, repairs, sales of spare parts, accessories and equipment.

AMS is an abbreviation of AMS Sourcing BV. Kesko Food works in cooperation with the leading European food chains in AMS.

Assortment is the number of product categories 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.

Brand is a trademark, logo or branded product. It is an embodiment of all information relating to the company product or service. A brand is an image, created by the way of doing things, by quality and the willingness to reach the set destination.

Certification of goods sold by stores is an audit carried out by an independent third to verify the compliance of operating systems with certain criteria (e.g. with an ISO standard).

Chain agreement is a contract between the retailer and Kesko that enables the retailer join one of Kesko's retail store chains. Under the terms of the chain agreement, the retailer and Kesko agree on their rights and responsibilities regarding chain operations.

Chain concept is a comprehensive description of retail business operations and guidelines for their similar implementation in all stores of the chain.

Chain 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 cooperation.

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.

Corporate responsibility refers to voluntary responsibility towards key stakeholders. It is measurable, based on the company's values and objectives, and is divided into economic, social and environmental responsibility.

Customer value refers to the chain's way of defining and communicating the benefits or values that it generates to the customer.

Dealer, for instance in the car trade, is a company authorised by the importer to sell and service branded products. The dealer meets the quality standards set by the manufacturer and the importer.

Department store is a retail store that sells a wide variety of goods. Its sales area is at least 2,500 m². In a department store, no product category accounts for over half of the total sales area.

Discounter (discount store) is a store type that relies on low prices as competitive tools. Typical features of a discounter also include a varying selection of home and speciality goods, self-service, and warehouse-type displays.

Distance sales refers to trading activities where customers do not visit store premises, but instead trade through the Internet, other electronic media or mail order.

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 that the world market price. They are also given guarantees of long contracts and opportunities for advance financing.

Groceries refer to food and other everyday products that people are used to buying when they shop for food. Groceries include food, beverages, tobacco, home chemical products, household papers, magazines and cosmetics.

Grocery store is, in most cases, a self-service food store that sells the full range of the above groceries. Food accounts for about 80% of grocery stores' total sales.

Home and speciality goods stores include clothing, shoe, sports, home technology, home goods, furniture and interior decoration stores.

HoReCa is a category consisting of large customers in the food trade, including hotels, restaurants and other catering companies.

Hypermarket is a retail store selling a wide variety of goods mainly on the self-service principle. Its sales area exceeds 2,500 m². In a hypermarket, food accounts for about half of the total area, but sales focus on groceries (food and other everyday items).

Hypermarket centre is usually located on one level. The hypermarket accounts for over 50% of the total business premises.

Intellectual capital refers to the resource that arises from the mutual interaction between the knowledge and competencies of the individuals operating in the organisation, the attitudes prevailing in the organisation and its environment, and the data management and communications systems. The company's intellectual capital arises from information, data and competencies.

K-Alliance consists of the K-retailers, the K-Retailers' Association and Kesko Group.

K-retailer is an independent chain entrepreneur who, through good service, competence and local expertise, provides additional strength for chain operations. The K-retailer entrepreneurs are responsible for their stores' customer satisfaction, personnel and profitable business operations.

K-Retailers' Association 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 1,260 – are members of the K-Retailers' Association.

Logistics is a process in which information management is used to direct the goods flow and related services throughout the entire supply chain. Logistics help optimise the quality and cost-efficiency of operations.

Mission describes the core task and purpose of the company or activity.

Neighbourhood store is usually a small grocery store, located close to consumers and easily accessible by foot. It is usually a self-service store of less than 400 m². In Finland they have unrestricted opening hours even in town plan areas.

New establishment (greenfielding) refers to new store sites or business premises.

Operations control system (ERP Enterprise Resource Planning system) is an information system that supports the planning and control of business operations. It includes the information systems supporting the core processes of the company, such as category management and purchasing logistics in the trading sector, e.g. SAP R3.

Organic product is, according to the EU regulation on organic production, a product in which at least 95% of the raw materials of agricultural origin have been organically produced.

