KESKO

Kesko's year 2008


KODINYKKÖNEN

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Kesko's year 2008

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Kesko in brief

Kesko is the leading provider of trading sector services and a highly valued listed company. Through its stores, Kesko offers quality to the daily lives of consumers. Kesko has about 2,000 stores engaged in chain operations in the Nordic and Baltic countries, Russia, and Belarus.

Our core competence areas

- Development and management of store concepts and brands
- Development, ownership and management of the store site network
- International retail expertise
- Combining retailer entrepreneurship and chain operations efficiently
- Leveraging centralised resources and economies of scale

Divisions

Kesko Food | Page 16

Kesko Food is engaged in the grocery trade in Finland. The operations of the more than 1,000 K-food stores are based on the K-retailer business model. These stores form Kesko Food's K-citymarket, K-supermarket, K-market and K-extra chains. In grocery wholesaling, Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the Finnish HoReCa business.

Rautakesko | Page 22

Rautakesko is engaged in the building and home improvement trade in Finland, Sweden, Norway, the Baltic countries, Russia, and Belarus. It manages and develops its retail chains K-rauta, Rautia, Byggmakker, Senukai and OMA and also B-to-B sales in its operating area. Rautakesko is responsible for the chains' concepts, marketing, sourcing and logistics services, store network, and for retailer resources in Finland. Rautakesko also acts as a retailer in Sweden, Estonia, Latvia, Lithuania, Belarus and Russia, and in Norway, where retailer entrepreneurs are also active.

VV-Auto | Page 29

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 at its own outlets in the Greater Helsinki area and Turku. VV-Auto's subsidiary Auto-Span Oy imports Seat passenger cars and markets them in Finland, Estonia and Latvia.

Anttila | Page 33

Anttila is the leading home and speciality goods retailer in Finland. Anttila serves its customers at Anttila department stores, Kodin Ykkönen department stores for interior decoration and home goods, and through NetAnttila, which focuses on distance sales. Centralised purchasing and logistics combined with an efficient organisation and operating practices guarantee competitive prices. Anttila's operations are based on a long-term strategy, multi-channel service and competence in strong, selected product areas.

Kesko Agro | Page 35

Kesko Agro's K-maatalous chain purchases and sells agricultural inputs and machinery to agricultural entrepreneurs, and trades in grain. Kesko Agro is active in Finland and the Baltic countries.

Kesko Agro's business operations were reorganised as of the beginning of 2009. The K-maatalous chain and the agricultural trade were transferred to Rautakesko, while the tractor and combine harvester business and the Kesko Agro subsidiaries in the Baltic countries were transferred to Konekesko.

Other operating activities | Page 38

Konekesko

Konekesko is a service company specialising in the import and sales of construction and environmental machinery, trucks and buses, and recreational machinery. Konekesko arranges the manufacture of and sells Yamarin boats in Finland and exports them to several European countries and Russia. Konekesko operates in Finland, the Baltic countries, and Russia.

Sports trade – Intersport Finland

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

Furniture and interior decoration trade – Indoor

Indoor is a retailer of home furniture and interior decoration items, which operates in Finland and the Baltic countries. Its retail chains are Asko and Sotka.

Home technology trade – Musta Pörssi

The Musta Pörssi chain and Konebox.fi online store offer home technology products and services.

Shoe trade – Kenkäkesko

The K-Group's specialist shoe stores are K-kenkä and Andiamo.

In 2009, the Kesko Group's primary reportable segments are the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade.

The food trade comprises the food business based on Kesko Food's K-retailer business model and Kespro's grocery wholesaling. The home and speciality goods trade comprises Anttila, K-citymarket's home and speciality goods trade and the other home and speciality goods companies (Indoor, Intersport Finland, Musta Pörssi and Kenkäkesko).

The building and home improvement trade includes Rautakesko, the K-maatalous chain and the agricultural trade as of the beginning of 2009. The car and machinery trade comprises the operations of VV-Auto and Konekesko.

Vision

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

Values

The values guide our operations:

We exceed our customers' expectations

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

We are the best operator in the trading sector

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

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.

KESKO

Quality service through these brands:

K CITYMARKET, K SUPERMARKET, K MARKET, K EXTRA, KESPRO, K-RAUTA, RAUTIA, BM, SENUKAI, K-PAYTA, OMA, ANTTILA, NETANTTILA.COM, KODINYKKÖNEN, KONEKESKO, K-MAATALOUS, INTERSPORT, kesport, Budget Sport, ASKO, SOTKA, MUSTA PÖRSSI, KONEBOX, K-KENKÄ, ANDIAMO

Kesko faces the recession head-on

Review by the President and CEO

A new K-citymarket is being built in Koivukylä, Vantaa. The foundation stone was laid on 23 January 2009.

The financial environment in the trading sector quickly deteriorated during 2008. As a result of consumer prudence, construction and other major household acquisitions in particular declined. In the current cyclical conditions, it is an advantage that the steadily developing grocery trade accounts for nearly half of our business.

More for our customers

The K-Group stores are visited daily by about one million customers.

Success in the consumer-customer business requires that the customer and brand promises are delivered at every visit to the store. Kesko has several successful chain and product brands. Brand development work is a key to future success. In practice this also means increasing the efficiency of marketing and developing measurement methods.

The importance of electronic customer communications is increasing in the trading sector. Customers visit web sites to look for product information to support their purchasing decisions. Various online services and interactivity are increasing. Kesko and its subsidiaries develop electronic customer communications and online store sites. Kesko holds a strong position in online sales of home and speciality goods with its NetAnttila and Kodin1.com concepts. In autumn 2008, we launched Konebox.fi selling home technology and in spring 2009, we will open the Budget Sport online store.

Year of reorganisations and investments

In 2008, Kauko-Telko, Tähti Optikko and K-Rahoitus were divested and real estate transactions were completed. The gain on the disposals totalled approximately €180 million.

Thanks to the excellent profit performance and well-timed company and property disposals in recent years, Kesko's liquidity is strong and solvency is high. The cost-effectiveness of investments is assessed more carefully and they are postponed, if necessary. Our aim is to maintain the good financial position and benefit from lower construction costs when building new store sites.

Work and productivity

Kesko's strategy focuses on healthy growth, sales and services provided to consumer-customers, and responsible and cost-efficient business models.

Kesko carried out major organisational reforms during 2008. A decision was taken to divide Kesko Agro, joining it partly with Rautakesko and partly with Konekesko. A decision was also taken to intensify cooperation of Anttila, K-citymarket's home and speciality goods and the other home and speciality goods chains particularly in goods purchasing, management and customer relationship management. The activities aim at cost-efficiency and improvements in customer service. The divisions implemented several cooperation negotiations aimed at cutting the number of employees.

The trading sector wage solution made in 2007 will increase labour costs over several years. As growth expectations are weakening, various rationalisation activities will be necessary. We will be opening new stores and will also recruit new employees for them. Availability of labour force is improving at the moment, but competition for skilled personnel will, in the longer run, intensify.

In order to maintain our competitiveness we have to be able to increase work productivity. The work and productivity programme covering Kesko and its chain stores was launched at the end of 2007. The aim of the programme is to strengthen our competitiveness by increasing employees' work productivity. There are extensive projects underway concerning the automation of activities and processes. We continue the system-

atic enhancement of employee competencies and are looking for new, effective forms of training. Our units have also started projects focusing on improving wellbeing at work.

Steady development in the grocery trade

Kesko operates in many product lines and markets at different stages of development in several countries. In the weakening business environment, the stability of Kesko's grocery trade in particular contributes to levelling cyclical changes. In addition, Kesko's business model, in which retailer entrepreneurs are, to a large extent, responsible for retailing, is competitive even in hard market conditions. Retailers' creativity and responsibility have proved to be strong attributes in the changing operating environment. In 2008, the growth of the Group's net sales slowed down as a result of the more difficult business environment. Operating profit excluding non-recurring items decreased on the previous years' record results, but remained at a reasonable level.

A pioneer in corporate responsibility

Kesko has been a trading sector pioneer in corporate responsibility for years and been recognised internationally for this work. We have drawn up a new responsibility programme for the years 2008–2012. The programme sets concrete targets for the areas of fighting climate change, responsible purchasing and employees' wellbeing. We have, among other things, signed a trading sector energy-efficiency agreement and committed to saving more than 65 GWh of energy by the end of 2016. The agreed savings target is significant, as it corresponds to the annual consumption of about 2,600 one-family houses at the annual level.

Attitude and competence in customer service

Kesko and the K-Group stores have around 50,000 employees in eight different countries. Most of them work in customer service duties, in which competence and the right attitude are decisive. We want to ensure the best customer satisfaction and our future competitiveness. In 2008, the Kesko Group recruited some 12,000 new employees and K-instituutti, the K-Group's own training centre, had some 25,000 participants in its training events.

I wish to extend my warmest thanks to all Kesko employees for their diligence and commitment to our objectives. I would also like to thank our shareholders, K-retailers and their employees, and all our partners for their trust and cooperation during 2008.

Matti Halmesmäki
President and CEO

Year 2008 in brief

- *Kesko's net sales from continuing operations increased by 3.4% to €9,600 million*
- *Operating profit excluding non-recurring items was €217 million, a decrease of €98 million*
- *The Kesko Group's profit before tax was €288.5 million, a decrease of €69.3 million*
- *The retail sales of the K-Group increased by 3.4% to €11,916 million (incl. VAT)*
- *The Kesko Group's earnings per share were €2.24 (€2.90)*
- *The Board of Directors proposes to the Annual General Meeting that €1.00 per share be distributed as a dividend for 2008*

Recession slowed down the construction market; steady development in the grocery trade

In 2008, the market weakened in almost all of Kesko's product lines, especially towards the end of the year. This was reflected, above all, in the building and home improvement, and car and machinery trades.

Kesko's net sales increased by 3.4%. In Finland, the growth was 4.4%, but activities in other countries showed some decrease.

Steady growth continued in the grocery trade throughout the year. The retail sales of K-food stores increased by 6.0%, but fell short of the estimated overall market development. Kesko Food's net sales grew by 6.2% and accounted for 43% of the Group's total net sales.

Rautakesko's net sales performance was greatly affected by the weakening construction market in the Nordic and Baltic countries, particularly towards the end of the year. Rautakesko's net sales dropped by 0.8% from the previous year.

Sales growth in the car trade can be attributed to the competitive Audi and Volkswagen ranges, imported by VV-Auto, and to the car tax reform which became effective at the beginning of the year. However, demand for new and trade-in cars dropped towards the end of the year. VV-Auto's net sales increased by 9.9%.

In the department store trade, Anttila's sales performance was affected by the slowdown in the sale of homes particularly in late 2008, which reduced demand for interior decoration items and home electronics. Anttila's net sales dropped by 0.7% from the previous year.

In the agricultural trade, the market situation deteriorated clearly in the Baltic countries in particular. Kesko Agro's net sales increased by 6.6%.

In other operating activities, Intersport's sales were good and its net sales grew. Kenkäkesko, too, had a good year. The sales of Asko, Sotka and Musta Pörssi did not develop as expected. Konekesko's sales were, above all, negatively impacted by the slowdown in the recreational machinery market.

Operating profit fell short of the previous year

The Group's operating profit excluding non-recurring items was €217.0 million, representing a decrease of €98 million from the previous year. This can be mainly attributed to the weakening construction market and the strong expansion and refurbishing of the networks of the food and the building and home improvement stores. Owing to the deterioration of the economic situation, the measurement principles applied to inventories and trade receivables were tightened further.

During the year, 37 new food stores were opened. Two new building and home improvement stores were opened in Finland and 12 stores in other countries.

Gains on business and real estate disposals

The gains on business and real estate disposals totalled approximately €180 million in 2008. During the first half of the year, K-Rahoitus, Tähti Optikko and Kauko-Telko, all representing non-core business operations, were sold.

Synergy benefits by intensifying cooperation

During 2008, several plans aiming at saving costs and improving efficiency progressed.

A decision was taken to intensify the cooperation between Anttila, K-citymarket's home and speciality goods trade and Kesko's other companies engaged in the home and speciality goods business. In this way synergy benefits are being sought particularly in goods purchasing, management and customer relationship management. Customers will continue to see each K-citymarket as one store in which a K-retailer is responsible for the food trade. All of the existing home and speciality goods chains will continue operating separately.

At the beginning of 2009, Kesko Agro's activities were combined with Rautakesko and Konekesko. The agricultural trade activities in Finland became part of Rautakesko, while the tractors and combines trade and the Baltic subsidiaries both became part of Konekesko. The objective is to enhance product selections, customer service and the maintenance and spare part network.

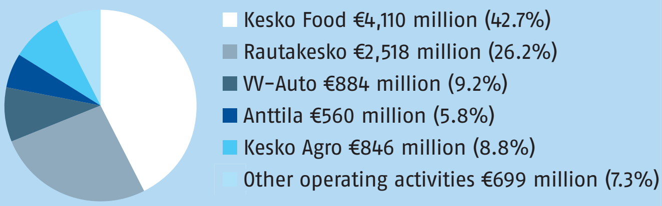
In 2009, Kesko's reportable segments are the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade.

FINANCIAL HIGHLIGHTS FOR 2008

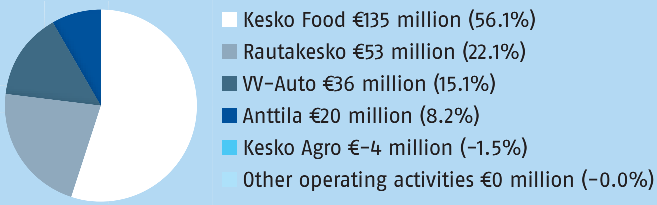
Key indicators		2008	2007	Change
Net sales*	€ million	**9,600**	9,287	3.4%
Operating profit*	€ million	**286**	322	-11.2%
Operating profit excl. non-recurring items*	€ million	**217**	315	-31.1%
Profit before tax*	€ million	**289**	358	-19.4%
Return on investment	%	**14.2**	17.4	-3.2 pp
Return on equity	%	**12.1**	16.4	-4.4 pp
Cash flow from operating activities	€ million	**134**	248	-46.0%
Investments*	€ million	**338**	228	48.6%
Equity ratio	%	**52.4**	48.5	3.9 pp
Gearing	%	**2.3**	14.0	-11.6 pp
Dividend per share	€	**1.00****	1.60	-37.5%
Earnings per share, diluted	€	**2.24**	2.90	-22.8%
Equity per share, diluted	€	**20.09**	19.53	2.9%
Personnel (average)*		**21,327**	20,520	3.9%

* continuing operations ** proposal to the Annual General Meeting

Net sales by division*, € million



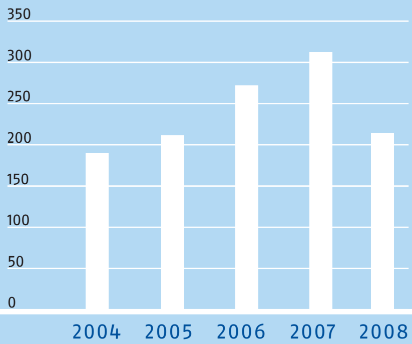
Operating profit excl. non-recurring items by division*, € million



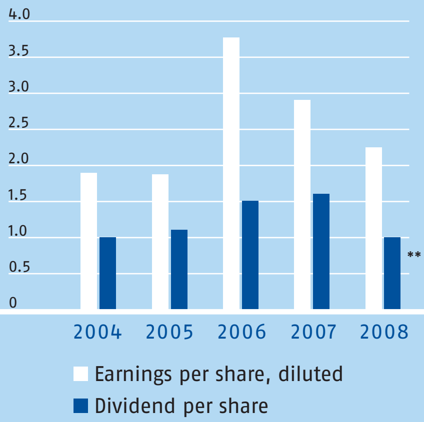
The Group's operating profit excluding non-recurring items also includes common operations and eliminations in a total amount of €-24 million.

Group's net sales*, € million

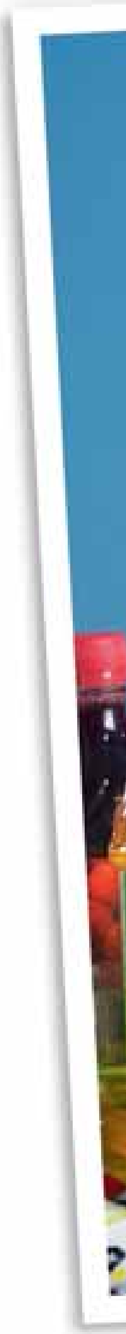
Group's operating profit excl. non-recurring items*, € million



Earnings per share and dividend per share, €



* continuing operations
** proposal to the Annual General Meeting




NEW
Fazer
Dumle
stars
PIRKKA
Kapitaliporukumi
PIRKKA
Napostelu

Strategic emphases

Kesko is a highly valued listed trading sector company. It manages retail store chains and develops store concepts and business models, data management and logistics services. Kesko's operations include food, building and home improvement, car, home and speciality goods, agricultural and machinery trade. Its division parent companies and chains operate in close cooperation with retailer entrepreneurs and other partners. Kesko operates in the Nordic and Baltic countries, Russia, and Belarus.

Healthy, profitable growth

Objectives include a sales growth exceeding that of competitors and increasing the shareholder value

Kesko's key strategic objectives in all store chains include achieving a level of customer satisfaction and sales growth that exceeds the level achieved by competitors. The shareholder value is increased by long-term profit improvement. Objectives also include maintaining good financial standing and liquidity in all market conditions. The target return on equity is 12%, while the target return on capital employed is 14%.

Kesko implements a strategy of selective internationalisation

The objective is to invest in healthy, profitable growth, while taking the market situation and customer demand into consideration.

Investments in the food trade are directed at expanding and refurbishing the store network in Finland. In addition, expanding business to the Russian and Baltic markets is studied.

In the building and home improvement trade, the international network will be expanded mainly in Russia in the next few years. In addition to investments in new store sites, business growth may also be achieved through acquisitions. The Russian market in particular is considered to offer significant long-term growth potential in the home building and improvement trade. Support for growth is provided by investments in the joint enterprise resource planning system and centrally directed logistics network and by leveraging economies of scale in sourcing and purchasing.

Sales and services to consumer-customers

Customer satisfaction exceeding that provided by competitors

The strategic emphasis lies on sales to consumer-customers. The objective is to achieve a level of customer satisfaction and sales growth that exceeds the level achieved by competitors. Success in the consumer-customer trade requires clear customer and brand promises and the delivery of these promises at every visit to the store. Customer promises are delivered with high-quality and competitively-priced products, a comprehensive store network and good service.

Kesko has dozens of successful chain and product brands. The extensive development of brands and marketing, started in summer 2007, continues. The objective is to increase the value of Kesko's brands and to improve the efficiency of marketing. Focuses include the brand and marketing strategies of various chains and their implementation in stores. At the chain level, this work has started with a pilot project in the K-supermarket chain. The lessons learnt in the project will be used in the development of brands and marketing throughout the organisation.

Creation of customer-driven selections and targeted marketing are supported by the K-Plussa customer loyalty system, whose reward and payment card features have undergone major reforms in recent

Strategic emphases

Healthy, profitable growth

- Target sales growth exceeds that of the market.
- We increase the shareholder value by improving profit.
- We implement the strategy of selective internationalisation.
- We expand our store network.

Sales and services for consumer-customers

- Our customer satisfaction exceeds that of competitors.
- Retailers' knowledge of local customers' needs is our competitive asset.
- We leverage loyal customer information efficiently in our customer programmes.
- We develop electronic commerce and services.

Responsible and cost-efficient business models

- Our operating practices are responsible.
- We combine retailer entrepreneurship and chain operations efficiently.
- We leverage our economies of scale to the benefit of customers.
- We guide business with efficient data management.
- We have the best practices and competence in the trading sector.

Shares of net sales, %

- Retailer entrepreneurs' retailing 49%
- Kesko's own retailing 26%
- B-to-B sales 25%

years. The objective of the system is to offer significant product and service benefits to customers, encouraging them to centralise their purchases in the K-Group. Use of customer information has increased considerably in key business areas. Chains and stores leverage customer information, for example, in their selection planning, pricing and marketing.

Customer-driven business models

The business models applied in Kesko's sales to consumer-customers are retailing through retailer entrepreneurs and Kesko's own retailing. Kesko is also engaged in B-to-B sales.

1) Retailer entrepreneurs' retailing

The principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in the chains managed by Kesko. In Finland, for example, all food and building and home improvement stores in the K-Group are run by retailer entrepreneurs. With its chain operations, Kesko provides a first-class setting for its retailer entrepreneurs to serve their customers as well as possible. The K-retailer entrepreneur is responsible for his or her store's customer satisfaction, personnel and profitability of business. Good service and knowledge of customers' needs provide the K-Group with a competitive edge.

At the end of 2008, Kesko had 1,305 K-retailer entrepreneurs as partners and, in addition, about 250 other retailer partners in the Asko, Sotka, Byggmakker and Senukai chains. Kesko's sales to retailer partners accounted for 49% of net sales in 2008.

2) Kesko's own retailing

Kesko acts as a retailer in business operations where the competitive advantage is based on the centrally managed chain concept. Kesko's own retail stores in Finland include the Anttila and Kodin Ykkönen department stores. In addition, Kesko is also responsible for retailing home and speciality goods in the K-citymarket chain. Kesko's own retailing is also the model mainly used in expanding business operations outside Finland. In 2008, Kesko's own retailing accounted for 26% of net sales.

3) B-to-B sales

Kesko is engaged in B-to-B sales in those business operations that support consumer-customer sales. Typical business customers include building companies, agricultural entrepreneurs, the manufacturing industry, institutional kitchens and the public sector. In 2008, Kesko's B-to-B sales accounted for 25% of net sales.

Electronic customer communications and e-commerce

The importance of electronic customer communications in trading has increased continuously. Kesko is developing online customer communications and the chains' online trading sites. The objective

Kesko in the value chain of trade

is to improve customer satisfaction and to increase sales. Kesko has gained a strong position in online sales of home and speciality goods through the NetAnttila and Kodin1.com concepts. In addition, Konebox.fi, an online store for home technology goods, was opened in autumn 2008 and the Budget Sport online store will open in spring 2009.

Responsible and cost-efficient business models

Sustainable development and responsible operating practices

The principles of sustainable development and responsible operating practices are a central part of Kesko's and its chains' daily activities. Consumer-customers require the trading sector to bear responsibility for products' safety and healthiness, and for the environmental and social impact of business operations. The results of responsible operations are reported annually in Kesko's Corporate Responsibility Report.

Efficient combination of retailer entrepreneurship and chain operations and leveraging economies of scale

The strategic objective is an efficient combination of K-retailer entrepreneurship and chain operations. K-retailers are responsible for customer service, local selections and delivering the customer promise in their stores.

Kesko's efficient chain operations and joint processes provide support to retailers. Chain operations offer the retailer a joint business concept which includes, among other things, chain control and business management support related to chain selection, pricing and marketing. Joint chain operations carried out by retailers and Kesko are further intensified by developing increasingly better tools and business models for the stores. The most important of these are regional and store-specific selections and pricing guidance as well as tools for customer relationship and store personnel management.

Kesko participates in international purchasing cooperation in various product lines, which increases purchasing volumes and efficiency. The most important partnership organisations in which Kesko participates include AMS Sourcing B.V. in the grocery trade, tooMax-x in the building and home improvement trade, Intersport International Corporation in the sports trade and Electronic Partner International in the home technology trade.

Work and productivity programme

Cost-efficient operations build price competitiveness and customer satisfaction in the retailing sector. They are also a basic requirement for increasing Kesko's profitability and shareholder value.

The key objective of the work and productivity programme launched is to increase employees' work productivity in Kesko and chain stores. The most important tools for improving productivity include increasing personnel competence and the efficiency of operating practices. Promoting the wellbeing of empoyees has also become an increasingly important factor. Retail stores also focus on enhancing the productivity of store space and capital.

Electronic and automated processes

A project to automate processes and routines has been started with the purpose of improving cost-efficiency. One area is the shared service centre, K-talouspalvelukeskus Oy, the duties of which include determining uniform and efficient operating practices for the Group's financial management processes. The project to replace paper invoices with electronic ones will contribute to this automation. The aim is to receive all suppliers' purchasing invoices in electronic form starting from 1 October 2009.

More detailed information about each division's strategic emphases and projects is provided in the division-specific presentations starting from page 16.

Financial objectives and their realisation

The objectives announced on 5.2.2009	Target level	The objectives announced on 23.5.2007	Target level	Realised 2008	Realised 2007
Net sales growth	Growth rate exceeding that of the market	Net sales growth	In Finland growth exceeding that of the market	**Realised: VV-Auto, Intersport Finland, Kenkäkesko**	Realised: Kesko Food, VV-Auto, Konekesko, Intersport Finland, Musta Pörssi
			Increasing proportion of international operations	**Change -0.8% pp (continuing operations)**	Growth 2.2% pp (continuing operations)
Return on equity	12%	Return on equity	14%	**12%, excl. non-recurring items 8.1%**	16%, excl. non-recurring items 12.7%
Return on capital employed	14%	Return on invested capital	16%	**14%, excl. non-recurring items 10.0%**	17%, excl. non-recurring items 14.5%
Interest-bearing net debt/EBITDA	< 3	Interest-bearing net debt/EBITDA	< 3	**0.1**	0.6
Equity ratio	40–50%	Equity ratio	40–45%	**52%**	48%
Economic value added	Growing positive EVA as internal indicator	Economic value added	Growing positive EVA as internal indicator	**Not realised**	Realised


К-РАУТА
Ламинат
699


К-РАУТА
Ель
4650


Касса
1
К-РАУТА

Diverse rewards through K-Plussa

K-Plussa, the K-Group's customer loyalty system, experienced a period of growth in 2008. The K-Plussa network expanded to include more than 3,500 outlets. The overall benefits provided to K-Plussa customers increased considerably, particularly the amount of K-Plussa special offer benefits granted at checkouts. The K-Plussa customer loyalty programme gained more than 210,000 new customers.

The K-Plussa customer loyalty system operates on three levels. Benefits granted to customers are either store-specific, chain-specific or provided across the entire K-Plussa network. The more customers use their K-Plussa cards, the more diversified the customer loyalty benefits they receive will be.

Store-specific benefits and services to meet the needs of local customers

When customers shop with their K-Plussa cards in K-Group stores, retailers are provided with important information which they can use to develop their stores' selections and services to best serve their clientele. Customer information is also used interactively between the K-stores and customers. By concentrating their purchases, customers get store-specific K-Plussa benefits and services that are based on their needs and shopping behaviour. Targeted benefits and services provided by local K-retailers increase customer satisfaction and sales.

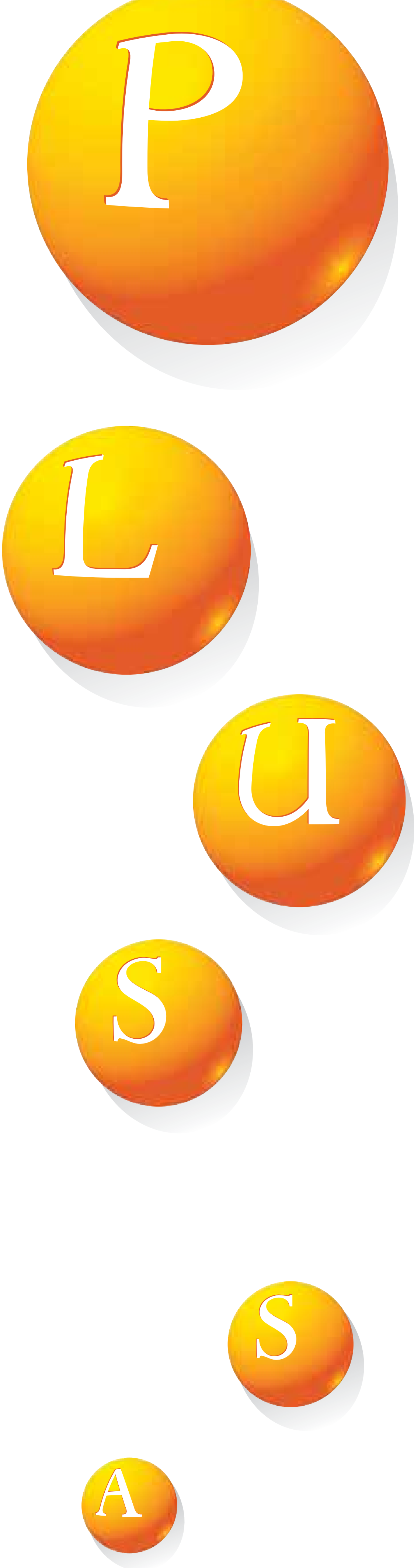
Chain-specific customer programmes provide benefits and services to meet customers' needs in specific product lines

The K-Group chains have their own customer programmes which offer chain-specific benefits and services to K-Plussa customers based on their needs in these particular sectors. For example, Kodin Ykkönen has a loyalty programme which gives customers a discount on the price of the assembly service and free use of removal boxes. Chain-level customer information is leveraged to develop the network and concepts, and to build the chains' selections and services that meet the needs of customers as well as possible.

K-Plussa benefits provided to all K-Plussa cardholders

K-Plussa also offers significant benefits that are available to all K-Plussa customers. K-Plussa offers always reward customers with a discount of at least 10 percent provided at the checkout; this is a guaranteed K-Plussa reduction. By centralising their purchases in the K-Plussa network, customers receive a reward of up to 5 percent in the form of Plussa points.

Other benefits available to all K-Plussa customers include co-branding cards and the chance for customers to deposit their K-Plussa points in their bank account with any bank. The partnerships with the OP-Pohjola Group and Nordea that started in 2007 have got off to a good start. More than 600,000 customers



already have a debit or credit card with the K-Plussa feature. A co-branding card makes things easier for customers as it enables the collection of K-Plussa points and reduces the number of cards in the wallet.

K-Plussa cardholders also get the Pirkka magazine, which celebrated its 75th anniversary, distributed to their homes. In 2008, Pirkka further reinforced its position as the most widely read magazine in Finland (source: the National Readership Survey). In addition to the Pirkka magazine, the Plussa.com website is an important communications channel between K-Plussa customers and the K-Group. According to a survey conducted in September 2008, K-Plussa's loyal customers are extremely satisfied with the Plussa.com pages and provided the website with an excellent grade. Customers visit Plussa.com for benefits and special offers. The website provides nearly 300 nationwide K-Plussa benefits each month.

Cooperation with Nuori Suomi, the Young Finland Association, continued to play an important role in sponsorship by K-Plussa. In 2008, the cooperation included customer events arranged by retailers and cooperation between retailers and local, recognised sports clubs.

Customer information at the core of business

To enable us to develop the most rewarding benefit levels and customer programmes, we need a sufficient amount of information about customer relationships and the competence to analyse and make use of this information. Collecting and saving reliable customer information in sufficient quantity is of primary importance in customer relationship analysis. K-Plus Oy collects and analyses this information in the K-Group.

Customers' privacy protection is ensured when customer information is collected and made use of. K-Plus Oy processes customers' purchasing data on the sum total or product group level. Anonymous receipt line level purchasing data may also be used. Customer information and programmes play a key role in business planning.

Targeted marketing by means of customer information is becoming increasingly common. This type of marketing is more cost-efficient and often attracts more attention. Results gained from targeting have been extremely good. For example, by classifying information about eating habits, customer groups who appreciate healthy eating or traditional foods can be identified and approached in a way they find interesting.

The importance of electronic customer contacts in targeted communications is increasing. Those who have agreed to electronic marketing receive a K-Plussa e-letter with special offers once a month. Customers can also be approached with personalised e-mail offers.

Since the end of 2008, customers have also been able to download the location of nearly 2,000 K-Group stores and outlets of certain K-Plussa cooperation partners to their car navigators. This service complements the map and route service previously offered to customers.

At the end of 2008, 3.6 million Finns in 2 million households had a K-Plussa card. In 2008, the K-Plussa customer loyalty programme gained more than 210,000 new customers.

Several new partners joined the growing K-Plussa network

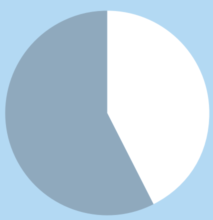
The K-Plussa network expanded considerably in 2008. Thanks to the cooperation between Kesko and Teboil, K-Group customers began to receive K-Plussa points for their purchases at nearly 300 Teboil stations.

Budget Sport stores and Center Inn restaurants located in the Greater Helsinki area also joined the K-Plussa network during the year. Active efforts to increase the number of cooperation partners continue.

KESKO FOOD

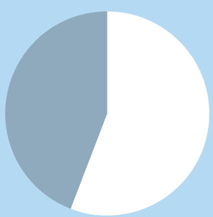
Kesko Food is engaged in the grocery trade in Finland. The operations of the more than 1,000 K-food stores are based on the K-retailer business model. These stores form Kesko Food's K-citymarket, K-supermarket, K-market and K-extra chains. In grocery wholesaling, Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the Finnish HoReCa business.

Kesko Food's share of Group's net sales, %



Kesko Food 42.7%
Others total 57.3%

Kesko Food's share of Group's operating profit excl. non-recurring items, %



Kesko Food 56.1%
Others total 43.9%

Market

The Finnish grocery retail market totals about €14.2 billion. The average monthly increase in grocery prices compared with the previous year was 7.6% during 2008 (Statistics Finland).

In addition to K-food stores, primary operators include Prisma, S-market and Alepa (S Group), Valintatalo, Siwa and Euromarket (Suomen Lähikauppa Oy, previously Tradeka), and Lidl. The estimated market share of the K-food stores is 33.4% (own estimate).

The Finnish HoReCa (hotels, restaurants and catering) market's purchases in Finland totalled about €2.5 billion in 2008 (own estimate). Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the Finnish HoReCa business. Kespro's main competitors are Meiranova Oy, Metro-tukku and Heinon Tukku Oy.

The aim is to provide successful customer experiences

At the end of 2008, there were 1,055 K-food stores. They are visited by nearly 840,000 customers every day. In 2008, the total number of customer visits was nearly 310 million. Every customer encounter is important when it comes to our success. Success is ensured by the highest quality and most comprehensive selections on the market, combined with the best service and favourable prices.

Local K-retailers are responsible for the customer service, competence of personnel, and profitability of business at their stores. Retailers are able to react quickly to their customers' wishes and to build selections and services that meet their needs.

Kesko Food manages the operations of the chains made up by the stores. Cooperation between Kesko Food and the K-retailer is based on the chain operations defined in the chain agreement. Chain operations ensure higher competitiveness for the entire chain. Key factors contributing to competitiveness in chain operations include customer-orientation and operational efficiency.

Major duties include centralised purchasing of goods and logistics, chain concepts and their development, formation of selections that are available throughout the entire chain, the chains' marketing, data management and store site operations, and management.

K-food stores have their own quality system. Its objective is to ensure continuous, systematic development of the operations of the store and the whole chain to best serve the customers. The quality system includes measuring customer satisfaction, measuring the store's condition, assessing price control, and assessing management. The best retailing competence is maintained with the help of constant training in cooperation with the K-instituutti, the K-Group's training centre.

The high quality of products is assured by Kesko Food's own Product Research Unit and K-test kitchen. All Pirkka products have been tested by the Product Research Unit and all recipes published in Kesko Food's own media have been developed and tested by the K-test kitchen. Food recipes are published in Pirkka, the K-Group's magazine distributed to loyal customers, and on the largest Finnish online cookery book Pirkka.fi. They are also featured on the K-Ruoka-Pirkka leaflet that is published weekly and available at all K-food stores, and shown on the TV programme "What are we having today?".

Favourable prices are a prerequisite for growth and customer satisfaction. The basis for favourable prices is built with the help of the basic selection that is available throughout the chain, permanently low-priced Pirkka products, the chain's campaigns and store-specific activities.

Pirkka products combine targeted quality and low prices in the most concrete way. In 2008, the sales growth of Pirkka products was nearly double that of the groceries and the total number of products reached about 1,700 at the end of the year. The number of Pirkka products has increased by about 200 during the past three years. According to consumer studies, customers feel that Pirkka products are an easy and safe choice because of their high quality and low


BONAQUA
Filee
Ohut leike

Kesko Food's Product Research and K-test kitchen guarantee quality

TNS Gallup's study on the attitude of Finns towards product safety was presented in spring 2008. According to the study, Finnish consumers are of the opinion that retail stores have a very important role to play in ensuring product safety.

Quality assurance of Pirkka products is carried out by Kesko's own Product Research Unit and K-test kitchen. The Product Research Unit approves all own label products to be included in the selections and the K-test kitchen develops and tests all recipes that will be published. In 2008, the Unit tested about 9,400 samples and developed 860 recipes. The Unit employs 20 professionals, including home economics teachers, research chemists and laboratory workers.

price. The most recent consumer survey, conducted in the autumn 2008, confirms that customers consider low prices, reliability, Finnish origin and constant renewing as the greatest strengths of the Pirkka range. Pirkka also has the following sub-ranges: Pirkka organic, Pirkka Fairtrade and Pirkka Parhaat, which consists of premium products.

K-citymarkets offer their customers diversified and wide selections of groceries and home and speciality goods. Their low prices, committed personnel and the best selections strengthen the customer promise which is "Good shopping. And a whole lot more." There are 64 K-citymarkets in Finland in 49 towns. In 2008, new K-citymarkets were opened in Kuopio, Pori, Jämsä, Tornio, Klaukkala in Nurmijärvi, Kemi, Ylivieska and Oulu. Currently there are K-citymarkets under construction in Koivukylä in Vantaa, the Skanssi shopping centre in Turku, Ylöjärvi, Kirkkonummi, and Linnainmaa in Tampere.

K-supermarkets' customer promise is "A better than average food store". Competitive advantages include food expertise as well as wide and diversified selections of fresh products. At K-supermarkets, in addition to the retailer and other staff, customers are also served by over 160 employees with a specialist food manager qualification. These meat and fish experts give customers cooking advice. The chain consists of 163 stores. In 2008, 13 new K-supermarkets were opened and four K-supermarkets are currently under construction.

K-markets are high-quality and reliable food stores located near customers. In addition to the good basic selections, K-markets offer customers freshly baked local bread, high-quality fruit and vegetables, versatile ready-to-eat food choices and the best local services. Many Neste and Teboil service stations also have a K-market on their premises. The customer promise is "The retailer takes care of it". 14 new K-market stores were opened in 2008. The chain comprises 469 stores.

K-extras are neighbourhood stores which provide customers with 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. The customer promise of the K-extra chain is "Good service for you". The chain comprises 210 stores.

The most comprehensive store network in Finland for various customer needs

The K-food store concepts cater for various consumer needs from daily local services to hypermarkets which also carry a wide range of clothing and other home and speciality goods. The K-food store network is the most comprehensive in Finland. More than 45% of Finns live less than a kilometre away from a K-food store. The K-Group's neighbourhood store network is the most comprehensive in Finland. The total number of K-markets and K-extras is 679.

Kesko Food actively develops the K-food store network by investing in stores of all sizes. The constant development of the network is required to meet the needs of ageing stores, expanding selections, new services and migration.

Efficient operations and use of customer information enable high quality and low prices

Through chain operations, Kesko Food ensures a strong operational base for K-retailers in terms of sourcing and purchasing, formation of selections, marketing and price competition. Permanently low prices are reinforced by efficient practices all the way from customer to supplier, chain operations and long-term cooperation models with selected partners. Considerable benefits are obtained both in Finland and internationally by combining purchasing volumes. Kesko Food is a member of the rapidly expanding international sourcing alliance, Associated Marketing Services (AMS).

A prerequisite of Kesko Food's success is customer satisfaction in K-food stores. The efficient use of customer information, building store- and chain-specific selections and services, and fast reaction to changing customer needs create the basis for improving customer satisfaction. Leveraging customer information relies on customer and product group level information produced by K-Plus Oy.

Kesko Food

K-Group's food stores and their retail sales

	Number 2008	Number 2007	Sales*, € million 2008	Sales*, € million 2007
K-citymarket	**64**	56	**1,915**	1,814
K-supermarket	**163**	158	**1,579**	1,467
K-market	**469**	490	**1,494**	1,403
Other K-food stores and mobile stores	**359**	366	**362**	362
Finland total	**1,055**	1,070	**5,351**	5,046
Food stores total	**1,055**	1,070	**5,351**	5,046

* (incl. VAT)

Kesko Food's financial highlights, continuing operations

		2008	2007
Net sales	€ million	**4,110**	3,871
Operating profit	€ million	**245.0**	151.3
Operating profit excl. non-recurring items	€ million	**135.2**	151.4
Operating profit as % of net sales excl. non-recurring items	%	**3.3**	3.9
Depreciation	€ million	**57.8**	60.1
Investments	€ million	**185.9**	117.6
Return on capital employed* excl. non-recurring items	%	**15.7**	18.4
Personnel average		**5,939**	5,964

* Cumulative average

Kesko Food's net sales 2008, continuing operations

	€ million	change, %
K-citymarket	1,309	7.2
K-supermarket	966	8.9
K-market and K-extra	974	6.4
Kespro Ltd	695	3.9
Others	167	-6.4
Kesko Food total	4,110	6.2

Kesko Food's capital employed at 31 December, € million

	2008	2007
Non-current assets	**927**	879
Inventories	**186**	170
Short-term receivables	**383**	335
./. Non-interest-bearing debt	**-576**	-527
./. Provisions	**-8**	-7
Capital employed*	**912**	850

* Capital employed at the end of month

COMPETITORS

Finland, market share 33.4% (own estimate)
Competitors: S Group, Suomen Lähikauppa Oy (former Tradeka), Lidl
HoReCa, Finland, Kespro
Competitors: Meiranova Oy, Metro-tukku, Heinon Tukku Oy


Oivariini

Significant launches in the Pirkka range

In 2008, many significant new products were launched in the Pirkka range. Important high-volume products launched in February were Pirkka milk, cream and butter, made using Finnish ingredients. Pirkka beer was launched on the market later in spring, and many consumers were pleased with the taste. A completely new sub-range called Pirkka Parhaat was also launched on the market, with premium products for moments of indulgence.

Eight new Pirkka Fairtrade products were also launched during the year, the most important of which were Pirkka Fairtrade bananas and Pirkka yogurt, which combines Fairtrade ingredients and Finnish milk. The Pirkka range has made Fairtrade products accessible to consumers throughout Finland, which is why the Association for Promoting Fairtrade in Finland awarded Kesko Food with its annual prize in December.

Throughout 2008, new Pirkka products were frequently included in consumers' and taste juries' tests carried out by different media and succeeded excellently both in terms of quality and price. Kesko Food's Product Research Unit is committed to ongoing development and quality control of the range. Quality, price, and innovation have brought success to the range in competitions, too. The prizes won by Pirkka products in recent years include the Finnish Food Product of the Year and the Organic Product of the Year.

Store- and chain-specific customer programmes as well as those available in all chains are built on the basis of the information to ensure that customers' service experience in K-food stores will be as good as possible. Extensive information about the customer groups' purchasing behaviour which is produced by K-Plussa, the K-Group's customer loyalty card, is used for the benefit of customers in selection planning, targeted special offers and rewarding customers.

Year 2008

Kesko Food's net sales totalled €4,110 million in 2008, an increase of 6.2%. Kesko Food's operating profit excluding non-recurring items was €135.2 million, which represented a decrease of €16.2 million from 2007. The retail sales of K-food store chains totalled €5,351 million in 2008, an increase of 6.0% over the previous year.

It is estimated that the total grocery market in Finland grew in January-December 2008 by approximately 9% over the previous year (own estimate) and the average monthly increase in prices was about 7.6% (Statistics Finland).

