2006
Kesko's year

Outdoor exercise!

Exercise and outdoor activities are increasingly part of the Finnish life style. Intersport's comprehensive store network provides a wide selection of goods and services for this quality-conscious consumer group.

Contents

The Group

Kesko in brief

Kesko is a Finnish retail specialist which provides products and services valued by consumers in the Nordic countries, the Baltic countries and Russia in close cooperation with retailer entrepreneurs and other partners.

Our core competence areas

- Development and management of trading concepts and brands
- Development of store site network
- International retail expertise
- Generating sourcing, logistics and support services for cooperation partners
- Combining retailer entrepreneurship and chain operations efficiently
- Benefiting from centralised resources and economies of scale

Divisions

Kesko Food | Page 20
Kesko Food's retail chains are K-citymarket, K-supermarket, K-market and K-extra. Kesko Food manages K-food store chains and combines their purchasing power, arranges efficient logistics, acquires store sites and guarantees strong marketing and development support for K-food stores. K-food retailers are responsible for delivering the customer promise in their stores. Kesko Food's subsidiary Kespro Ltd offers delivery sales and wholesale services to HoReCa customers.

Rautakesko | Page 26
Rautakesko is engaged in the hardware and builders' supplies and interior decoration trade through the K-rauta, Rautia, Byggmakker and Senukai retail chains. Rautakesko manages its chains, combines their purchasing power, arranges efficient logistics, acquires store sites and guarantees strong marketing and development support to the stores. Rautakesko operates in the Nordic countries, the Baltic countries and Russia. Some of Rautakesko's retail stores are owned by retailer entrepreneurs and some by the company. Rautakesko's B-to-B Service customers include building firms, industry and other professional customers.

VV-Auto | Page 30
VV-Auto imports Volkswagen, Audi and Seat passenger cars and Volkswagen commercial vehicles. VV-Auto is also engaged in car retailing and provides after-sales services.

Anttila | Page 32
Anttila is a company focusing on department store trade. Anttila comprises Anttila department stores, Kodin Ykkönen department stores for home goods and interior decoration, Anttila Mail Order, and the NetAnttila online department store.

Kesko Agro | Page 35
Kesko Agro operates the K-maatalous and Kesko Agro chains. The company 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.

Other business operations | Page 38
Konekesko is a service company specialised in the import and sale of construction and environmental machinery, trucks and buses, and recreational machinery. In addition, Konekesko sells forest machinery through Kesko Agro in the Baltic countries, has Yamarin boats manufactured and sells them in Finland and exports them to other European countries.

Kauko-Telko specialises in international technical trading in the Nordic countries, the Baltic countries, Poland, China and Russia, particularly in the St. Petersburg and Moscow areas.

Furniture and interior decoration trade
Indoor Group is a retailer of home furniture and interior decoration items, which operates in Finland and its neighbouring countries. Its retail chains are Asko and Sotka.

Sports trade The K-Group's sports store chains are Intersport, Kesport and Budget Sport.

Home technology trade The Musta Pörssi chain offers home technology products and services.

Shoe trade The K-Group's stores that specialise in shoe retailing are K-kenkä and Andiamo.

Tähti Optikko is a chain selling branded optical products in Finland.

1. Finland
All Kesko's divisions

2. Sweden
Hardware and builders' supplies trade
Furniture trade

3. Norway
Hardware and builders' supplies trade

4. Baltic countries
Hardware and builders' supplies trade
Agricultural trade
Machinery trade
Furniture trade

5. Russia, St. Petersburg and Moscow area
Hardware and builders' supplies trade

DIY life

Interest in home decoration and renovation has increased markedly. The K-Group's hardware and builders' supplies stores focus on skilled service and advice for Do-It-Yourself and professional customers alike.

Year 2006 in brief

Record year 2006

- The Kesko Group's net sales increased by 10.4% to €8,749 million.
- Net sales in Finland increased by 4.3% to €6,950 million. Net sales in other countries grew by 42.7% to €1,799 million, accounting for 20.6% of the total net sales.
- Customer satisfaction improved.
- K-food stores' sales took an upward turn.
- Rautakesko's growth in Finland and other countries continued.
- The Group's operating profit excluding non-recurring items was €280 million (€216 million).
- The consolidated earnings per share were €3.76 (€1.87).
- The market capitalisation of the company increased by €1,534 million to €3,852 million during the year.
- Board of Directors proposes to the Annual General Meeting that €1.50 per share be distributed as a dividend for the year 2006.

Food sales increased

Kesko Food reformed its strategy by clarifying its chain concepts and the chains' customer promises. K-food stores' strategy of focusing on service, quality and improving price competitiveness was successful. K-food stores' sales growth accelerated throughout the year and exceeded market growth in late 2006. Investments in the store site network increased. Pirkka, Kesko Food's private label, celebrated its 20th anniversary. Pirkka products have steadily increased their proportion of the total sales and their number has exceeded 1,500.

Strong internationalisation of Rautakesko continued

The Byggmakker chain of Norway and the Stroymaster chain of Russia acquired in 2005 were successfully incorporated to Rautakesko. Rautakesko's net sales and profit increased in all the operating countries. Three new stores were opened in Finland, one in Sweden and four in the Baltic countries. Two new K-rauta outlets were opened in St. Petersburg, Russia. There is a logistics centre under construction in Kaunas, Lithuania. In terms of sales, Rautakesko is now one of the five largest European hardware and builders' supplies companies.

Department store trade increasing

Anttila's net sales increased by 6.0% in 2006. Sales at Kodin Ykkönen department stores for interior decoration and home goods grew by 10.3% and sales at Anttila department stores increased by 3.7%. Anttila's distance sales increased by 7.9%. In financial terms, the best-selling product groups of NetAnttila were entertainment electronics, information technology and digital cameras.

The Kesko Group was reorganised by making a decision to merge Keswell Ltd into Kesko Corporation. Keswell's subsidiaries will continue operating as independent companies owned by Kesko Corporation. Matti Leminen, Managing Director of Anttila Oy, was appointed as a member of the Corporate Management Board as from 1 January 2007.

Reform project of the customer loyalty programme started

A reform of the K-Plussa customer loyalty programme was started and a decision was made to launch new K-Plussa cards in spring 2007. The K-Group and the OP Bank Group signed an agreement on the joint development of the K-Plussa cards and other long-standing cooperation. Pirkka, the customer loyalty magazine of K-Plussa, has the largest circulation of all Finnish periodicals.

Kesko sold retail store properties and its shareholding in Rimi Baltic AB

Kesko sold 77 retail store properties in different parts of Finland to Niam Retail Holding Finland AB at the price of over €200 million. The gain on the disposal was €99.3 million.

On 18 December 2006, Kesko Food sold its 50% shareholding in Rimi Baltic AB to ICA Baltic AB for €190 million. The gain on the disposal of shares to Kesko amounted to €131 million. At the same time, the food trade properties owned by a Kesko subsidiary were sold to Rimi Baltic AB. Kesko is expected to gain approximately €25 million on the disposal of the properties. The amount will be recognised for the first quarter of the year 2007. The plan is to use the proceeds to finance the international growth of the Kesko Group in Russia, for example, and store site investments in Finland.

Market value increased

At the end of 2006, the price of Kesko's B share was €40.02, an increase of 67% during the year. The proportion of foreign owners of the B shares increased from 40% to 50% during the year.

Financial highlights for 2006

KEY INDICATORS FOR 2006

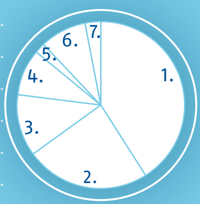
		2006	2005	Change, %
Net sales*	€ million	8,749	7,922	10.4
Operating profit*	€ million	363	245	48.1
Operating profit excl. non-recurring items*	€ million	280	216	29.6
Profit before taxes*	€ million	358	236	51.7
Return on invested capital	%	22.6	12.5	81.1
Return on equity	%	23.1	13.0	77.9
Investments*	€ million	251	367	-31.8
Cash flow from operating activities	€ million	328	298	10.1
Equity ratio	%	47.0	42.3	11.1
Gearing ratio	%	11.9	42.4	-71.8
Personnel (average)		23,756	21,305	11.5
Dividend per share**	€	1.50**	1.10	36.4
Earnings per share, diluted	€	3.76	1.87	(..)
Equity per share, diluted	€	17.94	15.35	16.9

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

NET SALES BY DIVISION 2006*, %

1. Kesko Food 41.1%
2. Rautakesko 24.2%
3. Keswell 11.9%
4. VV-Auto 9.0%
5. Konekesko 2.3%
6. Kesko Agro 8.6%
7. Kauko-Telko 2.8%

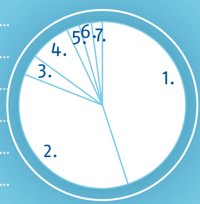
* continuing operations



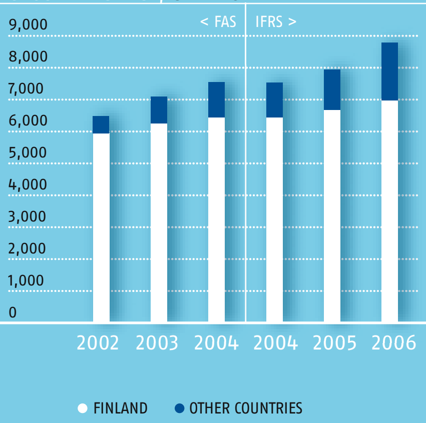
OPERATING PROFIT EXCL. NON-RECURRING ITEMS BY DIVISION 2006*, %

1. Kesko Food 42.4%
2. Rautakesko 30.0%
3. Keswell 10.6%
4. VV-Auto 9.7%
5. Konekesko 2.6%
6. Kesko Agro 2.6%
7. Kauko-Telko 2.0%

* continuing operations

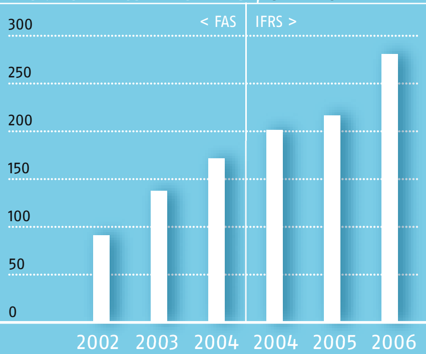


GROUP NET SALES*, € MILLION



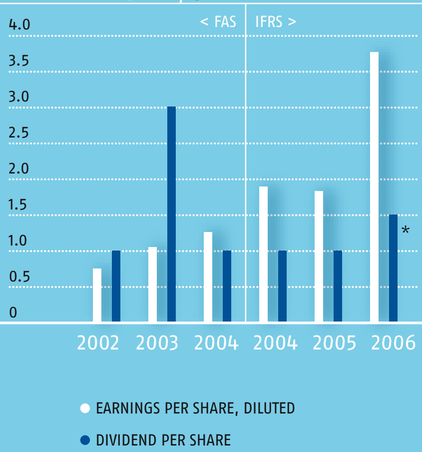
* continuing operations

GROUP'S OPERATING PROFIT EXCL. NON-RECURRING ITEMS*, € MILLION



* continuing operations

EARNINGS PER SHARE AND DIVIDEND PER SHARE, €



*proposal to the Annual General Meeting

Review by the President and CEO

Helsinki, 15 February 2007

MATTI HALMESMÄKI
President and CEO

Successful year 2006

Kesko implements a strategy of healthy, focused growth, the key content of which is exceeding the expectations of K-store customers and increasing Kesko's shareholder value. In addition to the stable Nordic market, Kesko seeks growth from the rapidly expanding Baltic and Russian markets. The retail market experienced good growth in all our operating areas in 2006. The Kesko Group's sales increased by over 10% and operating profit excluding non-recurring items reached a record level. All divisions of the Group were profitable and Kesko achieved its key objectives. Net profit for the period amounted to €379 million due to the good operating profit and exceptionally high gains on disposals. In 2006, Kesko's share price reached an all-time high to date during its 45 years on the stock exchange, exceeding €42 at the end of the year.

K-food stores' sales growth strengthened throughout last year and clearly exceeded market growth towards the end of the year. A key success factor is that every K-food store has a competent and active K-retailer who serves the local customers together with his or her staff. Strengthening the market share necessitates strong further development of competitiveness and significant investments in the store network. As the operational connection of Rimi Baltic with other business operations remained smaller than expected, we sold our shareholding in the joint venture to ICA and recognised a gain of €131 million for the transaction. Kesko is now establishing whether it has sufficient basis and grounds to expand Kesko Food's operations into the Baltic countries and Russia in the near future.

Rautakesko succeeded excellently in Finland, Lithuania, Norway, Russia, Sweden, Estonia and Latvia, that is, in all of its operating countries. As the company's international business has increased rapidly, it has reached the vanguard of the European hardware and builders' suppliers companies. Rautakesko will continue its strong store site investments, particularly in Russia, over the next few years.

Kesko's high level of internally generated funds and the store site realisations made last year, exceeding €770 million in all, provide a good basis for investments and distributing dividends in line with the dividend policy. Despite these, Kesko's equity ratio will remain at a high level.

Kesko's responsible operations and continuous efforts to be a decent corporate citizen were again awarded in many international quarters. Kesko was, for example, ranked the best reporter of corporate responsibility in the world in the trading sector for the third time in the comparison commissioned by UNEP, the UN Environmental Programme.

Kesko employs approximately 27,000 people and the K-stores about 23,000 trading sector professionals. Kesko's stores and units outside Finland have about 10,000 employees who represent 17 different nationalities. The change has been fast, as Kesko opened the first K-rauta stores in Sweden as late as 1996. Kesko has not hesitated to trust in and benefit from our local employees' know-how, which has been a key factor in the rapid expansion into new international markets. The employees' motivation, diversified competencies and job satisfaction are a guarantee of continued success.

K-store customers have the right to expect high-quality products, diversified selections and excellent service at every visit to the store and always at competitive prices. We make every effort to continuously deliver this customer promise and are also currently preparing a reform of the K-Plussa customer loyalty system, to be launched in 2007, in cooperation with the OP Bank Group and our other business partners.

I wish to extend my warmest thanks to all Kesko employees for their diligence and commitment to our common objectives. 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 2006.

Vision, values and goals

Business

Kesko is a Finnish retail expert that provides products and services valued by consumers in the Nordic countries, the Baltic countries and Russia in close cooperation with retailer entrepreneurs and other partners. Kesko manages retail store chains, develops trading concepts and operating systems, information management and logistics services. Kesko's operations include food, hardware and builders' supplies, car, department store, agricultural and machinery trade.

Vision

Kesko is the leading provider of trading sector services and a highly valued listed company.

Values

We exceed our customers' expectations	We recognise our customers' needs and expectations. We strive to meet and exceed customer expectations at every visit to the store.
We are the best operator in the trading sector	We offer our customers the best products and services in the market at competitive prices.
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.
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.

Goals

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

The 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 in excess of market growth
- Proportion of international operations on the increase

Store on home computer

More and more consumers shop for music, electronics and clothing online. NetAnttila is one of the biggest online department stores in Finland and offers an easy and low-cost way of making purchases whenever the customer so chooses.

Strategic emphases

Kesko's strategy emphasises healthy, focused growth, sales and services to consumer-customers, and cost-efficient business models.

Healthy, focused growth

Kesko's strategic objective is to strengthen its position in selected markets and to increase its market shares profitably. We seek growth from the stable Nordic market and in particular from the strengthening Baltic and Russian markets. Neighbouring areas of Finland provide major opportunities for growth, particularly in the housing and interior decoration trade and above all in Russia.

Kesko has rapidly become an international Group during recent years and about one fifth of net sales already come from international operations. Expansion has been achieved through business acquisitions and establishing new stores.

The spearhead in the internationalisation process has been the hardware and builders' supplies trade, which is now being expanded in Northwest Russia in particular. Rautakesko's objective is to become the market leader in the Baltic countries, the Nordic countries and selected areas in Russia. In the agricultural and machinery trade, the objective is to establish the position of the market leader in the Baltic countries. In addition, new markets are explored in the food and speciality goods trade.

The objective is to raise K-food stores' sales growth to the level that permanently exceeds the market growth.

Sales and services to consumer-customers

Kesko's strategic growth area is sales to consumer-customers. Kesko supervises the retailing of individual retailers with chain operations. In addition, Kesko has retail stores of its own. Retailer entrepreneurship differentiates Kesko from its competitors and creates a significant competitive edge. Kesko provides a first-class setting for its retailer entrepreneurs to serve their customers with the best possible products and services.

Success in the consumer-customer trade requires high customer satisfaction, clear customer and brand promises and delivering these promises on every visit to the store. Customer promises are delivered with good service, high-quality and competitively priced products, and a comprehensive store network.

In order to achieve customer satisfaction which exceeds that of competitors and to build competitive customer loyalty, the reward and payment card features of K-Plussa will undergo a reform. The target is better exploitation of loyal customer data in selection decisions and marketing. The customer loyalty card will also become more versatile.

Cost-efficient business models

Kesko's strategy emphasises the use of different business models (retailer operations, partnerships, own retailing and wholesale trade) in different market and competitive situations.

The combination of retailer entrepreneurship and efficient chain operations creates a good basis for Kesko's growth. Kesko has a great deal of experience and expertise in making full use of retailer business models.

The growth of the Kesko Group in Finland, and particularly in other countries, places high efficiency demands on commercial and supporting activities. Increasing volumes and efficiently managing the operations chain all the way from producers to customers necessitate an ability to capitalise on the Group's economies of scale to the benefit of customers. In the future, better use will be made of the synergies between the various divisions of the Group.

Steering based on information enables significant efficiency improvements in the formation of selections, pricing and delivery chain guidance. Automatic business operations control systems for compiling orders and selections will be developed to achieve efficiency benefits.

The increasing role of information technology in store operations calls for continuous development of operations and competencies. Other essential tools for improving competencies and the profitability of work include the K-instituutti, which acts as the service centre for developing retailing competencies, and data management.

Kesko's strategic emphases

Sales and services to consumer-customers

- Customer satisfaction exceeding that of competitors
- Keeping customer and brand promises

KESKO

Healthy, focused growth

- Significant internationalisation
- Increasing market shares

Cost-efficient business models

- Efficient combination of retailer entrepreneurship and chain operations
- Capitalising on economies of scale
- Management of knowledge and information technology
- Excellent personnel competencies and HR management

Financial objectives

OBJECTIVE	TARGET LEVEL	REALISATION 2006
Growth in net sales	In Finland growth exceeding that of market	Realised: Rautakesko, VV-Auto
	Increasing proportion of international operations	Growth 4.7 percentage points
Return on equity	12%	23%
Return on invested capital	12%	23%
Interest-bearing net debt/EBITDA	< 3%	0.4%
Equity ratio	40 – 45%	47%
Economic value added	Internal indicator growing positive EVA	Realised

Success factors

Customer service

According to Kesko's strategy, consumers are our key customer group. Customers are served with three different business models.

1) Retailing through retailer entrepreneurs

Retailing through retailer entrepreneurs is the principal business model in the Finnish market. For example, in Finland all K-food and K-rauta stores are run by retailer entrepreneurs. Different entrepreneurial systems are also used in other operating countries, such as Norway and the Baltic countries. Retailer entrepreneurship differentiates Kesko from its competitors and provides a significant competitive advantage. Kesko's duties include providing a first-class setting for its retailer entrepreneurs to serve their customers with the best possible products and services. Retailers' duties include delivering the customer promise of the chain they represent and generating added value to customers.

The cooperation system between Kesko and K-retailers, including the various services, has been developed during many decades.

At the end of 2006, Kesko had 1,294 K-retailer entrepreneurs as partners, and in addition, about 250 other retailer partners in the Asko, Sotka, Tähti Optikko, Byggmakker and Senukai chains. Kesko's sales to retailer partners accounted for 43% of Kesko's net sales in 2006.

Some 70-100 new K-retailers in Finland complete the K-retailer trainee programme annually. A comprehensive package consisting of finance, accounting, marketing and other store establishment services has been developed to support novice retailers. In 2006, a total of 126 new K-retailers started their careers.

Kesko in the value chain of trade

2) Kesko's own retailing

Own retailing is the principal business model in Kesko's operations outside Finland. It is also used in Finland in certain product lines. Kesko's own retail stores in Finland include Anttila and Kodin Ykkönen department stores. In addition, Kesko is also responsible for retailing home and speciality goods in the K-citymarket chain. Online commerce also offers fast growing business opportunities.

At the end of 2006 Kesko's own retailing accounted for 31% of net sales.

3) B-to-B sales

In addition to retailing, Kesko is engaged in B-to-B sales. Kesko's typical business customers include institutional kitchens, building companies, VV-Auto dealers, agricultural entrepreneurs and the manufacturing industry. In recent years, various services and prefabrication of products have increased their share of the B-to-B sales, too.

In 2006, B-to-B sales accounted for 26% of net sales.

Marketing and store support

Compiling and analysing loyal customer information and increasing customer understanding

Kesko's critical success factors include increasing customer satisfaction and customer loyalty with the help of customer information. Customer relationships are emphasised in Kesko's vision and values. The implementation of the K-Group's key value "we exceed our customers' expectations" requires in-depth customer knowledge. We must understand customer needs, wishes and expectations better than our competitors do in order to provide excellent and more efficient service.

Collecting and saving reliable customer information in a sufficient quantity is of primary importance in customer relationship analysis. The purchases registered to the Plussa system cover consumers' purchases from retail stores of the K-Group. Customer information in the Plussa system is household-specific. The customer database of Plussa accounts for some 72% of Finnish households and about 76% of the K-Group's retail sales in Finland.

K-Plus Oy produces services that are based on customer information and support business operations for the K-Group's chains and stores and the Plussa network. Exploitation of customer segment and product group level receipt line information has been improved in 2006. Key areas of its application include chain concepts, selection planning and purchasing, and marketing and customer relationship management.

The use of customer information has increased in targeting both addressed and unaddressed marketing material. Results obtained from the use of the targeting tools offered by K-Plussa have been good.

Services offered by K-Plussa are undergoing continuous development. The Food Style segmentation that illustrates households' grocery purchases was launched in 2006 and its applications range from selection planning to marketing. The new customer segmentation model of Kesko Food and K-food stores, which was introduced at the beginning of 2007, divides the customers into key, loyal, potential and occasional customers. The fifth that buys most account for over 60% of the Plussa sales of K-food stores.

Plussa will reform and develop its customer loyalty programme during 2007, introducing an even more versatile and interesting opportunity for Plussa customers to exploit their customer loyalty relationship in the K-Group. At the same time the payment features of the Plussa card will be enhanced considerably.

Store concepts, brand management and store sites

Profiling and differentiation from competitors are important tools in the expanding and tightening competitive environment in the trading sector, where stores must create differentiation methods of their own with store concepts and brands.

At present Kesko operates 27 store concepts in Finland and other countries. The best-known of them are food store chains: K-citymarket, K-supermarket, K-market and K-extra; hardware and builders' supplies store chains: K-rauta and

Brands for the brand-conscious

Even the most critical customers find just those products they need at K-citymarkets. One-stop-shopping provides them with everything from groceries to clothing, from leisure goods to home care supplies.

Rautia, and Byggmakker (Norway) and Senukai (Lithuania), and home and speciality goods store chains: Anttila, Kodin Ykkönen, Asko, Sotka, Musta Pörssi and Intersport. Kesko has been the name of the company from the very beginning. 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.

The above mentioned brands are well-known by nearly all Finns who associate them with the K-Group. 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.

Pirkka, the K-food stores' private label, is the best-known trading sector private label in Finland. Pirkka celebrated its 20th anniversary in 2006.

The Pirkka range's share of the total sales has grown considerably in recent years and the range now comprises over 1,500 quality groceries valued by customers. 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.

Chain operations have been the most successful business model in the trading sector in recent years. Stores operating with the same concept can increase customer satisfaction, operational efficiency and, ultimately, profitability. The efficiency of chain operations combined with the flexibility of retailer entrepreneurship creates Kesko's competitive advantage.

The right store site location is one of the essential success factors. A key to the K-Group's success has been the store network for whose long-term development Kesko is responsible. Store sites and real estate are a significant part of Kesko's assets (more information on pages 46–47). Their value can be further increased by store site life-cycle management, which is one of Kesko's important competence areas.

Internationalisation management

Rapid international growth has considerably increased Kesko's competencies in different 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 greenfielding. In new international projects, market surveys and risk management play a central role. Selecting the right acquisitions, their integration in Kesko's business, establishing stores and creating organisations represent new key competence areas in internationalisation at Kesko.

For Kesko, internationalisation has above all been a pathway to growth. In many business lines, fast growth would not have been possible in the restricted Finnish market. International growth has expanded and intensified cooperation with suppliers, which is of decisive importance for competitive ability.

HR development

Kesko and the K-Group stores have always considered the continuous development of personnel as very important. One indication of this is that Kesko has a training centre of its own, K-instituutti, which specialises in the training of retail store staff, managers and retailers. In 2006, a total of about 7,700 persons participated in the K-instituutti training programmes.

The Kesko personnel's competencies are developed on a long-term basis and systematically. Areas of emphasis include expertise in retailing and international commerce, customer and service competencies, and training future managers.

Kesko has defined the core competencies of the Group, considered necessary for implementing Kesko's business strategies and delivering the chains' customer promises. On the basis of the core competencies, Kesko has defined the critical competencies that create or strengthen the Group's core competencies and improve competitiveness. These competence areas are highlighted in all HR development programmes.

More information about personnel can be found on page 48.

Kesko's core competencies are:

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

Synergy benefits from operations

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

Synergy areas include:
- Investment in information technology
- Chain control and other business models
- Store site operations
- Finance
- Competence development
- Purchasing and logistics
- Customer loyalty system
- Marketing
- Media uses

Data management and logistics

Enhancing sourcing and logistics

Combining the purchasing power to achieve low unit costs is a central issue behind Kesko's operations. This has also created diversified partner networks for Kesko.

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

Suppliers in the retailing sector are increasingly large and global. Growing the purchasing volume is an important 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 World Wide Retail Exchange in the grocery trade, EuroMat in the hardware and builders' supplies trade, Intersport International Corporation in the sports trade, and ElectronicPartner International in the home technology trade.

The K-Group's strengths include adapting the store offering to meet the local demand and local marketing. 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.

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 efficiency of Kesko's own business models has been improved, for example by comparing Kesko's own practices and results with the best proven practices in the world. The best practices obtained in partner relationships are applied in other supplier relationships.

Data management in guiding trading

Data management has a key position in forming selections and guiding the flow of merchandise. The objectives are selections that serve customers better and a faster and more faultless goods flow.

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

In 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. Kesko acquires information and communication technology services from the best producers in the sector, while retaining the capability to manage and control the development of services.

Operating environment

Market areas

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

Economic growth has been fast in all of Kesko's main market areas in recent years. The high consumption per household has contributed to the maintenance of economic growth in all market areas.

In Finland, the increasing consumer demand that has favoured the growth in retailing was further strengthened in 2006 by consumers' expectations concerning the positive development of their own economies and the national economy. Private consumption is forecast to grow in Finland by 2-3% annually during the next few years. Price development is expected to remain moderate. In the future, the slowdown in the growth of households' disposable real income and the slight increase in interest rates will influence private consumption in Finland. The increase in interest rates is anticipated to calm the housing market in particular.

Private consumption is expected to rise by 2-4% in Sweden and Norway in 2007-2008. In both countries, consumer confidence in economic growth has improved and housing construction also continues to grow.

In the Baltic countries, the rapid growth of private consumption is expected to continue. An accelerating inflation rate will, for its part, reduce purchasing power and delay the countries' joining the European Monetary Union.

In Russia, in St. Petersburg and Moscow, particularly the middle class' purchasing power and propensity to consume are increasing fast, 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 average over 10% in the next few years.

Food trade

The growth of around 5% in the Finnish grocery trade in 2006 was more than in previous years. The price development of basic foods remained moderate. Grocery retail operators seek to meet the various needs of their customers by adding new products in their selections, by developing services and through differentiation.

Hardware and builders' supplies trade

The high volume of housing construction and renovation in Finland is reflected in the sales of building supplies. The competitive situation is changing due to the Finnish and foreign operators in the market.

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 growing rapidly.

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

In Russia, the fast growing hardware and builders' supplies market remains clearly divided between DIY chains, which are newcomers to the market, local hardware stores, open-air markets and speciality stores. During 2006, foreign chains expanded their operations in Moscow and St. Petersburg.

Trends in the trading sector

- Internationalisation continues in the trading sector.
- Importance of customer loyalty is increasing.
- Consumers' purchasing behaviour is becoming fragmented; consumers seek ease, experiences, health and variation.
- Corporate responsibility and ethics are emphasised.
- Manufacturing industry's brands remain strong.
- The number and market share of store private label products are increasing.
- Online trading is increasing.
- The trading sector's role as a producer of services is strengthening.
- New store concepts are being developed.
- New operations control systems improve the efficiency of store operations.

Trends in the Baltic countries and Russia

- Purchasing power continues to increase.
- The share of chain retailing is growing.
- Competition is becoming more diversified.
- The share of food in the total consumption is decreasing.

Market areas

Finland: 5.3 million consumers
- All Kesko's divisions

Sweden: 9.1 million consumers
- Hardware and builders' supplies trade, furniture trade and technical trade

Norway: 4.6 million consumers
- Hardware and builders' supplies trade

Baltic countries: 7.2 million consumers
- Hardware and builders' supplies, agricultural, machinery and furniture trade (Estonia and Latvia), and Anttila's distance sales (Estonia and Latvia), and technical trade

St. Petersburg: 4.6 million consumers, **Moscow:** 10.4 million consumers
- Hardware and builders' supplies trade and technical trade

Car trade

The stocks of trade-in cars that remained high and the import of used cars held back sales of new cars in 2006. In 2007, the development in the car trade is anticipated to fall slightly short of that in 2006.

Home and speciality goods trade

The strong confidence of Finnish households in the development of their own economies has also reflected in the positive development of the speciality goods trade. The furniture and home technology trade in particular has developed fast. Hypermarket chains establish new stores 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.

Agricultural trade

The Finnish agricultural trade market is affected by a decrease in the number of farms and the increase in their size. There are also structural arrangements underway in the agricultural trade sector. The EU membership of the Baltic countries has increased their agricultural trade market considerably. Competition will remain fierce between both local and international operators.

Machinery trade

The recreational machinery market has developed favourably. Market trends for construction and environmental machinery are expected to continue to be stable in Finland. The Baltic market is expected to increase fast. The truck market is anticipated to remain unchanged.

MARKET OUTLOOK IN 2007

	Total market, € billion	Change, %, estimate
Kesko Food	**22.0**	
Finland	22.0 *)	+3–+5*
Rautakesko	**15.8**	
Finland	3.9	+3–+5
Sweden	4.4	+8
Norway	5.0	+8
the Baltics	1.6	+10–+15
Russia, St. Petersburg area	0.9	+10–+15
Kesko Agro	**3.1**	
Finland	1.9	+/–0
the Baltics	1.2	+5–+10
Konekesko	**1.9**	
Finland	1.5	+2–+3
the Baltics	0.4	+15–+20
Home and speciality goods trade (Keswell)	**8.8**	+3–+4

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

Competitive environment

The market shares for 2006 specified by division and market area.

The market shares are Kesko's own estimates of the retail trade for 2006, unless another source is given. Markets and market shares always depend on definitions. They depend on the definitions 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 33.5%
Competitors: S Group, Tradeka, M Group stores, Lidl, Stockmann and discounters

HoReCa
Finland, Kespro's sales have grown at the rate of market growth
Competitors: Meira Nova, Wihuri Metro, Heinon Tukku, manufacturing industry and increasing direct imports

Hardware and builders' supplies trade

Finland, market share 34%
Competitors: Starkki, Puukeskus, Puumerkki, S Group and Värisilmä
Sweden, market share 4%
Competitors: Bauhaus, Beijer Bygg, Hornbach, Silvan, Inter-Pares and Byggmax
Norway, market share 19%
Competitors: Maxbo, Optimera and Jernia
Estonia, market share 17%
Competitors: Ehituse ABC, Ehituse Service and Espak
Latvia, market share 11%
Competitors: Tapeks/Aile, Nelss and Depo DIY
Lithuania, market share about 25%
Competitors: local building supplies and speciality stores (In Lithuania, the Senukai chain has no nationwide competitors.)
Russia, St. Petersburg, market share 17%
Competitors: Maxidom, Dom Laverna, Obi, Stroybaza Rybinskaya and Castorama

Car trade

Finland
Market share: Volkswagen passenger cars 10.3%
Competitors: Toyota, Nissan, Ford, Volvo, Peugeot and Opel
Market share: Audi passenger cars 3.3%
Competitors: Mercedes-Benz, BMW, Volvo and Saab
Market share: Volkswagen vans 17.0%
Competitors: Toyota, Ford, Mercedes-Benz and Fiat
Market share: Seat passenger cars 0.8%
Competitors: Alfa Romeo, Chrysler, Honda and Mazda

Agricultural trade

Finland, market share 35%
Competitors: S Group (Hankkija-Maatalous, Agrimarket), Yrittäjien maatalous Oy and Suomen Maataloustukku Oy
Estonia, market share 32%
Competitors: Agricultural supplies: Kemira GrowHow and Farm Plant
Agricultural machinery: Stokker, Tatoli, Agriland and Taure
Animal husbandry machinery: De Laval
Latvia, market share 26%
Competitors: Agricultural supplies: Kemira GrowHow and Latagra
Agricultural machinery: Stokker, BFSC and Preiss
Animal husbandry machinery: De Laval
Lithuania, market share 17%
Competitors: Agricultural supplies: Kemira GrowHow, Agrokoncernas and Litagra
Agricultural machinery: Olsen Baltic, Lytagra, Rovaltra and Dotnuvos projektai
Animal husbandry machinery: De Laval

Machinery trade

Finland, market share 6–33% depending on product group
Competitors:
Otto Brandt, Marine Power (Brunsvik), Suzuki Finland, SGN Group, Vator, Rolac (Volvo), Witraktor (Caterpillar), Rotator, Suomen Rakennuskone, Volvo, Scania, Veho and Sisu-Auto
Estonia, market share 10%
Competitors:
Intrac, Ladur, Komatsu, Witractor, Swecon and Balti Technica
Latvia, market share 15%
Competitors:
Intrac, Ladur, Komatsu, Witractor and Swecon
Lithuania, market share 8%
Competitors: Intrac, Ladur, Komatsu, Witractor and Swecon

Home and speciality goods trade

Finland

Department store trade

Anttila, K-citymarket, Kodin Ykkönen
Market share cannot be calculated.
Competitors: S Group, Tradeka, Stockmann, Ikea, furniture and interior decoration stores

Furniture trade

Market share: Asko and Sotka about 21%
Competitors: Isku, Masku, Stemma, Vepsäläinen, Ikea, Jysk, Koti-Idea, Suomi-Soffa, Kodin Ykkönen

Sports trade

Market share: Intersport, Kesport and Budget Sport 32.5%
Competitors: Sportia, Top Sport, Stadium, department stores and hypermarkets and other speciality stores

Home technology trade

Market share: Musta Pörssi 11%
Competitors: Expert, Gigantti, Markantalo, Tekniset, other speciality stores, hypermarkets and online stores

Shoe trade

Market share: K-kenkä, Andiamo, Kenkäexpertti about 12.5%
Competitors: other speciality stores, department stores and hypermarkets, and sports stores

Optical trade

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

Divisions

Kesko Food

"What are we having today?" is a slogan customers have become familiar with during 2006. K-food stores' reply to this question is the promise "The best food ideas and solutions at low prices from us".

The best food ideas and solutions at low prices

Kesko Food operates in the grocery market and is responsible for developing service concepts, efficiency and competitiveness. Key duties include chain management, development of store concepts, sourcing and logistics services, chain marketing, and acquisition of store sites. The K-food retailer implements the best services locally while taking care of the store's efficiency and profitability. Kesko Food promotes the enhancement of service competence in cooperation with K-food stores. Kesko Food's subsidiary Kespro Ltd offers delivery sales and wholesale services to HoReCa customers.

Market

The Finnish grocery retail market totals about €12.5 billion. In recent years, the market has been characterised by centralisation of the market. In 2006, the total value of the grocery retail market grew by about 4.5%. K-stores' market share in the Finnish grocery trade was about 33.5% in 2006. K-food stores' main competitors are the S Group, Tradeka and Lidl.

The total Finnish HoReCa market is about €2.2 billion. Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the Finnish 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 and Metrotukku.

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 54 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 152 stores.

K-markets are high-quality and reliable food stores in or near the customers' neighbourhoods. Shopping at K-markets is easy and fast. Many service stations have a K-market on their premises. The offering consists of competitively priced groceries. K-market retailers and their staff ensure friendly service. There are 428 K-markets. The customer promise is "Retailer takes care of it".

K-extra stores 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 222 K-extras.

The customer promise of the K-extra chain is "Good service for you".

Strengths

K-food stores form the most comprehensive store network in Finland. Customers are familiar with K-food store chains. K-food stores offer a wide, locally-oriented selection, services and strong private labels. Underlying factors include Kesko Food's efficient purchasing, international sourcing cooperation (AMS and Agentrics LLC), logistics, versatile own research and training activities, the wide Plussa customer base with derived customer information for analyses, and efficient cooperation between Kesko Food and K-retailers. Kesko Food collects and analyses purchasing power and customer information in cooperation with K-Plussa.

The implementation of our customer-driven strategy is based on extensive information about customer group behaviour produced by K-Plus Oy and on detailed market research. Quality assurance is carried out by the company's own product research unit and test kitchen, which give assurances for all private label products and test all recipes published.

K-food retailers are locally committed to satisfying the needs of their customers and keeping the service pledge. The special focus in 2006 was developing the joint purchasing and marketing of K-food store chains. The operating system has created the basis for combining the purchasing

What are we having today?

Self-pampering is a megatrend in consumption – and Kesko Food wants to be part of it. K-food stores form the most comprehensive store network in Finland that provides great value ingredients at competitive prices for all gourmet home cooks.

power and for marketing based on customer needs. Products from local suppliers complement the selection needed by the customer on a versatile basis.

K-food stores' operating system pays attention to the environment, seeking to minimise the burden of packaging and transportation on the environment.

Pirkka and other private labels

Pirkka products celebrated their 20th anniversary in 2006. More than 150 new Pirkka products were launched during the celebration year. The strengths of the Pirkka range include the products' low prices, high quality, reliability and degree of domestic origin, particularly in fresh products. Its recognition level among customers is nearly 100%. There are over 1,500 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. In 2006 the range also increased with functional products, such as cholesterol-reducing Reducol yoghurts and spreads, and 100% xylitol chewing gums and drops for children. The sales of Pirkka products grew by 15%, which clearly exceeded K-food stores' other sales growth.

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.

K-food stores' strategy

The customer promise is "The best food ideas and solutions at low prices from us". The strategy is based on service, quality and a competitive price level. Kesko Food acts in close chain cooperation with K-food retailers. Kesko Food is responsible for the efficiency of all operations, for developing services and competencies, and for competitiveness. Key duties include chain management, store concept development, sourcing and logistics services, store site operations and chain marketing. K-food retailers are responsible for delivering chain-specific customer promises while taking local customer needs into account. K-food retailers also take care of the efficiency and profitability of their stores.

Customer knowledge and research are utilised when looking for the best locations for new stores. Stores are located close to customers and within easy access. Chain concepts are developed to meet customer needs. The required competence for each chain and store is built in cooperation with Kesko Food's chains and benefits from K-food retailers' competencies. K-retailers get support for their customer-driven approach from the K-Plussa customer loyalty system, which produces shopping and customer information for the purposes of enhancing operations and rewarding customers for centralising their purchases.

K-food store chains have focused strongly on developing service concepts and training store staff. Customer encounters at stores are crucial moments in terms of success. K-food stores' food and service competencies are measured with mystery shopping carried out by test customers. Information derived from mystery shopping is used for the continuous development of the chains' service concepts and staff training.

Kesko Food carries out active product research with a special focus on the safety of private label products and corporate responsibility.

Kesko Food

K-GROUP'S FOOD STORES

	Number	Number	Sales (incl. VAT), € million	Sales (incl. VAT), € million
	2006	2005	2006	2005
K-citymarket	54	53	1,700	1,615
K-supermarket	152	150	1,360	1,325
K-market	428	389	1,227	1,128
Other K-food stores and mobile stores	437	449	413	400
Finland, total	**1,071**	**1,041**	**4,699**	**4,468**
Food stores, continuing operations, total	**1,071**	**1,041**	**4,699**	**4,468**
Rimi Baltic AB	-	177	544	475
Food stores, discontinued operations, total	**-**	**177**	**544**	**475**
Food stores, all, total	**1,071**	**1,218**	**5,243**	**4,943**

FINANCIAL HIGHLIGHTS, CONTINUING OPERATIONS

		2006	2005
Net sales	€ million	3,615	3,428
Operating profit	€ million	173.2	129.0
Operating profit as % of net sales	%	4.8	3.8
Operating profit excl. non-recurring items	€ million	128.6	93.7
Operating profit as % of net sales, excl. non-recurring items	%	3.6	2.7
Depreciation	€ million	64.9	70.0
Investments	€ million	82.2	79.1
Return on net assets*	%	18.8	12.9
Personnel average		6,171	4,869

* cumulative average

NET SALES IN 2006, CONTINUING OPERATIONS

	€ million	change, %
K-citymarket	1,132	5.7
K-supermarket	803	2.6
K-market and K-extra	789	4.1
Kespro Ltd	652	-2.5
Others and intra-division	239	-
Total	**3,615**	**5.4**

NET ASSETS AT 31 DECEMBER, € million

	2006	2005
Non-current assets	854	979
Inventories	170	158
Short-term receivables	271	227
./. Non-interest-bearing debt	-494	-426
./. Provisions	-7	-6
Net assets*	**794**	**932**

* net assets at the end of month

Fair roses

Today's consumers increasingly make ethical purchasing decisions. Therefore, K-food stores offer them Pirkka Fairtrade roses, part of whose proceeds go to improving the living conditions of Kenyan rose producers and their families.

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.

Year 2006

Kesko Food's net sales totalled €3,615 million in 2006. The growth in net sales was good, 5.4%. Kesko Food's operating profit excluding non-recurring items was €129 million, which clearly exceeded the figure for 2005.

Sales of all K-food store chains developed well. Sales growth improved clearly during the last two quarters and exceeded the average in the sector during the last quarter.

In early 2006, K-retailers were offered an opportunity to sign a new chain agreement in which the greatest change to the previous one was that the store site fee is now based on the store's gross profit instead of net sales. This contributes to flexible pricing and this way Kesko Food creates a basis for lowering retail prices.

K-RuokaPirkka, the new K-food stores' customer magazine, which has been published since May, supports Kesko Food's strategy that contributes to service and quality. The K-RuokaPirkka magazine that is available free of charge at every K-food store provides customers with fresh food ideas and solutions for every week. The recipes in the magazine have been developed and tested at Kesko Food's K-test kitchen.

During the spring, extensive training was organised to enhance service competence both in K-food stores and at Kesko Food. In early 2006, Kesko Food also recruited around one hundred would-be K-food retailers for the trainee programme. In accordance with the new policy, all K-food stores and service stations will be run by retailers in the future.

In December, Kesko Food sold its shareholding in Rimi Baltic to ICA Baltic AB, part of the Swedish ICA Group.

Market outlook and Kesko Food's objectives for 2007

It is estimated that in 2007 the total grocery market in Finland will grow by 3-5%. The prices are anticipated to rise more in 2007 than during the year 2006. The importance of customer loyalty in the grocery market has increased. At the same time, the trading sector's role as a producer of services will strengthen.

In line with its new strategy, Kesko Food will continue activities and investments for the long-term improvement of K-food stores' sales and competitiveness and for increasing customer satisfaction. The objective is to raise K-food stores' sales growth to the level that it will exceed market growth on a permanent basis. Through the increased common operations of K-food stores and closer chain activities, more quality and price benefits will be offered to customers. Kesko Food will expand the selection and market share of private labels, such as Pirkka.

Enhancement of staff competencies and development of retailer entrepreneurship will be emphasised. Competitiveness will be improved by investing in new store sites. All K-food stores will be run by retailers. Opportunities for internationalisation will be surveyed.

Better use will be made of K-Plussa customer information in order to improve customer service and satisfaction. External statistical and research data will be combined with customer groups' statistical purchasing data to improve K-food stores' customer service, the operations and selection of stores and chains, and the efficiency of marketing. The K-Plussa customer loyalty programme will be reformed in spring 2007.

Product safety assurance and corporate responsibility will continue as part of Kesko Food's operations in 2007.

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 net sales and operating profit excluding non-recurring items are expected to increase in 2007.

Customers give a great deal of valuable feedback to K-food stores. In addition to the stores, feedback is also received through K-Plussa's customer service, Kesko's web pages, and Kesko Food's Consumer Service Unit. The Unit, for example, receives some 18,500 comments and enquiries annually. K-Plussa's customer service serves nearly 150,000 customers by phone annually and nearly 20,000 customers by e-mail. Answers are given to every item of customer feedback and they are discussed during business development sessions. The customer service system will be further developed in 2007.

Rautakesko

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.