Private label (own brand, house brand) product is a branded product made for the trading company by a manufacturer and marketed as part of a larger product family under one brand name. A company markets its private label products through its own network.

Retail trade refers to sales to consumer customers.

Sales area refers to the store area reserved for sales, such as goods areas, aisles, service counters, checkout areas and air lock entrances.

Selection is the range of products sold for the same purpose, for instance a selection of bread. Speciality stores carry a deep selection in the category.

Self-control is an entrepreneur's own control system, the purpose of which is to prevent problems arising in food hygiene. In compliance with legislation, self-control is based on HACCP (Hazard Analysis and Critical Control Points) principles. The hazards related to products are assessed, the critical control points needed for hazard monitoring are identified and then controlled. The system is applied to the hygiene of manufacturing plants' machinery and equipment, the quality of raw materials and products, the effectiveness of manufacturing processes, and transportation and warehousing conditions.

Service company is an enterprise that offers all the products and services wanted or expected by customers at the same time. The service company provides customers with a combination of products and related services, taking care of product assemblies and other user functions that may be required.

Shopping centre houses many trading companies, but has joint management and marketing. A shopping centre has one or more main companies, but no individual store accounts for over 50% of the total business premises. A shopping centre has a minimum of 10 stores, in most cases joined by a common mall.

Store-specific selection in the K-Alliance is that part of the selection of a store that is adapted for the special needs of the local market.

Store site is a business property or premises where the chain concept and related auxiliary services are carried out.

Store site fee is the term used for the payment made by the retailer to Kesko as a compensation for the use of the store site under the chain agreement and the related services offered by Kesko. The store site fee is, as a rule, calculated as a percentage of the retailer's gross profit or net sales.

Strategy is a comprehensive plan of the means the organisation intends to use in order to achieve its visions and goals.

Supermarket is a grocery store that focuses on food sales and works on a 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.

Value chain is used to define the combination of all the activities and resources needed for generating products and services. The value chain often consists of several operators (manufacturing industry, wholesale trade, retail trade, customer, etc.). The value chain ends with the customer.

Values indicate what is important, correct and worth seeking. Values guide choices in situations for which there are no clear guidelines or orders.

Vision is a mental image of the future state of a company, attained by the strategies drawn up.

Wholesale trade is purchasing from suppliers in large quantities and then selling to enterprises engaged in the retail trade.

Organisation, management and contact information

Kesko Corporation's Board of Directors and Corporate Management Board are presented on pages 46–49.

Kesko Corporation
Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 10 5311, fax +358 9 174 398
E-mail: firstname.lastname@kesko.fi

President and CEO Matti Halmesmäki
Corporate development: Corporate Executive Vice President Juhani Järvi
IT Management: Vice President, CIO Eero Vesterinen
Real Estate Services: Vice President Tapio Erme
Strategic Development: Vice President Lasse Mitronen
Human Resources: Senior Vice President Riitta Laitasalo
Finance: Senior Vice President, CFO Arja Talma
Treasury: Treasurer Heikki Ala-Seppälä
Legal Affairs, Risk Management, Internal Audit: General Counsel Anne Leppälä-Nilsson
Communications: Senior Vice President Paavo Moilanen
External Relations: Senior Vice President Erkki Heikkinen

SUBSIDIARIES

Hämeenkylän Kauppa Oy
Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 10 5311, fax +358 1053 23416
Managing Director Jukka Anttila

Keslog Ltd
Jokiniementie 31, P.O.B. 47, FI-01301 Vantaa
Tel. +358 10 53050, fax +358 1053 27021
www.keslog.fi
Managing Director Mika Salmijärvi

K-Rahoitus Oy
Tikkurilantie 10, P.O.B. 54, FI-01301 Vantaa
Tel. +358 10 5311, fax +358 1053 20556
Managing Director Jouni Järvinen

K-instituutti Oy
Siikajärventie 88-90, FI-02860 Espoo
Tel. +358 10 5311, fax +358 9 863 8571
www.k-instituutti.fi
Managing Director Eija Jantunen