During the year, eight new K-citymarkets, 13 K-supermarkets, 14 K-markets and five K-extras were opened. A total of 40 new food stores were opened, three of which replaced existing stores. Ten extension projects and several renovations were also carried out in 2008.

Objectives

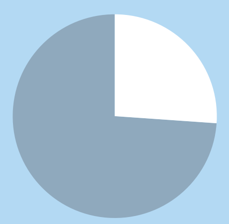
The implementation of Kesko Food's strategy aims at growth faster than the market, higher customer satisfaction and competitiveness. Kesko Food's opportunities for internationalisation will also be actively surveyed.

Anttila, home and speciality goods of K-citymarket and other home and speciality goods companies of the Kesko Group will intensify their cooperation in 2009. Synergy benefits are sought, above all, in product sourcing and purchasing, management and customer relationship management.

RAUTAKESKO

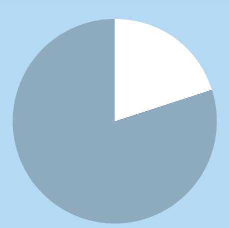
Rautakesko is engaged in the building and home improvement trade in Finland, Sweden, Norway, the Baltic countries, Russia, and Belarus. It manages and develops its retail chains K-rauta, Rautia, Byggmakker, Senukai and OMA and also B-to-B sales in its operating area. Rautakesko is responsible for the chains' concepts, marketing, sourcing and logistics services, store network, and for retailer resources in Finland. Rautakesko also acts as a retailer in Sweden, Estonia, Latvia, Lithuania, Belarus, Russia, and in Norway, where retailer entrepreneurs are also active.

Rautakesko's share of Group's net sales, %



Rautakesko 26.2%
Others total 73.8%

Rautakesko's share of Group's operating profit excl. non-recurring items, %



Rautakesko 22.1%
Others total 77.9%

The building and home improvement market

Rautakesko's building and home improvement store chains K-rauta, Rautia, Byggmakker and Senukai serve both consumer and professional customers. Consumer customers mainly comprise home builders, renovators and interior decorators. Important professional customers include construction companies, the manufacturing industry and public institutions. Rautakesko aims to be the leading service provider in the building and home improvement trade.

In terms of its chains' sales, Rautakesko is one of the five largest companies in the European building and home improvement market. The principal European competitors operating in Rautakesko's market area are Castorama (Kingfisher Group), Leroy Merlin (Groupe Adeo), OBI, DT Group (Wolseley Group), Bauhaus and Hornbach.

The total retail market of this sector in Rautakesko's operating area amounts to some €17 billion. It is estimated that the overall market change in the 2008 building and home improvement trade in Estonia and Latvia was -15%, and in Norway, Sweden, Finland and Lithuania between -5% and 0%. The increase in the Russian market is estimated at over 15%. The main reason for the decrease in demand has been the decline in construction. Falling prices of wood materials and basic construction supplies in particular have also contributed negatively. Retail sales of Rautakesko's chains totalled €3,616.1 million (incl. VAT) in 2008.

FINLAND

The Finnish retail market in the building and home improvement sector totals some €4.0 billion (Finnish Hardware Association, DIY) and declined by 0.9% in 2008 (Finnish Hardware Association, DIY). The K-Group's market share in this sector was some 36% (own estimate).

In Finland, Rautakesko operates the K-rauta and Rautia retail chains and Rautakesko B-to-B Service which serves construction companies, the manufacturing industry and other nationwide and regional professional customers.

The K-rauta chain consists of 42 stores, with some 66% of sales going to consumers. The Rautia chain consists of 102 stores. The emphasis in the sales structure of Rautia is more on basic building products. Sales to consumers account for about 64% of total sales. All Finnish K-rauta and Rautia stores are run by retailer entrepreneurs. 47 of Rautia stores operate as combined Rautia-K-maatalous stores, which are also engaged in the agricultural trade.

The combined sales of the K-rauta and Rautia chains, Rautakesko B-to-B Service and K-customer contract stores in Finland were €1,225.4 million (incl. VAT).

The principal competitors in Finland are Starkki, S Group and Bauhaus.

SWEDEN

The Swedish building and home improvement market totals some €4.0 billion (SCB, HUI), down by 5% in 2008 (HUI).

At the end of 2008, Rautakesko had 19 K-rauta stores of its own and one retailer-owned store in Sweden. Retail sales of K-rauta stores in Sweden totalled €233.5 million (incl. VAT). Rautakesko's market share is about 4.5% (own estimate).

Private customers account for around 85% of K-rauta clientele. Principal competitors are Bauhaus, Byggmax, DT Group (Beijer, Silvan and Cheapy), and local speciality stores.

NORWAY

The Norwegian building and home improvement market totals some €5.2 billion (TBF), down by 0.1% in 2008 (TBF).

In Norway, Rautakesko owns Byggmakker Norge AS, which manages the Byggmakker chain of 120 building and home improvement stores, 18 of which are owned by Byggmakker. Other stores within the chain are owned by retailer entrepreneurs who have chain agreements with Byggmakker. Retail sales of the chain's stores totalled €1,117.9 million (incl. VAT) in 2008. Rautakesko's market share in Norway is about 18% (own estimate). More than half of all sales are to professional customers. Rautakesko's competitors are Monter/Optimera (Saint Gobain), Maxbo and Coop.


REMONTTI
ÄSSÄ
TIKKURILA
SABLONI-
MAALAUSOPAS

Own brands strengthened

The strong development of Rautakesko's own international brands continued. Prof, Cello, Fiorin and FXA offer a reliable and affordable solution for the building and renovation needs of both consumer and professional customers.

The number of our own brand items grew by 250 in 2009 and the total number reached 1,300 by the end of the year. Sales growth of our own brands clearly exceeded average growth in sales. Cello, Rautakesko's own brand for interior decoration, for example, accounted for around 15% of the total sales of interior paints in Finland (own estimate).

Rautakesko's partnership in tooMax-x, the purchasing company, will further improve our opportunities to offer more comprehensive and competitively priced selection of our own brands.

Estonia

The Estonian building and home improvement market totals some €0.38 billion (own estimate) and in 2008 the market decreased by 15% (own estimate). Rautakesko has eight K-rauta stores and a nationwide network of wholesale outlets in Estonia. Retail sales of K-rauta stores totalled €96.0 million (incl. VAT) in 2008. Professional customers account for some 63% of all customers. Rautakesko's market share in Estonia is about 20% (own estimate). Rautakesko's competitors are Ehitus ABC (Saint Gobain), Bauhof and Espak.

Latvia

The Latvian building and home improvement market totals approximately €0.5 billion (CSB), a decrease of 15% in 2008 (CSB). Rautakesko has eight K-rauta stores of its own and two K-rauta partner stores in Latvia. Retail sales of K-rauta stores totalled €86.8 million (incl. VAT) in 2008. Professional customers account for some 43% of all customers. It is estimated that Rautakesko's market share in Latvia is 16% (own estimate). Rautakesko's competitors are Depo DIY, Tapeks/Aile and Kursi.

Lithuania

The Lithuanian building and home improvement market totals some €0.6 billion (own estimate) and it was at the same level as in the previous year (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 about 25%. The Senukai chain consists of 15 stores of its own and 76 partnershop stores. Senukai's retail sales totalled €532.5 million (incl. VAT) in 2008. Professional customers account for some 42% of all clientele. Senukai sells to both consumers and business customers. Senukai's competitors include local building supplies outlets and speciality stores.

Russia

The building and home improvement market in the St. Petersburg area totals some €1.0 billion (own estimate), an increase of 15–20% in 2008 (Ros Business Consulting and own estimate).

There are nine K-rauta stores in St. Petersburg and their retail sales totalled €239.8 million (incl. VAT) in 2008. Professional customers account for some 36% of all clientele. Rautakesko's market share in the St. Petersburg area is about 15% (own estimate). Rautakesko's competitors are Maxidom, Metrica, OBI, Castorama and Leroy Merlin.

Belarus

The building and home improvement market in Belarus totals some €1.3 billion (own estimate). OMA, the company acquired by Senukai in Belarus in July 2007, has three stores. The market share of OMA is about 5% of the total market (own estimate) and its retail sales amounted to €84.3 million (incl. VAT) in 2008.

Strong chain concepts

Rautakesko's operations are based on strong chain concepts, efficient sourcing, and the best practices, which are duplicated internationally. Rautakesko operates in the background of the chains, combining their category management, purchasing, logistics, information system control and network improvements. The synergy benefits and economies of scale achieved enable the company to offer products and services to customers at competitive prices.

K-rauta is Rautakesko's international concept. K-rauta operates in Finland, Sweden, Estonia, Latvia and St. Petersburg, Russia. The renewed K-rauta concept focuses on wide selections, total solutions planned to make customers' life easier and a good price-quality ratio. The widening of the traditional building and home improvement concept has also expanded the clientele: about one third of all customers are women. The concept has succeeded in combining the service, selections and business models for consumers, builders and professional customers. Overall, the K-rauta chain's competitive advantages include larger indoor and outdoor stores than those of its competitors.

Rautia is the largest building and home improvement store chain in Finland. Its selections are targeted at builders, renovators and building professionals in particular. Key competitive advan-

Rautakesko

K-Group's building and home improvement stores (incl. B-to-B) and their retail sales

	Number	Number	Sales*, € million	Sales*, € million
	2008	2007	**2008**	2007
K-rauta	**42**	41	**669**	653
Rautia	**102**	104	**556**	547
K-customer contract stores	**34**	34	**58**	59
B-to-B Service			**279**	316
Finland total	**178**	179	**1,562**	1,575
K-rauta, Sweden	**19**	17	**234**	232
Byggmakker, Norway	**120**	120	**1,118**	1,194
K-rauta, Estonia	**8**	5	**96**	109
K-rauta, Latvia	**8**	7	**87**	100
Senukai, Lithuania	**15**	14	**533**	538
OMA, Belarus	**3**	3	**84**	38
Stroymaster, Russia	**9**	8	**240**	178
Other countries total	**182**	174	**2,391**	2,388
Building and home improvement stores total	**360**	353	**3,953**	3,963

* (incl. VAT)

Rautakesko's financial highlights, continuing operations

		2008	2007
Net sales	€ million	**2,518**	2,537
Operating profit	€ million	**16.3**	117.8
Operating profit excl. non-recurring items	€ million	**53.3**	115.9
Operating profit as % of net sales excl. non-recurring items	%	**2.1**	4.6
Depreciation	€ million	**31.6**	25.7
Investments	€ million	**121.1**	77.0
Return on capital employed* excl. non-recurring items	%	**9.2**	22.7
Personnel average		**10,158**	9,111

* Cumulative average

Rautakesko's net sales 2008, continuing operations

	€ million	change, %
Rautakesko Ltd	887	-3.1
K-rauta AB, Sweden	186	1.0
Byggmakker, Norway	570	-7.7
Rautakesko AS, Estonia	81	-11.6
AS Rautakesko, Latvia	71	-15.8
Senukai Group, Lithuania	521	7.2
Senukai (excl. OMA)	449	-0.9
OMA	71	(..)
Stroymaster, Russia	203	34.9
Others	-1	(..)
Rautakesko total	2,518	-0.8

(..) change over 100%

Rautakesko's capital employed at 31 December, € million

	2008	2007
Non-current assets	**445**	439
Inventories	**249**	249
Short-term receivables	**180**	223
./. Non-interest-bearing debt	**-286**	-328
./. Provisions	**-5**	-11
Capital employed*	**584**	573

* Capital employed at the end of month


KEKKILÄ
Cello

COMPETITORS

Finland, market share 36% (own estimate)
Competitors: Starkki, S Group and Bauhaus
Sweden, market share 4.5% (own estimate)
Competitors: Bauhaus, Byggmax, DT Group (Beijer, Silvan and Cheapy), and local speciality stores
Norway, market share 18% (own estimate)
Competitors: Monter/Optimera (Saint Gobain), Maxbo and Coop
Estonia, market share 20% (own estimate)
Competitors: Ehitus ABC (Saint Gobain), Bauhof and Espak
Latvia, market share 16% (own estimate)
Competitors: Depo DIY, Tapeks/Aile and Kursi
Lithuania, market share some 25% (own estimate)
Competitors: local building supplies outlets and speciality stores
Russia, St. Petersburg area, market share 15% (own estimate)
Competitors: Maxidom, Metrica, OBI, Castorama and Leroy Merlin

tages include comprehensive customer service, knowledge of the local market and the cooperation network. Many Rautia stores also complement their range with agricultural items.

Byggmakker is the largest building and home improvement store chain in Norway. The chain's principal business model is retailer entrepreneurship. Special strengths include sales of building supplies and knowledge of professional customers. The Norwegian concept has undergone a reform and 25–30 Byggmakker stores are annually refurbished to comply with the new concept. The first large full-service Byggmakker outlet of the new type was opened in 2008.

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 m^2.

Rautakesko B-to-B Service operates in Finland. Its customers include nationwide construction companies, the manufacturing industry and other professional customers. Rautakesko B-to-B Service's strengths include close cooperation with the network of Finnish K-rauta and Rautia stores through which a significant part of deliveries are made.

Year 2008

Rautakesko's net sales totalled €2,518 million, representing a decrease of 0.8%. Net sales in Finland amounted to €882 million, down by 3.0%. The net sales of subsidiaries in other countries totalled €1,636 million; the increase was 0.5%. Foreign subsidiaries accounted for 65% of Rautakesko's net sales.

Rautakesko's operating profit excluding non-recurring items was €53.3 million, down by €62.6 million. Rautakesko's investments totalled €121 million, with investments outside Finland accounting for 80.1%.

Strong reforms in the store network continued in 2008. In Finland, eight new stores were opened, of which two were replacement investments. In other countries, a total of 13 new stores were opened, of which one was a replacement investment. In Finland, new K-rauta stores opened in Raisio and Lohja, a new Rautia store in Ivalo and Rautia-K-maatalous stores in Huittinen, Sodankylä and Kajaani.

In Sweden, new K-rauta stores were opened in Stockholm and Göteborg, in Estonia in Võru, Rakvere and Kuressaare, in Latvia in Rezekne, and in Lithuania in Klaipeda. In Russia, a new store was opened along the Peterhof Highway, in the Krasnoselskiy district and in Norway Byggmakker opened a new type large full-service store in Trondheim.

In 2008, Rautakesko actively sought synergy benefits in order to develop and improve the efficiency of its international operations. In October 2008, Rautakesko signed a partnership agreement with tooMax-x Handels GmbH, a DIY purchasing alliance. Thanks to the expanding international purchasing cooperation, Rautakesko is able to provide an increasingly comprehensive and competitively priced selection of products for the customers of its store chains. Rautakesko's partnership in tooMax-x made it the third largest European sourcing channel for home building and interior decoration items.

Building the international logistics network is part of Rautakesko's strategic development. Itella Logistics was chosen as Rautakesko's international logistics partner. The cooperation agreement signed in November first extends the operation to Norway and Sweden, and subsequently to other Rautakesko's operating countries in the Baltic countries and Russia.

Best Practice Retail Solution (BPRS) is Rautakesko's business harmonisation project, which aims at introducing uniform business models and retail store information systems in the company's various operating countries by the end of 2011.

The Rautia store concept was renewed in 2008. The aim is to renovate the current store network to comply with the new concept within the next five years.

A new kind of business model for professional customers was piloted with the help of Rautakesko's Cello. The online service will improve the purchasing efficiency and speed of construction companies and widen the choice available to customers. Cooperation targets with VVO were set in 2008 and enhancement of

Choice for tomorrow

In March 2008, Rautakesko published a guidebook on sustainable housing, distributed free of charge in all K-rauta and Rautia stores. The guide, the theme of which is "Choice for tomorrow", gives practical tips and instructions for Finnish consumers on how to reduce their housing-related environment impact.

On 31 March 2008, 18 K-rauta, Rautia and K-maatalous stores received a K-environmental store diploma as a proof for their environment-saving actions. The K-rauta, Rautia and K-maatalous chains have made a decision that all stores in Finland will be K-environmental stores by the end of 2009.

Rautakesko's Cello became the first range of indoor paints in Finland to be granted the M1 classification and the Allergy Label. These safety symbols were granted to all products of the range: wall paints, ceiling paints and primers. Cello interior paints are water-soluble, solvent-free and nearly odourless.

electronic operations in the B-to-B business will continue in 2009.

In September 2008, K-rauta and Finndomo Oy signed an agreement on starting the sale of Finndomo's one-family houses at K-rauta stores in Russia. The first point of sales was opened in K-rauta Rustaveli in St. Petersburg. Finndomo built twelve one-family houses on Russia's first housing fair area in St. Petersburg.

Responsibility

In 2008, Rautakesko focused strongly on the implementation of the K-environmental store system and made a decision to incorporate the system into all chains' business concept during the year 2009.

Rautakesko and its chains promote energy-efficient and healthy living. Rautia published a guidebook supporting these targets to help builders and renovators of one-family houses or holiday homes.

Rautakesko has been cooperating with the Pulmonary Association Heli since 2005. The K-rauta and Rautia chains have supported the renovation of mould-affected one-family houses by providing the required supplies for interior decoration, sanitary areas and ventilation free of charge. During the years 2009 and 2010 cooperation will focus on drawing up renovation guidelines and training sales people of the K-Group's building and home improvement stores.

Fredrik Flygare, K-rauta AB's HR Manager, was voted the Swedish HR Manager of the Year. The recognition was given by Market magazine, Svensk Handel (the Swedish Trade Federation), which is the trading sector interest group, and Retail Knowledge.

Objectives

Rautakesko continues to strengthen the present store network. In 2009, three new stores will be opened in the Moscow area. Two new stores will open in Sweden, and one in Estonia, Latvia and Lithuania each. Three new K-rauta stores and one Rautia-K-maatalous store will be opened in Finland.

Cooperation with tooMax-x will increase Rautakesko's purchasing efficiency. By the end of 2010, most of the company's purchases from the Far East will take place through this partnership.

In line with the cooperation agreement made with Itella Logistics, Rautakesko's international logistics network will first expand to Norway and Sweden, and after that to other Rautakesko's operating countries in the Baltics and Russia.

During 2009, the Best Practice Retail Solution, Rautakesko's most important project that aims to a uniform business model, will proceed to cover besides Norway also Russia, Sweden, Estonia and Latvia.

Customer purchasing behaviour and consumption habits are becoming more and more versatile. Besides traditional shopping in physical stores, the use of the Internet as a channel providing information and shopping sites will be emphasised. New international service providers enter the market and new business models arise. The importance of energy efficiency, environmental values and responsibility in consumers' decision-making will increase.

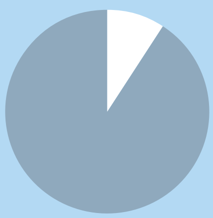
Interior decoration, renovation and building repair will gain more importance. Growing product groups include above all interior decoration, yard and garden supplies. Demand for various services, such as design, transport and assembly, is expected to increase further.

The new K-rauta store concept focuses on interior decoration and gardening. Product groups and categories are presented in a centralised display area close to desks providing service and design assistance. More comprehensive product information and signage facilitate and increase the efficiency of self-service. Online services support the customers looking for information and making decisions in their planning and purchasing process.

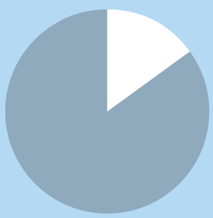
VV-Auto

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

VV-Auto's share of Group's net sales, %



VV-Auto's share of Group's operating profit excl. non-recurring items, %



Market

In 2008, 139,647 new passenger cars and 15,522 vans were registered in Finland. The passenger car market increased by 11.2% over the previous year thanks to the car tax reform which became effective in early 2008. Registrations of new vans decreased by 8.1% over the previous year.

The market position of passenger cars imported by VV-Auto strengthened in 2008. Volkswagen increased its market share and held the second place in the registration statistics of passenger cars. The new car tax system, which is based on carbon dioxide emissions, boosted sales of diesel passenger cars. Diesel passenger cars accounted for nearly 50% of all new registrations in Finland. Volkswagen is one of the leading brands in diesel passenger cars. Audi also increased its market share and maintained its position as the most wanted premium brand. The introduction of new Seat models and improved price competitiveness increased the brand's market share.

The Volkswagen range continued to expand in 2008. Launches included the new Passat CC and Scirocco, and the new Golf towards the end of the year. The Caddy range expanded with new Maxi models. The Audi A3, A4 and A6 ranges were renewed during the year and complemented with the new Audi Q5. The new arrival to the Seat range was Seat Ibiza. In 2008, the market share of Volkswagen passenger cars in Finland was 11.8% and that of Volkswagen vans 15.9%. Audi had a market share of 4.2% and Seat's share was 1.3%. Seat's market share was 1.5% in Estonia and 0.6% in Latvia.

Year 2008

VV-Auto's net sales totalled €884 million in 2008, up by 9.9% over the previous year. The operating profit excluding non-recurring items was €36.3 million, compared with €26.1 million in 2007.

In terms of vehicle numbers, VV-Auto's own outlets in the Greater Helsinki area and Turku accounted for about one third of all new Volkswagen and Audi retail sales.

VV-Auto's retail sales network consists of 40 dealer shops selling Volkswagens and 64 service work shops. The figures for Audis are 17 and 41. Seats are sold by 26 dealers and maintained and repaired by 44 work shops, three of which are located in the Baltic countries.

In 2008, the customer relationship management system was further enhanced on a centralised basis and the system will be gradually adopted throughout the dealer network. The completion of the Vuosaari harbour caused some changes in car logistics. The joint logistics centre of VV-Auto and SE Mäkinen Logistics Ltd in Vantaa offers import-related transport, pre-delivery and storage services for the cars imported by VV-Auto.

In September 2008, an Audi exclusive sales outlet serving business and private customers was opened in connection with the Flamingo recreational centre in Vantaa.

Objectives

VV-Auto aims to increase the market share of the brands it represents during 2009 and to continue to enhance its network of retail outlets. The focus will be on expanding the range of services and the use of the centralised customer relationship management system and on improving electronic customer communications. Special attention will be paid to improving work productivity in the company.

The car tax reform based on environmental aspects will continue in 2009. According to the amendment presented by the Government on 6 November 2008, the car tax of vans will in the future be based on the consumer price instead of the cif price as currently. At the same time, the tax rate will be staggered on the basis of carbon dioxide emissions, according to the vehicle's fuel consumption. After the change, taxation of vans will be in line with that of passenger cars. The change will also involve abolishing the current tax that is equivalent to the VAT and paid in addition to the tax of passenger cars and vans, and raising the car tax rate to offset the resulting loss of revenue. The car tax will also become a pass-through item, which will not be presented in the final net sales. The changes will enter into force on 1 April 2009.

The market position of passenger cars imported by VV-Auto strengthened in 2008. Volkswagen Golf was the most purchased passenger car and Volkswagen the number one selling brand of diesel passenger cars in Finland in 2008.

K-Group's car stores (Finland) and their retail sales

	Number	Number	Sales*, € million	Sales*, € million
	2008	2007	**2008**	2007
VV-Autotalot Helsinki and Turun VV-Auto	**6**	5	**496**	426

* (incl. VAT)

VV-Auto's financial highlights, continuing operations

		2008	2007
Net sales	€ million	**884**	805
Operating profit	€ million	**36.3**	26.1
Operating profit excl. non-recurring items	€ million	**36.3**	26.1
Operating profit as % of net sales excl. non-recurring items	%	**4.1**	3.2
Depreciation	€ million	**4.7**	5.7
Investments	€ million	**6.9**	6.3
Return on capital employed* excl. non-recurring items	%	**28.2**	22.0
Personnel average		**744**	737

* Cumulative average

VV-Auto's net sales 2008, continuing operations

	€ million	change, %
VV-Auto Group	884	9.9

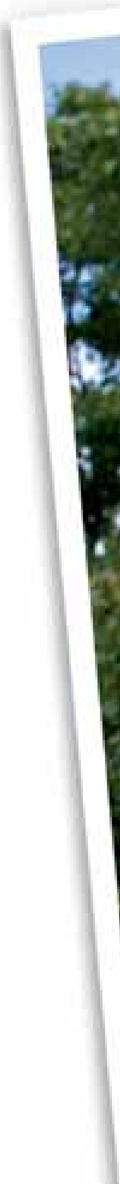
VV-Auto's capital employed at 31 December, € million

	2008	2007
Non-current assets	**43**	44
Inventories	**120**	130
Short-term receivables	**33**	31
./. Non-interest-bearing debt	**-45**	-44
./. Provisions	**-12**	-11
Capital employed*	**139**	151

* Capital employed at the end of month

MARKET SHARES

Finland
Volkswagen cars 11.8%
Audi cars 4.2%
Seat cars 1.3%
Volkswagen vans 15.9%
Estonia
Seat cars 1.5%
Latvia
Seat cars 0.6%



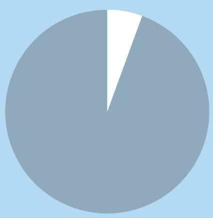

IMZ·972
Audi


ANTTILA
TOP TEN
Wii
Family Ski
Wii
SUPER PAPER MARIO
3+
PAL Nintendo
3+

Anttila

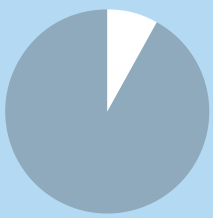
Anttila is the leading home and speciality goods retailer in Finland. Anttila serves its customers at Anttila department stores, Kodin Ykkönen department stores for interior decoration and home goods, and through NetAnttila, which focuses on distance sales. Centralised purchasing and logistics combined with an efficient organisation and operating practices guarantee competitive prices. Anttila's operations are based on a long-term strategy, multi-channel service and competence in strong, selected product areas.

Anttila's share of Group's net sales, %



Anttila 5.8%
Others total 94.2%

Anttila's share of Group's operating profit excl. non-recurring items, %



Anttila 8.2%
Others total 91.8%

Market

In Finland, there are 28 Anttila department stores and two smaller speciality stores. The eight Kodin Ykkönen department stores for interior decoration and home goods are complemented with the Kodin1.com online store. NetAnttila is engaged in distance sales and serves its customers online and with catalogues in Finland, Estonia and Latvia.

Anttila retails entertainment, fashion and home goods; their total market in Finland is estimated at €7–8 billion. The annual growth in the market has been 3–5%.

Customers of Anttila department stores value diversified selections of leisure items, clothing and home goods combined with a low price level and friendly service.

Kodin Ykkönen provides a superior selection and services for decorators of cosy homes. Customers of Kodin Ykkönen value diversity, interior decoration ideas, and good design and other service.

For several years, NetAnttila has been the best-known and most popular online department store among Finns. Customers of NetAnttila value its pioneering position, easy shopping and reliability as well as low prices and wide selections.

The TopTen department concept is the largest retailer of music, movies and multimedia in Finland, and a major seller of information technology and electronics. Topten.fi pages offer current information about new products and various events.

Anttila Store is Anttila's new speciality store which offers, in addition to the strong TopTen and cosmetics departments, a selection of products of current interest that change from one season to another.

Anttila's competitors include department stores, hypermarkets, speciality store chains and online stores. The importance of discounters as competitors is growing as they form chains and expand, while increasing the number of branded goods in their selections.

Strengths

Anttila focuses on multi-channel home and speciality goods retailing. Approximately 26 million customers visit Anttila every year. There are some 2,100 employees in the customer service.

Anttila bases its comprehensive selections on customer wishes, purchasing behaviour and over 50,000 annual items of customer feedback. Anttila's strengths include stores that provide ideas and sales-oriented service.

Centralised purchasing and effective support activities enable competitive pricing and quick reactions to market changes.

Year 2008

In 2008, Anttila's net sales totalled €560 million, a decrease of 0.7%. Anttila's operating profit excluding non-recurring items was €19.8 million and was down by €5.4 million.

New department stores were opened in Pori and Rovaniemi. The store in Pori replaced the existing outlet. A special Anttila Store was opened in Nummela, Vihti.

Because of the economic uncertainty, sales slowed down during late 2008. Retail sales of Anttila department stores totalled €393 million in 2008, representing a decrease of 1.3%. Sales of Kodin Ykkönen department stores amounted to €181 million, down by 1.9%.

Distance sales increased in Finland by 4.9% and Estonia by 1.4%, but decreased in Latvia by 17.6%.

Objectives

Anttila's strategic objectives include strengthening its market position on a profitable basis, increasing the appeal of brands, raising the competence and productivity to a high level and increasing online services.

Anttila's target is healthy sales growth and good profitability by increasing the average purchase and the number of customer visits. Anttila will continue training the staff in customer service and sales. The range of services related to home and speciality goods will be developed and marketed actively by leveraging the many channels the company has at its disposal.

In 2009, a new Anttila department store will be opened in the Skanssi shopping centre in Turku and the second Kodin Ykkönen in Tampere, in Lielahti.

Anttila, home and speciality goods of K-citymarket and other home and speciality goods companies of the Kesko Group will intensify their cooperation in 2009. Synergy benefits are sought, above all, in goods sourcing and purchasing, management and customer relationship management.

Anttila's stores and their retail sales

	Number 2008	Number 2007	Sales*, € million 2008	Sales*, € million 2007
Anttila department stores	30	28	393	398
Kodin Ykkönen department stores for interior decoration and home goods	8	8	181	185
Distance sales (mail order, NetAnttila)	1	2	93	89
Finland total	39	38	667	671
Anttila mail order, Estonia and Latvia	2	2	17	19
Other countries total	2	2	17	19
Anttila total	41	40	684	689

* (incl. VAT)

Anttila's financial highlights, continuing operations

		2008	2007
Net sales	€ million	560	564
Operating profit	€ million	4.3	27.2
Operating profit excl. non-recurring items	€ million	19.8	25.2
Operating profit as % of net sales excl. non-recurring items	%	3.5	4.5
Depreciation	€ million	6.1	6.1
Investments	€ million	5.8	5.8
Return on capital employed* excl. non-recurring items	%	12.4	15.7
Personnel average		2,083	2,058

* Cumulative average

Anttila's capital employed at 31 December, € million

	2008	2007
Non-current assets	59	76
Inventories	101	99
Short-term receivables	45	43
./. Non-interest-bearing debt	-69	-75
./. Provisions	0	-1
Capital employed*	136	142

* Capital employed at the end of month

COMPETITORS

Finland

Anttila, Kodin Ykkönen and NetAnttila
The market share cannot be calculated.
Competitors: department stores, hypermarkets, speciality stores and online stores

Kesko Agro

Kesko Agro's K-maatalous chain purchases and sells agricultural inputs and machinery to agricultural entrepreneurs, and trades in grain. Kesko Agro is active in Finland and the Baltic countries.

Market

In Finland, Kesko Agro and 91 K-maatalous agricultural stores form the K-maatalous chain. About half of the stores in the chain are combined with Rautia under the name "Rautia-K-maatalous", or with K-rauta under the name "K-rauta-K-maatalous". The K-maatalous chain's major customer groups are agricultural entrepreneurs (farmers) and contractors. K-maatalous provides agricultural entrepreneurs with solutions that help them efficiently produce the safe and pure foodstuffs that are valued by consumers.

The total Finnish agricultural market is valued at about €2.2 billion. There are two big operators: the Agrimarket chain of Hankkija-Maatalous is the market leader with a share of 46%, while the K-maatalous chain ranks second with a market share of about 35%. Valtra and Agritek are major competitors in the tractor trade.

Konekesko Eesti AS in Estonia, SIA Konekesko Latvija in Latvia and UAB Konekesko Lietuva in Lithuania are the Kesko Agro subsidiaries that are involved in the agricultural trade in the Baltic countries. The Baltic market is currently valued at €1.2 billion. The market share is about 20% in Estonia, about 25% in Latvia and about 7% in Lithuania.

Strengths

The K-maatalous chain's strengths in Finland include the K-maatalous retailers, who know the local customers and circumstances, and the wide product range combined with the comprehensive services and network. In the Baltic countries, its strengths include the position in the machinery trade and the comprehensive sales and service network.

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

K-maatalous focuses on increasing its knowledge of the needs of future farmers. Active contacts and sales and the utilisation of data and information technology provide the basis for close cooperation between agricultural entrepreneurs and K-maatalous. The popular trade-in machinery service and revised web pages provide a wide range of information and services to farmers and other partners.

Kesko Agro and Rautakesko are working together to develop the combined Rautia-K-maatalous stores into forerunners in the sector. The chains aim to duplicate the best practices of individual stores throughout the entire chain and, in that way, improve customer service and operational efficiency.

The Cultivation Programme of K-maatalous provides solutions that improve the profitability of cultivation while meeting the needs of each farmer. The cultivation programme includes guidelines on the choice of seed, on fertilisation, on plant protection and liming. The K-maatalous Experimental Farm in Hauho does pioneering research and development for agriculture by testing plant varieties, fertilisation and protection.

The annual Kone-Forum exhibition is the most important event in the agricultural machinery calendar. Experts from K-maatalous assist customers in questions related to the use of machinery and in the planning of machinery purchases, while taking farm-specific needs into account.

Year 2008

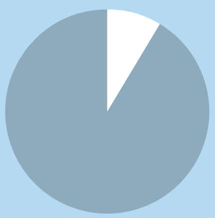
In 2008, Kesko Agro's net sales were €846 million, an increase of 6.6% over the previous year. Net sales in the Baltic countries increased by 8.0% to €318 million. Kesko Agro's operating loss excluding non-recurring items was €3.5 million, which was €15.9 million weaker than in the previous year.

Objectives

The objective of K-maatalous is to improve its profitability in the agricultural trade. It will focus on developing the machinery trade and after-sales services in Finland and the Baltic countries. Another area of development in Finland will be the Cultivation Programme.

Kesko Agro's business operations were reorganised as of the beginning of 2009. The K-maatalous chain and the agricultural trade (agricultural implements, inputs and supplies, and the seed and grain trade) was transferred to Rautakesko, while the tractor and combine harvester business and the Konekesko subsidiaries in the Baltic countries were transferred to Konekesko. The subsidiaries have been registered as Konekesko Eesti AS, SIA Konekesko Latvija, and UAB Konekesko Lietuva.

Kesko Agro's share of Group's net sales, %



Kesko Agro 8.8%
Others total 91.2%

Kesko Agro's share of Group's operating profit excl. non-recurring items was -1.5%

COMPETITORS

Finland, K-maatalous chain market share 35% (own estimate)
Competitors: Agrimarket chain of Hankkija-Maatalous and Yrittäjien Maatalous
Tractor trade: Valtra and Agritek

Estonia, market share 20% (own estimate)
Competitors:
Agricultural supplies:
YARA, Farm Plant and Agrochema
Agricultural machinery:
Stokker, Tatoli, Agriland and Taure

Latvia, market share 25% (own estimate)
Competitors:
Agricultural supplies:
YARA, Farm Plant and Latagra
Agricultural machinery:
Stokker, BFSC, Preiss and Valtek

Lithuania, market share 7% (own estimate)
Competitors:
Agricultural machinery: Olsen Baltic, Lytagra, Rovaltra and Dotnuvos projektai
Animal husbandry machinery: De Laval

K-Group's agricultural stores and their retail sales

	Number	Number	Sales*, € million	Sales*, € million
	2008	2007	**2008**	2007
K-maatalous	**91**	95	**714**	674
Finland total	**91**	95	**714**	674
Konekesko Eesti AS, Estonia	**6**	6	**69**	81
SIA Konekesko Latvija, Latvia	**4**	4	**152**	127
UAB Konekesko Lietuva, Lithuania	**3**	3	**55**	84
Other countries total	**13**	13	**276**	293
Agricultural stores total	**104**	108	**990**	967

* (incl. VAT)

Kesko Agro's financial highlights, continuing operations

		2008	2007
Net sales	€ million	**846**	793
Operating profit	€ million	**-3.5**	12.9
Operating profit excl. non-recurring items	€ million	**-3.5**	12.4
Operating profit as % of net sales excl. non-recurring items	%	**-0.4**	1.6
Depreciation	€ million	**6.0**	4.3
Investments	€ million	**2.4**	7.6
Return on capital employed* excl. non-recurring items	%	**-2.6**	9.4
Personnel average		**697**	797

* Cumulative average

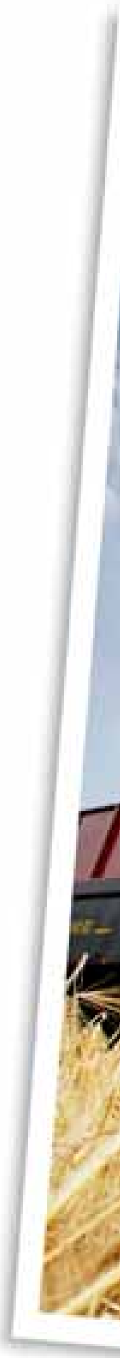
Kesko Agro's net sales 2008, continuing operations

	€ million	change, %
Kesko Agro Ltd	528	4.2
Konekesko Eesti AS, Estonia	76	-4.7
SIA Konekesko Latvija, Latvia	185	41.1
UAB Konekesko Lietuva, Lithuania	47	-37.4
Kesko Agro total	846	6.6

Kesko Agro's capital employed at 31 December, € million

	2008	2007
Non-current assets	**32**	41
Inventories	**100**	136
Short-term receivables	**80**	69
./. Non-interest-bearing debt	**-59**	-122
./. Provisions	**-2**	-1
Capital employed*	**151**	123

* Capital employed at the end of month



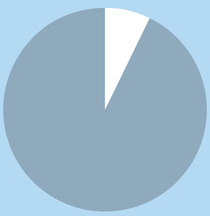

CenterLine 220
TeeJet


wile
wile-66
Moisture and Temperature Meter

Other operating activities

Other operating activities include Konekesko, Intersport Finland, Indoor, Musta Pörssi and Kenkäkesko.

Other operating activities' share of Group's net sales, %



Other operating activities 7.3%
Others total 92.7%

Other operating activities' share of Group's operating profit excl. non-recurring items was -0.0%

Konekesko

Konekesko is a service company specialising in the import and sales of construction and environmental machinery, trucks and buses, and recreational machinery.

Konekesko operates in Finland, the Baltic countries and Russia.

Konekesko arranges the manufacture of and sells Yamarin boats in Finland and exports them to several European countries and Russia. Konekesko is also engaged in the trade of construction and environmental machinery in St. Petersburg.

Market

In addition to quality-conscious consumers, Konekesko's most important customer groups include construction, materials handling, transportation and service sector companies, and towns and municipalities.

Konekesko's sales of recreational machinery are based on close and long 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 72% of total sales. In Finland, Yamarin is number one in the market for glass-reinforced plastic boats.

Yamaha outboard motors have been market leaders in Finland for as long as 30 years. Market shares of Yamaha outboards, motorcycles, mopeds, ATVs and snowmobiles vary between 7–33% depending on the size category.

Construction and environmental machinery and MAN trucks and buses are marketed through Konekesko's own dealer organisation. The Finnish market for construction and environmental machinery totals approximately €400 million and for trucks (weight class of over 6 tons) about €700 million.

The Baltic market for construction, environmental and forest machinery totals some €300 million.

In Russia, the construction and environmental machinery market in the St. Petersburg area totals some €500 million.

Strengths

Konekesko offers its customers the leading machinery brands and is responsible for their marketing and sales throughout the marketing area. Konekesko also offers diversified after-sales services to its customers either through its own or a contract service network.

Konekesko's strengths include its high-quality products and services, comprehensive network, efficient operating methods, and skilled and service-oriented staff. The target is to reach a sales growth exceeding that of the market in selected business areas.

Year 2008

In 2008, Konekesko's net sales decreased by 6.5% to €214.5 million. Net sales from export operations were €33 million.

Investments in 2008 totalled €7.9 million, with most of them in the new heavy machinery repair workshop in Vantaa, the new operations centre in Tampere and in the acquisition of new business operations.

After the summer, sales of boats took a sharp downward turn in the most important export markets (Norway, Sweden).

The decrease in the Finnish boat market was more moderate than in the export market. The new Yamarin boat models for the 2008 season were successful. In October, Konekesko acquired the business operations of Suvi boats to strengthen its boat business.

The growth targets set for market shares in the MAN business in Finland were achieved. In October, Konekesko established a subsidiary in St. Petersburg, Russia for the construction and environmental machinery business.

The Baltic market for construction, environmental and forest machinery declined heavily, but Konekesko's market position in the area strengthened.

Objectives

Konekesko's objective is to increase its market share with the help of the strong brands it represents and by providing good customer service.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Sports trade – Intersport Finland

Intersport Finland's retail store chains in Finland are Intersport, Budget Sport and Kesport. Intersport Finland is responsible for the marketing, sourcing and logistics services, store network and retailer resources of the chains.

The Intersport chain is the market leader in Finnish sports retailing. Intersport's customers are quality-conscious consumers who actively engage in sport and physical exercise and who value good service. Intersport stores are located in downtown areas and shopping centres. Intersport's strengths include the chain's high reliability and recognition among customers, wide and diversified selections, and its expert and service-minded staff, whose sales and service competence is systematically enhanced.

The Kesport stores are located in smaller rural centres and are the leading sports stores in their areas.

Budget Sport is Intersport International Corporation's new sports store format. Based on cost-effective operations and low prices, it offers the sector's largest selections in outdoor activity-related product groups. Budget Sport's customers are interested in outdoor activities and value low prices and ease of purchasing.

There are 57 Intersport stores, 38 Kesport stores and four Budget Sport stores in Finland, of which 93 are owned by retailer entrepreneurs and six by Intersport Finland.

Market

The sports trade market in Finland is growing at the rate of about 2% per year. People are becoming more and more interested in maintaining their health and increasing their wellbeing. This is reflected in the sales growth of clothing and shoes for various sports, fitness and outdoor activities, for example.

The main competitors of the Intersport Finland chains include Sportia, Top Sport, Stadium, department stores and hypermarkets, and other speciality stores.

Year 2008

The net sales of Intersport Finland were €158 million in 2008, representing an increase of 7.5%. The combined retail sales of Intersport, Budget Sport and Kesport stores were €289 million, up by 5.5%.

In autumn 2008, a new Intersport store was opened in Nummela. New Budget Sport outlets were opened in the spring in Friisilä, Espoo and in Kuninkoja, Raisio.

Objectives

The chains of Intersport Finland aim at growth exceeding the market average. This will be achieved by enhancing the staff's sales and service competence and improving the store concepts.

The fifth Budget Sport store will be opened in Oulu in spring 2009. The Budget Sport online store to complement and diversify the network of stores will also be opened in the spring.

Intersport Finland is making preparations to open sports stores in the Baltic countries.

Furniture and interior decoration trade – Indoor

Indoor is a furniture and interior decoration retailer which operates in Finland and the Baltic countries. Its store chains are Asko and Sotka, and there are a total of 84 stores in Finland, six in Latvia and seven in Estonia. In Finland, 58 of the stores are owned by Indoor, while 26 operate as a franchise.

Asko provides quality- and brand-conscious home decorators with an up-to-date and competitive product range combined with the best service in the sector, ease of purchasing and delivery accuracy.

Sotka offers consumers who value low prices with the most competitive range in the sector, combined with high delivery accuracy and quick and easy shopping.

Market

Interest in home furnishing and decoration continued in 2008. During the autumn, the prevailing uncertainty in economy made consumers more prudent in their shopping behaviour. Investments by many chains in the sector further intensified competition.

It is estimated that the Finnish furniture market was worth about €1.3 billion.


asics

The Asko and Sotka chains maintained their position as the Finnish market leader despite greater competition, and they increased their market share in the Baltic countries.