Market

Rautakesko's retail store chains' customers mainly comprise home builders, renovators and interior decorators. Professional customers include construction companies, the manufacturing industry and public administration.

The total retail market of this sector in Rautakesko's operating area is about €15.8 billion. Retail sales of Rautakesko's chains totalled €3,083 million in 2006. 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 €3.9 billion. They increased by approximately 6.5% in 2006 (Finnish Hardware Association). The market share of the K-Group's hardware and builders' supplies trade in Finland is approximately 34%.

In Finland, Rautakesko operates the K-rauta and Rautia retail store chains and Rautakesko B-to-B Service 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 46 also operate as K-maatalous stores engaged in the agricultural trade. The emphasis in the sales structure of Rautia is placed on basic building products. All Finnish K-rauta and Rautia stores are run by retailer entrepreneurs.

The combined sales (incl. VAT) of the K-rauta and Rautia chains and Rautakesko B-to-B Service in Finland were €1,431 million. Principal competitors are Starkki, Puukeskus, Puumerkki, the S Group and Värisilmä.

Sweden

The Swedish hardware and builders' supplies market totals some €4.4 billion, an increase of about 12% in 2006 (SCB). At the end of 2006, Rautakesko had 14 own K-rauta stores and one retailer-owned store in Sweden. The plan is to open three new stores in 2007. Rautakesko's market share in Sweden is about 4%. Private customers account for around 85% of K-rauta customers. Principal competitors are Bauhaus, Beijer Bygg, Hornbach, Silvan, InterPares and Byggmax.

Norway

The Norwegian hardware and builders' supplies market totals some €5.0 billion, up by 11% in 2006 (TBL, BNL and own estimate).

In Norway, Rautakesko owns Byggmakker Norge AS (former Norgros AS) (by 99.9%). It manages the Byggmakker hardware and builders' supplies chain of 118 stores, 20 of which are owned by Byggmakker. Other stores within the chain are owned by retailer entrepreneurs, who have a chain agreement with Byggmakker. 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 €0.5 billion, an increase of 15% in 2006 (own estimate).

Rautakesko has four K-rauta stores and a nationwide network of wholesale outlets in Estonia. Non-professional customers account for some 70% of all customers. Rautakesko's market share in Estonia is about 17%. Principal competitors are Ehituse ABC, Ehituse Service and Espak.

Latvia

The Latvian hardware and builders' supplies market is estimated to total some €0.6 billion, an increase of 22% in 2006 (CSB and own estimate).

After opening a K-rauta outlet in Jelgava in August and another one in Liepaja in September, Rautakesko has five K-rauta stores of its own, two K-rauta partner stores and a wholesale network covering the whole of Latvia. It is estimated that Rautakesko's market share in Latvia is 11%. Thanks to new stores, the proportion of sales to consumer customers is increasing strongly. Principal competitors are Tapeks/Aile, Nelss and Depo DIY.

Lithuania

The Lithuanian hardware and builders' supplies market totals some €0.5 billion and they are estimated to have increased by 13% in 2006 (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 26%. The Senukai chain consists of 14 own stores and 76 partnership stores. Senukai sells to both consumers and business customers. In Lithuania, Senukai has no national competitors, but competition comes from some small local building supply outlets and speciality stores.

Everything you need for renovation

Finns annually use considerable sums for home improvement. The K-Group's hardware and builders' supplies stores provide customers with many alternatives and solutions for renovation planning and implementation.

Russia

The first new store operating in line with the K-rauta concept was opened in St. Petersburg in September and the second one in December. In Russia, Rautakesko owns the Stroymaster DIY chain, whose stores have operated under the K-rauta name since August. There are a total of seven K-rauta stores in St. Petersburg. The hardware and builders' supplies market in the St. Petersburg area is estimated to total some €0.9 billion, an increase of about 15-20% in 2006 (RBC Ros Business Consulting and own estimate). In addition, Rautakesko operates a wholesale outlet and warehouse in Moscow. Principal competitors in St. Petersburg are Maxidom, Dom Laverna, Obi, Stroybaza Rybinskaya and Castorama.

Strengths

Rautakesko's operations are founded on good customer knowledge and the strong chain concepts developed on the basis of that:

K-rauta is Rautakesko's international concept. Besides Finland, K-rauta operates in Sweden, Estonia, Latvia and St. Petersburg, Russia. K-rauta aims to offer the best total solutions to its customers for building and decorating homes and yards. In addition to products, K-rauta offers a 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 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' supplies 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 also 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.

Rautakesko B-to-B Service customers include building firms, industry and other professional customers. Customers benefit from close collaboration with Rautakesko B-to-B Service; the unit plans, directs and executes duties related to purchasing, allowing the customer company to concentrate on its core business. Rautakesko B-to-B Service'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 enable us to offer products and services to customers at competitive prices. Joint training programmes between the chains and Rautakesko enhance the competencies of the personnel.

Rautakesko is launching four international house brands in hardware and interior decoration - Prof, Cello, Fiorin and FXA – to the market. The first products came to the market in autumn 2006. The objective is to gain considerable sales with these brands.

Year 2006

Rautakesko's net sales totalled €2,219 million, an increase of 32.2%. Net sales in Finland amounted to €821 million, up by 5.3%. The net sales of subsidiaries in other countries totalled €1,308 million, an increase of 57.5%. Foreign subsidiaries accounted for 61.3% of Rautakesko's net sales.

Rautakesko's operating profit excluding non-recurring items was €91 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 €76 million, of which investments outside Finland accounted for 65.4%.

Ten new stores were opened during the year: three in Finland, two in Latvia, two in Lithuania, two in Russia and one in Sweden.

Objectives and outlook

The hardware and builders' supplies market is anticipated to grow in all countries where Rautakesko operates. In 2007 the growth is expected to be 3-8% in the Nordic countries and 10-15% in the Baltic countries. In the St. Petersburg area the market is expected to grow by about 10-15%.

Competition will intensify and store sizes will grow. Customers will invest more in decorating and refurbishing their homes and building yard areas. Their demand for advice as well as design and assembly services will also 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 22–23 new stores in 2007. A major input for Rautakesko will be extending the operations control system to cover the whole operating area. The new retail sector SAP system will serve to harmonise operations in the chains of the internationalising Rautakesko. The gains include significant business benefits and the best total solutions and services for customers.

In cooperation with Kauko-Telko, Rautakesko has established a sourcing office in Shanghai, China to seek out new suppliers and to ensure the quality of products and deliveries. Through a sourcing office of its own the international Rautakesko will be able to use its entire purchasing power and logistics to the benefit of customers.

In 2007, Rautakesko will increase investments in new store sites, employee competence and a uniform information system.
It is expected that Rautakesko's net sales will grow in 2007 and that its operating profit excluding non-recurring items will be at the level of 2006.

Rautakesko

K-GROUP'S HARDWARE AND BUILDERS' SUPPLIES STORES

	Number 2006	Number 2005	Sales (incl. VAT), € million 2006	Sales (incl. VAT), € million 2005
K-rauta	40	40	601	561
Rautia	105	105	501	464
K-customer agreement stores	35	35	56	53
Finland, total	**180**	**180**	**1,158**	**1,078**
K-rauta, Sweden	14	14	194	154
K-rauta, Estonia	4	4	87	70
K-rauta, Latvia	5	3	72	44
Senukai, Lithuania	14	13	428	351
Stroymaster, Russia	7	5	121	42
Byggmakker Norge AS (former Norgros), Norway	118	133	1,080	419
Other countries, total	**162**	**172**	**1,981**	**1,080**
Hardware and builders' supplies stores, total	**342**	**352**	**3,139**	**2,158**

FINANCIAL HIGHLIGHTS

		2006	2005
Net sales	€ million	2,129	1,610
Operating profit	€ million	139.3	61.7
Operating profit as % of net sales	%	6.5	3.8
Operating profit excl. non-recurring items	€ million	91.2	61.5
Operating profit as % of net sales, excl. non-recurring items	%	4.3	3.8
Depreciation	€ million	24.2	20.1
Investments	€ million	75.8	191.5
Return on net assets*	%	31.9	16.6
Personnel average		7,420	5,731

* cumulative average

NET SALES IN 2006

	€ million	Change, %
Rautakesko Ltd	826	5.1
K-rauta AB, Sweden	155	24.7
Byggmakker Norge AS, Norway (from 7 July 2005)*	547	(..)
AS Rautakesko, Estonia	74	23.6
AS Rautakesko, Latvia	61	63.5
Senukai Group, Lithuania	360	21.0
Stroymaster, Russia (from 28 July 2005)*	102	(..)
Others and intra-division	4	-
Total	**2,129**	**32.2**

* change over 100%

NET ASSETS AT 31 DECEMBER, € million

	2006	2005
Non-current assets	387	395
Inventories	191	165
Short-term receivables	193	162
./. Non-interest-bearing debt	-310	-276
./. Provisions	-3	0
Net assets*	**458**	**446**

* net assets at the end of month

VV-Auto

VV-Auto imports and markets Volkswagen and Audi passenger cars and Volkswagen commercial vehicles in Finland. VV-Auto is also engaged in car retailing and provides after-sales services in its own outlets in the Greater Helsinki area and in Turku. VV-Auto's subsidiary Auto-Span Oy imports and markets Seat passenger cars in Finland, Estonia and Latvia.

Market

In 2006, a total of 145,700 new passenger cars and 15,268 vans were registered in Finland. The passenger car market decreased by 1.7%, whereas registrations of new vans increased by 8.4%. The slight decrease in the sales of passenger cars can be attributed to the decrease in the price level of trade-in cars and the increase in the interest rate. In addition, approximately 30,000 used cars were imported to Finland.

Volkswagen, VV-Auto's volume brand, has maintained its second place in the registration statistics. The proportion of diesel passenger cars out of all new registrations in Finland has grown to slightly over 20 percent. Volkswagen is the leading brand in diesel passenger cars, while Audi set a new record in registrations for the sixth year in succession. The Seat range expanded and price competitiveness improved markedly in late 2006. Minibuses included, Volkswagen was again the most purchased commercial vehicle.

The Volkswagen passenger car range that was extensively revised in 2005 was complemented in 2006. New launches to the market included the Volkswagen EOS and Polo GTI, and Golf, Golf Plus, Touran and Jetta TSI which utilise new petrol engine technology. The Volkswagen Crafter that replaced the LT type in commercial vehicles came to the market in September. The Volkswagen Caddy EcoFuel, driven by natural gas, was also introduced to the market. The Audi range was complemented with the new Audi Q7, A6 allroad quattro, TT Coupe, and new, powerful S and RS versions. The Seat range expanded significantly in 2006, when the new Leon and Ibiza were presented. In 2006 the market share of Volkswagen passenger cars in Finland was 10.3%, Audi had a market share of 3.3% and Seat's share was 0.8%.

Year 2006

VV-Auto's net sales totalled €789 million in 2006, up by 14.5% over the previous year. The operating profit excluding non-recurring items was €29.5 million, compared with €38.7 million in 2005.

In 2006, VV-Auto expanded its own retailing by acquiring Volkswagen and Audi business operations in the Greater Helsinki area from Stockmann Auto. Furthermore, Turun VV-Auto Oy was transferred to VV-Auto's ownership in full at the end of the year. In terms of vehicle numbers, own outlets accounted for approximately one third of all new Volkswagen and Audi retail sales.

Customer service was improved by refurbishing and expanding the Volkswagen, Audi and

FINANCIAL HIGHLIGHTS

		2006	2005
Net sales	€ million	789	689
Operating profit	€ million	29.4	38.7
Operating profit as % of net sales	%	3.7	5.6
Operating profit excl. non-recurring items	€ million	29.5	38.7
Operating profit as % of net sales, excl. non-recurring items	%	3.7	5.6
Depreciation	€ million	7.7	4.9
Investments	€ million	34.2	26.0
Return on net assets*	%	22.8	45.6
Personnel average		621	359

* cumulative average

NET SALES IN 2006

	€ million	Change, %
VV-Auto Group	789	14.5

K-GROUP'S CAR STORES

	Number		Sales (incl. VAT)	
	2006	2005	2006	2005
VV-Autotalot and Turun VV-Auto	5	2	396	207

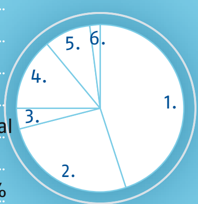
NET ASSETS AT 31 DECEMBER, € million

	2006	2005
Non-current assets	59	37
Inventories	104	113
Short-term receivables	31	32
./. Non-interest-bearing debt	-44	-46
./. Provisions	-11	-10
Net assets*	139	126

* net assets at the end of month

BREAKDOWN OF VV-AUTO'S WHOLESALE, %

1. Volkswagen passenger cars 45%
2. Audi 26%
3. Seat 4%
4. Volkswagen commercial vehicles 14%
5. After-sales services 9%
6. Other sales 2%



Successful brands

The car brands imported and marketed by VV-Auto – Volkswagen, Audi and Seat – are highly valued in Europe by quality-conscious consumers. In addition, VV-Auto provides comprehensive maintenance and after-sales services for its customers.

Seat centre – the largest in Finland – in Herttoniemi, Helsinki. The premises house Volkswagen, Audi and Seat centres as well as a centre for Volkswagen commercial vehicles. There is also a centre for trade-in cars and separate repair shops for different makes in the area.

VV-Auto's strong, service-oriented retail sales network consists of 55 outlets selling Volkswagens and 17 outlets selling Audis. In addition, six separate service centres provide maintenance and repair services.

Customer service was further improved by enhancing after-sales services, sales force training and refurbishing business premises in accordance with the brand concepts. The directors and sales managers of the Volkswagen and Audi retail outlets also participate in training in accordance with the international concept.

Objectives and outlook

The passenger car market is forecast to decrease slightly and the van market to increase in 2007. Consumers demand an increasingly high level of equipment in their cars, which will raise average prices. Market shares of hatchback cars have decreased, while those of estate cars, SUVs, and MPVs have increased. A major rise in interest rates and uncertainty about the impact of vehicle carbon dioxide emissions on future tax solutions may 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 may cause variations in car sales and the price level of used cars.

VV-Auto aims to increase the market share of the brands it represents during 2007 and to continue to enhance its own retail store operations in the Greater Helsinki area and Turku. The focus will be on expanding the range of services, enhancing the 'Varma Ratkaisu' guarantee concept for trade-in cars, and starting a centralised customer relationship management system.

VV-Auto's net sales anticipated to grow in 2007 and the operating profit excluding non-recurring items is expected to equal the level of 2006.

Anttila

Anttila operates in home and speciality goods retailing with two department store concepts along with NetAnttila, which is engaged in distance sales. Above all, Anttila's customers value diversified, fashionable and current selections, low prices and good service.

Market

In the market Anttila is positioned between hypermarkets and speciality store chains. With their versatile selections and services, department stores compete with large outlets, while comprehensive departments reach the level of speciality stores. New shopping centres have had a major effect on where customers choose to shop in large market areas. Hypermarkets continue their expansion into smaller localities. Speciality store chains are often tightly managed one-owner companies which focus on low prices and the latest trends. Discounters' importance as Anttila's competitors grows as they form chains and focus on branded goods.

Strengths

Anttila serves its customers flexibly through its department stores and NetAnttila. Wide and comprehensive ranges of entertainment, fashion and home goods are available to all. NetAnttila also offers flexible payment options for its customers.

Anttila's strategic objectives are increasing customer loyalty, strengthening the market position in selected product lines and increasing online business. Anttila's strengths include customer-orientation, staff's service competence, knowhow in online trading, efficiency of operations, and sales data and customer needs analyses to support decision-making.

Decorator of beautiful homes

Kodin Ykkönen is the ‘number one’ for Finnish home decorators. Kodin Ykkönen offers not only large selections, but also special decorating services, the Top Ten home entertainment department and, naturally, friendly and competent customer service.

There were 27 Anttila and eight Kodin Ykkönen department stores at the end of 2006. The emphasis in Anttila's operations is on customer-orientation, multi-channel activities, seasonality, efficiency and low prices. In addition to Finland, Anttila also carries out distance sales in Estonia and Latvia. Anttila Oy's subsidiary Anttila AS is responsible for distance sales in Estonia and Anttila Oy's subsidiary SIA Antti takes care of the same in Latvia.

The strongest areas of Anttila department stores include clothing and home goods, and the Top Ten departments selling entertainment ranges. Stores are located in downtown areas or shopping centres.

Kodin Ykkönen department stores for interior decoration and home goods offer a superior selection for home decorators. Modern, large outlets provide ideas and make shopping easy. Kodin Ykkönen department stores for interior decoration and home goods also have a wide range of related services available to customers, such as interior decorating advice.

NetAnttila offers a large selection of products in entertainment, home goods and clothing. Strengths include ease of shopping, low prices, and several payment options.

Major business risks relate to the general economic development, consumer confidence and growth in the purchasing power.

Year 2006

In 2006 Anttila's net sales totalled €548 million, an increase of 6.0%. Anttila's operating profit excluding non-recurring items was €26.5 million, an increase of €9.0 million.

The focus on service and customer-orientation were reflected in good sales and profit development. The most recent Kodin Ykkönen department store was opened in Vantaa in March 2006.

Objectives and outlook

The market for home and speciality goods is estimated to continue to grow by 3-4% in 2007, but the increase will greatly depend on the product lines. Anttila's objective is at least to retain the market share, considering the changes in the network. The Helsinki City department store closed down in January 2007 for the extensive renovation of the property. A new Anttila department store will be opened in Mikkeli in late 2007.

Anttila is reported as part of the Keswell division in the 2006 financial statements. Financial highlights on page 40.

Kesko Agro

Kesko Agro's K-maatalous 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 K-maatalous agricultural stores form the K-maatalous chain, which has agricultural entrepreneurs and contractors as its major customers. K-maatalous provides agricultural entrepreneurs with solutions that help them to efficiently produce the safe and pure foodstuffs that are valued by consumer customers.

The value of the total Finnish agricultural market is about €1.9 billion. The market share of the K-maatalous chain is about 35%.

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 Kaunas and Vilnius, Lithuania. In addition, Kesko Agro has nine agricultural stores in the Baltic countries and a local dealer network in Latvia and Lithuania.

The Baltic market is currently about €1.2 billion. Kesko Agro is the market leader in the Baltic agricultural trade with a market share of about 32% in Estonia, about 26% in Latvia and about 17% 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's established position and a comprehensive store network.

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

K-maatalous and Kesko Agro focus on improving their awareness of future farmers' needs. In addition to active sales and contacts, the use of data and information technology provide the basis for close cooperation between an agricultural entrepreneur and K-maatalous or Kesko Agro.

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

Year 2006

In 2006 Kesko Agro's net sales were €755 million, an increase of 1.1% over the previous year. In the Baltic countries Kesko Agro's net sales increased by 13.9% to €273 million. Kesko Agro's operating profit excluding non-recurring items was €7.8 million in 2006, which was €4.7 million more than in the previous year.

The competitive, cost-efficient and high-quality K-agro free stall barns of the K-maatalous chain were well received, and the total number sold in 2006 reached 10.

Profit development in the Baltic countries has improved and operations have stabilised. Product line guidance was further improved in 2006 for achieving synergy benefits between the Finnish and Baltic operations.

The web trading place for agricultural customers was expanded in 2006 to also include farm accessories in Finland. 15 new or refurbished stores were opened in Finland and a further three were opened in the Baltic countries.

Objectives and outlook

The structural change in the Finnish agricultural industry will continue. The number of farms will decrease and their size will grow. As continuing agricultural entrepreneurs will enhance and increase their production, total agricultural production and investments are expected to remain at the present level. There are about 67,000 farms in Finland at present, and it is estimated that the number of active farms will fall to approximately 55,000 by 2012. In financial terms, the market is anticipated to remain at about €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 subsidy decisions of the Baltic countries and the EU.

The objective of the K-maatalous chain and Kesko Agro is to become the leading agricultural trader in Finland and the Baltic countries and to improve financial performance and the use of capital.

Regardless of the structural changes taking place in the sector, Kesko Agro's net sales and operating profit excluding non-recurring items are expected to remain at the same level in 2007 as in 2006.

Agriculture requires technical expertise

Modern agriculture requires top technology and skilled agricultural entrepreneurs. The retailers of the K-maatalous chain know their respective areas well, and can offer the most suitable product selection, and after-sales and other services.

Kesko Agro

K-GROUP'S AGRICULTURAL STORES

	Number 2006	Number 2005	Sales (incl. VAT), € million 2006	Sales (incl. VAT), € million 2005
K-maatalous	99	100	602	592
Finland, total	**99**	**100**	**602**	**592**
Kesko Agro Eesti AS	6	5	78	62
SIA Kesko Agro Latvija	4	4	100	79
UAB Kesko Agro Lietuva	3	3	106	83
Other countries, total	**13**	**12**	**283**	**224**
Agricultural stores, total	**112**	**112**	**885**	**816**

FINANCIAL HIGHLIGHTS

		2006	2005
Net sales	€ million	755	747
Operating profit	€ million	9.2	3.2
Operating profit as % of net sales	%	1.2	0.4
Operating profit excl. non-recurring items	€ million	7.8	3.1
Operating profit as % of net sales, excl. non-recurring items	%	1.0	0.4
Depreciation	€ million	3.9	4.2
Investments	€ million	11.8	4.5
Return on net assets*	%	7.1	2.1
Personnel average		885	856

* cumulative average

NET SALES IN 2006

	€ million	Change, %
Kesko Agro Ltd	482	-2.9
Kesko Agro Eesti AS	76	25.6
SIA Kesko Agro Latvija	103	23.9
UAB Kesko Agro Lietuva	100	-0.4
Others and intra-division	-6	-
Total	**755**	**1.1**

NET ASSETS AT 31 DECEMBER, € million

	2006	2005
Non-current assets	36	33
Inventories	109	116
Short-term receivables	83	76
./. Non-interest-bearing debt	-113	-92
./. Provisions	-1	0
Net assets*	**114**	**133**

* net assets at the end of the month

Other business operations

Konekesko

Konekesko is a service company specialised in the import, marketing and after-sales services of recreational, construction and environmental machinery, and trucks and buses. In addition to Finland, Konekesko markets Yamarin boats to several European countries, including Russia. Konekesko also sells construction, environmental and forest machinery in the Baltic countries through Kesko Agro.

Market

Konekesko's sales of recreational machinery are based on 40 years of close cooperation with Yamaha Motor Co. Quality-conscious consumers are served by the nationwide Yamaha dealer network. The Finnish market for recreational machinery totals about €400 million. Export sales of Konekesko's own range of Yamarin boats account for about 80% of total sales. In Finland, Yamarin is the market leader with 13.4% of the share of glass-reinforced plastic boats. Yamaha outboard motors have been market leaders for as many as 30 years, and their market share was 33.7% in 2006. Market shares of Yamaha motorcycles, mopeds, ATVs and snowmobiles vary between 10-20% depending on the size category.

Construction and environmental machinery and MAN trucks and buses are marketed through Konekesko's own sales organisation. The Finnish market totals approximately €1,100 million. The most important customers include transportation and service sector companies, towns and municipalities, and industrial and service entrepreneurs.

Strengths

Konekesko focuses on the leading brands in the sector, assuming total responsibility for their marketing and sales throughout the area. Konekesko also offers after-sales services to its customers either through its own or contract service network.

Konekesko's strengths include comprehensive products and services, efficient operating methods, and competent and service-oriented staff. The goal is to reach the sales growth exceeding that of the market in selected business areas.

Critical factors for Konekesko's operations include strategic choices of principals and economic fluctuations.

Year 2006

In 2006, Konekesko's net sales increased by 1.3% to €201 million. Net sales from export operations were €30 million and accounted for 14.8% of the total net sales. Konekesko's comparable net sales, from which the effect of the warehouse technology business sold at the beginning of 2006 has been eliminated, grew by 15.6%.

Konekesko's operating profit amounted to €9.7 million in 2006, representing an increase of €0.1 million. The operating profit included a non-recurring gain of €1.8 million on the disposal of the warehouse technology business. The operating profit excluding non-recurring items was €8.0 million, i.e. €1.6 million less than in the previous year.

Investments in 2006 totalled approximately €2.0 million, most of them in boat moulds.

The dealer network of recreational machinery was reorganised and strengthened. The Yamaha Center in the Greater Helsinki area has been well-received by customers. In addition, a new Yamaha Center was opened in Kuopio in November 2006 and a Yamaha Motor Center in Tampere in January 2007.

The new Yamarin boat models for the 2006 season were a success.

Objectives and outlook

In 2007, the total market for product lines represented by Konekesko in Finland is estimated to remain at the level of the previous year, or to increase slightly. The most rapid growth will be recorded by recreational machines. It is expected that in 2007, Konekesko's net sales and operating profit excluding non-recurring items will remain at the level of the previous year.

Kauko-Telko

Kauko-Telko specialises in international technical trading. Kauko-Telko operates in the Nordic countries, the Baltic countries, Poland, China and Russia – particularly in and around St. Petersburg and Moscow.

Kauko-Telko's most important customer groups are the manufacturing industry, public and private utilities and corporations.

The most important products include raw materials for the manufacturing industry, bakeries' raw materials and machinery, packaging systems, machines and equipment for the manufacturing industry, electronics, and related services and concept solutions.

Towards new adventures

Motorcyclists are modern consumers. They don't just move from place to place, but seek their dream of freedom. Konekesko helps make these dreams come true by marketing Yamaha motorcycles.

K-GROUP'S HOME AND SPECIALITY GOODS STORES

	Number		Sales (incl. VAT), € million	
	2006	2005	2006	2005
Anttila department stores	27	27	391	377
Kodin Ykkönen dept. stores	8	7	172	156
Anttila distance sales (NetAnttila and Mail Order)	–	–	84	77
Intersport	60	58	231	221
Kesport	37	37	27	26
Musta Pörssi	57	59	184	182
K-kenkä and Andiamo	52	51	49	48
Kenkäexpertti	44	51	14	15
Asko	31	29	93	89
Sotka	53	52	114	103
Tähti Optikko	130	127	48	44
Other home and speciality goods stores	11	12		4
Finland, total	**510**	**510**	**1,406**	**1,342**
Anttila mail order, Estonia and Latvia	–	–	20	19
Furniture stores, Sweden, Estonia and Latvia	12	8	34	25
Other countries, total	**12**	**8**	**54**	**44**
Home and speciality goods stores, total	**522**	**518**	**1,461**	**1,386**

KESKO GROUP'S MACHINERY STORES

	Number		Sales (incl. VAT), € million	
	2006	2005	2006	2005
Yamaha Center	1	1	20	15
Finland, total	**1**	**1**	**20**	**15**

KONEKESKO, FINANCIAL HIGHLIGHTS

		2006	2005
Net sales	€ million	201	198
Operating profit	€ million	9.7	9.6
Operating profit as % of net sales	%	4.8	4.8
Operating profit excl. non-recurring items	€ million	8.0	9.6
Operating profit as % of net sales, excl. non-recurring items	%	4.0	4.8
Depreciation	€ million	1.0	1.1
Investments	€ million	2.0	2.7
Return on net assets**	%	27.9	16.9
Personnel average		244	287

KONEKESKO, NET ASSETS AT 31 DECEMBER, € million

	2006	2005
Non-current assets	24	23
Inventories	47	48
Short-term receivables	26	27
./. Non-interest-bearing debt	-68	-40
./. Provisions	-1	-1
Net assets* **	**28**	**57**

KESWELL*, FINANCIAL HIGHLIGHTS

		2006	2005
Net sales	€ million	1,050	975
Operating profit	€ million	16.5	35.8
Operating profit as % of net sales	%	1.6	3.7
Operating profit excl. non-recurring items	€ million	32.2	30.7
Operating profit as % of net sales, excl. non-recurring items	%	3.1	3.2
Depreciation	€ million	15.1	14.4
Investments	€ million	33.5	55.1
Return on net assets**	%	4.8	10.6
Personnel average		3,500	3,164

KESWELL*, NET SALES IN 2006

	€ million	Change, %
Anttila Group	548	6.0
Indoor Group	182	11.3
Intersport	142	12.8
Musta Pörssi	132	-4.0
WellStep	24	-3.6
Tähti Optikko	20	3.2
Others	2	–
Total	**1,050**	**7.7**

KESWELL*, NET ASSETS AT 31 DECEMBER, € million

	2006	2005
Non-current assets	180	223
Inventories	145	134
Short-term receivables	128	117
./. Non-interest-bearing debt	-160	-147
./. Provisions	0	0
Net assets* **	**293**	**327**

KAUKO-TELKO, FINANCIAL HIGHLIGHTS

		2006	2005
Net sales	€ million	248	290
Operating profit	€ million	7.9	-11.2
Operating profit as % of net sales	%	3.2	-3.9
Operating profit excl. non-recurring items	€ million	6.2	2.8
Operating profit as % of net sales, excl. non-recurring items	%	2.5	1.0
Depreciation	€ million	2.5	3.1
Investments	€ million	6.1	5.8
Return on net assets**	%	15.7	-16.1
Personnel average		538	765

KAUKO-TELKO, NET ASSETS AT 31 DECEMBER, € million

	2006	2005
Non-current assets	31	36
Inventories	22	25
Short-term receivables	30	33
./. Non-interest-bearing debt	-35	-36
./. Provisions	0	0
Net assets* **	**48**	**58**

*Anttila, Indoor Group, Intersport Finland, Musta Pörssi, WellStep and Tähti Optikko Group are reported as part of the Keswell division in the 2006 financial statements
** cumulative average *** net assets at the end of the month

Year 2006
Kauko-Telko's net sales amounted to €248 million in 2006, a decrease of 14.6% over the previous year, which was due to reorganising the corporate structure. The structure was streamlined and performance improved markedly. Operating profit was €7.9 million (€-11.2 million). The operating profit excluding non-recurring items was €6.2 million, an increase of €3.4 million over the previous year. The best performing business lines included raw materials, machines and services for the food industry. Performance of electronics also improved markedly. WEP Ltd, a Polish supplier of plastic raw materials, was acquired in June.

Objectives and outlook
The total market for technical trading will not increase in Western industrialised countries, whereas fast growth will continue for example in Poland, Russia and China.

Kauko-Telko aims at market leadership in selected segments. The network of offices will be strengthened particularly in the Baltic Sea area, Russia and China. The objectives also include better use of the cooperation networks of different divisions.

As a result of the structural changes, Kauko-Telko's net sales are expected to decline and the operating profit excluding non-recurring items to increase in 2007.

Furniture and interior decoration trade

Indoor Group
Indoor Group's retail store chains are Asko and Sotka, which are the leading furniture and interior decoration chains in Finland and the Baltic countries. The Asko and Sotka chains have 84 stores in Finland, nine in the Baltic countries and three in Sweden.

Asko's customers consist of people furnishing their second or third homes, to whom comprehensive decoration solutions are offered. Sotka stores focus on customers establishing their first homes and families with children, looking for furniture with an affordable price-quality ratio.

Market
Sales of home furniture and interior decoration items continued to grow in Finland in 2006, and interest in home decoration strengthened further. New competitors entered the market and competition intensified. The total Finnish furniture market was slightly below €1 billion in 2006. Despite the keener and more international competition, Indoor has managed to maintain its position as the market leader in Finland and to increase its share in the Baltic countries.

Year 2006
Indoor's net sales totalled €182 million in 2006. The retail sales of the Asko chain in Finland were €93 million, while the retail sales of the Sotka chain were €114 million.

In 2006 the focus was on the improvement of the store network. In Finland, new Asko and Sotka stores were opened in Porttipuisto, Vantaa in February, and towards the end of the year in Kuopio, Lohja, Hämeenlinna and Kouvola. In other countries, the second stores of both chains were opened in Riga, Latvia in the spring. In late 2006, a new Asko store in Tartu, Estonia and the third Asko store in Stockholm, Sweden were opened.

Improvements were made in customer service and in the efficiency of the delivery chain.

Objectives and outlook
The popularity of home decoration will remain high. Customers expect to receive higher quality products and improved delivery services. New companies and distribution channels continue to enter the market.

Indoor will specify the two complementary chain concepts to better meet the needs of different customer groups. A more efficient order-delivery chain will be made a competitive asset. The market position will also be strengthened by investing in the store network.

Sports trade

Intersport Finland
Intersport Finland manages Intersport, Kesport and Budget Sport chains in Finland and is responsible for their marketing, sourcing and logistics services, store site network and retailer resources. Customers of the chains consist of

independent

Renovators know what they want

The hardware and builders' supplies trade is no longer just a man's world. The stores of the Rautia chain provide all builders and renovators – amateur and professional alike – with all the products and expert services they need.

people who are interested in many kinds of physical exercise and outdoor activities.

The Intersport chain is the market leader in the Finnish sports trade. The stores of the chain are located in downtown areas or shopping centres. Intersport's strengths include the chain's reliability and recognition level, wide selections for the whole family, a comprehensive store network, and expert staff. During the year much attention has been paid to enhancing the staff's sales and service competencies.

The Kesport stores are leading sports stores in smaller rural centres.

Budget Sport, based on cost-effective operations and low prices, is a new sports store format of Intersport International Corporation. It offers the largest selections in the area in product groups related to outdoor activities. The first mega-size outlet was opened in Tammisto, Vantaa in May 2006.

Intersport Finland has 100 retail stores in Finland, of which 92 are run by retailer entrepreneurs and 8 by Intersport Finland.

Year 2006

The net sales of Intersport Finland were €142 million, representing an increase of 12.8%.
The combined retail sales of the company's store formats were €257 million, up by 6.1%.

Objectives and outlook

As in other sectors, foreign competition has also increased in the Finnish sports trade. At the same time hypermarkets have expanded their operations to smaller market areas and increased their selections of brands and products.

Intersport Finland will exploit the benefits generated by international sourcing and marketing cooperation and the high quality of products and services to further strengthen customer satisfaction. Staff sales and service competencies and retailers' management skills will be enhanced.

The second Budget Sport megastore will be opened in the Ideapark shopping centre in Lempäälä in spring 2007.

Intersport Finland is also making preparations for opening sports stores in the Baltic countries with the aim of achieving market leadership there, too.

Home technology trade

Musta Pörssi

The Musta Pörssi chain offers its customers home technology products and services to make housework easier, enhance communications and provide entertainment. The chain consists of 57 stores specialising in home technology. 47 of them operate under the Musta Pörssi concept and 10 under the Musta Pörssi Jätti concept. The latter are larger than Musta Pörssi stores in terms of sales, area and selections.

Musta Pörssi Ltd is a member of the ElectronicPartner International sourcing organisation.

Market

The total Finnish market for home technology products is about €2.0 billion.

The market has been on a strong growth track and the supply has become multi-channel. Chains with a low-price image and efficient online trading companies have accounted for most of the growth.

Year 2006

The net sales of Musta Pörssi were €132 million down by 4.0%. The retail sales of the Musta Pörssi chain were €184 million, representing an increase of 1.3% over the previous year.

Musta Pörssi's major store site investments were directed to Porttipuisto in Vantaa, and to Hämeenlinna and Riihimäki, while the largest retailer investment was made in Joensuu.

Objectives and outlook

The increase in consumers' purchasing power and their interest in home technology products will continue to keep demand high. The termination of analogue TV broadcasts at the end of August 2007 will increase the demand for digital adapters and televisions in particular. Rapid technological development will decrease the prices of products. In spite of this, in terms of euros the demand for home technology products is estimated to increase more than average consumer demand.

The Musta Pörssi chain aims at sales growth exceeding that of the sector. This will be achieved by offering customers the best service package at a competitive price. This consists of the service at the store that exceeds customer expectations.

Customers are also offered installation at their homes, complemented with user guidance and other required services.

The focus on operations also includes training the most competent staff in the sector and improving the cost-efficiency of the operating chain.

Shoe trade

WellStep

WellStep's retail store chains are K-kenkä and Andiamo. K-kenkä and Andiamo are nationwide shoe speciality store chains. Fashion-conscious shoppers find a constantly changing selection of shoes at Andiamo stores. K-shoe stores offer a wide selection of branded shoes and expert service to their customers. There are, in addition, Kenkäexpertti shoe stores which operate in the smallest towns.

Market

The total shoe trade market in Finland was approximately €500 million, of which WellStep's store types account for about 12.4%.

Shoe retailing by speciality stores continues to strongly concentrate on downtown areas and shopping centres, whose number and popularity among customers is growing.

Year 2006

The net sales of WellStep were €24 million in 2006, a decrease of 3.6% over the previous year. The net sales of the Andiamo and K-kenkä chains increased by 2.8%, and the combined retail sales of the store types amounted to €63 million.

There were 33 K-kenkä, 19 Andiamo and 44 Kenkäexpertti stores. Three of them are owned by WellStep and the others by retailer entrepreneurs. New K-kenkä stores were opened in two shopping centres: Kamppi in Helsinki and Ideapark in Lempäälä. A new Andiamo store was opened in the centre of Helsinki in spring 2006.

Objectives and outlook

Shoe specialist retailing will have an increasing number of distribution channels and the market will continue to segment. In the face of keener competition, WellStep's chains will focus on better customer service and on increasing brand and product knowledge.

Shoe retailing is anticipated to increase by 2–4% in 2007.

Optical trade

Tähti Optikko Group

Tähti Optikko is a chain of retail outlets in the optical trade. The chain consists of 130 outlets, of which 100 are owned by retailer entrepreneurs and 30 by Tähti Optikko Group.

Market

The total market for optical products in Finland was about €245 million in 2006, representing a growth of 4.0%. .

Year 2006

The net sales of Tähti Optikko Group amounted to €20 million in 2006. Retail sales of the Tähti Optikko chain totalled €48 million, representing a growth of 8.2%. Like in the previous year, the growth exceeded that of the sector.

New stores were established in the Kamppi and Graniittitalo shopping centres in Helsinki, in Heinola, and in the Ideapark shopping centre in Lempäälä.

The structural change in sourcing improved the flexibility, efficiency and profitability of customer service.

Objectives and outlook

The objective of the Tähti Optikko chain is to continue to grow faster than the sector average. The ageing of baby-boomers and faster changes in trends, consumers' various hobbies and increased use of different technical display units set new demands for eyesight and for spectacle lenses in particular. The above contribute positively to the growth in total demand for spectacles and sunglasses.

The number of store sites in the Tähti Optikko chain will increase through new establishments and new retailer entrepreneurs being welcomed to the chain.

Indoor Group, Intersport Finland, Musta Pörssi, WellStep and Tähti Optikko Group are reported as part of the Keswell division in the 2006 financial statements.

Looking for experiences

For many, shopping is nowadays a pastime to which they are passionately devoted – either alone or with a friend. Andiamo stores are a heaven for all shoe freaks.

Real estate operations

Store sites are a strategic competitive factor in retail trade. With its store site operations, Kesko provides opportunities for developing the retailers' and its own business.

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 Kesko 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 and which are on sale
- Development properties are those needing further development for their intended use.

The objective of Kesko's real estate operations is to support the division parent companies' business by ensuring that store chains have available to them the premises and facilities that correspond to their store network targets and store site and concept definitions - all at as low a cost as possible. Kesko is engaged in real estate operations both by investing in store sites and leasing them from real estate investors.

Division parent companies are responsible for their networks

Each Kesko Group's division parent company is responsible for its own store sites across their life cycles. The companies plan their own retail store network and, on the basis of their network and business plans, make the investments in accordance with the Group's real estate strategy. The companies develop and arrange the construction of their own store sites, and are responsible for maintaining, managing, leasing and selling them.

Real Estate Services Department

The Real Estate Services Department controls the use of the capital invested in real estate at acquisition, use and disposal. The department coordinates large projects comprising store sites of several division parent companies. It ensures that the value of real estate property is maintained by giving directions on their maintenance and by monitoring the level of maintenance input. The department also manages basic and control information concerning the Kesko Group's real estate operations on a centralised basis and collects information about the real estate market.

In accordance with the Kesko Group's strategy, the department also produces the real estate services needed by those division parent companies it has as customers and by the Kesko Pension Fund. The department's service duties also include acquisition, construction, maintanence, management and sale of its customer companies' real estate outside Finland on the basis of their decisions. The department also owns or leases, if needed, develops and builds as well as maintains, manages and sells the real estate assigned to its responsibility in Finland. The Real Estate Services Department coordinates the whole of the K-Group's electric energy purchases.

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. Finland is experiencing a strong phase of new establishments in the grocery trade in particular. The quantity of rebuilding and expansion investments has remained high.

Real estate operations indicators

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 both consumption and costs. Kestra Real Estate Services Oy, owned by Kesko, is responsible for purchasing electricity for the Kesko Group.

Kesko has received much recognition for environmentally responsible construction.

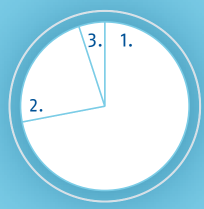
Property maintenance

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 has been outsourced mainly to YIT Kiinteistötekniikka Oy and Ovenia Oy, which carry out the work in accordance with Kesko's requirements.

BREAKDOWN OF OWNED PROPERTIES, %

1. Strategic properties 72%
2. Standard properties 23%
3. Development properties 5% (Realisation properties 0%)



OWNED PROPERTIES, Capital, € million

	2006	2005
Finland	717	781
Other Nordic countries	40	47
Baltic countries	63	50
Russia	26	8
Total	**846**	**885**

OWNED PROPERTIES, Area, m²

	2006	2005
Finland	810,000	948,000
Other Nordic countries	36,000	48,000
Baltic countries	129,000	115,000
Russia	20,000	0
Total	**995,000**	**1,111,000**

LEASED PROPERTIES, Lease liabilities, € million

	2006	2005
Finland	1,477	1,445
Other Nordic countries	148	80
Baltic countries	105	84
Russia	7	2
Total	**1,737**	**1,611**

LEASED PROPERTIES, Area, m²

	2006	2005
Finland	2,012,000	1,845,000
Other Nordic countries	185,000	185,000
Baltic countries	293,000	278,000
Russia	18,000	19,000
Total	**2,508,000**	**2,327,000**

Personnel

Personnel in figures

The aggregate number of the Kesko Group employees at 31 December 2006 was 23,755, and converted into full-time employees with joint ventures included, the average total number in 2006 was 23,756. Of these, 14,149 worked in Finland and 9,606 in other countries. Kesko's most international enterprise is Rautakesko with 96% of its employees working abroad.

In all, Kesko and its chain stores employ nearly 50,000 people in seven countries.

Increasingly international working community and entrepreneurship

Kesko's HR strategy was updated in 2006. It establishes the HR management's focal areas for the next few years. The Corporate HR unit is in charge of strategy implementation.

The critical success factors of HR management include:

- stores' good reputation as employers
- leadership in compliance with values
- performance management and motivating operation of immediate superiors
- right people in the right jobs
- competitive compensation and benefits
- competence management and versatile development within the chains
- capable and committed key people
- reconciliation of work and private life, wellbeing at work
- efficient HR function supporting business operations

Aiming to be the the most attractive workplace in the trading sector

Kesko recruits about 5,300 new employees every year. Approximately 1,500 of them are permanent and the rest, for example seasonal helpers, are hired for a fixed term. Kesko's international working community includes nearly 700 different job titles. In-house job rotation makes it possible to offer a great variety of different career alternatives in the trading sector.

According to a survey, major HR risks include the shortage of sales personnel in Finland and that of experts in Russia and the Baltic countries. Therefore the efficiency of the K-Group's internal labour market coupled with the promotion of controlled job rotation will be of crucial importance in the near future. In 2006, some 500 people moved internally from one job to another. In 2006, Kesko launched the K-trainee recruitment and training programme designed for the whole of the K-Group. The programme is intended for new university and polytechnic graduates.

The most competent and motivated people in the trading sector

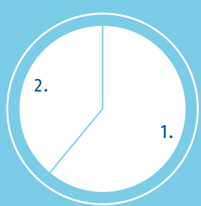
The competencies of the Kesko and K-store personnel are developed in accordance with objectives.

K-instituutti is the service centre for the K-Group competencies. In 2006, it was the venue for the training programmes of 7,725 people. K-instituutti's special strengths include expertise in retail operations and training in entrepreneurial and managerial competencies.

The Master Sales Assistant training programme is Finland's largest adult training event. In 2006, there were 15,755 participants, 897 of whom were Kesko employees. 6,047 students participated in the Master Sales Assistant training programme in business colleges and polytechnics.