K-Plus Oy
Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 10 53020, fax +358 9 698 6952
www.plussa.com
Managing Director Niila Rajala

District centres
Southern Finland
Jokiniementie 31, P.O.B. 152, FI-01301 Vantaa
Tel. +358 10 5311, fax +358 1053 28517
District Director Timo Huurtola

Eastern Finland
Päivärannantie 18, P.O.B. 46, FI-70701 Kuopio
Tel. +358 10 5311, fax +358 1052 29020
District Director Pertti Rusanen

Southwestern Finland
Rydönnotko 1, P.O.B. 116, FI-20101 Turku
Tel. +358 10 5311, fax +358 1053 21228
District Director Olli Setänen

Western Finland
Jokipohjantie 28, P.O.B. 330, FI-33101 Tampere
Tel. +358 10 5311, fax +358 1053 25448
District Director Jaakko Jussila

Northern Finland
Äimäkuja 6, P.O.B. 16, FI-90401 Oulu
Tel. +358 10 5311, fax +358 1053 30572
District Director Jari Saarinen (e-mail: jari.k.saarinen@kesko.fi)

Kesko Food Ltd
Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 10 53030, fax +358 1053 23467
President Terho Kalliokoski
K-citymarket, Food: Vice President Kari Pulli
Citymarket Oy: Managing Director Juha Ahtinen
K-supermarket: Vice President Minna Kurunsaari
K-market (K-market, K-extra, Cassa Oy, Pikoil Oy): Vice President Mika Rautiainen
Commerce: Vice President Ari Akseli
Customer relationship and human resources: Vice President Niila Rajala
Retail services: Vice President Kari Heiskanen (e-mail: kari.j.heiskanen@kesko.fi)
IT and finance: Vice President Petteri Niemi

SUBSIDIARIES

Cassa Oy
Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 1053 030, fax +358 1053 22169
Managing Director Timo Lavikainen

Citymarket Oy
Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 10 5311, fax +358 1053 23492
www.citymarket.fi
Managing Director Juha Ahtinen

Kespro Ltd
Sähkötie 1, Vantaa, P.O.B. 15, FI-00016 Kesko
Tel. +358 10 53040, fax +358 9 851 4452
www.kespro.com
Managing Director Minna Laakkonen

Pikoil Oy
Satamakatu 3, Helsinki, FI-00016 Kesko
Tel. +358 2074 22000, fax +358 2074 22099
www.pikoil.fi
Managing Director Markku Kivinen

JOINT VENTURES

Rimi Baltic AB
CEO Antonio Soares
c/o Rimi Baltic SIA
Deglava iela 161, LV-1021 Riga, Latvia
Tel. +371 704 5550, fax +371 704 555
E-mail: info@rimibaltic.com
www.rimi.lv

Rautakesko Ltd
Tikkurilantie 10, FI-01380 Vantaa
(P.O.B. 75, FI-01301 Vantaa)
Tel. +358 10 53032, fax +358 9 857 4783
www.rautakesko.com
President Jari Lind
Foreign operations and Executive Vice President Mikael Forss
K-rauta chain and B-to-B Service: Vice President Olli Honkasaari
Rautia chain: Vice President Jorma Mykrä
Sourcing and logistics: Vice President Sakari Malka
Retail services: Vice President Jouko Björkman
Finance and administration: Vice President Jukka Sipilä
International projects: Vice President Matti Vatanen

SUBSIDIARIES

Norgros AS
Snipetjenveien 7, Postboks 650, NO-1401 Ski, Norja
Tel. +47 6491 4000 fax +47 6491 4000
E-mail: webmaster@norgros.no
www.norgros.no
www.byggmakker.no
Managing Director Mikael Forss

Rautakesko AS
Tähetorni 100a, EE-11625 Tallinn, Estonia
Tel. +372 6 257 501, fax +372 6 257 563
E-mail: info@rautakesko.ee
www.k-rauta.com
Managing Director Raul Kadaru