Year 2008

Indoor's net sales totalled €177 million in 2008, down by 9.7%. The retail sales of the Asko and Sotka chains in Finland were €202 million (incl. VAT), down by 4.4%. Operations in Sweden were disposed of in spring. In Finland, new Asko and Sotka stores were opened in Tuusula and Kotka, and refurbished Asko stores were opened in Oulu and Varkaus. The second Asko and Sotka stores were opened in Tallinn, Estonia.

A design competition was arranged for young furniture designers to celebrate Asko's 90th anniversary. The aim was to support the career development of young designers and to look for new ideas for the Asko collection. The competition winners were Janne Reponen and Johanna Laisi. The Asko jubilee collection, launched on the market in the autumn, was designed by interior architect, professor h.c. Eero Aarnio.

Objectives

Indoor will continue renewing the Asko brand and will focus strongly on enhancing both chains' sales and service competence. The focal points in 2009 will also include improvements in the cost-efficiency of the chains and sizable logistics projects.

Home technology trade – Musta Pörssi

The Musta Pörssi chain and the Konebox.fi online store provide home technology products and services.

The Musta Pörssi chain of speciality stores offers its customers home technology products that make housework easier, enhance communications and provide entertainment. In addition, Musta Pörssi offers a comprehensive range of product-related services. Customers can also choose to have all home technology installed so that it's ready to use.

The chain consists of 53 stores specialising in home technology, of which 47 are owned by retailer entrepreneurs and six by Musta Pörssi Ltd.

On the home technology market, Konebox competes with quality products, their good availability and low prices. The low prices are guaranteed by efficient logistics and warehousing combined with the online store's self-service. Customers can buy products either from the store or online and pick them up from the store or have them delivered to their homes.

The business model of Konebox differs clearly from that of Musta Pörssi and together they make up a whole that meets different customer needs. The Musta Pörssi and Konebox.fi chains provide a reliable site for consumers who value services and quick online shopping.

Market

The Finnish total market for home technology products is about €2 billion. The market grew in early 2008, when Finnish cable-network households moved into the era of digital TV broadcasts, but the demand for home technology products declined towards the end of the year along with the overall economic development.

Year 2008

The net sales of Musta Pörssi Ltd were €123 million, representing a decrease of 16.8%. The total retail sales of the Musta Pörssi and Konebox.fi stores were €183 million and, a decrease of 9.6% from the previous year. Konebox.fi, which combines the best aspects of online shopping and a conventional store, was opened at the end of October.

Shoe trade – Kenkäkesko

Kenkäkesko's retail store chains are K-kenkä and Andiamo. K-kenkä is a shoe store for the whole family, offering its customers a wide selection of branded footwear and expert service. Andiamo's main target group is trendy and fashion-conscious shoppers, for whom the store offers a fashionable selection of shoes that is constantly being updated. The K-Group's speciality shoe outlets also include the Kenkäexpertti stores which operate in smaller towns.

Market

The total retail market for shoes in Finland is approximately €570 million. New operators have increased the overall supply in the sector. The retail sales growth of Kenkäkesko's stores have exceeded the average in the sector, and account for about 11% of the total market. In addition to Kenkäkesko's chain stores, the highest increase in terms of market shares was recorded for shoe sales in sports stores.

Year 2008

The net sales of Kenkäkesko were €26 million in 2008, an increase of 12.6%. The sales of the Andiamo and K-kenkä stores increased by 9.2%, and the combined sales of all of the K-Group's speciality shoe stores amounted to €62 million.

There were 54 chain stores at the end of 2008: 33 K-kenkä, 18 Andiamo and three combined Andiamo/K-kenkä stores. There were also 40 Kenkäexpertti stores, which operate outside the chains. Three of the chain stores are owned by Kenkäkesko and the others by retailer entrepreneurs.

In 2008, six new K-kenkä, one Andiamo and one combined Andiamo/K-kenkä stores were opened.

Kenkäkesko participated in the communications and marketing sector's climate project and supported the WWF's climate change opportunity project by selling shopping bags in Andiamo shoe stores made by the design company Globe Hope using Andiamo's old marketing materials.

Objectives

The K-kenkä and Andiamo stores aim to exceed the average sales growth in the sector, and to achieve this by increasing the store network and offering customers comprehensive selections of footwear with a competitive price/quality ratio.

The operational priorities also include enhancing staff skills, in particular retail sales and service competence, throughout the whole chain and improving the cost-efficiency of the operations chain.

Synergy benefits from cooperation

Anttila, home and speciality goods of K-citymarket and other home and speciality goods companies of the Kesko Group will intensify their cooperation in 2009. Synergy benefits are sought, above all, in product sourcing and purchasing, management and customer relationship management.

Other operating activities

COMPETITORS

Machinery trade

Finland: market share 3–33% depending on product group (own estimate)
Competitors: Otto Brandt, Marine Power (Brunswick), Suzuki Finland, SGN Group, Vator, Volvo CE Finland Oy (Rolac), Witraktor (Caterpillar), Rotator, Suomen Rakennuskone, Volvo, Scania, Veho, Sisu-Auto
Estonia: market share 7–8% (machinery trade) (own estimate)
Competitors: Baltem (Komatsu), Stokker, Intrac, Swecon, Witractor
Lithuania: market share 12–13% (machinery trade) (own estimate)
Competitors: Baltijos statybines masinos (Komatsu), Intrac, Stokker, Witractor, Technikos jega, Swecon, Mastermann
Latvia: market share 15% (machinery trade) (own estimate)
Competitors: Intrac, Ladur, Komatsu, Witractor, Swecon

Speciality goods trade

Furniture trade

Finland: market share Asko and Sotka 17% (own estimate)
Competitors: furniture and interior decoration stores

Sports trade

Market share Intersport, Budget Sport and Kesport 33.2% (own estimate)
Competitors: Sportia, Top Sport, Stadium, department stores and hypermarkets, and other speciality sports stores

Home technology trade

Market share
Musta Pörssi 9% (own estimate)
Competitors: speciality home technology stores, hypermarkets and online stores

Shoe trade

Market share K-kenkä, Andiamo, Kenkäexpertti 10.9% (Association of Textile and Footwear Importers and Wholesalers and own estimate)
Competitors: other speciality stores, department stores, hypermarkets and sports stores

Other operating activities, stores and their retail sales

	Number 2008	Number 2007	Sales*, € million 2008	Sales*, € million 2007
Kesko's machinery stores				
Yamaha Center	1	1	16	17
Finland total	1	1	16	17
K-Group's speciality goods stores				
Intersport and Budget Sport	61	58	259	245
Kesport	38	39	31	29
Asko	32	32	94	95
Sotka	52	53	109	117
Musta Pörssi and Konebox.fi	54	55	183	203
Andiamo and K-kenkä	54	49	50	46
Kenkäexpertti	40	42	12	13
Finland total	331	328	738	748
Indoor (Asko and Sotka) Estonia and Latvia	13	13	26	47
Other countries total	13	13	26	47
Speciality stores total	344	341	764	795
Other operating activities total	345	342	780	812

* (incl. VAT)

Other operating activities, financial highlights, continuing operations

		2008	2007
Net sales	€ million	699	743
Operating profit	€ million	0.8	10.0
Operating profit excl. non-recurring items	€ million	-0.1	13.9
Operating profit as % of net sales excl. non-recurring items	%	0.0	1.9
Depreciation	€ million	7.4	8.5
Investments	€ million	15.7	7.4
Return on capital employed* excl. non-recurring items	%	-0.1	8.1
Personnel average		1,470	1,577

* Cumulative average

Other operating activities, net sales 2008, continuing operations

	€ million	change, %
Konekesko	214	-6.5
Intersport	158	7.5
Indoor	177	-9.7
Musta Pörssi	123	-16.8
Kenkäkesko	26	12.6
Total	699	-6.0

Other operating activities, capital employed at 31 December, € million

	2008	2007
Non-current assets	126	116
Inventories	115	110
Short-term receivables	96	107
./. Non-interest-bearing debt	-124	-164
./. Provisions	-8	-2
Capital employed*	205	168

* Capital employed at the end of month

Real estate operations

A store site is a strategic competitive factor for Kesko. Store sites provide opportunities for developing business operations and increasing sales and market share.

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

Real estate property management

For the management of Kesko's real estate assets and liabilities, the retail stores and other real estate properties 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.
- Development properties are those needing further development for their intended use.

Investments

Kesko's real estate investments aim to enable 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.

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.

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.

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.

Kesko has received much recognition for environmentally responsible construction.

Property maintenance

Property maintenance relies on systematisation and proactivity. Repair work is scheduled to coincide with the rebuilding necessitated by business operations.

The management and maintenance of properties owned or leased by Kesko has been outsourced to ISS Palvelut Oy, Ovenia Oy and YIT Kiinteistötekniikka Oy, which carry out the work in accordance with Kesko's requirements. Kestra Kiinteistöpalvelut Oy, owned by Kesko, is responsible for purchasing electricity for the Group.

Kesko is participating in the Finnish economy's energy-efficiency agreement

The emissions generated in the production of electrical and heat energy for properties account for a significant share of the K-Group's environmental impact. Therefore, the K-Group's environmental policy obliges Kesko's real estate operations, in cooperation with its business partners, to develop solutions related to the building, repairs, concept changes, maintenance and use of real estate properties that reduce the consumption of materials and energy during the life cycle of these properties.

The Ministry of Employment and the Economy, the Confederation of Finnish Industries EK and the Federation of Finnish Commerce have signed a framework agreement with the intention of improving the efficiency of energy use in Finnish economy. In autumn 2008, Kesko signed the accession document of this energy-efficiency agreement, according to which it agrees to comply with the trading sector's programme and implement the actions written into it during the years 2008–2016.


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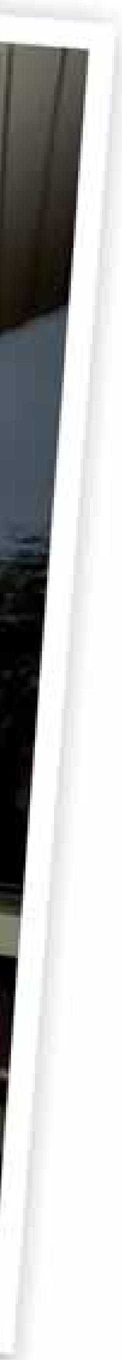


Real estate operations indicators for 2008

Owned properties

Capital, € million	2008	2007
Finland	776	739
Other Nordic countries	57	43
Baltic countries	41	47
Russia	77	26
Total	951	855

Area, m²	2008	2007
Finland	756,000	807,000
Other Nordic countries	62,000	52,000
Baltic countries	103,000	102,000
Russia	34,000	20,000
Total	955,000	981,000

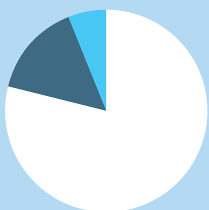
Leased properties

Lease liabilities, € million	2008	2007
Finland	1,767	1,640
Other Nordic countries	110	148
Baltic countries	183	115
Russia	45	40
Total	2,105	1,943

Area, m²	2008	2007
Finland	2,191,000	2,091,000
Other Nordic countries	205,000	199,000
Baltic countries	431,000	335,000
Russia	25,000	26,000
Total	2,852,000	2,651,000

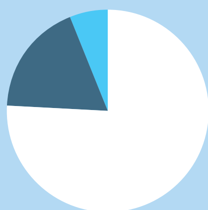
Breakdown of owned properties 2008

- Strategic properties 79%
- Standard properties 15%
- Realisation properties 0%
- Development properties 6%



Breakdown of owned properties 2007

- Strategic properties 76%
- Standard properties 18%
- Realisation properties 0%
- Development properties 6%




K-RAUTA
Vastuullisuus
Vastuulliset
KESKO

Kesko is a good place to work

AIMING TO BE THE MOST ATTRACTIVE WORKPLACE IN THE TRADING SECTOR

Kesko and its chain stores offer motivating and rewarding jobs with products and services valued by customers. Kesko is a good and responsible working community where employees are treated equally and fairly.

At the end of 2008, the total number of Kesko personnel was 24,668 in eight different countries. Of these, 13,651 worked in Finland and 11,017 in other countries. The average number of personnel converted into full-time employees was 21,327. The average decrease in Finland was 95 employees, while in other countries the average increase was 902 employees.

Kesko's most international division is Rautakesko, with 96.5% of its 10,158 employees working outside Finland.

In all, Kesko and its chains' retailer entrepreneurs employ some 50,000 people.

Kesko's strengths include providing an opportunity for versatile internal job rotation and for career development. During 2008, some 2,000 people moved to new jobs within the Kesko Group.

In 2008, one of the major focuses in HR management was distributing the new guide, "Our Responsible Working Principles", to all employees in every country in which Kesko operates. The introduction to responsibility was supported, among other things, by an e-learning programme for managers and unit-specific staff events arranged by managers. Another important area of priority was launching the work and productivity programme comprising Kesko and its chain stores. The programme will continue in 2009.

Kesko was highly rated in Universum, the Finnish employer profile survey, in 2008. Among commercial students, Kesko's ranking in the list of ideal employers improved. The ranking among young professionals with a university degree has risen from 28th to 13th in the space of two years, while those with an initial vocational education in commercial studies ranked Kesko 6th.

Kesko carries out close cooperation with students and teachers in different sectors. For example, the job-orientation of Finnish teachers of commercial and technical subjects is promoted in trainings arranged by Kesko.

The most competent and motivated people in the trading sector

Kesko and its chain stores also offer their employees good opportunities to develop their competencies in a target-oriented manner.

In Finland, Kesko's subsidiary K-instituutti is the K-Group's competence development centre. The business model of K-instituutti was revised in 2008. It plans competence development solutions for chain business needs and carries out training programmes together with its partner network. The provision of regional training is also increasing. In 2008, the training programmes implemented by K-instituutti were attended by about 25,000 people.

The 2008 Master Sales Assistant training, Finland's largest adult training programme, had over 16,000 participants in 13 different product lines.

The Rautia chain was named the Master Sales Assistants' trainer chain; 80% of all Rautia chain store employees completed the Master Sales Assistant training. About one hundred business colleges and polytechnics also offered their students an opportunity to participate in the training, and some 6,000 students took this opportunity.

Kesko's second K-trainee programme ended in January 2009. Those who completed the first K-trainee training and recruitment programme were hired for managerial and specialist duties by different companies in the Group during 2008. The car salesmen who completed VV-Auto's car salesman trainee programme were recruited to jobs corresponding to their training.

Management and leadership

At Kesko, management is conducted in a responsible manner and in compliance with the corporate values. A developing and motivating working community is a prerequisite for the wellbeing and excellent performance of employees.

The annual personnel survey plays a key role in measuring the quality of management and the internal employer profile at Kesko. The similar survey, revised in 2008, is conducted throughout Kesko and its chain stores. The revised survey provides even more concrete information about the strengths and development targets of working communities. Replies were received from 68.8% of the employees of the companies included in the survey.

Self-control training

In autumn 2008, K-instituutti carried out practical self-control training for K-food store retailers and their staff. The participants were trained on how to implement the store's self-control and electronic monitoring of self-control activities. More than 500 food retailing professionals attended the training.

Enjoying work at K-citymarkets

The K-citymarket chain's wellbeing programme was launched in 2008. The key target of the programme is reducing sickness absences. The tools include increasing the efficiency of reporting and intervention, focusing on preventive work and facilitating the practice of notifying about sickness as well as training hypermarket management and shop stewards. The programme will be adopted throughout the whole chain during 2009.

One of the key tools in efficient performance management and the motivating leadership of immediate superiors is the annual performance and development review whose implementation is included in the annual personnel survey. Furthermore, the performance of the entire Group's key personnel is assessed separately.

Leadership skills and career progress are supported by Kesko's own three-step superior and management training, the internationalisation of which is under development.

Since 2004, Kesko has implemented a long-term development programme for members of the management and potential management. There are some 200 participants in the programme, whose purpose is to ensure a sufficient supply of managerial resources both in terms of quality and quantity. This is complemented by the chains' own training, such as the "K2-tusen chef" programme by K-rauta AB in Sweden, which combines theory and practice for the needs of future management. The third programme will be launched in 2009.

Kesko's first own K-retail eMBA programme, implemented in cooperation with the Helsinki University of Technology, concluded in January 2009. The programme aims to strengthen the participants' abilities to act in international retail management duties.

Towards the best work productivity in the trading sector

The key objective of the ongoing work and productivity programme is to improve the employees' work productivity, for example by focusing on the competence and wellbeing of people and on better leadership. The programme also involves measures related to increasing operational efficiency and electronic communications. The work and productivity programme applies to all of Kesko and its chain stores.

Long-term projects focusing on wellbeing at the workplace are currently underway in several companies. The aim is to increase work productivity by reducing sickness absences and raising the retirement age. The monitoring of sickness absences will be defined and management's intervention skills will be improved. Improvements to work productivity are also sought by promoting the adoption of different working hour models and by systematic working hours' management.

In Finland, Kesko's Occupational Health Service Unit focuses on operations that maintain work capacity and promote the wellbeing of the working community. Currently 35–45% of the aggregate costs of occupational health are allocated to these activities. In other countries, occupational health services have been arranged according to the local practice and legislation. Support for personnel's recreational activities is provided through joint staff clubs and in the form of company-specific contribution.

Most of Kesko's employees belong to a bonus incentive system. The management's incentive systems are described on page 62.

Kesko's internal communications will become more international and efficient with the completion of the new intranet that is currently under construction.

Information about HR affairs is also available in the Corporate Responsibility Report, to be published in spring 2009.

Competitive advantage from chain operations and K-retailer enterprise

The K-Group's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in the chains managed by Kesko. At the end of 2008, Kesko had 1,305 K-retailer entrepreneurs as partners, as well as about 250 other retailer partners.

Cooperation between K-retailers and Kesko – chain operations – is based on the equality of both parties, their voluntary participation, willingness to develop joint operations and on open cooperation. The objective is improving competitiveness and performance, increasing uniform quality and lowering costs.

The obligations and rights of K-retailers and Kesko have been specified in the chain agreement.

Competitive edge is gained by combining systematic chain operations and the K-retailer operations based on entrepreneurship. Kesko is responsible for the constant development of the business model and the store concepts, for chain operations management and for sourcing and purchasing of the products included in the chain selections. The K-retailer entrepreneur is responsible for his/her store's customer satisfaction, personnel and profitability of business.

To ensure success, it is important that a new retailer's professional and other skills are at as high level as possible at the start of his/her career.

About 200 stores are affected by retailer changes annually in the K-Group. The annual need for new entrepreneurs, ready to start their K-retailer careers, is approximately 100.

The K-Group systematically trains new retailers to ensure a sufficient supply of people with the appropriate professional skills. New candidates interested in a K-retailer career are sought through different channels. There are about 500 contacts annually. The requirement for new retailers is estimated for 1–3 years ahead.

The K-retailer trainee programme offers three alternative paths: a comprehensive programme, an intensive programme and the retailer entrepreneur path in polytechnics.

Approximately 50% of those starting the programme have a fair amount of retailing experience, but in recent years the number of students transferring from other fields or having just finished their general education has grown. Before selection to the K-retailer trainee programme, the applicants are evaluated with regard to their development potential, values, work experience and education.

After selection, would-be K-retailers start the K-retailer trainee programme, which consists of three parts: practical training in a retail store under the guidance of a mentor, theoretical training at the K-instituutti training centre, and regional K-trainee seminars.

Approximately 100 K-retailer trainees complete the programme every year. After completion, the trainees are ready to start as independent K-retailer entrepreneurs.

The K-Group gives its retailers strong background support and opportunities for further training and progress in their careers.

Path to a K-food retailer career

Need
- About 50–100 novice retailers every year

Marketing

Screening
- K-stores and Kesko
- Manufacturing industry
- Competitors
- Entrepreneurs in different sectors
- Educational institutes
- Others

Assessment
- Attitude
- Values
- Experience/development needs
- Suitability assessment

Selection
- Key areas of self-development
- Planning of a personal training programme
- Apprenticeship contract assessment

K-retailer trainee programme
- The required theoretical training at K-instituutti (food retailer training) or in online learning environment
- On-the-job retailer work training under mentor retailer
- Regional training (theme days)

Further qualification in entrepreneurship

K-retailer reserve
- (personality, knowledge, skills)

K-RETAILER CAREER

Corporate responsibility at Kesko

At Kesko, the concept of corporate responsibility is understood to include good corporate governance, economic, social and environmental responsibility, and all work carried out on behalf of product safety and consumer protection. The international commitments Kesko complies with in its corporate responsibility work and the corporate responsibility policies and principles approved by Kesko's Board of Directors or Corporate Management Board have been published at www.kesko.fi/responsibility.

The Kesko Group's responsibility programme for 2008–2012 was approved.

Kesko is the only Finnish trading sector operator to have a monitoring team of its own to promote responsible purchasing in China.

Responsibility is part of day-to-day work

Corporate responsibility has been integrated into Kesko's management system and is implemented through normal daily activities in the line organisation. The corporate responsibility team that operates within the Corporate Communications and Responsibility Unit develops and coordinates responsibility actions, and reports on the results.

The team's work is supported by a Corporate Responsibility Advisory Board (appointed by the Corporate Management Board), which consists of five members representing the management of Kesko's various division parent companies. The duties of the Advisory Board include determining the responsibility strategy and the operating policies and systems needed for its implementation, and monitoring the implementation of objectives. In 2008, the Corporate Responsibility Advisory Board focused on preparing the objectives of Kesko's responsibility programme for the years 2008–2012. The programme was approved by the Corporate Management Board in late 2008.

The most important objectives for 2009 are to incorporate the responsibility programme into the brand and marketing strategy work, to strengthen the responsibility image associated with Kesko, its division parent companies and the various product brands, and to bring the results of responsibility work to the attention of customers in the stores. The responsibility programme will be published in full in Kesko's Corporate Responsibility Report for 2008.

The Environmental Steering Group is responsible for developing and coordinating environmental issues in different countries. The Steering Group networked throughout the Kesko Group during the year in order to implement the requirements of REACH, the EU's new regulation on chemicals and their safe use, throughout the supplier chain and to perform the first REACH pre-registrations. As a result of another cooperative effort throughout the Kesko Group, a collection system, based on the supplier responsibility referred to in the EU's Directive on Batteries and Accumulators, was set up in the stores and the related retailer and dealer training was organised.

A steering group consisting of representatives from division parent companies' purchasing management coordinates responsible purchasing. In 2008, Kesko's major responsible purchasing projects included the establishment of a monitoring team to audit suppliers in China and the introduction of a self-assessment form for suppliers operating in high-risk countries. As part of the introduction of REACH, a list of retricted chemicals that to some extent exceeded the requirements of the law was also introduced.

Kesko is an Organisational Stakeholder of the Global Reporting Initiative (GRI) and complies, in its corporate responsibility reporting, with the sustainability guidelines drawn up by the GRI. Kesko's Board of Directors discusses the Corporate Responsibility Report annually after it has been published. Kesko's corporate responsibility reporting has been assured by an independent party since 2002. The 2008 report will be assured by PricewaterhouseCoopers Oy, Kesko's auditors. The Corporate Responsibility Report for 2008 will be published in April 2009.

Full points for eco-efficiency to Kesko

For the sixth time in succession, Kesko was included in the Dow Jones sustainability indexes, DJSI World and DJSI STOXX. In the 2008 assessment, Kesko was given a full 100 points for the eco-efficiency of its operations.

In January 2009, the World Economic Forum listed Kesko for the fifth time among the 100 best companies in the world in sustainable development. Moreover, Kesko's work for responsibility qualified in the silver class in the Consumer Staples sector in the 2008 and 2009 Sustainability Yearbooks. No companies in this sector qualified in the gold class.

As in the previous year, Kesko participated in the assessment of the Carbon Disclosure Project in 2008 and was awarded 85 points (compared with 73 in 2007). As Kesko did not give permission to disclose its replies, it is not included in the 2008 CDP Leadership index. Kesko's rankings in different indexes are available at www.kesko.fi/responsibility.

Economic responsibility

Good financial performance makes it easier to assume environmental and social


NUORI SUOMI


NUORI SUOMI
NUORI SUOMI
NUORI SUOMI
Liikunnan iloa lapsille

45.5% of Finns live less than a kilometre away from a K-food store.

The average distance to the nearest K-food store is 2.3 kilometres.

With Kesko's support, the Young Finland Association annually puts more than half a million children and young people on the move in sports clubs, day-care centres, schools and after-school clubs.

The K-stores' environmental management concept – the K-environmental store diploma – celebrated its 10th anniversary in 2008.

responsibility and, conversely, environmental and social responsibility contribute to reducing costs and promoting job satisfaction. In the Corporate Responsibility Report, economic performance is viewed in more detail from the perspective of different stakeholders.

Manufacturing industry is an important partner

Kesko's operations produce economic benefit for many different parties. In 2008, Kesko's purchases from suppliers of goods and services totalled about €8.1 billion. Kesko had about 31,000 active suppliers (those annually supplying goods and services worth over €1,000 to Kesko). Approximately 18,000 of these operated in Finland, accounting for 66% of the total purchases. Kesko's investments totalled €338.4 million, of which €240.3 million was spent in Finland. Breakdowns of economic benefits from Kesko's operations in Finland by stakeholder group and region, and the breakdown of imports by country, are given in the Corporate Responsibility Report.

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 2008, there were 15 fewer K-food stores than the year before, i.e. 1,055 stores located in 316 of Finland's 348 cities and municipalities (situation on 1 January 2009). 139 new K-retailers started during the year.

In 2008, there were 144 K-Group building and home improvement stores, 81 agricultural stores, 28 Anttila department stores, 2 Anttila Store speciality stores, 8 Kodin Ykkönen department stores for interior decoration and home goods and 332 speciality stores in Finland. There were 31 building and home improvement stores, 13 agricultural stores and 11 furniture stores in the Baltic countries. There were 36 building and home improvement stores in the other Nordic countries. In Russia, there were 9 building and home improvement stores, of which 3 are in line with the new K-rauta concept.

Sales to the K-retailers accounted for nearly 49% of Kesko's total sales. Kesko's own retail stores accounted for 26% of the company's total sales.

Support for the public good

Kesko and its subsidiaries gave financial support amounting to approximately €1.6 million to about 100 organisations and institutions operating for the public good.

Kesko's cooperation with the Young Finland Association has continued for over a decade. Families with children are an important cooperation target for the K-Group. The purpose of the campaigns carried out on a joint basis is to highlight the importance of a healthy diet and physical exercise as a way of life.

Environmental responsibility

All of Kesko's operations that have a major impact on the environment are certified by the ISO 14001 environmental system. The ISO 14001 certification of Anttila Oy was revised in spring 2008. The system covered all of Anttila Oy's operations. The department stores in Mikkeli, Rovaniemi, Pori and Nummela were included in the system during the year.

VV-Autotalot Oy and Turun VV-Auto Oy comply with the action plan of the Finnish Central Organisation for Motor Trades and Repairs. This plan, which has been prepared for Finnish car dealers and repair shops, fulfils the quality and environmental management requirements of the ISO 9001 and ISO 14001 standards, as well as the quality requirements of the Volkswagen Group. Business partners providing property construction, maintenance and waste management services for Kesko have corresponding systems.

Also Keslog's transport and warehouse operations have the ISO 14001 certification.

510 K-environmental stores

At the end of the year, 423 K-food stores, 59 K-rauta and Rautia stores and 28 K-maatalous stores fulfilled the requirements of the K-stores' environmental diploma. Those stores operating as a combination of both building and home improvement stores and agricultural stores are included in these statistics for K-rauta and Rautia stores. In 2008, the K-rauta and Rautia chains set the target of having all stores in the chains qualified as K-environmental stores by the end of 2009. The process has been faster than expected and all of the 144 K-rauta and

Kesko's target is to save more than 65 million kilowatt hours of energy by 2016. At an annual level this corresponds to the energy consumption of 15 K-citymarkets.

Carbon dioxide emissions from electricity purchased by Kesko for the K-Group decreased by 80% from the previous year.

Keslog's targets include reducing carbon dioxide emissions in relation to volume by 10% by the end of 2012.

Rautia stores in business at the end of the year will have this diploma by summer 2009. The K-maatalous stores will also reach this target at about the same time.

Energy

In 2008, the combined electricity consumption of Kesko and the K-stores operating in Kesko's premises in Finland exceeded 751 GWh. Consumption remained nearly unchanged (up by 0.6%), while the total area of real estate increased by 2.0%. The total specific consumption of electrical energy in all real estate decreased by 1.4%. The consumption of heat energy totalled 288 GWh (291 GWh in 2007). The specific consumption of heat energy in all real estate declined by 3.0%. Kesko used centralised purchasing to buy 77% of the electricity used. The electricity bought by Kesko for the K-Group is carbon-free.

Transport

In 2008, Keslog's transport reporting was expanded to cover all distribution, long distance and trunk transportation and outsourced transportation. Most of the contract drivers were trained in economical driving methods, and the remaining drivers will be trained during 2009. A total of 17.7 million kilometres was driven in distribution transportation, 11.6 million kilometres were driven in long distance and trunk transportation, and 8.8 million kilometres were driven in outsourced transportation. Transportation caused approximately 44,000 tons of carbon dioxide emissions. Proportional CO_2 emissions per kilo transported totalled 0.024 kg. Proportional CO_2 emissions increased by 1.1% on the previous year.

Waste management and recycling

In waste management, the focus was on minimising the amount of mixed waste generated and achieving a high recovery rate. In Kesko Food's warehouse operations, the total amount of waste dropped by 6% and the waste recovery rate was 89%. Anttila Oy's high recovery rate (96%) dropped by two percent on the previous year. New operating practices launched included the nationwide collection of recyclable plastic bottles, 18 million of which were collected by return logistics, as well as the collection of used batteries and small accumulators. The number of returned cans remained at 81.9 million, the level of the previous year. Recycling points for used plastic bags were introduced at 55 K-food stores.

Social responsibility

Kesko's social responsibility can be divided into the direct social responsibility for its own personnel, and the indirect social responsibility for personnel helping to produce the merchandise sold by Kesko.

The core areas of Kesko's social responsibility for its own personnel are a good working community, equality, competence development, and health and safety. The development of the working community at Kesko is measured with the help of an annual personnel survey. The survey was revised and standardised in 2008 and was conducted throughout Kesko and its chain stores. The revised survey provides even more concrete information about the strengths and development targets of working communities.

In 2008, one of the major tasks of HR management was to ensure that the new guide, "Our Responsible Working Principles", published in late 2007, was put into practice in every country in which Kesko operates. This was accomplished partly through an e-learning programme established for managers and various staff events arranged by the managers in their respective units.

For more information about HR issues, see pages 49–50 and the Corporate Responsibility Report for 2008.

Responsible purchasing

As China is the main country outside the EU from which Kesko imports products, the company established its own two-member monitoring team in Shanghai in October 2008.

The monitors evaluate the responsibility practices of the Chinese supplier factories against the criteria set by Kesko, decide on any required corrective actions and give support to the factories implementing these actions. The goal of monitoring

is always an independent audit, carried out by auditors accredited by the BSCI or the SAI (an independent organisation managing the SA8000 standard). The aim of the team is to make annually at least 160 visits to the factories of 50 suppliers. The suppliers selected from different parts of China deliver clothing, household textiles, furniture, shoes and sports equipment to Kesko.

In spring 2008, a list of restricted chemicals was introduced, defining the chemicals whose use is either completely banned or restricted in the household textiles, clothing, leather goods and upholstered furniture supplied to Kesko. The list forbids the use of substances of very high concern to REACH in amounts exceeding 0.1 percent by weight. In China, compliance with chemical regulations is always verified during monitoring visits.

Kesko is an active member of the Business Social Compliance Initiative (BSCI), a joint international organisation established to promote social audits in the supply chain. By the end of the year, 32 of Kesko's suppliers in high-risk countries had been audited following the BSCI model and seven suppliers were themselves members of the BSCI. Kesko also has 21 suppliers of home and speciality goods with SA 8000 certification, and all the Chiquita plantations supplying bananas to Kesko have also been audited in compliance with the requirements of both the SA 8000 and Rain Forest Alliance standards.

More than 30 Kesko's suppliers participated in the training events arranged by the BSCI in China and India. Kesko's suppliers who participate in the development project underway in Vietnam were reaudited in line with the BSCI model, and several major improvements have been accomplished in all factories.

Responsibility in the product trade

At the end of 2008, Kesko Food offered a selection of about 600 organic or Fairtrade products or products with environmental labelling. There were 30 organic products and 59 products with environmental labelling in the Pirkka range. In addition, individual K-retailers purchase local organic and other foods to meet their customers' wishes.

The K-food stores carry the widest selection of Fairtrade certified products in Finland and Kesko Food doubled the selection during 2008. At the end of the year, the selections included over 120 Fairtrade products, 16 of which were in the Pirkka range. The first combination product – the Pirkka yoghurt, which combines Fairtrade ingredients and Finnish work – was also introduced to the range. The selection and marketing policies concerning organic and Fairtrade products and products with environmental labelling are included in the K-food stores' chain concepts.

During the year, several sustainable sourcing policies concerning the origins and production conditions of foodstuffs were made. Since September, all Pirkka eggs have been free-range or organic eggs. At the same time, Pirkka Fairtrade bananas were launched in the K-food stores. The joint fish and shellfish statement of Kesko Food and Kespro guiding the responsible purchasing of fish and shellfish was published in November.

The promotion of a healthy way of life is a central part of Kesko Food's responsibility work. The amount of salt was reduced in 19, fat in 17 and sugar in six Pirkka products. The GDA (guideline daily amounts) information was added on the labels of several hundreds of Pirkka products. A series of 69 lectures entitled "The best choices of the day" were organised in cooperation with Dietician Hanna Partanen and K-food retailers throughout Finland.

In August 2008, K-citymarket launched Doogood, a clothing collection of its own with a focus on environmental values. The clothing is produced according to the Global Organic Textile Standard (GOTS), and the working conditions of employees meet the minimum requirements set by the International Labour Organisation. The manufacturer of the Doogood collection has been certified by the IMO. The K-citymarkets also sell the Excelgreen clothing collection which is made of recycled plastic bottles.

Rautakesko offers a wide selection of products with environmental, energy or emission category labelling. The proportion of certified timber out of total timber

The 2008 Fairtrade prize was awarded to Kesko Food, whose Pirkka range has made Fairtrade products accessible to consumers throughout Finland.

All Pirkka products are analysed by Kesko Food's Product Research Unit.

In 2008, Kesko Food's Consumer Service answered 21,482 consumer inquiries.

sales was around 90%. A total of 832 tons of impregnated timber (753 tons in 2007) were recycled through the K-rauta and Rautia stores. Tropical wood and timber accounted for under one percent of Rautakesko's total sales. In line with Kesko's sourcing policy, the garden furniture sold by all K-Group stores is either FSC-certified or made of cultivated tropical wood species.

Rautakesko develops cost- and eco-efficient service solutions for construction and living. In March 2008, Rautakesko published a guidebook on sustainable housing, which is available for free in all K-rauta and Rautia stores. The themes of the guide are energy, water, indoor air, waste management, maintenance, repairs, safety and security.

Product safety

The Product Research Unit of Kesko Food is responsible for ensuring the quality of purchases, keeping abreast of food legislation, maintaining and providing support for the self-control plans required by law and for developing private label products together with the purchasing and marketing units. During the year, the recipe service of the K-test kitchen of the unit generated 859 recipes for both the K-Group units and directly for consumers. Kesko Food's Consumer Service answers consumer inquiries and receives feedback. In 2008, there were 21,482 such contacts.

Quality is controlled in purchasing by auditing the operations of product manufacturers and analysing product composition and quality. In 2008, the Product Research Unit audited 31 suppliers, 19 of which were Finnish. These companies mainly included suppliers of Kesko's private labels. A total of 5,744 food novelties and product development samples, and 1,341 product lot and other self-control samples were analysed. Kesko Food's Product Research Unit also plays a key role in exceptional situations, when a product launched on the market fails to meet safety or quality requirements.

A total of 66 product recalls took place, most of which related to defective quality or taste, or a manufacturing or packaging error. 18 of the recall cases were Kesko Food's private label products; in other cases the Product Research Unit assisted manufacturing industry. Four of the recall cases were public recalls, involving potential health hazards.

Among the non-public cases, the recall of Pirkka beer gained the most media attention. The lots in question contained an amount of alcohol that exceeded by 0.1–0.2 volume percent the limit of 4.7 vol. percent permitted in grocery stores. 735,000 cans in all were returned to the supplier.

In April, the national accreditation body FINAS (the Finnish Accreditation Service) audited the activities of Kesko Food's Product Research Unit for the purpose of ISO 17025 accreditation. No major deviations were found during the visit and corrections to the minor deviations detected have been sent to FINAS. On completion of the accreditation process, the laboratory of Kesko Food's Product Research Unit will be the first accredited laboratory representing the Finnish trading sector. In 2008, there were 45 laboratories with ISO 17025 accreditation in Finland. Nearly all were run by the authorities, with the exception of a few big food manufacturers.

In May, Kesko Food and Finfood organised a joint seminar on food safety. The results of the survey ordered by Kesko Food from TNS Gallup, assessing Finnish consumers' attitudes towards food safety, were published at the seminar. The survey was conducted in March-April and answers were received from 1,391 respondents. According to the survey, confidence in the Finnish production chain has remained high and consumers feel that Finnish food is safer than food produced elsewhere. Young people had by far the highest confidence in the safety of the production chain. A healthy diet was definitely also seen as part of product safety.

Melamine-contaminated milk in China and a counterfeit scandal concerning Italian cheese made it to the headlines in the autumn, and the dioxin in Irish pork did the same before Christmas. The Product Research Unit kept a close eye on all such cases, and took actions to ensure the cleanliness of the ingredients of Pirkka products. As far as melamine was concerned, the Unit examined all the products included in the selection, verifying that they did not contain any milk components of Chinese origin.

Kesko's Corporate Governance

A more comprehensive and regularly updated description of Kesko's Corporate Governance is presented at www.kesko.fi.

The rules and the Corporate Governance Code observed by Kesko

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

The highest decision-making power in Kesko is exercised by the company's shareholders at a General Meeting. The company's shareholders elect the company's Board of Directors and auditor at a General Meeting. The Kesko Group is managed by the Board of Directors and a Managing Director, who is the President and CEO. The company uses a so-called one-tier governance model.

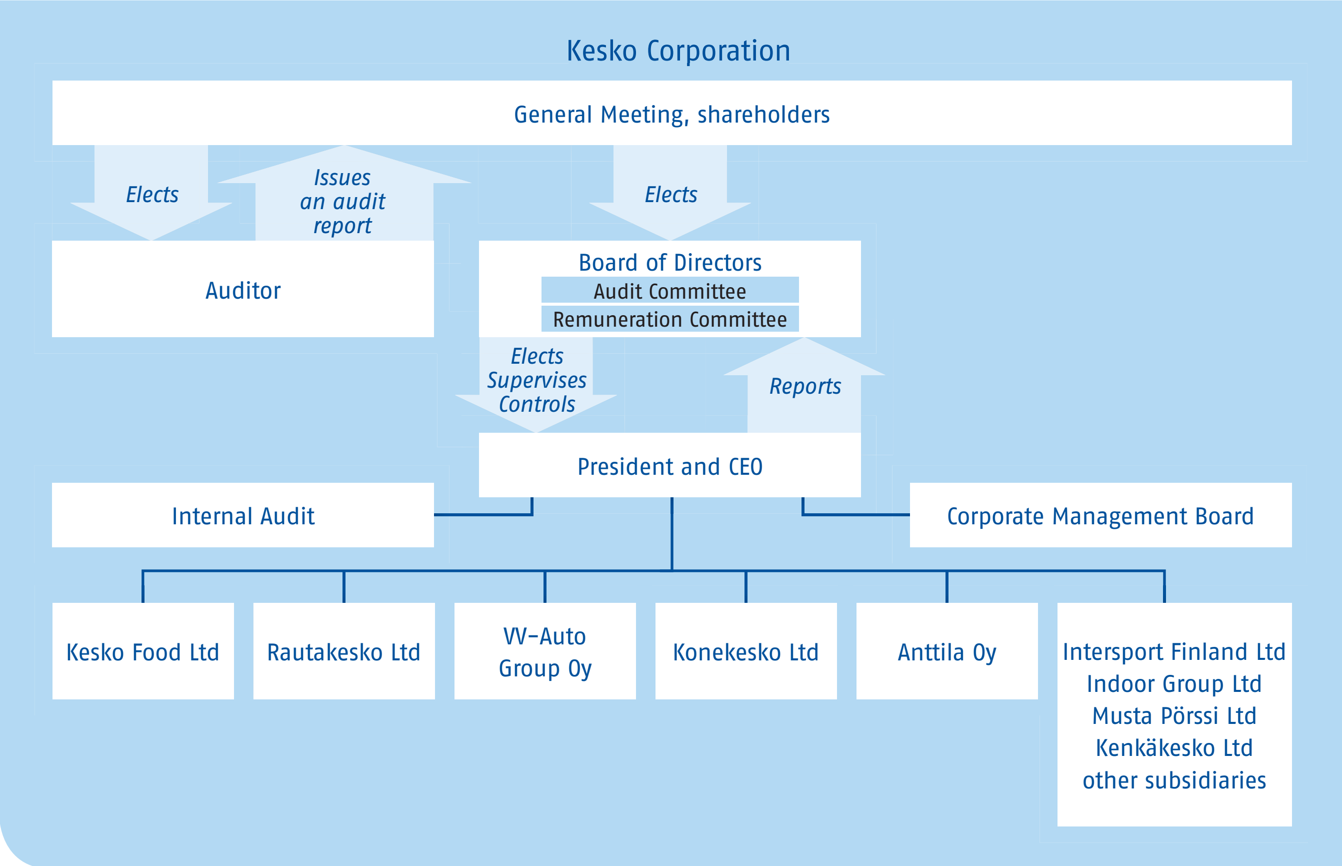
Kesko's decision-making and administration comply with the Finnish Limited Liability Companies Act, other regulations concerning publicly traded companies, Kesko Corporation's Articles of Association, and the rules of NASDAQ OMX Helsinki Ltd. In addition, the company complies with the Finnish Corporate Governance Code ("Corporate Governance Code") issued by the Securities Market Association. The Corporate Governance Code is available in full at www.cgfinland.fi. In accordance with the Comply or Explain principle of the Corporate Governance Code, the company departs from the Corporate Governance Code's recommendation concerning the terms of office of Board members as specified hereafter.

Departure from the recommendation of the Corporate Governance Code

The terms of the members of Kesko's Board of Directors depart from the recommended term of one year. The term of the company's Board is defined in the company's Articles of Association. The General Meeting makes decisions on amendments to the Articles of Association. According to the company's 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.

A shareholder which, together with controlled companies, holds over 10% of all voting rights attached to Kesko's shares, has informed the company's Board of Directors that it considers the term of three (3) 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.

Kesko Group's Corporate Governance structure



General meeting

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. If needed, the company may also hold an Extraordinary General Meeting. All General Meetings are convened by the company's Board of Directors. An Extraordinary General Meeting must also be convened if shareholders with at least 10% of the shares so demand in writing in order to deal with a given matter. As a rule, General Meetings handle the matters placed on the agenda by the company's Board of Directors. According to the Limited Liability Companies Act, a shareholder has the right to have a matter specified for a General Meeting 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

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

- decisions on the number of the Board members,
- the election of the Board members,
- decisions on the remuneration and financial benefits of the members of the Board of Directors and Board Committees,
- the election of the auditor and decisions of the auditor's fee,
- the adoption of the financial statements,
- decisions on discharging the Board and the Managing Director from liability,
- amendments to the Articles of Association,
- decisions on increases in the share capital, and
- decisions on the distribution of the company's earnings, such as distribution of profit.