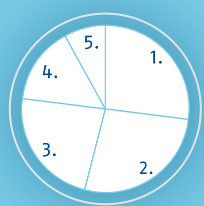
ANALYSIS OF KESKO EMPLOYEES BY GENDER, %

1. Women 61%
2. Men 39%

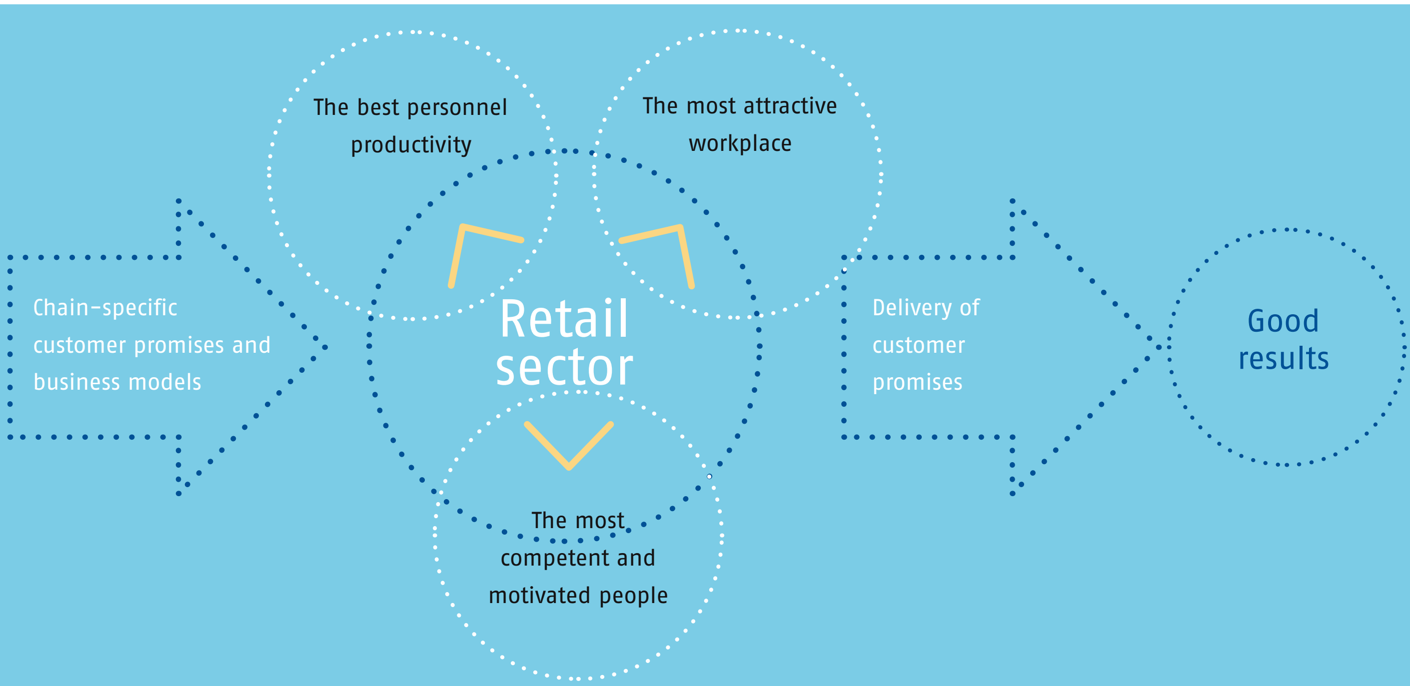


ANALYSIS OF KESKO EMPLOYEES BY AGE, %

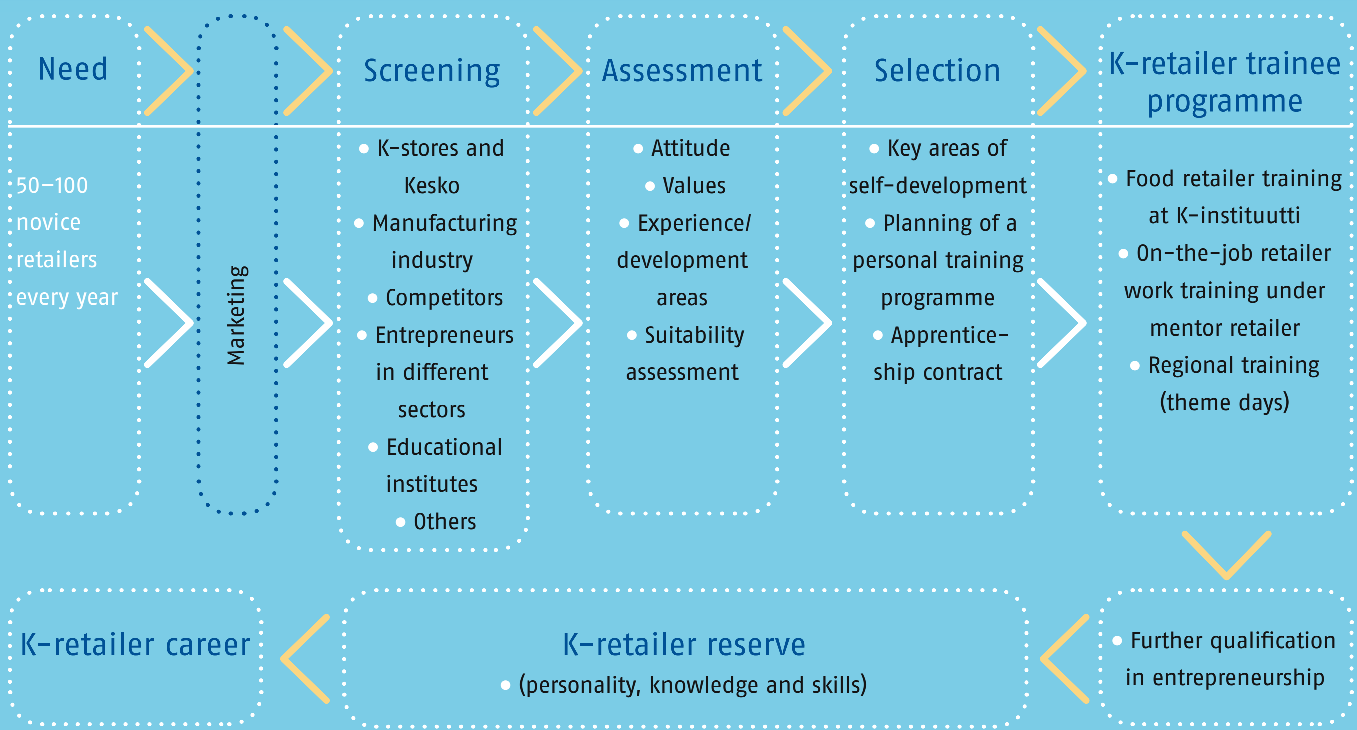
1.	< 26 y	27%
2.	26–35 y	27%
3.	36–45 y	23%
4.	46–55 y	15%
5.	> 55 y	8%



Kesko's and the stores' HR strategy goals



Path to a K-food retailer



Management and leadership

At Kesko, the management is responsible for and works in compliance with corporate values. A uniform management system is aimed at a long-term development of operations. One of the key tools in the management of efficient performance and the motivating leadership of immediate superiors is the annual performance and development review whose implementation is included in the annual job satisfaction survey.

Leadership skills and career progress are supported by Kesko's own three-step superior and management training.

In addition, Kesko has implemented a long-term development programme for the management and potential management personnel since 2004. There are some 200 participants in the programme, whose purpose is to ensure adequate managerial resources both in terms of quality and quantity. Information about personnel can also be found in the Corporate Responsibility Report for 2006, which will be published in spring 2007.

For the best personnel productivity in the trading sector

The importance of work productivity has increased. Good productivity relies on efficient and uniform operating systems determined specifically for each chain, supporting information technology and personnel competence. Immediate supervisors' competent leadership ensures that every employee knows his or her duties and targets. A controlled rotation of duties and jobs is also adopted for developing multiple skills and productivity.

A good working community is a prerequisite for the wellbeing and excellent performance of employees. At Kesko, the developments in the working community are monitored using a 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 general. The response rate was 68.2%.

Kesko's Occupational Health unit focuses on operations that maintain work capacity and promote the wellbeing of the working community. In Finland, 35-45% of the aggregate costs of occupational health are allocated to these activities. The Kesko Staff Club encourages and actively supports the personnel's hobby and recreational activities. A special emphasis is put on the prevention of sickness absence.

The adoption of different working hour systems contributes to productivity. In 2006, nearly all Kesko offices transferred to flexitime.

K-retailer enterprise

A significant part of the K-Group's retail stores are run by retailer-entrepreneurs. At the end of 2006, Kesko had 1,260 K-retailer entrepreneurs and 250 other retailers as partners.

Kesko's function is to create a first-class setting for retailers in which they can serve their customers with first-class products and services. Kesko supports retailers by offering them efficient chain concepts coupled with entrepreneurial and trading sector competence gained from a long business history. Retailers are responsible for the sales development, profitable operation and staff management of their stores in order to ensure customer satisfaction at the local level.

In order that retailer-entrepreneurs are successful and that the whole K-Group is competitive, it is important that novice retailers have the best possible professional and other competencies at the beginning of their retailer careers.

Some 200 stores have a new retailer annually within the K-Group. Annually, 80-100 novices are needed to start a career as K-retailer-entrepreneurs.

In order to secure the reserve of new K-retailers and their competencies, the K-Group engages in focused retailer training. New people interested in a K-retailer career are sought through different channels with about 500 contacts annually. The need and amount of novice retailers is estimated for a period of 1-3 years.

A great many of those who start a K-retailer trainee programme have retailing experience, but over the last few years, the number of recent graduates has been on the increase. Before the candidates are chosen for the training, they are assessed with respect to their values, work experience and basic education among other things.

The future K-retailers that are chosen start a K-retailer trainee programme which consists of three parts: on-the-job coaching in the store of a mentoring retailer, training at K-instituutti and regional K-trainee theme days. The length of the training programme is 6, 12 or 24 months depending on the participant's basic education and previous work history. About 100 people complete the K-retailer trainee programme every year.

Anyone who has completed a K-retailer trainee programme is qualified to start as an independent K-retailer entrepreneur. The K-Group offers active retailers opportunities for further training and to make progress in the retailer career.

Corporate responsibility in Kesko

Corporate responsibility is integrated into Kesko's management system and implemented as part of normal daily activities in the line organisation. The Corporate Responsibility Unit that operates under the Corporate Executive Vice President, Corporate Development is responsible for development, coordination and performance reporting. The work of the Unit is supported by the Corporate Responsibility Steering Group, appointed by the Corporate Management Board. The duties of the Steering Group include determining the responsibility strategy and the operating policies and systems needed for its implementation, and monitoring the implementation of objectives. The Environmental Activities Steering Group is responsible for the development and coordination of environmental issues in different operating countries.

Corporate responsibility reporting complies with the sustainability guidelines drawn up by the Global Reporting Initiative (GRI). Kesko is an Organisational Stakeholder of GRI and Kesko has had a representative in the indicator working group of the new GRI recommendation published in autumn 2006. Kesko's Board of Directors annually handles the Corporate Responsibility Report after it has been published. Kesko's corporate responsibility reporting has been assured by an independent party since 2002. The assurance for the 2006 report has been provided by CSR Network, a UK-based CSR consultancy, and by PricewaterhouseCoopers Oy for economic responsibility. The Corporate Responsibility Report for 2006 will be published in April 2007.

Top-of-the-world performance continues

Kesko's work for responsibility once again received recognition in many international comparisons evaluating companies' responsibility and reporting. In the Dow Jones sustainability index, Kesko continued as the leading company in the world in the retailing sector, and the World Economic Forum listed Kesko among the 100 best companies in the world in sustainable development for the second time. Kesko's Corporate Responsibility Report for 2005 was chosen the best in the trading sector for the third time in the Global Reporters Survey competition. Kesko's total rank was 21st. Indexes and evaluations facilitate the work of the investors exploiting sustainability results and give the company an assessment by independent experts on the success of its work and comparison data of the best practices.

Economic responsibility

Good financial performance makes it easier to assume environmental and social responsibility and correspondingly environmental and social responsibility contribute to reducing costs and promoting job satisfaction. In the Corporate Responsibility Report, economic performance is viewed from the point of different 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 2006, suppliers of goods and services received about 86% or €7.3 billion of the economic benefits Kesko produced. Kesko had about 24,400 active suppliers (from which Kesko's annual purchases exceed €1,000). Approximately 11,500 of these operate in Finland, accounting for 70% of the total purchases. Kesko's investments totalled €250.5 million, of which €182.4 million were spent in Finland. The figure does not include investments in Rimi Baltic, which is treated as a discontinued operation in the Annual Report. 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 average number of Kesko Group employees, converted into full-time employees grew by 2,451 in 2006. The Group had 23,755 employees at the end of the year, a decrease of 2,853 on 2005, which can be attributed to Kesko's disposal of its shareholding in Rimi Baltic's business in December. A total sum of €482.5 million was paid in wages and salaries. More information about personnel is given on pages 48–50.

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 2006, there were 30 more K-food stores than the year before, i.e. 1,071 in all in 371 cities and municipalities, out of a total of 431 in Finland. There were 708 speciality stores in Finland, 23 hardware and builders' supplies,13 agricultural and 9 furniture stores in the Baltic countries, 132 hardware and builders' supplies and 3 furniture stores in the other Nordic count-

Kesko's corporate responsibility includes good corporate governance, economic, social and environmental responsibility, and the work carried out on behalf of product safety and consumer protection. The objectives include rationalising practices, improving profitability, gaining a competitive advantage and, at the same time, minimising risks.

Stable return for shareholders

- The average dividend yield (B share) was 3.8% in 2006.
- The average annual yield (B share) during the past fives years has been 38.9%.

Major recipients of support in Finland

- Young Finland Association
- Children's Day Foundation
- Godparents operations of the University Children's Hospitals
- Helsinki School of Economics
- WWF Finland
- Pulmonary Association HELI
- Veterans of Our Wars fund-raising campaign 2006

ries, and 7 hardware and builders' supplies stores in Russia.

Sales to the K-retailers accounted for 43% of Kesko's total sales. Kesko's own retail stores accounted for 31% of the company's total sales.

Support for the public good

Kesko and its subsidiaries gave financial support amounting to approximately €2.3 million to about one hundred organisations and institutions operating for the public good. When recipients are selected, the emphasis is on socially responsible activities and the promotion of sustainable development.

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 operations that have a major impact on the environment are certified by the ISO 14001 environmental system. Kesko Food reformed its logistics operations starting from 1 January 2006, moving its warehouse production to Kesped Ltd, which was at the same time renamed Keslog Ltd. Due to the organisational changes, the certified environmental systems of logistics and of the former Kesped Ltd were combined into the certified environmental system of Keslog Ltd during 2006. The ISO 14001 certification now comprises Anttila Oy's all operations. Cooperation partners producing real estate construction, maintenance and waste management services for Kesko also have a corresponding system in place.

At the end of the year, 349 K-food stores, 43 K-rauta and Rautia stores and 19 K-maatalous stores fulfilled the requirements of the K-stores' environmental management concept – the K-environmental store diploma. In these statistics, all stores operating both as hardware and builders' supplies and agricultural stores are included in the number of K-rauta and Rautia stores. 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 the efficiency of their energy consumption and waste management, enhance their selection of environmentally sound products and assist their customers in making sustainable consumption choices.

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 78% of the real estate, while 64% of the real estate falls under the scope of multi-energy monitoring.

In 2006, the combined electricity consumption of Kesko and the K-stores operating in Kesko's premises in Finland was nearly 729 GWh. Consumption remained at the level of the previous year when the decrease of nearly one percentage point in the total area of real estate is taken into account. The total consumption of heat was nearly 291 GWh, up by 2%. Kesko bought, on a centralised basis, 74% of the electricity used. In the production of the electricity bought by Kesko, the proportion of fossil raw materials has decreased by nearly 50% during the years 2004-2005. The figures for 2006 were not yet available at the time this report was published.

Kesko has signed up to the real estate and construction sector energy saving agreement (KRESS). In 2006, the specific consumption of electricity fell in the properties included in the agreement, while the specific consumption of heat and water increased slightly.

Transport

In 2006, the kilometres driven by Keslog and the external transport companies it used totalled 16.3 million, an increase of 3% over the previous year. The distances driven by Keslog per cubic metre delivered remained unchanged and the transportation efficiency calculated for each load increased by about 2%.

Waste management and recycling

In waste management the focus remained on minimising the amount of mixed waste generated and achieving a high recovery rate. In Kesko Food's warehouse operations, the waste recovery rate has stabilised at the level of 90%. Anttila Oy succeeded to further increase recovery, for example by recycling furniture waste, and achieved the very high recovery rate of 97.7% in 2006. Recoverable and reusable packaging collected by return logistics at K-stores and customer restaurants totalled about 62 million. The number of returned cans increased considerably to 54.7 million.

Environmentally sound products

At the end of 2006, Kesko Food offered a selection of about 500 organic products and about 700 products with environmental labelling. The extent of selections varied by store chain. In addition, individual K-retailers continue to purchase local organic and other foods to meet their customers' wishes. The selection and marketing policies concerning organic and Fairtrade products and products with environmental labelling are included in the K-food stores' chain concepts. Novelties added to the selection included Fairtrade roses.

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 634 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 48-50 and in the Corporate Responsibility Report.

Social quality control of imports

The Business Social Compliance Initiative (BSCI) is a joint organisation established by European trading chains to promote social audits in the supplier companies located in developing countries. At the end of the year the BSCI had 64 members, including Kesko, which had a representative on the BSCI board and in the group of experts developing agricultural audits.

At the end of 2006, a total of 2,400 supplier audits were either underway or had been completed, mainly in Asia. Nearly 30 of these were Kesko's suppliers, complementing the existing 28 suppliers with SA 8000 certification and 28 suppliers included in the Fairtrade certification system. In Vietnam, some of Kesko's suppliers participate in the joint three-year development project by the Social Responsibility in Importing network, Trade Union Solidarity Centre of Finland (SASK) and the Central Organisation of Finnish Trade Unions -SAK. The project also includes a BSCI audit.

The BSCI arranged informative events for suppliers in China and Vietnam, and supplier and stakeholder meetings in Morocco and Almeria, Spain to pave the way for agricultural producer audits. Cooperation was made with EurepGAP, the environmental certification system for agriculture, to avoid overlapping operations.

Product safety

The Product Research Unit of Kesko Food has 20 regular employees. The unit is responsible for ensuring the quality of purchases, keeping abreast of food legislation, maintaining and providing support to the self-control plans required by law and for developing private label products together with purchasing and marketing units. The recipe service of the unit generates hundreds of recipes for both the K-Group units and direct for consumers. Kesko Food's Consumer Service answers consumers' inquiries and receives feedback on Kesko's private label products. In 2006, there were 19,322 such contacts.

Quality control in purchasing is implemented by auditing the operations of product manufacturers and analysing product composition and quality. In 2006, the Product Research Unit audited 40 suppliers, of which 21 were Finnish and the remaining from eight countries. These companies mainly included suppliers of Kesko's house brands. A total of 6,673 food novelties and product development samples, and 1,277 product lot and other self-control samples were analysed. Kesko's Product Research Unit also plays a key role in exceptional situations when a product launched to the market fails to meet safety or quality requirements. A total of 36 product recalls took place, most of which related to defective quality or taste, or a manufacturing or packaging error. Three of these were public recalls, involving potential health hazards. 18 of the recall cases were Kesko Food's private label products; in other cases the Product Research Unit assisted the manufacturing industry.

The Product Research Unit also controls packaging information. For the Group's house brands, packaging information exceeds the requirements of legislation as to nutritional values. The country of origin is always marked on imported house brands, and the manufacturer's name and domicile is shown on domestic products.

In spring 2006, discussion about bird flu intensified in Finland, when several flu cases caused by the H5N1 virus were found in wild birds in neighbouring areas. Kesko's readiness to act in exceptional situations was improved for example by establishing two working groups.

In 2006, the activities of the Product Research Unit were much influenced by a new Food Act, which entered into force at the beginning of March. The act combined the old Foodstuffs Act and part of the Health Protection Act. At the same time, the Act further harmonised our national legislation with the general EU food legislation. The new Act and complementing decrees influenced Kesko Food's operations in many respects. The Act updated the harmonisation and fees of municipal food supervision, self-control requirements in the primary production of vegetables and the acceptance procedures concerning new food premises.

Corporate Governance Statement

Decision-making

General

Kesko Corporation (Kesko or the company) is a Finnish public limited company in which the duties and responsibilities of the executive bodies are defined according to the Finnish law and the principles laid down by the company's Board of Directors.

The international Kesko Group comprises the parent company, Kesko, and its subsidiaries. The company is domiciled in Helsinki.

Kesko's decision-making and administration comply with the Finnish Companies Act, other regulations concerning publicly traded companies, the company's Articles of Association, and the rules and regulations of the Helsinki Stock Exchange. In addition, the company 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.

The highest decision-making power in Kesko is exercised by the company's shareholders at a General Meeting. Kesko is managed by the Board of Directors and a Managing Director, who is the President and CEO.

General Meetings

General Meetings are divided into Annual and Extraordinary General Meetings. The Annual General Meeting, which is held on a date by the end of every June designated by the company's Board of Directors, handles the business specified for the Annual General Meeting in the company's Articles of Association and any other proposals that may be made to the Meeting. Kesko's Annual General Meeting has usually been held in March or April. If needed, an Extraordinary General Meeting is convened to handle a specific proposal made to a General Meeting. All General Meetings are convened by the company's Board of Directors. General Meetings usually handle the matters placed on the agenda by the Board of Directors. A shareholder has the right to have a matter specified for a General Meeting by virtue of the Companies Act handled at a General Meeting, if he/she requests so in writing to the Board of Directors early enough for the matter to be included in the notice of the meeting.

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

Shareholders are invited to a General Meeting by a notice published in at least two nationwide newspapers, specifying the time and place and listing the matters on the agenda. The notice and the proposals of the company's Board of Directors to a General Meeting are also published in a stock exchange release and posted on the company's Internet pages.

Those wishing to attend a General Meeting must notify their intention in advance within the time announced in the notice of 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 a General Meeting and are made available to shareholders for inspection two (2) weeks afterwards. The decisions made by a 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, in accordance with the Finnish Companies Act, normally be the decision of the General Meeting.

Board of Directors

Composition and term

According to the Articles of Association, Kesko'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 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. According to the Corporate Governance Recommendation, the majority of the Board members must be independent of the company. A member is considered to be independent of the company if he/she has no significant connection to the company other than membership of the Board of Directors. In addition, at least two (2) of the members belonging to the above majority must be independent of the company's significant shareholders. The Board of Directors evaluates the independence of its members annually in accordance with the Corporate Governance Recommendation.

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

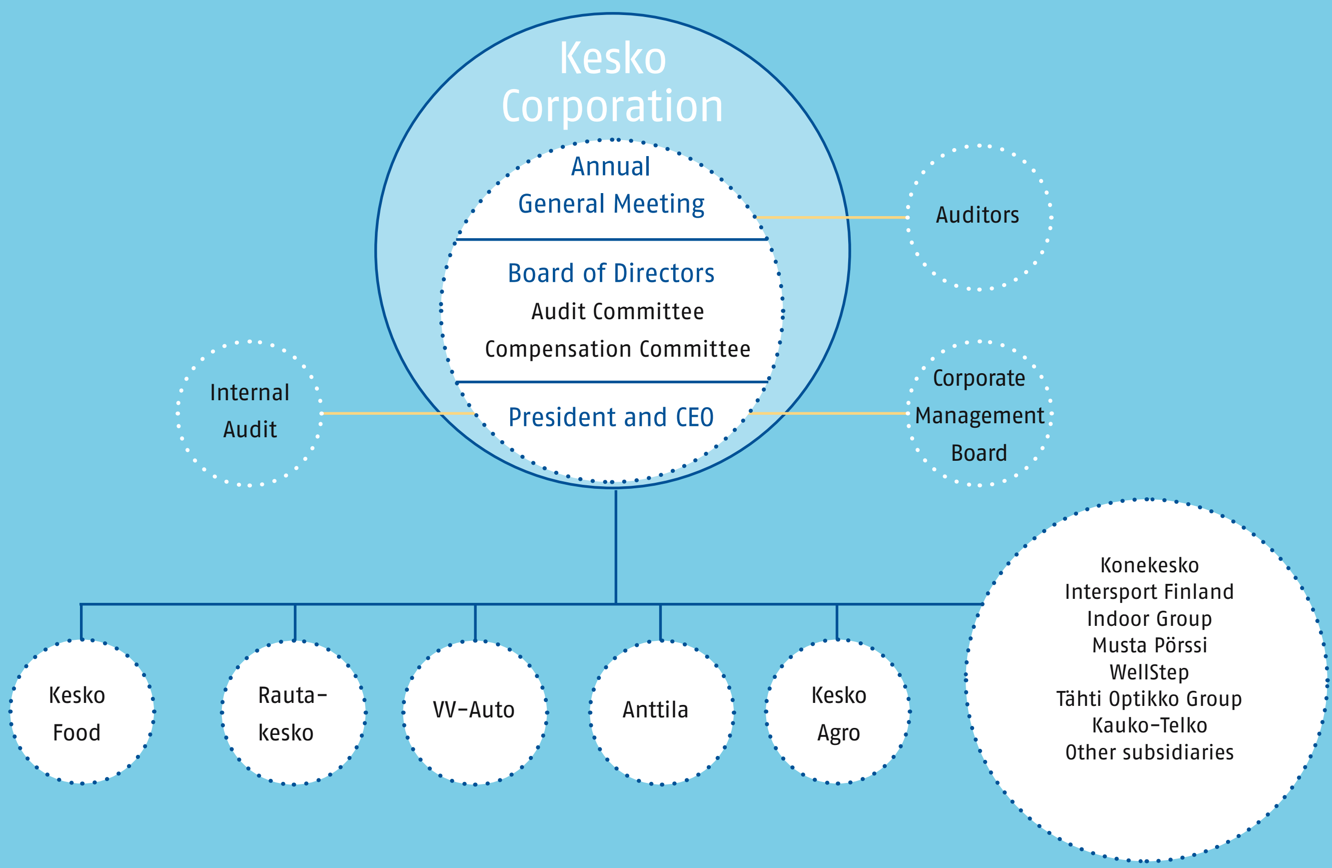
Deviation from the Corporate Governance recommendation

The terms of the members of Kesko's Board of Directors deviate from the term of one year specified in item 12 of the Corporate Governance Recommendation. A General Meeting makes decisions on all amendments concerning the Articles of Association. A shareholder which, together with controlled companies, holds over 10% of all voting rights attached to Kesko Corporation's shares, has informed the company's Board of Directors that it considers the term of three years good for the company's long-term development and sees no need to shorten 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 significant shareholders.

Duties

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

Kesko Group's Corporate Governance structure



ATTENDANCE OF BOARD MEMBERS AT THE MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2006

	Board of Directors	Audit Committee	Compensation Committee	Attendance % (Board)	Attendance % (all)
Pentti Kalliala	9/9		2/2	100	100
Eero Kasanen (until 27 March 2006)	1/2	1/1		50	67
Matti Kavetvuo (until 27 March 2006)	2/2	0/1		100	67
Ilpo Kokkila (from 27 March 2006)	7/7			100	100
Maarit Näkyvä	7/9	5/5		78	86
Seppo Paatelainen (from 27 March 2006)	7/7	4/4		100	100
Kari Salminen (until 27 March 2006)	2/2			100	100
Keijo Suila	7/9	4/4	2/2	78	87
Jukka Säilä (from 27 March 2006)	7/7			100	100
Heikki Takamäki	9/9		2/2	100	100

According to the rules of procedure, the responsibilities of the 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 financial 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/her remuneration
- appointing the Deputy Managing Director
- appointing the Managing Directors of the major subsidiaries, and
- confirming Kesko's values to be applied in the Group.

Meeting practice and self-assessment of operations

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' Audit Committee and Compensation Committee assist the Board by preparing the matters that must be decided by the Board. The Board of Directors regularly assesses its operations and working practices by carrying out a self-assessment once a year.

Audit Committee and Compensation Committee

The Board of Directors' Audit Committee and Compensation Committee both consist of three (3) Board members. The Board of Directors elects the Chairmen and the members of the Committees from among its members for one year at a time. In accordance with the Corporate Governance Recommendation, the members of the Audit Committee should be independent of the company and its significant shareholders. 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 the 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 the Kesko Group's external auditing, and other expert services of auditing firms 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 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 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

The Kesko Group has a Corporate Management Board, the Chairman of which is Kesko's President and CEO. Kesko's Board of Directors appoints the members of the Corporate Management Board.

The Corporate Management Board has no authority based on legislation or the Articles of Association. The Corporate Management Board 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'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 the Kesko Group. The most important duties of the subsidiary boards include drawing up the company strategy, operating plan and budget, and making decisions on investments, acquisitions and contingent liabilities within the authorities given by Kesko's Board of Directors.

Top management reward and incentive schemes

Kesko's Board of Directors has approved the principles of a performance-based bonus system for the Group's management. Depending on the profit impact of each management position, the maximum bonuses can vary up to an amount corresponding to a manager's salary for 2-6 months. The bonus system criteria consist of Group-level and responsibility area-specific profit requirements, customer and personnel indicators, and an overall assessment. The bonus system covers about 50 executives of the Kesko Group.

In addition to the bonus system, Kesko has a valid year 2003 share option scheme for the Kesko Group's management. The key terms and conditions of the share option scheme are presented under "Shares and shareholders" on page 137. Kesko has no other share-based incentive systems.

Auditing

According to the Articles of Association, Kesko has a minimum of one (1) and a maximum of three (3) auditors elected by the Annual General Meeting. The Board of Directors' Audit Committee prepares the Board's proposal concerning the company's auditor for presentation at a 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 audit report required by law to Kesko's shareholders together with the company's financial statements, and regularly report to the Audit Committee of Kesko's Board of Directors and to the Board.

Group-wide financial reporting

The Group's financial performance and the achievement of financial objectives are monitored via Group-wide financial reporting. Monthly performance reporting includes Group-, division- and subsidiary-specific results, progress compared to the previous year, comparisons with financial plans, and forecasts for the next 12 months. The Group's short-term financial planning is based on plans drawn up by the quarter, extending for 15 months. The financial indicator for growth is sales growth, while that for profitability is the accumulation of economic value added, monitored via monthly internal reporting. When calculating economic value added, the requirements concerning return on capital are determined annually on market terms. In profit requirements, risk-related division- and country-specific differences have been taken into account. Information about the Group's financial situation is given by interim financial reports and the financial statements release. The Group's sales figures are published in a stock exchange release each month.

Further information on Keskos corporate governance

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

Corporate governance – information at 31 December 2006

Board of Directors and fees

Until the Annual General Meeting of 27 March 2006, Kesko's Board of Directors consisted of seven (7) members: Chairman Heikki Takamäki, Deputy Chairman Matti Kavetvuo and members Pentti Kalliala, Eero Kasanen, Maarit Näkyvä, Kari Salminen and Keijo Suila.

The Annual General Meeting also elected seven (7) members to the company's Board of Directors. After the Annual General Meeting the Board of Directors has consisted of Chairman Heikki Takamäki, Deputy Chairman Keijo Suila and members Pentti Kalliala, Ilpo Kokkila, Maarit Näkyvä, Seppo Paatelainen and Jukka Säilä. In accordance with the Articles of Association, the term of the Board members will expire at the close of the 2009 Annual General Meeting.

Kesko has given no guarantees or other contingent liabilities for its Board members. The current members of the Board of Directors, their education, employment histories, holdings of Kesko-issued securities, main positions of trust, and the fees paid to them by the company in 2006 are presented under the heading 'Board of Directors' on page 62.

Kesko's Board member fees have been paid as monetary compensation. The monthly and meeting fees paid to Kesko's Board members in 2006 totalled €274,060.00 (€241,020.00 totally in 2005), of which fees paid to Audit Committee members accounted for €8,840.00 (€8,400.00) and the fees paid to Compensation Committee members for €3,000.00 (€3,780.00). The breakdown of fees by member is presented under the heading 'Board of Directors' on page 62. No company shares, share options or other special rights to company shares have been distributed to Board members.

Based on a decision made at the 2006 Annual General Meeting, the monthly and meeting fees paid in 2006 to the members of the Board of Directors and to the members of the Board of Directors' Committees were:

Monthly fees	Fee per month, €
Chairman of the Board	5,000
Deputy Chairman of the Board	3,500
Board member	2,500

Meeting fees	Fee per meeting, €
Fee for Board meeting	500
Fee for Committee meeting	500
Fee for Chairman of a Committee meeting if he/she is not also Chairman or Deputy Chairman of the Board	1,000

Board members are also entitled to daily allowances and compensation for travelling expenses in accordance with the general travel rules of Kesko.

Board of Directors' monthly and meeting fees 2004–2006:

Monthly fees	Fee per month, €		
	2006	2005	2004
Chairman of the Board	5,000	3,800	3,800
Deputy Chairman of the Board	3,500	2,400	2,400
Board member	2,500	2,000	2,000

Meeting fees	Fee per meeting, €		
	2006	2005	2004
Fee for Board meeting	500	420	420
Fee for Committee meeting	500	420	420
Fee for Chairman of a Committee meeting if he/she is not also Chairman or Deputy Chairman of the Board	1,000	420	420

Evaluation of independence

Kesko's Board of Directors evaluated the independence of the company's Board members of the company and its significant shareholders, in accordance with item 18 of the Corporate Governance Recommendation, on 27 March 2006. Based on the evaluation, the following persons were found to be independent of the company: Keijo Suila, Deputy Chairman of the Board of Directors, and Ilpo Kokkila, Maarit Näkyvä and Seppo Paatelainen, Board members. The following persons were dependent on the company: Heikki Takamäki, Chairman of the Board of Directors, and Pentti Kalliala and Jukka Säilä, Board members. Pentti Kalliala, Jukka Säilä and Heikki Takamäki are K-retailers, who have a chain agreement with a Kesko Group company. All members of the Board of Directors were independent of significant shareholders of the company as referred to in the Corporate Governance Recommendation.

Audit Committee

After the Annual General Meeting, the Chairman of the Board of Directors' Audit Committee was Maarit Näkyvä, with Seppo Paatelainen and Keijo Suila as members. The Audit Committee met five (5) times in 2006.

Compensation Committee

After the Annual General Meeting, the Chairman of the Board of Directors' Compensation Committee was Heikki Takamäki, with Pentti Kalliala and Keijo Suila as members. The Compensation Committee met two (2) times in 2006.

Managing Director and Deputy Managing Director

The personal data, employment histories, main positions of trust and holdings of Kesko-issued securities of Matti Halmesmäki, President and CEO, and Juhani Järvi, Corporate Executive Vice President and Deputy to the President and CEO, are presented under the heading 'Corporate Management Board' on page 64.

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

In 2006, the salaries, bonuses and fringe benefits paid to Matti Halmesmäki, President and CEO, totalled €598,200.00 (€424,760.00 in 2005) of which regular salaries accounted for €446,880.00 (€341,880.00), the 2005 bonus paid under the performance-based bonus system for €132,000.00 (€67,500.00) and fringe benefits for €19,320.00 (€15,380.00).

In 2006, the salaries, bonuses and fringe benefits paid to his Deputy, Juhani Järvi, Corporate Executive Vice President, totalled €254,250.00 (€220,783.93 in 2005), of which regular salaries accounted for €216,540.00 (€163,841.99), the 2005 bonus paid under the performance-based bonus system for €24,750.00 (€45,600.00) and fringe benefits for €12,960.00 (€11,341.94).

The President and CEO's bonus for 2005 equalled his regular salaries for about 3.7 months, while his Deputy's bonus equalled his regular salaries for about 1.5 months. Kesko's Board of Directors will make a decision on the 2006 bonuses in spring 2007.

The holdings of Kesko-issued securities of the President and CEO and his Deputy and the key terms of their employment are presented under the heading 'Corporate Management Board' on page 64.

Salaries, bonuses and other benefits of the Corporate Management Board

The Chairman of the Corporate Management Board was Matti Halmesmäki, Kesko's President and CEO, and the members were Juhani Järvi, Corporate Executive Vice President, Deputy to the President and CEO; 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 and President of VV-Auto Group Oy, as well as Arja Talma, Senior Vice President, CFO; Riitta Laitasalo, Senior Vice President, Human Resources; and Paavo Moilanen, Senior Vice President, Corporate Communications, of Kesko.

In 2006, the members of the Corporate Management Board, excluding the President and CEO and his Deputy, received €1,142,030.40 (€833,536.30 in 2005) in salaries, €104,919.53 (€68,693.40) in fringe benefits and €150,054.00 (€164,116.60) in bonuses, €1,397,003.93 (€1,066,346.30) in all.

In September, Kesko's Board of Directors appointed Matti Leminen, Managing Director of Anttila Oy, to the Corporate Management Board to start on 1 January 2007. Matti Laamanen, member of the Corporate Management Board, retired at the end of 2006.

The members of the Corporate Management Board, their education, employment histories, main positions of trust, holdings of Kesko-issued securities and the key terms of their employment are presented under the heading 'Corporate Management Board' on page 64.

Auditing

The 2006 Annual General Meeting of Kesko elected one auditor for the company: PricewaterhouseCoopers Oy, Authorised Public Accountants, with Pekka Nikula, APA, as the auditor with principal responsibility.

The fees paid in 2006 to firms that belong to the PricewaterhouseCoopers chain in Finland and other countries for auditing Kesko Group companies totalled €1,122,780 (€939,030), while the fees paid for consulting services totalled €411,420 (€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 €1,271,860 (€1,094,830) in 2006.

Insider administration

Kesko's insider regulations

Kesko's Board of Directors has confirmed Kesko's insider regulations for permanent and project-specific insiders. These regulations take 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's permanent public insiders include Kesko's Board members, the President and CEO (Managing Director), the Deputy to the President and CEO and the auditor with principal responsibility in the firm of auditors. Kesko Corporation's Board of Directors has also stipulated that, in addition to the President and CEO and his Deputy, other members of the Corporate Management Board are 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 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'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's permanent insiders may not acquire or transfer securities issued by the company, including securities or derivative financial instruments entitling to them, during 21 days prior to the publication of interim financial 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 may not trade in such securities or derivative financial instruments during the project.

Stock exchange releases

The General Counsel is responsible for ensuring that the rules related to stock exchange releases are observed at Kesko. The Group's Senior Vice President, CFO is responsible for the financial contents of stock exchange releases, 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.

In its investor communications Kesko follows the principle of impartiality and publishes all investor information on its Internet pages in Finnish, Swedish and English.

Risk management at Kesko

The Kesko Group applies enterprise risk management. Critical risks are identified, assessed, managed and monitored using a strategy- and business-based approach. The objective of risk management is to ensure the fulfilment of the Group's customer promises, the improvement of shareholder value, good profit performance, the ability to pay dividends and the continuation of business. Efficient risk management is a competitive advantage for Kesko.

In the Kesko Group, a risk has been defined as any kind of uncertainty factor that may lead to:

- a failure to exploit business opportunities,
- events or reasons which prevent or hinder the attainment of objectives or cause other unwanted consequences.

In March 2006, Kesko's Board of Directors approved a risk management policy for the Group. This policy is based on the COSO ERM Integrated Framework and the Helsinki Stock Exchange's Corporate Governance Recommendation for Listed Companies. The policy defines the objectives, principles, organisation, responsibilities and key practices of risk management. Risk management is part of Kesko's planning and management processes, decision-making, daily management and operations, and supervision and reporting procedures. The risk management process generates information about risks and the status of management responses. It leads, if necessary, to remedial actions or the consideration of changes in strategy.

Principles of risk management

The Kesko Group's risk management system is based on the following principles:

- Conscious and carefully evaluated risks are taken in selecting strategies, e.g. in expanding business operations, in enhancing market position and power, and in creating new business.
- Financial, operational and damage/loss risks are avoided or reduced.
- A safe shopping environment for customers and product safety is ensured.
- A safe working environment is created for employees.
- Information about risks and risk management is provided to stakeholders.
- Opportunities for unhealthy phenomena, crime or malpractice are minimised through operating principles, controls and supervision.
- The continuity of operations is ensured by safeguarding critical functions and essential resources.
- Crisis management, continuity and disaster recovery plans are prepared in case any risks are realised.
- The costs and resources involved in risk management are in proportion to the obtainable benefits.

Risk management organisation and responsibilities

The business management is responsible for risk management in practice. Persons responsible for risk management have been appointed in the divisions to coordinate and report on risk management activities.

The Corporate Risk Management Unit is responsible for developing and maintaining risk management tools, introducing best practices to the Group and reporting on risk management to the Group management.

The Risk Management Steering Group chaired by the President and CEO approves risk management procedures and guidelines, and discusses and assesses the Group's risks and the implementation of risk management responses. Kesko's Board of Directors considers the major risks and assesses the functioning of risk management at least once a year.

1) COSO ERM refers to the Enterprise Risk Management (ERM) – Integrated Framework published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in September 2004. The framework defines essential ERM components, suggests a common ERM language and provides clear direction and guidance for enterprise risk management.

Risk management activities in 2006

Risk management focused on implementing the new risk management policy throughout the Group with the emphasis on identifying and managing the strategic risks in different divisions.

The risks of the division parent companies and activities for managing them have been handled in the companies' Management Boards and Boards of Directors. Separate risk analyses have been made of the major projects. Different units of the Group have analysed the risks that threaten the objectives and their management.

Kesko's Corporate Management Board has prioritised the major risks of the Group and their management activities. After a discussion in the Risk Management Steering Group, a risk report has been prepared of them for Kesko's Board of Directors.

In connection with preparing for bird flu, the readiness to act in exceptional situations has been improved and key processes for the continuity of operations have been surveyed.

A real estate safety working group has been set up to enhance the safety of Kesko's premises. For this purpose, the working group prepares Group-level solutions and standards.

Risks and their management

The Kesko Group's risk analyses have addressed, for example, the following risks and their management.

Risks related to delivering the customer promise

The price-quality ratio is a key competitive factor. If Kesko does not succeed in this competition, it will not achieve the sales targets. Enhancing price competitiveness calls for improvements in the efficiency of operations throughout the delivery chain from the supplier to the store shelf. There are several programmes underway to improve cost-efficiency and total management of the operations chain, which serve to increase price competitiveness and consumer-customers' satisfaction with retail stores' offering and selection.

The competitiveness of the customer loyalty system is of great importance. A reform of the customer loyalty system is underway. A risk involved is that the objectives set for customer satisfaction and loyalty will not be achieved by the reform. An essential success factor is how well Kesko succeeds in conveying customer benefits to customers. The technical implementation of the reform is also demanding. Careful testing is done to ensure undisturbed introduction of the systems and efficient data transfer between the various parties.

Kesko's goal is to provide safe products for its customers. A failure in the quality assurance of the delivery chain or in product control may result in financial losses, the loss of customer confidence or, in the worst case, a health hazard. In order to manage this risk the Product Research Unit supervises manufacturing companies and controls the quality of products.

Each store's self-control practices ensure that regulations and rules concerning foodstuffs are observed. The practice of recalling products ensures that defective products are withdrawn from sale quickly.

Risks characteristic of the trading sector

The entrance of new foreign competitors to the market and company mergers and acquisitions can change the competitive situation fast. By operating in several sectors of the trade, Kesko reduces its dependence on each single sector. The responses to tightening competition include investments in store sites and improvements in services. New concepts are developed to improve the efficiency and attractiveness of stores to consumers. Strong private label brands and value-added services produced for customers are an important competitive tool.

In business divisions that are strongly dependent on individual principals, changes in a principal's strategy concerning distribution channel solutions can mean a reduction in or loss of business. Good market shares and growing sales create a basis for good relations with principals. Operations are developed in cooperation with the principals, seeking to provide them with the best distribution channel option.

Store sites are a strategic competitive factor. Considerable amounts of capital are tied up in store properties for decades. Local competitive situations can change fast and there is a risk that operations at the store site will become unprofitable. The risk is managed by long-term planning of the store network, by careful preparation of each store site investment decision and by applying a sell-lease back approach. When arranging construction, Kesko aims to ensure that the use of each store site can be flexibly changed, should a need arise. Contracts made on leased properties also take flexibility into account.

The retail trade involves a high risk of shrinkage. Shrinkage can result for example from spoilage or breakage of goods, theft or other malpractice, for example. Shrinkage is managed in the Group by steering and monitoring the whole operations chain better and by adopting the best practices of each division.

Risks related to internationalisation

Internationalisation aims at growth. The risks in internationalisation include different cultures and business practices and fast growing operating environments. As operations expand in new countries, the significance of these risks is increasing. Finnish retail trade operating processes and control practices cannot always be introduced as such outside Finland. Integrating the operations of acquired businesses may present a risk of losing local competence or of failing to exploit it. Risks related to acquisitions are managed by planning the integration carefully, ensuring sufficient resources, and by the method of implementing and monitoring the acquisition. The efficient steering of operations and the achievement of synergy benefits require common practices across country and organisational boundaries.

Risks related to personnel

Competition for skilled employees has intensified in the labour market. Implementation of strategies requires competent and motivated personnel. There is a risk that the trading sector will not attract the most skilled people. Specialisation increases dependence on the competence of individuals. In updating strategies, the competencies required to implement the strategy are identified, and personnel plans are drawn up on that basis. Kesko's attraction as an employer is enhanced by cooperation with educational institutions and the new K-trainee programme, and by systematic internal and external communications. Job satisfaction surveys are used to assess the needs for HR operations development.

Risks related to continuity of operations

Trading sector operations rely on extensive information systems and networks. Any factor prevent ing or limiting their use could cause major losses in sales and profit. The starting point in Kesko's continuity planning is the longest tolerable interruption in business. Ensuring the continuity of operations depends above all on trustworthy business partners, reliable systems, proper documentation and back-up systems.

Security actions and preparation play a key role in preventing the risks of damage and accident. Group-wide and appropriate insurance is obtained to cover financial losses and interruptions in operations.

Risks related to legislation

Compliance with legislation, regulations, agreements and Kesko's ethical principles is an important basic value. Non-compliance may result in fines, compensation for damages and other financial losses, and a loss of confidence or reputation. The Group has specific Compliance programmes to avoid this. Self-assessments are made in matters concerning competition legislation. Contractual risks are managed by harmonising agreements and agreement-making processes.