AS Rautakesko
Rencenu iela 21, LV-1073 Riga, Latvia
Tel. +371 7 810 090, fax +371 7 810 178
E-mail: rautakesko@rautakesko.lv
www.k-rauta.com
Managing Director Guntis Sokolovskis

UAB Senuku prekybos centras
Pramones pr. 6, LT-51500,
Kaunas-31, Lithuania
Tel. +370 37 304 804, fax +370 37 304 803
E-mail: kanc@senukai.lt
www.senukai.lt
Managing Director Arturas Rakauskas

K-rauta AB
Bagarbyvägen 61, SE-19134 Sollentuna,
Sweden
Tel. +46 8 625 6900, fax +46 8 625 6998
E-mail: info@k-rauta.se
www.k-rauta.com
Country Manager, Sweden: Jani Jylhä

ZAO Kestroy
Ul Ryabinovaya 43 A, RU-121471 Moscow,
Russia
Tel. +7095 447 1836, fax +7095 913 9048
E-mail: sales@kestroy.ru
www.kestroy.com
Managing Director Ilkka Sinkkonen

ZAO Stroymaster
Utkin pr. 15a, RU-195112, St. Petersburg,
Russia
Tel. +7812 326 9595, fax +7812 529 2581
E-mail: office@tecs.ru
www.tecs.ru
Country Manager, Russia: Ilkka Sinkkonen

Keswell Ltd

Valimotie 17, Helsinki, FI-00016 Kesko
Tel. +358 10 53031, fax +358 1053 39108
President Matti Laamanen
Executive Vice President Matti Leminen
Kesko Sports: Vice President Jussi Mikkola
Musta Pörssi Kesko: Vice President
Martti Toivanen
Kesko Shoes: Vice President Leena Havikari
Chain services: Vice President Pasi Mäkinen

SUBSIDIARIES

Academica Oy
Isonniitynkuja 2, FI-02270 Espoo (P.O.B. 22,
FI-00016 Kesko)
Tel. +358 1053 46600, fax +358 1053 46611
www.academica.fi
Managing Director Jaakko Rytilä

Anttila Oy
Valimotie 17, Helsinki, P.O.B. 1060,
FI-00016 Kesko
Tel. +358 10 5343, fax +358 1053 40109
www.anttila.fi
Managing Director Matti Leminen

Indoor Group Ltd
Iso-Paavolankatu 2, FI-15100 Lahti
Tel. +358 3 554 11, fax +358 3 554 2400
Managing Director Lasse Lehtinen

Interwell Oy
Valimotie 17, Helsinki, FI-00016 Kesko
Tel. +358 1053 40950, fax +358 9 176 780
Managing Director Juha Nurminen

Jättipörssi Oy
Valimotie 9, FI-01510 Vantaa
Tel. +358 9 7597 1844, fax +358 9 7597 1829
Managing Director Arto Rasi

Motorfeet Oy
Valimotie 17, Helsinki, FI-00016 Kesko
Tel. +358 1053 39237, fax +358 9 224 6730
Managing Director Kati Tersa

Tähti Optikko Group Oy
Martinkyläntie 54, FI-01720 Vantaa
Tel. +358 9 852 991, fax +358 9 854 3053
Managing Director Rainer Nyman

VV-Auto Oy

Hitsaajankatu 7 B, P.O.B. 80,
FI-00811 Helsinki
Tel. +358 9 75 831, fax +358 9 758 3267
www.audi.fi, www.seat.fi, www.volkswagen.fi
President Pekka Lahti

SUBSIDIARIES

Auto-Span Oy
Hitsaajankatu 7 B, P.O.B. 80,
FI-00811 Helsinki
Tel. +358 9 75 831, fax +358 9 758 3356
Managing Director Veikko Ålander

Helsingin VV-Auto Oy
Mekaanikonkatu 10, FI-00880 Helsinki
Tel. +358 1053 33200, fax +358 1053 33300
Managing Director Lauri Halminen

Turun VV-Auto Oy
Rieskalähteenkatu 89, FI-20300 Turku
Tel. +358 2 338 881, fax +358 2 338 8801
Managing Director Pirkko Keskinen