Convening a General Meeting

Shareholders are invited to a General Meeting by a notice published in at least two nationwide newspapers, specifying e.g.:

- the time and place,
- the proposed agenda for the General Meeting,
- a description of the procedures that shareholders must comply with in order to participate in and cast votes at the General Meeting,
- the so-called record date that defines the right to participate in and cast votes at the General Meeting,
- the place where the documents and proposals for resolutions of the General Meeting are available, and
- the address of the company website.

The notice is delivered no earlier than two (2) months and no later than one (1) week before the record date of the General Meeting defined in the Limited Liability Companies Act. The notice and the proposals of the company's Board to a General Meeting are published in a stock exchange release. A proposal of such shareholders who hold at least 10% of the votes carried by the company shares as Board member is also published in a stock exchange release.

Right to participate in a General Meeting

Shareholders have the right to participate in a General Meeting if they are registered as shareholders in the company's register of shareholders kept by Euroclear Finland Ltd at the record date separately given by the company. Those wishing to attend a General Meeting must notify their intention in advance by the date announced in the notice of the General Meeting, which date must not be earlier than ten (10) days before the meeting. Shareholders may attend the meeting themselves or through an authorised representative.

Kesko's aim is that all members of the company's Board of Directors are present at the Annual General Meeting. First-time candidates for the Board of Directors are present at the General Meeting which decides on election, unless there is a weighty reason for their absence.

Share series

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.

Kesko's Articles of Association do not include any redemption clauses or voting restrictions. No shareholder agreements on the use of voting rights in the company or agreements on restricting the transfer of company shares are known to the company.

Board of Directors and Board Committees

Composition and term of the Board of Directors and independence of Board members

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. The General Meeting elects all members of the Board of Directors. The Board elects the Chair and the Deputy Chair from among its members. All Kesko's Board members are non-executive directors. 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 majority of Kesko's Board members are independent of the company and all Board members are independent of the company's significant shareholders. The Board of Directors evaluates the independence of its members on a regular basis. Each Board member is obliged to provide the Board with sufficient information that will allow the Board to evaluate his/her independence.

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 the 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. According to the rules of procedure, the principal duties of the Board of Directors include:

- making decisions on Group strategy and confirming strategies for the divisions,
- confirming the Group's rolling plan, which includes the investment plan,
- approving the Group's financing and investment policy,
- confirming the Group's risk management principles and handling the Group's major risks and uncertainties,
- confirming the Group's insurance policy,
- handling and adopting consolidated financial statements interim financial reports and related stock exchange releases and the report by the Board of Directors,
- making decisions on strategically or financially important individual capital expenditure, acquisitions, disposals or other arrangements, and contingent liabilities,
- making decisions on key Group structure and organisation,

Committee membership of the members of Kesko Corporation's Board of Directors and their attendance at Board and Committee meetings in 2008

		Attendance		
	Committee membership	Board	Audit Committee	Remuneration Committee
Heikki Takamäki (Chair)	Remuneration Committee (Chair)	10/10		3/3
Keijo Suila (Dep. Chair)	Audit Committee, Remuneration Committee	7/10	3/5	3/3
Pentti Kalliala	Remuneration Committee	10/10		3/3
Ilpo Kokkila	–	10/10		
Maarit Näkyvä	Audit Committee (Chair)	9/10	5/5	
Seppo Paatelainen	Audit Committee	10/10	5/5	
Jukka Säilä	–	10/10		

Members of the Board of Directors and their independence

	Independent of the company	Independent of significant shareholders
Heikki Takamäki (Chair)	No*	Yes
Keijo Suila (Dep. Chair)	Yes	Yes
Pentti Kalliala	No*	Yes
Ilpo Kokkila	Yes	Yes
Maarit Näkyvä	Yes	Yes
Seppo Paatelainen	Yes	Yes
Jukka Säilä	No*	Yes

* The companies in which Kalliala, Säilä and Takamäki exercise control each have a chain agreement with a Kesko Group company.

Board of Directors' monthly and meeting fees 2003–2008, decided by the Annual General Meeting

Monthly fees	Fee per month, €	
	2006–2008	2003–2005
Chair of the Board	5,000	3,800
Deputy Chair of the Board	3,500	2,400
Board member	2,500	2,000

Meeting fees	Fee per meeting, €	
	2006–2008	2003–2005
Fee for Board meeting	500	420
Fee for Committee meeting	500	420
Fee to Chair for Committee meeting if he/she is not also Chair or Deputy Chair of the Board	1,000	420

Monthly and meeting fees paid to the Board members for Board and Committee work in 2008

		Meeting fees			
	Monthly fees	Board of Directors	Audit Committee	Remuneration Committee	Total, €
Heikki Takamäki (Chair)	60,000	5,000	–	1,500	66,500
Keijo Suila (Dep. Chair)	42,000	3,500	1,500	1,500	48,500
Pentti Kalliala	30,000	5,000	–	1,500	36,500
Ilpo Kokkila	30,000	5,000	–	–	35,000
Maarit Näkyvä	30,000	4,500	5,000	–	39,500
Seppo Paatelainen	30,000	5,000	2,500	–	37,500
Jukka Säilä	30,000	5,000	–	–	35,000
Total	252,000	33,000	9,000	4,500	298,500

- appointing and dismissing the company's President and CEO, approving his/her managing director's service contract and making decisions on his/her remuneration and other financial benefits,
- approving the appointments, remuneration and financial benefits of the Corporate Management Board members responsible for business divisions,
- making decisions on Kesko's remuneration systems including possible granting of stock options within the terms and conditions decided by the General Meeting,
- establishing a dividend policy and being responsible for the development of shareholder value, and
- handling the Corporate Responsibility Report.

Remuneration and other financial benefits of the Board of Directors and its Committees

The Annual General Meeting makes decisions on the remuneration and other financial benefits paid to the members of the Board of Directors and its Committees annually. Fees to the members of the Board of Directors and its Committees are paid as monetary compensation. Board members have no share or share-linked remuneration systems.

Committees of the Board of Directors

Kesko has the Board of Directors' Audit Committee and Remuneration Committee, both of which consist of three (3) Board members. The Board of Directors elects the Chairs and the members of the Committees from among its members for one year at a time. All members of the Audit Committee are independent of the company and its significant shareholders. All members of the Remuneration Committee are independent of the company's significant shareholders. The Committees regularly assess their operations and working practices and carry out a related self-assessment once a year. The Board of Directors has confirmed written rules of procedure for the Committees that lay down their key duties and operating policies.

The Committees have no independent decision-making power, but the Board makes decisions based on the preparations made by the Committees. The Chair of the Committee regularly reports on the work of the Committee to the Board of Directors.

Audit Committee

The duties of the Audit Committee include:

- monitoring the financial position and financing of the Kesko Group,
- monitoring the company's reporting process of financial statements,
- supervising the company's financial reporting process,
- monitoring the efficiency of the company's internal control, internal audit and risk management systems,
- handling the plans and reports of the company's Internal Audit Department,
- monitoring the statutory audit of the financial statements and consolidated financial statements,
- evaluating the independence of the company's audit firm,
- evaluating the related services provided to the Group by the company's audit firm and the audit companies belonging to the same chain,
- preparing the draft resolution concerning the election of the company's auditor, and
- maintaining contact with the company's auditor.

Remuneration Committee

The duties of the Remuneration Committee include:

- the preparation of the remuneration and other financial benefits of the company's President and CEO for the company's Board of Directors,
- the preparation of the salaries and other financial benefits of the Corporate Management Board members responsible for the business divisions,
- the preparation of the appointment matters of the President and CEO and the Corporate Management Board members responsible for the business divisions and the assessment of their successors,
- the preparation and development of the company's remuneration systems, and
- the preparation of matters related to the possible granting of stock options to the company's Board of Directors within the terms and conditions decided by the General Meeting.

Further information about Kesko's Board of Directors and its Committees is available on pages 66–67 and at www.kesko.fi.

President and CEO

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 Board of Directors elects the President and CEO. The Board of Directors has decided the terms of the President and CEO's service contract. A managing director's service contract has been made in writing between the company and the President and CEO.

Information about the President and CEO's biographical details, working experience and key positions of trust as well as his holdings of securities issued by Kesko are presented on pages 68–69 and at www.kesko.fi.

Corporate Management Board

The Kesko Group has a Corporate Management Board, the Chair of which is Kesko's President and CEO.

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-wide development projects and Group-level principles and practices. In addition, the Corporate Management Board deals with the Group's and the division parent companies' business plans, profit performance and prepares matters that are handled by Kesko's Board of Directors. The Corporate Management Board meets 8–10 times a year.

Further information about Kesko's Corporate Management Board is presented on pages 68–69 and at www.kesko.fi.

Members of the Corporate Management Board and their responsibility areas

	Corporate Management Board member since	Responsibility area
Matti Halmesmäki, Chair	1.1.2001	Kesko's President and CEO
Terho Kalliokoski, President of Kesko Food Ltd	17.3.2005	Food trade
Jari Lind, President of Rautakesko Ltd	1.3.2005	Building and home improvement trade
Matti Leminen, President of Anttila Oy	1.1.2007	Home and speciality goods trade
Pekka Lahti, President of VV-Auto Group Oy	1.3.2005	Car and machinery trade
Arja Talma, Kesko's Senior Vice President, CFO	17.3.2005	Finance
Riitta Laitasalo, Kesko's Senior Vice President, Human Resources	1.1.2001	Human Resources
Paavo Moilanen, Kesko's Senior Vice President, Corporate Communications and Responsibility	13.10.2005	Corporate Communications and Responsibility

Stock options granted to the members of the Corporate Management Board

	In 2008 (2007B stock options)	In 2007 (2007A stock options)
Matti Halmesmäki, Chair	50,000	50,000
Terho Kalliokoski	25,000	25,000
Jari Lind	25,000	25,000
Matti Leminen	20,000	20,000
Pekka Lahti	20,000	20,000
Arja Talma	25,000	25,000
Riitta Laitasalo	15,000	15,000
Paavo Moilanen	15,000	15,000
Total	195,000	195,000

Salaries, bonuses and fringe benefits of the President and CEO and the Corporate Management Board

	Monetary compensation		Bonuses		Fringe benefits		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Matti Halmesmäki	541,100	500,680	280,000	216,000	17,460	19,380	838,560	736,060
Corporate Management Board*	1,457,636	1,378,699	248,910	218,210	101,085	100,172	1,807,631	1,697,081
Total	1,998,736	1,879,379	528,910	434,210	118,545	119,552	2,646,191	2,433,141

* Excluding the President and CEO. Juhani Järvi is included in the year 2007 figures until 31 May 2007.

The Corporate Management Board's retirement age and benefits, notice period and severance pay

	Retirement age	Retirement benefits	Notice period	Severance pay**
Matti Halmesmäki, Chair	60 years	66% of pensionable salary	6 months	12 months' salary
Terho Kalliokoski	62 years	66% of pensionable salary	6 months	6 months' salary
Jari Lind	62 years	66% of pensionable salary	6 months	6 months' salary
Matti Leminen	60 years	66% of pensionable salary	6 months	12 months' salary
Pekka Lahti	62 years	66% of pensionable salary	6 months	6 months' salary
Arja Talma	Based on the Employees' Pensions Act	Based on the Employees' Pensions Act	6 months	6 months' salary
Riitta Laitasalo	60 years	66% of pensionable salary	6 months	12 months' salary
Paavo Moilanen	60 years	66% of pensionable salary	6 months	12 months' salary

** Paid in addition to the salaries for the period of notice.

Remuneration

The remuneration system of the President and CEO and Kesko's management consists of a fixed monthly salary, a bonus based on the profit impact of each management position, an executive's pension benefits, and the stock option system. The company has no share remuneration system.

Kesko's Board of Directors makes decisions on the salaries and other financial benefits of the President and CEO and the Corporate Management Board members responsible for the business divisions, on the principles of the performance-based bonus system and the principles of other executives' bonuses. The President and CEO makes decisions on the salaries and remuneration of other Corporate Management Board members except for those mentioned above and on the details of other executives' bonus remuneration systems, following the one-over-one principle. Depending on the profit impact of each management position, the maximum bonuses can vary up to an amount corresponding to an executive's salary for 3–8 months. The bonus system criteria consist of Group-level and responsibility area-specific profit targets, customer and personnel indicators, and the supervisor's overall assessment. The bonus system covers about 100 executives of the Kesko Group.

In addition to the bonus system, Kesko has a valid year 2003 stock option scheme for the Kesko Group's management and a valid year 2007 stock option scheme for the Group management and other key people. The 2007 option scheme includes the obligation made by Kesko's Board of Directors to option recipients to use 25% of their option income to buy company shares for permanent ownership. Kesko's Board of Directors makes decisions on the distribution of stock options based on the proposal by the Remuneration Committee and within the terms and conditions of the stock option scheme decided by the company's General Meeting.

The terms and conditions of the 2003 and 2007 stock option schemes are available in full at www.kesko.fi.

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 those for profitability are the accumulation of operating profit excluding non-recurring items and 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.

Risk management, control and internal audit

Risk management

In the Kesko Group, risk assessment and management is conducted on a comprehensive basis. Risk management is an essential part of management and day-to-day operations. The objective of Kesko's risk management is to ensure the delivery of the Group's customer promises, the shareholder value, profit performance, the ability to pay dividends and the continuity 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 that may lead to:

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

The risk management policy approved by the Board of Directors guides risk management in the Kesko Group. This policy is based on the COSO ERM Integrated Framework. The policy defines the objectives, principles, responsibilities and key practices of risk management.

The Kesko Group's principles of risk management

- 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 are 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, disaster recovery and continuity plans are prepared in case any risks are realised.
- The costs and resources involved in risk management are in proportion to the obtainable benefits.

Responsibilities and roles in risk management

The business management is responsible for the risk management in practice. Persons responsible for risk management have been appointed in the divisions to coordinate and report on risk management activities. Kesko Food and Rautakesko also have Risk Managers of their own, who are responsible for the development of risk management in their divisions in cooperation with the business management and supporting functions.

The Corporate Risk Management Unit is responsible for developing risk management and its tools, introducing best practices to the Group and reporting on risk management to the Group management. The Unit is responsible for Group-level insurance programmes.

Kesko has a Group-level Risk Management Steering Group, which is chaired by the President and CEO, and has representatives of various divisions and Group units as members. The Steering Group approves risk management procedures and key policy definitions, and assesses and monitors the Group's risks and the implementation of risk management responses.

Risks are reported to Kesko's Board of Directors' Audit Committee on a quarterly basis. Kesko's Board of Directors handles the major risks, their management and assesses risk management efficiency.

With respect to the management of financial risks, the Group observes the financial policy that has been confirmed by the Board of Directors. The Group's Treasury is responsible centrally for Group funding, liquidity management, relations with providers of finance, and the management of financial risks. The implementation of the policy and the Group's financing is reported to the Audit Committee.

The Corporate Internal Audit assesses the Group's risk management annually and reports on the level of risk management to the Audit Committee.

Risk management implementation in 2008

As a result of the global financial and real economy crisis, risk management has become increasingly important and it has been systematically developed in the Kesko Group. The role of divisions' management in risk management has become increasingly important. Risk management is part of Kesko's management and operational activity. Risks are assessed on a regular basis and reported quarterly in connection with financial reporting. Project-specific risk analyses are also prepared.

The divisions assess the risks in connection with the strategy cycle and prioritise them according to their criticality and management level. Division parent companies' risks and their management have been discussed by the companies' and the Group's management. Separate risk analyses have been carried out for major projects. Also the Group units, such as Corporate Finance and Accounting, Treasury, Corporate Communications and Responsibility, Legal Affairs and IT Management, have assessed the risks threatening the Group objectives and their management.

On the basis of the divisions' and Group units' risk analyses, the Corporate Risk Management Unit has prepared summaries of major risks and their management on a quarterly basis. The resulting risk report has been handled by the Audit Committee. The main risks and uncertainties have been reported in connection with the interim financial reports.

Other risk management responses in 2008

- Continuity management projects progressed.
- Shrinkage reporting was harmonised.
- Group-level crisis plan and crisis communications guidelines were updated.
- Insurance policy updated by the Corporate Risk Management Unit was approved by Kesko's Board of Directors.
- Risk reporting to the management was increased.
- Deviation reporting application was introduced (incl. the reporting of "near miss" situations and follow-up of corrective actions).
- Guidelines for the safety and security of business premises were harmonised.
- Guidelines for handling malpractice were updated.
- The operation of Group-level cooperation forums to support the development of risk management was established (subjects include corporate, premises and work safety, data security and insurance).
- Risk awareness was increased through risk management and safety training, and communications.

Risk management emphases in 2009

Key development areas at the Group level include more efficient counterparty risk and continuity management and improved management of operational risks and loss prevention. An assessment of job hazards will be carried out in operations in Finland.

Major risks and uncertainties related to Kesko's business operations and risk management responses are described in Kesko's Annual Report, in the report by the Board of Directors on pages 78–79, in notes Nos. 44 and 45 to the consolidated financial statements on pages 122–129, and on Kesko's website at www.kesko.fi.

Internal audit

Roles of management and the Corporate Internal Audit 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 President and CEO are responsible for organising internal control. The Board of Directors is accountable to shareholders and the President and CEO 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 Corporate Internal Audit is to support Kesko's President and CEO, the Board of Directors and management in their task of control.

Kesko's Corporate Internal Audit 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 Corporate Internal Audit have been defined in the Charter confirmed by the Audit Committee. The unit is subject to Kesko's President and CEO and the Board's Audit Committee, 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 Corporate Internal Audit 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 Corporate Internal Audit cooperates with the Corporate Risk Management and participates in the work of the Group's Risk Management Steering Group. The Corporate Internal Audit assesses the effectiveness of Kesko's risk management system annually.

Auditing fees

€ thousand	2008			2007		
	PwC	Others	Total	PwC	Others	Total
Auditing expenses	869	155	1,024	786	187	973
Other services	873	309	1,182	379	108	487
Total	1,742	464	2,206	1,165	295	1,460

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 good communications with management and providing support in adopting good audit practices. The Corporate Internal Audit communicates and consults on good control solutions within the Group by preparing reports and arranging events for exchanging experiences. Controls are constantly compared with the best Finnish and international practices with the aim to identify the most efficient solutions from the viewpoint of Kesko.

Ensuring professional competence

According to its Charter, the Corporate Internal Audit 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 Corporate Internal Audit's annual plan and decide on its resources. The auditors' competencies are developed by systematic professional education and examinations. Kesko's Corporate Internal Audit has five employees with 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. International guidelines of the IIA require that an external quality assurance audit be conducted in internal audit operations every five years. According to the audit carried out at Kesko in 2005, Kesko's Corporate Internal Audit mainly complies with the international professional and ethical IIA standards.

Insider administration

Kesko's insider regulations

Kesko complies with insider guidelines of NASDAQ OMX Helsinki Ltd (Helsinki Stock Exchange), effective 2 June 2008. Kesko's Board of Directors has confirmed Kesko's insider regulations for permanent and project-specific insiders. The contents of the regulations correspond with the insider rules of the Helsinki Stock Exchange. 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), and the auditor with principal responsibility in the audit firm. Kesko Corporation's Board of Directors has also stipulated that, in addition to the President and CEO, 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.

Monitoring

The Group's Legal Affairs Unit monitors the compliance with insider regulations and maintains the company's insider registers in cooperation with Euroclear Finland Ltd. 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 the publication of annual financial statements.

Further information about the holdings of Kesko's permanent public insiders is available on pages 146–147 and updated information at www.kesko.fi.

Auditing

According to the Articles of Association, Kesko has one (1) auditor, which shall be an audit firm authorised by the Central Chamber of Commerce. The Board of Directors' Audit Committee prepares the proposal concerning the company's auditor for presentation at a General Meeting. The term of an auditor is the company's financial period and an auditor's duties terminate at the close of the Annual General Meeting following the election. A company belonging to the same chain as the audit firm represented by the auditor elected by Kesko's General Meeting mainly acts as an auditor of the Group companies outside Finland.

The auditor presents the audit report required by law to Kesko's shareholders in connection with the handling of the company's financial statements at the General Meeting, and regularly reports to the Audit Committee of Kesko's Board of Directors.

Other matters

Stock exchange communications and stock exchange releases

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

In its investor communications, Kesko follows the principle of impartiality and publishes all investor information on its website in Finnish, Swedish and English. Kesko observes a two-week period of silence before publishing information on its results.

Board of Directors on 31.12.2008

Heikki Takamäki

b. 1947.
Domicile: Tampere, Finland.

Chair
(Chair of the Remuneration Committee).

Principal occupation: Retailer, K-rauta Rauta-Otra Nekala.
Main employment history: K-rauta retailer since 1979, Kesport-Intersport retailer 1995–1999.
Board member since: 1 January 2001.
Main simultaneous positions of trust: –
Fees in 2008: €67,500.
Kesko shares and stock options held on 1 January 2008: 104,470 A shares and 42,120 B shares held by him or his company. No stock options.
On 31 December 2008: 104,470 A shares and 68,120 B shares held by him or his company.
No stock options.

Keijo Suila

b. 1945, B.Sc. (Econ.).
Domicile: Helsinki, Finland.

Deputy Chair
(member of the Audit Committee, member of the Remuneration Committee).

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 Plc: President and CEO 1999–2005.
Board member since: 1 January 2001.
Main simultaneous positions of trust: The Finnish Fair Corporation: Chair of the Board of Directors, Nokia Corporation: member of the Board of Directors, Solidium Oy: Chair of the Board of Directors.
Fees in 2008: €50,000.
Kesko shares and stock options held on 1 January 2008: No shares. No stock options.
On 31 December 2008: No shares. No stock options.

Pentti Kalliala

b. 1948,
(member of the Remuneration 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: Raisio plc: Supervisory Board member.
Fees in 2008: €37,500.
Kesko shares and stock options held on 1 January 2008: 88,560 A shares and 111,200 B shares held by him or his company. No stock options.
On 31 December 2008: 92,440 A shares and 116,050 B shares held by him or his company.
No stock options.

Ilpo Kokkila

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

Principal occupation: SRV Group Plc: Chair of the Board of Directors.
Main employment history: A-Betoni Oy: Constructor 1972–1974, Perusyhtymä Oy: Director 1974–1987, SRV Group Plc: Chair of the Board of Directors 1987–, Pontos Ltd: Chair of the Board of Directors 2002–.
Board member since: 27 March 2006.
Main simultaneous positions of trust: JTO School of Management: Chair of the Board of Directors, Finnish-Russian Chamber of Commerce (FRCC): Deputy Chair of the Board of Directors.
Fees in 2008: €35,500.
Kesko shares and stock options held on 1 January 2008: 16,100 B shares held by him. No stock options.
On 31 December 2008: 16,100 B shares held by him.
No stock options.

Maarit Näkyvä

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

Principal occupation: –
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: Executive Vice President 2001–2006, Sampo Bank plc: Deputy CEO 2005–2008.
Board member since: 1 January 2001.
Main simultaneous positions of trust: –
Fees in 2008: €41,000.
Kesko shares and stock options held on 1 January 2008: No shares. No stock options.
On 31 December 2008: No shares. No stock options.

Seppo Paatelainen

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

Principal occupation: –
Main employment history: Itikka Co-operative: Director 1970–1973, 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: Chair of the Board of Directors.
Fees in 2008: €38,500.
Kesko shares and stock options held on 1 January 2008: No shares. No stock options.
On 31 December 2008: No shares. No stock options.

Jukka Säilä

b. 1949, Business College Graduate. **Domicile**: Kangasala, Finland.

Principal occupation: Retailer, K-kenkä Koskikeskus, 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: Confederation of Finnish Industries EK: member of the regional advisory board of Pirkanmaa.
Fees in 2008: €35,500.
Kesko shares and stock options held on 1 January 2008: 4,000 A shares and 1,100 B shares held by him or his company. No stock options.
On 31 December 2008: 4,000 A shares and 3,100 B shares held by him or his company. No stock options.

Up-to-date information about the main positions of trust is available at www.kesko.fi.
The term of each Board member will expire at the close of the 2009 Annual General Meeting.

Corporate Management Board on 31.12.2008

Matti Halmesmäki

b. 1952, M.Sc. (Econ.), LL.M.
Kesko Corporation's President and CEO, Chair of the Corporate Management Board.
Domicile: Helsinki, Finland.

Other major duties: Confederation of Finnish Industries EK: Deputy Chair 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: Chair of the Supervisory Board, Foundation for Economic Education: member of the Board of Directors, Finnish Business and Policy Forum EVA: member, Helsinki Region 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 stock options held on 1 January 2008: 50,000 A stock options.
On 31 December 2008: 2,000 A shares, 7,000 B shares, 50,000 A stock options and 50,000 B stock 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.

Terho Kalliokoski

b. 1961, M.Sc. (Econ.).
President of Kesko Food Ltd.
Domicile: Kirkkonummi, Finland.

Other major duties: The Finnish Food Marketing Association: Chair 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, Helsinki Region Chamber of Commerce: Board member since 15 January 2009.
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 stock options held on 1 January 2008: 1,500 B shares and 25,000 A stock options.
On 31 December 2008: 3,250 B shares, 25,000 A stock options and 25,000 B stock 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. President of Rautakesko Ltd since 1 March 2005.
Kesko shares and stock options held on 1 January 2008: 25,000 stock options.
On 31 December 2008: 25,000 A stock options and 25,000 B stock 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 Leminen

b. 1951, B.Sc. (Econ.)
President of Anttila Oy.
Domicile: Espoo, Finland.

Other major duties: Textile and Fashion Suppliers and Retailers Finland: member of the Board of Directors, Association of Textile and Footwear Importers and Wholesalers: member of the Board of Directors
Employment history: Employed by Kesko Ltd since 1982: Director of the Vaatehuone chain 1990–1991, Director of the Leisure Goods Department 1992–1995, Director of Kesko Sports 1995–1998, Executive Vice President of Keswell Ltd 2005–2006. President of Anttila Oy since 10 June 1998.
Kesko shares and stock options held on 1 January 2008: 20,000 A stock options, 7,000 E stock options and 12,000 F stock options.
On 31 December 2008: 20,000 A stock options, 20,000 B stock options, 7,000 E stock options and 12,000 F stock 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.




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 2005–2008. Chair of the Board of Konekesko Ltd since 1 November 2005. President of VV-Auto Group Oy since 1 February 2006.
Kesko shares and stock options held on 1 January 2008: 20,000 A stock options and 23,500 F stock options.
On 31 December 2008: 20,000 A stock options, 20,000 B stock options and 23,500 F stock 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: Edita Plc: member of the Board of Directors, JTO School of Management: member of the Board of Directors, the Finnish Institute for International Trade Fintra: member of the Board of Directors.
Employment history: Employed by Kesko Corporation since 1979: Personnel Director 1995–1997, Vice President, Accounting and Finance Division 1997–1998, Vice President, Finance and Administration Division 1998–1999, Senior Vice President, Administration 2000–2005. Senior Vice President, Human Resources since 30 March 2005.
Kesko shares and stock options held on 1 January 2008: 15,000 A stock options, 5,000 E stock options and 21,000 F stock options.
On 31 December 2008: 5,000 B shares, 15,000 A stock options, 15,000 B stock options and 21,000 F stock 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: Sponda Plc: member of the Board of Directors and Chair of the Audit Committee, VR-Group Ltd: member of the Board of Directors and Chair of the Audit Committee, Luottokunta: 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 stock options held on 1 January 2008: 25,000 A stock options.
On 31 December 2008: 1,000 B shares, 25,000 A stock options and 25,000 B stock 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 and Responsibility.
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's Senior Vice President, Corporate Communications and Responsibility since 13 October 2005.
Kesko shares and stock options held on 1 January 2008: 500 A shares, 15,000 A stock options and 1,000 E stock options.
On 31 December 2008: 500 A shares, 1,312 B shares, 15,000 A stock options and 15,000 B stock 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.

Report by the Board of Directors and Financial Statements

Report by the Board of Directors

Financial Statements

Report by the Board of Directors

January–December 2008

Continuing operations

Net sales and profit

The Group's net sales in January–December 2008 were €9,600 million, which is 3.4% up on the corresponding period of the previous year (€9,287 million). The net sales increased by 4.4% in Finland and decreased by 0.2% abroad. Exports and foreign operations accounted for 21.4% (22.2%) of net sales. The trend in the Group's net sales was significantly affected by the weakening construction market especially in the Nordic and Baltic countries towards the end of 2008. Grocery sales grew steadily throughout 2008.

Continuing operations	2008	2007	10–12/2008	10–12/2007
Net sales, € million	9,600	9,287	2,336	2,390
Operating profit, € million	285.6	321.5	6.9	68.3
Operating profit, excl. non-recurring items, € million	217.0	315.0	27.3	71.9
Group's profit before tax, € million	288.5	357.8	7.7	66.1
Earnings/share, € (continuing operations)	1.81	2.52	-0.05	0.39
Earnings per share, € (whole Group)	2.24	2.90	-0.04	0.41
Investments, € million	338	228	105	69

Whole group	2008	2007
Equity ratio, %	52.4	48.5
Return on equity, %	12.1	16.4
Return on investment, %	14.2	17.4
Equity/share, €	20.09	19.53
Dividend/share, €)	1.00*	1.60

* Board of Directors' proposal to the Annual General Meeting

In January-December, the K-Group's (i.e. Kesko's and the chain stores') retail sales (incl. VAT) were €11,916 million, an increase of 3.4% on the previous year.

The Group's profit before taxes for January-December was €288.5 million (€357.8 million). The operating profit was €285.6 million (€321.5 million). Non-recurring items excluded, the operating profit was €217.0 million (€315.0 million), accounting for 2.3% (3.4%) of net sales. The most significant amounts included in non-recurring income are the €103.2 million gain on property lease and sale arrangements between Kesko and Nordisk Renting Oy, the €16.3 million gain on a property transaction between Kesko and Aberdeen Property Fund Finland 1 Ky, and the €10.3 million gain on the sale of K-Rahoitus Oy shares. Non-recurring expenses include a €45.6 million impairment charge on the consolidated goodwill and trademark of Byggmakker Norge, a Rautakesko subsidiary, based on a weakened outlook for the business. The non-recurring expenses also include a €15.5 million impairment charge on Anttila's logistics centre in Vantaa to be replaced by the new logistics centre in Kerava in 2011. The financial items of the comparative period included a €37.1 million non-recurring gain on the sale of SATO Corporation shares.

The smaller year-on-year operating profit excluding non-recurring items was mainly due to a decreased demand in the construction market in the Nordic and Baltic countries, and the expansion and renovation of the networks of building and home improvement stores and food stores. Owing to the dramatic deterioration of the economic situation, the measurement principles of inventories and trade receivables have been tightened further. There is a €25 million year-on-year increase in the impairment charges on inventories and trade receivables recognised in 2008.

The Group's earnings per share from continuing operations were €1.81 (€2.52). Equity per share was €20.09 (€19.53).

Investments

In January-December 2008, the Group's investments totalled €338.4 million (€227.7 million), which is 3.5% (2.5%) of net sales. Investments in store sites were 279.0 million (€188.2 million) and other investments €59.5 million (€39.5 million). Investments in foreign operations represented 29.0% of total investments.

Finance

In January-December, the cash flow from operating activities was €134.0 million (€248.4 million) and the cash flow from investing activities was €-45.8 million (€-84.7 million). The cash flow from investing activities included €281.4 million (€146.1 million) of proceeds received from the disposal of fixed assets.

At the end of the period, liquid assets totalled €443 million (€351 million). The amount was increased by the about €44 million real estate transaction between Kesko and Aberdeen Property Fund Finland 1 Ky, and the property and lease arrangement between Kesko and Nordisk Renting Oy, which contributed €82 million to the cash flow. In addition, the amount of liquid assets was increased by the debt-free selling price of about €77 million received from the disposal of Kauko-Telko, and by the disposal of K-Rahoitus Oy, which contributed about €240 million to liquid assets in finance receivables paid to Kesko. At the end of the reporting period, the interest-bearing net debt was €47 million (€275 million). Equity ratio was 52.4% (48.5%) and gearing 2.3% (14.0%) at the end of the period.

In January-December, the Group's net financial income was €1.0 million (€36.1 million). Net financial income was increased by an increase in the amount of liquid assets and in the interest rate level. Towards the end of the year, net financial income was decreased by an increase in the currency interest rate spreads. The income for the comparative period included a €37.1 million gain on the sale of SATO Corporation shares.

Taxes

In January-December, the Group's taxes were €89.4 million (€87.1 million). The effective tax rate was 30.9% (24.4%), increased by the non-deductible impairment charge on Byggmakker Norge's consolidated goodwill recognised for the reporting period.

Personnel

In January-December, the average number of personnel in the Kesko Group was 21,327 (20,520) converted into full-time employees. In Finland, the average decrease was 95 employees, while outside Finland, the increase was 902. The number of personnel was significantly increased by the Belarusian subsidiary OMA, acquired in July 2007.

At the end of December 2008, the total number of personnel was 24,668 (25,228), of whom 13,651 (13,762) worked in Finland and 11,017 (11,466) outside Finland. Compared with the end of 2007, there was a decrease of 111 employees in Finland and 449 outside Finland. As a result of the decline in consumer demand, several measures aimed at staff cost adjustment were initiated during 2008 in different operations of the Group.

Market review

According to the data from Statistics Finland, in January-November 2008, the Finnish retail trade sales increased by 7.6% compared with the previous year. In January-November, the wholesale trade sales were up by 9.1%. Towards the end of 2008, however, both retail and wholesale trade sales slowed down significantly, and in November 2008, the retail trade dropped by 0.5% and the wholesale trade by 11.4%. The average inflation rate for 2008, calculated by Statistics Finland, was 4.1%.

According to Statistics Finland's consumer survey of January 2009, consumers' confidence in the economy was weak. Consumers considered their own financial situation and saving possibilities to be good, although the possibility of becoming unemployed was considered to be more likely than before. Their views of Finland's economy and the economic development continued to be gloomy.

The economic development and consumer demand in Kesko's operating area are subject to significant uncertainties resulting from aggravated problems in the international financial market and weakened general economic development. Therefore the report by the Board of Directors does not make separate forward-looking statements concerning the divisions.

Seasonal nature of operations

The Group's operating activities are affected by seasonal fluctuations. The net sales and operating profits of its business segments are not earned evenly throughout the year. Instead they vary by quarter depending on the characteristics of each business segment.

Divisions' performances in January-December

Kesko Food

In January-December, Kesko Food's net sales were €4,110 million (€3,871 million), up 6.2%. The retail sales of K-food stores (incl. VAT) increased by 6.0%, totalling €5,351 million. Especially the K-food stores' own Pirkka products saw good sales growth of 14.6%. During 2008, 37 new K-food stores were opened. The number of K-citymarkets opened was eight, two of which were expansions from K-supermarkets into K-citymarkets. The number of new K-supermarket food stores opened was 13.
The growth rate of the total grocery trade market in Finland for 2008 is estimated at about 9% up on the previous year.
In January-December, prices increased at an average monthly rate of about 7.6% compared with the previous year (Statistics Finland).

In January-December, Kesko Food's operating profit excluding non-recurring items was €135.2 million (3.3% of net sales), i.e. €16.2 million, or 0.6 percentage points, lower than in the previous year. The operating profit excluding non-recurring items was negatively impacted by the expansions and renovations carried out in the store site network, and the weaker year-on-year sales growth in the home and speciality goods trade. The operating profit was €245.0 million (€151.3 million). The operating profit was increased by a €103.2 million non-recurring gain on the property and lease arrangement between Kesko and Nordisk Renting, and by a €10.7 million non-recurring gain on the property transaction between Kesko and Aberdeen Property Fund Finland 1 Ky.

In January-December, Kesko Food's investments totalled €185.9 million (€117.6 million), of which investments in store sites were €161.7 million (€104.8 million).

Rautakesko

In January-December, Rautakesko's net sales amounted to €2,518 million (€2,537 million), a decrease of 0.8%. Sales growth declined dramatically especially in sales to professional customers. The contribution of business acquisitions and disposals excluded, the change in net sales was -1.4%. Net sales in Finland were €882 million (€909 million), a decrease of 3.0%. Foreign operations' contribution to net sales was €1,636 million (€1,628 million), up 0.5%. Foreign operations accounted for 65.0% (64.0%) of Rautakesko's net sales.

In January-December, the retail sales (incl. VAT) of the K-rauta and Rautia chains in Finland increased by 2.1% and were €1,225 million. The sales of Rautakesko B-to-B Service decreased by 11.7%.

During 2008, two new and six replacement stores were opened in Finland. 12 new and one replacement store were opened abroad.

In Sweden, the net sales increased by 1.0% to €186 million in January-December. In Norway, the net sales decreased by 7.7% and were €570 million. In Estonia, the net sales were down by 11.6% to €81 million. In Latvia, the net sales decreased by 15.8% and were €71 million. In Lithuania, Senukai's net sales decreased by 0.9% to €449 million. In Russia, Stroymaster's net sales grew by 34.9% to €203 million. The net sales of the Belarusian OMA were €71 million.

In January-December, Rautakesko's operating profit excluding non-recurring items was €53.3 million (2.1% of net sales), i.e. €62.6 million, or 2.5 percentage points, lower than in the previous year. In addition to the decreasing demand in the construction market, the profitability was impacted by the expansion of the store site network, and the tightening of the measurement principles of trade receivables and inventories. There is an approximately €14 million year-on-year increase in the impairment charges on inventories and trade receivables recognised in 2008. Rautakesko's operating profit for January-December was €16.3 million (€117.8 million). The operating profit includes a €45.6 million non-recurring impairment charge on Byggmakker Norge's intangible assets. In addition, the operating profit includes a €5.4 million non-recurring gain on the property transaction between Kesko and Aberdeen Property Fund Finland 1 Ky.

In January-December, Rautakesko's investments were €121.1 million (€77.0 million). Investments abroad accounted for 80.1% (59.3%) of total investments.

VV-Auto

In January-December, VV-Auto's net sales were €884 million (€805 million), up 9.9%. The aggregate number of registrations of passenger cars and vans imported by VV-Auto increased by 23.6% in Finland. This development is attributable to the car tax change enacted at the beginning of 2008, and the good competitiveness of Volkswagen and Audi. In 2008, the combined market share of passenger cars and vans imported by VV-Auto was 17.1% (15.1%). The restrained trend in net sales was attributable to the average car prices, fallen as a result of the car tax change, by a slowdown in the Baltic car sales, and a decrease in van sales.

In January-December, the number of first registrations of new passenger cars totalled 139,647 in Finland, up 11.2% on the previous year. Compared with the year before, first registrations of vans were down by 8.1% to 15,522.

In January-December, first registrations of passenger cars imported by VV-Auto increased by 30.6%. First registrations of Volkswagen passenger cars in January-December were 16,493 and the market share was 11.8% (10.2%). In January-December, first registrations of Audis were 5,836 and the market share was 4.2% (3.3%). The registrations of new Seat passenger cars totalled 1,832 in Finland and the market share was 1.3% (1.2%). The number of Volkswagen vans registered was 2,463 and their market share was 15.9% (18.0%).

In January-December, the operating profit was €36.3 million (4.1% of net sales), which was up €10.3 million, or 0.9 percentage points, compared with the corresponding period of the previous year. The profitability was improved by the good sales performance of the brands represented by VV-Auto.

Investments totalled €6.9 million (€6.3 million) in January-December.

Anttila

In January-December, Anttila's net sales were €560 million (€564 million), down 0.7%. As the economic outlook worsened, consumers became more cautious, which had an impact on the demand for home decoration products and consumer electronics in particular.

In January-December, the retail sales (incl. VAT) of the Anttila department stores were €393 million, down 1.3%. The retail sales of the Kodin Ykkönen department stores for home goods and interior decoration were €181 million, down 1.9%. The distance retail sales of Net Anttila in Finland were €93 million, up 4.9%. In Estonia, NetAnttila's sales were €9 million, showing a growth of 1.4%. In Latvia, NetAnttila's sales were €8 million, representing a decrease of 17.6%.

In January-December, Anttila's operating profit excluding non-recurring items was €19.8 million (3.5% of net sales), i.e. €5.4 million, or 0.9 percentage points, lower than in the corresponding period of the previous year. Anttila's operating profit was €4.3 million (€27.2 million). The non-recurring items include an impairment charge of €15.5 million on the logistics centre property in Vantaa. Anttila is having a new logistics centre built in Kerava to be completed in 2011.

Anttila's investments totalled €5.8 million (€5.8 million), the most significant of which were made in the new department stores in Pori and Rovaniemi.

Kesko Agro

In January-December, Kesko Agro's net sales were €846 million (€793 million), an increase of 6.6%. The net sales from foreign operations were €318 million (€295 million), accounting for 37.6% of total net sales.

In January-December, Kesko Agro's net sales in Finland were €527 million, up 5.7%, which was significantly affected by the increase in the price levels of agricultural inputs and fuels. The net sales from foreign operations increased by 8.0%, which is attributable to an increase in the grain and agricultural inputs trade. The Baltic construction machinery trade clearly declined over the previous year.

The sales of the K-maatalous chain in Finland increased by 6.0% to €714 million (incl. VAT) in January-December.

In January-December, Kesko Agro's operating loss excluding non-recurring items was €3.5 million (-0.4% of net sales), i.e. €15.9 million lower than in the corresponding period of the previous year. The profit performance was significantly affected by the weakening of the Baltic agricultural and machinery markets towards the end of 2008, as a result of which the impairment charges on Kesko Agro's inventories and trade receivables increased by about €7 million over the previous year.

In January-December, investments were €2.4 million (€7.6 million).

Other operating activities

Other operating activities comprise the reporting for Konekesko, Intersport Finland, Indoor, Musta Pörssi and Kenkäkesko.

In January-December, the aggregate net sales of other operating activities were €699 million (€743 million), a decrease of 6.0%. The net sales from foreign operations totalled €56 million, accounting for 8.0% of total net sales.

In January-December, the aggregate operating loss of other operating activities excluding non-recurring items was €0.1 million (0.0% of net sales), i.e. €14.0 million down on the corresponding period of the previous year. The decline in profitability was attributable to the weaker profit performance of the recreational machinery trade, the furniture trade and home technology compared with the previous year. In January-December, the operating profit was €0.8 million (€10.0 million).

In January-December, investments were €15.7 million (€7.4 million).

In January-December, Konekesko's net sales were €214 million (€229 million), down 6.5% on the previous year. Sales and profitability weakened especially in the recreational machinery trade.

In January-December, Intersport Finland's net sales were €158 million (€147 million), an increase of 7.5%. In March, Budget Sport stores were opened in Espoo and Raisio.

Indoor's net sales in January-December were €177 million (€197 million), down 9.7%. Sales and profitability were weakened by consumers' cautiousness and the decline in the housing trade. Indoor's operating activities in Sweden were discontinued in March 2008.

Musta Pörssi Ltd's net sales in January-December were €123 million (€148 million), down 16.8%. The sales trend was affected by changes in the store site network, coupled with a lower year-on-year demand for consumer electronics since households had gone digital in the comparative year. The Konebox.fi online store was opened at the end of 2008.

In January-December, Kenkäkesko Ltd's net sales were €26 million (€23 million), up 12.6%.