The goal of Kesko's Corporate Communications Unit is to produce and publish reliable information at the right time. If some information published by Kesko proves to be wrong or a release fails to meet regulations, this may result in investors and other stakeholder groups losing confidence and in possible sanctions. Further pressure is put on the accuracy of financial information by the tightening of information disclosure schedules and the dependence on information systems. These risks are minimised by careful scheduling and control of the process and by ensuring proper resources and sufficient competence.

Financial risks

With respect to financial risks, the Group observes a uniform financial policy that has been approved by Kesko's Board of Directors. 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'.

Internal audit

Roles of management and the Internal Audit Department in internal control

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

Internal control is an essential part of corporate governance and management. The Board of Directors and the Managing Director are responsible for organising internal control. The Board of Directors is accountable to shareholders 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. The main duty of the Group's Internal Audit Department is to support Kesko's President and CEO, the Board of Directors and management in their task of control.

Kesko's Internal Audit Department is responsible for the independent corporate assessment and assurance functions required of a listed company that systematically evaluate and verify the effectiveness of risk management, control, management and governance. In addition, support is given to the management and organisation in their work of ensuring that the Group's goals and objectives are achieved and that the monitoring system is developed further.

Organisation and focus of internal audit

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 the Audit Committee of the Board of Directors, and it reports about its plans and activities to them on a regular basis. Audit findings, recommendations and the progress of actions are reported to the auditee management, the President and CEO, the Audit Committee and the external auditors.

The Internal Audit Department is divided into foreign audit, group audit and IT audit. Auditing is based on risk analyses and the control discussions carried on with Group and divisional management. The department cooperates with the Corporate Risk Management Unit and participates in the work of the Group's Risk Management Steering Group. The department assesses the effectiveness of Kesko's risk management system annually.

Auditing evaluates the effectivity and efficiency of operations, the reliability of financial and operational reporting, the compliance with laws and regulations, and the safeguarding of assets. Focus areas include foreign operations and retailing, especially controls of goods and money in the supply chain, finance and reporting, information systems and information security. Special attention is paid to communication with management and to providing consultation on control issues and support in solving them.

Ensuring professional competence

According to its Charter, the Internal Audit Department must have sufficient resources available and the knowledge, skills and other competencies needed for performing its duties. The President and CEO and the Audit Committee approve the Department's annual plan and decide on its resources. The auditors' competencies are maintained by systematic professional education and examinations. At the moment, six employees of Kesko's Internal Audit Department have the international qualification of Certified Internal Auditor granted by the Institute of Internal Auditors (IIA).

The extent and competence of auditing is ensured and coordinated by regular contacts and exchange of information with the Group's other internal assurance operations and external auditors. In addition, the Department acquires external services for occasional needs or assessment assignments that require special competence.

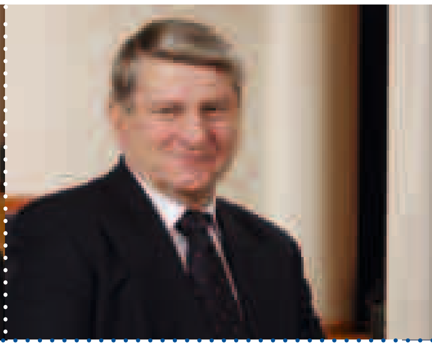
According to the quality assurance audit carried out in 2005, Kesko's Internal Audit Department mainly complies with the international professional and ethical IIA standards. In spring 2006, Kesko became the first company in Finland to receive the international IIA Recognition of Commitment, awarded for the commitment and achievements of the Internal Audit Department in enhancing the competence of internal auditors, the department's operations and the whole profession.

Board of Directors on 31 December 2006

Heikki Takamäki

Keijo Suila

Pentti Kalliala



Ilpo Kokkila

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 2006: €61,240.00.
Kesko shares and share options held on 1 January 2006: 104,470 A shares and 42,120 B shares held by him or his company. No share options.
On 31 December 2006: 104,470 A shares and 42,120 B shares held by him or his company. No share options.

Deputy Chairman (member of the Audit Committee and member of the Compensation Committee)

Keijo Suila

b. 1945, B.Sc. (Econ.).
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: 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, Nokia Corporation: member of the Board of Directors.
Fees in 2006: €43,420.00.
Kesko shares and share options held on 1 January 2006: No shares. No share options.
On 31 December 2006: No 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: 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, Raisio plc: Supervisory Board member
Fees in 2006: €33,340.00.
Kesko shares and share options held on 1 January 2006: 88,560 A shares and 111,200 B shares held by him or his company. No share options.
On 31 December 2006: 88,560 A shares and 111,200 B shares held by him or his company. No share options.

Ilpo Kokkila

b. 1947, M.Sc. (Techn.).
Domicile: Helsinki, Finland.

Principal occupation: SRV Group Plc: Chairman of the Board of Directors.
Main employment history: A-Betoni Oy: constructor 1972-1974, Perusyhtymä Oy: director 1974-1987, SRV Group Plc: Chairman of the Board of Directors 1987-, Pontos Ltd: Chairman of the Board of Directors 2002-.
Board member since: 27 March 2006.
Main simultaneous positions of trust: JTO School of Management: Chairman of the Board of Directors, The Finnish Lifeboat Society: Delegation member, the Association for Promoting Voluntary National Defence of Finland: Delegation member, Finnish-Russian Chamber of Commerce (FRCC): Deputy Chairman of the Board of Directors.
Fees in 2006: €25,500.00.
Kesko shares and share options held on 27 March 2006: 1,300 B shares held by him. No share options.
On 31 December 2006: 16,100 B shares held by him. No share options.



Maarit Näkyvä   Seppo Paatelainen   Jukka Säilä

Maarit Näkyvä

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

Principal occupation: Sampo Bank plc: Deputy CEO.
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 2001-2006. Sampo Bank plc's Executive Vice President 2005-2006.
Board member since: 1 January 2001.
Main simultaneous positions of trust: Sampo Bank plc's Board member.
Fees in 2006: €35,840.00.
Kesko shares and share options held on 1 January 2006: No shares. No share options.
On 31 December 2006: No shares. No share options.

Seppo Paatelainen

b. 1944, M.Sc. (Agr&For).
(member of the Audit Committee)
Domicile: Seinäjoki, Finland.

Principal occupation: -
Main employment history: Luja-Yhtiöt: director, Itikka Lihabotnia Oy and Itikka Co-operative: CEO 1988-1991, Atria Group plc: CEO 1991-2006.
Board member since: 27 March 2006.
Main simultaneous positions of trust: Ilkka-Yhtymä Oyj: member of the Board of Directors.
Fees in 2006: €27,500.00.
Kesko shares and share options held on 27 March 2006: No shares. No share options.
On 31 December 2006: No shares. No share options.

Jukka Säilä

b. 1949, Business College Graduate.
Domicile: Tampere, Finland.

Principal occupation: Retailer, K-kenkä Koskikeskus, K-kenkä Turtola, K-kenkä Ideapark.
Main employment history: Ovako Koverhar: Purchasing Department Manager 1979-1988, K-kenkä retailer since 1988.
Board member since: 27 March 2006.
Main simultaneous positions of trust: –
Fees in 2006: €25,500.00.
Kesko shares and share options held on 27 March 2006: 4,000 A shares and 1,100 B shares held by him or his company. No share options.
On 31 December 2006: 4,000 A shares and 1,100 B shares held by him or his company. No share options.

Until 27 March 2006, Kesko Corporation's Board of Directors had the following members:

Matti Kavetvuo

b. 1944, M.Sc. (Tech.), B.Sc. (Econ.).
Domicile: Helsinki, Finland.
Fees in 2006: €8,040.00.

Eero Kasanen

b. 1952, Dr.Sc. (Econ.), Doctor of Business Administration.
Domicile: Helsinki, Finland.
Fees in 2006: €6,840,00.

Kari Salminen

b. 1957, retailer.
Domicile: Helsinki, Finland.
Fees in 2006: €6,840.00.

The term of each Board member will expire at the close of the 2009 Annual General Meeting.

Corporate Management Board on 31 December 2006

Matti Halmesmäki | Juhani Järvi | Terho Kalliokoski | Jari Lind | Matti Laamanen Retired on 31 Dec. 2006

Matti Halmesmäki

b. 1952, M.Sc. (Econ.), LL.M.
Kesko Corporation'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, 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 2001-2005. Kesko Corporation's Managing Director and the Kesko Group's President and CEO since 1 March 2005.
Kesko shares and share options held on 1 January 2006: 31,500 E and 42,000 F share options.
On 31 December 2006: 10,000 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: Luottokunta: member of the Board of Directors, SATO Corporation: member of the Board of Directors and Chairman of the Audit Committee, Excellence Finland: Advisory Board member, UGAL: member of the Board of Directors
Employment history: Oy Wärtsilä Ab/ Metra Oy Ab: Wärtsilä, Vice President, Corporate Controller 1989-1990, Metra, Vice President, Corporate Planning 1990-1991, Sanitec Ltd., Senior Vice President, CFO 1991-1993, Wartsila Diesel North America, Inc., USA, Vice President, CFO 1994-1997, Patria Industries Oyj: Senior Vice President, CFO 1997-1998. Employed by Kesko Corporation since 1998: member of the Board of Directors, 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 2006: 21,000 E and 21,000 F share options.
On 31 December 2006: 21,000 F share options.
Retirement age and benefits: General retirement age and pensionable salary based on the Employees' Pensions Act (TyEL).
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 Finnish Food Marketing Association: Deputy Chairman of the Board of Directors, the Association of Finnish Advertisers: member of the Board of Directors, Association for the Finnish Work: member of the Council.
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 1 January 2006: 10,500 E and 21,000 F share options.
On 31 December 2006: 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 January 2006: 10,500 E and 21,000 F share options.
On 31 December 2006: 24,000 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 of Keswell Ltd.
Domicile: Kauniainen, Finland.
Other major duties: -
Employment history: employed by Kesko Corporation since 1976: Managing Director of Musta Pörssi companies 1984-1986, director of the

Pekka Lahti Riitta Laitasalo Arja Talma Paavo Moilanen Matti Leminen
Starting from 1 Jan. 2007

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 2006: 1,000 B shares and 21,000 D, 21,000 E and 21,000 F share options.
On 31 December 2006: 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. Retired on 31 December 2006.

Pekka Lahti

b. 1955, M.Sc. (Agr.).
President of VV-Auto Group Oy.
Domicile: Vantaa, Finland.
Other major duties: -
Employment history: employed by Kesko Corporation since 1981: Vice President, Kesko Machinery 2000, Managing Director of Konekesko Ltd since 2001 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 January 2006: 10,000 D, 10,500 E and 21,000 F share options.
On 31 December 2006: 10,500 E and 24,000 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 2006: 21,000 D, 21,000 E and 21,000 F share options.
On 31 December 2006: 5,000 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: VR-Group Ltd: member of the Board of Directors and Chairman of the Audit Committee, Evia Oyj: member of the Board of Directors.
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 2004–2005. Senior Vice President, CFO since 17 March 2005.
Kesko shares and share options held on 1 January 2006: 10,500 D, 10,500 E and 21,000 F share options.
On 31 December 2006: 9,000 E and 21,000 F share options.
Retirement age and benefits: General retirement age and pensionable salary based on the Employees' Pensions Act (TyEL).
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 1 January 2006: 10,500 E share options.
On 31 December 2006: 8,000 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.

Matti Leminen

b. 1951, B.Sc. (Econ.)
Managing Director of Anttila Oy, President of Keswell Ltd
Domicile: Espoo, Finland.
Other major duties: the Association of Textile and Footwear Importers and Wholesalers: member of the Board of Directors, the Finnish Direct Marketing Association: member of the Board of Directors.
Employment history: employed by Kesko Ltd since 1982: Director of the Vaatehuone chain 1990, Director of the Leisure Goods Department 1992, Director of Kesko Sports 1995, Managing Director of Anttila Oy 1998, President of Keswell Ltd since 2005.
Kesko shares and share options:
On 1 January 2007: 10,500 E and 15,000 F share options.
Retirement age and benefits: 60 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 12 months' salary.
Corporate Management Board member since: 1 January 2007 (appointed on 28 September 2006).

Financial statements

Report by the Board of Directors

Net sales and profit, continuing operations

Net sales and profit in January–December 2006

The Group's net sales in January-December were €8,749 million, which is 10.4% up on the previous year (€7,922 million). Excluding acquisitions and business disposals, the Group's net sales increase was 6.2%. Exports and foreign operations accounted for 20.6% (15.9%) of total net sales.

The K-Group's (i.e. Kesko's and the chain stores') retail sales totalled €10,542 million, representing an increase of 17.7%

The Group's profit before taxes for January-December was €357.8 million (€235.8 million). The Group's operating profit was €362.6 million (€244.8 million). The operating profit included a net total of €82.8 million (€28.9 million) in non-recurring gains and losses from disposal of fixed assets and operations, and impairment charges. The gains from disposal of fixed assets included €99.3 million received in March for selling retail store properties to Niam Retail Holding Finland AB. Of the impairment losses, €30.3 million is attributable to the impairment charge recognised on intangible rights relating to Indoor Group's consolidated goodwill and trademarks. Operating profit excluding non-recurring items was €279.8 million (€216.0 million), accounting for 3.2% of net sales (2.7%), and was up by €63.8 million on the previous year. Earnings per share were €2.45 (€1.83).

Net sales and profit in October–December

The Group's net sales in October-December 2006 were €2,304 million, up by 8.2% on the corresponding period of the previous year (€2,130 million). The Group's net sales increased by 20.5% abroad and by 5.2% in Finland. Excluding acquisitions and business disposals, the Group's net sales increase was 8.3%. Exports and foreign operations accounted for 21.8% (19.6%) of net sales.

Kesko Food's net sales in October-December were €971 million, up by 8.1%. Rautakesko's net sales increased by 13.7% to €541 million. Rautakesko's net sales abroad were €358 million, accounting for 66.2% of its net sales. Keswell's net sales increased by 6.9% to €330 million. VV-Auto's net sales increased by 6.7% to €152 million.

The Group's profit before taxes for October-December was €31.3 million (€36.4 million). Operating profit was €37.6 million (€38.6 million). The operating profit was negatively affected by a net total of €-33.8 million (€-17.4 million) in non-recurring gains and losses from disposal of fixed assets and operations, and impairment charges.

Operating profit excluding non-recurring items was €71.4 million (€56.0 million), representing 3.1% of net sales (2.6%). Kesko Food in particular improved its profit excluding non-recurring items. Earnings per share (adjusted for the dilutive effect of options) were €0.21 (€0.24). Equity per share was €17.94 (€15.35).

Investments, continuing operations

The Group's investments in January-December 2006 totalled €250.5 million (€367.3 million), which is 2.9% (4.6%) of net sales. Investments in retail store sites amounted to €186.6 million (€124.3 million). Acquisitions accounted for €16.2 million (€190.7 million) of total investments. The Group's other investments were €47.7 million. Investments in foreign operations represented 27.2% of total investments.

The Group's investments in October-December totalled €88.0 million (€55.5 million), which is 3.8% (2.6%) of net sales. Investments in retail store sites amounted to €71.4 million (€29.3 million). The Group's other investments were €16.6 million. Investments in foreign operations represented 34.5% of total investments.

Taxes, continuing operations

In 2006, the Group's tax expense was €107.1 million (€49.6 million), corresponding to an effective tax rate of 29.9%. In October-December, the Group's tax expense totalled €8.4 million (€9.6 million).

The Group's tax expense in January-December was increased by recovery of the €67.3 million impairment made by Kesko Corporation on the shares of Hämeenkylän Kauppa Oy (former Tuko Oy) in 1996. The resulting tax expense of €19.5 million, increase included, has been paid and recognised in income taxes for the review period.

Discontinued operations

On 18 December 2006, Kesko Food sold its 50% shareholding in Rimi Baltic AB. In the financial statements, Rimi Baltic has been treated as a discontinued operation in compliance with IFRS 5. In the income statement, Rimi Baltic's post-tax result of €-2.4 million, increased by the €131.2 million gain on the disposal of shares, is reported as a single amount of €128.7 million below the profit from continuing operations. Earnings per share from discontinued operations is €1.31 (€0.03). Subsequent to the end of the accounting period, the food store properties leased to Rimi Baltic were sold and, in 2007, the gains on the disposal will be treated as a discontinued operation.

Finance

The consolidated cash flow from operating activities in January-December was €328 million (€298 million). The total cash flow from investing activities was €203 million (€-194 million). The latter was increased by the over €200 million price received in March for selling retail store properties to Niam Retail Holding Finland AB, and the €190 million price received in December for the Rimi Baltic AB shares. Cash flow from operating activities in October-December was €119 million (€139 million), while cash flow from investing activities totalled €147 million (€-31 million).

The Group's net financial expenses in January-December were €-5.5 million (€-10.5 million) and in October-December €-5.9 million (€-2.1 million). The positive trend was mainly due to the increase in interest-bearing receivables relating to customer financing and the reduction in the Group's net debt. The net financial items for the period under review include a €3.8 million (€2.6 million) realisation of available-for-sale investments.

The €-15.4 million in financial expenses for the last quarter of 2006 were increased by a €3.0 million commission relating to the outsourcing of the customer financing item and €1.4 million in interest expenses relating to taxes for prior periods.

At the end of the period, the equity ratio was 47.0% (42.3%). Interest-bearing net debt was €212 million (€640 million). Repayments on long-term loans were made at a faster rate than the payment schedule. Liquid funds totalled €397.6 million (€114.6 million).

Personnel

During the review period, the average number of personnel in the Kesko Group, including joint ventures, was 23,756 (21,305 in 2005 and 17,275 in 2004) converted into full-time employees; i.e. there was an increase of 2,451 employees compared with the corresponding period of 2005. In Finland, the average increase was 618 employees, while outside Finland it was 1,833. During the review period, the average number of personnel in continuing operations was 19,651 (17,449). The increase resulted from Rautakesko's growth in several countries, Pikoil's establishment as a wholly-owned Kesko Food subsidiary, VV-Auto's business acquisition, and the opening of two new Anttila department stores. The transfer of the Tähti Optikko business from Kauko-Telko to Keswell increased the personnel of the latter and decreased the personnel of the former.

At the end of December 2006, the total number of personnel was 23,755 (26,608), of whom 14,149 (14,337) worked in Finland and 9,606 (12,271) in other countries. Compared with the end of December 2005, there was a decrease of 188 employees in Finland, and 2,665 in other countries. The decrease outside Finland resulted from Kesko's disposal of its ownership interest in Rimi Baltic's operations at the end of the year.

In 2006, the amount of wages, salaries and fees paid totalled €482.5 million (€419.3 million in 2005 and €352.8 million in 2004).

Market review

The factors accelerating Finnish economic growth in 2006 include a positive export trend in particular and strong growth in private consumption. The Finnish economy is expected to grow by 2.5-3% in 2007. It is forecast that private consumption will increase by 2.4% and investments by 5.2%. Housing construction investments are estimated to grow by about 2%. The increase in consumer prices is forecast to reach 1.8% (ETLA, The Research Institute of the Finnish Economy).

According to the preliminary data of Statistics Finland, in January-November 2006 the volume of Finnish retail trade increased by 5.5% compared with the previous year. The increase in the wholesale trade volume was 6.5% in the same period.

The volumes of Finnish retail and wholesale trade are expected to continue to grow also in 2007. According to Statistics Finland's consumer survey of January, consumers were very confident about their own finances and the growth of Finland's economy. They also had higher expectations of a decrease in unemployment than in previous months.

The strong growth of the Baltic economies is estimated to continue in 2007. According to forecasts, the Estonian economy will grow by about 8%, the Latvian economy by 9.5% and the Lithuanian economy by 7.4% this year. Private consumption is estimated to grow by about 13% in Estonia and by 8-9% in Latvia and Lithuania. Consumer prices are forecast to rise by 4.7% in Estonia, by 6.2% in Latvia and by 4.0% in Lithuania (Nordea). The Baltic retail trade is forecast to continue to grow in 2007.

This year the Swedish economy and private consumption are forecast to grow by about 3%. The increase in consumer prices is anticipated to be 1.4% (Nordea). Due to brisk housing construction, total building investments are forecast to continue increasing at a rate of some 4% in 2007 (Sveriges Byggindustrier).

The Norwegian economy is forecast to grow by about 3% and private consumption by 3.2% in 2007. Consumer price inflation is anticipated to be approximately 1% (Nordea). The market for building supplies is expected to continue growing due to an increase in housing construction investments.

The Russian economy is forecast to grow by approximately 6% and private consumption and investments are estimated to continue increasing at the brisk pace of 15-18% in 2007 (Nordea). The strong growth in private consumption will be reflected positively in the growth of retail trade, especially in St. Petersburg and Moscow, but also in other big cities. As income levels rise, 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 division reviews of this interim financial report.

Divisions

Kesko Food, continuing operations

In January-December, Kesko Food's net sales were €3,615 million, up by 5.4%. Kesko Food's acquisition of 100% ownership in Pikoil Oy in November 2005 contributed 0.7 percentage points to Kesko Food's net sales growth.

In October-December, Kesko Food's net sales totalled €971 million, up by 8.1%. The arrangements in Pikoil Oy contributed 0.3 percentage points to the net sales growth.

Kesko Food's operating profit for January-December was €173.2 million (€129.0 million). The operating profit was increased by a net total of €44.5 million (€35.3 million) in gains and losses from the disposal of fixed assets and operations, mainly relating to the sale of retail store premises in March 2006. Operating profit excluding non-recurring items was €128.6 million (3.6% of net sales), i.e. €34.9 million, or 0.9 percentage points, more than in the previous year.

Operating profit for October-December was €36.9 million (€18.6 million). The operating profit excluding non-recurring items was €37.0 million (3.8% of net sales), i.e. €17.1 million, or 1.6 percentage points, more than in the previous year. The operating profit increased as a

Net sales by division, continuing operations

€ million	2006	2005	change, %
Kesko Food, Finland	3,597	3,417	5.3
Kesko Food, other countries*	17	11	62.9
Kesko Food, total	3,615	3,428	5.4
Rautakesko, Finland	821	780	5.3
Rautakesko, other countries*	1,308	830	57.5
Rautakesko, total	2,129	1,610	32.2
Keswell, Finland	999	934	7,0
Keswell, other countries*	50	41	22.3
Keswell, total	1,050	975	7.7
VV-Auto, Finland	769	675	13.9
VV-Auto, other countries*	20	14	47
VV-Auto, total	789	689	14.5
Konekesko, Finland	171	170	0.3
Konekesko, other countries*	30	28	7.5
Konekesko, total	201	198	1.3
Kesko Agro, Finland	482	507	-5
Kesko Agro, other countries*	273	240	13.9
Kesko Agro, total	755	747	1.1
Kauko-Telko, Finland	140	192	-27.2
Kauko-Telko, other countries*	108	98	10.2
Kauko-Telko, total	248	290	-14.6
Other units - eliminations	-37	-13	-
Finland, total	6,950	6,661	4.3
Other countries, total*	1,799	1,261	42.7
Group, total	8,749	7,922	10.4

*Exports and net sales in countries other than Finland.

result of the good sales trend and improved cost efficiency. In addition, the operating profit for the corresponding period of 2005 was negatively affected by costs of retail store modifications totalling €7.1 million, and measures relating to the revision of Citymarket Oy's home and speciality goods selection.

Kesko Food's investments in January-December totalled €82.2 million, of which investments in retail store sites were €74.2 million. In October-December, investments totalled €36.4 million, of which investments in retail store sites were €34.6 million.

In 2006, the total retail sales of the K-food stores increased by 5.2%, totalling €4,699 million (including VAT). At the end of December, there were a total of 1,071 K-food stores (including Pikoil's business sites). In 2006, the number of K-food stores increased by 30.

In October-December, the total retail sales of the K-food stores increased by 6.2%, totalling €1,252 million (including VAT).

It is estimated that during January-December, the total grocery trade market in Finland grew by about 4.5% over the previous year and prices rose at an average monthly rate of 1.3% (Statistics Finland). In October-December, the market growth is estimated to have exceeded that of the previous year by about 4%.

It is estimated that in 2007, the total grocery trade market will grow by about 4-5% in Finland.

Kesko Food's net sales and operating profit excluding non-recurring items are expected to increase in 2007.

Kesko Food, discontinued operations

On 18 December 2006, Kesko Food Ltd sold its 50% shareholding in Rimi Baltic AB to ICA Baltic AB for €190 million. The gain on the disposal was €131.2 million. Rimi Baltic was a joint venture established on a 50/50 basis by Kesko Food and ICA Baltic in January 2005. Stock exchange releases on the matter were published on 18 December 2006 and 10 October 2006.

Rautakesko

In January-December, Rautakesko's net sales amounted to €2,129 million, an increase of 32.2%. Byggmakker Norge AS (former Norgros AS) and the Stroymaster chain, acquired in July 2005 by Rautakesko, contributed 18.9 percentage points to Rautakesko's net sales growth. Foreign subsidiaries contributed 61.3% to Rautakesko's net sales.

Operating profit by division, continuing operations

€ million	2006	2005	change
Kesko Food	173.2	129.0	44.2
Rautakesko	139.3	61.7	77.6
Keswell	16.5	35.8	-19.3
VV-Auto	29.4	38.7	-9.3
Konekesko	9.7	9.6	0.1
Kesko Agro	9.2	3.2	6.0
Kauko-Telko	7.9	-11.2	19.1
Common operations	-22.6	-22.0	-0.6
Group's operating profit	362.6	244.8	117.8
Net financial income and expenses	-5.5	-10.5	5.0
Associates	0.7	1.5	-0.8
Profit before taxes	357.8	235.8	122.0

Operating profit by division excluding non-recurring items, continuing operations

€ million	2006	2005	change
Kesko Food	128.6	93.7	34.9
Rautakesko	91.2	61.5	29.7
Keswell	32.2	30.7	1.5
VV-Auto	29.5	38.7	-9.2
Konekesko	8.0	9.6	-1.6
Kesko Agro	7.8	3.1	4.7
Kauko-Telko	6.2	2.8	3.4
Common operations	-23.7	-24.1	0.4
Total	279.8	216.0	63.8

Group indicators by quarter

	10-12/2005	1-3/2006	4-6/2006	7-9/2006	10-12/2006
Net sales, € million*	2,130	1,971	2,277	2,196	2,304
Change in net sales, %*	8.9	15.6	12.8	6.2	8.2
Operating profit, € million*	38.6	150.8	91.6	82.6	37.6
Operating profit, %*	1.8	7.7	4.0	3.8	1.6
Operating profit excl. non-recurring items, € million*	56.0	36.6	89.4	82.4	71.4
Operating profit excl. non-recurring items, %*	2.6	1.9	3.9	3.7	3.1
Financial income/expenses, € million*	-2.2	-1.5	0.4	1.5	-5.9
Profit before taxes, € million*	36	150	92	84	31
Profit before taxes, %*	1.7	7.6	4.0	3.8	1.4
Return on invested capital, %	8.3	27.8	17.7	16.5	30.4
Return on equity, %	7.9	29.4	11.3	17.4	36.4
Equity ratio, %	42.3	41.2	41.7	43.8	47.0
Investments, € million*	55.5	56.6	60.1	45.8	88.0
Earnings per share, €*	0.24	1.14	0.42	0.67	0.21
Equity per share, €	15.35	15.43	15.79	16.46	17.94

*continuing operations

In October-December, Rautakesko's net sales amounted to €541 million, an increase of 13.7%. Net sales increased in Finland by €182 million, or 5.0%, whereas net sales in foreign subsidiaries were €358 million, up by 18.7%. Foreign subsidiaries contributed 66.2% to Rautakesko's net sales.

In Sweden, the net sales of K-rauta AB in January-December increased by 24.7% to €154.5 million. In Estonia, Rautakesko's net sales were up by 23.6% to €73.8 million. In Lithuania, the net sales of UAB Senuku Prekybos Centras (Senukai), in which Rautakesko has a majority interest, increased by 21.0% to €360.1 million. In Latvia, Rautakesko's net sales increased by 63.5% to €60.6 million. In Russia, Stroymaster's net sales totalled €102.2 million. In Norway, Byggmakker's net sales were €547.1 million. Both Stroymaster and Byggmakker have been consolidated with Rautakesko since their acquisition in July 2005.

In October-December, the net sales of K-rauta AB increased by 18.3% to €38.4 million. In Estonia, net sales were up by 24.6% to €19.4 million. In Lithuania, net sales increased by 20.5% to €103.2 million. In Latvia, net sales increased by 68.2% to €18.9 million. In Russia, Stroymaster's net sales were €31.8 million, up by 49.9%. In Norway, Byggmakker's net sales were €143.6 million, an increase of 7.7%.

Rautakesko's operating profit for the year 2006 was €139.3 million (€61.7 million). The operating profit excluding non-recurring items was €91.2 million (4.3% of net sales), i.e. €29.7 million, or 0.5 percentage points, more than in the previous year. The increase is particularly attributable to the good profit performance of foreign subsidiaries. The non-recurring items comprised gains on the disposal of real estate.

The operating profit for October-December was €16.5 million (€15.7 million). The operating profit excluding non-recurring items was €16.5 million (3.1% of net sales), i.e. €0.9 million more than in the comparison period, although its contribution to net sales was 0.2 percentage points less than in the comparison period.

Divisions' net sales by quarter, continuing operations

€ million	10–12/2005	1–3/2006	4–6/2006	7–9/2006	10–12/2006
Kesko Food	899	814	931	899	971
Rautakesko	475	428	572	588	541
Keswell	309	237	223	259	330
VV-Auto	142	230	221	186	152
Konekesko	46	49	65	40	46
Kesko Agro	192	163	212	174	206
Kauko-Telko	71	62	62	59	65
Common operations – eliminations	-4	-12	-9	-9	-7
Group's net sales	2,130	1,971	2,277	2,196	2,304

Divisions' operating profits by quarter, continuing operations

€ million	10–12/2005	1–3/2006	4–6/2006	7–9/2006	10–12/2006
Kesko Food	18.6	64.8	38.9	32.6	36.9
Rautakesko	15.7	56.5	32.1	34.3	16.5
Keswell	25.5	12.8	0.2	10.8	-7.3
VV-Auto	4.8	11.1	11.9	5.0	1.5
Konekesko	-0.7	4.4	4.9	0.8	-0.3
Kesko Agro	-2.2	-0.1	8.1	1.0	0.3
Kauko-Telko	-18.3	2.3	1.5	2.1	1.9
Common operations	-4.8	-1.0	-6.0	-4.0	-11.9
Group's operating profit	38.6	150.8	91.6	82.6	37.6

Divisions' operating profits excl. non-recurring items by quarter, continuing operations

€ million	10–12/2005	1–3/2006	4–6/2006	7–9/2006	10–12/2006
Kesko Food	19.9	20.5	38.7	32.5	37.0
Rautakesko	15.6	8.8	31.7	34.2	16.5
Keswell	25.5	-0.7	0.0	10.7	22.2
VV-Auto	4.8	11.1	11.9	5.0	1.5
Konekesko	-0.7	2.6	4.9	0.8	-0.3
Kesko Agro	-2.2	-1.6	8.1	1.0	0.3
Kauko-Telko	-1.4	1.7	1.3	2.1	1.1
Common operations	-5.5	-5.8	-7.2	-3.9	-6.9
Group's operating profit	56.0	36.6	89.4	82.4	71.4

In January-December, Rautakesko's investments totalled €75.8 million, of which 65.4% was abroad. In October-December, investments totalled €31.1 million, of which 74.9% was abroad.

At the end of 2006, the K-rauta chain in Finland comprised 40 stores and the Rautia chain 105 stores. In 2006, the sales of the K-Group hardware and builders' supplies stores in Finland increased by 7.6% to €1,102.4 million (including VAT). The total sales growth of the K-rauta and Rautia chains in Finland is estimated to have exceeded that of competitors (Finnish Hardware Association). The sales of the Rautakesko B-to-B Service increased by 5.5%. In October-December, the sales of the K-Group hardware and builders' supplies stores in Finland increased by 7.4% to €263.9 million (including VAT). The sales of the Rautakesko B-to-B Service increased by 9.5%.

Rautakesko operates 14 K-rauta stores in Sweden. The K-rauta Gävle premises were destroyed in a fire in August. A new store will be opened next summer. In Estonia, Rautakesko has four stores. In Latvia, after opening a store in Jelgava in August and another in Liepaja in September, Rautakesko now operates five stores of its own and one partner store. In Lithuania, UAB Senuku Prekybos Centras (Senukai) operates 14 Senukai stores and 76 Partnershops. In Norway, Rautakesko holds 99.9% of Byggmakker Norge AS (former Norgros AS), a company managing the Byggmakker chain of hardware and building materials stores. The chain comprises 118 stores, 20 of which are owned by Byggmakker. The other stores of the chain are owned by retailer-entrepreneurs who have signed a chain agreement with Byggmakker. In Russia, the first new K-rauta concept stores were opened in St. Petersburg in September and December. At the same time, the five Stroymaster DIY chain stores owned by Rautakesko in St. Petersburg were renamed as K-rauta stores.

The hardware and builders' supplies market is anticipated to grow in all countries in which Rautakesko operates. In 2007, 3-5% growth is forecast for the Nordic countries and 10% for the Baltic countries. About 10-15% growth is forecast for the St. Petersburg area.

In 2007, Rautakesko will increase its investments in new store sites, employee competence and a uniform information system. It is expected that Rautakesko's net sales will grow in 2007 and that its operating profit excluding non-recurring items will be at the level of 2006.

Keswell

In January-December, Keswell's net sales were €1,050 million, up by 7.7%. The net sales of foreign operations were €50 million, or 4.8% of net sales. The acquisition of Indoor Group Ltd by Keswell in January 2005 contributed 1.9% to the net sales growth. The Tähti Optikko Group, transferred on 1 January 2006 from Kauko-Telko, contributed 2.0% to the net sales growth.

In October-December, Keswell's net sales totalled €330 million, an increase of 6.9%. The net sales of foreign operations amounted to €14 million, or 4.3% of net sales. The Tähti Optikko Group contributed 1.5% to the net sales growth.

In January-December, Keswell's operating profit was €16.5 million. The operating profit included €15.1 million in non-recurring gains from the disposal of fixed assets, and a non-recurring impairment charge of €30.3 million recognised on intangible rights relating to Indoor Group Ltd's consolidated goodwill and trademarks. The impairment was based on a weakened outlook for the business. In 2006, the competitive situation in the home decoration and furniture trade tightened particularly in Greater Helsinki as a result of a major increase in supply. Despite store network expansion, the retail sales of the Indoor Group chains grew less than expected in 2006. Indoor Group's profit performance was not as expected either.

The operating profit excluding non-recurring items was €32.2 million (3.1% of net sales), i.e. €1.5 million more than in the comparison period, although its contribution to net sales was 0.1 percentage points less than in the comparison period. However, the operating profit excluding non-recurring items was clearly weaker than in the previous year because, due to cost allocation in compliance with IFRS 3, Indoor Group failed to earn any profit for the Group throughout the post-acquisition period in 2005. In addition, the year 2005 operating profit excluding non-recurring items was negatively affected by a lease cancellation cost of €5.1 million relating to the development of Anttila's store site network.

Keswell's operating loss was €7.3 million in October-December. The operating profit was negatively affected by the recognised impairment loss. The operating profit excluding non-recurring items was €22.2 million (6.7% of net sales), i.e. €3.3 million, or 1.6 percentage points, less than in the previous year.

In 2006, total investments were €33.5 million. Major store site investments included Porttipuisto in Vantaa (Kodin Ykkönen, Musta Pörssi Jätti and an Asko and a Sotka store), and a Budget Sport store opened at Tammisto, Vantaa.

In January-December, Anttila's net sales totalled €548 million, an increase of 6.0%. The sales of the Kodin Ykkönen department stores for home goods and interior decoration increased by 10.3%, and those of the Anttila department stores by 3.7%. Distance sales were up by 7.9%. In 2006, Anttila's operating profit excluding non-recurring items was €26.5 million (€17.5 million). In 2005, operating profit excluding non-recurring items had been negatively affected by a lease cancellation cost of €5.1 million related to the development of the store network. In October-December, Anttila's net sales totalled €185 million, an increase of 5.3%. The sales of the Kodin Ykkönen department stores increased by 12.8%, and those of the Anttila department stores by 2.0%. Anttila's distance sales were up by 6.5%. In October-December, Anttila's operating profit was €21.4 million (€20.3 million).

In January-December, Indoor Group's net sales were €182 million, up by 11.3%. The net sales of the furniture trade in the Baltic countries and Sweden totalled €40 million, an increase of 30.3%. In October-December, Indoor Group's net sales were €51 million, up by 11.2%. The net sales of the furniture trade in the Baltic countries and Sweden totalled €12 million, an increase of 39.4%.

In January-December, the net sales of Intersport Finland Ltd were €142 million, up by 12.8%, which was especially due to the first Budget Sport chain store opened in Tammisto, Vantaa in May. In October-December, the net sales of Intersport Finland Ltd were €43 million, up by 15.9%.

In January-December, the net sales of Musta Pörssi Oy were €132 million, down by 4.0%, which was clearly below the sector average. In October-December, the net sales of Musta Pörssi Oy were €44 million, down by 0.8%.

In January-December, WellStep Oy's net sales decreased by 3.6% to €24 million. In October-December, WellStep's net sales dropped by 5.0% to €5 million.

In January-December, the net sales of the Tähti Optikko Group were €20 million. In October-December, the net sales were €5 million.

It is expected that Keswell's chains' aggregate net sales and operating profit excluding non-recurring items will increase in 2007.

VV-Auto

In January-December, VV-Auto's net sales totalled €789.1 million, up by 14.5%. The new Volkswagen and Audi retail businesses acquired at the beginning of March 2006 contributed 5.6% to the growth of VV-Auto's net sales.

In October-December, VV-Auto's net sales totalled €151.8 million, up by 6.7% on the corresponding period of the previous year. The new Volkswagen and Audi retail businesses contributed 9.2% to the growth of VV-Auto's net sales.

In January-December, operating profit was €29.4 million (3.7% of net sales), which is €9.3 million, or 1.9 percentage points less than in the previous year.

In October-December, operating profit was €1.5 million (1.0% of net sales), i.e. €3.3 million, or 2.4 percentage points, less than in the previous year. The unavailability of the Volkswagen Golf Variant during the latter part of the year negatively affected sales and operating profit. The decrease in operating profit is also attributable to costs relating to the expansion and development of own retailing.

In 2006, investments totalled €34.2 million. The most significant investment was the acquisition of the Volkswagen and Audi business operations in Helsinki, Espoo and Vantaa from Stockmann Auto Oy Ab on 1 March 2006. The deal included the transfer of some 300 employees to VV-Auto under their previous employment terms. On 31 December 2006, VV-Auto Group Oy acquired Pirkko Keskinen's 40% minority interest in Turun VV-Auto Oy.

In October-December, VV-Auto's retail volume increased significantly compared with the corresponding period of the previous year. In addition to the business acquisition concluded in March, the growth is attributable to investments in the outlets of Turku and Herttoniemi. In 2006, first registrations of new cars totalled 145,719 in Finland, down by 1.7% on the previous year. Compared with the previous year, first registrations of vans were up by 8.4% to 15,271. The sale of new cars in Finland has been constrained by large stocks of trade-in vehicles, used car imports and a marked rise in interest rates. In addition, the prices of used cars have come down, which increases the customer's cash payment in exchange.

In 2006, registrations of Volkswagen cars increased by 0.8% over the previous year to 15,024, and the market share was 10.3% (10.1%). The increase resulted from the introduction of new models to the market. The market share increase was constrained by the unavailability of the VW Golf Variant in the autumn. A new model will be introduced in autumn 2007. The number of Volkswagen vans registered was 2,590, while the market share was 17.0%, compared with 16.5% in the previous year. First registrations of Audis increased by 5.5% over the previous year to 4,815, and the market share was 3.3% (3.1%). The registrations of new Seat cars totalled 1,136 in Finland, 490 in Estonia and 170 in Latvia. The market share in Finland was 0.8%, compared with 0.9% in the previous year.

It is estimated that Finland's total market for cars will drop slightly in 2007 from the level of the previous year to approximately 140,000. The total market for vans is expected to be slightly bigger than in 2006.

VV-Auto's net sales are anticipated to grow in 2007 and the operating profit excluding non-recurring items is expected to equal the level of 2006.

Konekesko

In January-December, the net sales of Konekesko Ltd were €200.7 million (€198.1 million), an increase of 1.3% over the previous year. Comparable net sales, from which the effect of the disposal of the warehouse technology business at the beginning of 2006 has been eliminated, increased by 15.6%. In Finland, net sales were €170.9 million, up by 0.3%. Konekesko Ltd's export net sales totalled €29.7 million, an increase of 7.5%. The net sales of the Marine department's and Yamaha Center's recreational machines recorded the biggest increase.

In October-December, the net sales of Konekesko Ltd were €46.4 million (€46.2 million), an increase of 0.3% from the previous year. Comparable net sales, from which the effect of the disposal of the warehouse technology business at the beginning of 2006 has been eliminated, increased by 21.3%. In Finland, net sales were €39.0 million, down by 7.1%. Konekesko Ltd's export net sales totalled €7.4 million, an increase of 72.2%.

Konekesko Ltd's operating profit for January-December was €9.7 million (€9.6 million). The operating profit included a non-recurring gain of €1.8 million on the disposal of the warehouse technology business. The operating profit excluding non-recurring items was €8.0 million (4.0% of net sales), i.e. €1.6 million, or 0.8 percentage points less than in the previous year.

The operating loss for October-December was €-0.3 million, i.e. €0.4 million, or 0.9 percentage points less than in the previous year.

In 2006, the number of first registrations of Yamarin and Finnmaster, the boat brands represented by Konekesko Ltd, increased in Finland by 30.7%, while the average market growth was 15.1%.

In 2007, the total market for product lines represented by Konekesko Ltd in Finland is estimated to remain at the level of the previous year, or to increase slightly. The most rapid growth will be recorded by recreational machines. It is expected that in 2007, Konekesko's net sales and operating profit excluding non-recurring items will remain at the level of the previous year.

Kesko Agro

In January-December, Kesko Agro's net sales were €754.7 million, an increase of 1.1%. The net sales of foreign subsidiaries totalled €268.7 million, which was 35.6% of net sales.

In October-December, Kesko Agro's net sales were €205.6 million, an increase of 7.1%. The net sales of foreign subsidiaries in October-December were €83.9 million, accounting for 40.8% of net sales.

Kesko Agro's net sales in Finland in January-December were €481.6 million, down by 5.0%. Net sales in October-December were €121.0 million, a decrease of 0.3% due to a decline in the total market for tractors.

In January-December, Kesko Agro's operating profit was €9.2 million (€3.2 million). The operating profit excluding non-recurring items was €7.8 million (1.0% of net sales), i.e. €4.7 million, or 0.6 percentage points, more than in the previous year. The increase is attributable to the good profit performance of foreign subsidiaries and cost savings generated in Finland.

In October-December, operating profit was €0.3 million (0.1% of net sales), i.e. €2.4 million, or 1.2 percentage points, more than in the previous year.

In 2006, investments totalled €11.8 million, 81.6% of which were in projects abroad. Investments in October-December totalled €4.8 million.

In 2006, the sales of the agricultural and machinery trade in the Baltic countries increased by 13.9%. The sales for October-December exceeded the level of the previous year (25.5%). The increase in 2006 is attributable to good sales growth in fertilizers and agricultural machinery.

At the end of the year, the K-maatalous chain comprised 99 agricultural stores in Finland. The sales of the K-maatalous chain increased by 1.7% to €601.7 million (including VAT). Kesko Agro has six stores in Estonia, four in Latvia and three in Lithuania.

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

Regardless of the structural changes taking place in the sector, Kesko Agro's net sales and operating profit excluding non-recurring items are expected to remain at the same level in 2007 as in 2006.

Kauko-Telko (former Kaukomarkkinat)

Kaukomarkkinat Oy changed its name to Kauko-Telko Ltd on 1 October 2006.

Kauko-Telko's net sales for January-December amounted to €248.2 million (€290.4 million), down by 14.6% from the previous year. The decrease is due to a structural change in which Kauko-Telko will concentrate on the technical trade and dispose of its non-core businesses. The comparable net sales of the core business operations excluding discontinued operations increased by 1.8%. Net sales in Finland were €140 million. Net sales abroad were €108 million, accounting for 43% of the total net sales.

In October-December, net sales were €64.9 million (€71.4 million), down by 9.1% from the previous year. The comparable net sales of the core business operations increased by 13.5%.

Operating profit in January-December was €7.9 million (€-11.1 million). The operating profit excluding non-recurring items was €6.2 million (2.5% of net sales), i.e. €3.4 million, or 1.5 percentage points, more than in the previous year.

Operating profit in October-December was €1.9 million (€-18.3 million). The operating profit excluding non-recurring items was €1.1 million (1.7% of net sales), i.e. €2.5 million, or 3.7 percentage points, more than in the previous year.