Konekesko Ltd

Vanha Porvoontie 245, P.O.B. 145,
FI-01301 Vantaa
Tel. +358 10 53034, fax +358 1053 20505
www.konekesko.com
President Aatos Kivelä

Kesko Agro Ltd

Tikkurilantie 10, FI-01380 Vantaa
(P.O.B. 54, FI-01301 Vantaa)
Tel. +358 10 53033, fax +358 9 857 4729
www.k-maatalous.fi
President Seppo Hämäläinen
Executive Vice President Kimmo Vilppula
Finance Director Antti Ollilla
Sales Director, Agricultural machines and
supplies, Juha Nuutila
Sales Director, Grain, animal feed and
fertilisers, Jouni Oksanen

K-Alliance's Experimental Farm
Hahkialantie 57, FI-14700 Hauho
Tel. +358 10 53033, fax +358 1053 38130
www.k-koetila.fi

SUBSIDIARIES

Härkätien Maatalous-Rautakauppa Oy
Härkätie 3, FI-31400 Somero

UAB Kesko Agro Lietuva
Savanoriu pr. 191, LT-02300 Vilnius,
Lithuania
Tel. +370 5 247 7400, fax +370 5 247 7420
www.keskoagro.com
Managing Director Paulius Kibisa

Kesko Agro Eesti AS
Põrguvälja tee 3 a, Pildiküla, Rae vald,
EE-75301 Harju mk, Estonia
Tel. +372 605 9100, fax +372 605 9101
www.keskoagro.com
Managing Director Tõnu Kelder

SIA Kesko Agro Latvija
Vienibas Gatve 93, LV-1058 Riga, Latvia
Tel. +371 7 805 421, fax +371 7 805 420
www.keskoagro.com
Managing Director Peteris Stupans

Kaukomarkkinat Oy

Kutojantie 4, P.O.B. 40, FI-02631 Espoo
Tel. +358 9 5211, fax +358 9 521 6641
www.kaukomarkkinat.fi
President Ralf Klärich

Service numbers

Plussa customer service
Mon-Fri 8.00-21.00, Sat 8.00-18.00
+358 800 0 5588

Kesko Food's consumer service
Mon-Fri 9.00-13.00
+358 800 0 1000

Information for shareholders

Financial reporting calendar and other key dates in 2006

Year 2005 financial statements	7 February 2006
Year 2005 Annual Report and audited financial statements	3 March 2006
Year 2006 Annual General Meeting	27 March 2006
Interim Report for the first 3 months of 2006	27 April 2006
Interim Report for the first 6 months of 2006	1 August 2006
Interim Report for the first 9 months of 2006	26 October 2006

In addition, the Group's sales figures are published monthly and the K-Alliance's retail sales figures are published in connection with Interim Reports.

Annual General Meeting

The Annual General Meeting of Kesko Corporation will be held in the Helsinki Fair Centre's congress wing, Messuaukio 1 (congress wing entrance), on 27 March 2006 at 13.00 hrs.

All shareholders entered in the register of Kesko Corporation shareholders kept by the Finnish Central Securities Depository Ltd on 17 March 2006 (Annual General Meeting record date) are entitled to attend the Annual General Meeting.

Shareholders wishing to attend the meeting should notify, not later than 20 March 2006 at 16.00 hrs,

- by letter to Kesko Corporation/Legal Affairs, FI-00016 Kesko,
- by fax to +358 1053 23421,
- by telephone to +358 1053 23211,
- by e-mail to taina.hohtari@kesko.fi or
- through the Internet pages at www.kesko.fi/investors.

Notifications must be received by the end of the notification period.

More information about the Annual General Meeting, attendance and decision-making are given under the heading 'Corporate Governance Statement' on pages 40-45.

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 1.10 per share be paid for 2005. 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 30 March 2006 (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 27 March 2006. 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 6 April 2006.

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 the 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/media.

Kesko also publishes a separate Corporate Responsibility Report in Finnish and English.