Discontinued operations

In January-December, the Group's profit from discontinued operations was €41.5 million (€36.6 million). Discontinued operations comprise the reporting for Kauko-Telko Ltd and the €31 million gain on its disposal, and TähtiOptikko Group Oy, with the about €8.5 million gain on its disposal. In the comparative year, discontinued operations included a €28.2 million gain on the disposal of food store properties leased to Rimi Baltic AB.

October-December 2008

Continuing operations

Net sales and profit

The Group's net sales in October-December 2008 were €2,336 million, which is 2.3% down on the corresponding period of the previous year (€2,390 million). The Group's net sales increased by 1.8% in Finland and decreased by 16.0% abroad. Exports and foreign operations accounted for 19.4% (22.6%) of net sales.

In October-December, the K-Group's (i.e. Kesko's and the chain stores') retail sales (incl. VAT) were €3,016 million, a decrease of 2.0% on the corresponding period of the previous year.

The Group's profit before tax for October-December was €7.7 million (€66.1 million). The operating profit was €6.9 million (€68.3 million). The operating profit included a net total of €-20.4 million (€-3.7 million) of non-recurring gains and losses on the disposal of fixed assets, and impairment charges. The non-recurring expenses include a €15.5 million impairment charge on Anttila's logistics centre in Vantaa to be replaced by the new logistics centre in Kerava in 2011.

The operating profit excluding non-recurring items was €27.3 million (€71.9 million). It represented 1.2% of net sales (3.0%). The smaller year-on-year operating profit excluding non-recurring items was mainly due to a decreased demand in the Nordic and Baltic construction markets. Owing to the dramatic deterioration of the economic situation, the measurement principles of inventories and trade receivables have been tightened further. There is an approximately €17 million year-on-year increase in the impairment charges on inventories and trade receivables recognised in October-December.

The smaller year-on-year operating profit excluding non-recurring items was due to a decreased demand in the construction market and the home and speciality goods trade, and the expansion and renovation of the store site network.

The Group's earnings per share from continuing operations were €-0.05 (€0.39). Equity per share was €20.09 (€19.53).

Investments

The Group's investments in October-December totalled €105.2 million (€68.8 million), which is 4.5% (2.9%) of net sales. Investments in store sites were €84.1 million (€61.9 million). The Group's other investments were €21.1 million (€6.9 million). Investments in foreign operations represented 37.8% of total investments.

Finance

In October-December, the cash flow from operating activities was €15.7 million (€70.2 million) and the cash flow from investing activities was €-95.7 million (€-71.0 million). The cash flow from investing activities included €3.7 million (€5.1 million) of proceeds received from the disposal of fixed assets.

At the end of the period, liquid assets totalled €443 million (€351 million). The assets have been invested in a diversified manner, within counterparty specific limits, across the debt instruments of enterprises (€203 million) and banks (€141 million), in funds (€9 million), Finnish Government bonds (€32 million) and bank deposits (€58 million).

In October-December, the Group's net financial income was €0.8 million (€-2.1 million).

Taxes

In October-December, the Group's taxes were €5.5 million (€20.6 million). The effective tax rate was 71.2% (31.1%), increased by foreign companies' loss-making performances in the reporting period.

Personnel

In October-December, the average number of personnel in the Kesko Group was 20,921 (21,376) converted into full-time employees. There was a decrease of 455 employees compared with the corresponding period of the previous year. In Finland, the average decrease was 397 employees, while outside Finland, it was 58 employees.

Divisions' performances in October-December

Kesko Food

In October-December, Kesko Food's net sales totalled €1,122 million (€1,046 million), up 7.3%. The retail sales of K-food stores in October-December totalled €1,456 million (incl. VAT), representing a growth of 6.5%, and their grocery sales increased by 7.8%. At the end of December, there were a total of 1,055 K-food stores (mobile stores excluded).

In October-December, Kesko Food's operating profit excluding non-recurring items was €43.3 million (3.9% of net sales), i.e. €3.5 million, or 0.1 percentage points, higher than in the previous year. Kesko Food's operating profit was €39.0 million (€40.0 million).

In October-December, Kesko Food's investments totalled €48.5 million (€37.8 million), of which investments in store sites were €38.5 million (€36.7 million).

Kesko Food continued the intensive development of the K-food store network. In October-December, a K-citymarket was opened in Tornio, in Mikkola, Pori, in Ylivieska, Jämsä and in Klaukkala, Nurmijärvi. K-supermarkets were expanded into K-citymarkets in Rusko, Oulu and in Kemi. New K-supermarkets were opened in Konala, Helsinki, in Liminka, Suomussalmi and Rovaniemi. Other renovations and expansions were also implemented.

The most important store sites being built are the K-citymarkets in Turku, Ylöjärvi, Kirkkonummi, in Linnainmaa, Tampere, in Koivukylä, Vantaa, the expansion of K-citymarket Mikkeli, and the new K-supermarkets being built in Kempele, Porvoo, Järvenpää and Eurajoki.

Rautakesko

Compared with the previous year, the market situation in the Nordic and Baltic building and home improvement trade weakened clearly during the last quarter. In October-December, Rautakesko's net sales amounted to €518 million (€622 million), a decrease of 16.7%. Net sales in Finland were €166 million (€195 million), a decrease of 15.1%. Foreign operations contributed €352 million (€427 million) to the net sales, a decrease of 17.5%. In addition to the decline in demand, the sales development of foreign operations was affected by the weakening of the Swedish krona, the Norwegian krone and the Russian rouble. Foreign operations accounted for 68.0% of Rautakesko's net sales.

In Sweden, the net sales of K-rauta AB decreased by 13.1% to €37 million in October-December. In local currency terms, K-rauta AB's net sales dropped by 2.3%. In Norway, Byggmakker's net sales decreased by 30.9% and were €107 million. In local currency terms, Byggmakker's net sales dropped by 18.9%. In Estonia, Rautakesko's net sales were down by 19.4% to €18 million. In Latvia, Rautakesko's net sales decreased by 29.0% and were €15 million. In Lithuania, Senukai's net sales decreased by 16.5% to €104 million. In Russia, Stroymaster's net sales grew by 28.1% to €54 million. The net sales of the Belarusian OMA were €19 million.

In October-December, Rautakesko's operating loss excluding non-recurring items was €6.2 million (-1.2% of net sales), i.e. €28.2 million lower than in the corresponding period of the previous year. The profit performance was affected by a decreasing demand in the Nordic and Baltic construction markets, and by the expansion of the store site network. In addition, the profitability was affected by the tightening of the measurement principles of trade receivables and inventories. There is an approximately €9 million year-on-year increase in the impairment charges on inventories and trade receivables recognised in October-December. Rautakesko's operating loss for October-December was €5.3 million (operating profit €22.1 million).

In October-December, Rautakesko's investments totalled €44.7 million (€21.2 million). Investments abroad accounted for 88.0% (75.5%) of total investments.

In October-December, the retail sales (incl. VAT) of the K-rauta and Rautia chains in Finland decreased by 4.2% to €266 million. The sales of Rautakesko B-to-B Service decreased by 24.5%. At the end of December, the K-rauta and Rautia chains in Finland comprised 42 and 102 stores respectively.

In Sweden, there are 19 K-rauta stores, one of which is owned by the retailer. In Estonia, there are eight K-rauta stores. In Norway, the Byggmakker chain comprises 120 stores, 18 of which are owned by Byggmakker.

Three new stores were opened in October-December. In St. Petersburg, Russia, the ninth K-rauta store was opened at the end of November. Five of the K-rauta stores in St. Petersburg operate in conformity with the new K-rauta concept. In Latvia, Rautakesko opened a new K-rauta store in Rezekne in October. There are eight K-rauta stores and two K-rauta partner stores in Latvia. In Lithuania, Senukai opened a new store in Klaipeda in October. Senukai has 15 stores of its own and 76 partnershop stores.

VV-Auto

In October-December, VV-Auto's net sales totalled €161 million (€144 million), up 12.2%. The net sales of the comparative period were decreased by the car tax change published in November 2007, which postponed a significant part of sales to 2008. During the last quarter, the aggregate market share of passenger cars and vans imported by VV-Auto was 18.3% (15.6%).

In October-December, the operating profit excluding non-recurring items was €1.9 million (1.2% of net sales), i.e. €2.5 million, or 1.6 percentage points, higher than in the corresponding period of the previous year.

Investments totalled €1.9 million (€1.3 million) in October-December.

Anttila

In October-December, Anttila's net sales totalled €184 million (€189 million), down 3.1%.

In October-December, the retail sales (incl. VAT) of the Anttila department stores were €137 million, down 3.6%. The retail sales of the Kodin Ykkönen department stores for home goods and interior decoration were €56 million, a decrease of 7.4%. Distance retail sales in Finland were €28 million, up 3.5%. Especially in interior decoration and home technology, the sales trend was heavily impacted by an increase in the overall economic uncertainty and the slowdown in the housing trade.

In October-December, Anttila's operating profit excluding non-recurring items was €20.0 million (10.9% of net sales), i.e. €1.6 million, or 0.5 percentage points, lower than for the corresponding period of the previous year. Anttila's operating profit was €4.6 million (€21.6 million). The non-recurring items include a €15.5 million impairment charge on the logistics centre property in Vantaa. Anttila is having a new logistics centre built in Kerava, which will be completed in 2011.

Anttila's investments were €2.3 million (€1.5 million).

At the end of December, there were 28 Anttila department stores and two specialist stores, eight Kodin Ykkönen department stores, and one Kodin1.com online department store for home goods and interior decoration. NetAnttila engages in distance sales and operates in Finland, Estonia and Latvia.

In October, a new department store was opened in Pori in replacement of the old department store. In November, a new department store was opened in Rovaniemi and a specialist Anttila Store in Nummela, Vihti.

In 2009, a new department store will be opened in the Skanssi shopping centre in Turku, and a new Kodin Ykkönen store in Lielahti, Tampere.

Kesko Agro

In October-December, Kesko Agro's net sales were €202 million (€213 million), a decrease of 5.2%. Kesko Agro's net sales in Finland were €118 million, down 9.6% in October-December. The net sales from the Baltic agricultural and machinery trade were €84 million (€83 million), an increase of 1.8% in October-December.

In October-December, Kesko Agro's operating loss excluding non-recurring items was €15.8 million (-7.8% of net sales), i.e. €17.9 million lower than in the corresponding period of the previous year. The profit performance was significantly affected by the weakening of the Baltic construction and agricultural markets towards the end of 2008, as a result of which a total of €9 million higher impairment charges and provisions on trade receivables and inventories was recognised for October-December compared with the previous year. Approximately half of the amount relates to financial difficulties found in the activities of a Latvian warehouse operator.

At the end of the reporting period, the K-maatalous chain comprised 91 agricultural stores in Finland. Kesko Agro has six stores in Estonia, four in Latvia and three in Lithuania.

Other operating activities

Other operating activities comprise the reporting for Konekesko, Intersport Finland, Indoor, Musta Pörssi and Kenkäkesko.

In October-December, the aggregate net sales of other operating activities were €152 million (€182 million), down 16.1%.

In October-December, the aggregate operating loss of other operating activities, non-recurring items excluded, was €7.9 million (-5.2% of net sales), i.e. €3.4 million lower than in the corresponding period of the previous year. In October-December, the operating loss was €9.5 million (€8.4 million).

In October-December, investments were €4.9 million (€3.7 million).

Konekesko's net sales in October-December were €32 million (€43 million), a decrease of 26.0% compared with the previous year. In Finland, sales were €29 million, down 19.2%. Konekesko's export sales totalled €2 million, a decrease of 73.5%.

Intersport Finland's net sales in October-December were €40 million (€41 million), down 1.6%.

Indoor's net sales in October-December were €42 million (€51 million), down 17.8%. In October-December, the net sales of the furniture trade in foreign operations were €6 million, a decrease of 50.5%. Indoor's operating activities in Sweden were discontinued in March 2008.

Musta Pörssi Ltd's net sales in October-December were €35 million (€42 million), down 17.3%.

Kenkäkesko Ltd's net sales in October-December were €4 million (€5 million), a decrease of 21.3%.

Changes in the Group composition

K-Rahoitus Oy and its subsidiaries were sold and the transaction was completed on 31 January 2008. Tähti Optikko Group Oy was sold and the transaction was completed on 31 March 2008. Kauko-Telko Ltd was sold and the transaction was completed on 30 April 2008.

Resolutions of the 2008 Annual General Meeting and the Board's organisational meeting

Kesko Corporation's Annual General Meeting held on 31 March 2008 adopted the financial statements for 2007 and discharged the members of the Board of Directors and the Managing Director from liability. The Annual General Meeting also resolved to distribute a dividend of €1.60 per share, as proposed by the Board of Directors, or total dividends of €156,428,592. The dividend payment date was 10 April 2008.

The Annual General Meeting resolved to leave the number of Board members unchanged at seven. The members of the Board of Directors elected by the Annual General Meeting of 27 March 2006 are Pentti Kalliala, Ilpo Kokkila, Maarit Näkyvä, Seppo Paatelainen, Keijo Suila, Jukka Säilä and Heikki Takamäki. The Chair of the Board is Heikki Takamäki and the Deputy Chair is Keijo Suila. The term of office of each Board member, in accordance with the Articles of Association, is three years, with the term starting at the close of the General Meeting electing the member and expiring at the close of the third Annual General Meeting after the election. The terms of office of all current Board members will expire at the close of the 2009 Annual General Meeting.

The Annual General Meeting elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the auditor of the company. The firm has announced Johan Kronberg, APA, to be their auditor with principal responsibility.

The resolutions of the Annual General Meeting were published in more detail in a stock exchange release on 31 March 2008.

The organisational meeting of Kesko Corporation's Board of Directors held after the Annual General Meeting on 31 March 2008 decided to leave the compositions of its committees unchanged. The Board elected Maarit Näkyvä as the Chair of its Audit Committee, and Seppo Paatelainen and Keijo Suila as its members. The Board elected Heikki Takamäki as the Chair of its Remuneration Committee, and Pentti Kalliala and Keijo Suila as its members. The committees' terms of office expire at the close of the Annual General Meeting. The decisions of the organisational meeting of the Board of Directors were published in a stock exchange release on 31 March 2008.

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 28 March 2008. The compositions of the Boards were announced in a stock exchange release on 28 March 2008.

Shares, securities market and Board authorisations

At the end of the reporting period, Kesko Corporation's share capital totalled €195,649,708. Of all shares 31,737,007 or 32.4% are A shares and 66,087,847 or 67.6% are B shares. The aggregate number of shares was 97,824,854. Each A share entitles to ten (10) votes and each B share to one (1) vote. During the reporting period, the share capital was increased seven times as a result of share subscriptions with the stock options of the year 2003 option scheme. The increases were made on 11 February 2008 (€210), 28 April 2008 (€38,168), 9 June 2008 (€42,200), 28 July 2008 (€8,600), 1 October 2008 (€4,000), 27 October 2008 (€6,000) and 18 December 2008 (€15,000), and announced in stock exchange notifications on the same days. The subscribed shares were included on the main list of the Helsinki Stock Exchange for public trading with the old B shares on 12 February 2008, 29 April 2008, 10 June 2008, 29 July 2008, 2 October 2008, 28 October 2008, and 19 December 2008.

The price of a Kesko A share was €37.85 at the end of 2007, and €22.00 at the end of 2008, representing a decrease of 41.9%. The price of a B share was €37.72 at the end of 2007, and €17.80 at the end of 2008, representing a decrease of 52.8%. During the reporting period, the highest A share quotation was €38.20 and the lowest was €21.33. For B shares, they were €38.12 and €15.31 respectively. During 2008, the NASDAQ OMX Helsinki Stock Exchange All Share index (NASDAQ OMX Helsinki) fell by 53.4%, the weighted NASDAQ OMX Helsinki CAP index by 50.1%, while the Consumer Staples Index dropped by 57.1% during the same period.

At the end of the reporting period, the market capitalisation of A shares was €698 million, while that of B shares was €1,176 million. Their combined market capitalisation was €1,875 million, a decrease of €1,817 million from the end of 2007. During 2008, 1,427,575 A shares were traded on the Helsinki Stock Exchange at a total value of €41.0 million, while 121.1 million B shares were traded at a total value of €2,859 million.

The listed 2003E and 2003F stock options of the year 2003 option scheme were available for trading and a total of 179,000 options were traded at a total value of €1,570,000 during 2008.

The Board of Directors was authorised by the Annual General Meeting of 26 March 2007 to issue a maximum of 20,000,000 new B shares against payment. The authorisation also includes a right to deviate, for a weighty financial reason, from the shareholders' pre-emptive right with a rights issue so that the issued shares can be used as consideration in possible company acquisitions, other arrangements concerning the company's operations, or to finance investments. The authorisation is valid for two years from the resolution of the Annual General Meeting. The authorisation has not been used.

At the end of 2008, the number of shareholders was 38,080, showing an increase of 9,155 shareholders during the year. Foreign ownership interest decreased from 34% to 20% of the share capital during the year.

Flagging notifications

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

Main events during the reporting period

On 31 January 2008, K-Rahoitus Oy's share capital was transferred to OKO Bank plc (Pohjola Bank plc from 1 March 2008). An agreement to this effect was signed between OKO and Kesko Corporation on 21 December 2007. The price paid was about €30 million (stock exchange releases on 21 December 2007 and 31 January 2008).

Kesko Corporation waived the purchase option included in the lease agreements made with Nordisk Renting Oy in 2001 and 2002, for which RBS Nordisk Renting paid Kesko €74.2 million in compensation. The previous agreements were finance leases and the non-recurring gain resulting from the cancellation was €26.5 million. The lease arrangement and the property sale contributed a total of €103 million to Kesko Food's and the Kesko Group's operating profits for the first quarter, which was reported as a non-recurring item (stock exchange release on 11 February 2008).

On 31 March 2008, Kesko Corporation sold the shares of Tähti Optikko Group Oy to the Specsavers optical chain. The debt-free selling price was about €15 million. The disposal contributed a non-recurring gain of €8.5 million to Kesko's profit from discontinued operations (release on 1 April 2008).

Kesko Corporation sold the share capital of Kauko-Telko Ltd to Aspo plc on 30 April 2008. Based on Kauko-Telko's end-of-April balance sheet, the debt-free selling price was about €77 million. A non-recurring gain on the disposal of about €30 million has been recognised in Kesko's profit from discontinued operations (stock exchange releases on 23 May 2007, 28 February 2008 and 30 April 2008).

On 28 May 2008, Kesko announced that it would strengthen the competitiveness of the K-maatalous and Rautia chains by demerging Kesko Agro Ltd on 1 January 2009, so that the agricultural trade activities in Finland become part of Rautakesko Ltd and the trade of tractors and combines, as well as the agricultural and machinery trade companies in the Baltic countries became part of Konekesko Ltd. It is estimated that the arrangement will result in an annual benefit of approximately €3 million to Kesko (stock exchange release on 28 May 2008).

On 30 September 2008, the Kesko Group, the Kesko Pension Fund and Valluga-sijoitus Oy sold 23 of their store properties in different parts of Finland to Aberdeen Property Fund Finland 1 Ky. The selling price was about 56 million euros, of which the Kesko Group's share was about 44 million euros. The Kesko Group's gain on the sale was about 16 million euros, which was treated as a non-recurring item in Kesko's third quarter operating profit (stock exchange release on 30 September 2008).

Kesko announced that Anttila Oy, K-citymarket Oy (home and speciality goods) and the other Kesko Group home and speciality goods companies were intensifying their cooperation. They seek synergy benefits especially in goods purchasing, management and customer relationship management. At the same time, it was announced that Kesko's reporting system would be changed so that the primary reportable segments are the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade with effect from 1 January 2009. During the first quarter of 2009, Kesko will publish the comparative information in accordance with its new segment reporting structure (stock exchange release on 12 December 2008).

Events after the end of the reporting period

On 1 January 2009, Kesko Agro Ltd demerged so that the agricultural trade activities in Finland became part of Rautakesko Ltd. In addition, the trade of tractors and combines, as well as the agricultural and machinery trade companies in the Baltic countries became part of Konekesko Ltd (stock exchange release on 28 May 2008).

Anttila Oy, K-citymarket Oy (home and speciality goods) and the other Kesko Group home and speciality goods companies intensify their cooperation. As of 1 January 2009, the Kesko Group's primary reportable segments are the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade (stock exchange release on 12 December 2008).

Information contained in the notes to the financial statements

Information on the Group's personnel is disclosed in note 8.

The Group's financial and share performance indicators with calculation formulas are disclosed in note 48.

Information on share ownership structure, major shareholders and management's shareholdings is disclosed in note 49.

Information on options, shares under options and voting rights is disclosed in note 37.

Related party transactions are disclosed in note 46.

The Kesko Group is not engaged in significant research and development activities.

In April 2009, 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.

Risk management

The Kesko Group has established a risk management process based on the risk management policy approved by the Board of Directors. The divisions assess the risks in connection with the strategy cycle and prioritise them according to their criticality and management level. Risk assessments are updated on a quarterly basis. Also Group units have assessed the risks threatening the Group objectives and the risk management. Risks and their management has been discussed by the division parent companies' and the Group's management. Separate risk analyses have been carried out for major projects.

On the basis of the Divisions' and Group units' risk analyses, the Corporate Risk Management Unit has prepared summaries of major risks and their management on a quarterly basis. The resulting risk report has been handled by Kesko Corporation's Board of Directors' Audit Committee. The main risks and uncertainties have been reported in the interim financial reports.

The effects of the recession

The international financial crisis and its impact on economic development, consumer confidence, availability of finance and investment readiness have greatly added to uncertainties in Kesko's operating environment, especially in the building materials, car and machinery, and home and speciality goods trade in Kesko's operating countries. Consumer demand has weakened especially in Latvia and Estonia. With regard to consumer demand in Russia, the crude oil price trend is a key factor.

The recession has caused consumers' confidence about their own finances to fall. Consumers are increasingly price conscious and careful about buying, especially more expensive products. In addition, risks relating to the profitability and financing of business customers and retailers grow as consumer demand weakens. All of this has a negative effect on Kesko's sales development and increases default risks.

Currency risks and counterparty risks relating to financial instruments have increased. Among Kesko's operating countries, only Finland belongs to the euro area. The currencies of Norway, Sweden and Russia have weakened against the euro. The risk of devaluation has increased in the Baltic countries. As a result of the financial crisis, profitable low-risk investment of liquid assets has become more difficult.

Other risks

- Considerable amounts of capital and lease liabilities are tied up in store properties for years. Failures in ongoing store site investments, international expansion projects or programmes aimed at more efficient operations, or their delayed implementation can put growth and profitability at risk.
- Suppliers' choices for product selections and distribution channels, bankruptcies or business restructurings can influence the availability of products in stores.
- The trading sector is characterised by increasingly complicated and long supply chains and a dependency on information systems, telecommunications and external service providers. Disturbances in the supply chain can cause major losses in sales and profit.
- Failure in the protection of personal information and card payments could cause losses, claims for damages and the degrading of reputation.
- A failure in the quality assurance of the supply chain or in product control may result in financial losses, the loss of customer confidence or, in the worst case, a health hazard to customers.
- Shrinkage causes significant financial losses for the retail trade. Shrinkage results, for example, from spoiled or damaged goods, theft or other malpractice, and unsuccessful purchasing. Recession entails a growing risk of financial malpractice.
- Implementation of strategies requires competent and motivated personnel. There is a risk that the trading sector will not attract the most skilled people. The recession is likely to temporarily improve the availability of labour.
- Non-compliance with legislation, agreements and Kesko's ethical principles can result in fines, compensation for damages and other financial losses, and a loss of confidence or reputation.
- The goal of Kesko's communications is to produce and publish reliable information at the right time. If some information published by Kesko proves to be incorrect or a release fails to meet regulations, this may result in investors and other stakeholder groups losing confidence and in possible sanctions.

More information about Kesko's business risks and uncertainties and their management responses, as well as Kesko's risk management system and principles is given in notes 44 and 45 and Kesko's website at www.kesko.fi.

Other risks and uncertainties relating to profit performance are described in the Group's future outlook.

Future outlook

Estimates of the future outlook for the Kesko Group's net sales and operating profit excluding non-recurring items are given for the 12 months following the reporting period (1/2009–12/2009) in comparison with the 12 months preceding the reporting period (1/2008–12/2008).

The development of the Group's operating activities is affected by the economic outlook in its different market areas and especially by the growth rate of private consumption. During the past months, the economic outlook has continued to weaken as a result of the aggravated problems in the financial market and the contraction in the real economy. Private consumer demand is expected to decelerate in the Nordic and Baltic countries owing to lower levels of consumer confidence and higher levels of saving. It is also expected that difficulties in the availability of financing will weaken the demand of businesses and consumers.

The steady development in the food trade is expected to continue. Market development is expected to weaken especially in the construction sector, the car and machinery trade, and the home and speciality goods trade.

The increasing uncertainty about the economic outlook makes any statement about the Group's future outlook significantly more difficult. In consequence of the weakening economic development, the Kesko Group's net sales and operating profit excluding non-recurring items from continuing operations in 2009 are expected to remain at a lower level compared with the net sales and operating profit excluding non-recurring items of 2008. The Group's liquidity and solvency are expected to remain strong.

Net sales by division, continuing operations

€ million	2008	2007	Change, %
Kesko Food, Finland	4,096	3,854	6.3
Kesko Food, other countries*	15	17	-12.6
Kesko Food, total	**4,110**	**3,871**	**6.2**
Rautakesko, Finland	882	909	-3.0
Rautakesko, other countries*	1,636	1,628	0.5
Rautakesko, total	**2,518**	**2,537**	**-0.8**
VV-Auto, Finland	869	779	11.5
VV-Auto, other countries*	15	26	-40.2
VV-Auto, total	**884**	**805**	**9.9**
Anttila, Finland	541	544	-0.5
Anttila, other countries*	19	20	-4.7
Anttila, total	**560**	**564**	**-0.7**
Kesko Agro, Finland	527	499	5.7
Kesko Agro, other countries*	318	295	8.0
Kesko Agro, total	**846**	**793**	**6.6**
Other operating activities, Finland	643	665	-3.3
Other operating activities, other countries*	56	79	-29.2
Other operating activities, total	**699**	**743**	**-6.0**
Common operations and eliminations	-16	-26	-37.4
Finland, total	7,541	7,223	4.4
Other countries, total*	2,059	2,064	-0.2
Group total	**9,600**	**9,287**	**3.4**

*Exports and net sales outside Finland

Proposal for profit distribution

The parent's distributable profits are €1,011,234,459.96 of which the profit for the period is €236,710,599.08.

The Board of Directors proposes to the Annual General Meeting to be held on 30 March 2009 that the distributable profits be used as follows:

€1.00 per share, or a total of 97,851,050.00, be distributed as dividends.

Consistent with the dividend policy, the Board of Directors' proposal for dividend distribution takes the company's financial position and operating strategy into account.

€300,000.00 be reserved for charitable donations at the discretion of the Board of Directors.

€913,083,409.96 be carried forward in equity.

Operating profit by division incl. non-recurring items, continuing operations

€ million	2008	2007	Change
Kesko Food (1	245.0	151.3	93.8
Rautakesko (2	16.3	117.8	-101.4
VV-Auto	36.3	26.1	10.3
Anttila (3	4.3	27.2	-22.8
Kesko Agro	-3.5	12.9	-16.3
Other operating activities (4	0.8	10.0	-9.1
Common operations and eliminations (5	-13.8	-23.6	9.8
Group total	285.6	321.5	-35.9

Operating profit by division excl. non-recurring items, continuing operations

€ million	2008	2007	Change
Kesko Food	135.2	151.4	-16.2
Rautakesko	53.3	115.9	-62.6
VV-Auto	36.3	26.1	10.3
Anttila	19.8	25.2	-5.4
Kesko Agro	-3.5	12.4	-15.9
Other operating activities	-0.1	13.9	-14.0
Common operations and eliminations	-24.0	-29.9	5.8
Group total	217.0	315.0	-98.0

1) Non-recurring items include a €103.2 million gain on a property lease and sale arrangement between Kesko and Nordisk Renting, and a €10.7 million gain on a property transaction between Kesko and Aberdeen Property Fund Finland 1 Ky.

2) Non-recurring items include a €45.6 million impairment charge on Byggmakker Norge's intangible assets, and a €5.4 million gain on a property transaction between Kesko and Aberdeen Property Fund Finland 1 Ky.

3) Non-recurring items include a €15.5 million impairment charge on Anttila's logistics centre in Vantaa.

4) Non-recurring items for the comparative year include expenses relating to the discontinuation of Asko Möbler AB's operations in the amount of €4.3 million.

5) Non-recurring items include a €10.3 million gain on the sale of K-Rahoitus Oy's share capital.

Group's financial indicators by quarter

	1–3/2007	4–6/2007	7–9/2007	10–12/2007	1–3/2008	4–6/2008	7–9/2008	10–12/2008
Net sales*, € million	2,131	2,401	2,365	2,390	2,279	2,549	2,437	2,336
Change in net sales*, %	11.6	8.5	10.8	6.9	6.9	6.2	3.0	-2.3
Operating profit*, € million	60.4	99.6	93.3	68.3	150.1	84.8	43.8	6.9
Operating profit excl. non-recurring items*, € million	57.8	93.4	91.9	71.9	36.6	81.1	72.0	27.3
Operating profit excl. non-recurring items*, %	2.7	3.9	3.9	3.0	1.6	3.2	3.0	1.2
Financial income/expenses*, € million	37.6	-1.9	2.5	-2.1	-1.4	-0.2	1.8	0.8
Profit before tax*, € million	98	97	96	66	149	84	48	8
Return on investment, %	23.5	18.6	17.4	12.4	26.6	19.6	8.8	2.5
Return on investment excl. non-recurring items, %	11.9	17.5	17.2	13.0	7.4	14.1	13.3	5.6
Return on equity, %	24.4	17.3	16.2	9.8	25.1	19.1	4.2	0.6
Return on equity excl. non-recurring items, %	9.1	16.3	15.9	10.6	5.6	12.3	10.4	4.3
Equity ratio, %	44.6	46.5	47.4	48.5	46.3	49.0	50.2	52.4
Gearing, %	9.8	16.0	13.9	14.0	-1.8	-2.1	-1.3	2.3
Investments*, € million	50.3	60.3	48.2	68.8	60.3	83.0	89.9	105.2
Investments*, % of net sales	2.4	2.5	2.0	2.9	2.6	3.3	3.7	4.5
Earnings/share*, diluted, €	0.75	0.69	0.69	0.39	1.11	0.58	0.17	-0.05
Earnings/share**, diluted, €	1.06	0.72	0.70	0.41	1.22	0.89	0.16	-0.04
Equity/share, €	17.52	18.32	19.08	19.53	19.13	20.17	20.29	20.09

* Continuing operations ** Whole Group

Divisions' net sales by quarter

€ million	1–3/2007	4–6/2007	7–9/2007	10–12/2007	1–3/2008	4–6/2008	7–9/2008	10–12/2008
Kesko Food	883	983	959	1,046	937	1,027	1,024	1,122
Rautakesko	534	687	694	622	591	728	681	518
VV-Auto	248	218	195	144	261	246	217	161
Anttila	120	111	143	189	128	116	132	184
Kesko Agro	168	216	196	213	180	245	219	202
Other operating activities	184	193	185	182	189	191	166	152
Common operations and eliminations	-6	-7	-7	-6	-6	-5	-3	-3
Group's net sales	2,131	2,401	2,365	2,390	2,279	2,549	2,437	2,336

Divisions' operating profits by quarter incl. non-recurring items

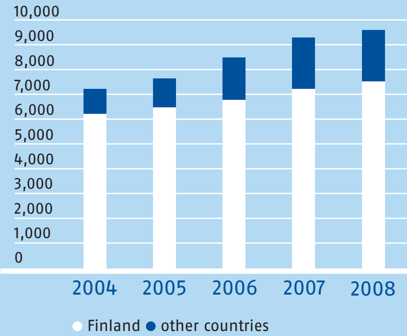
€ million	1–3/2007	4–6/2007	7–9/2007	10–12/2007	1–3/2008	4–6/2008	7–9/2008	10–12/2008
Kesko Food	29.2	40.9	41.2	40.0	123.9	35.5	46.6	39.0
Rautakesko	18.6	37.6	39.5	22.1	7.0	30.9	-16.3	-5.3
VV-Auto	11.7	8.1	6.8	-0.5	13.9	11.0	9.5	1.9
Anttila	-0.9	0.1	6.3	21.6	-1.4	-0.6	1.7	4.6
Kesko Agro	-0.6	7.9	3.5	2.1	-0.4	9.2	3.5	-15.7
Other operating activities	8.6	6.5	3.3	-8.4	2.2	4.8	3.3	-9.5
Common operations	-6.1	-1.6	-7.3	-8.6	5.0	-6.0	-4.6	-8.1
Group's operating profit	60.4	99.6	93.3	68.3	150.1	84.8	43.8	6.9

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

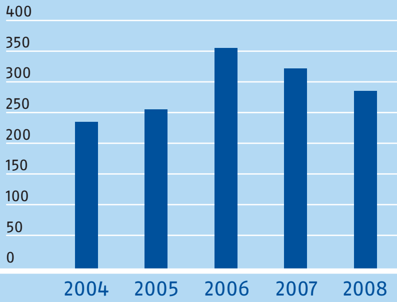
€ million	1–3/2007	4–6/2007	7–9/2007	10–12/2007	1–3/2008	4–6/2008	7–9/2008	10–12/2008
Kesko Food	29.0	41.4	41.1	39.8	20.7	35.5	35.8	43.3
Rautakesko	16.3	38.7	39.0	21.9	7.0	27.3	25.3	-6.2
VV-Auto	11.7	8.1	6.8	-0.5	13.9	11.0	9.5	1.9
Anttila	-0.9	-1.8	6.3	21.6	-1.3	-0.6	1.7	20.0
Kesko Agro	-0.6	7.9	3.0	2.1	-0.4	9.2	3.5	-15.8
Other operating activities	8.6	6.5	3.3	-4.5	2.2	4.6	0.8	-7.9
Common operations	-6.3	-7.5	-7.6	-8.5	-5.4	-5.9	-4.7	-8.1
Group's operating profit	57.8	93.4	91.9	71.9	36.6	81.1	72.0	27.3

Key indicators

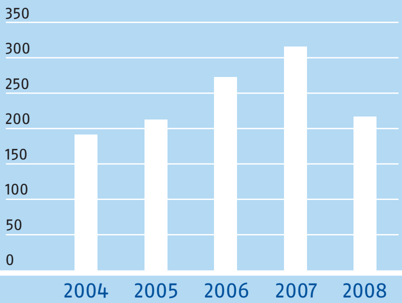
Net sales*, € million



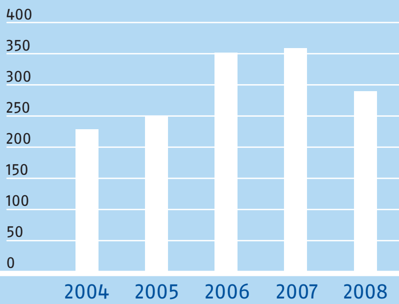
Operating profit*, € million



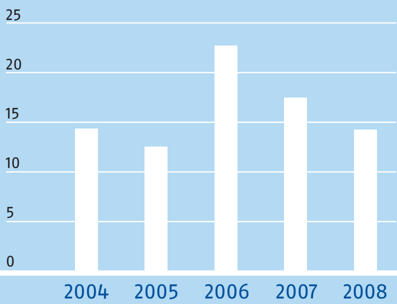
Operating profit excl. non-recurring items*, € million



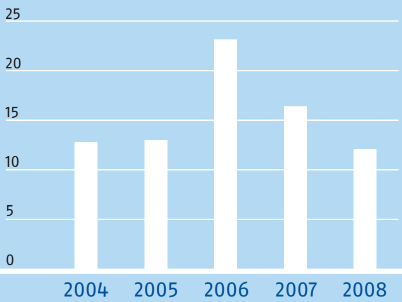
Profit before tax*, € million



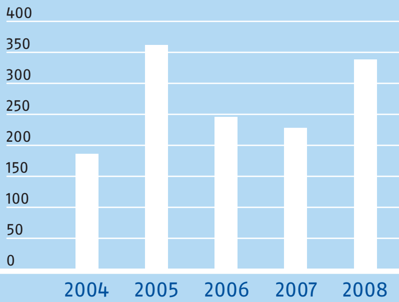
Return on investment, %



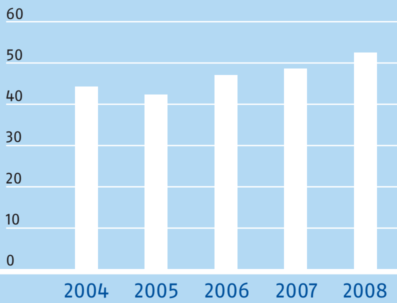
Return on equity, %



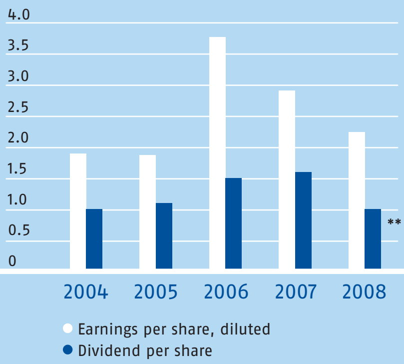
Investments*, € million



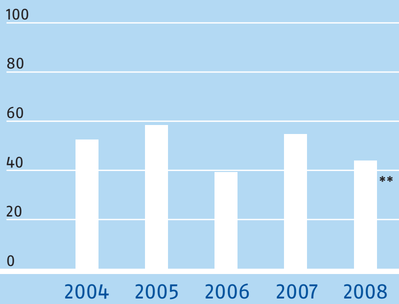
Equity ratio, %



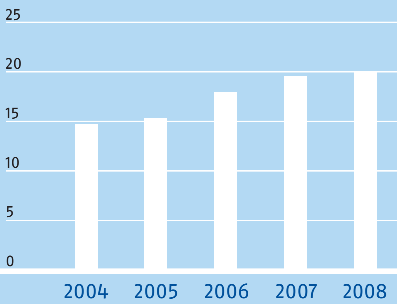
Earnings per share and dividend per share, €



Payout ratio, %



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



* continuing operations

** proposal to the Annual General Meeting

Consolidated financial statements

Consolidated income statement, IFRS

€ million	Note	1 Jan.–31 Dec. 2008	%	1 Jan.–31 Dec. 2007	%
Continuing operations					
Net sales	2	**9,600.4**	100.0	**9,287.2**	100.0
Cost of sales		−8,292.7	−86.4	−7,957.0	−85.7
Gross profit		**1,307.7**	13.6	**1,330.1**	14.3
Other operating income	5, 7	730.3	7.6	576.8	6.2
Staff cost	8, 37	−578.2	−6.0	−546.9	−5.9
Depreciation and impairment charges	12, 13	−178.1	−1.9	−116.0	−1.2
Other operating expenses	6, 7	−996.0	−10.4	−922.5	−9.9
Operating profit		**285.6**	3.0	**321.5**	3.5
Financial income	9	73.3	0.8	86.9	0.9
Financial expenses	9	−72.3	−0.8	−50.8	−0.5
Total financial income and expenses	9	1.0	0.0	36.1	0.4
Income from associates		1.9	0.0	0.2	0.0
Profit before tax		**288.5**	3.0	**357.8**	3.9
Income tax	10	−89.4	−0.9	−87.1	−0.9
Net profit from continuing operations		199.1	2.1	270.8	2.9
Net profit from discontinued operations	4	41.5	0.4	36.6	0.4
Net profit		**240.6**	2.5	**307.4**	3.3
Attributable to					
Equity holders of the parent company		219.7		285.0	
Minority interest		20.9		22.4	
		240.6		307.4	
Earnings per share for profit attributable to the equity holders of the parent company					
Continuing operations					
Basic, €	11	1.82		2.54	
Diluted, €	11	1.81		2.52	
Discontinued operations					
Basic, €	11	0.43		0.38	
Diluted, €	11	0.43		0.38	
Kesko total					
Basic, €	11	2.25		2.92	
Diluted, €	11	2.24		2.90	

Consolidated balance sheet, IFRS

€ million	Note	31 Dec. 2008	%	31 Dec. 2007	%
ASSETS					
Non-current assets					
Intangible assets	12	169.6		252.2	
Tangible assets	13	1,209.5		1,153.1	
Interests in associates	14, 50	31.2		27.0	
Available-for-sale financial assets	15	3.0		4.0	
Long-term receivables	16, 17	69.2		36.9	
Deferred tax assets	18	6.5		7.7	
Pension assets	19	300.3		261.6	
Total non-current assets		**1,789.3**	46.0	**1,742.5**	42.6
Current assets					
Inventories	20	871.0		922.3	
Trade receivables and other non-interest-bearing receivables	21	770.5		823.8	
Interest-bearing receivables	22	14.9		16.3	
Financial assets at fair value through profit or loss	23	94.4		105.5	
Available-for-sale financial assets	24	291.0		155.6	
Cash and cash equivalents	25	57.8		89.7	
Total current assets		**2,099.6**	53.9	**2,113.3**	51.6
Assets held for sale	4, 26	3.0	0.1	236.9	5.8
Total assets		**3,891.9**	100.0	**4,092.7**	100.0
EQUITY AND LIABILITIES					
Equity attributable to parent's equity holders					
Share capital	27	195.6		195.5	
Share issue	27	0.1			
Share premium	27	205.8		200.3	
Other reserves	27	242.9		247.1	
Translation differences		-15.1		-3.4	
Revaluation surplus	27	1.6		9.5	
Retained earnings		1,334.8		1,260.0	
		1,965.7	50.5	**1,909.0**	46.6
Minority interest		**60.7**	1.6	**55.3**	1.4
Total equity		**2,026.4**	52.1	**1,964.4**	48.0
Non-current liabilities					
Pension obligations	19	1.8		4.1	
Interest-bearing long-term borrowings	28, 29, 30	196.9		314.2	
Non-interest-bearing long-term borrowings		11.8		11.5	
Deferred tax liabilities	18	132.0		125.5	
Provisions	31	20.1		15.5	
Total non-current liabilities		**362.7**	9.3	**470.8**	11.5
Current liabilities					
Interest-bearing short-term borrowings		293.6		311.2	
Trade payables	32	755.6		837.8	
Other non-interest-bearing liabilities	32	181.6		191.6	
Tax liabilities	32	2.9		13.4	
Accrued liabilities	32	245.5		277.2	
Provisions	31	23.5		23.0	
Total current liabilities		**1,502.9**	38.6	**1,654.2**	40.4
Liabilities relating to assets held for sale	4, 26	0.0		3.3	
Total liabilities		**1,865.5**	47.9	**2,128.3**	52.0
Total equity and liabilities		**3,891.9**	100.0	**4,092.7**	100.0

Consolidated cash flow statement, IFRS

€ million	Note	2008	2007
Cash flow from operating activities			
Profit before tax, continuing operations		288.9	357.8
Profit before tax, discontinued operations		42.3	39.7
Adjustments:			
Planned depreciation		118.1	118.7
Financial income and expenses		-1.1	-37.0
Other adjustments	39	-130.1	-75.2
		-13.2	6.5
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		-10.3	-37.3
Inventories increase (-)/decrease (+)		2.3	-123.1
Current non-interest-bearing liabilities, increase (+)/decrease (-)		-78.4	95.5
		-86.4	-65.0
Interest paid		-30.0	-31.1
Interest received		31.6	33.2
Dividends received		0.1	0.1
Tax paid		-99.0	-92.9
Net cash from operating activities		**134.4**	**248.3**
Cash flow from investing activities			
Acquisition of subsidiary, net of cash acquired		-35.0	-21.9
Investments in available-for-sale investments		-0.3	-1.2
Investments in tangible and intangible assets		-284.7	-214.0
Disposal of subsidiary, net of cash disposed of	4, 40	121.3	1.5
Disposal of associate	41	1.5	0.6
Proceeds from available-for-sale financial assets	42	0.2	46.9
Proceeds from tangible and intangible assets		158.4	97.1
Increase in long-term loan receivables		-7.3	0.0
Decrease in long-term loan receivables		0.0	6.3
Net cash used in investing activities		**-45.8**	**-84.7**
Cash flow from financing activities			
Increase in current liabilities		0.0	15.7
Decrease in current liabilities		-10.0	0.0
Decrease in non-current liabilities		-37.0	-5.2
Repayments of finance lease liabilities		-5.6	-14.5
Current interest-bearing receivables, increase (-) / decrease (+)		216.5	-52.1
Dividends paid		-172.5	-155.6
Share capital increase		0.4	2.6
Short-term money market investments		-17.3	35.2
Others		8.7	0.7
Net cash used in financing activities		**-16.9**	**-173.1**
Change in cash and cash equivalents and current available-for-sale financial assets		**71.4**	**-9.5**
Cash and cash equivalents and available-for-sale financial assets at 1 January		245.3	256.9
Translation difference and value adjustments		-0.7	-0.4
Cash and cash equivalents relating to available-for-sale assets		-1.8	1.8
Cash and cash equivalents and current available-for-sale financial assets at 31 December	43	319.3	245.3

Consolidated statement of changes in equity

€ million	Share capital	Issue of share capital	Share premium	Other reserves	Currency translation differences	Revaluation surplus	Retained earnings	Total	Minority interest	Total equity
	Attributable to equity holders of the parent company									
Balance at 1 January 2007	**195.0**	**0.0**	**195.9**	**246.3**	**-5.7**	**-0.7**	**1,119.2**	**1,750.0**	**27.1**	**1,777.1**
Currency translation differences					2.2		0.8	3.0		3.0
Cost of options granted			2.3					2.3		2.3
Revaluation amortised to equity										
Net investment hegde					0.1			0.1		0.1
Cash flow hedge						13.8		13.8		13.8
Taxes recognised in equity						-3.6		-3.6		-3.6
Items recognised directly in equity			2.3		2.3	10.2	0.8	15.6		15.6
Net profit							285.1	285.1	22.4	307.5
Total recognised income and expenses for the period			**2.3**		**2.3**	**10.2**	**285.9**	**300.7**	**22.4**	**323.1**
Dividend							-146.3	-146.3	-9.3	-155.6
Shares subscribed for with options	0.5	0.0	2.1					2.6		2.6
Other changes				0.8			1.3	2.1	15.1	17.2
Balance at 31 December 2007	**195.5**	**0.0**	**200.3**	**247.1**	**-3.4**	**9.5**	**1,260.1**	**1,909.1**	**55.3**	**1,964.4**
Balance at 1 January 2008	**195.5**	**0.0**	**200.3**	**247.1**	**-3.4**	**9.5**	**1,260.1**	**1,909.1**	**55.3**	**1,964.4**
Currency translation differences			-0.3	-4.2	-18.2		9.4	-13.3	0.5	-12.8
Cost of options granted			5.6					5.6		5.6
Revaluation amortised to equity										
Net investment hedge					6.5			6.5		6.5
Cash flow hedge						-12.8		-12.8		-12.8
Fair value change						2.2		2.2		2.2
Taxes recognised in equity						2.8		2.8		2.8
Items recognised directly in equity			5.3	-4.2	-11.7	-7.9	9.4	-9.1	0.5	-8.6
Net profit							219.7	219.7	20.9	240.5
Total recognised income and expenses for the period			**5.3**	**-4.2**	**-11.7**	**-7.9**	**229.0**	**210.5**	**21.4**	**231.9**
Dividend							-156.4	-156.4	-16.1	-172.5
Shares subscribed for with options	0.1	0.1	0.2	0.0				0.4		0.4
Other changes							2.3	2.3	0.0	2.3
Balance at 31 December 2008	**195.6**	**0.1**	**205.8**	**242.9**	**-15.1**	**1.6**	**1,334.8**	**1,965.7**	**60.7**	**2,026.4**

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

Notes to the consolidated financial statements

NOTE 1

Accounting policies for the consolidated financial statements

Basic information about the company

Kesko is the leading provider of trading sector services and a highly valued listed company. Through its stores, Kesko offers quality to the daily lives of consumers by providing products and services at competitive prices. Kesko has about 2,000 stores engaged in chain operations in the Nordic and Baltic countries, Russia and Belarus.