In 2006, investments totalled €6.1 million, of which €2.9 million, or 47%, were in foreign operations. Investments in October-December were €0.6 million, of which €0.1 million, or 24%, were in foreign operations.

On 12 June 2006, Kauko-Telko acquired Poland's WEP Ltd. Sp. z o.o. WEP supplies plastic raw materials to Poland and its net sales totalled approx. €2.2 million in June-December 2006. The acquisition was in line with Kauko-Telko's strategy to expand its plastic and chemical business to Poland.

The Tähti Optikko chain was transferred to Keswell in an internal Kesko Group rearrangement with effect from 1 January 2006. Under the restructuring programme, the representation of Panasonic consumer electronics was transferred to the principal with effect from 1 April 2006, and the disposal of the Kauko-Wines business was completed on 1 April 2006. The corporate structure was streamlined by merging Intotel Oy into the parent company on 1 November 2006, and by merging Telko Oy, LT-Tukku Oy and LT-Kone Oy into the parent company on 1 January 2007.

While the Nordic market will grow moderately in 2007, rapid growth is expected to continue in Russia and China.

As a result of the structural changes, Kauko-Telko's net sales are expected to decline and operating profit excluding non-recurring items to increase in 2007.

Changes in Group structure

On 1 March 2006, VV-Auto Oy and its retailing subsidiary acquired Stockmann Auto Oy Ab's Volkswagen and Audi business operations. The deal included the total shares of two real estate companies. The debt-free transaction price was about €26 million. The final price was confirmed in June 2006. If the acquired business had been consolidated from the beginning of the 2006 financial year, their contribution to the Group's net sales and operating profit for the review period would have been about €48 million and €-0.1 million respectively. The initial preliminary measurement of the business combination in compliance with IFRS 3 has been done.

On 3 March 2006, Kesko sold 77 of its retail store properties to Niam Retail Holding Finland AB. In addition to the directly owned properties, the deal also included 10 real estate companies consolidated as subsidiaries and 9 real estate companies consolidated as associates. All of the sold properties have been leased back for use by Kesko's division parent companies. The lease is not classified as a finance lease.

On 9 October 2006, Kesko Food and ICA Baltic signed an agreement by which Kesko Food would sell its 50% shareholding in Rimi Baltic AB to ICA Baltic for €190 million. It was also agreed that Rimi Baltic would acquire the food trade properties leased by it in Estonia and owned by Fiesta Real Estate AS, an Estonian subsidiary of Kesko for €50 million. The share transaction was closed on 18 December 2006 and the property transaction on 4 January 2007. Since 10 October 2006, Rimi Baltic AB has been treated as a discontinued operation in compliance with IFRS 5.

Decisions of the Annual General Meeting

Kesko Corporation's Annual General Meeting held on 27 March 2006 adopted the income statement and balance sheet and the consolidated income statement and balance sheet for 2005 and discharged the members of the Board of Directors and the Managing Director from liability. The Annual General Meeting also decided to pay a dividend of €1.10 per share, or total dividends of €106,484,593.60, as proposed by the Board of Directors.

The Annual General Meeting set the number of Board members at seven and elected Pentti Kalliala, Ilpo Kokkila, Maarit Näkyvä, Seppo Paatelainen, Keijo Suila, Jukka Säilä and Heikki Takamäki as Board members. The term of office of each Board member is three years, in accordance with the Articles of Association, with the term starting at the close of the General Meeting electing the member and expiring at the close of the third Annual General Meeting after the election (in 2009).

The decisions of the Annual General Meeting in more detail were published in a stock exchange release on the day of the meeting and in the interim financial report for the first three months of 2006.

Corporate governance

Kesko Food Ltd and Rautakesko Ltd, major subsidiaries fully owned by Kesko Corporation, elected the members of their Boards of Directors at their Annual General Meetings held on 24 March 2006. The compositions of the Boards were announced in a stock exchange release on 24 March 2006.

The organising meeting of Kesko Corporation's Board of Directors held after the Annual General Meeting on 27 March 2006 elected Heikki Takamäki as its Chairman and Keijo Suila as its Deputy Chairman. The Board elected Maarit Näkyvä as the Chairman of its Audit Committee, and Seppo Paatelainen and Keijo Suila as its members. The

Board elected Heikki Takamäki as the Chairman of its Compensation Committee, and Pentti Kalliala and Keijo Suila as its members. The committees' terms of office always expire at the Annual General Meeting. On the basis of the evaluation of independence carried out by the Board of Directors, all members of the Audit Committee are independent of the company and its significant shareholders. The decisions of the organising meeting of the Board of Directors were published in a stock exchange release on the day of the meeting.

Matti Leminen, Managing Director of Anttila Oy, has been appointed as a member of Kesko's Corporate Management Board starting from 1 January 2007. Matti Laamanen, President of Keswell Ltd and currently a member of Kesko's Corporate Management Board, will retire at the end of this year. A stock exchange release about these changes in the Corporate Management Board was published on 28 September 2006.

Shares and the securities market

At the end of the review period, Kesko Corporation's share capital totalled €195,039,850. Of all shares, 31,737,007, i.e. 32.5%, were A shares and 65,782,918, i.e. 67.5%, were B shares. Each A share gives entitlement to ten (10) votes and each B share to one (1) vote.

The share capital was increased seven times during 2006 by share subscriptions with the B and C stock options of the year 2000 option scheme, and with the D and E stock options of the year 2003 option scheme. The increases were made on 13 February 2006 (€640,500), 4 May 2006 (€938,058), 9 June 2006 (€59,200), 7 August 2006 (€118,000), 3 October 2006 (€94,800), 1 November 2006 (€157,200) and 21 December 2006 (€64,240) and were announced in stock exchange notifications on the respective dates. The subscribed shares were included on the main list of the Helsinki Stock Exchange for public trading with the old B shares on 14 February 2006, 5 May 2006, 12 June 2006, 8 August 2006, 4 October 2006, 2 November 2006 and 22 December 2006.

The price of a Kesko A share was €24.19 at the end of 2005 and €38.43 at the end of the review period, i.e. the end of 2006, representing an increase of 58.9%. The price of a Kesko B share was €23.95 at the end of 2005 and €40.02 at the end of 2006, an increase of 67.1%. During 2006, the Helsinki Stock Exchange All Share index (OMX Helsinki) rose by 17.9%, the weighted OMX Helsinki CAP index by 25.2%, and the Consumer Staples Index by 49.5%.

At the end of the review period, the market capitalisation of A shares was €1,219.6 million, while that of B shares was €2,632.6 million. Their combined market capitalisation was €3,852.2 million, an increase of €1,533.9 million from the beginning of the year. In 2006, 2.0 million A shares were traded on the Helsinki Stock Exchange at a total value of €61.6 million, while 77.0 million B shares were traded at a total value of €2,409.7 million.

The exercise period of the B and C options of the year 2000 stock option scheme ended on 31 March 2006. During the year ending at that date, 197,205 B options were traded at a total value of €3.4 million, and 158,463 C options at a total value of €3.0 million.

The D stock options of the year 2003 option scheme were included on the main list of the Helsinki Stock Exchange on 1 April 2005. The number of 2003D options traded during the review period was 243,900 at a total value of €5.7 million.

The E stock options of the year 2003 option scheme were included on the main list of the Helsinki Stock Exchange on 3 April 2006. The number of 2003E options traded during the review period was 231,050 at a total value of €5.1 million.

The Board of Directors has no authorisation concerning an issue of rights, convertible bonds or options valid at the moment.

Flagging notifications

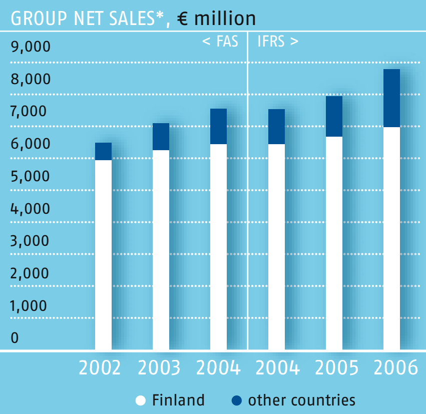
Kesko Corporation did not receive any flagging notifications during the review period.

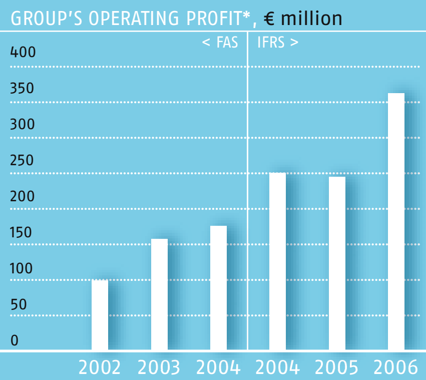
Main events

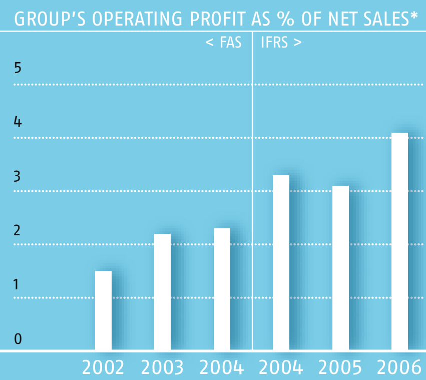
Kesko Food Ltd launched a major TV campaign to recruit as many as one hundred new K-food retailers. Under the company's strategy definition, all K-food stores and service station food stores will in the future be run by retailers, prompting a considerable need for K-retailer trainees. The campaign was a great success and brought more than 600 applicants to the K-retailer trainee programme during January-February.

VV-Auto Oy and its retailing company Helsingin VV-Auto Oy agreed to acquire the Volkswagen and Audi business operations from Stockmann Auto Oy Ab as of 1 March 2006. The acquisition, which will strengthen VV-Auto's position in car retailing, covers Stockmann Auto's sales and after-sales services concerning Audi and Volkswagen in Helsinki, Espoo and Vantaa. The debt-free transaction price of about €26 million also includes the Audi and Volkswagen properties in Espoo and Vantaa respectively. The Volkswagen and Audi businesses employ about 300 persons who transferred to VV-Auto under their previous employment terms (stock exchange release on 20 January and 9 February 2006).

Kesko Food announced that it will reorganise its neighbourhood retail services by combining the store chains offering them. In the future,



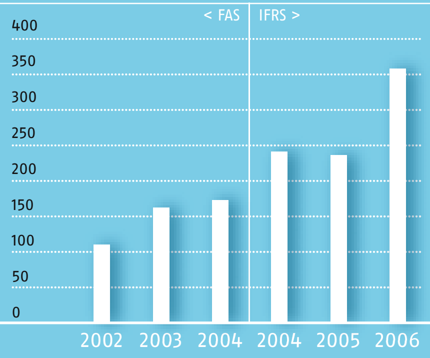




* continuing operations

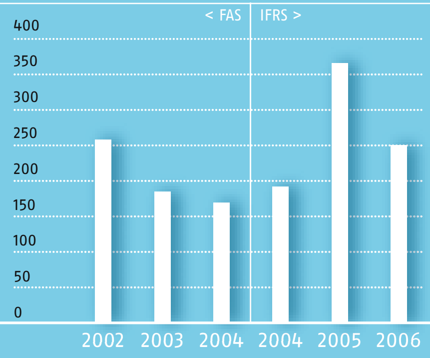
Key indicators

GROUP'S PROFIT BEFORE TAXES*, € million



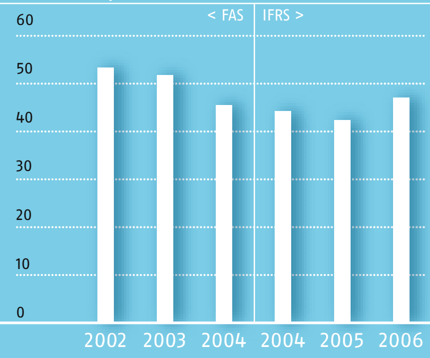
*continuing operations

GROUP'S INVESTMENTS*, € million

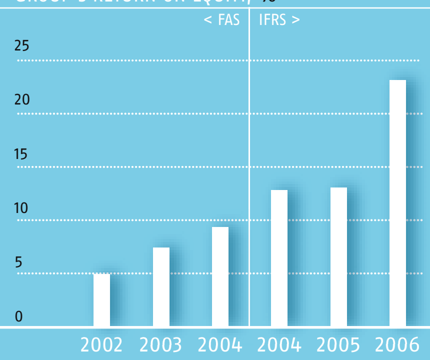


*continuing operations

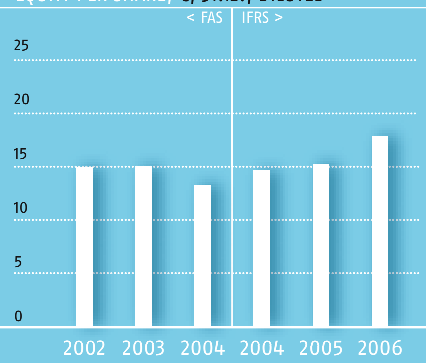
GROUP'S EQUITY RATIO, %



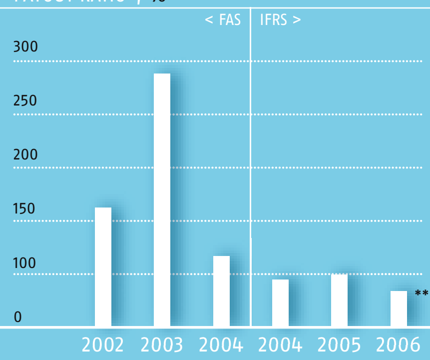
GROUP'S RETURN ON EQUITY, %



EQUITY PER SHARE, €, 31.12., DILUTED

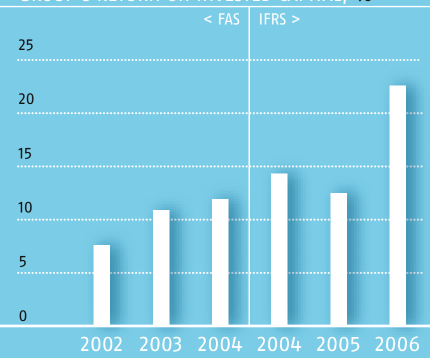


PAYOUT RATIO*, %

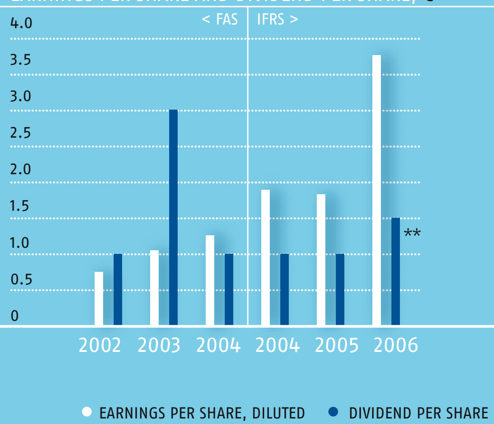


*continuing operations
**proposal to the Annual General Meeting

GROUP'S RETURN ON INVESTED CAPITAL, %



EARNINGS PER SHARE AND DIVIDEND PER SHARE, €



**proposal to the Annual General Meeting the K-market will be the main chain of Kesko Food's neighbourhood services. Together, the K-market and K-extra chains will be by far the most comprehensive and diversified food store chains in Finland. After the changes, they will comprise approximately 750 stores. The number of chains will be reduced by converting the Quick Shop and K-pikkolo food stores operating at service stations into K-markets, while the K-pikkolo neighbourhood stores will be converted into K-markets or K-extras. The operations of the Cassa discount concept will become part of the K-market chain and the stores will be renamed K-market Cassa. Every K-food store and service station food store will be run by a retailer by the summer of 2007.

Kesko sold 77 retail properties in various parts of Finland to Niam Retail Holding Finland AB. The price was over €200 million. The Kesko Group's gain on the disposal was €99.3 million. At the same time with the real estate disposal by the Kesko Group, the Kesko Pension Fund sold 15 properties owned by it. All of the above premises have been leased back for the use of Kesko's division parent companies under 5-year or 10-year leases with extension options (stock exchange release on 16 February and 3 March 2006).

The Helsinki Court of Appeal ruled that Kesko had a legal basis in the agreements to terminate the agreements of eight former K-citymarket retailers at the beginning of 2001. The Court of Appeal dismissed the compensation claims based on notices given to the retailers. The actions related to the reform of chain operations introduced at the beginning of 2001. At that time, the new chain or customer agreement was accepted by about 1,450 retailers, representing over 98 percent of all retailers. When some retailers did not accept the new agreement, their agreements were terminated. Nine of those retailers who had been given notice lodged an action against Kesko. At a later stage, one of them withdrew his action. The Court of Appeal's decisions became legally binding when the Supreme Court dismissed all petitions for leave to appeal in the matter (stock exchange releases on 10 April 2001, 17 August 2001, 26 March 2004, 14 June 2006 and 22 December 2006).

The K-Group and the OP Bank Group agreed to jointly develop a K-Plussa Supercard and to also engage in other forms of long-term co-operation. Kesko and the OP Bank Group Central Co-operative signed a long-term agreement on extensive co-operation for card development, transfer of payments, cash management and customer financing. In the future, the co-operation will also include Pohjola's insurance products. The aim is to develop a diversified range of new products and services for the customers of both groups. The intention is, within the next twelve months, to launch a K-Plussa Supercard. The number of partners will be increased and both payment and credit properties will be developed, especially with the OP Bank Group (stock exchange release on 20 June 2006).

The Kesko Group structure will be reorganised by merging Keswell Ltd, the division parent company concentrating on the home and speciality goods trade, into Kesko Corporation. Keswell's subsidiaries will continue operating as independent companies owned by Kesko Corporation. Matti Leminen, Managing Director of Anttila Oy, has been appointed as a member of Kesko's Corporate Management Board starting from 1 January 2007. Matti Laamanen, President of Keswell Ltd and currently a member of Kesko's Corporate Management Board, will retire at the end of this year (stock exchange release on 28 September 2006).

On 9 October 2006, Kesko Food Ltd and ICA Baltic AB, a part of the Swedish ICA Group, signed an agreement by which ICA Baltic will acquire Kesko Food's 50% shareholding in Rimi Baltic AB for €190 million. It was also agreed that Rimi Baltic would acquire the food trade properties leased by it in Estonia and owned by Fiesta Real Estate AS, an Estonian subsidiary of Kesko, for €50 million. The share transaction was closed on 18 December 2006 and the property transaction on 4 January 2007. Kesko's gain on the transactions is estimated to amount to approx. €155 million, of which some €130 is attributable to the share transaction. Rimi Baltic's impact on Kesko Food's operating profit excluding non-recurring items for the whole year 2006 was minor (stock exchange releases on 10 October 2006, 12 December 2006 and 4 January 2007). Since 10 October 2006, Rimi Baltic has been treated as a discontinued operation in compliance with IFRS 5.

Kesko announced that it will recognise an impairment loss of €30.3 million on Indoor Group Ltd in its financial statements for 2006. The impairment is based on a weakened outlook for the business (stock exchange release on 15 December 2006).

Environmental factors and other information presented in the notes to the financial statements in compliance with the Companies Act

In April 2007, Kesko will publish a separate corporate responsibility report which analyses the Group's performance in economic, social and environmental responsibility. An assurance statement will be provided by an independent external party. The notes to the financial statements provide information about the Group's risk, uncertainty factors and risk management. The notes also include information about the company insiders, option scheme rules and financial indicators.

Events after the balance sheet date

Fiesta Real Estate AS, an Estonian subsidiary of Kesko Corporation, sold the food trade properties leased to Rimi Baltic AB in Estonia to Rimi Baltic for €50 million. Kesko is expected to gain approximately €25 million on the disposal of the properties. The amount will be recognised for the first quarter of the year 2007 (stock exchange release on 4 January 2007).

Outlook for the future

In 2007, the Kesko Group divisions are expected to perform as described in the above division reviews.

The sales of the Group's continuing business operations will continue to grow during the next six months, although it is expected that the peak of the economic cycle will be reached and that this will slow the sales growth rate. Due to the expansion of the retail store network and the more rapid market growth in the Baltic countries and Russia than in Finland, sales will continue to grow more strongly in other countries than Finland.

It is expected that the operating profit from the Kesko Group's continuing business operations for the next six months, excluding non-recurring items, will remain at a good level despite the costs resulting from the major expansion of the retail store network.

Proposal for profit distribution

Parent's distributable earnings are	€883,278,197.92
of which net profit for the period is	€307,024,788.43
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 €1.50 per share	€146,314,669.50
to be reserved for charitable donations at the discretion of the Board of Directors	€300,000
to be carried forward as retained earnings	€736,663,528.42

Consolidated financial statements

Consolidated income statement, IFRS

1 Jan. – 31 Dec.	Note	2006 € million	2006 %	2005 € million	2005 %
Continuing operations					
Net sales	1	**8,749.2**	100.0	**7,921.6**	100.0
Cost of sales		-7,474.2	-85.4	-6,810.1	-86.0
Gross profit		**1,275.0**	14.6	**1,111.5**	14.0
Other operating income	4	660.8	7.6	556.3	7.0
Staff cost	7, 36	-544.2	-6.2	-477.1	-6.0
Depreciation and impairment charges	11, 12	-159.9	-1.8	-148.9	-1.9
Operating expenses	5	-869.1	-9.9	-797.0	-10.1
Operating profit		**362.6**	4.1	**244.8**	3.1
Financial income	8	38.1	0.4	25.2	0.3
Financial expenses	8	-43.6	-0.5	-35.8	-0.5
Total financial income and expenses	8	-5.5	-0.1	-10.5	-0.1
Income from associates		0.7	0.0	1.5	0.0
Profit before taxes		**357.8**	4.1	**235.8**	3.0
Income tax	9	-107.1	-1.2	-49.6	-0.6
Net profit from continuing operations		250.7	2.9	186.2	2.4
Net profit from discontinued operations	3	128.7	1.5	3.0	0.0
Net profit		**379.4**	4.3	**189.2**	2.4
Attributable to:					
Equity holders of the parent company		368.7		181.3	
Minority interest		10.7		7.9	
		379.4		189.2	
Earnings per share attributable to the equity holders of the parent company, continuing operations:					
Basic, €	10	2.47		1.86	
Diluted, €	10	2.45		1.83	
Earnings per share attributable to the equity holders of the parent company, discontinued operations:					
Basic, €	10	1.33		0.03	
Diluted, €	10	1.31		0.03	
Earnings per share attributable to the equity holders of the parent company, Kesko total:					
Basic, €	10	3.80		1.89	
Diluted, €	10	3.76		1.87	
Average number of shares					
Basic		97,152,281		95,745,745	
Diluted		98,026,995		97,215,498	

Consolidated balance sheet, IFRS

€ million	Note	31 Dec. 2006	%	31 Dec. 2005	%
ASSETS					
Non-current assets					
Intangible assets	11	248.0		307.6	
Tangible assets	12	1,115.1		1,142.6	
Interests in associates	13, 49	25.5		29.4	
Available-for-sale investments	14	12.0		11.6	
Long-term receivables	15, 16	120.2		114.4	
Deferred tax assets	17	5.8		4.4	
Pension assets	18	219.5		209.9	
Total non-current assets		**1,746.1**	45.9	**1,819.9**	50.7
Current assets					
Inventories	19	788.8		785.9	
Trade receivables and other non-interest-bearing receivables	20	760.8		686.9	
Interest-bearing receivables	21	91.6		65.3	
Financial assets at fair value through profit or loss	22	140.7		-	
Available-for-sale investments	23	200.4		38.3	
Cash on hand and balances with banks (cash and cash equivalents)	24	56.5		76.3	
Total current assets		2,038.9	53.6	1,652.7	46.1
Assets held for sale	3, 25	22.2	0.6	116.4	3.2
Total assets		**3,807.2**	100.0	**3,589.0**	100.0
EQUITY AND LIABILITIES					
Equity attributable to parent's equity holders					
Share capital	26	195.0		193.0	
Issue of share capital		-		0.7	
Share premium	27	195.9		188.7	
Other reserves	27	246.3		245.7	
Translation differences		-5.7		-3.7	
Revaluation surplus	27	-0.7		-0.4	
Retained earnings		1,119.2		857.3	
		1,749.9	46.0	**1,481.3**	41.3
Minority interest		**27.1**	0.7	**26.6**	0.7
Total equity		**1,777.1**	46.7	**1,507.9**	42.0
Non-current liabilities					
Pension obligations	18	3.6		3.6	
Interest-bearing long-term borrowings	28, 29	316.8		479.5	
Non-interest-bearing long-term liabilities		18.3		21.2	
Deferred tax liabilities		112.8		124.9	
Provisions	30	17.6		19.6	
Total non-current liabilities		**469.1**	12.3	**648.8**	18.1
Current liabilities					
Interest-bearing short-term borrowings		293.0		275.1	
Trade payables	31	789.2		734.3	
Other non-interest-bearing liabilities	31	177.6		168.0	
Tax liabilities	31	26.0		16.6	
Accrued expenses	31	260.9		228.9	
Provisions	30	14.3		6.9	
Total current liabilities		**1,561.0**	41.0	**1,429.8**	39.8
Total liabilities		**2,030.1**	53.3	**2,078.6**	57.9
Liabilities relating to assets held for sale	3, 25	-	-	2.5	0.1
Total equity and liabilities		**3,807.2**	100.0	**3,589.0**	100.0

Consolidated cash flow statement, IFRS

€ million	Note	2006	2005
Cash flow from operating activities			
Profit before tax, continuing operations		357.8	238.6
Profit before tax, discontinued operations		129.1	
Adjustments:			
Planned depreciation		141.5	136.6
Financial income and expenses		7.1	12.2
Other adjustments	42	-215.5	-46.1
		-66.9	102.7
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		-84.9	-13.1
Inventories increase (-)/decrease (+)		-35.9	-3.3
Current non-interest-bearing liabilities, increase (+)/decrease (-)		142.2	46.3
		21.4	29.9
Interest paid		-35.6	-31.1
Interests received		20.7	14.8
Dividends received		5.0	2.3
Taxes paid		-103.6	-59.5
		-113.5	**-73.5**
Net cash flow from operating activities		**327.9**	**297.7**
Cash flow from investing activities			
Acquisition of subsidiary, net of cash acquired	38	-20.6	-132.0
Acquisition of associate		0.0	-12.7
Purchases of other investments		-1.0	-1.4
Purchases of tangible and intangible assets		-215.5	-167.2
Loans granted		-9.9	-40.5
Disposal of subsidiary less cash and cash equivalents at date of disposal	39	40.6	36.6
Disposal of associate	40	204.8	2.4
Proceeds from sale of other investments		10.3	1.5
Proceeds from sale of tangible and intangible assets		194.0	119.8
Net cash used in investing activities		**202.7**	**-193.5**
Cash flow from financing activities			
Proceeds from short-term borrowings		18.4	-
Repayments of short-term borrowings		-	-4.6
Repayments of long-term borrowings		-119.6	-6.7
Repayments of finance lease liabilities		-14.6	-15.2
Current interest-bearing receivables, increase (-) / decrease (+)		-24.6	-20.7
Dividends paid		-112.7	-95.2
Share capital increase		6.4	10.1
Short-term money market investments		-140.5	
Others		-2.7	0.0
Net cash used in financing activities		**-389.9**	**-132.3**
Change in cash and cash equivalents		140.7	-28.1
Cash and cash equivalents at 1 January		114.6	143.3
Translation difference adjustment		1.7	-0.6
Cash and cash equivalents at 31 December	41	256.9	114.6

Consolidated statement of changes in equity

€ million	Attributable to equity holders of the parent company								
	Share capital	Issue of share capital	Share premium	Other reserves	Currency translation differences	Re-valuation surplus	Retained earnings	Minority interest	Total equity
Balance 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	2.6		-4.2		-1.6
Cost of options granted			3.2						3.2
Cash flow hedges:									
Hedge gains allocated to equity					0.4	9.3			9.7
Taxes reported in equity						-2.4			-2.4
Items recognised directly in equity			3.2		3.0	6.9	-4.2		8.9
Net profit							181.3	7.9	189.2
Total recognised income and expenses for the period			**3.2**		**3.0**	**6.9**	**177.1**	**7.9**	**198.1**
Dividend							-95.2	-6.0	-101.2
Shares subscribed for 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**
Balance at 1 January 2006	**193.0**	**0.7**	**188.7**	**245.8**	**-3.7**	**-0.4**	**857.3**	**26.5**	**1,507.9**
Currency translation differences					-3.1		-0.8		-3.9
Cost of options granted			2.1						2.1
Cash flow hedges:									
Hedge gains allocated to equity					1.0	-0.4			0.6
Taxes reported in equity						0.1			0.1
Items recognised directly in equity			2.1		-2.1	-0.3	-0.8		-1.1
Net profit							368.7	10.7	379.4
Total recognised income and expenses for the period			**2.1**		**-2.1**	**-0.3**	**367.9**	**10.7**	**378.3**
Dividend							-106.5	-5.7	-112.2
Shares subscribed for with options	2.0	-0.7	5.1						6.4
Other changes				0.5	0.1		0.5	-4.4	-3.3
Balance at 31 December 2006	**195.0**	**0.0**	**195.9**	**246.3**	**-5.7**	**-0.7**	**1,119.2**	**27.1**	**1,777.1**

Further information about share capital is given in Note 26 and about reserves in Note 27.

Notes to the consolidated financial statements

Basic information on the company

The 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 seven lines of business, namely Kesko Food operating in the grocery trade, Rautakesko in the hardware and builders' supplies trade, Keswell specialising in the home and speciality goods trade, VV-Auto in car importing and marketing, Konekesko in the machinery trade, Kesko Agro in the agricultural and machinery trade, and Kauko-Telko specialising in the international technical and raw materials trade. In all, 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 and on the Internet at www.kesko.fi.

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. The International Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with the procedure enacted in EC regulation 1606/2002, included in the Finnish Accounting Standards and regulations based on them. Accounting standards not yet effective have not been adopted voluntarily.

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 judgements, for example, in the classification of assets and in determining whether risks and rewards incident to ownership of financial assets and leased assets have substantially transferred to the other party. The most significant estimates relate to the following.

Allocation of cost of acquisition

Assets and liabilities acquired in business combinations are measured in accordance with the accounting policies. The fair values on which cost allocation is based are determined by reference to market values to the extent they are available. If market values are not available, the measurement is based on the estimated performance of the asset and its future use in Kesko's operating activities. The measurement of intangible assets, in particular, is based on discounted cash flows and requires management estimates of future cash flows and assumptions about the future use of assets.

Impairment test

The amount recoverable form a cash generating unit's operating activities is based on value in use calculations in impairment testing. In the calculations, forecast cash flows are based on financial plans approved by the management, covering a period of 3-5 years (Note 11).

Employee benefits

The Group operates various retirement benefit plans for its employees. Several factors are used in the calculation of items relating to employee benefits. Pension calculation under defined benefit plans in compliance with IAS 19 include the following factors that rely on management estimates (Note 18):

- expected return on plan assets
- discount rate used in calculating pension expenses and obligations for the period
- future salary level
- employee service life

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 enterprise 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 32.

Internal shareholdings are eliminated by using the acquisition cost method. The cost of acquisition is determined on the basis of the fair value of the acquired assets as on the date of acquisition, the issued equity instruments and liabilities resulting from or assumed on the date of the exchange transaction, plus the direct expenses relating to the acquisition. The identifiable assets, liabilities and contingent liabilities of the acquiree are measured at the fair value on the date of acquisition, gross of minority interest.

All intra-group transactions, receivables and payables, unrealised gains and internal distribution of profits are eliminated when preparing the consolidated financial statements. Unrealised losses are not eliminated, if the loss is due to impairment of an asset. Minority interests in the net income are disclosed in the income statement and the amount of equity attributable to minority interest is disclosed separately in the Group's equity.

Associates

Associates are enterprises 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 13.

Joint ventures

Joint ventures are enterprises 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. At the end of the accounting period, the Group has no joint ventures.

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 with the exception of those loan exchange rate movements designated to provide a hedge against foreign net investments and regarded as effective. 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, currency translation differences are disclosed in the income statement as part of sales profits or losses.

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.

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. The 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.

In addition, investments in selected bond and hedge funds and in other interest-bearing papers with over 3-month maturities are recognised in financial assets at fair value through profit or loss. These investments are measured at fair value at the balance sheet date and the fair value change is recognised in financial items.

2) Available-for-sale financial assets

The Kesko Group's cash investments are classified as available-for-sale investments and changes in their fair value are recognised in equity. When an investment is sold, or when there is evidence of material or continued impairment of an asset, the measurement difference accumulated in equity is recognised in the income statement. Available-for-sale investments have been measured at fair value at the balance sheet date. The fair values of investments quoted in an active market are determined on the basis of their market values. Investments not quoted in an active market are carried at cost, because their fair values 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.

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. The fees related to lines of credit are amortised over the validity period of the credit.

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. The change in the fair value of debt-related currency derivative instruments is recognised in the loan account and the changes in the fair value of interest rate derivative instruments in other non-interest-bearing debt.

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 and grain 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 assets and liabilities of an enterprise at the date of the acquisition. The goodwill of enterprises 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 was not 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 for impairment annually and whenever there is an indication of 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 and supplier 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

Tangible assets mainly comprise land, buildings, machinery and equipment. Tangible assets are carried at original cost net of planned depreciation and any impairment. The tangible assets 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.

Tangible assets 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 tangible 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 tangible asset 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 tangible 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 an indication of impairment. In addition, an impairment test is performed whenever there is an 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.

Trade receivables

Trade receivables are recognised at original invoice amount. The Group has established a uniform basis for the determination of impairment of trade receivables based on the time receivables have been outstanding. Impairment is measured when there is objective evidence of impairment. Losses on loans and advances are recognised as an expense in the income statement.

Assets held for sale and discontinued operations

Non-current assets (or a disposal group) and assets and liabilities relating to discontinued operations are classified as held for sale, if their carrying amount will be recovered principally through the disposal of the assets rather than through continuing use. For this to be the case, the sale must be highly probable, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary, the management must be committed to selling and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or assets included in the disposal group) and assets linked to a discontinuing operation, and related liabilities 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 profit from discontinued operations is disclosed as a separate line item in the income statement.

The Group has classified certain real estate properties removed from business use as assets held for sale. In addition, on 10 October 2006, Rimi Baltic AB was classified as a discontinued operation referred to in IFRS 5 (Note 3).

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.

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.

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, tangible 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 and 2006, the IASB (International Accounting Standards Board) published the following standards, amendments to standards, and interpretations whose application will become mandatory in 2007 or later. They will be adopted by the Group during the 2007 accounting period, except for IFRS 8 which will be adopted starting from 1 January 2009.

IFRS 7, Financial Instruments: Notes, 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 quantitative analyses and the sensitivity analysis in the notes.

IFRS 8, Operating Segments

IFRS 8 replaces IAS 14, Segment Reporting. The standard requires the 'management approach' in the sense that segment information is reported on the same principles as those used internally by the management for monitoring segment performance. The Group's management estimates that the most significant changes will affect the information disclosed in the Notes.

The following amendments taking effect in 2007 or later are not likely to have an effect on the consolidated financial statements.

IFRIC 10, Interim Financial Reporting and Impairment
IFRIC 11 IFRS 2, Group and Treasury Share Transactions
IFRIC 12, Service Concession Arrangements

Note 1

Segment information

Segment information, continuing operations

In segment reporting, a business segment has been determined as the primary reporting format and a geographical segment as the secondary reporting format. Business segments are based on the Group's internal organisation and internal financial reporting. The basis of inter-segment pricing is fair market price.

The segment income statement is disclosed down to operating profit. Segment assets and liabilities consist of items used by the segment in its operating activities or items justifiably allocated to segments. 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 financial responsibility for real estate during their whole lifecycles.

Konekesko was identified as a separate segment at the beginning of 2006. The information for the comparison year has been modified to correspond with the new segment distribution.

Business segments

Business segments are composed of 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. Starting from 10 October 2006, the joint venture has been classified as a discontinuing operation. Kesko Food 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. In addition, Kesko Food's subsidiary Kespro Ltd provides services for the HoReCa trade.

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

Keswell's 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 retail outlets.

Konekesko is a service company specialising 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.

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.

The Kauko-Telko Group specialises in international technical and raw materials trading. In addition to Finland, its principal market areas include other Nordic countries, the Baltic countries, Russia and China.

Other units which are presented in association with unallocated items include jointly used intra-Group support functions.

Geographical segments, continuing operations

The geographical segments are composed of the four geographical areas with different economic situations in which the Group is active, namely Finland, other Nordic countries, the Baltic countries and other countries.

The net sales of the geographical segments are allocated based on the country in which the customers are located and assets are allocated based on where the assets are located.

Business segments 2006, continuing operations

€ million	Kesko Food	Rauta-kesko	Keswell	VV-Auto	Kone-kesko	Kesko Agro	Kauko-Telko Group	Other units and unallocated items	Eliminations	Total
External sales	3,653.2	2,167.2	1,060.0	806.6	203.1	758.6	249.0	143.2		9,040.9
Inter-segment sales									-179.7	-179.7
Adjustment items	-38.7	-38.3	-10.2	-17.5	-2.4	-3.9	-0.8	-0.2		-112.0
Net sales	**3,614.5**	**2,128.9**	**1,049.8**	**789.1**	**200.7**	**754.7**	**248.2**	**143.0**	**-179.7**	**8,749.2**
Other operating income	**403.8**	**140.5**	**80.7**	**0.4**	**4.0**	**8.8**	**2.1**	**298.9**		**939.2**
Other inter-segment income									-278.4	-278.4
Total other operating income	**403.8**	**140.5**	**80.7**	**0.4**	**4.0**	**8.8**	**2.1**	**298.9**	**-278.4**	**660.8**
Segment operating profit	173.2	139.3	16.5	29.4	9.7	9.2	7.9	-21.4		363.8
Unallocated items									-1.2	-1.2
Operating profit	**173.2**	**139.3**	**16.5**	**29.4**	**9.7**	**9.2**	**7.9**	**-21.4**	**-1.2**	**362.6**
Operating profit excl. non-recurring items	**128.6**	**91.2**	**32.2**	**29.5**	**8.0**	**7.8**	**6.2**	**-23.7**		**279.8**
Financial income and expenses										-5.5
Income from associates										0.7
Income tax expense										-107.1
Net loss from discontinued operations	128.7									128.7
Net profit										**379.4**
Other information										
Segment assets	1,257.9	762.5	448.9	193.2	95.4	224.6	77.8	78.5		3,138.8
Assets held for sale								22.2		22.2
Interests in associates										25.5
Unallocated assets								761.1	-140.4	620.7
Total consolidated assets	**1,257.9**	**762.5**	**448.9**	**193.2**	**95.4**	**224.6**	**77.8**	**861.8**	**-140.4**	**3,807.2**
Segment liabilities	488.8	273.3	160.3	54.5	68.6	120.5	34.1	88.9		1,289.0
Liabilities related to assets held for sale										0.0
Unallocated liabilities								784.5	-43.4	741.1
Total consolidated liabilities	**488.8**	**273.3**	**160.3**	**54.5**	**68.6**	**120.5**	**34.1**	**873.4**	**-43.4**	**2,030.1**
Investments	82.2	75.8	33.5	34.2	2.0	11.8	6.1	4.9		250.5
Depreciation	64.9	23.4	15.1	7.7	1.0	3.9	2.5	10.3		128.8
Impairment			30.9					0.2		31.1

Business segments 2005, continuing operations

€ million	Kesko Food	Rauta-kesko	Keswell	VV-Auto	Kone-kesko	Kesko Agro	Kauko-Telko Group	Other units and un-allo-cated items	Elimi-nations	Total
External sales	3,480.5	1,639.7	983.9	707.4	200.5	747.8	292.8	257.8		8,310.3
Inter-segment sales									-273.4	-273.4
Adjustment items	-52.7	-29.4	-8.9	-18.5	-2.4	-1.0	-2.4	0.0		-115.3
Net sales	**3,427.8**	**1,610.3**	**975.0**	**688.9**	**198.1**	**746.7**	**290.4**	**257.8**	**-273.4**	**7,921.6**
Other operating income	**378.5**	**74.4**	**62.5**	**0.5**	**1.5**	**6.2**	**5.2**	**323.7**		**852.5**
Other inter-segment income	-0.7	-0.2	-1.0	-0.1	-0.2	-1.3	0.0		-292.7	-296.2
Total other operating income	**377.8**	**74.2**	**61.5**	**0.4**	**1.2**	**4.9**	**5.2**	**323.7**	**-292.7**	**556.3**
Segment operating profit	129.0	61.7	35.8	38.7	9.6	3.2	-11.2	-24.0		242.7
Unallocated items									2.1	2.1
Operating profit	**129.0**	**61.7**	**35.8**	**38.7**	**9.6**	**3.2**	**-11.2**	**-24.0**	**2.1**	**244.8**
Operating profit excl. non-recurring items	**93.7**	**61.5**	**30.7**	**38.7**	**9.6**	**3.1**	**2.8**	**-24.0**		**216.1**
Financial income and expenses										-10.5
Income from associates										1.5
Income tax expense										-49.6
Net profit from discontinuing operations	3.0									3.0
Net profit										**189.2**
Other information										
Segment assets	1,373.3	719.9	470.6	179.7	97.1	220.2	71.3	84.7		3,216.8
Assets held for sale	3.5				4.6			108.2		116.3
Interests in associates								0.0		29.4
Unallocated assets								427.8	-201.3	226.5
Total consolidated assets	**1,376.8**	**719.9**	**470.6**	**179.7**	**101.7**	**220.2**	**71.3**	**620.7**	**-201.3**	**3,589.0**
Segment liabilities	486.2	270.9	146.7	55.2	40.8	90.2	36.7	68.1		1,194.8
Liabilities related to assets held for sale					3.8					3.8
Unallocated liabilities								924.8	-42.3	882.5
Total consolidated liabilities	**486.2**	**270.9**	**146.7**	**55.2**	**44.6**	**90.2**	**36.7**	**992.9**		**2,081.1**
Investments	79.1	191.5	55.1	26.0	2.7	4.5	5.8	2.5		367.2
Depreciation	70.0	20.1	14.3	5.0	1.1	4.2	3.0	7.6		125.3
Impairment	3.7						18.4	1.5		23.6

Geographical segments 2006

€ million	Finland	Other Nordic countries	The Baltic countries	Other countries	Eliminations	Total
Net sales	7,083.1	740.9	824.5	143.9	-43.2	8,749.2
Segment assets	2,473.6	226.7	332.8	62.7	711.4	3,807.2
Investments	189.4	15.5	24.8	21.4	-0.6	250.5

Geographical segments 2005

€ million	Finland	Other Nordic countries	The Baltic countries	Other countries	Eliminations, unallocated	Total
Net sales	6,748.5	428.4	683.0	70.2	-8.5	7,921.6
Segment assets	2,486.0	260.6	447.2	30.3	364.9	3,589.0
Investments	182.8	130.2	34.1	20.2		367.3

Note 2

Acquisitions

Acquisitions in 2006

VV-Auto Group

VV-Auto Oy and its retail company Helsingin VV-Auto Oy acquired the Volkswagen and Audi business operations from Stockmann Auto Oy on 1 March 2006. The deal covered Stockmann Auto Oy Ab's sales and after-sales services concerning Audi and Volkswagen in Helsinki, Espoo and Vantaa. The deal included two real properties. The debt-free transaction price was about €26 million.

The acquired operations contributed net sales of €38.4 million and operating profit of €-0.4 million to the Kesko Group for the 10-month period. If the acquisition had been consolidated from the beginning of 2006, its contribution to the Group's net sales for 2006 would have been €47.9 million and operating profit €-0.1 million.

No goodwill was generated on the acquisition.

Purchase consideration (acquired operations excluding real estate)

€ million	
Cash paid	15.8
Costs relating to the acquisition	0.0
Total purchase consideration	15.8
Fair value of net assets acquired	15.8
Goodwill	0.0

Analysis of net assets acquired

€ million	Fair value	Acquiree's carrying amount
Cash and cash equivalents	0.0	0.0
Intangible assets	1.1	1.1
Property, plant and equipment	2.3	2.3
Inventories	3.1	1.5
Receivables	11.1	11.0
Non-interest-bearing liabilities	0.1	0.1
Pension obligations	-1.9	-1.9
Interest-bearing liabilities	0.0	0.0
Deferred tax liabilities (net)	0.0	0.0
Net assets acquired	15.8	14.1
Minority acquired	0.0	0.0
Fair value of net assets acquired	15.8	
Purchase consideration settled in cash	15.8	
Cash and cash equivalents in subsidiary acquired	0.0	
Cash outflow on acquisition	15,8	

In addition, the Kesko Group made immaterial acquisitions which mainly included real estate companies. The total cost of such acquisitions was €10.8 million.

Acquisitions in 2005

Indoor Group

On 21 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 and is the leader of the Finnish furniture market with its Asko and Sotka store chains.

Indoor Group contributed net sales of €164.1 million and operating profit of €8.7 million to the Kesko Group for the 11-month period in 2005. If the acquisition had been consolidated from the beginning of 2005, its contribution to the Kesko Group's net sales for 2005 would have been €169.8 million and operating profit €7.6 million.

For determining the acquired goodwill amount, the goodwill included in the Indoor Group assets was reallocated. The goodwill amount of €13.2 million is attributable to the expansion of the furniture trade and related synergy benefits.