Publications may be ordered from
Kesko Corporation/Corporate Communications
FI-00016 Kesko
Tel. +358 1053 22404
fax +358 9 174 398
Internet: www.kesko.fi/material

Change of address

Shareholders should notify changes of address to the bank, brokerage firm or other account operator with which they have a book-entry securities account.

Information about Kesko for investors

Communications policy and principles

The purpose of Kesko's communications is to promote the business of the Group and cooperation partners by taking the initiative in providing stakeholders with correct information on Group objectives and operations. The general principles followed in providing communications also include openness, topicality and truthfulness. No comments are made on confidential or unfinished business, nor on competitors' affairs.

The primary objective of communications is to describe what added value Kesko and its cooperation partners generate for consumers and other customers, whose impressions and behaviour ultimately decide Kesko's success.

Investor information

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

In its investor communications, Kesko follows the principle of impartiality and publishes all investor information on its Internet pages in Finnish, 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 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 (www.kesko.fi/material) 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.

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 General Counsel is responsible for ensuring that the rules related to stock exchange information are observed at Kesko. The Group's Senior Vice President, CFO is responsible for the financial contents of stock exchange information, while the Corporate Executive Vice President is responsible for investor information. The Corporate Communications unit produces Group-level communications material and is responsible for providing stock exchange and financial information.

IR contacts

Juhani Järvi, Corporate Executive Vice President
Tel. +358 1053 22209, fax +358 9 657 465

Jukka Pokki, Investor Relations Manager
Tel. +358 1053 22645
Mobile +358 50 65 632, fax +358 9 174 398

Arja Talma, Senior Vice President, CFO
Tel. +358 1053 22113, fax +358 9 624 679

Corporate Communications

Paavo Moilanen, Senior Vice President
Tel. +358 1053 22764, fax +358 9 174 398

E-mail: firstname.lastname@kesko.fi

Brokerage firms analysing Kesko

Aktia Savings Bank plc, Helsinki
Magnus Boman
Tel. +358 1024 76581, fax +358 1024 76809
firstname.lastname@aktia.fi

ABN AMRO Alfred Berg, Helsinki
Tel. +358 9 228 321, fax +358 9 2283 2283
firstname.lastname@alfredberg.fi

D. Carnegie AB, Helsinki
Tel. +358 9 6187 1235, fax +358 9 6187 1219

Deutsche Bank, Helsinki
Pontus Grönlund
Tel. +358 9 2525 2552, fax +358 9 2525 2585
firstname.lastname@db.com

EQ Pankki Oy, Helsinki
Kalle Karppinen
Tel. +358 9 2312 3314, fax +358 9 2312 3335
firstname.lastname@eqonline.fi

FIM Securities Ltd, Helsinki
Kim Gorschelnik
Tel. +358 9 6134 6234, fax +358 9 6134 6251
firstname.lastname@fim.com

Handelsbanken Securities, Helsinki
Maria Wikström
Tel. +358 1044 42752, fax +358 1044 42578
firstname.lastname@handelsbanken.fi

Kaupthing Bank Oyj, Helsinki
Mika Metsälä
Tel. +358 9 4784 0241, fax +358 9 4784 0111
firstname.lastname@kaupthing.fi

Mandatum Stockbrokers Ltd, Helsinki
Noora Alestalo
Tel. +358 1023 64794, fax +358 9 651 093
firstname.lastname@mandatum.fi

Opstock Oy, Helsinki
Jari Räisänen
Tel. +358 1025 24408, fax +358 1025 22703
firstname.lastname@opstock.fi

SEB Enskilda, Helsinki
Kari Paajanen
Tel. +358 9 6162 8714, fax +358 9 6162 8769
firstname.lastname@enskilda.fi

Standard & Poor's Equity Research, Stockholm
Stellan Hellström
Tel. +46 8 5450 6953 , fax +46 8 400 5901
firstname_lastname
@standardandpoors.com

441 014
Printed matter

Spokesman Oy/Libris Oy 2006

KESKO

www.kesko.fi

Business ID 0109862-8