Kesko's operations are divided into five reportable business segments and other operating activities. The business segments are Kesko Food operating in the grocery market, Rautakesko engaged in the building and home improvement trade, VV-Auto engaged in car importing, marketing and retailing, Anttila concentrating on the department store trade, and Kesko Agro engaged in the agricultural trade. In addition, other operating activities comprise the reporting for Konekesko, engaged in the machinery trade, Indoor engaged in the furniture and interior decoration trade, Intersport Finland concentrating on the sports trade, Musta Pörssi specialising in the home technology trade, and Kenkäkesko engaged in the shoe trade.

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 from Kesko Corporation, Satamakatu 3, FI-00016 Kesko, and from the Internet, at www.kesko.fi.

General information

Kesko's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs), IFRS standards and their IFRIC and SIC Interpretations valid at 31 December 2008 approved for adoption by the European Union have been applied. 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.

The notes to the consolidated financial statements also include compliance with the Finnish accounting and corporate legislation.

All amounts in the consolidated financial statements are in millions of euros and are based on original cost, with the exception of items identified separately, which have been measured at fair value in compliance with the standards.

With effect from 1 January 2008, the Group has adopted the following new and revised standards:

- IAS 39 Amendment: Reclassification of Financial Assets, and IFRS 7 Amendment: Reclassification of Financial Assets, effective 1 July 2008. The amendment permits certain financial assets to be reclassified out of the financial assets held for trading, or the available-for-sale financial assets categories in particular circumstances. The amendments have no effect on the company's financial statements.
- The following interpretations have become effective during the financial period but have no effect on the company's financial statements: IFRIC 11 IFRS 2: Group and Treasury Share Transactions, IFRIC 12: Service Concession Arrangements.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires the use of 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 at their fair values at the date of acquisition. 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 earnings-generating capacity of the asset and its future use in Kesko's operating activities. The measurement of intangible assets, in particular, is based on the present values of future cash flows and requires management estimates regarding future cash flows and the use of assets.

Impairment test

The amounts recoverable from cash generating units' operating activities are determined based on value-in-use calculations. In the calculations, forecast cash flows are based on financial plans approved by the management, covering a period of 3–4 years (note 12).

Employee benefits

The Group operates both defined contribution pension plans and defined benefit pension plans. The calculation of items relating to employee benefits requires the consideration of several factors. Pension calculations under defined benefit plans in compliance with IAS 19 include the following factors that rely on management estimates (note 19):

- 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. When assessing whether an enterprise controls another enterprise, the potential voting rights that are currently exercisable have been taken into account. The main subsidiaries are listed in note 33.

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 the 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 has significant influence but not control. Significant influence mainly arises in cases where the Group holds 20–50% of the company's voting power, 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 associates 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 associates are listed in note 50.

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 expenses. 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 interest.

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. The euro has been adopted as the functional currency of the real estate companies in St. Petersburg and Moscow in Russia, which is why no significant exchange differences are realised from their balance sheets for the Group.

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. Gains 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. These exchange differences are recognised in equity, in compliance with the rules of hedge accounting. Foreign exchange gains and losses from operating activities are included in the respective items above operating profit. Gains and losses from forward exchange contracts and options used to hedge financial transactions, and from foreign currency loans are included in financial income and expenses.

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 the gains or losses on the disposal.

As of 1 January 2004, the goodwill arising from the acquisition of foreign operations and the fair value adjustments of assets and liabilities made upon their acquisition have been treated as assets and liabilities of these foreign operations 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

The Group classifies financial assets in the following categories: 1) financial assets at fair value through profit or loss, 2) available-for-sale financial assets, and 3) loans and receivables. The classification of financial assets is determined on the basis of why they were originally acquired. Purchases and sales of financial assets are recognised using the settlement date method. Financial assets are classified as non-current assets if they have a maturity date greater than twelve months after the balance sheet date. If financial assets are going to be held for less than 12 months, they are classified as current assets. Financial assets at fair value through profit or loss are classified as current assets. Financial assets are derecognised when the contractual rights to the cash flow of the financial asset expire or have been transferred to another party, and when the risks and rewards of ownership have been transferred.

At each reporting date, the Group assesses whether there is any indication that a financial asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the fair value based on the market price or the present value of cash flows. The fair value of investment instruments is determined on the basis of a maturity-based interest rate quotation. The rates of commercial papers include a maturity-based margin, which equals the amount expected to be received from the sale of the commercial papers in current market conditions. An impairment loss is recognised if the carrying amount of a financial asset exceeds its recoverable amount. The impairment loss is disclosed in the financial expenses of the income statement, net of interest income.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include instruments initially classified as financial assets at fair value through profit or loss (the Fair Value Option). These instruments are accounted for based on fair value and they include investments in bond and hedge funds, as defined by the Group's treasury policy, as well as investments in other interest-bearing papers with over 3-month maturities. The interest income and fair value changes of these financial assets, as well as any commissions returned by funds are presented on a net basis in the income statement in the interest income of the class in question. In addition, financial assets at fair value through profit or loss include all derivatives that do not qualify for hedge accounting in compliance with IAS 39. Derivatives are carried at fair value using prices quoted in active markets. The results of derivatives hedging purchases and sales are recognised in other operating income or expenses. The results of derivatives used to hedge financial items are recognised in financial items, unless the derivative has been designated as a hedging instrument.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative assets designated as available for sale at the date of initial recognition. Available-for-sale financial assets are measured at fair value at the balance sheet date and their fair value changes are recognised in equity. The fair value of publicly quoted financial assets is determined based on their market value. Financial assets not quoted publicly are measured at cost if their fair values cannot be measured reliably. The dividends from equity investments included in available-for-sale financial assets are recognised in financial items in the income statement. The interest income from available-for-sale financial assets is recognised in the financial items of the relevant class.

Loans and receivables

Loans and receivables are non-derivative assets with fixed or measurable payments, and they are not quoted in active markets. The Group's loans and other receivables include trade receivables. They are recognised at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents are carried at cost. Cash and cash equivalents include cash on hand and balances with banks. The cash and cash equivalents in the consolidated balance sheet also include amounts relating to the retail operations of division parent companies, used as cash floats in stores, or amounts being transferred to the respective companies.

Financial liabilities

Financial liabilities have initially been recognised at their cost, net of transaction costs. In the financial statements, financial liabilities are measured at amortised cost using the effective interest rate method. The arrangement fees related to lines of credit are amortised over the validity period of the credit. Financial liabilities having a maturity period of over 12 months after the balance sheet date are classified as non-current liabilities. Those having a maturity period of less than 12 months after the balance sheet date are classified as current liabilities.

Derivative financial instruments and hedge accounting

When acquired, derivative financial instruments are carried at fair value and subsequently measured at fair value at the balance sheet date. The recognition of changes in the fair value of derivatives depends on whether the derivative instrument qualifies for hedge accounting, and if so, on the hedged item. When entered into, derivative contracts are treated either as fair value hedges of receivables or liabilities, or in the case of interest rate risk and electricity price risk, as cash flow hedges, as hedges of net investments in a stand-alone foreign entity, or as derivative contracts that do not meet the hedge accounting criteria. The results of instruments hedging commercial currency risks, in other words, the derivatives that do not meet the hedge accounting criteria, are recognised in profit or loss 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 a hedging arrangement is entered into, 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 recognised, against the change in the fair value of the hedged item, in translation differences in equity, or in the revaluation surplus. The ineffective portion is recognised in financial items or other operating income and expenses depending on its nature. The effective portion of the fair value change of instruments hedging cash flow, such as a long-term credit facility, is recognised in the equity hedging reserve. The value change of currency derivative instruments relating to the credit facility is recognised in the loan account, and the fair value changes of interest rate derivative instruments in other non-interest-bearing receivables or debt.

Hedge accounting is discontinued when the hedging instrument expires or is sold, the contract is 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 stand-alone foreign entity

The Group applies hedge accounting in accordance with IAS 39 to hedge foreign currency net investments in foreign operations. 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 exchange differences of foreign currency loans are stated as translation differences under equity. When a foreign entity is disposed of partially or wholly 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. In the Kesko Group, embedded derivatives are included in firm commercial contracts denominated in a currency which is not the functional currency of either party and not commonly used in the economic environment in which the transaction takes place.

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 companies acquired prior to 1 January 2004 corresponds to their carrying amounts 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 were not adjusted in preparing the consolidated IFRS opening balance sheet.

Goodwill is not amortised but tested annually for impairment and whenever there is an indication of impairment. For testing purposes goodwill is allocated to the 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 assets with definite useful lives are stated in the balance sheet and recognised as expenses during their useful lives. Such intangible assets include software licences and customer relationships to which acquisition cost has been allocated upon acquisition, and leasehold interests that are amortised during their probable terms. The estimated useful lives are:

computer software and licences	3–5 years
customer and supplier relationships	10 years

Research and development expenses

The Group has not had such development expenses which, under certain conditions, should be recognised as assets and written off during their useful lives in accordance with IAS 38. Therefore the cost of research and development activities has been expensed as incurred.

Computer software

The labour costs and other direct 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 as 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 tangible 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 as 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 values, 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. Lands are 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 expenses.

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 rate of an asset's fair value 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 rate 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 period 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 usually 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 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 rate of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. 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 finished goods 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 the original invoice amount. Impairment is recognised when there is objective evidence of impairment loss. The Group has established a uniform basis for the determination of impairment of trade receivables based on the time receivables have been outstanding. In addition, impairment is recognised if there is other evidence of a debtor's insolvency, bankruptcy or liquidation. Losses on loans and advances are recognised as an expense in the income statement.

Assets held for sale and discontinued operations

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 and liabilities linked to a discontinuing operation are measured at the lower rate of the carrying amount and fair value net of costs to sell. 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 rate of the 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 in the balance sheet. Liabilities included in the disposal group of assets held for sale are also disclosed separately in the balance sheet. The profit from discontinued operations is disclosed as a separate line item in the income statement.

The comparative information in the income statement has been adjusted for operations classified as discontinued during the latest financial period being reported. Consequently, the profit from discontinued operations is presented as a separate line item also for the comparatives.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying 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. Changes in provisions are recorded in the income statement in the same item in which the provision was originally recognised. The most significant part of the Group's provisions relates 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 both defined contribution plans and defined benefit plans. The contributions payable under defined contribution plans are recognised as expenses in the income statement of the period to which the payments relate. In defined contribution plans, the Group does not have a legal or constructive obligation to make additional payments, in case the payment recipient is unable to pay the retirement benefits.

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 pension 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 rate of the present value of the defined benefit plans and the fair value of assets belonging to the plan.

Relating to the arrangements taken care of by the Kesko Pension Fund, the funded portion and the disability portion under the Finnish Employees' Pension Act are treated as defined benefit plans. In addition, the Group operates a pension plan in Norway which is treated as a defined benefit plan.

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 grant date and expensed on a straight-line basis over the option's vesting period. The expenditure determined at the issue date is based on the Group's estimate of the number of options expected 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. The sale of services and energy account for an insignificant portion of net sales. 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. 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 other service fees and commissions. Profits and losses from the sale and disposal of tangible assets are recognised in the income statement and disclosed in other operating income and expenses. Other operating income and expenses also include realised and unrealised profits and losses from derivatives used to hedge currency risks of trade.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs are not 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 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 is not tax deductible. Deferred tax on subsidiaries' undistributed earnings is not recognised unless a distribution of earnings is probable, causing tax consequences.

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 defined benefit plans, tangible assets (depreciation difference, finance lease) and measurement at fair value of asset items in connection with business 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 resolution of the Annual General Meeting.

New IFRS standards and interpretations

The IASB (International Accounting Standards Board) published the following standards, amendments to standards, and interpretations whose application will become mandatory in 2009. They will be adopted by the Group as they become effective.

IAS 1 (Amendment): Presentation of Financial Statements (effective from accounting periods beginning after 1 January 2009). The amendment of the standard will have an impact on the face of financial statements as it, for example, separates changes in a company's equity relating to transactions with owners from non-owner changes. Non-owner changes are presented in a statement of comprehensive income. The Group's management assesses that the amendment of the standard will have its main impact on the presentation of the income statement and the statement of changes in equity. The amendment has been endorsed by the European Union.

IAS 23 (Amendment): Borrowing Costs (effective from accounting periods beginning after 1 January 2009). The amendment of the standard removes the option of immediately expensing borrowing costs attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. These borrowing costs are eligible for capitalisation as part of the cost of the asset. The Group presently recognises, as previously permitted, borrowing costs for the accounting period in which they incur. The Group's management assesses that the amendment will not have a significant impact on the Group's profit. The amendment has been endorsed by the European Union.

IAS 32 (Amendment): Financial Instruments: Presentation, and IAS 1 (Amendment) Presentation of Financial Statements (effective from accounting periods beginning after 1 January 2009): Puttable Financial Instruments and Obligations Arising on Liquidation. The Group's management assesses that the amendment will not have an impact on the consolidated financial statements. The amendments have been endorsed by the European Union.

IFRS 1 (Amendment): First-Time adoption of IFRS, and IAS 27 (Amendment) Consolidated and Separate Financial Statements. The amendments will not have an impact on the consolidated financial statements. The amendments have not yet been endorsed by the European Union.

IFRS 2 (Amendment): Share-based Payments. The amendment clarifies that vesting conditions are service conditions and performance conditions only. All other features shall be included in the grant date fair value. The amendment also provides for the treatment of cancellations in different situations. The Group's management assesses that the amendment will not have a material impact on the consolidated financial statements. The amendment has been endorsed by the European Union.

IFRS 8 Operating Segments (effective from accounting periods beginning after 1 January 2009). The revised IFRS 8 supersedes IAS 14 Segment Reporting. The standard requires the 'management approach' in the sense that segment information shall be reported on the same principles as those used internally by the management for monitoring segment performance. The Group's management assesses that the standard will not change the present segment reporting in any material way, because the business segments determined in accordance with internal reporting are the Group's primary reporting format. The standard has been endorsed by the European Union.

IFRIC 13 Customer Loyalty Programmes (effective from accounting periods beginning after 1 July 2008). The interpretation is applied to the recognition and measurement of refunds linked to customer loyalty systems. Presently the Group recognises the expenditure of customer loyalty programmes in other operating expenses. The Group's management assesses that the interpretation will impact the Group's net sales, but the impact will not be material. The interpretation will not impact the Group's operating profit. The interpretation has been endorsed by the European Union.

IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The interpretation is applied to post-employment defined benefit plans according to IAS 19, and to other long-term defined employee benefits when there is a minimum funding requirement. The interpretation also limits the measurement of the defined benefit asset to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The Group's management assesses that the interpretation will not have a material impact on the consolidated financial statements. The interpretation has been endorsed by the European Union.

IFRIC 15 Agreements for the Construction of Real Estate. The interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and, accordingly, when revenue from the construction should be recognised. The interpretation will not have an impact on the consolidated financial statements. The interpretation has not yet been endorsed by the European Union.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation. The interpretation clarifies the accounting treatment of hedges of net investments in foreign operations. This means that a hedge of a net investment in a foreign operation relates to differences in the functional currency, not in the presentation currency. In addition, the hedging instrument can be held by any entity within a Group. The Group's management assesses that the interpretation will not have a material impact on the consolidated financial statements. The interpretation has not yet been endorsed by the European Union.

In addition, the IASB published improvements to standard 34 as part of its annual improvements to the IFRSs. The following is a summary of the changes which, according to the Group management's assessment, can have an impact on the Group's financial statements:

IAS 1 (Amendment): Presentation of Financial Statements. The amendment clarifies that only part of the financial assets classified as held for trading in compliance with IAS 39 belong to current assets. The Group's management assesses that the amendment will not have a material impact on the Group's financial statements. The amendment has not yet been endorsed by the European Union.

IAS 16 (Amendment): Property, Plant and Equipment. Enterprises whose ordinary activities include leasing out assets and subsequent disposal shall present the revenue from such assets in net sales and transfer the carrying amounts of the assets to inventories when the asset is made available for sale. The Group's management assesses that the interpretation will not have a material impact on the Group's financial statements. The amendment has not yet been endorsed by the European Union.

IAS 19 (Amendment): Employee Benefits. The amendments clarify, among other things, that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost, if it reduces the present value of defined benefit plan obligation. The Group's management assesses that the amendment will not have a material impact on the Group's financial statements. The amendment has not yet been endorsed by the European Union.

IAS 28 (Amendment): Investments in Associates (and consequent amendments to IAS 32 Financial Instruments: Disclosure and Presentation, and IFRS 7 Financial Instruments: Disclosures). For impairment testing, an investment in an associate is treated as an individual asset, and impairment losses are not allocated to individual assets included in the investment, for example, goodwill. Impairment reversals are recognised as adjustments to the carrying amount of the investment to the extent that the recoverable amount of the associate increases. The Group's management assesses that the amendment will not have a material impact on the Group's financial statements. The amendment has not yet been endorsed by the European Union.

IAS 38 (Amendment): Intangible Assets. A prepayment can only be recognised as an asset when the payment has been made before receiving the related goods or services. This means that an expense arising from mail order catalogues is recognised when the Group has received them and not when they are delivered to customers. The Group's management assesses that the amendment will not have a material impact on the Group's financial statements. The amendment has not yet been endorsed by the European Union.

IAS 39 (Amendment): Financial Instruments: Recognition and Measurement. The amendments clarify, among other things, the classification of derivatives in situations involving changes in hedge accounting, the definition for instruments held for trading, and provide for the use of the effective interest method in re-measuring the carrying amount of a debt instrument when hedge accounting is discontinued. The Group's management assesses that the amendment will not have a material impact on the Group's financial statements. The amendment has not yet been endorsed by the European Union.

In 2010, the Group will adopt the following standards and interpretations published by the IASB:

IFRS 3 (revised): Business Combinations. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. The Group's management assesses that the change will affect the accounting for business acquisitions. The revised standard has not yet been endorsed for application in the EU.

IAS 27 (revised): Consolidated and Separate Financial Statements. The revised standard requires that all transactions with non-controlling interests be recorded in equity if there is no change in control. Consequently, minority transactions will no longer result in goodwill or profits and losses. The standard also specifies the accounting for transactions when control is transferred. The Group's management assesses that the change will have an impact in possible business arrangement situations. The revised standard has not yet been adopted by the European Union.

IAS 39 (Amendment): Financial Instruments: Recognition and Measurement Eligible Hedged Items. According to the amendment, inflation cannot be separately designated as a hedged item in a fixed-interest loan. The Group's management assesses that the amendment will not have an impact on the Group's financial statements. The change has not yet been endorsed by the European Union.

IFRS 5 (Amendment): Non-current Assets Held for Sale and Discontinued Operations. The amendment clarifies that if a plan for a partial disposal involves lost control, the related subsidiary's total assets and liabilities are classified as held for sale, and when the criteria for a discontinued operation are met, appropriate information shall be disclosed. The Group's management assesses that the amendment will not have a material impact on the Group's financial statements. The change has not yet been endorsed by the European Union.

IFRIC 17 Distributions of Non-Cash Assets to Owners. The interpretation clarifies the measurement of asset distributions in a situation where the company distributes assets other than dividends to its shareholders. The Group's management assesses that the interpretation will not have a material impact on the Group's financial statements. The interpretation has not yet been endorsed by the European Union.

NOTE 2

Segment information

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 business divisions 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 linked to operating activities. Segment liabilities consist of trade payables, accrued liabilities and provisions linked to operating activities. The Group's real estate assets and their revenue and costs have been allocated to the segments. The division parent companies have profit responsibility for properties during their whole lifecycles.

Business segments

Business segments are composed of the Group's business divisions.

Kesko Food operates in the Finnish grocery market and its retail chains are K-citymarket, K-supermarket, K-market and K-extra. Kesko Food manages the K-food store chains and combines their purchasing power, arranges efficient logistics, acquires store sites and guarantees strong marketing and development support. Kesko Food’s subsidiary Kespro Ltd offers delivery sales and wholesale services to business customers.

Rautakesko is engaged in the building and home improvement trade in the Nordic and Baltic countries, Russia and Belarus. The retail chains are K-rauta, Rautia, Byggmakker and Senukai. Rautakesko manages its chains, combines their purchasing power, arranges efficient logistics, acquires store sites and guarantees strong marketing and development support. Rautakesko B-to-B Service serves building firms, industry and other professional customers.

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 at its own retail outlets.

Anttila is a company concentrating on the department store trade. Anttila operates Anttila department stores, Kodin Ykkönen department stores for interior decoration and home goods, Anttila Mail Order and the NetAnttila online department store.

Kesko Agro's K-maatalous chain purchases and sells agricultural inputs and machinery to agricultural entrepreneurs, and trades in grain with them. Kesko Agro is active in Finland and the Baltic countries.

Other operating activities comprise the reporting for Konekesko, engaging in the machinery trade, Indoor in the furniture and interior decoration trade, Intersport Finland in the sports trade, Musta Pörssi in the home technology trade, and Kenkäkesko in the shoe trade.

Common operations include shared Group support functions.

Geographical segments

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

The net sales of the geographical segments are disclosed based on the location of the customers and assets are disclosed based on their location.

Segment information in 2009

As of 1 January 2009, the Kesko Group's primary reportable segments are the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade.

On 1 January 2009, Kesko Agro Ltd demerged so that the agricultural trade activities in Finland became part of Rautakesko Ltd and will be reported as part of the building and home improvement segment. The trade of tractors and combines, as well as the agricultural and machinery trade companies in the Baltic countries became part of Konekesko Ltd and will be reported as part of the car and machinery trade segment.

Starting from 1 January 2009, Anttila Oy, K-citymarket Oy (home and speciality goods) and the other Kesko Group home and speciality goods companies intensify their cooperation, and will be jointly reported as the home and speciality goods trade segment.

Business segments 2008, continuing operations

€ million	Kesko Food	Rauta-kesko	VV-Auto	Anttila	Kesko Agro	Other operating activities	Common operations	Eliminations	Total
External sales	4,137.5	2,557.0	898.3	559.6	850.5	708.7	22.9		9,734.7
Inter-segment sales	29.1	5.2	1.3	1.3	0.8	3.8	130.8	-172.3	0.0
Adjustment items	-56.4	-44.1	-15.6	-1.1	-5.8	-13.8	0.0	2.4	-134.3
Net sales	**4,110.2**	**2,518.2**	**884.1**	**559.9**	**845.6**	**698.6**	**153.7**	**-169.9**	**9,600.4**
Other operating income, external	513.2	109.7	0.8	8.3	8.4	62.3	27.0		729.7
Other inter-segment income	3.8	1.5		4.6	1.8	0.9	1.3	-13.4	0.6
Total other operating income	**517.0**	**111.3**	**0.8**	**12.9**	**10.2**	**63.2**	**28.3**	**-13.4**	**730.3**
Operating profit	**245.0**	**16.3**	**36.3**	**4.3**	**-3.5**	**0.8**	**-13.9**	**0.1**	**285.6**
Operating profit excl. non-recurring items	**135.2**	**53.3**	**36.3**	**19.8**	**-3.5**	**-0.1**	**-24.2**	**0.1**	**217.0**
Financial income and expenses									1.0
Income from associates									1.9
Income tax expense									-89.4
Net profit from discontinued operations									41.5
Net profit									**240.6**
Other information									
Segment assets	1,444.1	867.7	196.5	182.9	208.4	331.3	96.9	-0.2	3,327.6
Assets held for sale		1.9					1.0		3.0
Interests in associates									31.2
Unallocated assets									530.3
Total assets	**1,444.1**	**869.6**	**196.5**	**182.9**	**208.4**	**331.3**	**97.9**	**-0.2**	**3,891.9**
Segment liabilities	570.4	272.3	56.7	69.4	65.8	131.5	79.6	-24.3	1,221.5
Liabilities related to assets held for sale									
Unallocated liabilities									644.0
Total liabilities	**570.4**	**272.3**	**56.7**	**69.4**	**65.8**	**131.5**	**79.6**	**-24.3**	**1,865.5**
Investments	185.9	121.1	6.9	5.8	2.4	15.7	4.4	-3.7	338.4
Depreciation	-57.8	-31.6	-4.7	-6.1	-6.0	-7.4	-3.8	0.3	-117.0
Impairment		-45.6		-15.5					-61.1

Business segments 2007, continuing operations

€ million	Kesko Food	Rauta-kesko	VV-Auto	Anttila	Kesko Agro	Other operating activities	Common operations	Eliminations	Total
External sales	3,890.1	2,573.8	819.4	564.4	783.7	750.5	31.0		9,413.0
Inter-segment sales	30.8	6.3	0.9	1.2	14.1	6.3	120.5	-180.1	0.0
Adjustment items	-50.1	-42.8	-15.5	-1.9	-4.5	-13.4	0.0	2.3	-125.9
Net sales	**3,870.8**	**2,537.3**	**804.8**	**563.7**	**793.3**	**743.4**	**151.5**	**-177.8**	**9,287.2**
Other operating income, external	375.0	103.8	0.6	9.7	5.6	60.0	22.0		576.9
Other inter-segment income	3.7	0.9		3.7	1.6	0.4	4.3	-14.7	-0.1
Total other operating income	**378.7**	**104.7**	**0.6**	**13.4**	**7.3**	**60.5**	**26.4**	**-14.7**	**576.8**
Operating profit	**151.3**	**117.8**	**26.1**	**27.2**	**12.9**	**10.0**	**-37.0**	**13.4**	**321.5**
Operating profit excl. non-recurring items	**151.4**	**115.9**	**26.1**	**25.2**	**12.4**	**13.9**	**-30.1**	**0.3**	**315.0**
Financial income and expenses									36.1
Income from associates									0.2
Income tax expense									-87.1
Net profit from discontinued operations									36.6
Net profit									**307.4**
Other information									
Segment assets	1,355.3	901.3	205.9	195.5	244.2	326.2	83.1	-3.9	3,307.7
Assets held for sale							236.9		236.9
Interests in associates									26.9
Unallocated assets									521.2
Total assets	**1,355.3**	**901.3**	**205.9**	**195.5**	**244.2**	**326.2**	**320.0**	**-3.9**	**4,092.7**
Segment liabilities	521.8	290.4	54.7	75.6	129.9	200.2	80.7	-28.4	1,324.9
Liabilities related to assets held for sale							3.3		3.3
Unallocated liabilities									800.1
Total liabilities	**521.8**	**290.4**	**54.7**	**75.6**	**129.9**	**200.2**	**84.0**	**-28.4**	**2,128.3**
Investments	117.6	77.0	6.3	5.8	7.6	7.4	9.7	-3.8	227.6
Depreciation	-60.1	-25.7	-5.7	-6.1	-4.3	-8.5	-5.4	0.3	-115.5
Impairment						-0.5			-0.5

Geographical segments 2008

€ million	Finland	Other Nordic countries	Baltic countries	Other countries	Eliminations, unallocated	Total
Net sales	7,643.1	758.7	945.7	278.2	-25.3	9,600.4
Segment assets	2,629.7	231.2	316.2	113.4	37.1	3,327.6
Assets held for sale	1.0			2.0		3.0
Investments	241.5	31.1	11.5	55.5	-1.2	338.4

Geographical segments 2007

€ million	Finland	Other Nordic countries	Baltic countries	Other countries	Eliminations, unallocated	Total
Net sales	7,349.1	819.9	957.6	192.9	-32.4	9,287.2
Segment assets	2,559.0	260.3	353.4	77.8	57.1	3,307.7
Assets held for sale	102.8		134.1			236.9
Investments	173.2	27.6	20.5	6.3	0.0	227.7

NOTE 3

Acquisitions

Acquisitions in 2008

In 2008, the Kesko Group's acquisitions mainly comprised real estate companies. Their acquisition cost totalled €30.0 million and the cash outflow, additional purchase prices included, was €35.0 million.

Acquisitions in 2007

In 2007, the Kesko Group acquired companies at insignificant cost. Their acquisition cost totalled €6.0 million and the cash outflow, additional purchase prices included, was €21.9 million.

NOTE 4

Discontinued operations and disposal of other assets

Discontinued operations in 2008

In March 2008, Kesko Corporation sold the share capital of Tähti Optikko Group Oy. The debt-free selling price was about €15 million, which contributed a non-recurring gain of about €8.5 million.

In April 2008, Kesko Corporation sold the share capital of Kauko-Telko Ltd engaged in technical trade. The debt-free price was about €77 million, which contributed a non-recurring gain of about €31 million.

Net assets of discontinued operations at date of disposal

€ million	2008
Cash	21.0
Intangible assets	22.8
Property, plant and equipment	10.0
Inventories	26.6
Receivables	31.3
Non-interest-bearing debt	-35.9
Interest-bearing debt	-13.4
Deferred tax liabilities (net)	-3.1
	59.2
Group eliminations	1.9
Gains/losses on disposal	39.4
Total consideration	100.6
Received in cash	100.6
Received in shares	
Cash and cash equivalents in disposed entity	-21.0
Cash inflow on disposal	79.6

Income statement for discontinued operations

€ million	2008	2007
Net sales	83.1	246.6
Expenses	-80.3	-235.1
Profit before tax	2.8	11.5
Income tax	-0.8	-3.1
Profit after tax	2.0	8.4
Profit before tax on disposal of operations	39.5	28.2
Net profit on the disposal of operations	41.5	36.6

Cash flow statement for discontinued operations

€ million	2008	2007
Cash flow from operating activities	1.7	9.3
Cash flow from investing activities	-3.0	16.0
Cash flow from financing activities	-6.7	-23.8
Cash flow from discontinued operations	-8.0	1.5

The cash flows do not include the contribution of business disposals.

Disposal group 2008

In January 2008, Kesko Corporation sold K-Rahoitus Oy, one of its wholly-owned subsidiaries. In the 2007 financial statements, K-Rahoitus Oy's assets were reported in available-for-sale assets and in liabilities relating to available-for-sale assets. The transaction contributed a non-recurring gain of about €10.3 million.

Discontinued operations in 2007

In 2006, Kesko Food Ltd sold its 50% ownership interest in Rimi Baltic AB. The properties included in the transaction were sold in January 2007. The €28.2 million gain on the property disposal was reported in the profit from discontinued operations.

Disposal group 2007

In December 2007, Kesko Corporation signed an agreement by which it would sell the share capital of K-Rahoitus Oy, a subsidiary wholly owned by it. K-Rahoitus Oy provided financing services to business customers, mainly to professional customers of Kesko Agro, Konekesko and the agricultural retailers in Finland, Estonia, Latvia and Lithuania. The company had 7 employees in Finland and 15 in the Baltic countries. The whole personnel transferred to the new employer. The transaction was concluded after clearance from the authorities during the first part of 2008. When the deal was concluded, Kesko recognised a non-recurring gain on the disposal of €10.3 million. K-Rahoitus Oy's on-balance-sheet items were presented as assets held for sale and liabilities relating to available-for-sale assets (note 26).

Notes to the consolidated income statement

NOTE 5

Other operating income

€ million	2008	2007
Services fees	460.0	433.1
Rent income	37.3	36.5
Gains on disposal of tangible and intangible assets	140.0	13.4
Gains from derivatives *)	4.9	2.2
Others	88.0	91.6
Total	730.3	576.8

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

NOTE 6

Other operating expenses

€ million	2008	2007
Rent expenses	-349.9	-313.4
Marketing costs	-262.9	-256.9
Property and store site occupancy costs	-125.3	-111.3
Data communication costs	-65.5	-61.6
Other trading expenses	-186.1	-175.6
Losses on disposal of tangible assets	-1.3	-1.5
Losses on derivatives *)	-4.9	-2.1
Total	-996.0	-922.5

*) Includes revaluations of embedded derivatives.

Audit fees

€ million	2008	2007
Authorised Public Accountants PricewaterhouseCoopers		
Audit fees	0.9	0.8
Tax consultation	0.2	0.2
Other services	0.7	0.2
Total	1.7	1.2
Other auditing firms	0.4	0.3

NOTE 7

Non-recurring items

€ million	2008	2007
Gains on disposal of real estate and shares	139.0	13.6
Losses on disposal of real estate and shares	-1.0	-1.4
Impairment losses	-61.1	-0.5
Others	-8.2	-5.1
Total	68.7	6.5

Extraordinary transactions that are not related to ordinary operating activities are treated as non-recurring items and allocated to segments. The Group classifies gains and losses on the disposal of real estate, shares, operating activities and impairment, and discontinuation costs of significant operating activities as non-recurring items. The gains on disposal are presented in the income statement in other operating income, and the losses on disposal in other operating expenses.

In addition to the above, discontinued operations include non-recurring gains on disposal in the amount of €39.5 milllion (€28.5 million).

Impairment losses

During the period, a total amount of €61.1 million (€0.5million) in impairment losses was recognised as an expense in the income statement. An impairment charge of €45.6 million was made on the consolidated goodwill and trademark of Rautakesko's subsidiary, Byggmakker Norge. In addition, the non-recurring expenses include an impairment charge of €15.5 million on Anttila's logistics centre in Vantaa to be replaced in 2011 by a new logistics centre in Kerava.

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

NOTE 8

Staff cost, number of employees and management's salaries

Staff cost

€ million	2008	2007
Salaries and fees	-496.6	-477.5
Social security costs	-47.3	-46.2
Pension costs	-28.8	-21.0
Defined benefit plans	20.5	26.5
Defined contribution plans	-49.3	-47.5
Share options granted	-5.5	-2.3
Total	-578.2	-546.9

The employee benefits of the Group's management are disclosed in note 46. Related party transactions and information concerning stock option plans are presented in note 37.

Salaries and fees of the Group companies' managing directors and boards of directors

€ million	2008	2007
Salaries of managing directors (incl. fringe benefits)	5,8	5,6
Fees of board members	0,3	0,3
Total	6,1	5,9

Average number of the Group employees	2008	2007
Kesko Food	5,939	5,964
Rautakesko	10,158	9,111
VV-Auto	744	737
Anttila	2,083	2,058
Kesko Agro	697	797
Other operating activities	1,470	1,577
Other entities	236	276
Total	21,327	20,520

NOTE 9

Financial income and expenses

€ million	2008	2007
Financial income		
Dividend income from available-for-sale financial assets	0.1	0.1
Interest income from loans and receivables	15.1	26.9
Interest income from financial assets carried at fair value through profit or loss	6.3	4.1
Interest income from available-for-sale financial assets	13.8	7.6
Interest income	35.3	38.6
Exchange differences and fair value changes of derivative financial instruments and currency-denominated loans and bank accounts not qualified for hedge accounting	37.9	11.0
Gains from disposals of available-for-sale financial assets	0.0	37.1
Total	73.3	86.9
Financial expenses		
Interest expenses on financial liabilities carried at amortised cost	-30.5	-33.9
Exchange differences and fair value changes of derivative financial instruments and currency-denominated loans and bank accounts not qualified for hedge accounting	-40.3	-15.6
Other financial expenses	-1.5	-1.2
Total	-72.3	-50.8
Total financial income and expenses	1.0	36.1

The gains on disposal of available-for-sale financial assets for the comparative year include a €37.1 million gain on the sale of SATO shares.

Financial expenses include €5.8 (€10.8 million) in interest on finance leases recognised as expenses for the period. Financial income includes €2.5 million (€1.6 milion) in interest on finance leases reported as income for the period.

The profit from the realised interest rate derivative instrument used to hedge the USD-denominated private placement loan is recognised in net terms in interest expenses with the loan interest.

Exchange differences recognised in the income statement

€ million	2008	2007
Other income	3.8	2.0
Purchases and other expenses	-0.7	-2.7
Financial income and expenses	-3.0	-4.7
Total	0.1	-5.4

NOTE 10

Income taxes

Income taxes in the income statement

€ million	2008	2007
Current tax	-83.2	-75.4
Tax for prior periods	2.2	-7.6
Deferred taxes	-8.4	-4.0
Total	-89.4	-87.1

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

Profit before tax	288.5	358.1
Tax at parent's rate (26%)	-75.0	-93.1
Effect of foreign subsidiaries' different tax rates	3.4	5.0
Effect of income not subject to tax	9.8	12.8
Effect of expenses not deductible for tax purposes	-10.0	-11.0
Effect of tax losses	-12.1	-0.7
Effect of consolidation and elimination	-6.8	2.2
Taxes for prior periods	2.2	-7.5
Adjustment of prior period deferred taxes	-3.9	2.4
Others	3.0	2.8
Taxes in the income statement	-89.4	-87.1

NOTE 11

Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the parent's equity holders 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.

	2008	2007
Profit for the period attributable to equity holders of the parent		
Continuing operations, € million	178.2	248.4
Discontinued operations, € million	41.5	36.6
Kesko total, € million	219.7	285.0
Number of shares		
Weighted average number of shares outstanding	97,795,685	97,665,884
Effect of options granted	460,550	729,435
Diluted weighted average number of shares outstanding	98,256,234	98,395,319
Earnings per share from profit attributable to equity holders of the parent		
Continuing operations		
Basic, €	1.82	2.54
Diluted, €	1.81	2.52
Discontinued operations		
Basic, €	0.43	0.38
Diluted, €	0.43	0.38
Kesko total		
Basic, €	2.25	2.92
Diluted, €	2.24	2.90

Notes to the consolidated balance sheet

NOTE 12

Intangible assets

€ million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2008
Cost					
Cost at 1 January 2008	163.3	78.3	124.5	13.4	379.7
Currency translation differences	-7.6	-7.2	-5.3	-1.3	-21.4
Additions	6.4		36.8	7.4	50.6
Acquisition of subsidiary			0.0		0.0
Disposals	-46.7		-16.7	-1.5	-64.9
Transfers between items	-0.1		3.1	-7.6	-4.6
Cost at 31 December 2008	115.3	71.1	142.5	10.4	339.4
Accumulated amortisation					
Accumulated amortisation and impairment at 1 January 2008	-29.0	-21.3	-77.2		-127.5
Currency translation differences	5.9	1.3	1.6		8.8
Accumulated amortisation of disposals and transfers	16.9		6.0		22.9
Amortisation for the period			-28.3		-28.3
Impairment	-37.0	-8.6			-45.6
Accumulated amortisation at 31 December 2008	-43.3	-28.6	-97.9		-169.7
Carrying amount at 1 January 2008	134.3	57.0	47.3	13.4	252.2
Carrying amount at 31 December 2008	**72.1**	**42.5**	**44.6**	**10.4**	**169.6**

€ million					Total 2007
Cost					
Cost at 1 January 2007	161.0	77.0	112.3	9.7	360.1
Currency translation differences	1.7	1.3	0.7		3.7
Additions	3.2		22.0	8.5	33.7
Acquisition of subsidiary	-1.3		1.8		0.5
Disposals	-1.5		-3.8	-1.3	-6.6
Transfers between items	0.2		-8.5	-3.5	-11.7
Cost at 31 December 2007	163.3	78.3	124.5	13.4	379.7
Accumulated amortisation					
Accumulated amortisation and impairment at 1 January 2007	-30.2	-21.3	-60.5		-112.0
Currency translation differences			-0.1		-0.1
Accumulated amortisation of disposals and transfers	1.2		9.1		10.3
Amortisation for the period			-25.6		-25.6
Impairment					0.0
Accumulated amortisation at 31 December 2007	-29.0	-21.3	-77.2		-127.5
Carrying amount at 1 January 2007	130.8	55.7	51.8	9.7	248.0
Carrying amount at 31 December 2007	**134.3**	**57.0**	**47.3**	**13.4**	**252.2**

Goodwill and intangible assets by segment

€ million	Intangible assets * 2008	Goodwill 2008	Discount rate (WACC) ** 2008	Intangible assets * 2007	Goodwill 2007	Discount rate (WACC) ** 2007
Rautakesko						
Other Nordic countries	24.7		8.0%	39.2	48.9	7.5%
Baltic countries		18.3	11.0–12.5%		18.3	9.0–11.0%
Others		19.1	12.0%		14.0	12.0%
Anttila						
Finland		23.4	7.0%		23.4	7.0%
Other operating activities						
Finland	17.8	9.0	7.0%	17.8	28.2	7.0–7.5%
Others		3.3			1.5	
Total	42.5	72.1		57.0	134.3	

* 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 and whenever there is an indication of impairment.