Trademarks and goodwill relating to Indoor Group's operations were written down during 2006 (Note 11).

Purchase consideration

€ 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

€ 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	

Byggmakker Group (former 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 in 2005, Norgros contributed net sales of €268.9 million and operating profit of €10.5 million to the Kesko Group. If Norgros had been consolidated from the beginning of the financial year, its contribution to the Group net sales for 2005 would have been €530 million and to the operating profit €13.1 million.

The goodwill amount of €48.9 million is attributable to the expansion into a new market.

Purchase consideration

€ 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

€ million	Fair value	Acquiree's carrying amount
Cash and cash equivalents	20.8	20.8
Intangible assets	59.8	3.3
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 in 2005, Stroymaster Group contributed net sales of €35.6 million and operating profit of €2.2 million to the 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 €14.0 million is attributable to the expansion into a new market.

Purchase consideration

€ 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

€ 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	0.0	-
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 €10.8 million and operating profit of €-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 €125.8 million and € -2.8 million to its operating profit.

The goodwill from the additional acquisition was recognised as an expense in 2005.

Purchase consideration

€ 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

€ 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	
50% acquisition (previous ownership interest 50%)	0.3	
Fair value of net assets acquired	0.3	
Purchase consideration settled in cash	4.0	
Unsettled balance	0.0	
Cash and cash equivalents in subsidiary acquired	-3.6	
Cash outflow on acquisition	0.4	

Note 3

Discontinued operations and disposals of other assets

Discontinued operations

Rimi Baltic AB

In October 2006, Kesko Food Ltd and ICA Baltic AB signed an agreement that ICA Baltic would acquire Kesko Food's 50% shareholding in Rimi Baltic AB. Consequently Rimi Baltic AB was classified as a discontinued operation in compliance with IFRS 5. The transaction was closed on 18 December 2006. It was also agreed that Rimi Baltic would acquire the food trade properties leased by it in Estonia and owned by Fiesta Real Estate AS, an Estonian subsidiary of Kesko. That part of the deal was concluded in January 2007. The selling price of the shares was €190 million and that of the properties €50million. Kesko's gain on the disposal of the shares was €131.2 million. The properties included in the transaction are reported in assets held for sale

Net assets of discontinued operations at date of disposal

€ million	2006	2005
Cash	10.9	
Intangible assets	23.1	
Property, plant and equipment	85.1	
Inventories	33.8	
Receivables	11.6	
Non-interest-bearing liabilities	-64.5	
Pension obligations		
Interest-bearing liabilities	-42.3	
Deferred tax liabilities (net)	1.1	
	58.8	
Gains/losses on disposal	131.2	
Total disposal consideration	190.0	
Received in cash	190.0	
Received in shares		
Cash and cash equivalents in disposed unit	-10.9	
Cash inflow on disposal	179.2	

Income statement for discontinued operations

€ million	2006	2005
Net sales	461.9	403.7
Expenses	464.0	400.3
Profit before tax	-2.1	3.4
Income taxes	-0.4	0.2
Profit after tax	-2.5	3.6
Profit before tax on disposal of operations	131.2	
Net profit on the disposal of operations	128.7	3.6

Cash flow statement for discontinued operations

€ million	2006	2005
Cash flow from operating activities	10.8	9.1
Cash flow from investing activities	-21.0	0.6
Cash flow from financing activities	-3.2	2.4
Cash flow from discontinued operations	-13.4	12.1

Other assets sold

BT warehouse technology

Konekesko Ltd sold its warehouse technology business in Finland to BT Industries AB of Sweden. The warehouse technology business included Konekesko's forklift and warehouse racking sales and their after-sales service operations. In connection with the transaction, all of the warehouse technology product line staff (about 70 people) were transferred to the new company under their previous conditions. In 2005, the assets had been classified as assets held for sale. The business deal was concluded on 1 January 2006. The gain on business disposal was €2.6 million.

Real estate sold

Kesko Corporation sold 77 retail properties in various parts of Finland to Niam Retail Holding Finland AB. The price was about €200 million. The Kesko Group's gain on the disposal was €99.8 million. Kesko Group's lease liabilities, covering all properties now leased and totalling approximately €144 million, are not classified as finance leases. Lease liabilities concerning the real estate sold by the Kesko Group amount to €118 million. Out of the 77 real estate properties covered by the deal, 57 are used by K-food store chains, 14 by the K-rauta and Rautia chains, four by the K-maatalous chain and two by the chain of Anttila department stores. In 2005, these properties were reported as assets held for sale.

Assets sold in 2005

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, Rimi Baltic AB, to which they transferred their grocery trade 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 and related real estate companies engaged in the grocery trade in Estonia and Latvia and related real estate companies to Rimi Baltic AB. The gain on the disposal was €11.5 million.

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 the Kesko Group figures.

Notes to the consolidated income statement

Note 4

Other operating income

€ million	2006	2005
Sales of services	403.7	398.3
Rent income	42.6	39.7
Gains on disposal of tangible assets	120.1	55.8
Gains from derivative instruments	2.6	2.2
Others	91.8	60.3
Total	**660.8**	**556.3**

Sales of services mainly consist of chain and store site fees paid by chain companies for chain concepts.

Note 5

Operating expenses

€ million	2006	2005
Rent expenses	-290.1	-269.9
Marketing costs	-235.4	-212.4
Occupancy costs of real estate and store sites	-104.7	-91.3
Data communications costs	-62.0	-78.7
Other trading expenses	-170.6	-141.4
Total	**-862.8**	**-793.7**
Other operating expenses		
Losses from disposal of tangible assets	-3.8	-2.0
Losses from derivative instruments *)	-2.5	-1.3
Total	**-6.3**	**-3.3**
Total operating expenses	**-869.1**	**-797.0**

*) Includes revaluations of embedded derivatives.

The Group does not have research and development activities referred to in IAS 38.

Note 6

Non-recurring items

€ million	2006	2005
Gains on disposal of real estate and shares	122.2	55.6
Losses on disposal of real estate and shares and impairment	-3.2	-1.6
Impairment losses on intangible assets	-31.1	-23.7
Others	-5.1	-1.4
Total	**82.8**	**28.9**

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.

Impairment losses

During the period, and impairment loss of €31.1 (€23.7 million) was recognised as an expense in the income statement. €0.2 million of the impairment amount is attributable to real estate and real estate shares. The impairment loss on goodwill and other intangible assets is analysed in Note 11 Intangible assets.

Impairment losses or their reversals have not been recognised directly in equity.

Note 7

Staff costs, number of employees and management's salaries

€ million	2006	2005
Salaries and fees	-459.5	-399.9
Social security costs	-43.9	-35.5
Pension costs	-38.7	-38.6
Defined benefit plans	9.8	10.2
Defined contribution plans	-48.5	-48.8
Share options granted	-2.1	-3.1
Total	**-544.2**	**-477.1**

The employee benefits and loans of the Group's management are disclosed in Note 43 Related party transactions.

Salaries and fees of Group companies' Managing Directors and Boards of Directors

Salaries of Managing Directors (incl. fringe benefits)	7.8	7.0
Fees of Board members	0.4	0.3
Total	8.2	7.3

Average number of Group employees	2006	2005
Kesko Food	6 171	4 869
Rautakesko	7 420	5 731
Keswell	3 500	3 164
VV-Auto	621	359
Konekesko	244	287
Kesko Agro	885	856
Kauko-Telko	538	765
Other units	272	521
Group companies, total	**19 651**	**16 552**
Joint ventures	4 105	4 753
Total Kesko Group	**23 756**	**21 305**

Note 8

Financial income and expenses

€ million	2006	2005
Financial income		
Dividend yield	2.8	2.3
Interest income	23.0	16.7
Measurement income	8.5	3.6
Gains on available-for-sale investments	3.8	2.7
Total	**38.1**	**25.2**
Financial expenses		
Interest expenses	-32.2	-29.8
Measurement losses	-7.7	-5.4
Losses on available-for-sale investments	0.0	0.0
Other financial expenses	-3.7	-0.5
Total	**-43.6**	**-35.7**
Total financial income and expenses	-5.5	-10.5

Measurement income and losses include changes in the value of derivatives and foreign currency loans to which hedge accounting is not applied.

Other financial expenses include €3.0 million in servicing fees for customer finance receivables sold.

Financial expenses include €10.5 (€9.3 million) in interests recognised as an expense for the period. Financial income include €1.4 (€1.5 million) in rents relating to finance leases reported as income for the period.

Exchange rate differences recognised in the income statement

€ million	2006	2005
Net sales	-0.2	0.5
Purchases and other expenses	6.0	0.9
Financial income and expenses	0.5	-2.1
Total	**6.3**	**-0.7**

Note 9

Income taxes

Income taxes in income statement

€ million	2006	2005
Tax based on taxable profit for the period	-95.1	-58.6
Taxes from previous periods	-24.2	4.6
Deferred taxes	12.2	4.4
Total	**-107.1**	**-49.6**

Reconciliation between tax expense recognised in the income statement and tax calculated at domestic rate:

Profit before tax	357.8	238.6
Tax at parent's rate (26%)	-93.0	-62.0
Effect of foreign subsidiaries' different tax rates	6.0	3.4
Effect of income not subject to tax	1.4	9.6
Effect of expenses not deductible for tax purposes	-8.3	-9.0
Utilisation of previously unrecognised tax losses	7.8	6.6
Effect of income from associates	0.2	2.9
Effect of Group eliminations	0.3	-5.3
Tax from prior periods	-24.2	4.6
Others	2.7	-0.2
Taxes in the income statement	**-107.1**	**-49.4**

Most part (€-24.2 million) of tax from prior periods consists of the recovery of the €67.3 million impairment made by Kesko Corporation on the shares of Hämeenkylän Kauppa Oy (former Tuko Oy in 1996).

Note 10

Earnings per share

Basic earnings per share is calculated by dividing the parent's net profit or loss 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 exercise 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.

€ million	2006	2005
Profit for the period attributable to parent's equity holders, € million	368.7	181.3
Number of shares		
Weighted average of outstanding shares	97,152,281	95,745,745
Effect of options granted	874,714	1,469,753
Diluted weighted average of outstanding shares	98,026,995	97,215,498
Basic earnings per share	3.80	1.89
Diluted earnings per share	3.76	1.87
Basic earnings per share from continuing operations	2.47	1.86
Diluted earnings per share from continuing operations	2.45	1.83
Basic earnings per share from discontinued operations	1.33	0.03
Diluted earnings per share from discontinued operations	1.31	0.03

Notes to the consolidated balance sheet

Note 11

Intangible assets

€ million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2006
Cost					
Cost at 1 January 2006	172.4	88.3	118.4	2.9	382.0
Currency translation differences	-1.5	-1.2	-0.5		-3.2
Additions	4.2	0.1	15.2	9.4	28.9
Acquisition of subsidiary	-1.8	0.0	1.5		-0.3
Disposals	-15.9	-6.9	-18.9	-1.2	-42.9
Transfers between items	3.6	-3.3	-3.4	-1.4	-4.4
Cost at 31 December 2006	161.0	77.0	112.3	9.7	360.1
Accumulated amortisation					
Accumulated amortisation and impairment at 1 January 2006	-20.6		-53.8		-74.4
Currency translation differences			0.1		
Accumulated amortisation of disposals and transfers			18.8		18.8
Amortisation for the period			-25.6		-25.6
Impairment	-9.6	-21.3			-30.9
Accumulated amortisation and impairment at 31 December 2006	-30.2	-21.3	-60.5		-112.1
Carrying amount at 1 January 2006	151.8	88.3	64.6	2.9	307.6
Carrying amount at 31 December 2006	**130.8**	**55.7**	**51.8**	**9.7**	**248.0**

€ million					Total 2005
Cost					
Cost at 1 January 2005	108.6	3.0	85.1	4.5	201.2
Currency 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	-27.7	-2.7	-7.6	-0.1	-38.1
Transfers between items		-0.3	0.9	-2.9	-2.3
Cost at 31 December 2005	172.4	88.3	118.4	2.9	382.0
Accumulated amortisation					
Accumulated amortisation at 1 January 2005			-33.8		-33.8
Currency translation differences					
Accumulated amortisation of disposals and transfers			5.2		5.2
Amortisation for the period			-25.2		-25.2
Impairment	-20.6				-20.6
Accumulated amortisation at 31 December 2005	-20.6		-53.8		-74.4
Carrying amount at 1 January 2005	108.6	3.0	51.3	4.5	167.4
Carrying amount at 31 December 2005	**151.8**	**88.3**	**64.6**	**2.9**	**307.6**

Goodwill and intangible assets by segment

€ million	Intangible assets * 2006	Goodwill 2006	Discount rate (WACC) ** 2006	Intangible assets * 2005	Goodwill 2005	Discount rate (WACC) ** 2005
Kesko Food						
The Baltic countries	–	–	–	10.2	9.9	7.0%
Rautakesko						
Other Nordic countries	37.9	46.8	7.0%	39.1	48.6	7.5%
The Baltic countries		18.3	9.0%		18.2	8.5%
Others		13.9	12.0%		14.0	12.5%
Keswell						
Finland	17.8	30.3	6.5%	39.0	37.2	6.0%
Konekesko						
Finland		3.8	7.0%		3.8	6.5%
Kauko-Telko						
Finland		13.8	6.5%		15.7	6.0%
Other Nordic countries		1.4	6.5%		1.4	6.0%
The Baltic countries		1.7	8.0%		1.3	7.5%
Common operations		0.8			1.7	
Total	55.7	130.8		88.3	151.8	

* intangible assets with indefinite useful lives
** after tax

Cash-generating units have mainly been identified at a level lower than business segments. The units have been identified by chain/country, which susbstantially corresponds to the legal structure.

The useful lives of trademarks (brands) included in intangible assets have been classified as indefinite because it has been estimated that they will affect the generation of cash flows over an indefinite period. This is 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 acquisitions.

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, changes in store network, product and service selection and pricing. Cash flows beyond the period are extrapolated using mainly 1-2% growth rates. The discount rate used is the WACC, specifed for each division and country after tax, which is adjusted by tax effects in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks.

Impairment losses

For the 2006 accounting period, an impairment charge of €30.3 million was made against intangible assets relating to Indoor Group operations (Keswell, Finland). Of this amount, €21.3 million was allocated to trademarks and €9.0 million to goodwill, with both amounts reported as non-recurring items. The impairment loss was due to weaker-than-expected profitability and a tightened competitive situation especially in the Greater Helsinki area. In addition, retail sales failed to meet expectations despite of the expanded retail network. Consequently, revenue expectations concerning Indoor Group were estimated to have declined. Consequently the revenue expectations concerning Indoor Group are estimated to have declined. Indoor Group's operations and its existing retail network will be developed by investing heavily in its competitiveness and by increasing the stores' selling areas. Investments will be made in the trademarks in order to improve their appeal. Indoor Group is a separate cash generating unit and belongs to the Keswell business segment.

Additionally, an impairment charge of €0.6 million relating to the Intersport operations was made for the period, due to the business being transferred outside the Group without compensation.

Sensitivity analysis

The key variables used in the impairment test are EBITDA percentage and discount rate.

When evaluating intangible rights related to Indoor Group's business operations, a decrease in EBITDA by one percentage point during the first year of the forecast would result in an impairment of approx. €2.0 million impairment of intangible assets. If the designated discount rate were one percentage point higher than that adopted by the management calculations, an impairment loss of €2.2 million would have to be recognised.

When evaluating the performance of other cash generating units, the management estimates that a foreseeable possible change in any other key variable used would not produce a situation in which the units' recoverable amounts would underperform their carrying amounts.

Note 12

Tangible assets

€ million	Land and water	Buildings	Machinery and equipment	Other tangible assets	Prepayments and purchases in progress	Total 2006
Cost						
Cost at 1 January 2006	185.1	1,150.3	509.8	27.9	18.7	1,891.7
Currency translation differences	0.1	0.0	0.2	0.0	0.1	0.4
Additions	44.0	58.2	85.2	3.6	34.4	225.4
Acquisition of subsidiary	1.2	12.3	0.4	0.0	0.0	13.9
Disposals	-38.2	-227.8	-130.0	-9.4	-0.9	-406.3
Transfers between items	20.5	86.4	0.2	3.6	-27.2	83.6
Cost at 31 December 2006	212.8	1,079.4	465.8	25.7	25.1	1,808.8
Accumulated depreciation						
Accumulated depreciation at 1 January 2006	-2.5	-425.3	-308.9	-10.9	-1.5	-749.2
Currency translation differences		-0.1	-0.1			-0.2
Accumulated depreciation of disposals and transfers	0.2	96.0	68.4	4.8	1.6	171.0
Depreciation for the period		-48.3	-64.8	-2.7	-0.3	-116.1
Impairment	-0.1	0.8	-0.1	-0.2		0.5
Accumulated depreciation at 31 December 2006	-2.4	-376.8	-305.5	-9.0	-0.2	-694.0
Carrying amount at 1 January 2006	182.6	725.1	200.9	17.0	17.2	1,142.5
Carrying amount at 31 December 2006	**210.4**	**702.6**	**160.3**	**16.7**	**24.9**	**1,114.8**
						Total 2005
Cost						
Cost at 1 January 2005	197.3	1,186.2	457.1	17.4	19.6	1,877.5
Currency 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	185.1	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		-667.8
Currency 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	-749.2
Carrying amount at 1 January 2005	195.8	794.0	189.6	10.9	19.6	1,209.8
Carrying amount at 31 December 2005	**182.6**	**725.0**	**200.9**	**17.0**	**17.2**	**1,142.6**

Tangible assets include assets leased under finance leases as follows:

€ million	Buildings	Machinery and equipment	Other tangible assets	Total
2006				
Cost	149.9	67.8	0.1	217.8
Accumulated depreciation	-60.3	-36.9	-0.1	-97.3
Carrying amount	89.6	30.9	0.0	120.5
2005				
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

Note 13

Investments in associates

€ million	2006	2005
Carrying amount at 1 January	29.4	28.0
Share of income for the period	0.6	1.5
Additions	-0.6	0.9
Disposals	-3.9	-1.0
Currency translation differences	0.0	0.0
Carrying amount at 31 December	25.5	29.4

Price quotations of associates have not been published.

The Group'as associates, their aggregate assets, liabilities, net sales and profits/losses:

€ million	Assets	Liabilities	Net sales	Profit/loss	Ownership interest, %
2006					
Valluga-sijoitus Oy, Helsinki	24.4	3.7	1.3	0.6	39.0
Vähittäiskaupan Takaus Oy, Helsinki	47.1	0.3	1.0	2.8	34.0
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	3.3	2.5	8.7	0.2	30.0
Others	11.0	7.4	33.7	0.7	
Total	85.8	13.9	44.7	4.3	
2005					
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	

Note 14

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.

€ million	2006	2005
Carrying amount at 1 January	11.6	12.6
Additions	0.5	0.2
Disposals	–0.1	–0.9
Changes in fair value	0.0	–0.3
Carrying amount at 31 December	12.0	11.6

In 2006, €3.8 million of gains on disposal of available-for-sale investments were recognised in financial items.

Note 15

Long-term receivables

€ million	2006 Carrying amounts	2005 Carrying amounts
Non-interest-bearing long-term receivables	2.4	5.7
Finance lease receivables	23.5	22.7
Loan receivables from associates	1.0	14.9
Other long-term receivables	93.3	71.1
Total	120.2	114.4

Other long-term receivables mainly consist of customer finance receivables.
The fair value of long-term receivables cannot be reliably measured.

Maturities of long-term receivables at 31 Dec. 2006

€ million	2008	2009	2010	2011	2012–	Total
Non-interest-bearing receivables	1.7	0.0	0.0	0.3	0.4	2.4
Finance lease receivables	6.3	5.7	4.9	3.6	3.0	23.5
Loan receivables from associates					1.0	1.0
Other long-term receivables	22.2	15.4	32.9	19.9	2.9	93.3

Note 16

Finance lease receivables

€ million	2006	2005
Finance lease receivables fall due as follows:		
Not later than one year	7.7	5.9
Later than one year nad not later than five years	22.6	20.5
Later than five years	3.1	4.7
Gross investment in finance leases	**33.4**	**31.1**
Present value of minimum lease receivables:		
Not later than one year	6.5	4.8
Later than one year nad not later than five years	20.5	18.2
Later than five years	3.0	4.5
Total finance lease receivables	**30.0**	**27.5**
Unearned financial income	**3.4**	**3.6**

A significant part of finance lease receivables is attributable to store fixtures leased by Kesko Food Ltd from finance companiesand 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 €60 million. The lease terms are 3-8 years.

Note 17

Deferred taxes

Changes in deferred taxes during 2006:

Deferred tax assets € million	31 Dec. 2005	Charged/credited to the income statement	Charged to equity	Exchange rate differences	Subsidiaries acquired/ disposed of	31 Dec. 2006
Margin included in inventories	2.1	0.2			0.0	2.3
Finance lease assets	4.8	0.4			0.0	5.2
Provisions	5.8	0.2			0.0	6.0
Pensions	1.6	0.0		0.0	0.0	1.6
Confirmed losses	3.4	2.1		0.1	-2.3	3.4
Others	14.8	2.5	-0.9		0.3	16.7
Total	32.5	5.3	-0.9	0.1	-1.9	34.9
Deferred tax liabilities € million						
Accumulated depreciation differences	61.6	-4.6			0.3	57.3
Changes in Group structure	29.4	-5.5		-0.5	-1.9	21.5
Pensions	54.6	2.5			0.0	57.1
Others	7.5	1.0	-1.0		-1.4	6.1
Total	153.1	-6.6	-1.0	-0.5	-3.0	142.0
Net deferred tax liability	120.6					107.1

Balance sheet division:	2006	2005
Deferred tax assets	5.8	4.4
Deferred tax liabilities	112.8	124.9

Changes in deferred taxes during 2005:

Deferred tax assets € million	31 Dec. 2004	Charged/credited to the income statement	Charged to equity	Exchange rate differences	Subsidiaries acquired/ disposed of	31 Dec. 2005
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 € million						
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

At 31 December 2006, the Group had €-4.9 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:	**2007**	**2008**	**2009**	**2010**	**2011**	**2011–**
	0.0	1.5	1.4	1.8	0.1	0.1

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 2006, the amount of such earnings is immaterial.

Note 18

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 €18.1 million for this obligation for 2004. The remaining €3.4 million were 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 defined benefit pension plans.

	2006		2005	
€ million	**Finland**	**Norway**	**Finland**	**Norway**
Obligation arising from plan at 31 December	-440.9	-11.4	-426.8	-9.2
Plan assets at 31 December	794.8	7.6	628.7	7.4
Unrecognised actuarial profits/losses (–)/(+)	-134.4	1.4	8.1	0.5
Unrecognised past service cost				
Net assets (+) /liabilities (–) recognised in the balance sheet	219.5	-2.4	209.9	-1.3
Obligation arising from plan at 1 January	426.8	9.2	420.6	8.0
Current service cost	7.1	1.9	6.7	0.8
Interest cost	20.6	0.4	20.8	0.4
Past service cost				
Benefits paid	-25.6		-21.3	
Actuarial losses	11.9			
Obligation arising from plan at 31 December	440.9	11.5	426.8	9.2
Plan assets at 1 January	628.7	7.2	608.2	6.5
Expected return on plan assets	39.6	0.4	36.3	0.4
Contributions to plan	-2.7		2.4	0.4
Benefits paid	-25.6		-21.4	-0.1
Actuarial profits	154.8			
Others			3.2	
Plan assets at 31 December	794.8	7.6	628.7	7.2
Expense recognised in the income statement:				
Current service cost	-7.1	-0.8	-6.7	-0.8
Interest cost	-20.6	-0.4	-20.9	-0.4
Expected return on plan assets	39.6	0.4	36.3	0.4
Change			3.2	
Actuarial profits (+) and losses (–)	0.5			
Past service cost				
Others		-0.4		-0.3
Total expense recognised in the income statement	12.4	-1.2	11.8	-1.1
Change in net assets recognised in the balance sheet:				
Beginning of the period	209.8	-2.3	195.6	-2.1
Income/expenses recognised in the income statement	12.4	-1.2	11.8	-1.1
Benefits paid from funds				0.1
Contributions to plan	-2.7		2.4	0.8
End of the period	219.5	-3.5	209.8	-2.3

Finland	2006	2005	2004
Plan obligation	-440.9	-426.8	-420.64
Plan assets	794.8	628.7	608.15
Actuarial profits and losses	-134.4	8.1	8.1
Net receivable in the balance sheet	219.5	209.9	195.6

In 2006, the return on plan assets was €152.9 million (€77.8 million in 2005). Year 2005 comparative information is reported as forecast. In 2007, the Group expects to pay €32.6 million in contributions to defined benefit plans.

Plan assets by category, % of plan asset fair values	2006	2005
Real estate	34.5%	33.5%
Shares	37.8%	34.5%
Short-term interest investments	3.4%	3.3%
Long-term interest investments	19.7%	23.1%
Alternative investments	4.6%	5.6%
Total	100.0%	100.0%

Plan assets, € million		
Kesko Corporation shares included in fair value	132.2	83.2
Real estate leased and primarily subleased to retailers by the Kesko Group, included in fair value	297.2	242.2

	2006		2005	
Principal actuarial assumptions used:	Finland	Norway	Finland	Norway
Discount rate	5.00%	4.35%	5.00%	5.00%
Expected return on plan assets	6.60%	5.50%	6.00%	6.00%
Future salary increase assumptions	3.50%	4.50%	3.50%	3.00%
Inflation	2.00%		2.00%	2.00%
Expected average remaining service life	13-15		13-15	

In calculating the Pension Fund's expected income, the invested assets are divided into five categories. The total income from the investment portfolio (6.6%) is composed of the combined income from these assets. The income expected from different assets is based on the parameters of an investment portfolio analysis model widely used in employee pension schemes, and calculated from long-term historical data. The most significant type of assets affecting the total income is shares, further divided into nine geographical subgroups with expected income ranging between 6.7%-9.7%.

Note 19

Inventories

€ million	2006	2005
Goods	782.6	782.5
Prepayments	6.2	3.4
Total	788.8	785.9
During the period, inventories have been written down to correspond to their net realisable value.	16.4	24.6

Note 20

Trade receivables and other short-term non-interest-bearing receivables

€ million	2006	2005
Trade receivables	646.3	583.2
Other non-interest-bearing receivables		
Non-interest-bearing loan and other receivables	19.6	29.8
Deferred revenue and other accruals	94.9	73.9
Total other non-interest-bearing receivables	114.5	103.7
Total short-term non-interest-bearing receivables	760.8	686.9

A total amount of €3.7 million (€2.9 million) in losses on loans and advances has been recognised in the income statement.

Deferred revenue and other accruals mainly include amortisation of marketing revenue, rebates and staff cost.

The fair value of short-term trade and loan receivables is assumed to nearly equal the carrying amounts based on their short maturity, or because their fair values cannot be reliably determined.

Note 21

Short-term interest-bearing receivables

€ million	2006	2005
Interest-bearing loan and other receivables	85.0	60.5
Finance lease receivables	6.6	4.8
Interest-bearing receivables from associates	-	-
Total short-term interest-bearing receivables	91.6	65.3

The fair value of short-term interest-bearing receivables is assumed to nearly equal the carrying amount based on their short maturity.

Note 22

Financial assets at fair value through profit or loss

€ million	2006	2005
Financial assets at fair value through profit or loss	140.7	-
Total	**140.7**	**-**

Financial assets at fair value through profit or loss include interest and hedge fund investments and other investments with over 3-month maturities. In addition, all derivative instruments have been recognised in financial assets at fair value through profit or loss if they do not meet hedge accounting criteria. In the balance sheet, they are included in accruals. In the income statement, changes in fair value have been recognised in financial items with respect to finance derivatives, and in other operating income and expenses with respect to derivatives hedging purchases and sales.

Note 23

Available-for-sale investments

€ million	2006	2005
Carrying amount at 1 January	38.3	91.8
Changes	162.1	-53.5
Changes in fair value	-	-
Carrying amount at 31 December	200.4	38.3

Available-for-sale short-term investments include commercial papers, certificates of bank deposits and other money market investments.

Note 24

Cash and cash equivalents

€ million	2006	2005
Cash on hand and balances with banks	56.5	76.3
Total	**56.5**	**76.3**

Note 25

Assets classified as held-for-sale and related liabilities

Assets held for sale

€ million	2006	2005
Land	3.2	21.8
Buildings and real estate shares	19.0	85.1
Equipment	-	6.3
Inventories	-	1.3
Receivables	-	1.9
Total	**22.2**	**116.4**

In 2006, when Kesko Food sold its shareholding in Rimi Baltic AB it was agreed that Rimi Baltic AB would acquire the properties it had leased from Kesko's Estonian subsidiary. The transaction was concluded in January 2007. The €20.7 million balance sheet value of the properties is recognised in assets held for sale. In addition, some retail store properties used for the Group's 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 written down by €1.6 million to correspond to their recoverable amount. Assets classified as held-for-sale include vacant retail store properties and real estate shares totalling €1.6 million (€3.5 million). In addition to the above properties held for sale, the year 2005 financial statements reported some 80 properties in Finland and the assets that belonged to the warehouse technology operations of Konekesko Ltd's and Kesko Agro Ltd's Baltic subsidiaries on which sales negotiations had been initiated. The approximately 80 properties classified as assets held for sale and the warehouse technology operations were sold at the beginning of 2006.

Liabilities included in held-for-sale disposal group

€ million	2006	2005
Trade payables	-	2.2
Deferred liabilities	-	0.3
Total	**-**	**2.5**

Note 26

Changes in share capital

Share capital	Number of shares A	B	Total	Share capital € million	Share premium € million	Total € million
At 1 January 2005	31,737,007	62,103,535	93,840,542	187.7	170.2	357.9
Exercise of share options	–	2,643,384	2,643,384	5.3	18.5	23.8
At 31 December 2005	31,737,007	64,746,919	96,483,926	193.0	188.7	381.7
Exercise of share options	–	1,035,999	1,035,999	2.0	7.2	9.2
At 31 December 2006	31,737,007	65,782,918	97,519,925	195.0	195.9	390.9
Number of votes	317,370,070	65,782,918	383,152,988			

In 2006, the share capital was increased seven times as a result of share subscriptions pursuant to share options: by €640,500 in February, by €938,058 in May, by €59,200 in June, by €118,000 in August, by €94,800 in October, by €157,200 in November and by €64,240 in December. The corresponding numbers of shares subscribed for were 320,250; 469,029; 29,600; 59,000; 47,400; 78,600 and 32,120. The increases were entered in the Trade Register respectively on 13 February, 4 May, 9 June, 7 August, 3 October, 1 November and 21 December 2006. All issued shares have been fully paid. The maximum number of A shares is 250,000,000 and the maximum number of B shares is also 250,000,000, provided that the total number of shares is at maximum 400,000,000. One A share entitles the holder to 10 votes and one B share to 1 vote.

The book counter value of the shares is €2.
An analysis of share-based payments is given in Note 36.

Dividends
After the balance sheet date, the Board has proposed that €1.50 per share be distributed as dividends.

Note 27

Equity and reserves

Restricted and non-restricted equity
Restricted equity is made up of share capital and share premium, and non-restricted equity is made up of other reserves, asset revaluation reserve and retained earnings. Non-restricted equity also includes the accumulated depreciation reserve and untaxed reserves recognised in equity.

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 effective portion of fair value based on hedge accounting applied to electricity derivatives and a private placement bond. The revaluation surplus will dissolve by the year 2019.

Currency translation differences
Currency translation differences arise from the consolidation of the results of foreign operations. Also gains and losses arisign from net investment hedges in foreign entities are included in currency translation differences provided that hedge accounting requirements are fulfilled.

Note 28

Interest-bearing liabilities

€ million	2006 Carrying amounts	2006 Fair values	2005 Carrying amounts	2005 Fair values
Non-current				
Private placement bonds	99.9	107.8	99.9	111.6
Loans from financial institutions	65.0	64.4	192.2	193.6
Pension loans	2.8	2.9	28.6	28.9
Other long-term loans			13.5	13.5
Finance lease liabilities	149.1	149.1	144.0	144.2
Total non-current interest-bearing liabilities	316.8	324.2	478.2	491.8

Private placement bonds include the change in the fair value of the currency derivative instrument.

Current				
Next year's repayments of loans from financial institutions	42.5	42.5	16.1	16.1
Next year's repayments of pension loans	11.5	11.5	5.0	5.0
Next year's repayments of other long-term loans	169.9	169.9	187.8	187.8
Next year's repayments of finance lease liabilities	19.0	19.0	19.3	19.3
Other current interest-bearing liabilities	50.1	50.1	46.9	46.9
Total current interest-bearing liabilities	293.0	293.0	275.1	275.1

The following discount rates have been used for calculating fair value:

Loans from financial institutions and other long-term loans	3.6% - 5.2%
Pension loans	4.0%

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 balance sheet value.
The maturity schedule of long-term loans is presented in Note 40.

Note 29

Finance lease liabilities

€ million	2006	2005
The maturity of finance lease liabilities is as follows:		
Not later than 1 year	28.2	26.4
Later than 1 year and not later than 5 years	111.7	87.4
Later than 5 years	93.9	108.7
Total minimum lease payments	**233.8**	**222.5**
Present value of minimum lease payments:		
Not later than 1 year	19.0	19.3
Later than 1 year and not later than 5 years	76.7	62.4
Later than 5 years	72.3	81.6
Finance lease liabilities	**168.0**	**163.3**
Accumulating financial expenses	65.8	59.2
Contingent rents recognised for the period	1.5	0.1
Expected sublease rentals	33.2	32.6

Finance lease liabilities relate to real estate, machinery and equipment leases. The 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 30

Provisions

€ million	Onerous leases	Warranty provisions	Other provisions	Total
Provisions at 1 January 2006	9.9	11.0	5.6	26.5
Exchange rate differences	–	–	–	0.0
Additional provisions	2.5	0.9	7.4	10.8
Unused amounts reversed	-1.5	-0.2	-0.7	-2.4
Charged to consolidated income statement	10.9	11.7	12.2	34.8
Used amounts	-1.8	0.0	-1.0	-2.9
Provisions at 31 December 2006	9.1	11.7	11.1	31.9
Analysis of total provisions				
Non-current	6.3	8.9	2.4	17.6
Current	2.8	2.8	8.7	14.3

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 pensions and residual taxes.

Note 31

Trade payables and other current non-interest-bearing liabilities

€ million	2006	2005
Trade payables	789.2	734.3
Other current non-interest-bearing liabilities	177.6	168.0
Tax liabilities	26.0	16.6
Accruals and deferred income	260.9	228.9
Total current non-interest-bearing liabilities	1,253.7	1,147.8

Accruals and deferred income are mainly due to the timing of purchases

Note 32

Major subsidiaries directly owned by parent

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
Kauko-Telko Ltd	Finland	100.0	100.0
Keslog Ltd *	Finland	54.9	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 Group Oy	Finland	100.0	100.0

* the Group's ownerhsip interest 100%

A complete analysis of Group companies is included in Note 49.

Note 33

Significant ownership interests in joint ventures and jointly controlled assets

At the end of the accounting period 2006, the Group does not have joint ventures. The joint venture Rimi Baltic AB which the Group had in 2005 was sold in 2006. Rimi Baltic AB is reported in Note 4.

€ million	2006	2005
Joint ventures		
Non-current assets	–	34.0
Current assets	–	62.9
	–	96.9
Long-term loans	–	33.5
Short-term loans	–	72.2
	–	105.7
Net assets	–	-8.8
Income	–	412.9
Expenses	–	421.9
Profit	–	-9.0
Average number of joint venture employees	–	4 104

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.

€ million	2006	2005
Non-current assets	48.7	50.5
Current assets	0.7	1.6
	49.4	52.1
Non-current liabilities	20.8	31.4
Current liabilities	12.7	4.2
	33.5	35.6
Net assets	15.9	16.5
Income	6.5	4.3
Expenses	6.1	3.9
Profit	0.4	0.4

Note 34

Contingent liabilities

Commitments

€ million	2006	2005
Collateral given for own commitments		
Pledges	57	58
Mortgages	26	27
Guarantees	101	106
Other commitments and contingent liabilities	62	70
Collateral given for shareholders		
Guarantees	1	1
Collateral given for others		
Other commitments and contingent liabilities	9	15
Guarantees	4	22

Note 35

Operating leases

Group as the lessee

Minimum lease payments under non-cancellable operating lease agreements:

€ million	2006	2005
Not later than 1 year	320.6	258.7
Later than 1 year and not later than 5 years	933.7	873.4
Later than 5 years	1,872.9	508.5
Total	3,127.2	1,640.6
Future minimum lease payments under non-cancellable subleases	40.3	58.3
Lease and sublease payments recognised for the period:		
Minimum lease expenses	246.5	221.7
Contingent lease expenses	2.0	1.5
Sublease payments (-income/+expense)	-17.6	-17.3

The amount of lease liability increased compared with the previous year, when Kesko sold properties owned by it and leased them back under operating leases (Notes 3 and 25). The 2006 income statement includes lease payments in a total amount of €290.1 million (€269.9 million) made 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 practice.

Group as the lessor

Minimum rents based on non-cancellable operating leases:

€ million	2006	2005
Not later than 1 year	11.2	31.3
Later than 1 year and not later than 5 years	18.3	43.7
Later than 5 years	22.5	26.9
Total	**52.0**	**101.9**
Aggregate contingent rents charged to the income statement	0.7	0.4

Kesko leases premises to entrepreneurs other than K-retailers in order that the total service offer of a store site support its profit generation potential. Such premises typically include so-called store entrance stores at large retail outlets.

Note 36

Share-based payments

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 option gives its holder the right to subscribe for one Kesko Corporation B share at a price and during the period specified in the terms of the option scheme. 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 plan 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 subscribe for one new 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 price per share subscribed for with a B option was equal to the volume weighted average price of a Kesko Corporation B share on the Helsinki Stock Exchange in March 2000 plus 15% (€15.97), and with a C option the corresponding volume weighted average of March 2001 plus 15% (€12.71). In accordance with the terms and conditions of the option plan, the share subscription 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 expiry of the options on 31 March 2006, the price of a B share subscribed for with B options was €6.77 and with C options €5.01. At the end of 2005, the exercise price per share of a B option was €7.87

and that of a C option €6.11. Dividend rights and other shareholder rights took effect after the increase in share capital had been entered in the Trade Register. At its inception, the option plan covered nearly 600 employees.

Under the option plan a total of 5,840,000 new B shares could have been subscribed for and as a result, the share capital could have increased by a maximum of €11,680,000. The shares subscribed for under the option plan accounted for 5.91% of the share capital and 1.52% of all votes if all granted options had been exercised.

Year 2003 option plan

On 31 March 2003, the Annual General Meeting resolved to grant a total of 1,800,000 options with no consideration 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 subscription rights, since the share options form a part of the incentive and commitment programme for the management. Each option entitles its holder to subscribe for one new Kesko Corporation B share. The options are marked with the symbols 2003D (KESBVEW103), 2003E (KESBVEW203) and 2003F (KESBVEW303) in units of 600,000 options each. The share subscription periods of options are:
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 volume weighted average price of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April-30 April 2003 (€9.63), that of option 2003E between 1 April-30 April 2004 (€15.19) and that of option 2003F between 1 April-30 April 2005 (€19.08). The exercise prices were 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 2006, the price of a B share subscribed for with option 2003D was €4.53 and that with option 2003E it was €12.09, and the exercise period started on 1 April 2006. At the end of 2006, the price of a B share subscribed for with option 2003F was €17.98 and the exercise period will start on 1 April 2007. The option plan covers approximately 50 employees. Under this option plan a total of 1,800,000 new B shares can be subscribed for and as a result, the company's share capital may be increased by a maximum of €3,600,000. The shares subscribed for under the year 2003 option plan account for 1.82% of the share capital and 0.47% of all votes if all granted options are exercised. Dividend rights and other shareholder rights shall take effect after the increase in share capital has been entered in the Trade Register.

Share options during the period 1 January 2006 – 31 December 2006

	Options 2000		Options 2003		
Grant date	10 April 2000		31 March 2003		
Instrument	share option		share option		
Target group	key personnel		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	€12.71	€9.63	€15.19	€19.08
Dividend adjustment	yes	yes	yes	yes	yes
Exercise price 31 Dec. 2004	€8.87	€7.11	€6.63	€14.19	–
Exercise price 31 Dec. 2005	€7.87	€6.11	€5.63	€13.19	€19.08
Exercise price 31 Dec. 2006*	€6.77	€5.01	€4.53	€12.09	€17.98
First allocation	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 vesting period, years	expired	expired	1.3	2.3	3.3
Plan participants at end of period	0	0	18	39	45

* for 2000B and 2000C options: exercise prices are as at the expiry date, 31 March 2006

2006	Options 2000 2000B	2000C	Options 2003 2003D	2003E	2003F	Total	Subscrip-tion price (weighted)
At 1 Jan. 2006							
Options granted at beginning of period	3,824,952	2,001,534	574,088	576,000	579,000	7,555,574	€8.50
Options available for grant at beginning of period	48	13,466	25,912	24,000	21,000	84,426	€11.20
Shares subscribed for with options at beginning of period	3,489,852	1,773,174	195,400	0	0	5,458,426	€7.22
Options outstanding at beginning of period	335,100	228,360	378,688	576,000	579,000	2,097,148	€11.83
Movements during period							
Options granted during period					17,000	17,000	€17.98
Options returned during period					43,500	43,500	€17.98
Shares subscribed for with options during period	329,319	225,960	250,900	135,920		942,099	€7.17
Average price weighted by grant date trading volume *)	€25.51	€25.51	€31.28	€32.84			
Options lapsed during period	5,829	15,866				21,695	€6.58
At 31 Dec. 2006							
Options granted at end of period	3,824,952	2,001,534	574,088	576,000	552,500	7,529,074	€8.21
Options expected to vest	0	0	0	0	552,500	552,500	€17.98
Number of granted options sold (by original holder)	3,735,191	1,916,922	448,800	216,500	0	6,317,413	€7.24
Options available for grant at end of period	0	0	25,912	24,000	47,500	97,412	€12.95
Shares subscribed for with options at end of period	3,819,171	1,999,134	446,300	135,920	0	6,400,525	€7.18
Options outstanding at end of period	0	0	127,788	440,080	552,500	1,120,368	€14.13

*) for 2000B and 200C options: trade volume weighted average price of a B share in January-March 2006, for 2003D: the trade volume weighted average price in April-December, and for 2003E: the trade volume weighted average price in April-December 2006

2005	Options 2000 2000B	2000C	Options 2003 2003D	2003E	2003F	Total	Subscrip-tion price (weighted)
At 1 Jan. 2005							
Options granted at beginning of period	3,824,952	2,001,534	574,088	567,000	0	6,967,574	€8.61
Options available for grant at beginning of period	48	13,466	25,912	33,000	600,000	672,426	€10.17
Shares subscribed for with options at beginning of period	2,622,027	1,426,365	0	0	0	4,048,392	€8.25
Options outstanding at beginning of period	1,202,925	575,169	574,088	567,000	0	2,919,182	€9.12
Movements during period							
Options granted during period	0	0	0	51,000	600,000	651,000	€18.62
Options returned during period	0	0	0	42,000	21,000	63,000	€5.15
Shares subscribed for with options during period	867,825	346,809	195,400	0	0	1,410,034	€7.13
Average price weighted by grant date trading volume *)	€21.04	€21.04	€21.62				
Options lapsed during period	0	0	0	0	0	0	
At 31 Dec. 2005							
Options granted at end of period	3,824,952	2,001,534	574,088	576,000	579,000	7,555,574	€8.50
Options expected to vest	0	0	0	576,000	579,000	1,155,000	€6.14
Number of granted options sold (by original holder)	3,489,456	1,702,259	201,000	0	0	5,392,715	€7.23
Options available for grant at end of period	48	13,466	25,912	24,000	21,000	84,426	€11.20
Shares subscribed for with options at end of period	3,489,852	1,773,174	195,400	0	0	5,458,426	€7.22
Options outstanding at end of period	335,100	228,360	378,688	576,000	579,000	2,097,148	€11.83

*for 2000B and 2000C: the year 2005 trade volume weighted average price of a B share, and for 2003D: trade volume weighted average price of a B share in April-December 2005

Fair value measurement

For fair value measurement Kesko Corporation has consulted Alexander Corporate Finance Oy. The fair value of options has been calculated using the Black-Scholes share pricing model. The fair value of options determined on the date of the grant has been expensed over their vesting period. In compliance with the IFRS regulations, options granted before 7 November 2002 vesting prior to 1 January 2005, have not been recognised as an expense in the financial statements. Fair values have not been determined for Kesko Corporation's 2000B and 2000C options and they are not included in the expense recognition. During the period 1 January-31 December 2006, the options contributed €2.2 million (€3.1 million) to the Group's profit.