During the period, Byggsenteret, part of the Norwegian Byggmakker group, was sold, and the allocated goodwill was €9.5 million.

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 3–4 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 1–4% 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 2008 accounting period, an impairment charge of €45.6 million was made against Byggmakker Norge's (Rautakesko) intangible assets. Of this amount €37.0 million was allocated to goodwill and €8.6 million to the trademark, with both amounts reported as non-recurring items. The impairment loss was due to weaker-than-expected profitability development. In addition, it was estimated that revenue expectations concerning Byggmakker had declined. Byggmakker Norge constitutes a separate cash-generating unit and it belongs to the Rautakesko segment.

During the 2007 accounting period, impairment was not allocated to goodwill and trademarks with indefinite useful lives.

Sensitivity analysis

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

The intangible assets relating to the business operations of Byggmakker and Indoor are the most sensitive to changes in assumptions. After the impairment recognised on Byggmakker for 2008, the carrying amount of its assets equals the reassessed recoverable amount. For Indoor, the reduction of residual EBITDA of over 0.3%, as well as the 0.4 pp discount rate increase would cause a need for impairment recognition.

When cash generating units are estimated according to the management's assumptions, a foreseeable change in any key variable would not create a situation in which the recoverable amounts of cash generating units wold be less than their carrying amounts.

NOTE 13

Tangible assets

€ million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepayments and purchases in progress	Total 2008
Cost						
Cost at 1 January 2008	223.2	1,140.7	481.4	36.2	29.9	1,911.3
Currency translation differences	-3.3	-4.1	-8.0	-1.1	-1.3	-17.8
Additions	54.4	69.5	97.9	7.1	70.6	299.5
Acquisition of subsidiary	2.6	9.6	0.0			12.2
Disposals	-11.1	-174.7	-90.5	-4.0	-0.2	-280.5
Transfers between items	5.9	18.9	5.7	0.1	-16.5	14.1
Cost at 31 December 2008	271.7	1,059.9	486.5	38.3	82.4	1,938.8
Accumulated depreciation						
Accumulated depreciation and impairment at 1 January 2008	-3.7	-414.1	-326.3	-14.1		-758.2
Currency translation differences	0.0	1.1	4.2	0.5		5.8
Accumulated depreciation of disposals and transfers	1.3	76.5	48.6	1.9		128.3
Depreciation for the period		-37.6	-49.1	-3.1		-89.5
Impairment		-15.5				-15.5
Accumulated depreciation at 31 December 2008	-2.4	-389.6	-322.6	-14.8		-729.3
Carrying amount at 1 January 2008	219.5	726.6	155.2	22.2	29.9	1,153.1
Carrying amount at 31 December 2008	**269.3**	**670.3**	**164.0**	**23.6**	**82.4**	**1,209.5**

						Total 2007
Cost						
Cost at 1 January 2007	212.7	1,079.4	465.8	25.7	25.1	1,808.6
Currency translation differences	-0.8	-1.4	-0.6	-0.1	-0.2	-3.1
Additions	22.6	56.6	82.5	6.1	29.9	197.7
Acquisition of subsidiary	1.6	6.6	2.5	0.0	1.8	12.5
Disposals	-7.7	-27.0	-67.7	-0.4	-1.2	-104.0
Transfers between items	-5.2	26.3	-1.1	4.9	-25.5	-0.6
Cost at 31 December 2007	223.2	1,140.7	481.4	36.2	29.9	1,911.3
Accumulated depreciation						
Accumulated depreciation and impairment at 1 January 2007	-2.4	-376.8	-305.5	-9.0		-693.8
Currency translation differences		0.3	0.3			0.6
Accumulated depreciation of disposals and transfers	-1.3	3.8	28.4	-2.4		28.5
Depreciation for the period		-41.4	-48.9	-2.7		-92.8
Impairment			-0.5			-0.5
Accumulated depreciation at 31 December 2007	-3.7	-414.1	-326.3	-14.1		-758.2
Carrying amount at 1 January 2008	210.3	702.6	160.3	16.7	25.1	1,114.7
Carrying amount at 31 December 2007	**219.5**	**726.5**	**155.1**	**22.1**	**29.9**	**1,153.1**

Tangible assets include assets leased under finance leases as follows:

€ million	Buildings	Machinery and equipment	Other tangible assets	Total
2008				
Cost	38.7	47.6	0.1	86.4
Accumulated depreciation	-23.7	-36.4	-0.1	-60.2
Carrying amount	15.0	11.2	0.0	26.2
2007				
Cost	150.8	69.8	0.1	220.7
Accumulated depreciation	-67.0	-42.0	-0.1	-109.1
Carrying amount	83.8	27.8	0.0	111.6

NOTE 14

Interests in associates

€ million	2008	2007
Carrying amount at 1 Jan.	27.0	25.5
Share of income for the period	1.9	0.4
Additions	2.4	2.2
Disposals	-0.1	-1.1
Carrying amount at 31 Dec.	31.2	27.0

Price quotations of associates have not been published.

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

€ million	Assets	Liabilities	Net sales	Profit/loss	Ownership interest, %
2008					
Valluga-sijoitus Oy, Helsinki	34.5	2.3	0.7	9.1	39.0
Vähittäiskaupan Takaus Oy, Helsinki	52.9	0.2	1.1	2.2	34.4
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	3.4	2.2	10.0	-0.3	30.0
Others	4.6	3.2	0.5	0.0	
Total	95.3	7.9	12.3	11.0	
2007					
Valluga-sijoitus Oy, Helsinki	23.2	0.1	1.0	0.7	39.0
Vähittäiskaupan Takaus Oy, Helsinki	50.8	0.2	1.1	3.9	34.4
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	3.7	2.7	9.3	0.1	30.0
Others	3.9	2.2	3.0	-0.1	
Total	81.6	5.2	14.4	4.6	

NOTE 15

Long-term available-for-sale financial assets

€ million	2008	2007
Carrying amount at 1 January	4.0	12.0
Additions	0.0	1.2
Disposals	-1.0	-9.2
Carrying amount at 31 December	3.0	4.0

The available-for-sale financial assets include unquoted shares primarily measured at cost because their fair values cannot be reliably measured.

In 2007, €37.1 million of gains on disposal of available-for-sale financial assets were recognised in financial items.

NOTE 16

Long-term receivables

€ million	2008	2007
Non-interest-bearing long-term receivables	10.9	8.8
Finance lease receivables	51.3	27.0
Loan receivables from associates	1.5	0.9
Other long-term receivables	5.5	0.2
Total	69.2	36.9

The non-interest-bearing long-term receivables include €10.3 million in derivative value changes, the balance sheet value of which corresponds to their fair values. The fair values of finance lease receivables cannot be reliably measured.

Maturities of long-term receivables at 31 Dec. 2008

€ million	2010	2011	2012	2013	2014-	Total
Non-interest-bearing long-term receivables	0.6				10.3	10.9
Finance lease receivables	12.6	10.7	8.3	6.8	12.8	51.3
Loan receivables from associates					1.5	1.5
Other long-term receivables	0.9	1.0	1.0	0.9	1.6	5.5
Total	14.1	11.8	9.3	7.7	26.2	69.2

NOTE 17

Finance lease receivables

€ million	2008	2007
Finance lease receivables fall due as follows:		
Not later than one year	15.9	8.9
Later than one year and not later than five years	44.0	25.5
Later than five years	13.5	4.2
Gross investment in finance leases	**73.5**	**38.6**
Present value of minimum lease receivables:		
Not later than one year	13.1	7.4
Later than one year and not later than five years	38.5	23.0
Later than five years	12.8	4.0
Finance lease receivables	**64.3**	**34.4**
Unearned financial income	**9.1**	**4.2**

The finance lease receivables comprise store fixtures leased by Kesko Food Ltd from finance companies and subleased to chain companies. During the lease term, the lease item is used as collateral. After the actual lease term, the lessee may extend the lease over low-cost extension periods. The agreement with the finance company includes a lease limit of €100 million. The lease terms are 3–8 years.

NOTE 18

Deferred taxes

Changes in deferred taxes during 2008

€ million	31 Dec. 2007	Charged/ credited to the income statement	Charged to equity	Exchange rate differences	Subsidiaries acquired/ disposed of	31 Dec. 2008
Deferred tax assets						
Margin included in inventories	2.2	-1.2		0.0	0.0	1.0
Finance lease assets	5.5	-5.3		0.0	0.0	0.2
Provisions	6.2	2.8			-0.1	9.1
Pensions	1.0	0.0		0.0	-0.1	0.9
Confirmed losses	3.9	-0.8		-0.4	0.0	2.8
Others	19.3	0.4	2.6	-0.6	-1.0	20.7
Total	38.0	-4.1	2.6	-1.0	-1.2	34.5
Deferred tax liabilities						
Accumulated depreciation differences	55.3	-5.0		0.0	-0.9	49.5
Changes in Group composition	21.6	-1.8		-2.4	5.5	22.9
Pensions	68.1	10.8			0.1	79.0
Others	11.0	0.1	-0.2	-0.1	-2.3	8.5
Total	156.0	4.1	-0.2	-2.5	2.4	159.9
Net deferred tax liability	117.8					125.5

Balance sheet division:

€ million	2008	2007
Deferred tax assets	6.5	7.7
Deferred tax liabilities	132.0	125.5

The 'Others' group of deferred tax assets includes, e.g. timing differences relating to depreciation, deferred tax assets resulting from individual Group companies' application of the Group's accounting principles, and during the comparative period, also deferred tax assets recognised on the amortisation of gains on sale and leaseback transactions. The finance lease properties governed by the sale and leaseback contract were sold during the 2008 accounting period.

Changes in deferred taxes during 2007

€ million	31 Dec. 2006	Charged/ credited to the income statement	Charged to equity	Exchange rate differences	Subsidiaries acquired/ disposed of	31 Dec. 2007
Deferred tax assets						
Margin included in inventories	2.3	-0.1				2.2
Finance lease assets	5.2	0.3				5.5
Provisions	5.9	0.3				6.2
Pensions	1.6	-0.6				1.0
Confirmed losses	3.3	0.8		-0.1	-0.1	3.9
Others	16.7	3.1	-0.5			19.3
Total	34.9	3.8	-0.5	-0.1	-0.1	38.0
Deferred tax liabilities						
Accumulated depreciation differences	57.3	-1.7			-0.3	55.3
Change in Group composition	21.5	-2.0		0.5	1.6	21.6
Pensions	57.1	11.1			-0.1	68.1
Others	6.1	1.2	3.1		0.5	11.0
Total	142.0	8.6	3.1	0.5	1.7	156.0
Net deferred tax liability	107.1					118.0

Balance sheet division:

€ million	2007	2006
Deferred tax assets	7.7	5.8
Deferred tax liabilities	125.5	112.8

At 31 December 2008, the Group had €26.0 million of carryforward of unused tax losses not recognised as deferred tax assets, because it is probable that the Group will not be able to accumulate an equivalent taxable profit against which the losses could be used.

Carryforward of unused tax losses not recognised as deferred tax assets expire as follows:	2009	2010	2011	2012	2013	2014-	Total
	1.0	2.4	0.9	2.4	0.1	19.2	26.0

The consolidated financial statements do not recognise deferred tax liabilities for the undistributed earnings of subsidiaries, because their profit distributions are at the discretion of the Group, and resulting in a tax effect a distribution of profits is not probable in the near future.

NOTE 19

Pension assets

The Group operates several retirement plans. In Finland, employees' pension insurance is partly arranged with insurance companies and partly with the Kesko Pension Fund, whose department A granting additional benefits was closed on 9 May 1998. The pension plan arranged with the Kesko Pension Fund is classified as a defined benefit plan.

As regards foreign subsidiaries, the plan adopted in the Norwegian subsidiary is the only pension plan classified as a defined benefit plan. The nature of the pension plan in Norway and Norwegian legislation have changed during the 2008 accounting period to the effect that a significant number of the company's employees have transferred from the defined benefit plan. At 31 December 2008, the net debt relating to the defined benefit plan in Norway was €0.5 million (€2.9 million).

Pension plans in other foreign subsidiaries are arranged in accordance with local regulations and practices. They do not contain significant defined benefit plans.

The defined benefit liability recognised in the balance sheet in respect of the Kesko Pension Fund is determined as follows:

€ million	2008	2007
Present value of funded obligations	-530.4	-560.6
Fair value of assets	819.5	897.0
Deficit/surplus	289.1	336.4
Unrecognised actuarial gains (-)/losses (+)	11.1	-74.3
Net assets (+) / liabilities (-) recognised in the balance sheet	300.3	262.1
Changes in the present value of obligation		
Plan obligation at 1 Jan.	560.6	440.9
Current service cost	15.1	12.0
Interest cost	28.8	24.8
Benefits paid	-27.2	-26.7
Actuarial gains (-)/losses (+)	-47.0	68.5
Others		41.1
Plan obligation at 31 December	530.4	560.6
Fair value changes of the plan assets		
Plan assets at 1 January	897.0	794.8
Expected return on plan assets	63.2	56.2
Contributions to plan	17.8	16.1
Benefits paid	-27.3	-26.7
Actuarial gains (+)/(losses (-)	-131.2	11.8
Others		44.8
Plan assets at 31 December	819.5	897.0
Expense recognised in the income statement		
Current service cost	-15.1	-12.0
Interest cost	-28.8	-24.8
Expected return on plan assets	63.2	56.2
Change		3.8
Actuarial gains (+) and losses (-)	1.2	3.3
Total expense recognised in the income statement	20.5	26.5
Change in net assets recognised in the balance sheet		
Beginning of the period	262.1	219.5
Income/expenses recognised in the income statement	20.5	26.5
Contributions to plan	17.8	16.1
End of the period	300.3	262.1

Finland	2008	2007	2006	2005	2004
Present value of plan obligation	-530.4	-560.6	-440.9	-426.8	-420.6
Fair value of plan assets	819.5	897.0	794.8	628.7	608.2
Surplus/deficit	289.1	336.4	353.9	201.8	187.5
Experience adjustments on plan assets	-130.9	11.5	113.1	41.6	
Experience adjustments on plan liabilities	-15.6	23.2	4.8	5.9	

The actual return on plan assets (Finland) was €-71.6 million (€68.0 million).
In 2009, the Group expects to pay €52.5 million in contributions to defined benefit plans.

Analysis of plan assets by group of assets, % of fair values of plan assets	2008	2007
Real estate	39.7%	34.7%
Shares	19.4%	33.6%
Long-term interest investments	20.6%	17.6%
Short-term interest investments	18.5%	8.8%
Alternative investments	1.8%	5.3%
Total	100.0%	100.0%

Plan assets, € million		
Kesko Corporation shares included in fair value	93.5	130.2
Real estate leased and primarily subleased to retailers by the Kesko Group, included in fair value	359.5	341.5

Principal actuarial assumptions used:	2008	2007
Discount rate	5.25%	5.00%
Expected return on plan assets	6.60%	6.60%
Future salary increase assumption	3.50%	3.50%
Inflation	2.00%	2.00%
Expected average remaining service life, years	15–20	15–20

In calculating the IAS 19 pension obligation of the Kesko Pension Fund's department B, the funded amounts of retirement pensions have only been increased by the fund interest rate (3%) for 2008 and 2009.

In calculating the Pension Fund's expected income, the invested assets are divided into five categories. The total expected 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 8.5%–12.3%.

NOTE 20

Inventories

€ million	2008	2007
Goods	864.2	913.7
Prepayments	6.9	8.6
Total	871.0	922.3
At the end of the period, inventories have been written down to correspond to their net realisable value	46.6	29.5

NOTE 21

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

€ million	2008	2007
Trade receivables	633.1	682.1
Other non-interest-bearing receivables		
Non-interest-bearing loan and other receivables	27.3	26.8
Deferred revenue and other accruals	110.1	114.9
Total other non-interest-bearing receivables	137.4	141.7
Total short-term non-interest-bearing receivables	770.5	823.8

A total amount of €13.8 million (€4.7 million) of trade receivables has been recognised in the income statement as credit losses. Credit risk is described in more detail in note 44.

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 nearly equals the carrying amounts based on their short maturities.

NOTE 22

Short-term interest-bearing receivables

€ million	2008	2007
Interest-bearing loan and other receivables	1.9	8.9
Finance lease receivables	13.1	7.4
Total	14.9	16.3

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

NOTE 23

Financial assets at fair value through profit or loss

€ million	2008	2007
Financial assets at fair value through profit or loss	94.4	105.5
Total	94.4	105.5

Financial assets at fair value through profit or loss include commercial papers, certificates of bank deposits and other money market investments. An analysis of the line item is given in note 44.

NOTE 24

Available-for-sale financial assets

€ million	2008	2007
Carrying amount at 1 Jan.	155.6	200.4
Changes	133.2	-44.8
Changes in fair value	2.2	-
Carrying amount at 31 Dec.	291.0	155.6

Available-for-sale financial assets include short-term investments in commercial papers, certificates of bank deposits, other interest rate instruments and Finnish Government bonds. An analysis of the line item is given in note 44.

NOTE 25

Cash and cash equivalents

€ million	2008	2007
Cash on hand and balances with banks	57.8	89.7
Total	57.8	89.7

NOTE 26

Assets classified as held-for-sale and related liabilities

Assets held for sale

€ million	2008	2007
Land	0.7	5.9
Buildings and real estate shares	2.3	1.9
Long-term receivables		95.0
Short-term receivables		134.1
Total	3.0	236.9

The assets held for sale comprise real estate and real estate shares.

In 2007, assets relating to K-Rahoitus Oy were presented in assets held for sale. K-Rahoitus was sold during the first part of 2008. In addition to the 2007 assets held for sale, the disposal entity included €2.4 million of current assets and €211.3 million of current liabilities eliminated in the Kesko Group.

Liabilities included in held-for-sale disposal group

€ million	2008	2007
Non-current non-interest-bearing liabilities	-	2.1
Current non-interest-bearing liabilities	-	1.2
Total	-	3.3

The held-for-sale disposal group did not include liabilities at 31 December 2008.

The 2007 held-for-sale disposal group includes the liabilities relating to K-Rahoitus Oy's assets.

NOTE 27

Notes relating to equity

Changes in share capital

Share capital	Number of shares A	B	Total	Share capital € million	Share premium € million	Total € million
At 1 January 2007	31,737,007	65,782,918	97,519,925	195.0	195.9	390.9
Exercise of share options	-	247,840	247,840	0.5	4.4	4.9
At 31 December 2007	31,737,007	66,030,758	97,767,765	195.5	200.3	395.8
Exercise of share options	-	57,089	57,089	0.1	5.5	5.6
At 31 December 2008	31,737,007	66,087,847	97,824,854	195.6	205.8	401.4
Number of votes	317,370,070	66,087,847	383,957,917			

During the reporting period, the share capital was increased seven times as a result of share subscriptions with the stock options of the year 2003 option scheme. The increases were made on 11 February 2008 (€210), 28 April 2008 (€38,168), 9 June 2008 (€42,200), 28 July 2008 (€8,600), 1 October 2008 (€4,000), 27 October 2008 (€6,000) and 18 December 2008 (€15,000), and announced in stock exchange notifications on the same days. The subscribed shares were included on the main list of the Helsinki Stock Exchange for public trading with the old B shares on 12 February 2008, 29 April 2008, 10 June 2008, 29 July 2008, 2 October 2008, 28 October 2008, and 19 December 2008.

All issued shares have been fully paid. The maximum number of A shares is 250 million and the maximum number of B shares is also 250 million, provided that the total number of shares is at maximum 400 million. One A share entitles the holder to 10 votes and one B share to 1 vote.

An analysis of share-based payments is given in note 37.

Dividends

After the balance sheet date, the Board has proposed that €1.00 per share be distributed as dividends.

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 difference and untaxed reserves less deferred tax liabilities.

Share premium

The amount exceeding the par value of shares received by the enterprise in connection with share subscription, and in some cases amounts not withdrawn from the sale of unregistered 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 resolutions 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, and the fair value change of available-for-sale financial instruments.

Currency translation differences

Currency translation differences arise from the consolidation of the results of foreign operations. Also gains and losses arising from net investment hedges in foreign entities are included in currency translation differences provided that hedge accounting requirements are fulfilled.

Cash flow hedge result

Hedge accounting is applied to hedging exposure to electricity price risk. As a result, an amount of €5.4 million (€-2.2 million) has been removed from equity and included in the income statement as purchase cost adjustment, and correspondingly €-12.5 million (€4.9 million) has been included in equity. Their combined effect on the revaluation surplus for the period was €-17.9 million (€7.1 million) prior to deferred tax assets recognition.

A fair value change of €5.1 million (€6.6 million) has been recognised in equity for the USD-denominated private placement arrangement, and €-0.1 million (€-0.1 million) in the financial items of the income statement.

NOTE 28

Maturities of interest-bearing liabilities

€ million	At 31 Dec. 2008	Available	Total	2009	2010	2011	2012	2013 and later
Loans from financial institutions	47.1		47.1	20.2	0.8	1.0	0.8	24.3
Private placement bonds (USD)	100.0		100.0					100.0
Pension loans	0.0		0.0					
Finance lease liabilities	92.7		92.7	22.7	11.8	23.4	10.8	24.0
Debt to K-retailers	114.1		114.1	114.1				
Other interest-bearing liabilities	88.9		88.9	88.9				
Binding credit limits	*	246.5	247.7		75.0	21.5	150.0	
Commercial papers	47.7	401.3	449.0	47.7				
Total	490.5	647.8	1,139.6	293.6	87.6	45.9	161.6	148.3

* The amount withdrawn from binding credit limits is included in loans from financial institutions.

€ million	At 31 Dec. 2007	Available	Total	2008	2009	2010	2011	2012 and later
Loans from financial institutions	67.8		67.8	2.8	33.8	0.6	0.9	29.7
Private placement bonds (USD)	99.9		99.9					99.9
Pension loans	2.8		2.8	0.8	0.8	0.8	0.4	
Finance lease liabilities	166.1		166.1	18.8	24.2	16.5	26.8	79.8
Debt to K-retailers	122.2		122.2	122.2				
Other interest-bearing liabilities	68.5		68.5	68.5				
Binding credit limits		225.0	225.0			75.0		150.0
Commercial papers	98.1	443.6	541.7	98.1				
Total	625.4	668.7	1,294.0	311.2	58.8	92.9	28.1	359.4

Debt to K-retailers consist of two types of interest-bearing receivables payable by the Kesko Group companies to K-retailers: retailers' prepayments to Kesko and retailers' chain rebates. Chain rebates are subsequent discounts given to retailers and the terms vary from one chain to another. The private placement bonds include the fair value change of currency derivative instruments.

NOTE 29

Carrying amounts of financial assets and liabilities by measurement group

At 31 Dec. 2008

Balance sheet item, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives qualified for hedge accounting	Carrying amounts of balance sheet items	Fair value
Non-current financial assets							
Available-for-sale financial assets			3.0			3.0	3.0
Long-term non-interest-bearing receivables		0.9					
- Derivatives		0.1			9.9	10.9	10.9
Long-term interest-bearing receivables		58.3				58.3	58.3
Current financial assets							
Trade receivables and other non-interest-bearing receivables		755.6					
- Derivatives	10.2		2.1		2.6	770.5	770.5
Interest-bearing receivables		0.0				14.9	14.9
Financial assets at fair value through profit or loss	94.4					94.4	94.4
Available-for-sale financial assets			291.0			291.0	291.0
Carrying amounts by measurement group	**104.6**	**814.9**	**296.1**		**12.5**	**1,243.0**	**1,243.0**
Non-current financial liabilities							
Interest-bearing non-current liabilities				175.2			
- Derivatives					21.7	196.9	219.9
Non-interest-bearing non-current liabilities				11.8		11.8	11.8
Current financial liabilities							
Current interest-bearing liabilities				293.6		293.6	293.6
Trade payables				755.6		755.6	755.6
Other non-interest-bearing liabilities				181.6		181.6	181.6
Accrued liabilities				237.9			
- Derivatives	4.1				3.5	245.5	245.5
Carrying amounts by measurement group	**4.1**			**1,655.7**	**25.2**	**1,685.0**	**1,708.0**

At 31 Dec. 2007

Balance sheet item, € million	Financial assets/ liabilities at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives qualified for hedge accounting	Carrying amounts of balance sheet items	Fair value
Non-current financial assets							
Available-for-sale financial assets			4.0			4.0	4.0
Long-term non-interest-bearing receivables		0.8					
- Derivatives					8.0	8.8	8.8
Long-term interest-bearing receivables		28.1				28.1	28.1
Current financial assets							
Trade receivables and other non-interest-bearing receivables		817.4					
- Derivatives	1.4				4.9	823.7	823.7
Interest-bearing receivables		16.4				16.4	16.4
Financial assets at fair value through profit or loss	105.5					105.5	105.5
Available-for-sale financial assets			155.6			155.6	155.6
Carrying amounts by measurement group	**106.9**	**862.7**	**159.6**		**12.9**	**1,142.1**	**1,142.1**
Non-current financial liabilities							
Interest-bearing non-current liabilities				295.3			
- Derivatives					18.9	314.2	324.1
Non-interest-bearing non-current liabilities				11.5		11.5	11.5
Current financial liabilities							
Current interest-bearing liabilities				311.2		311.2	311.2
Trade payables				837.8		837.8	837.8
Other non-interest-bearing liabilities				191.6		191.6	191.6
Accrued liabilities				275.5			
- Derivatives	1.5				0.2	277.2	277.2
Carrying amounts by measurement group	**1.5**			**1,922.9**	**19.1**	**1,943.5**	**1,953.4**

The fair values of loans have been calculated based on the present value of future cash flows using the 2.2%–6.1% market rates of interest at the balance sheet date. 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 28.

NOTE 30

Finance lease liabilities

€ million	2008	2007
The maturities of finance lease payments are as follows:		
Not later than 1 year	27.2	27.8
Later than 1 year and not later than 5 years	64.0	103.4
Later than 5 years	14.1	86.1
Total minimum lease payments	**105.3**	**217.3**
Present values of minimum lease payments:		
Not later than 1 year	22.6	18.8
Later than 1 year and not later than 5 years	56.6	78.8
Later than 5 years	13.4	68.5
Total finance lease liabilities	**92.7**	**166.1**
Accumulating financial expenses	**12.6**	**51.2**
Contingent rents recognised for the period	**1.5**	**1.5**
Expected sublease rentals	**64.4**	**33.2**

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 property leases include a call option.

NOTE 31

Provisions

€ million	Onerous leases	Warranty provisions	Other provisions	Total
Provisions at 1 Jan. 2008	9.0	12.9	16.6	38.4
Exchange rate effects	-0.5	0.0	-0.1	-0.6
Additional provisions	8.8	3.3	13.3	25.4
Unused amounts reversed	-1.2	-0.2	-14.3	-15.7
Business arrangements		-0.1	-0.3	-0.4
Expensed in income statement	16.1	15.9	15.2	47.1
Used amounts	-2.0	-0.4	-1.1	-3.5
Provisions at 31 Dec. 2008	14.1	15.5	14.1	43.6
Analysis of total provisions				
Non-current	6.7	9.5	3.9	20.1
Current	7.4	6.0	10.2	23.5

Provisions for onerous leases mainly relate to lease liabilities of premises vacated from the Group operations, and to net losses on rent of subleased premises. Warranty provisions have been recorded for vehicles and machines sold by the 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 32

Trade payables and other current non-interest-bearing liabilities

€ million	2008	2007
Trade payables	755.6	837.8
Other current non-interest-bearing liabilities	181.6	191.6
Tax liabilities	2.9	13.4
Accrued liabilities	245.5	277.2
Total current non-interest-bearing liabilities	1,185.7	1,320.0

Accrued liabilities are mainly due to the timing of purchases and staff costs.

NOTE 33

Major subsidiaries owned directly by parent

Name	State of registration	Ownership interest, %	Voting power, %
Anttila Oy	Finland	100.0	100.0
Indoor Group Ltd	Finland	100.0	100.0
Intersport Finland Ltd	Finland	100.0	100.0
Kenkäkesko Ltd	Finland	100.0	100.0
Keslog Ltd *	Finland	45.1	100.0
Kesko Agro Ltd	Finland	100.0	100.0
Musta Pörssi 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 ownership interest is 100%

A complete analysis of Group companies is included in note 50.

NOTE 34

Jointly controlled assets

Jointly controlled assets (mutual real estate companies)

These figures represent the Group's share of jointly controlled assets and liabilities and income and profit included in the consolidated balance sheet and income statement.

€ million	2008	2007
Non-current assets	62.4	73.6
Current assets	3.0	4.2
	65.5	77.8
Non-current liabilities	21.0	25.0
Current liabilities	11.7	10.5
	32.7	35.5
Net assets	32.8	42.3
Income	7.7	10.0
Expenses	7.7	9.2
Profit	0.0	0.8

NOTE 35

Contingent liabilities

Commitments

€ million	2008	2007
Collateral given for own commitments		
Pledges	40	38
Mortgages	17	26
Guarantees	93	101
Other commitments and contingent liabilities	55	50
Collateral given for shareholders		
Guarantees	0	1
Collateral given for others		
Other commitments and contingent liabilities	8	6
Guarantees	0	3

NOTE 36

Operating leases

Group as the lessee

Minimum lease payments under non-cancellable operating lease agreements:

€ million	2008	2007
Not later than 1 year	322.5	285.3
Later than 1 year and not later than 5 years	955.0	830.5
Later than 5 years	823.7	675.8
Total	2,101.1	1,791.5
Expected future minimum lease payments under non-cancellable sublease agreements	61.5	46.4
Lease and sublease payments recognised for the period:		
Minimum lease expenses	305.3	262.6
Contingent lease expenses	0.7	0.3
Sublease payments (-income/+expense)	-21.8	-16.4

The 2008 income statement includes net rent and maintenance rent payments in a total amount of €349.9 million (€313.4 million).

Kesko leases retail and logistics premises for its operating activities. Most of the leases are index-linked and in conformity with local market practice.

Group as the lessor

Minimum lease payments based on non-cancellable operating leases:

€ million	2008	2007
Not later than 1 year	8.8	8.9
Later than 1 year and not later than 5 years	15.2	15.1
Later than 5 years	13.1	20.0
Total	37.1	44.1
Aggregate contingent rents charged to the income statement	0.1	0.7

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 37

Share-based payments

The Group operates option plans as part of the management's incentive and commitment arrangements. 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, unless, in an individual case, the Board decides that the option recipient may keep all or some of the options under offering obligation.

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:

- 2003D 1 April 2005–30 April 2008 (subscription period has expired)
- 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). 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 2008, the price of a B share subscribed for with option 2003D was €2.00 (until 30 April 2008), with option 2003E it was €8.99, and with option 2003F it was €14.88. The subscription period of 2003D options expired on 30 April 2008 and a total of 574,088 Kesko B shares were subscribed for. 25,912 options remained ungranted and they expired.

The option plan covers approximately 50 people. A total of 1,800,000 new B shares can be subscribed for under this option plan, which can increase the company's share capital by a maximum of €3,600,000.

Year 2007 option plan

On 26 March 2007, the Annual General Meeting decided to grant a total of 3,000,000 stock options for no consideration to the management of the Kesko Group, other key personnel, and a subsidiary wholly owned by Kesko Corporation. The Company had a weighty financial reason for granting the options because they are intended to be part of Kesko's share-based incentive system. Each stock option entitles its holder to subscribe for one new Kesko Corporation B share. In addition, the option plan also includes an obligation to buy company shares for permanent ownership for the value of 25% of the proceeds from the sale of stock options. The share subscription periods of options are:

- 2007A 1 April 2010–30 April 2012
- 2007B 1 April 2011–30 April 2013
- 2007C 1 April 2012–30 April 2014

The original subscription price for stock option 2007A shall be the trade volume weighted average quotation of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April and 30 April 2007 (€45.82), for stock option 2007B, between 1 April and 30 April 2008 €26.57), and for stock option 2007C, between 1 April and 30 April 2009. The subscription prices of shares subscribed for with stock options shall be reduced by the amount decided after the beginning of the period for the determination of the subscription price but before the subscription, as at the record date for each distribution of profits or other assets.

At the end of 2008, the price of a B share subscribed for with option 2007A was €44.22, and with option 2007B it was €26.57. The subscription periods have not yet begun. The option plan covers approximately 130 people.

Share of issued stock options of shares and votes

Presuming that shares are subscribed for with all of the 1,800,000 options granted under the year 2003 plan and the 3,000,000 options of the year 2007 plan, the shares subscribed for with stock options account for 4.69% of shares and 1.23% of all votes. The subscriptions made with stock options can raise the number of the company's shares to 101,712,793. As a result of the subscriptions, the voting rights carried by all shares can increase to 387,345,856 votes. The shares entitle to dividends and carry other shareholder rights after the corresponding share capital increase has been entered in the Trade Register.

The company has not granted other options or special rights entitling to shares.

STOCK OPTIONS DURING THE PERIOD 1 January–31 December 2008

	Stock options 2003			Stock options 2007		
Grant date	31 March 2003			26 March 2007		
Instrument	stock option			stock option		
Target group	management			management, other key personnel		
	2003D	**2003E**	**2003F**	**2007A**	**2007B**	**2007C**
Original number of options	600,000	600,000	600,000	1,000,000	1,000,000	1,000,000
Number of shares per option	1	1	1	1	1	1
Original exercise price per share	9.63 €	15.19 €	19.08 €	45.82 €	26.57 €	–
Dividend adjustment	Yes	Yes	Yes	Yes	Yes	Yes
Exercise price 31 Dec. 2006	4.53 €	12.09 €	17.98 €	–	–	–
Exercise price 31 Dec. 2007	3.03 €	10.59 €	16.48 €	45.82 €	–	–
Exercise price 31 Dec. 2008	2.00 €	8.99 €	14.88 €	44.22 €	26.57 €	*
First allocation, date	1.4.2005	1.4.2006	1.4.2007	1.4.2010	1.4.2011	1.4.2012
Expiry, date	30.4.2008	30.4.2009	30.4.2010	30.4.2012	30.4.2013	30.4.2014
Remaining vesting period, years	expired	0.3	1.3	3.3	4.3	5.3
Plan participants at end of period	–	20	35	121	130	–

* for 2007C option, the exercise price is the trading volume weighted average price in April 2009

2008	Stock options 2003 2003D	2003E	2003F	Stock options 2007 2007A	2007B	2007C	Total	Subscription price (weighted)
At 1 Jan. 2008								
Options granted at beginning of period	574,088	576,000	552,500	789,000			2,491,588	€21.31
Options available for grant at beginning of period	25,912	24,000	47,500	214,000	1,000,000	1,000,000	2,311,412	€35.07
Shares subscribed for with options at beginning of period	540,938	169,867	118,255	0			829,060	€6.50
Options outstanding at beginning of period	33,150	406,133	434,245	786,000			1,659,528	€28.67
Movements during period								
Options granted during period					776,000		776,000	€26.57
Options returned during period				25,000	2,000		27,000	€42.91
Shares subscribed for with options during period	33,150	22,739	1,200				57,089	€5.05
Average price weighted by grant date trading volume *)	30.87 €	23.61 €	23.61 €					
Options lapsed during period	25,912							
At 31 Dec. 2008								
Options granted at end of period	574,088	576,000	552,500	789,000	774,000		3,265,588	€21.44
Options expected to vest	0	0	0	789,000	774,000		1,563,000	€35.48
Number of granted options sold (by original holder)	544,288	401,049	225,200	0			1,170,537	€6.87
Options available for grant at end of period	0	24,000	47,500	239,000	226,000	1,000,000	1,536,500	€32.61
Shares subscribed for with options at end of period	574,088	192,606	119,455	0			886,149	€5.26
Options outstanding at end of period	0	383,394	433,045	761,000	774,000		2,351,439	€27.26

* for 2003D, the trade volume weighted average price of a B share in January–April 2008, and for 2003E and 2003F: the trade volume weighted average price of a B share in 2008

2007	Stock options 2003 2003D	2003E	2003F	Stock options 2007 2007A	2007B	2007C	Total	Subscription price (weighted)
At 1 Jan. 2007								
Options granted at beginning of period	574,088	576,000	552,500				1,702,588	€11.45
Options available for grant at beginning of period	25,912	24,000	47,500				97,412	€12.95
Shares subscribed for with options at beginning of period	446,300	134,920					581,220	€6.28
Options outstanding at beginning of period	127,788	441,080	552,500				1,121,368	€14.13
Movements during period								
Options granted during period				789,000			789,000	€45.82
Options returned during period				3,000			3,000	€45.82
Shares subscribed for with options during period	94,638	34,947	118,255				247,840	€10.51
Average price weighted by grant date trading volume *)	42.92 €	42.92 €	43.99 €					
Options lapsed during period								
At 31 Dec. 2007								
Options granted at end of period	574,088	576,000	552,500	789,000			2,491,588	€21.31
Options expected to vest	0	0	0	789,000			789,000	€45.82
Number of granted options sold (by original holder)	448,800	216,500	0	0			665,300	–
Options available for grant at end of period	25,912	24,000	47,500	214,000	1,000,000	1,000,000	2,311,412	€35.07
Shares subscribed for with options at end of period	540,938	169,867	118,255	0			829,060	€6.50
Options outstanding at end of period	33,150	406,133	434,245	786,000			1,659,528	€28.67

* for 2003D and 2003E: the trade volume weighted average price of a B share in 2007, for 2003F: the trade volume weighted average price of a B share in April–December 2007.

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.

During the financial period 1 January–31 December 2008, the options contributed €5.5 million (€2.3 million) to the Group's profit.

Black-Scholes model assumption	Granted in 2008	Granted in 2007	All options
Number of options granted, pcs	776,000	789,000	1,565,000
B share average (weighted) price	26.47 €	49.37 €	38.02 €
Average (weighted) subscription price	26.57 €	45.82 €	36.27 €
Expected average (weighted) volatility	27.4%	21.7%	24.5%
Average (weighted) term of option	4.9 y	4.8 y	4.8 y
Average (weighted) risk-free interest rate	4.4%	4.5%	4.5%
Returned options (weighted average)	5.0%	9.2%	7.7%
Total fair value, €	6,335,589	11,312,665	17,648,253

The expected volatility of a Kesko B share has been estimated 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 38

Non-cash flow investments

€ million	2008	2007
Total purchases of fixed assets,	339.6	233.9
of which settlement in cash	319.9	238.3
Settlement of prior period investments	-13.8	-35.4
Investments financed by finance lease or other borrowing	33.4	31.0

NOTE 39

Adjustments to cash flows from operating activities

€ million	2008	2007
Adjustment of non-cash transactions in the income statement or items presented elsewhere in the cash flow statement:		
Change in provisions	6.9	1.7
Income from associates	-1.9	-0.4
Impairment	61.1	0.5
Losses on loans and advances	13.8	5.0
Non-recurring gains on disposal of fixed assets	-181.9	-43.8
Non-recurring losses on disposal of fixed assets	1.5	1.7
Option expenses	5.6	2.3
Defined benefit pensions	-43.4	-43.1
Others	8.2	0.9
Total	-130.1	-75.2

NOTE 40

Subsidiary disposals

2008

- Kesko Corporation sold K-Rahoitus Oy and the transaction was completed on 31 January 2008.
- Kesko Corporation sold Tähti Optikko Group Oy and the transaction was completed on 31 March 2008.
- Kesko Corporation sold Kauko-Telko Ltd and the transaction was completed on 30 April 2008.
- The Kesko Group, the Kesko Pension Fund and Valluga-sijoitus Oy sold 23 of their retail store properties in different parts of Finland to Aberdeen Property Fund Finland 1 Ky on 30 September 2008.
- The subsidiary disposals contributed an aggregate amount of €121.3 million to the cash flow.

2007

- Kauko-Telko Ltd sold its ownership interests in Glastech Oy, Glastech Eesti AS and UAB Glastech on 20 February 2007.

NOTE 41

Associate disposals

€ million	2008	2007
Cash flow from disposals		
Proceeds other associates	1.5	0.6
Net cash inflow	1.5	0.6

NOTE 42

Proceeds from available-for-sale financial assets

2008

In 2008, the proceeds from available-for-sale financial assets totalled €0.2 million.

2007

In 2007, the proceeds from available-for-sale assets totalled €46.9 million, of which €46.0 million is attributable to SATO Corporation shares sold by Kesko Corporation to Varma Mutual Pension Insurance Company.

NOTE 43

Cash and cash equivalents and current available-for-sale financial assets

€ million	2008	2007
Available-for-sale financial assets	261.5	155.6
Cash and cash equivalents	57.8	89.7
Total	319.3	245.3

In the cash flow statement, the change in cash and cash equivalents and current available-for-sale financial assets only discloses the amounts of available-for-sale financial assets whose maturities are less than three months. The available-for-sale financial assets (€291.0 million) also include bonds in the amount of €29.5 million.

NOTE 44

Financial risk management

With respect to financial risks, the Group observes a uniform funding policy that has been approved by the company Board of Directors. Compliance with this policy and developments in the Group's financial situation are monitored by the Board of Directors' Audit Committee. The Group's Treasury is centrally responsible for the Group funding, liquidity management, relations with providers of finance, and the management of financial risks. In the main, the Group's funding is arranged through the parent company, and the Group's Treasury arranges intra-Group loans for the funding of subsidiaries in their functional currencies. For companies with significant external ownership, the Group has not guaranteed financial liabilities in excess of its ownership interest.

Currency risk and sensitivity analysis

The Group's balance sheet is exposed to translation risks in connection with investments in subsidiaries outside the euro area. 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 ruble, Lithuanian lit and Latvian lat.

The Group has not hedged foreign-currency-denominated goodwill (incl. allocated goodwill), whose countervalue was €55.5 million (€112.4 million) at 31 December 2008.

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 20% weakening of the six central currencies (NOK, EEK, LTL, RUB, LVL, SEK) against the euro would result in a €5.6 million (€9.1 million) negative change in equity at 31 December 2008.

The euro has been adopted as the functional currency of the real estate companies in St. Petersburg and Moscow in Russia, which is why no significant exchange differences are realised from their balance sheets for the Group.

Kesko Corporation's USD-denominated private placement loan has been hedged against currency risk and interest rate risk applying hedge accounting. Currency and interest rate swaps in the same amount and maturity as the loan have been designated as the hedging instruments. Consequently, the loan is entirely hedged against currency and interest rate risk. During the period, no amount of ineffectiveness has been recognised in the income statement relating to this credit facility.