Black-Scholes model assumptions

	Granted in 2006	Granted in 2005	All options
Number of options granted, pcs	17,000	651,000	1,814,500
B share average (weighted) price	€26.91	€19.64	€15.44
Average (weighted) subscription price	€18.56	€18.62	€14.66
Expected average (weighted) volatility	21.9%	23.7%	25.8%
Average (weighted) term of option	4.0 y	4.9 y	4.9 y
Average (weighted) risk-free interest rate	3.4%	2.8%	3.0%
Returned options (weighted average)	14.0%	9.5%	7.3%
Total fair value, €	166,332	3,379,912	8,045,009

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 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 37

Non-cash flow related investments

€ million	2006	2005
Total purchases of fixed assets,	281.9	453.5
of which settlement in cash	237.5	341.9
Settlement of prior period investments	-16.0	-13.3
Investments financed by finance lease or other borrowing	60.4	124.9

Note 38

Subsidiary acquisitions

The table shows major acquisitions in 2006 and 2005.

2006
- VV-Auto Group Oy, a Kesko Corporation subsidiary, acquired the real estate companies Kiinteistö Oy Länsi-Kaisla and Kiinteistö Oy Vantaan Kiitoradantie relating to the acquisition of Stockmann Auto Ab's Volkswagen and Audi operations on 1 March 2006.
- Kesko Corporation acquired a minority interest of 19.9% of Fiesta Real Estate AS on 14 December 2006.
- VV-Auto Group Oy, a Kesko Corporation subsidiary, acquired a minority interest of 40% of Turun VV-Auto Oy on 31 December 2006.
- Kauko-Telko Ltd, a Kesko Corporation subsidiary, acquired Poland's WEP Ltd.

The cash flow effect of these and other minor subsidiary acquisitions totalled €3.8 million.

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 Byggmakker Norge AS on 7 July 2006.
- Rautakesko Ltd, a Kesko Corporation subsidiary, acquired the shares of the Stroymaster chain on 28 July 2005.
- Kesko Food Ltd, a Kesko Corporation subsidiary, acquired 50% of Pikoil Oy's shares from Neste Marketing Ltd.

In addition, real estate companies and minor subsidiaries were acquired, with a total cash flow effect of €5.1 million.

€ million	2006	2005
Cash flow from acquisitions:		
Cost of company acquisitions	8.4	150.2
Additional purchase price payments	8.4	
Non-cash transactions		
Unsettled investment acquisitions		37.8
Total acquisition price	16.8	188.0
Assets acquired		
Cash on hand and balances with banks	0.0	23.5
Intangible assets	0.1	100.0
Tangible assets	12.3	58.7
Inventories	0.0	62.1
Receivables	0.1	76.0
Non-interest-bearing borrowings	-8.1	-106.3
Pensions obligations	0.0	-2.3
Interest-bearing borrowings	0.0	-74.4
Deferred taxes (net)	-0.4	-26.2
Minority interest	4.4	-1.7
Fair value of acquired net assets	8.4	109.3
Goodwill	0.0	78.7
Payment of additional puchase prices	8.4	0.0
Total acquisition price	16.8	188.0
Unsettled acquisition price	0.0	-37.8
Cash on hand and balances with banks	0.0	-23.5
Cash flow from acquisitions	16.8	126.8
Other acquisitions	3.8	5.1

Note 39

Subsidiary disposals

2006

- Byggmakker Norge AS, a subsidiary of Rautakesko Ltd, sold its ownership interest in Norgros Eiendom AS on 1 March 2006.
- Indoor Group Ltd, a subsidiary of Keswell Ltd, sold its interest in Kiinteistö Oy Tourulan Liikekeskus on 6 March 2006.
- Kesko Corporation and Hämeenkylän Kauppa Oy sold 77 retail store properties to Niam Retail Holding Finland AB on 3 March 2006. In addition to directly owned properties, the transaction included real estate companies consolidated as subsidiaries and associates. The cash flow effect of subsidiaires sold totalled €27 million.
- Keswell Ltd, a subsidiary of Kesko Corporation, sold its interest in Academica Oy on 6 October 2006.

2005

- 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 Kauko-Telko Ltd sold the shares of KM Kello Oy. Their combined cash flow effect was €18.6 million.

€ million	2006	2005
Cash flow from disposals		
Gain on disposal	40.6	77.6
Shares		-55.5
Cash and cash equivalents		-4.1
Net cash flow from disposal	40.6	18.0
Assets disposed of		
Intangible assets	0.4	29.9
Tangible assets	31.3	71.9
Inventories	0.3	22.3
Receivables	1.3	11.5
Non-interest-bearing borrowings	-0.7	-47.7
Interest-bearing borrowings	-7.2	-25.8
Deferred taxes	-1.7	0.0

Note 40

Associate disposals

€ million	2006	2005
Cash flow from disposals		
Proceeds Rimi Baltic AB (Note 3)	190.0	0.0
Cash and cash equivalents Rimi Baltic AB (Note 3)	-10.9	0.0
Proceeds other associates	25.7	2.4
Net cash inflow	204.8	2.4

Note 41

Cash and cash equivalents

€ million	2006	2005
Short-term money market investments	200.4	38.3
Cash on hand and balances with banks	56.5	76.3
Total	**256.9**	**114.6**

Note 42

Adjustments to cash flows from operating activities

€ million	2006	2005
Adjustments are made for non-cash transactions of income statement or for items presented elsewhere in the cash flow statement:		
Change in provisions	5.4	1.4
Income from associates	-0.7	-1.5
Impairment	30.4	24.2
Non-recurring gains on disposal of fixed assets	-252.4	-64.2
Non-recurring losses on disposal of fixed assets	3.8	1.9
Others	-2.0	-7.9
Total	**-215.5**	**-46.1**

Note 43

Financial risk management

Financial risk management

With respect to financial risks, the Group observes a uniform treasury 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 is centrally responsible for Group funding, liquidity management, bank relations and the management of financial risks. In the main, 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 eurozone. This balance sheet exposure has been hedged by using currency-denominated loans and forward rate agreements if the translation risk is in excess of €1 million. The most significant balance sheet exposure positions are in Estonian kroon, Norwegian krone, Swedish krona, Russian rouble, Lithuanian lit and Latvian lat. The Group has not hedged currency-denominated goodwill (incl. allocated goodwill), whose countervalue was €105.6 million at 31 December 2006.

The currency risk exposed to translation risk, excluding foreign-currency-denominated goodwill, is small in proportion to the volume of operations and the balance sheet total. A simultaneous 10% weakening of the six central currencies (NOK, EEK, LTL, RUB, LVL, SEK) against the euro would result in a less than €10 million negative change in equity at 31 December 2006.

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 rate agreements 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

Translation risk and hedging at 31 December 2006

€ million	Latvia	Norway	Estonia	Sweden	Russia	Lithuania	Others	Total
Equity exposed to translation risk*)	7.6	42.6	39.1	9.3	18.8	29.5	4.1	151.0
Hedging derivatives	2.9	9.7		2.2	8.7	15.9		39.4
Hedging loans		24.3	9.6			4.3		38.2
Open position	4.7	8.6	29.5	7.1	10.1	9.3	4.1	73.4

*) equity excl. allocated goodwill

equity are recorded in the income statement when a foreign operation is sold or wound up.

Kesko Corporation's USD-denominated private placement loan has been hedged against currency risk and interest rate risk applying hedge accounting for both currency and interest rate risks. 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 and Swedish krona. 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.

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. 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 2.9 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 business activities at all times.

In accordance with financial policy, liquid assets form a cash portfolio which shall amount to at least €30 million on average, with the duration being not longer than two (2) months.

Due to a strong increase in cash and cash equivalents in 2006, the Group also invested excess liquidity in a money market portfolio with a duration of six (6) months, as defined in the policy.

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 2006, the Group's cash portfolio amounted to €200.4 million and the average duration for the year was 1 month. At the end of the period, the cash portfolio comprised commercial papers, certificates of bank deposits and deposits.

At the end of 2006, the money market portfolio was composed of investments in money market funds and commercial papers with maturities of over three (3) months in an aggregate amount of €140.7 million. At the end of the year, the average duration was 6 months.

At the balance sheet date, the total counter value of committed long-term credit facilities available was €225 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 €421.7 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 notes, pension loans and the amount of €147.8 million of loans from financial institutions have fixed rates and the effective interest cost represents 5.2%. 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 3.5%.

Maturity schedule of interest-bearing liabilities

€ million	Used at 31 December 2006	Available	Total	2007	2008	2009	2010	2011 and later
Loans from financial institutions	107.4		107.4	42.5	18.9	3.8	14.4	27.8
Private placement bonds (USD)	99.9		99.9					99.9
Pension loans	14.3		14.3	11.5	0.8	0.8	0.8	0.4
Finance lease liabilities	168.1		168.1	19.0	21.4	20.8	12.7	94.2
Liabilities to K-retailers	128.4		128.4	128.4				
Other interest-bearing borrowing	69.5		69.5	69.5				
Committed credit limits		225.0	225.0					
Commercial papers	22.2	399.5	421.7	22.2				
Total	**609.8**	**624.5**	**1,234.3**	**293.1**	**41.1**	**25.4**	**27.9**	**222.3**

Most of the loans are euro-denominated, private placement notes are USD-denominated, and loans from financial institutions and commercial paper liabilities include NOK-denominated loans corresponding to €24.3 million, EEK-denominated loans corresponding to €15.1 million, LVL-denominated loans corresponding to €10.0 million and LTL-denominated loans corresponding to €4.3 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 down when there is objective evidence of impairment.

Among Group divisions, Kesko Agro has the biggest customer finance needs. A Kesko Corporation subsidiary, K-Rahoitus Oy, with its subsidiary provide 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 €170.7 million (€122.3 million).

In addition, the company has sold customer finance receivables to an external financier in a total amount of €43.5 million at the end of 2006. According to the agreement, the management of the sold receivables remains with the company but the external finance provider bears the credit risk.

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.

Borrowing agreements at change of control (over 50% interest)

According to the terms of Kesko Corporation's USD-denominated private placement loan, in a situation involving a change of control, Kesko is obligated to offer a repayment of the whole loan capital to all noteholders. The noteholders have the right to accept or refuse the repayment.

According to the terms of Kesko Corporation's syndicated loan, the syndicate has the right to call in the loan and any withdrawn loan amounts.

According to the terms of either loan agreement, a transfer of ownership to retailers or a retailers' association shall not be considered a change of control.

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.

Fair values of derivative financial instruments

€ million	2006 Positive fair value (balance sheet value)	2006 Negative fair value (balance sheet value)	2006 Net fair value	2005 Net fair value
Interest rate swaps	0.0	-2.0 **	-2.0	-5.3
Forward exchanges	1.0 */**	-10.2 */**	-9.2	0.8
Currency options (bought)				0.0
Electricity derivatives	3.0	-2.0	1.0	4.8
Grain derivatives		0.0	0.0	

Nominal values of derivative financial instruments

€ million	31.12.2006 Nominal value	31.12.2005 Nominal value
Interest rate swaps	231.9 **	308.6
Forward rate agreements	372.1 */**	252.2
Currency options (bought)		4.2
Electricity derivatives	38.1	23.4
Grain derivatives	0.7	

*) Derivative financial instruments also include forward rate agreements used to hedge net investments in foreign entities with a fair value of €-0.3 million and a nominal value of €39.4 million.

**) Derivative financial instruments include interest rate swaps relating to a currency-denominated loan arrangement with a nominal gross value of €208.8 million and a fair value of €-1.8 million, and currency swaps with a nominal value of€100.4 million and a fair value of €-9.3 million.

Other risks and uncertainty factors are reported in Note 44.

Commodity risks

The Group uses electricity derivatives to level out the Group's and Group retailers' 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 the revaluation reserve of equity and the ineffective portion in the income statement in other operating income or expenses.

At the balance sheet date, a total quantity of 949,244 MWH of electricity had been purchased with derivatives and the degree of hedging during 1-12 months was 86.8%, during 13-24 months 61.4% and during 25-36 months 32.8%.

The Group's agricultural division used grain derivatives to hedge against grain price risk.

Note 44

Risk management

Risk management policy

In March 2006, Kesko's Board of Directors approved a risk management policy for the Group. This policy is based on the COSO ERM Integrated Framework and the Helsinki Stock Exchange's Corporate Governance Recommendation for Listed Companies. The policy defines the objectives, principles, organisation, responsibilities and key practices of risk management. Risk management is part of Kesko's planning and management processes, decision-making, daily management and operations, and supervision and reporting procedures.

Risk management organisation and responsibilities

The business management is responsible for risk management in practice. Persons responsible for risk management have been appointed in the divisions to coordinate and report on risk management activities.

The Corporate Risk Management Unit is responsible for developing and maintaining risk management tools, introducing best practices to the Group and reporting on risk management to the Group management.

The Risk Management Steering Group chaired by the President and CEO approves risk management procedures and guidelines, and discusses and assesses the Group's risks and the implementation of risk management responses. Kesko's Board of Directors considers the major risks and assesses the functioning of risk management at least once a year.

Consumers

The price-quality ratio is a key competitive factor. If Kesko does not succeed in this competition, it will not achieve the sales targets. Enhancing price competitiveness calls for improvements in the efficiency of operations throughout the delivery chain from the supplier to the store shelf. There are several programmes underway to improve cost-efficiency and total management of the operations chain, which serve to increase price competitiveness and consumer-customers' satisfaction with retail stores' offering and selection.

The competitiveness of the customer loyalty system is of great importance. A reform of the customer loyalty system is underway. A risk involved is that the objectives set for customer satisfaction and loyalty will not be achieved by the reform. An essential success factor is how well Kesko succeeds in conveying customer benefits to customers. The technical implementation of the reform is also demanding. Careful testing is done to ensure undisturbed introduction of the systems and efficient data transfer between the various parties.

Kesko's goal is to provide safe products for its customers. A failure in the quality assurance of the delivery chain or in product control may result in financial losses, the loss of customer confidence or, in the worst case, a health hazard. In order to manage this risk the Product Research Unit supervises manufacturing companies and controls the quality of products.

Each store's self-control practices ensure that regulations and rules concerning foodstuffs are observed. The practice of recalling products ensures that defective products are withdrawn from sale quickly.

Trading sector

The entrance of new foreign competitors to the market and company mergers and acquisitions can change the competitive situation fast. By operating in several sectors of the trade, Kesko reduces its dependence on each single sector. The responses to tightening competition include investments in store sites and improvements in services. New concepts are developed to improve the efficiency and attractiveness of stores to consumers. Strong private label brands and value-added services produced for customers are an important competitive tool.

In business divisions that are strongly dependent on individual principals, changes in a principal's strategy concerning distribution channel solutions can mean a reduction in or loss of business. Good market shares and growing sales create a basis for good relations with principals. Operations are developed in cooperation with the principals, seeking to provide them with the best distribution channel option.

Store sites are a strategic competitive factor. Considerable amounts of capital are tied up in store properties for decades. Local competitive situations can change fast and there is a risk that operations at the store site will become unprofitable. The risk is managed by long-term planning of the store network, by careful preparation of each store site investment decision and by applying a sell-lease back approach. When arranging construction, Kesko aims to ensure that the use of each store site can be flexibly changed, should a need arise. Contracts made on leased properties also take flexibility into account.

The retail trade involves a high risk of shrinkage. Shrinkage can result for example from spoilage or breakage of goods, theft or other malpractice, for example. Shrinkage is managed in the Group by steering and monitoring the whole operations chain better and by adopting the best practices of each division.

Internationalisation

Internationalisation aims at growth. The risks in internationalisation include different cultures and business practices and fast growing operating environments. As operations expand in new countries, the significance of these risks is increasing. Finnish retail trade operating processes and control practices cannot always be introduced as such outside Finland. Integrating the operations of acquired businesses may present a risk of losing local competence or of failing to exploit it. Risks related to acquisitions are managed by planning the integration carefully, ensuring sufficient resources, and by the method of implementing and monitoring the acquisition. The efficient steering of operations and the achievement of synergy benefits require common practices across country and organisational boundaries.

Personnel

Competition for skilled employees has intensified in the labour market. Implementation of strategies requires competent and motivated personnel. There is a risk that the trading sector will not attract the most skilled people. Specialisation increases dependence on the competence of individuals. In updating strategies, the competencies required to implement the strategy are identified, and personnel plans are drawn up on that basis. Kesko's attraction as an employer is enhanced by cooperation with educational institutions and the new K-trainee programme, and by systematic internal and external communications. Job satisfaction surveys are used to assess the needs for HR operations development.

Continuity of operations

Trading sector operations rely on extensive information systems and networks. Any factor preventing or limiting their use could cause major losses in sales and profit. The starting point in Kesko's continuity planning is the longest tolerable interruption in business. Ensuring the continuity of operations depends above all on trustworthy business partners, reliable systems, proper documentation and back-up systems.

Security actions and preparation play a key role in preventing the risks of damage and accident. Group-wide and appropriate insurance is obtained to cover financial losses and interruptions in operations.

Legislation

Compliance with legislation, regulations, agreements and Kesko's ethical principles is an important basic value. Non-compliance may result in fines, compensation for damages and other financial losses, and a loss of confidence or reputation. The Group has specific Compliance programmes to avoid this. Self-assessments are made in matters concerning competition legislation. Contractual risks are managed by harmonising agreements and agreement-making processes.

The goal of Kesko's Corporate Communications Unit is to produce and publish reliable information at the right time. If some information published by Kesko proves to be wrong or a release fails to meet regulations, this may result in investors and other stakeholder groups losing confidence and in possible sanctions. Further pressure is put on the accuracy of financial information by the tightening of information disclosure schedules and the dependence on information systems. These risks are minimised by careful scheduling and control of the process and by ensuring proper resources and sufficient competence.

Litigations

No major litigations are pending, and the Board of Directors is not aware of any other legal risks that would have a material effect on the Group's performance.

Insurances

The Group regularly reviews its insurances as part of enterprise risk management. Insurances are aimed to cover all risks that, for financial or other reasons, are best managed using insurances.

Financial risks and their management is reported in Note 43.

Note 45

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 a separate note. The related party transactions disclosed include those transactions with related parties that are not eliminated in the consolidated financial statements.

The following transactions were carried out with related parties:

Sales of goods and services

€ million	2006	2005
Sales of goods		
Associates	0.3	0.2
Board of Directors and management	25.9	38.9
	26.2	39.1

€ million	2006	2005
Sales of services		
Associates	1.6	3.2
Board of Directors	3.0	6.3
the Kesko Pension Fund	1.2	1.1
	5.8	10.6

Among associates consolidated using the equity method, 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 Kesko's and K-retailers' retail companies. The other associates mainly include business property companies which have leased their premises and real estate to the 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 id 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 in the amount of €132.2 million. Real estate and premises owned by the Pension Fund have been leased to the Kesko Group, which has subleased most of them to retailers. In 2006, the Kesko Group paid a total amount of €18.8 million (€23.2 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.

Purchases of goods and services

€ million	2006	2005
Purchases of goods		
Associates	14.2	11.5
Board of Directors and management	2.4	1.7
Total	**16.6**	**13.2**

€ million	2006	2005
Purchases of services		
Associates	7.2	26.8
Board of Directors and management	0.1	0.1
Pension Fund	0.1	–
Total	**7.4**	**26.9**

In addition, other operating expenses include rents paid by the Kesko Group to the Kesko Pension Fund in a total amount of €15.6 million.

Board of Directors' remuneration

€ thousands	2006	2005
Members of the Board of Directors		
Heikki Takamäki, Chairman	61.2	51.9
Keijo Suila, Deputy Chairman	43.4	29.9
Matti Kavetvuo, Deputy Chairman (until 27 March 2006)	8.0	36.8
Pentti Kalliala	33.3	30.3
Eero Kasanen (until 27 March 2006)	6.8	31.6
Ilpo Kokkila (from 27 March 2006)	25.5	–
Maarit Näkyvä	35.8	31.6
Seppo Paatelainen (from 27 March 2006)	27.5	–
Kari Salminen (from 30 March 2005)	6.8	21.8
Jukka Säilä (from 27 March 2006)	25.5	–
Jukka Toivakka (until 30 March 2005)		7.3

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

€ thousands	2006	2005
Matti Honkala, Managing Director (until 28 February 2005)	–	330.1
Matti Halmesmäki, Managing Director (from 1 March 2005)	598.2	424.8
Kalevo Haapaniemi, Deputy Managing Director (until 17 March 2005)	–	133.1
Juhani Järvi, Deputy Managing Director (from 17 March 2005)	254.3	220.8
Corporate Management Board (other members)	1,397.0	1,174.6

Other top management employee benefits

Share-based payments

At 31 December 2006, the Managing Director held 52,000 share options and the Deputy Managing Director held 21,000 share options. At 31 December 2006, the other Corporate Management Board members held a total of 159,999 share options In 2006, they were granted a total of 6,000 2003F options. The options held by the Corporate Management Board have equal rules and vesting periods with 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 (TyEL). The retirement benefits of the other Corporate Management Board members are determined on the basis of the Employees' Pensions Act (TyEL), 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

€ million	2006	2005
Associates	0.0	0.2
	0.0	0.2

Financial expenses

€ million	2006	2005
Associates	1.0	0.0
Board of Directors and management	0.0	0.3
	1.0	0.3

Trade receivables

€ million	2006	2005
Associates	0.3	0.6
Board of Directors and management	1.9	3.0
Pension Fund	0.1	0.0
	2.3	3.6

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 €2.1 million (€3.0 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 €6.0 million (€5.8 million).

Other current liabilities

€ million	2006	2005
Associates	37.0	36.4
Board of Directors and management	0.8	0.5
Pension Fund	2.6	3.3
	40.4	40.2

Other current liabilities include €0.3 million (€0.5 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.

Note 46

Other Notes

Events after the balance sheet date

In December 2006, Kesko Food Ltd sold its 50% ownership interest in Rimi Baltic AB. Relating to this transaction, Kesko's Estonian subsidiary, Fiesta Real Estate AS, sold its food trade properties leased to Rimi Baltic AB on 4 January 2007. The price of the properties was €50 million and the gain on the disposal was about €25 million.

Note 47

Financial statement indicators

Kesko, continuing operations		2002 FAS	2003 FAS	2004 FAS	2004 IFRS	2005 IFRS	2006 IFRS
Income statement							
Net sales	€ million	6,466	7,070	7,517	7,509	7,922	8,749
Change in net sales	%	4.1	9.3	6.3	6.2		10.4
Staff cost	€ million	348	390	437	386	477	544
Staff cost of net sales	%	5.4	5.5	5.8	5.1	6.0	6.2
Depreciation and impairment charges	€ million	108	110	125	132	149	160
Operating profit	€ million	99	158	176	251	245	363
Operating profit of net sales	%	1.5	2.2	2.3	3.3	3.1	4.2
Operating profit excl. non-recurring items	€ million	91	137	171	201	216	280
Operating profit of net sales excl. non-recurring items	%	1.4	1.9	2.3	2.7	2.7	3.2
Financial income and expenses	€ million	11	4	-3	-11	-1.1	-5.5
Income from associates	€ million	2	1	1	2	2	1
Profit before taxes	€ million	110	162	173	241	236	358
Profit before taxes	%	1.7	2.3	2.3	3.2	3.0	4.1
Income tax	€ million	42	58	47	56	50	107
Discontinued operations	€ million					3	128
Investments						367.3	250.5
Investments of net sales						4.6	2.9
Personnel, average number for the period						19,650	19,651
Personnel at 31 Dec., incl. part-time employees						21,952	23,755
Earnings/share, diluted						1.83	2.45
Earnings/share, basic						1.86	2.47

Kesko Group		2002 FAS	2003 FAS	2004 FAS	2004 IFRS	2005 IFRS	2006 IFRS
Profit for the period (incl. minority interest)	€ million	68	104	126	185	189	379
Profit for the period of net sales	%	1.0	1.5	1.7	2.3	2.3	4.2
Attributable to equity holders of the parent company		68	96	117	176	181	369
Attributable to minority interest	€ million	0	8	9	9	8	10
Profitability							
Return on equity	%	4.9	7.4	9.3	12.8	13.0	23.1
Return on invested capital	%	7.6	10.9	11.9	14.3	12.5	22.6
Finance and financial position							
Debt to equity ratio	%	13.9	16.2	28.8	37.0	42.4	11.9
Equity ratio	%	53.3	51.7	45.5	44.2	42.3	47.0
Other indicators							
Investments	€ million	185	259	170	192	454	282
Investments of net sales	%	2.9	3.7	2.3	2.6	5.4	3.1
Personnel, average number for the period		12,217	15,219	17,275	17,275	21,305	23,756
Personnel at 31 Dec., incl. part-time employees		15,212	19,411	22,146	22,146	26,608	23,755
Share indicators							
Consolidated indicators							
Earnings/share, diluted	€	0.75	1.05	1.26	1.89	1.87	3.76
Earnings/share, basic	€	0.75	1.06	1.28	1.92	1.89	3.80
Equity/share, adjusted	€	15.02	15.07	13.34	14.73	15.35	17.94
Dividend/share	€	1.00	3.00	1.00	1.00	1.10	1.50*
Payout ratio	%	134.4	285.7	79.4	52.9	58.8	39.9*
Cash flow from operating activities/share, adjusted	€	1.60	1.80	1.80	2.29	3.07	3.35
Price/earnings ratio (P/E), A share, adjusted		21.96	17.17	14.6	10.12	11.86	10.22
Price/earnings ratio (P/E), B share, adjusted		16.21	13.09	14.21	9.50	11.74	10.64
Effective dividend yield, A share	%	6.1	16.5	5.3	5.3	4.6	3.9*
Effective dividend yield, B share	%	8.3	21.6	5.6	5.6	4.6	3.8*
Share price at 31 Dec.							
A share		16.40	18.20	18.90	18.90	24.19	38.43
B share		12.10	13.88	17.95	17.95	23.95	40.02
Average share price							
A share		16.26	17.46	19.12	19.12	21.93	30.10
B share		10.92	11.38	16.49	16.49	21.04	31.34
Market capitalisation, A share		520	578	600	600	768	1,220
Market capitalisation, B share		718	825	1,115	1,115	1,551	2,632
Turnover							
A share		1	1	1	1	1	2
B share		23	31	83	83	66	77
Turnover rate							
A share		3.0	4.0	3.8	3.8	4.1	6.4
B share		38.6	51.7	133.6	133.6	101.5	117.1
Adjusted number of shares at 31 Dec., million pcs		91	91	93	93	97	98
Yield of A share	%	9.9	11.4	14.3	14.3	16.7	21.4
Yield of B share							
For the last five financial periods	%	2.8	8.9	14.7	14.7	25.9	38.9
For the last ten financial periods	%	12.8	10.7	13.0	13.0	16.3	19.0

* proposal to the Annual General Meeting

Calculation of financial indicators

Profitability

Return on equity, % (ROE)

$$= \frac{\text{profit before extraordinary items} - \text{income tax}}{\text{shareholders' equity} + \text{minority interest (average for the year)}} \times 100$$

Return on invested capital, % (ROI)

$$= \frac{\text{profit before extraordinary items} + \text{interest and other financial expenses}}{\text{balance sheet total} - \text{non-interest-bearing liabilities (average for the year)}} \times 100$$

Return on net assets, % (RONA)

$$= \frac{\text{operating profit}}{\text{net assets (= balance sheet total} - \text{cash and cash equivalents} - \text{non-interest-bearing liabilities} - \text{provisions) average}} \times 100$$

Finance and financial position

Equity ratio, %

$$= \frac{\text{shareholders' equity} + \text{minority interest}}{\text{balance sheet total} - \text{advances received}} \times 100$$

Debt to equity ratio, %

$$= \frac{\text{debt} + \text{provisions}}{\text{balance sheet total} - \text{advances received}} \times 100$$

Gearing ratio, %

$$= \frac{\text{interest-bearing debt} - \text{marketable securities} - \text{cash on hand and balances with banks}}{\text{shareholders' equity} + \text{minority interest}} \times 100$$

Share performance indicators

Earnings/share, diluted

$$= \frac{\text{profit before extraordinary items} - \text{income tax} \pm \text{minority interest}}{\text{average number of shares adjusted for share issues and dilutive effect of options}}$$

Earnings/share

$$= \frac{\text{profit before extraordinary items} - \text{income tax} \pm \text{minority interest}}{\text{average number of shares adjusted for share issues}}$$

Equity/share

$$= \frac{\text{shareholders' equity}}{\text{adjusted number of shares}}$$

Payout ratio, %

$$= \frac{\text{dividend/share}}{\text{earnings/share}} \times 100$$

Price/earnings ratio, (P/E)

$$= \frac{\text{share price at balance sheeet date}}{\text{earnings/share}}$$

Effective dividend yield, %

$$= \frac{\text{dividend/share}}{\text{share price at balance sheet date}} \times 100$$

Market capitalisation = share price at balance sheet date x number of shares

Cash flow from operating activities/share

$$= \frac{\text{cash flow from operating activities}}{\text{average number of shares}}$$

Yield of A share and B share = change in share price + annual dividend yield

Others

Cash flow from operating activities = operating profit + depreciation, amortisation and impairment ± change in net working capital ± financial income and expenses – income tax

Note 48

Breakdown of share ownership by shareholder category at 31, Dec. 2006

All shares	Number of shares	% of all shares
Non-financial corporations and housing corporations	23,866,021	24.47
Financial and insurance corporations	2,745,603	2.82
General government	6,817,349	6.99
Households	25,774,138	26.43
Non-profit institutions serving households	5,604,239	5.75
Rest of the world	176,639	0.18
Nominee registered	32,535,936	33.36
Total	97,519,925	100.00

10 largest shareholdings by size at 31 Dec. 2006

		Number of shares	% of shares	Number of votes	% of votes
1.	The Kesko Pension Fund	3,438,885	3.53	34,388,850	8.98
2.	The K-Retailers' Association	3,159,039	3.24	31,222,740	8.15
3.	Vähittäiskaupan Takaus Oy	2,628,533	2.70	26,285,330	6.85
4.	Valluga-Sijoitus Oy	1,340,439	1.37	13,404,390	3.50
5.	Oy The English Tearoom Ab	1,008,400	1.03	1,008,400	0.26
6.	Varma Mutual Pension Insurance Company	939,353	0.96	939,353	0.25
7.	Foundation for Vocational Training in the Retail Trade	893,695	0.92	7,241,143	1.89
8.	Ilmarinen Mutual Pension Insurance Company	485,090	0.50	800,090	0.21
9.	Tapiola Mutual Insurance Company	464,500	0.48	464,500	0.12
10.	The State Pension Fund	450,000	0.46	450,000	0.12

Shares held by the management

At the end of December 2006, the members of Kesko Corporations' Board of Directors, the Managing Director and the Deputy Manging Director and the corporations under their control held 197,030 Kesko Corporation A shares and 170,520 Kesko Corporation B shares, i.e. a total of 367,550 shares which represented 0.38% of the company's total share capital and 0.56% of its voting rights.

Note 49

Subsidiaries and associates at 31 Dec. 2006

Interests in Group companies owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Fiesta Real Estate As	Tallinn, Estonia	100.00	100.00
Hirvensalon Liikekiinteistö Oy	Turku	100.00	100.00
K-instituutti Oy	Helsinki	90.00	90.00
K-plus Oy	Helsinki	100.00	100.00
K-rahoitus Oy	Helsinki	100.00	100.00
Kauko-Telko Ltd	Espoo	100.00	100.00
Kempeleen Ostokeskus Oy	Kempele	67.27	67.27
Keru Kiinteistöt Oy	Helsinki	100.00	100.00
Kesko Fastigheter Ab	Sollentuna, Sweden	100.00	100.00
Kesko Real Estate Latvia Sia	Riga, Latvia	100.00	100.00
Keslog Oy	Helsinki	100.00	54.95
Kestra Kiinteistöpalvelut Oy	Helsinki	100.00	100.00
Keswell Oy	Helsinki	100.00	100.00
Kiinteistö Oy Joutsentulli	Oulu	100.00	100.00
Kiinteistö Oy Kangasalan Palvelukeskus	Kangasala	82.50	82.50
Kiinteistö Oy Kemin Asemakatu 4	Kemi	66.50	66.50
Kiinteistö Oy Keravan Viertolan Market	Kerava	100.00	100.00
Kiinteistö Oy Kouvolan Länsikeskus	Espoo	100.00	100.00
Kiinteistö Oy Lahden Lyhytkatu 1	Lahti	50.00	50.00
Kiinteistö Mesta Oy	Helsinki	100.00	100.00
Kiinteistö Oy Pallintalo	Turku	100.00	100.00
Kiinteistö Oy Pontsonkulma	Helsinki	94.57	94.57
Kiinteistö Oy Porin Hyväntuulentie 2	Pori	70.80	70.80
Kiinteistö Oy Päivärannantie 18	Kuopio	100.00	100.00
Kiinteistö Oy Riipilän Kauppakeskus	Vantaa	100.00	100.00
Kiinteistö Oy Soppeenmäen Market	Ylöjärvi	100.00	100.00
Kiinteistö Oy Sunan Hallitalo	Espoo	100.00	100.00
Kiinteistö Oy Tavastkulla	Vantaa	100.00	100.00
Kiinteistö Oy Turun Noutotukku	Turku	100.00	100.00
Kiinteistö Oy Turvesuonkatu 10	Tampere	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Lappeenranta	100.00	100.00
Kiinteistö Oy Välivainion Ostoskeskus	Oulu	65.97	65.97
Klintcenter Ab	Mariehamn	100.00	100.00
Maatalouskesko Oy	Helsinki	100.00	100.00
Malmintorin Pysäköintitalo Oy	Helsinki	99.91	99.91
Pirkkalaistorin Liikekeskus Oy	Nokia	51.66	51.66
Plussa Oü	Tallinn, Estonia	100.00	100.00
Rautakesko Oy	Helsinki	100.00	100.00
Roihuvuoren Liiketalot Oy	Helsinki	74.00	74.00
Kesko Food Ltd	Helsinki	100.00	100.00
Sincera Oy	Helsinki	100.00	100.00
Variston Liikekeskus Oy	Vantaa	75.00	75.00
VV-Auto Group Oy	Helsinki	100.00	100.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Antti Sia	Riga, Latvia	100.00	
Anttila As	Viljandi, Estonia	100.00	
Anttila Oy	Helsinki	100.00	
Ap Real Estate Sia	Riga, Latvia	100.00	
Asko Möbler Ab	Huddinge, Sweden	100.00	
Asm Sweden Ab	Malmö, Sweden	100.00	
Auto-span Oy	Helsinki	100.00	
Baltic Tape Uab	Klaipeda, Lithuania	100.00	
Barker-littoinen Oy	Espoo	100.00	
Bruland Bygg As	Förde, Norway	66.30	
Byggsenteret As	Steinkjer, Norway	100.00	
Cassa Oy	Helsinki	100.00	
Citymarket Oy	Helsinki	100.00	
Daugavkrasts M Sia	Riga, Latvia	100.00	
Focus Eesti As	Tallinn, Estonia	80.00	
Glastech Oy	Vaasa	100.00	
Glastech Eesti As	Tallinn, Estonia	100.00	
Glastech Uab	Vilnius, Lithuania	100.00	
Glastech Zp	Minsk, Belarus	100.00	
Härkätien Maatalous- ja Rautakauppa Oy	Helsinki	100.00	
Ikosen Oü	Tallinn, Estonia	100.00	
Indoor Group Ltd	Lahti	100.00	
Indoor Group As	Tallinn, Estonia	100.00	
Indoor Group Sia	Riga, Latvia	100.00	
Indoor Group Uab	Vilnius, Lithuania	100.00	
Indoorpalvelu Oy	Lahti	100.00	
Insofa Oy	Lahti	100.00	
Intersport Finland Ltd	Helsinki	100.00	
Ka Jelgava Sia	Jelgava, Latvia	100.00	
Kauko Far East Ltd.	Hong Kong, China	100.00	
Kauko International Trading Co. Ltd	Shanghai, China	100.00	
Kauko Time Ab	Stockholm, Sweden	100.00	
Kauko-metex Sp. Z O.o.	Warsaw, Poland	100.00	
Kauko-silhu Oy	Vantaa	100.00	
Kauko Zao	Moscow, Russia	100.00	
Kesko Agro Eesti As	Tallinn, Estonia	100.00	
Kesko Agro Lietuva Uab	Vilnius, Lithuania	100.00	
Kesko Agro Latvija Sia	Riga, Latvia	100.00	
Keslog As	Tallinn, Estonia	100.00	
Kespro Ltd	Helsinki	100.00	
Kestroy 1 Zao	Moscow, Russia	100.00	
K-Finance Estonia As	Estonia	100.00	
Kiinteistö Oy Arolan Risteys	Elimäki	100.00	
Kiinteistö Oy Hannunhelmi	Kirkkonummi	100.00	
Kiinteistö Oy Imatran Lappeentie 44	Imatra	100.00	
Kiinteistö Oy Kemin Asematie 4	Kemi	66.50	
Kiinteistö Oy Kotkan Kauppahuone	Kotka	100.00	
Kiinteistö Oy Länsi-kaisla	Espoo	100.00	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Kiinteistö Oy Muhoksen Puoti	Helsinki	100.00	
Kiinteistö Oy Paavolantori	Lahti	96.90	
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00	
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00	
Knuto As	Norway	100.00	
Konekesko Ltd	Helsinki	100.00	
K Prof Sia	Riga, Latvia	100.00	
K Rauta Sia	Riga, Latvia	100.00	
K-rauta Ab	Stockholm, Sweden	100.00	
Kr Fastigheter I Göteborg Ab	Sollentuna, Sweden	100.00	
Kr Fastigheter I Järfalla Ab	Sollentuna, Sweden	100.00	
Kr Fastigheter I Karlstad Ab	Sollentuna, Sweden	100.00	
Kr Fastigheter I Umeå Ab	Sollentuna, Sweden	100.00	
Kr Fastigheter I Stockholm Norr Ab	Sollentuna, Sweden	100.00	
Kr Fastigheter I Sundsvall Ab	Sollentuna, Sweden	100.00	
K-rauta Fastigheter I Malmö Ab	Sollentuna, Sweden	100.00	
Leipurien Tukku Oy	Espoo	100.00	
Leipurien Tukku Eesti As	Tallinn, Estonia	100.00	
Leipurien Tukku Latvia Sia	Riga, Latvia	100.00	
Leitok Oy	Espoo	100.00	
Loimaan Maatalous- ja Rautakauppa Oy	Helsinki	100.00	
Lt-kone Oy	Espoo	100.00	
000 Leipurien Tukku	St. Petersburg, Russia	100.00	
000 Kesko Real Estate	St. Petersburg, Russia	100.00	
Lt-tukku Oy	Espoo	100.00	
Metex Deutschland Gmbh	Lucka, Germany	100.00	
Metex Hungaria Kereskedelmi Kft	Budapest, Hungary	100.00	
Metex Oy	Espoo	100.00	
Mezciems Real Estate Sia	Riga, Latvia	100.00	
Musta Pörssi Oy	Helsinki	100.00	
Nmt Prekyba Uab	Kaunas, Lithuania	100.00	
Nordica A/s	Copenhagen, Denmark	100.00	
Nordica Plast & Gummi Ab	Malmö, Sweden	100.00	
Norgros As	Oslo, Norway	99.92	
Norgros Distrubusjon As	Ski, Norway	100.00	
Norgros Handel As	Lilleström, Norway	100.00	
Polo Ls Sia	Riga, Latvia	100.00	
Pikoil Oy	Espoo	100.00	
Rake Bergen As	Oslo, Norway	100.00	
Rake Eiendom As	Oslo, Norway	100.00	
Rautakesko As	Tallinn, Estonia	100.00	
Rautakesko A/s	Riga, Latvia	100.00	
Ruokakeskon Kiinteistöt Oy	Helsinki	100.00	
Senukai Uab	Kaunas, Lithuania	99.20	
Senuku Prekybos Centras	Vilnius, Lithuania	50.00	
Senuku Tirdzniecibas Centras Sia	Riga, Latvia	100.00	
Sotka Eesti Oü	Tallinn, Estonia	100.00	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Stroymaster Holding Finland Oy	Helsinki	100.00	
Stroymaster Zao	St. Petersburg, Russia	100.00	
Telko Oy	Helsinki	100.00	
Tp Real Estate Sia	Riga, Latvia	100.00	
Trögstadveien 13 As	Ski, Norway	100.00	
Turun VV-Auto Oy	Turku	100.00	
Tähti Optikko Group Oy	Helsinki	100.00	
Ulkokaupat Eesti As	Tallinn, Estonia	100.00	
Ulkokaupat Vilnius Uab	Vilnius, Lithuania	100.00	
Verdal Eiendom As	Ski, Norway	100.00	
Virsu Oy	Helsinki	100.00	
VV-Autotalot Oy	Helsinki	100.00	
Wellstep Oy	Helsinki	100.00	

Associates owned by parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Graanin Liikekeskus Oy	Mikkeli	50.00	50.00
Itäkeskuksen Pysäköintitalo Oy	Helsinki	44.49	44.49
Kiinteistö Oy Janakkalan Linnatuuli	Janakkala	29.86	29.86
Kiinteistö Oy Itäaukio	Lahti	26.20	26.20
Kiinteistö Oy Joensuun Kaupunginportti	Joensuu	22.77	22.77
Kiinteistö Oy Keravanportti	Espoo	49.33	49.33
Kiinteistö Oy Lentokentän Palvelutalo	Vantaa	32.59	32.59
Kiinteistö Oy Mellunmäen Liike- Ja Toimintakeskus	Helsinki	23.42	23.42
Kiinteistö Oy Rauman Viaporinaukio 3:n Vsuoja	Rauma	43.80	43.80
Kiinteistö Oy Ulvilan Hansa	Ulvila	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa	27.87	27.87
Levin Aquahovi Kiinteistöt Oy	Kittilä	25.00	25.00
Mukkulan Ostoskeskus Oy	Lahti	35.76	35.76
Raksilan Paikoitus Oy	Oulu	33.33	33.33
Valluga-sijoitus Oy	Helsinki	39.00	39.00
Vähittäiskaupan Takaus Oy	Helsinki	34.35	34.35
Vähittäiskaupan Tilipalvelu Vtp Oy	Helsinki	30.00	30.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Adidas Suomi Oy	Helsinki	50.00	
Helsingin Reunahiomo Hrh Oy	Helsinki	50.00	
Kajaanin Pienteollisuustalo Oy	Kajaani	34.00	
Kiinteistö Oy Meri-pietari	Helsinki	23.12	
Kiinteistö Oy Lahden Teollisuuskeskus	Lahti	48.32	
Nordic Optical Partners A/s	Albertslund, Denmark	33.30	
Tampereen Silmälaboratorio Oy	Tampere	33.30	

Parent's financial statement (FAS)

Parent's income statement

	1.1.–31.12.2006	1.1.–31.12.2005
Net sales	**16,407,204.37**	**16,316,866.10**
Other operating income	487,660,165.50	351,211,845.14
Materials and services	2,604.22	3,539.11
Personnel expenses	-11,863,486.34	-11,647,292.50
Depreciation and value adjustments	-28,537,648.47	-26,701,963.45
Other operating expenses	-232,033,609.10	-274,977,684.00
Operating profit	**231,635,230.18**	**54,205,310.40**
Financial income and expenses	10,565,408.15	1,376,054.38
Profit before extraordinary items	**242,200,638.33**	**55,581,364.78**
Extraordinary items	129,673,784.00	104,024,000.00
Profit before appropriations and taxes	**371,874,422.33**	**159,605,364.78**
Appropriations	21,708,520.51	11,420,442.60
Profit before taxes	**393,582,942.84**	**171,025,807.38**
Income tax	-86,558,154.41	-41,983,270.99
Net profit	**307,024,788.43**	**129,042,536.39**

Parent's balance sheet

	31.12.2006	31.12.2005
ASSETS		
Non-current assets		
Intangible assets		
Other capitalised expenditure	10,391,131.28	13,789,999.57
Advance payments and construction in progress	2,158,578.08	410,533.98
	12,549,709.36	14,200,533.55
Tangible assets		
Land and water	114,513,468.94	121,525,733.80
Buildings	337,721,596.03	388,278,609.29
Machinery and equipment	6,776,859.81	10,652,241.70
Other tangible assets	7,114,024.62	9,504,761.39
Advance payments and construction in progress	5,190,383.18	1,529,693.37
	471,316,332.58	531,491,039.55
Investments		
Holdings in Group companies	387,830,032.45	663,880,984.01
Holdings in participating interests	19,991,322.33	29,403,144.91
Other shares and similar rights of ownership	16,252,345.69	17,199,121.56
	424,073,700.47	710,483,250.48
Current assets		
Receivables		
Long-term		
Receivables from Group companies	354,337,563.67	307,514,024.60
Receivables from participating interests	891,396.01	1,384,378.68
	355,228,959.68	308,898,403.28
Short-term		
Trade receivables	2,147,110.34	2,007,640.24
Receivables from Group companies	506,759,172.25	438,199,739.42
Receivables from participating interests	5,223,736.22	7,104,818.61
Loan receivables	–	3,061,603.30
Other receivables	228,676.87	241,072.13
Prepayments and accrued income	4,404,912.45	2,366,471.36
	518,763,608.13	452,981,345.06
Marketable securities		
Other marketable securities	341,094,016.95	38,274,841.39
Cash on hand and at bank	3,720,533.88	8,493,181.52
Total assets	**2,126,746,861.05**	**2,064,822,594.83**

	31.12.2006	31.12.2005
LIABILITIES		
Shareholders' equity		
Share capital	195,039,850.00	192,967,852.00
Share issue	–	732,607.00
Share premium account	187,934,757.64	182,896,184.61
Revaluation reserve	–	283,487.25
Other reserves	243,415,795.55	243,415,795.55
Retained earnings	332,837,613.94	310,579,671.15
Profit for the financial year	307,024,788.43	129,042,536.39
	1,266,252,805.56	1,059,918,133.95
Appropriations		
Depreciation reserve	163,483,041.89	180,968,938.20
Provisions		
Other provisions	8,344,307.01	8,932,367.00
Liabilities		
Non-current		
Private placement bonds	100,418,410.04	100,418,410.04
Loans from financial institutions	24,277,737.31	113,501,626.36
	124,696,147.35	213,920,036.40
Current		
Loans from financial institutions	9,262,482.96	10,900,000.00
Advances received	37,620.93	208,014.98
Trade payables	3,089,163.71	1,851,523.32
Debt to Group companies	454,373,029.20	471,048,143.08
Debt to participating interests	36,434,382.97	32,260,923.32
Other debt	40,089,385.17	73,888,751.88
Accruals and deferred income	20,684,494.30	10,925,762.70
	563,970,559.24	601,083,119.28
Total liabilities	**2,126,746,861.05**	**2,064,822,594.83**

Parent's cash flow statement

	1.1.–31.12.2006	1.1.–31.12.2005
Cash flow from operating activities		
Profit before extraordinary items	242,200,638.33	55,581,364.78
Adjustments:		
Depreciation according to plan	28,535,592.36	26,219,513.37
Financial income and expenses	-10,565,408.15	-1,376,054.38
Other adjustments	-212,876,837.42	-42,055,764.29
	47,293,985.12	**38,369,059.48**
Change in working capital		
Interest-free short-term trade receivables, increase/decrease (-/+)	7,400,219.61	5,971,147.67
Interest-free short-term debt, increase/decrease (+/-)	5,122,390.29	-6,568,421.76
	12,522,609.90	-597,274.09
Interests paid	-31,016,632.50	-24,665,444.64
Interests received	33,637,541.04	20,644,565.97
Dividends received	6,787,979.43	6,346,241.72
Taxes paid	-86,195,918.27	-52,267,114.45
	-76,787,030.30	-49,941,751.40
Cash flow from operating activities	**-16,970,435.28**	**-12,169,966.01**
Cash flow from investing activities		
Subsidiary acquired	-6,531,336.11	-124,739.03
Associated company acquired	-9,920.00	-815,575.04
Purchases of other investments	-13,141.67	
Investments in tangible and intangible assets	-22,414,792.11	-39,505,876.54
Loans granted	-46,330,556.40	
Repayment of loan receivables	0.00	29,206,935.86
Subsidiary disposed	12,479,707.53	16,916,625.80
Associated company disposed	22,435,185.39	2,420,797.00
Proceeds from other investments	5,471,442.91	766,509.25
Proceeds from sale of tangible and intangible assets	145,576,472.97	74,399,828.70
Cash flow from investing activities	**110,663,062.51**	**83,264,506.00**
Cash flow from financing activities		
Raising of short-term loans	196,112,983.89	96,470,743.84
Repayment of short-term loans		0.00
Raising of long-term loans	-89,223,889.05	20,437,276.17
Increase/decrease (-/+) of short-term receivables	-67,402,825.34	-262,962,623.91
Dividends paid	-106,484,593.60	-95,168,792.00
Group contributions received and paid	129,673,784.00	104,024,000.00
Increase in share capital	6,377,964.03	10,048,887.74
Others	-5,381,209.81	217,447.95
Cash flow from financing activities	**63,672,214.12**	**-126,933,060.21**
Change in liquid funds	**157,364,841.35**	**-55,838,520.22**
Liquid funds at 1 January	**46,768,022.91**	**102,606,543.13**
Liquid funds at 31 December	**204,132,864.26**	**46,768,022.91**

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

Currency derivative instruments are used for hedging against translation and transaction risks. Forward exchange contracts are valued at the exchange rate of the balance sheet date. The rate differences arising from open derivative contracts are reported in 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. The premiums of option contracts are included in the balance sheet accruals until they expire, or if a value change at the balance sheet date so requires, recognition in profit or loss.

Commodity derivatives

Kestra Kiinteistöpalvelut Oy, a Kesko Corporation subsidiary, uses electricity derivatives to balance the energy costs of the Group and its retailers. Kesko's subsidiaries engaged in the agricultural trade use grain derivatives to hedge against the grain price risk. Kesko Corporation is an external counterparty in electricity and grain derivative contracts made with the bank, and internally hedges the corresponding price with the subsidiary. At no stage does Kesko Corporation have derivative positions, and thus there are no effects on profit or loss. The electricity price risk is reviewed on a 3-year time span. With respect to derivative contracts hedging the price of electricity supplied during the financial year, changes in value are recognised in Kesko under interest income and expenses. The unrealised gains and losses of contracts hedging future purchases are not recognised through profit or loss. With respect to grain derivative contracts, the open contracts in the income statement are recognised at market prices. Valuation differences related to open contracts are recognised in Kesko under financial items.

Pension plans

The pension insurances of Kesko Corporation's personnel are arranged through the Kesko Pension Fund. 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

€ million	2006	2005
1. Other operating income		
Profits on sales of real estate and shares	95.5	44.3
Rent income	271.9	306.6
Merger profit	120.0	–
Others	0.3	0.3
Total	487.7	351.2
2. Average number of personnel		
Kesko Corporation	179	179
Total	179	179
3. Personnel expenses		
Salaries and fees	9.9	10.0
Social security expenses		
Pension expenses	1.0	1.3
Other social security expenses	1.0	0.3
Total	11.9	11.6
Salaries and fees to the management		
Managing Director and his deputy	0.6	0.8
Board of Directors' members	0.3	0.2
Total	0.9	1.0

An analysis of the management's salaries and fees is included in the notes to the consolidated financial statements.

€ million	2006	2005
4. Depreciation and value adjustments		
Depreciation according to plan	28.5	26.2
Value adjustments, non-current assets	0.0	0.5
Total	28.5	26.7
5. Other operating expenses		
Rent expenses	194.2	226.2
Marketing expenses	0.7	1.6
Maintenance of real estate and store sites	15.6	21.1
Data communications expenses	10.0	9.6
Losses on sales of real estate and shares	3.3	6.2
Other operating expenses	8.2	10.3
Total	232.0	275.0
6. Financial income and expenses		
Dividend income		
From Group companies	2.6	3.1
From participating interests	1.5	1.1
From others	2.7	2.1
Dividend income, total	6.8	6.3
Other interest and financial income		
From Group companies	32.4	19.6
From others	12.8	8.0
Interest income, total	45.2	27.6
Interest and other financial expenses		
To Group companies	-21.7	-12.9
To others	-19.7	-19.6
Interest expenses, total	-41.4	-32.5
Total	10.6	1.4

€ million	2006	2005
7. Items included in extraordinary income and expenses		
Contributions from Group companies	161.0	129.4
Contributions to Group companies	-31.3	-25.4
Total	129.7	104.0
8. Appropriations		
Difference between depreciation according to plan and depreciation in taxation	21.7	11.4
Total	21.7	11.4
9. Changes in provisions		
Future rent expenses for vacant business premises	-0.8	-3.0
Other changes	0.2	-1.3
Total	-0.6	-4.3
10. Income taxes and deferred taxes		
Income taxes on extraordinary items	-33.7	-27.1
Income taxes on operating activities	-52.8	-14.9
Total	-86.5	-42.0

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

€ million	2006	2005
11. Other capitalised expenditure		
Acquisition cost at 1 January	41.8	40.8
Increases	0.8	0.9
Decreases	-3.1	-1.5
Transfers between items	0.2	1.6
Acquisition cost at 31 December	39.7	41.8
Accumulated depreciation at 1 January	28.0	25.7
Accumulated depreciation on decreases and transfers	-1.8	-1.2
Depreciation for the financial year	3.1	3.5
Accumulated depreciation at 31 December	29.3	28.0
Book value at 31 December	10.4	13.8
Advance payments		
Acquisition cost at 1 January	0.4	2.0
Increases	2.9	–
Decreases	-1.0	-0.8
Transfers between items	-0.2	-0.8
Acquisition cost at 31 December	2.1	0.4
Book value at 31 December	2.1	0.4

€ million	2006	2005
12. Tangible assets		
Land and water		
Acquisition cost at 1 January	121.5	124.7
Increases	10.7	2.5
Decreases	-17.7	-6.3
Transfers between items	–	0.6
Acquisition cost at 31 December	114.5	121.5
Revaluation	–	0.0
Book value at 31 December	114.5	121.5
Buildings		
Acquisition cost at 1 January	564.4	572.9
Increases	24.5	32.2
Decreases	-85.4	-48.7
Transfers between items	0.4	8.0
Acquisition cost at 31 December	503.9	564.4
Accumulated depreciation at 1 January	176.1	181.3
Accumulated depreciation on decreases and transfers	-32.0	-23.9
Depreciation for the financial year	22.1	18.7
Accumulated depreciation at 31 December	166.2	176.1
Revaluation	–	–
Book value at 31 December	337.7	388.3
Machinery and equipment		
Acquisition cost at 1 January	29.2	27.4
Increases	1.1	3.4
Decreases	-5.2	-2.1
Transfers between items	0.0	0.5
Acquisition cost at 31 December	25.1	29.2
Accumulated depreciation at 1 January	18.6	17.2
Accumulated depreciation on decreases and transfers	-2.5	-1.6
Depreciation for the financial year	2.2	3.0
Accumulated depreciation at 31 December	18.3	18.6
Book value at 31 December	6.8	10.6
Other tangible assets		
Acquisition cost at 1 January	14.9	12.4
Increases	0.5	2.5
Decreases	-2.9	-0.4
Transfers between items	0.0	0.4
Acquisition cost at 31 December	12.5	14.9
Accumulated depreciation at 1 January	5.4	4.6
Accumulated depreciation on decreases and transfers	-1.0	-0.2
Depreciation for the financial year	1.0	1.0
Accumulated depreciation at 31 December	5.4	5.4
Book value at 31 December	7.1	9.5

€ million	2006	2005
Advance payments and construction in progress		
Acquisition cost at 1 January	1.5	13.2
Increases	4.1	0.0
Decreases	–	-1.3
Transfers between items	-0.4	-10.4
Acquisition cost at 31 December	5.2	1.5
Book value at 31 December	5.2	1.5
Revaluation of non-current assets		
Land and water	–	0.0
Shares and similar rights of ownership	–	0.3
	–	0.3

At the end of the period, Kesko Corporation's balance sheet did not contain revaluations. The balance sheet of the comparative year contained revaluations of land and shares.

€ million	2006	2005
13. Investments		
Holdings in Group companies		
Acquisition cost at 1 January	731.3	752.3
Increases	8.0	4.7
Decreases	-351.3	-25.7
Acquisition cost at 31 December	388.0	731.3
Accumulated depreciation at 1 January	67.4	67.3
Value adjustments	-67.2	0.1
Accumulated depreciation at 31 December	0.2	67.4
Book value at 31 December	387.8	663.9
Holdings in participating interests		
Acquisition cost at 1 January	29.3	29.5
Increases	0.2	0.9
Decreases	-9.5	-1.1
Acquisition cost at 31 December	20.0	29.3
Revaluations	–	0.1
Book value at 31 December	20.0	29.4
Other shares and similar rights of ownership		
Acquisition cost at 1 January	17.0	18.0
Increases	1.0	–
Decreases	-1.8	-1.0
Acquisition cost at 31 December	16.2	17.0
Accumulated depreciation on decreases and transfers	–	0.3
Value adjustments	–	-0.3
Accumulated depreciation at 31 December	–	0.0
Revaluation	–	0.2
Book value at 31 December	16.2	17.2

Kesko Corporation's ownership interests in other companies as at 31 December 2006 are presented in the notes to the consolidated financial statements.

During the period, Hämeenkylän Kauppa Oy, a subsidiary wholly-owned by Kesko Corporation, was merged into Kesko Corporation. Among subsidiaries directly owned by Kesko Corporation, other changes took place in real estate companies only. As a result of the merger of Hämeenkylän Kauppa Oy, Kesko Corporation became the direct owner of three real estate companies. A total of ten real estate companies were sold outside the Group.

€ million	2006	2005
14. Receivables		
Receivables from Group companies		
Long-term		
Loan receivables	343.6	305.8
Subordinated loans	10.7	1.7
Long-term receivables, total	354.3	307.5
Short-term		
Trade receivables	4.1	8.0
Loan receivables	501.3	429.0
Other receivables	0.0	-
Prepayments and accrued income	1.4	1.2
Short-term receivables, total	506.8	438.2
Total	861.1	745.7
Receivables from participating interests		
Long-term		
Loan receivables	0.9	1.4
Short-term		
Trade receivables	0.1	0.2
Loan receivables	5.1	6.9
Short-term receivables, total	5.2	7.1
Total	6.1	8.5
Prepayments and accrued income		
Taxes	1.2	-
Others	3.2	2.4
Total	4.4	2.4
15. Shareholders' equity		
Share capital at 1 January	193.0	187.7
Subscriptions with options	2.0	5.3
Share capital at 31 December	195.0	193.0
Share issue, exercise of options at 1 January	0.7	11.3
Increase	6.3	10.1
Transfer to share capital	-2.0	-5.3
Transfer to share premium account	-5.0	-15.4
Share issue, exercise of options at 31 December	0.0	0.7
Share premium account at 1 January	182.9	167.5
Subscriptions with options	5.0	15.4
Share premium account at 31 December	187.9	182.9
Revaluation reserve at 1 January	0.3	0.3
Change in revaluation reserve	-0.3	0.0
Revaluation reserve at 31 December	0.0	0.3

€ million	2006	2005
Other reserves at 1 January	243.4	243.4
Other reserves at 31 December	243.4	243.4
Retained earnings at 1 January	439.6	406.0
Distribution of dividends	-106.5	-95.1
Transfer to donations	-0.3	-0.3
Retained earnings at 31 December	332.8	310.6
Profit for the financial year	307.0	129.0
Shareholders' equity, total	1,266.3	1,059.9

Increase in share capital

In 2006, the share capital was increased seven times as a result of share subscriptions pursuant to share options: by €640,500 in February, by €938,058 in May, by €59,200 in June, by €118,000 in August, by €94,800 in October, by €157,200 in November and by €64,240 in December. The corresponding numbers of shares subscribed for were 320,250; 469,029; 29,600; 59,000; 47,400; 78,600 and 32,120. The increases were entered in the Trade Register respectively on 13 February, 4 May, 9 June, 7 August, 3 October, 1 November and 21 December 2006.

Distributable reserves		
Other reserves	243.4	243.4
Retained earnings	332.8	310.6
Profit for the financial year	307.0	129.0
Total	883.3	683.0

Breakdown of parent company's share capital

	pcs	counter value, €	€ million
A shares	31,737,007	2	63.5
B shares	65,782,918	2	131.6
Total	97,519,925		195.0

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 entitled the holder to subscribe for one new Kesko Corporation B share. The exercise period of B and C options ended on 31 March 2006.

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 the holder to subscribe for one new Kesko Corporation B share. The options are marked with symbols 2003D (KESBVEW103), 2003E (KESBVEW203) and 2003F (KESBVEW303) in units of 600,000 options each.

Share of granted options of share capital and votes

Presuming that shares are subscribed for with all of the 1,800,000 options granted under the year 2003 plan, the shares subscribed for with options account for 1.82% of share capital and 0.74% 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.

€ million	2006	2005
16. Appropriations		
Depreciation reserve	163.5	181.0
Total	163.5	181.0
17. Provisions		
Future rent expenses for vacant business premises	8.2	8.9
Other provisions	0.1	–
Total	8.3	8.9
18. Non-current liabilities		
Debt falling due later than within five years		
Private placement bonds	100.4	100.4
Loans from financial institutions	24.3	100.0
Total	124.7	200.4

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 €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	1.7	0.2
Other debt	451.2	469.6
Accruals and deferred income	1.5	1.2
Total	454.4	471.0
Debt to participating interests		
Trade payables	0.0	0.2
Other debt	36.4	32.0
Accruals and deferred income	0.0	0.0
Total	36.4	32.2
Accruals and deferred income		
Personnel expenses	2.5	2.4
Taxes	13.5	4.4
Others	4.7	4.1
Total	20.7	10.9
20. Interest-free debt		
Short-term liabilities	29.5	16.6
Total	29.5	16.6

Other notes

€ million	2006	2005
21. Securities given and contingent liabilities		
Debt for the security of which mortgages have been given		
Other short-term debt	0.8	0.2
Mortgages given	6.0	6.0
Debt for the security of which shares have been given		
Other short-term debt	1.7	1.0
Pledged shares	13.5	13.5
Other contingent liabilities		
Real estate mortgages		
For own debt	1	1
For Group companies	10	10
Guarantees		
For Group companies	184	224
For shareholders	1	1
For others	1	2
Other contingent liabilities		
For own debt	37	53
Leasing liabilities		
Falling due within a year	0	0
Falling due later	1	1

Liabilities arising from derivative instruments

€ million	2006	fair value	2005	fair value
Value of underlying instruments at 31 Dec.				
Interest rate derivatives				
Forward and future contracts	26	-0.2	100	0.1
Interest rate swaps	204	-1.8	209	-5.4
Currency derivatives				
Forward and future contracts	272	0.1	173	-0.6
Option agreements				
Bought	–	–	4	0.0
Written	–	–	6	0.0
Currency swaps	100	-9.3	100	1.3
Commodity derivatives				
Electricity derivatives	38	1.0	46	0.0
Grain derivatives	1	0.0	–	–

Signatures

Helsinki, 6 February 2007

Heikki Takamäki   Keijo Suila

Pentti Kalliala   Ilpo Kokkila   Maarit Näkyvä

Seppo Paatelainen   Jukka Säilä   Matti Halmesmäki
Managing Director

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 January - 31 December 2006. The Board of Directors and the Managing Director have prepared the report of the Board of Directors and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the parent company's financial statements 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, annual report and the administration of the parent company.

We have conducted the audit in accordance with good auditing practice, which requires that we perform an audit of the accounting records, the accounting and annual report policies, their contents and disclosure in order to obtain reasonable assurance that the financial statements and the Annual Report are free of material misstatement. The audit of administration was conducted to verify that the operations of the members of the parent company's Board of Directors and the Managing Director are in compliance with the rules of the Companies' Act.

Consolidated financial statements
The consolidated financial statements, prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the EU, give a true and fair view as referred to in the IFRS standards and the Finnish Accounting Standards, of financial performance and financial position.

Parent's financial statements, annual report and administration
The parent company's financial statements have been prepared in accordance with the Finnish Accounting Standards and other rules and regulations governing the preparation of financial statements and give a true and fair view of the parent company's financial performance and financial position. The annual report has been prepared in accordance with the Finnish Accounting Standards and other rules and regulations governing its preparation. The annual report is in conformity with the financial statements and gives a true and fair view of the parent company's financial performance and financial position as referred to in the Finnish Accounting Standards.

The consolidated financial statements and the parent's financial statements can be adopted and the members of the parent company's Board of Directors and the Managing Director can be discharged from liability for the period audited by us. The proposal by the Board of Directors concerning distributable funds is in compliance with the Companies' Act.

Helsinki, 8 February 2007

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pekka Nikula
Authorised Public Accountant

Shares and shareholders

Dividend policy
Kesko Corporation distributes 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 2006
Kesko Corporation's Board of Directors proposes to the Annual General Meeting that €146,314,669.50, or €1.50 per share, be distributed as dividends from the net profit for the year 2006, representing 40.0% of earnings per share. During the past five years, 103.9% of earnings per share, on the average, have been distributed as dividends

Basic information on the shares at 31 December 2006

A share
- shortname: KESAV (OMX)
- ISIN code: FI0009007900
- voting rights per share: 10 votes
- number of shares: 31,737,007
- market value: €1,219 million

B share
- shortname: KESBV (OMX)
- ISIN code: FI0009000202
- voting rights per share: 1 vote
- number of shares: 65,782,918
- market value: €2,632 million

Trading unit of both share series: 1 share
Total share capital: €195,039,850
Total number of shares: 97,519,925
Voting rights carried by all shares: 383,152,988
Market capitalisation: €3,852 million

Share series and share capital
Kesko Corporation's share capital is divided into A shares and B shares. On 31 December 2006, the company's share capital was €195,039,850.

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 2006, the total number of shares was 97,519,925, of which 31,737,007 (32.5%) were A shares and 65,782,918 (67.5%) were B shares.

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 2006, the number of votes entitled by A shares was 83% and the number of votes entitled by B shares was 17% of the total voting rights.

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

The share-based right to receive funds distributed by the company and to receive shares or similar rights belongs to those who hold the shares on the date of fund distribution, share issue or a record date set in any other resolution.

Authorisations of the Board of Directors and treasury shares
In 2006, the Board of Directors had no authorisation to increase the share capital, to issue shares, or to acquire or assign treasury shares. Kesko Corporation or any of its subsidiaries held no Kesko Corporation shares.

Shareholders
According to the register of Kesko's shareholders kept by the Finnish Central Securities Depository Ltd, there were 28,414 shareholders at the end of 2006 (29,339 at the end of 2005). The total number of shares registered in a nominee name was 32,535,936, accounting for 33.36% of the share capital (26,049,438 and 27.0% respectively at the end of 2005). The number of votes entitled by these shares was 33,299,883, or 8.7% of the total voting rights (26,816,958 or 7.0% respectively at the end of 2005). A list of Kesko's largest shareholders, updated monthly, is available at www.kesko.fi/Investors.

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 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 share options form a part of the incentive and commitment programme for the management. The scheme comprises approximately 60 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 (€9.63), for share option 2003E the corresponding price between 1 to 30 April 2004 (€15.19) and for share option 2003F, the corresponding price between 1 to 30 April 2005 (€19.08). From the share subscription price of share options shall, as per the dividend record date, be deducted the amount of the dividend decided after the beginning of the period for determination of the subscription price but before share subscription.

At the end of 2006, the subscription price of a B share subscribed for with share option 2003D was €4.53, with share option 2003E €12.09 and with share option 2003F €17.98. The share subscription period for share option 2003D began on 1 April 2005, for share option 2003E on 1 April 2006, and will begin for share option 2003F on 1 April 2007. Dividend rights and other shareholder rights of the shares subscribed for with options shall take effect when the share capital increase has been entered in the Trade Register.

Under this share option scheme a total of 1,800,000 B shares can be subscribed for and the company's share capital may be increased by a maximum of €3,600,000 as a result of the subscriptions. The shares subscribed for under the scheme account for 1.82% of the share capital and 0.5% for all votes, presuming that all issued options are exercised. As a result of the subscriptions made with share options, the number of company shares may be increased to 98,738,705, which corresponds to a share capital of €197,477,410. As a result of the subscriptions, the aggregate number of votes may be increased to 384,371,768.

The 2003D share options were listed on the Helsinki Stock Exchange on 1 April 2005 and the 2003E share options on 1 April 2006.

Year 2000 share option scheme

Until the end of March 2006, Kesko Corporation operated the year 2000 option scheme for the top and middle management approved by the Annual General Meeting of 10 April 2000. There were two classes of share options, B options and C options. There were 3,825,000 B options and 2,015,000 C options issued, i.e. a total of 5,840,000 share options. Each option entitled the holder to subscribe for one new Kesko B share until 31 March 2006. The options were listed on the main list of the Helsinki Stock Exchange. When the option scheme was announced, it comprised nearly 600 people.

Subscriptions for shares with options

In 2006, the share capital was raised seven times corresponding to share subscriptions made with options: in February (13 Feb.) by €640,500 (320,250 shares), in May (4 May) by €938,058 (469,029 shares), in June (9 Jun.) by €59,200 (29,600 shares), in August (7 Aug.) by €118,000 (59,000 shares), in October (3 Oct.) by €94,800 (47,400 shares), in November (1 Nov.) by €157,200 (78,600 shares) and in December (21 Dec.) by €64,240 (32,120 shares), or by €2,071,998 (1,035,999 shares) in aggregate.

By the end of the subscription period on 31 March 2006, a total of 416,119 B shares were subscribed for with the year 2000 B options and a total of 234,060 B shares with C options, or 650,179 in aggregate.

By 7 December 2006, 250,900 B shares had been subscribed for with 2000D options and correspondingly 134,920 B shares with 2003E options, i.e. a total of 385,820 B shares. The subscribed shares have been included in the main list of the Helsinki Stock Exchange for public trading. The subscription period with 2003F share options will begin on 1 April 2007.

Other special shareholding rights

The company has not issued other share options, convertible bonds, bonds with warrants or other special rights to company shares.

Shares and share options held by the management

At the end of 2006, the members of Kesko Corporation's Board of Directors, the Managing Director and the Deputy Managing Director and the corporations under their control, held 197,030 Kesko A shares (551,790 at the end of 2005) and 170,520 Kesko B shares (155,530), i.e. a total of 367,550 (707,320) shares which represented 0.38% (0.73%) of the company's total share capital and 0.56% (1.48%) of its voting rights.

At the end of 2006, the company's Managing Director and Deputy Managing Director held a total of 73,000 Kesko share options (115,500 at the end of 2005), which represented 0.07% (0.12%) of the company's total share capital and 0.02% (0.03%) of voting rights, presuming that shares have been subscribed for with all of these options. No Board members held share options at the end of the year 2006 (nor at the end of 2005).

Detailed information on shares and share options held by the management at the beginning and at the end of 2006 is given on pages 64-65.

Trading in Kesko's shares and share options in 2006

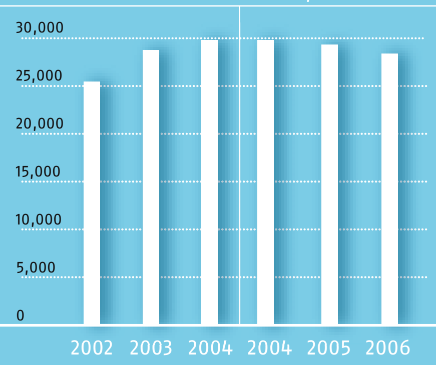
Kesko Corporation's shares are listed on the OMX Helsinki Stock Exchange. Key information about share trading in 2006 is given in the tables and graphs on this double page spread. The price performance of both shares clearly exceeded the Helsinki Stock Exchange index development: during the year, the A share price rose by 59% and the B share price by 67%. The number of B shares traded increased by 15% compared with the previous year. At the end of the year, the market value of A shares was €1,219 million and that of B shares €2,632 million. The total market capitalisation of the company was €3,851 million, an increase of €1,533 million during the year.

Flagging notifications

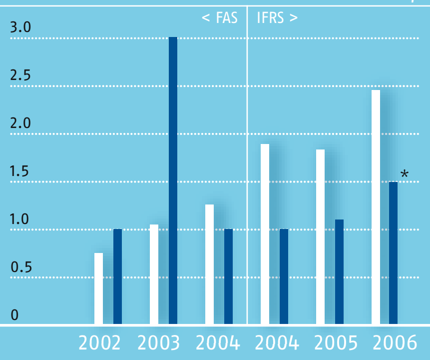
Kesko Corporation did not receive any flagging notifications during 2006. The company has not been informed of any agreements relating to its share ownership or the exercising of its voting rights.

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

NUMBER OF KESKO SHAREHOLDERS , at 31 Dec.



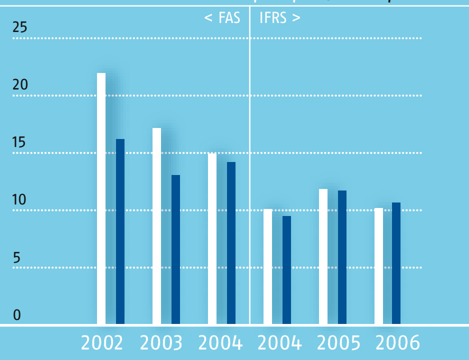
EARNINGS PER SHARE AND DIVIDEND PER SHARE, €



EARNINGS PER SHARE, DILUTED · DIVIDEND PER SHARE

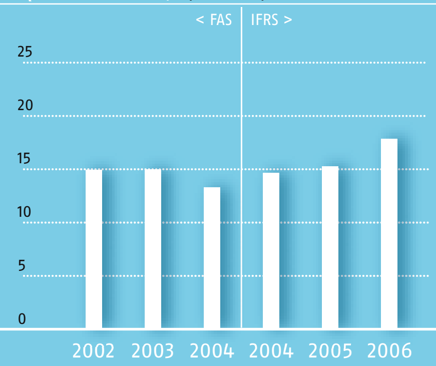
* proposal to the Annual General Meeting

SHARE PRICES PER EARNINGS, P/E, at 31 Dec., diluted

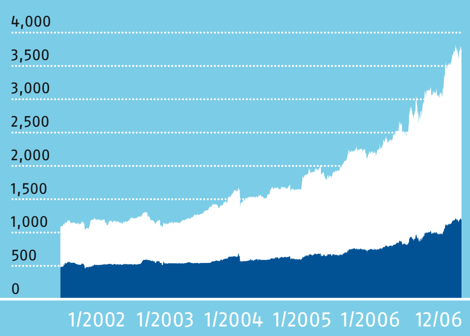


A share · B share

EQUITY PER SHARE, €, 31 Dec., diluted

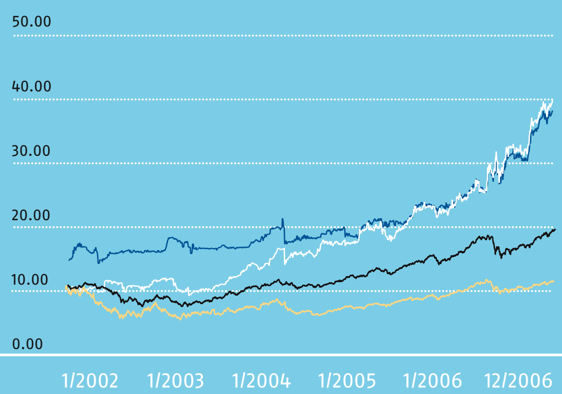


MARKET VALUES OF KESKO SHARES, € million



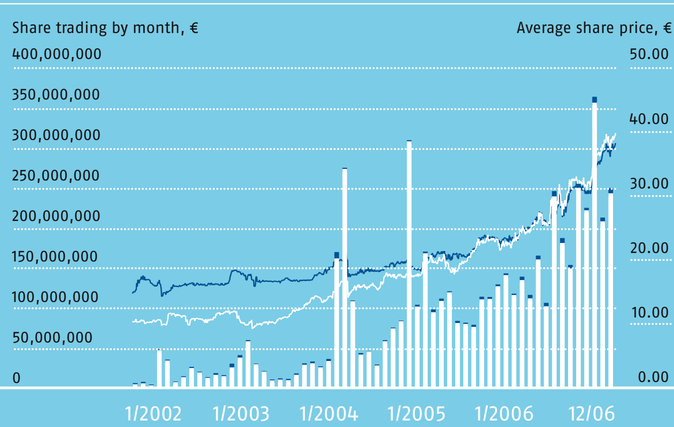
A share · B share

PRICE TRENDS OF KESKO SHARES, €



Kesko A · OMX Helsinki CAP
Kesko B · OMX Helsinki

TRADING OF KESKO SHARES



Kesko A, trading · Kesko A, average price
Kesko B, trading · Kesko B, average price

Prices and trading of Kesko's A and B shares on the Helsinki Stock Exchange in 2006

Share	Share price, € 31 Dec. 2005	Share price, € 31 Dec. 2006	Change, %	Lowest price, €	Highest price, €	Trading volume, 1,000 pcs	Total value, € million
A share	24.19	38.43	58.9	23.72	38.99	2,044	61.6
B share	23.95	40.02	67.1	23.80	40.48	77,046	2,409.7

During the year, OMXHelsinki All Share Index rose by 17.9%, OMXHelsinkiCAP Index by 25.2% and the Helsinki Stock Exchange Consumer Staples Index by 49.5%.

Latest changes in share capital

Year	Registration date	Subscription terms	Change	New share capital
2002	21 May 2002	S 1 for 1 at €10.01	€1,814,000	€182,240,800
2003	19 Dec. 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 Feb. 2004	S 1 for 1 at €10.11 C share option	€48,600	€182,429,600
2004	4 May 2004	S 1 for 1 at €9.87 B share option S 1 for 1 at €8.11C share option	€1,072,380	€183,501,980
2004	4 Aug. 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 Dec. 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 Feb. 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 May 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 Jun. 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 Aug. 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 Sep. 2005	S 1 for 1 at €7.87 B share option	€588,700	€192,547,950
2005	2 Nov. 2005	S 1 for 1 at €6.11 C share option S 1 for 1 at €5.63 D share option 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 Dec. 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 Feb. 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
2006	4 May 2006	S 1 for 1 at €7.87 B share option S 1 for 1 at €6.77 B share option S 1 for 1 at €6.11 C share option S 1 for 1 at €5.01 C share option S 1 for 1 at €4.53 D share option	€938,058	€194,546,410
2006	9 Jun. 2006	S 1 for 1 at €4.53 D share option S 1 for 1 at €12.09 E share option	€59,200	€194,605,610
2006	7 Aug. 2006	S 1 for 1 at €4.53 D share option S 1 for 1 at €12.09 E share option	€118,000	€194,723,610
2006	3 Oct. 2006	S 1 for 1 at €4.53 D share option S 1 for 1 at €12.09 E share option	€94,800	€194,818,410
2006	1 Nov. 2006	S 1 for 1 at €4.53 D share option S 1 for 1 at €12.09 E share option	€157,200	€194,975,610
2006	21 Dec. 2006	S 1 for 1 at €4.53 D share option S 1 for 1 at €12.09 E share option	€64,240	€195,039,850

S=subscription with share options

10 largest shareholders by number of shares (A and B series) at 31 Dec. 2006

	Number of shares, pcs	% of shares	Votes	% of votes
1 Kesko Pension Fund	3,438,885	3.53	34,388,850	8.98
2 K-Retailers' Association	3,159,039	3.24	31,222,740	8.15
3 Vähittäiskaupan Takaus Oy	2,628,533	2.70	26,285,330	6.86
4 Valluga-Sijoitus Oy	1,340,439	1.37	13,404,390	3.50
5 Oy The English Tearoom Ab	1,008,400	1.03	1,008,400	0.26
6 Varma Mutual Pension Insurance Company	939,353	0.96	939,353	0.25
7 Foundation for Vocational Training in the Retail Trade	893,695	0.92	7,241,143	1.89
8 Ilmarinen Mutual Pension Insurance Company	485,090	0.50	800,090	0.21
9 Tapiola Mutual Pension Insurance Company	464,500	0.48	464,500	0.12
10 Government Pension Fund	450,000	0.46	450,000	0.12
10 largest shareholders, total	**14,807,934**	**15.19**	**116,204,796**	**30.34**

Breakdown of share ownership by shareholder category at 31 Dec. 2006

All shares	Number of shares, pcs	% of all shares
Non-financial corporations and housing corporations	23,866,021	24.47
Financial and insurance corporations	2,745,603	2.82
General Government*	6,817,349	6.99
Households	25,774,138	26.43
Non-profit institutions serving households**	5,604,239	5.75
Rest of the world	176,639	0.18
Nominee registered	32,535,936	33.36
Total	**97,519,925**	**10**

A shares	Number of shares, pcs	% of A shares	% of all shares
Non-financial corporations and housing corporations	18,594,543	58.59	19.07
Financial and insurance corporations	1,353,699	4.27	1.39
General Government*	3,528,875	11.12	3.62
Households	6,799,639	21.42	6.97
Non-profit institutions serving households**	1,371,762	4.32	1.41
Rest of the world	3,606	0.01	0.00
Nominee registered	84,883	0.27	0.09
Total	**31,737,007**	**100**	**32.54**

B shares	Number of shares, pcs	% of B shares	% of all shares
Non-financial corporations and housing corporations	5,271,478	8.01	5.41
Financial and insurance corporations	1,391,904	2.12	1.43
General Government*	3,288,474	5.00	3.37
Households	18,974,499	28.84	19.46
Non-profit institutions serving households**	4,232,477	6.43	4.34
Rest of the world	173,033	0.26	0.18
Nominee registered	32,451,053	49.33	33.28
Total	**65,782,918**	**100**	**67.46**

* 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, charitable associations.

10 largest shareholders by number of votes at 31 Dec. 2006

	Number of shares, pcs	% of shares	Votes	% of votes
1 Kesko Pension Fund	3,438,885	3.53	34,388,850	8.98
2 K-Retailers' Association	3,159,039	3.24	31,222,740	8.15
3 Vähittäiskaupan Takaus Oy	2,628,533	2.70	26,285,330	6.86
4 Valluga-Sijoitus Oy	1,340,439	1.37	13,404,390	3.50
5 Foundation for Vocational Training in the Retail Trade	893,695	0.92	7,241,143	1.89
6 Ruokacity Myyrmäki Oy	383,760	0.39	3,837,600	1.00
7 K-Food Retailers' Club	310,880	0.32	3,108,800	0.81
8 Heimo Välinen Oy	243,300	0.25	2,433,000	0.63
9 Ruokajätti Kalevi Sivonen Oy	237,880	0.24	2,378,800	0.62
10 A. Toivakka Oy	211,450	0.22	1,934,500	0.50
10 largest shareholders, total	**12,847,861**	**13.18**	**126,235,153**	**32.94**

Breakdown of share ownership by number of shares held at 31 Dec. 2006

All shares Number of shares	Number of shareholders	% of share shareholders	Total number of shares	% of shares
1 - 100	6,250	22.00	384,102	0.39
101 - 500	10,466	36.83	2,977,579	3.05
501 - 1,000	4,711	16.58	3,700,679	3.79
1,001 - 5,000	5,319	18.72	12,008,058	12.31
5,001 - 10,000	888	3.13	6,284,954	6.44
10,001 - 50,000	658	2.32	13,379,695	13.72
50,001 - 100,000	75	0.26	5,255,931	5.39
100,001 - 500,000	37	0.13	7,951,359	8.15
500,001 -	10	0.04	45,577,568	46.74
Total	**28,414**	**100.00**	**97,519,925**	**100.00**

A shares Number of shares	Number of shareholders	% of holders of A shares	A shares total	% of A shares
1 - 100	906	17.41	49,961	0.16
101 - 500	1,091	20.97	295,764	0.93
501 - 1,000	792	15.22	662,616	2.09
1,001 - 5,000	1,573	30.23	3,936,574	12.40
5,001 - 10,000	413	7.94	2,882,838	9.08
10,001 - 50,000	370	7.11	7,666,389	24.16
50,001 - 100,000	44	0.85	3,070,355	9.67
100,001 - 500,000	9	0.17	1,941,192	6.12
500,001 -	5	0.10	11,231,318	35.39
Total	**5,203**	**100.00**	**31,737,007**	**100.00**

B shares Number of shares	Number of shareholders	% of holders of B shares	B shares total	% of B shares
1 - 100	6,021	23.89	370,717	0.56
101 - 500	10,119	40.15	2,876,172	4.37
501 - 1,000	4,171	16.55	3,230,523	4.91
1,001 - 5,000	4,054	16.08	8,733,246	13.28
5,001 - 10,000	478	1.90	3,458,390	5.26
10,001 - 50,000	311	1.23	6,343,685	9.64
50,001 - 100,000	29	0.12	2,091,870	3.18
100,001 - 500,000	18	0.07	4,643,343	7.06
500,001 -	5	0.02	34,034,972	51.74
Total	**25,206**	**100.00**	**65,782,918**	**100.00**

Share capital and shares

		2001 FAS	2002 FAS	2003 FAS	2004 FAS	2004 IFRS	2005 IFRS	2006 IFRS
Share capital	€ million	180	182	182	188	188	193	195
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	97,519.9
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	97,519.9
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	98,027.0
of which A shares	%	35	35	35	34	34	33	32
of which B shares	%	65	65	65	66	66	67	68
Market capitalisation, A shares	€ million	476	520	578	600	600	768	1,220
Market capitalisation, B shares	€ million	602	718	825	1,115	1,115	1,551	2,632
Number of shareholders at 31 Dec.	pcs	25,057	25,485	28,761	29,801	29,801	29,339	28,414
Share turnover								
A share	€ million	20	15	22	23	23	29	61
B share	€ million	139	249	349	1,368	1,368	1,383	2,410
Share turnover								
A share	million pcs	1	1	1	1	1	1	2
B share	million pcs	14	23	31	83	83	66	77
Turnover rate								
A share	%	3.9	3.0	4.0	3.8	3.8	4.1	6.4
B share	%	24.3	38.6	51.7	133.6	133.6	101.5	117.1
Change in share turnover								
A share	%	-37.5	-23.3	32.4	-3.5	-3.5	7.6	57.2
B share	%	-6.7	60.3	34.0	158.5	158.5	-24.0	15.4
Share price at 31 Dec.								
A share	€	15.00	16.40	18.20	18.90	18.90	24.19	38.43
B share	€	10.30	12.10	13.88	17.95	17.95	23.95	40.02
Average share price								
A share	€	16.57	16.26	17.46	19.12	19.12	21.93	30.10
B share	€	9.79	10.92	11.38	16.49	16.49	21.04	31.34
Highest share price during the year								
A share	€	20.00	17.70	18.55	21.50	21.50	24.60	38.99
B share	€	11.80	12.28	14.66	18.27	18.27	24.44	40.48
Lowest share price during the year								
A share	€	11.50	14.40	16.00	15.70	15.70	18.61	23.72
B share	€	8.10	9.75	9.35	13.58	13.58	17.80	23.80
Earnings per share, diluted	€	0.60	0.75	1.05	1.26	1.89	1.87	3.76
Earnings per share,basic	€	0.60	0.75	1.06	1.28	1.92	1.89	3.80
Equity per share, diluted	€	14.78	15.02	15.07	13.34	14.73	15.35	17.94
Dividend per share	€	0.60	1.00	3.00	1.00	1.00	1.10	1.50*
Payout ratio	%	98.7	134.4	285.7	79.4	52.9	58.8	40.0*
Cash flow from operating activities								
per share, diluted	€	2.29	1.60	1.80	2.06	2.29	3.07	3.35
Price per earnings ratio (P/E), A share, diluted		24.82	21.96	17.17	14.96	10.12	11.86	10.22
Price per earnings ratio (P/E), B share, diluted		17.04	16.21	13.09	14.21	9.50	11.74	10.64
Dividend yield, %, A share	%	4.0	6.1	11.0	5.3	5.3	4.6	3.80*
Dividend yield, %, B share	%	5.8	8.3	14.4	5.6	5.6	4.6	3.90*
Yield of A share	%	8.6	9.9	11.4	14.3	14.3	16.7	21.4
Yield of B share								
for the last five periods	%	6.1	2.8	8.9	14.7	14.7	25.9	38.9
for the last ten periods	%	11.0	12.8	10.7	13.0	13.0	16.3	19.0

* proposal to the Annual General Meeting

Information for shareholders

Financial reporting calendar and other key dates in 2007

Year 2006 financial statements	6 February 2007
Year 2006 Annual Report and audited financial statements	Week 10
Year 2007 Annual General Meeting	26 March 2007
Interim Financial Report for the first 3 months	20 April 2007
Interim Financial Report for the first 6 months	18 July 2007
Interim Financial Report for the first 9 months	17 October 2007

In addition, the Kesko Group's sales figures are published monthly and the K-Group's retail sales figures are published in connection with Interim Financial 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 26 March 2007 at 13.00 hrs.

All shareholders entered in the register of Kesko Corporation shareholders kept by the Finnish Central Securities Depository Ltd on 16 March 2007 (Annual General Meeting record date) are entitled to attend the Annual General Meeting.

Shareholders wishing to attend the meeting should notify, not later than 19 March 2007 at 16.00 hrs by letter to Kesko Corporation/Legal Affairs to 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 at www.kesko.fi/Investors. The notifications must be received by the end of the registration period. Any proxies authorising the holders to attend the Annual General Meeting shall be sent to the above mailing address by the end of the registration period. Shareholders may use the proxy form at www.kesko.fi/Investors in giving the authorisation.

More information about the Annual General Meeting, attendance and decision-making is given under the heading 'Corporate Governance Statement' on pages 54-61.

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 1.50 per share be paid for 2006. 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 29 March 2007 (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 26 March 2007. 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 5 April 2007.

Financial publications

The Annual Report and Interim Financial Reports are published in Finnish, Swedish and English. No separate printed interim financial 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 Financial 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

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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 the Internet pages in Finnish, Swedish and English.

Kesko publishes its Annual Report as a printed publication in Finnish, Swedish and English. The annual financial statements release and three interim financial reports are also published as part of the TradeMaker stakeholder magazine which is mailed to all shareholders. In addition, the company maintains a mailing list of other persons to whom the Annual Report and the TradeMaker magazine are sent. Those who wish their names to be entered on the mailing list may fill in 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 financial 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, Legal Affairs, 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.

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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, and is a partner in the WorldWide Retail Exchange. The WWRE is a business-to-business web marketplace.
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-Group 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-Group. 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 m^2. 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-Group 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.
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 m^2. 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-Group 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, 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 m^2, 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.
Wholesale trade is purchasing from suppliers in large quantities and then selling to enterprises engaged in the retail trade.

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