International purchasing activity exposes the Group to transaction risks relating to several foreign currencies. The subsidiaries report their foreign currency positions to the Group's Treasury, in other words, the currency risk is monitored at the Group level on a monthly basis. The risk can be managed by using currency derivative instruments to hedge open positions, by modifying selling prices, or by changing suppliers. The percentage of hedging is decided separately by each relevant subsidiary and business unit. Transaction risk exposures mainly concern the US dollar. The subsidiaries carry out their hedging operations together with the Group's Treasury, which hedges risk positions using market transactions within the limits confirmed for each currency. Intra-Group derivatives have been allocated to segments in segment reporting.

48% of foreign currencies bought for commercial purchases are USD-denominated, which makes other currencies insignificant with regard to sensitivity analysis. A sensitivity analysis for the currency risk relating to the USD would have contributed a pre-tax profit of €+/-1.0 million (€+/-0.4 million) at the balance sheet date of 31 December 2008, had the USD rate change been +/-10%. It is assumed that the other variables remain unchanged. The calculation includes foreign currency denominated trade payables, trade receivables and currency derivatives recognised in the balance sheet. Their combined net position totals €15.1 million (€6.4 million). The analysis does not consider the foreign currency denominated orders, some of which are also hedged.

Translation risk and hedging at 31 December 2008

€ million	Latvia	Norway	Estonia	Sweden	Russia	Lithuania	Others	Total
Equity exposed to translation risk*)	4.9	22.5	63.1	5.0	22.0	37.0	2.6	157.1
Hedging derivatives	0.0	0.0	40.6	1.4	17.0	31.9		90.9
Hedging loans	4.9	17.4	15.7	0.0	0.0	0.0	0.0	38.0
Open position	0.0	5.1	6.8	3.6	5.0	5.1	2.6	28.2

*) equity excl. allocated goodwill

Translation risk and hedging at 31 December 2007

€ million	Latvia	Norway	Estonia	Sweden	Russia	Lithuania	Others	Total
Equity exposed to translation risk*)	7.9	27.2	78.6	3.0	21.0	39.8	7.9	185.4
Hedging derivatives	3.6		37.7	5.3	18.9	13.8		79.3
Hedging loans	2.2	22.6	25.9			9.8		60.5
Open position	2.1	4.6	15.0	-2.3	2.1	16.2	7.9	45.6

*) equity excl. allocated goodwill

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.

The Group companies' financing is arranged in their functional currencies, which means that the parent company bears the currency risk relating to financing and hedges the exposure using derivatives or foreign-currency-denominated loans. Most of the currency position has been hedged and during the 2008 financial period, the cost of hedge arising from them and equity hedging was €4.6 million. The hedging cost is the interest rate difference between the euro and the currency being hedged. These interest rate differences increased sharply towards the end of 2008.

Loan interest rate risk and sensitivity analysis

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 Group's 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 and four years. The realised duration during the period was 3.2 (3.0) years on average.

A sensitivity analysis for commercial paper liabilities realised during the period uses average balance values. At the balance sheet date of 31 December 2008, the interest-bearing variable rate liabilities and interest rate derivative instruments hedging loans from financial institutions would have contributed €-/+3.8 million to the pre-tax profit, had the interest rate level risen or fallen by 1 percentage point (€-/+4.6 million).

Liabilities to K-retailers consist of two types of interest-bearing receivables payable by the Kesko Group companies to K-retailers: retailers' prepayments to Kesko, and retailers' chain rebates. Chain rebates are subsequent discounts granted to retailers and their terms vary from one store chain to another.

Private placement bonds and the amount of €120.5 million of loans from financial institutions have fixed rates and the effective interest cost is 5.3%. At the end of period, the average rate of loans from financial institutions with variable interest rates, liabilities to retailers and other interest-bearing liabilities was 5.5%. Some of the loans are euro-denominated, private placement bonds are USD-denominated, and loans from financial institutions and commercial paper liabilities include NOK-denominated loans corresponding to €20.5 million (€25.1 million), EEK-denominated loans corresponding to €17.9 million (€26.0 million), LVL-denominated loans corresponding to €29.8 million (€47.6 million) and LTL-denominated loans corresponding to €0 million (€24.4 million).

Liquidity risk and sensitivity analysis for interest-bearing receivables

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.

The aim is to invest liquidity consisting of cash and cash equivalents in the money market by using efficient combina-

Cash flows from financial liabilities and related financial expenses at 31 Dec. 2008

€ million	2009	2010	2011	2012	2013	2014-	Total
Loans from financial institutions	**20.0**	**0.8**	**1.0**	**0.8**	**0.7**	**23.6**	**46.9**
financial expenses	2.6	1.2	1.2	1.1	1.1	2.4	9.5
Private placement bonds (USD)			**0.0**	**0.0**		**86.2**	**86.2**
financial expenses	5.4	5.4	5.4	5.4	5.4	11.5	38.2
Pension loans							**0.0**
financial expenses							0.0
Finance lease liabilities	**22.7**	**11.8**	**23.4**	**10.8**	**10.6**	**13.4**	**92.7**
financial expenses	4.5	2.5	1.8	1.5	1.5	0.7	12.5
Liabilities to K-retailers	**114.1**						**114.1**
financial expenses	4.9						4.9
Other interest-bearing liabilities	**83.4**						**83.4**
financial expenses	0.6						0.6
Commercial papers	**47.7**						**47.7**
financial expenses	4.0						4.0
Non-current non-interest-bearing liabilities	**0.1**	**0.0**					**0.1**
Current non-interest-bearing liabilities							
Trade payables	**755.6**						**755.6**
Accruals and deferred income	**241.5**						**241.5**
Other non-interest-bearing liabilities	**165.7**						**165.7**

tions of return and risk. At regular intervals, the Group's management approves the instruments and limits for each investment among those analysed by the Group's Treasury. The risks and actual returns of investments are monitored regularly.

The Group's liquid assets have mainly been invested in debt instruments of major Finnish companies, in certificates of deposit and deposits in banks operating in Kesko's market area, and in Finnish government bonds. At 31 December 2008, investments in commercial papers totalled €203.4 million (€176.6 million), in bank certificates of deposit and deposits €140.9 million (€17.5 million), in bond funds €9.4 million (€66.9 million) and in Finnish government bonds €31.7 million (-). For 2008, the return on these investments was 4.9%. The maximum credit risk is the above fair value of these investments in the balance sheet at the balance sheet date.

Cash flows from derivative instruments at 31 Dec. 2008

€ million	2009	2010	2011	2012	2013	2014-	Total
Payables							
Forward foreign exchange contracts hedging net investment	89.6						**89.6**
Forward foreign exchange contracts outside hedge accounting	239.8						**239.8**
Net settlement of payables							
Interest rate derivatives							
Electricity derivatives	3.0	4.4	3.0	0.8	0.1	0.0	**11.3**
Grain derivatives	0.0						**0.0**
Derivatives relating to private placement bonds*							
Foreign currency derivatives	0.9	0.9	0.9	0.9	0.9	16.1	**20.5**
Receivables							
Net investment hedging instruments	91.3						**91.3**
Forward foreign exchange contracts outside hedge accounting	244.7						**244.7**
Net settlement of receivables							
Interest rate derivatives	0.0	0.0	0.0	0.0			**0.1**
Electricity derivatives	0.0						**0.0**
Grain derivatives	0.0						**0.0**
Derivatives relating to private placement bonds*	0.0						
Interest rate derivatives	0.9	0.9	0.9	0.9	0.9	1.9	**6.3**

Cash flows from financial liabilities and related financial expenses at 31 Dec. 2007

€ million	2008	2009	2010	2011	2012	2013-	Total
Loans from financial institutions	**17.4**	**19.3**	**0.6**	**0.9**	**0.7**	**28.9**	**67.8**
financial expenses	3.7	2.9	1.4	1.4	1.3	4.1	14.8
Private placement bonds (USD)						**81.5**	**81.5**
financial expenses	5.1	5.1	5.1	5.1	5.1	15.9	41.2
Pension loans	**0.8**	**0.8**	**0.8**	**0.4**			**2.8**
financial expenses	0.1	0.1	0.0	0.0			0.3
Finance lease liabilities	**18.8**	**24.2**	**16.5**	**26.8**	**11.2**	**68.6**	**166.1**
financial expenses	8.9	8.1	7.3	6.0	5.2	18.2	53.6
Liabilities to K-retailers	**122.2**						**122.2**
financial expenses	4.3						4.3
Other interest-bearing liabilities	**62.4**			**0.0**		**0.0**	**62.4**
financial expenses	1.4						1.4
Commercial papers	**98.1**						**98.1**
financial expenses	3.8						3.8
Non-current non-interest-bearing liabilities	**0.0**	**0.0**				**0.1**	**0.1**
Current non-interest-bearing liabilities							
Trade payables	**837.8**						**837.8**
Accruals and deferred income	**272.1**						**272.1**
Other non-interest-bearing liabilities	**159.2**						**159.2**

Cash flows from derivative instruments at 31 Dec. 2007

€ million	2008	2009	2010	2011	2012	2013-	Total
Payables							
Forward foreign exchange contracts hedging net investment	79.0						**79.0**
Forward foreign exchange contracts outside hedge accounting	265.6	7.2					**272.7**
Net settlement of payables							
Interest rate derivatives	0.1						**0.1**
Electricity derivatives							
Grain derivatives	0.4						**0.4**
Derivatives relating to private placement bonds*							
Foreign currency derivatives	1.2	1.2	1.2	1.2	1.1	22.6	**28.5**
Receivables							
Net investment hedging instruments	78.8						**78.8**
Forward foreign exchange contracts outside hedge accounting	265.7	7.5					**273.1**
Net settlement of receivables							
Interest rate derivatives	0.0	0.0	0.0	0.0	0.0		**0.1**
Electricity derivatives	4.8	2.9	0.7	0.0			**8.4**
Grain derivatives	0.0						**0.0**
Derivatives relating to private placement bonds*							
Interest rate derivatives	0.9	0.9	0.9	0.9	0.9	2.8	**7.1**

*The cash flows of private placement bonds and relating foreign currency and interest rate derivatives are settled on net basis.

A sensitivity analysis for variable rate receivables uses average annual balance values of invested assets. The receivables include customer financing receivables, finance lease receivables, other interest-bearing receivables, and investments in commercial papers and bond funds. The sensitivity of bond funds has been determined based on duration. These items would have contributed €+/-4.4 million (€+/-4.4 million) to the pre-tax profit at the balance sheet date, had the interest rate level changed by +/-1 percentage point.

At the balance sheet date, the counter value of undrawn committed long-term credit facilities was €247 million (€225 million). The committed credit limits mature at the end of 2010, 2011 and 2012 and are expected to be renegotiable. In addition, the Group's euro-denominated uncommitted credit lines available contain commercial paper programmes denominated in Estonian kroon, Lithuanian lit and Latvian lat to a total counter value of €449 million (€541.7 million).

The terms and conditions of the private placement credit facility and the committed limit include financial covenants. The requirements of these covenants have been met.

Credit risk

The business companies of the Group's divisions are responsible for the credit risk related to receivables from customers. The company has a credit policy and compliance with it is monitored. Receivables are secured by carefully assessing customers' creditworthiness, by reviewing customer credit terms and collateral requirements, by effective credit control and credit insurances as applicable. In Finland, the main part of the Group's business activities is carried out in cooperation 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.

Breakdown by maturity of trade receivables

€ million	2008	2007
Trade receivables not matured	567.7	613.2
1–7 days mature	18.4	17.1
8–30 days mature	20.0	27.8
31–60 days mature	6.8	11.2
over 60 days mature	20.2	13.0
Total	633.1	682.1

Of trade receivables, €298.1 million (€276.9 million) were from chain retailers and €21.4 million (€27.4 million) were credit card receivables. The collateral for chain retailer receivables is an overdraft facility granted by a Kesko associate, Vähittäiskaupan Takaus Oy, with the maximum always limited to the realisation value of the counter collateral given by the K-retail company and entrepreneur to Vähittäiskaupan Takaus. At the end of period, the total value of the counterparty collateral was €164.5 million. In addition, the collateral for receivables includes other collateral, such as business mortgages and other pledged assets.

The amount of trade receivables with renegotiated terms included in financial assets is insignificant.

Financial credit risk

Financial instruments involve the risk of counterparties failing to settle their obligations. Kesko only makes currency and interest rate derivative contracts with banks that have good creditworthiness. Liquid funds are invested annually, within the limits confirmed for each counterparty, in instruments 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 with-drawn 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.

Commodity risks and their sensitivity analysis

The Group uses electricity derivatives to level out energy costs. The electricity price risk is evaluated for five-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 end of the year, the ineffective portion was €-0.9 million.

At the balance sheet date, a total quantity of 1,174,056 MWH (853,044 MWH) of electricity had been purchased with electricity derivatives and the 1–12 month hedging rate was 75.4% (75.8%), the 13–24 month rate 62.3% (47.2%), the 25–36 month rate 34.1% (20.2%), the 37–48 month rate 12.6% (-) and the 49–60 month rate 9.6% (-).

A sensitivity analysis for electricity derivatives assumes that derivatives maturing within less than 12 months have an impact on profit. If the market price of electricity derivatives changed by +/-20 percentage points from the balance sheet date 31 December 2008, it would contribute €+/-3.5 million (€(+/-3.1 million) to the 2009 profit and €+/-5.3 million (€+/-3.8 million) to equity. The impact has been calculated before tax.

The Group's agricultural division uses an insignificant amount of grain derivatives to hedge against grain price risk.

Capital structure management

Due to the global financial crisis and the consequent weaken-ing of the real economy, the importance of capital structure management was increasingly emphasized in 2008. The Kesko Group's capital management objectives include targets set for the Group's solvency and liquidity, as well as its capital productivity.

The objectives for the Group's solvency and liquidity are set with the purpose of securing the Group's liquidity in all market

Fair values of derivative financial instruments

€ million	2008 Positive fair value (balance sheet value)		2008 Negative fair value (balance sheet value)		2008 Net fair value	2007 Net fair value
Interest rate derivatives	9.9	**	0.0		9.9	4.8
Forward exchanges	10.8	*/**	-18.4	*/**	-7.6	-18.7
Currency options (bought)	-		-		-	-
Electricity derivatives	0.0		-10.8		-10.8	7.9
Grain derivatives	0.0		0.0		0.0	-0.4

Nominal values of derivative financial instruments

€ million	31.12.2008 Nominal amount		31.12.2007 Nominal amount
Interest rate derivatives	204.9	**	240.7
Forward exchanges	433.0	*/**	466.3
Currency options (bought)	-		-
Electricity derivatives	45.9		36.6
Grain derivatives	0.7		5.0

*) Derivative financial instruments also include forward exchanges used to hedge net investments in stand-alone foreign entities, with a fair value of €1.6 million (€-0.2 million) and a nominal value of €90.8 million (€79.3 million).

**) Derivative financial instruments include interest rate swaps relating to a currency-denominated loan arrangement with a nominal gross value of €200.8 million and a fair value of €9.9 million (€4.9 million), and currency swaps with a nominal value of €100.4 million and a fair value of €-14.2 million (€-18.9 million).

The maximum credit risk of derivatives is the fair value of the balance sheet at the reporting date.

situations, enabling the implementation of investment programmes based on the Group's strategy and maintaining the shareholder value. Objectives have been set to equity ratio and interest-bearing net debt/EBITDA. The calculation formulas for these indicators are presented in the financial statements, on page 133. The Group's interest-bearing debt include covenants, whose terms and conditions have been taken into account in the above target levels. The Group does not have a credit rating given by any external credit rating institution.

The purpose of setting objectives for the Group's capital productivity is to steer the operating activities in increasing shareholder value on a long-term basis. The objectives of capital productivity excluding non-recurring items have been set to the Group's equity and capital employed. The calculation formulas for the indicators 'return on equity' and 'return on capital employed' are presented in the financial statements, p. 133. The Group's capital structure (equity-to-debt ratio) is only optimised at the Group level, which is why at the lower levels of divisions and companies, the targets relating to the productivity of capital have been set to the indicators 'economic value added' and 'return on capital employed'.

Economic value added formula:

Operating profit excluding non-recurring items
- operational taxes
- return requirement for average capital employed
+/- other adjustment items

The above target levels set for the Group's financial indicators are submitted for approval by the Board of Directors. On 4 February 2009, the Board approved the following values for the Group's medium term objectives.

Target level	
Return on equity	12%
Return on capital employed	14%
Equity ratio	40–50%
Interest-bearing net debt /EBITDA	< 3

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Risk management

Kesko's risk management

Risk management in the Group is guided by the risk management policy approved by the Board of Directors. The divisions assess the risks in connection with the strategy cycle and prioritise them according to their criticality and management level. Risk assessments are updated quarterly. Also Group units have assessed the risks threatening the Group objectives and the risk management. Risks and their management responses have been discussed by the division parent companies' and the Group's management. Separate risk analyses have been made for major projects.

On the basis of the Divisions' and Group units' risk analyses, the Corporate Risk Management Unit has prepared summaries of major risks and their management on a quarterly basis. The resulting risk report has been handled by Kesko Corporation's Board of Directors' Audit Committee. Based of the divisions' and Group units' risk assessments, Kesko's Corporate Management Board has assessed and prioritised the most significant risks faced by the Group. The resulting Group-level risk map has been handled by the Board of Directors.

The main risks and uncertainties have been reported in the interim financial reports.

Main risks and uncertainties and risk management responses

The international financial crisis and its impact on economic development, consumer confidence, and availability of finance and investment readiness have greatly added to uncertainties in Kesko's operating environment, especially in the building materials, car and machinery and home and speciality goods trade in Kesko's operating countries. Consumer demand has weakened especially in Latvia and Estonia. With regard to consumer demand in Russia, the price of crude oil is a key factor.

The effects of the recession on Kesko

The recession has caused consumers' confidence about their own finances to fall. Consumers are increasingly careful about buying especially more expensive products. This is also impacted by difficulties in the availability of finance. As the recession continues and consumers' buying power weakens, price becomes an increasingly important factor when buying decisions are made.

In addition, risks relating to the profitability and financing possibilities of business customers and retailers increase as consumer demand weakens. This affects negatively on Kesko's sales development and adds to the default risks.

The keynote issues with respect securing the profitability level and financial position are the adaptation of business operations to the market situation by more efficient operations and capital turnover and by adapting costs and investments. Kesko has launched several initiatives to lower the cost level and improve working capital management in addition to a Group-level work and productivity programme. In a weakened market situation, Kesko's strengths are its strong balance sheet and multi-sector operations, which help mitigate the impact of the recession.

International growth

Kesko also aims to achieve growth through international expansion. Failures related to these projects may jeopardise growth. In the present economic situation all risks involved in investments are examined extremely carefully. On the other hand, given the prevailing market situation, acquisitions of businesses and store sites from abroad may be easier to complete and under better terms.

Price competitiveness

Price plays an important role in customers' decision-making, especially in recession. The use of the Internet has also made customers more price conscious. 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 supply chain from the supplier to the store shelf. In order for an improved cost-efficiency of the chain of operations and the overall control, several programmes are being implemented for the purpose of better price competitiveness and customers' satisfaction with the stores' offer and service.

Store sites

Store sites are a strategic competitive factor. Considerable amounts of capital or lease liabilities are tied up in store properties for years. The coincidence of Kesko's ongoing extensive investment programme with a cyclical depression can endanger the planned return on the investments. On the other hand, it is possible to make more advantageous store site investments when the economic cycle is weak.

As a result of the recession or changes in local competitive situations, the operations in a store site can run risk of becoming unprofitable. Such risks are managed by long-term store network planning, careful preparation of each store site investment decision and the sale-leaseback system. In cases where Kesko manages the construction, the aim is to design a store site that can be modified for different uses. In the case of leased premises, the flexibility requirement is taken into account in the lease agreements.

The acquisition of good store sites can be slowed by scarcity of plots, zoning and permit procedures and trends in plot prices. In addition, each operating country has its special characteristics with respect to, for example, legislation and the authorities.

Suppliers and distribution channels

In business divisions that are strongly dependent on individual principals and suppliers, changes in a principal's or supplier's strategy concerning the product selection, pricing and distribution channel solutions can mean a reduction in competitiveness or sales or loss of business. Good market shares, growing sales and development of operations create a basis for long-term cooperation.

Suppliers can have increasing difficulties of delivery as a result of the recession. There is also a growing possibility of bankruptcies. In order that substitute products can be offered to customers, it is increasingly important that the financial situation and delivery accuracy of the major suppliers be monitored and substitute suppliers be examined.

Continuity of operations and information security

The trading sector is characterised by increasingly complicated and long supply chains and their dependency on information systems, telecommunications and external service providers. Disturbances in the supply chain can cause major losses in sales and profit. These problems may be reflected to the customer in that there are no products available in the store or the store is closed. Kesko has prioritised the most critical information systems with regard to business operations, and the continuity management projects underway are aimed to secure undisturbed critical operations and a sufficiently fast recovery after a serious disturbance.

The importance of information in business operations is increasing all the time. The requirements of stakeholders and the legislation to safeguard the handling of information in case of accidents and misuse have grown especially in connection with personal data and card payments. Confidentiality of customer and employee information, payment transactions and business secrets is protected with appropriate practices and information security solutions.

Product safety and quality of the supply chain

Kesko's goal is to provide safe products for its customers. A failure in the quality assurance of the supply chain or in product control may result in financial losses, the loss of customer confidence or, in the worst case, a health hazard. Product research, the trading sector's self-control, efficient product recall practice and manufacturer audits ensure the quality and safety and ethicality of the products sold.

Shrinkage

The retail trade involves a high risk of shrinkage. Shrinkage can result, for example, from spoilage or breakage of goods, theft or other malpractice, and unsuccessful purchasing. Shrinkage management actions and the development of reporting were the key issues in 2008. The Group continuously examines and develops new methods and tools for more efficient shrinkage management.

Recession entails a growing risk of financial malpractice. Preventive measures have included communications, controls and guidelines. Information technology is also being increasingly used to prevent and reveal malpractices.

Personnel

Implementation of strategies requires competent and motivated personnel. There is a risk that the trading sector will not attract the most skilled people. The recession is likely to temporarily improve the availability of labour. 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. The efficiency and flexibility of retail operations can be improved by investing on employees' multiple skills. Personnel surveys play a central role in the development of HR management. Kesko's employer image is redefined by systematic internal and external communications and stakeholder cooperation.

Legislation, agreements and ethical principles

Compliance with legislation, 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 the processes of entering into agreements. An essential issue in the chain agreements between Kesko and the retailers is finding solutions for the high-quality delivery of customer promises and commitment to the chain business. In international operations, different interpretations and procedures concerning, among other things, taxation and official regulations constitute a further challenge. Kesko revised the guide "Our responsible working principles", the implementation of which was one of the responsibility issues in 2008.

An essential issue in the chain agreements between Kesko and the retailers is finding solutions for the high-quality delivery of customer promises and commitment to the chain business. The efficient steering of chain operations is, to some extent, complicated by interpretations of competition legislation.

The goal of Kesko's corporate communications is to produce and publish reliable information at the right time. If some information published by Kesko proves to be incorrect or a release fails to meet regulations, this may result in investors and other stakeholder groups losing confidence and in possible sanctions.

Litigations

No major litigations are pending, and the Board of Directors is not aware of any other legal risks relating to the Group's operations that would have a material effect on the Group's performance.

Other risks

Damages, accidents and crimes are prevented with uniform practices and cost-efficient safety precautions. Financial consequences of damage are covered with insurance, in accordance with the policy defined by the Kesko Board of Directors. The Kesko Group uses international insurance programmes to cover, among others, property, business interruption and liability risks.

Further information about the risks, uncertainties and management responses relating to Kesko's operating activities, and about Kesko's risk management system and principles is available on the company's website at www.kesko.fi.

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Related party transactions

The Group's related parties include its key management personnel (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 following transactions were carried out with related parties:

Sale of goods and services

€ million	**2008**	**2007**
Sale of goods		
Board of Directors and management	24.3	24.1
Kesko Pension Fund	1.3	4.6
Total	25.5	28.7
Sale of services		
Associates	1.0	0.7
Board of Directors and management	1.9	1.8
Kesko Pension Fund	1.3	1.5
Total	4.2	4.0

The related party transactions disclosed include those transactions with related parties that are not eliminated in the consolidated financial statements.

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. The Group companies sell goods and services to enterprises controlled by them.

The Kesko Pension Fund is a separate legal entity which manages and holds in trust part of the pension assets of the Group's employees in Finland. Pension assets include Kesko Corporation shares in the amount of €93.5 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 2008, the Kesko Group paid a total amount of €62.7 million (€56.4 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	**2008**	**2007**
Purchases of goods		
Associates	0.0	0.4
Board of Directors and management	2.2	2.9
Total	2.2	3.3
Purchases of services		
Associates	2.5	1.9
Board of Directors and management	0.1	0.0
Pension Fund	0.2	0.0
Total	2.8	1.9

In addition, other operating expenses include rents paid by the Kesko Group to the Kesko Pension Fund in a total amount of €22.4 million (€18.4 million).

Board of Directors' remunerations

€ thousand	2008	2007
Members of the Board of Directors		
Heikki Takamäki, Chair	67.5	65.5
Keijo Suila, Deputy Chair	50.0	49.5
Pentti Kalliala	37.5	35.0
Ilpo Kokkila	35.5	34.0
Maarit Näkyvä	41.0	37.5
Seppo Paatelainen	38.5	36.0
Jukka Säilä	35.5	34.0

Salaries and fees of the President and CEO, Deputy Managing Director and Corporate Management Board

€ thousand	2008	2007
Matti Halmesmäki, President and CEO	838.6	736.1
Juhani Järvi, Deputy Managing Director (17 March 2005–31 May 2007)	0.0	124.6
Corporate Management Board (other members)	1,706.5	1,697.1

Other top management employee benefits

Share-based payments

At 31 December 2008, the Managing Director held 100,000 stock options, 50,000 of which were 2007B options granted in 2008. Presuming that shares are subscribed for with the Managing Director's options, the options represent 0.1% of the share capital and 0.03% of all voting rights. The other Corporate Management Board members held a total of 353,500 share options granted on 31 December 2008. In 2008, the other Corporate Management Board members were granted a total of 145,000 2007B options. The options held by the Corporate Management Board members have equal rules and vesting periods with the other options included in the management's option plans.

Retirement benefits

The retirement age of the President and CEO is 60 years and his full retirement benefit is 66% of his pensionable salary. 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, and the full retirement benefit is 66% of the pensionable salary.

Termination benefits

The notice period of the President and CEO 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 expenses

€ million	2008	2007
Associates	1.6	1.2
Board of Directors and management	0.0	0.0
Pension Fund	0.2	0.1
Total	1.8	1.3

Trade receivables

€ million	2008	2007
Associates	0.0	0.1
Board of Directors and management	1.7	1.7
Pension Fund	0.2	0.5
Total	1.9	2.3

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 €1.7 million (€1.7 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 to Vähittäiskaupan Takaus. At the end of the period, the value of the counter-guarantee was €3.5 million (€5.9 million).

Other current liabilities

€ million	2008	2007
Associates	37.4	24.1
Board of Directors	0.6	0.9
Pension Fund	2.6	1.9
Total	40.6	26.9

Other current liabilities include, among other things, chain rebate liabilities payable to enterprises controlled by the three Kesko Board members acting as K-retailers. Chain rebates are paid in arrears on criteria related to the amount of realised annual sales and the quality of operations.

In addition, Kesko's long-term receivables from a real estate associate total €1.6 million.

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Other notes

Events after the balance sheet date

On 1 January 2009, Kesko Agro Ltd demerged so that the agricultural trade activities in Finland became part of Rautakesko Ltd. In addition, the trade of tractors and combines, as well as the agricultural and machinery trade companies in the Baltic countries became part of Konekesko Ltd (stock exchange release on 28 May 2008).

Anttila Oy, K-citymarket Oy (home and speciality goods) and the other Kesko Group home and speciality goods companies intensify their cooperation. As of 1 January 2009, the Kesko Group's primary reportable segments are the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade (stock exchange release on 12 December 2008).

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Financial statement indicators

Continuing operations		2005	2006	2007	2008
Income statement					
Net sales	€ million	7,647	8,493	9,287	9,600
Change in net sales	%	5.9	11.1	9.4	3.4
Staff cost	€ million	445	515	547	578
Staff cost of net sales	%	5.8	6.1	5.9	5.7
Depreciation and impairment charges	€ million	127	129	116	178
Operating profit	€ million	256	355	322	286
Operating profit of net sales	%	3.3	4.2	3.5	3.0
Operating profit excl. non-recurring items	€ million	213	273	315	217
Operating profit excl. non-recurring items of net sales	%	2.8	3.2	3.4	2.3
Financial income and expenses	€ million	-8	-5	36	1
Income from associates	€ million	1	1	0	2
Profit before tax	€ million	249	351	358	289
Profit before tax	%	3.3	4.1	3.9	3.0
Income tax	€ million	54	105	87	89
Discontinued operations	€ million	-6	133	37	42
Investments	€ million	361	246	228	338
Investments of net sales	%	4.7	2.9	2.5	3.5
Personnel, average number for the period		16,436	18,937	20,520	21,327
Personnel at 31 Dec., incl. part-time employees		21,168	23,052	25,208	24,668
Earnings/share, diluted	€	1.90	2.39	2.52	1.81
Earnings/share, basic	€	1.93	2.41	2.54	1.82

Whole Group		2005	2006	2007	2008
Profit for the period (incl. minority interest)	€ million	189	379	307	241
Profit for the period of net sales	%	2.3	4.2	3.2	2.5
Attributable to equity holders of the parent	€ million	181	369	285	220
Attributable to minority interest	€ million	8	10	22	21
Profitability					
Return on equity	%	13.0	23.1	16.4	12.1
Return on equity excl. non-recurring items	%		11.4	12.7	8.1
Return on investment	%	12.5	22.6	17.4	14.2
Return on investment excl. non-recurring items	%		13.3	14.5	10.0
Return on capital employed excl. non-recurring items	%	9.5	12.3	14.7	10.3
Interest-bearing net debt/EBITDA		1.6	0.3	0.6	0.1
Finance and financial position					
Gearing	%	42.4	11.9	14.0	2.3
Equity ratio	%	42.3	47.0	48.5	52.4
Other indicators					
Invetments	€ million	454	282	228	339
Investments of net sales	%	5.4	3.1	2.5	3.5
Personnel, average number for the period		21,305	23,756	20,520	21,327
Personnel at 31 Dec., incl. part-time employees		26,608	23,755	25,890	24,668
Share performance indicators					
Whole Group					
Earnings/share, diluted	€	1.87	3.76	2.90	2.24
Earnings/share, basic	€	1.89	3.80	2.92	2.25
Equity/share, adjusted	€	15.35	17.94	19.53	20.09
Dividend/share	€	1.10	1.50	1.60	1.00*
Payout ratio	%	58.8	39.9	55.2	44.7*
Cash flow from operating activities/share, adjusted	€	3.07	3.35	2.52	1.37
Price/earnings ratio, (P/E), A share, adjusted		11.86	10.22	13.07	9.84
Price/earnings ratio, (P/E), B share, adjusted		11.74	10.64	13.02	7.96
Effective dividend yield, A share	%	4.6	3.9	4.2	4.6*
Effective dividend yield, B share	%	4.6	3.8	4.2	5.6*
Share price at 31 Dec.					
A share	€	24.19	38.43	37.85	22.00
B share	€	23.95	40.02	37.72	17.80
Average share price					
A share	€	21.93	30.10	43.85	28.30
B share	€	21.04	31.34	43.36	23.51
Market capitalisation, A share	€ million	768	1,220	1,201	698
Market capitalisation, B share	€ million	1,551	2,632	2,491	1,176
Turnover					
A share	million pcs	1	2	4	1
B share	million pcs	66	77	122	121
Turnover rate					
A share	%	4.1	6.4	11.5	4.5
B share	%	101.5	117.1	185.3	183.3
Adjusted number of shares at 31 Dec.	million pcs	97	98	98	98
Yield of A share	%	15.4	29.3	26.6	10.9
Yield of B share					
For the last five periods	%	29.2	42.8	36.1	12.9
For the last ten periods	%	18.6	22.7	18.7	11.7

* proposal to the Annual General Meeting

Calculation of financial indicators

Profitability

Return on equity, %	=	(Profit/loss before tax − income tax) / Shareholders' equity	x 100
Return on equity excluding non-recurring items, %	=	(Profit/loss adjusted for non-recurring items before tax − income tax adjusted for the tax effect of non-recurring items) / Shareholders' equity	x 100
Return on investment, %	=	(Profit/loss before tax + financial expenses) / (Shareholders' equity + interest-bearing liabilities)	x 100
Return on investment excluding non-recurring items, %	=	(Profit/loss adjusted for non-recurring items before tax + financial expenses) / (Shareholders' equity + interest-bearing liabilities)	x 100
Return on capital employed excluding non-recurring items, %	=	Operating profit excluding non-recurring items / (Non-current assets + inventories + receivables + other current assets − non-interest-bearing liabilities) for a 12 month average	x 100
EBITDA	=	Operating profit + depreciation + impairment charges	

Finance and financial position

Equity ratio, %	=	Shareholders' equity / (Balance sheet total − prepayments received)	x 100
Gearing, %	=	Interest-bearing net debt / Shareholders' equity	x 100
Interest-bearing net debt/EBITDA	=	Interest-bearing net debt / EBITDA	

Share performance indicators

Earnings/share, diluted	=	(Profit/loss − minority interest) / Average number of shares adjusted for the dilutive effect of options	
Earnings/share, basic	=	(Profit/loss − minority interest) / Average number of shares	
Equity/share	=	Equity attributable to equity holders of the parent / Basic number of shares at balance sheet date	
Payout ratio, %	=	Dividend/share / Earnings/share	x 100
Price/earnings ratio, (P/E)	=	Share price at balance sheet date / Earnings/share	
Effective dividend yield, %	=	Dividend/share / Share price at balance sheet date	x 100
Market capitalisation	=	Share price at balance sheet date × number of shares	
Cash flow from operating activities/share	=	Cash flow from operating activities / Average number of shares	
Yields 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 charges ± change in net working capital ± financial income and expenses − income tax	

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Analysis of shareholding

Breakdown of shareholding by shareholder category at 31 Dec. 2008

All shares	Number of shares, pcs	Percentage of all shares, %
Non-financial corporations and housing corporations	25,959,020	26.54
Financial and insurance corporations	6,325,086	6.47
General Government	11,166,916	11.42
Households	28,725,937	29.36
Non-profit institutions	6,136,081	6.27
Rest of the world	602,227	0.62
Nominee registered	18,909,587	19.33
Total	97,824,854	100.00

10 largest shareholders by number of shares at 31 Dec. 2008

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	Kesko Pension Fund	4,438,885	4.54	35,388,850	9.23
2.	K-Retailers' Association	3,348,433	3.42	33,116,680	8.64
3.	Vähittäiskaupan Takaus Oy	2,802,533	2.86	26,459,330	6.90
4.	Ilmarinen Mutual Pension Insurance Company	2,113,608	2.16	4,583,649	1.20
5.	Valluga-sijoitus Oy	1,340,439	1.37	13,404,390	3.50
6.	Varma Mutual Pension Insurance Company	1,310,986	1.34	1,310,986	0.34
7.	Oy The English Tearoom Ab	1,008,400	1.03	1,008,400	0.26
8.	State Pension Fund	950,000	0.97	950,000	0.25
9.	Foundation for Vocational Training in the Retail Trade	917,913	0.94	7,808,178	2.04
10.	Tapiola Mutual Pension Insurance Company	674,500	0.69	674,500	0.18

10 largest shareholders by number of votes at 31 Dec. 2008

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	Kesko Pension Fund	4,438,885	4.54	35,388,850	9.23
2.	K-Retailers' Association	3,348,433	3.42	33,116,680	8.64
3.	Vähittäiskaupan Takaus Oy	2,802,533	2.86	26,459,330	6.90
4.	Valluga-sijoitus Oy	1,340,439	1.37	13,404,390	3.50
5.	Foundation for Vocational Training in the Retail Trade	917,913	0.94	7,808,178	2.04
6.	Ilmarinen Mutual Pension Insurance Company	2,113,608	2.16	4,583,649	1.20
7.	Ruokacity Myyrmäki Oy	389,541	0.40	3,895,410	1.02
8.	K-Food Retailers' Club	337,605	0.35	3,376,050	0.88
9.	Heimo Välinen Oy	300,000	0.31	2,824,500	0.74
10.	Svenska litteratursällskapet i Finland r.f.	329,000	0.34	2,129,000	0.56

Management's shareholdings

At the end of December 2008, the members of Kesko Corporation's Board of Directors, the Managing Director and the corporations under their control held 202,910 Kesko Corporation A shares and 210,370 Kesko Corporation B shares, i.e. a total of 413,280 shares representing 0.42% of the company's share capital and 0.58% of its voting rights.

At 31 December 2008, the Managing Director held 2,000 Kesko Corporation A shares and 7,000 Kesko Corporation B shares, which represent 0.01% of the company's share capital and 0.01% of its voting rights. In addition, the Managing Director holds 100,000 share options, which comprise 50,000 2007B options granted in 2008. Supposing that shares have been subscribed for with the Managing Director's options, the options represent 0.1% of the share capital and 0.03% of the voting rights.

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Subsidiaries and associates at 31 dec. 2008

INTERESTS IN GROUP COMPANIES

Owned by the parent	Domicile	Group's ownership interest %	Parent's ownership interest %
Anttila Oy	Helsinki	100.00	100.00
Indoor Group Ltd	Lahti	100.00	100.00
Intersport Finland Ltd	Helsinki	100.00	100.00
K-instituutti Oy	Helsinki	72.00	72.00
K-Plus Oy	Helsinki	100.00	100.00
Kenkäkesko Ltd	Helsinki	100.00	100.00
Keru Kiinteistöt Oy	Helsinki	100.00	100.00
Kesko Real Estate Latvia SIA	Riga, Latvia	100.00	100.00
Keslog Ltd	Helsinki	100.00	45.05
Kestra Kiinteistöpalvelut Oy	Helsinki	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 Lahden Lyhytkatu 1	Lahtl	50.00	50.00
Kiinteistö Oy Pontsonkulma	Helsinki	94.57	94.57
Kiinteistö Oy Porin Hyväntuulentie 2	Pori	70.80	70.82
Kiinteistö Oy Sunan Hallitalo	Espoo	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
K-talouspalvelukeskus Oy	Helsinki	100.00	100.00
Kesko Agro Ltd	Helsinki	100.00	100.00
Malmintorin Pysäköintitalo Oy	Helsinki	99.91	99.91
Musta Pörssi Ltd	Helsinki	100.00	100.00
Plussa Oü	Tallinn, Estonia	100.00	100.00
Rautakesko Ltd	Helsinki	100.00	100.00
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 %
Agro Trade Latvija SIA	Riga, Latvia	100.00	
Antti SIA	Riga, Latvia	100.00	
Anttila AS	Viljandi, Estonia	100.00	
Ap Real Estate SIA	Riga, Latvia	100.00	
Asko Möbler AB	Huddinge, Sweden	100.00	
Auto-Span Oy	Helsinki	100.00	
Barker-Littoinen Oy	Espoo	100.00	
Bruland Bygg AS	Förde, Norway	66.30	
Byggmakker Distribution AS	Ski, Norway	100.00	
Byggmakker Norge AS	Oslo, Norway	99.92	
Cassa Oy	Helsinki	100.00	
Daugavkrasts M SIA	Riga, Latvia	100.00	
Fiesta Real Estate AS	Tallinn, Estonia	100.00	
Hauhon Kiinteistö- ja Kauppakeskus Oy	Hauho	100.00	
Hasti-Ari AS	Ski, Norway	100.00	
Ikosen Oü	Tallinn, Estonia	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	
Interstroy OOO	Russia	100.00	
Ka Jelgava SIA	Jelgava, Latvia	100.00	
K-citymarket Oy	Helsinki	100.00	
Konekesko Eesti AS	Tallinn, Estonia	100.00	
Kesko Agro Lietuva UAB	Vilnius, Lithuania	100.00	
Kesko Agro Latvija SIA	Riga, Latvia	100.00	
Kesko Real Estate OOO	St. Petersburg, Russia	100.00	
Kesko Real Estate Services OOO	St. Petersburg, Russia	100.00	
Keslog AS	Tallinn, Estonia	100.00	
Kespro Ltd	Helsinki	100.00	
Kestroy 1 ZAO	Moscow, Russia	100.00	
Kiinteistö Oy Ahtialan Liiketalo	Lahti	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 Kotkan Kauppahuone	Kotka	100.00	
Kiinteistö Oy Länsi-Kaisla	Espoo	100.00	
Kiinteistö Mesta Oy	Helsinki	100.00	
Kiinteistö Oy Pälkäneen Liikekeskus	Kangasala	79.98	
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00	
Kiinteistö Oy Tampuri	Helsinki	100.00	
Kiinteistö Oy Tarkkaiikka	Oulu	100.00	
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00	

Owned by other Group companies	Domicile	Group's ownership interest %	Parent's ownership interest %
K-Maatalouskaupat Oy	Helsinki	100.00	
Knuto AS	Norway	100.00	
Konekesko Ltd	Helsinki	100.00	
Konekesko OOO	St. Petersburg, Russia	100.00	
Konekesko Holding Oy	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 AB	Sollentuna, Sweden	100.00	
Kr Fastigheter i Eskilstuna AB	Sollentuna, Sweden	100.00	
Kr Fastigheter i Järfalla AB	Sollentuna, Sweden	100.00	
Kr Fastigheter i Halmstad AB	Sollentuna, Sweden	100.00	
Kr Fastigheter i Umeå AB	Sollentuna, Sweden	100.00	
Kr Fastigheter i Täby AB	Sollentuna, Sweden	100.00	
Kr Fastigheter Servicekontor AB	Sollentuna, Sweden	100.00	
Kr Fastigheter i Sundsvall AB	Sollentuna, Sweden	100.00	
Kr Fastigheter i Uppland AB	Sollentuna, Sweden	100.00	
K-Rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00	
Lakalaivan Autokorjaamo Oy	Tampere	100.00	
Limingan Portti	Liminka	100.00	
Loimaan Maatalous- ja Rautakauppa Oy	Helsinki	100.00	
Match-Point OOO	Kaluga, Russia	100.00	
Masterstroypof ZAO	St. Petersburg, Russia	100.00	
Mezciems Real Estate SIA	Riga, Latvia	100.00	
Norgros Handel AS	Lilleström, Norway	100.00	
Oma OOO	Minsk, Belarus	6.05	
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	
Romos Holdingas UAB	Kaunas, Lithuania	12.11	
Senukai UAB	Kaunas, Lithuania	99.20	
Senuku Prekybos Centras UAB	Vilnius, Lithuania	50.00	
Senuku Tirdzniecibas Centras SIA	Riga, Latvia	100.00	
Sotka Eesti Oü	Estonia	100.00	
Spc Holding UAB	Kaunas, Lithuania	100.00	
Stroymaster Holding Finland Oy	Helsinki	100.00	
Stroymaster ZAO	St. Petersburg, Russia	100.00	
Sunretail ZAO	Moscow, Russia	100.00	
Tampereen Länsikeskus Oy	Tampere	94.43	
Teploschit OOO	Yaroslavi, Russia	100.00	
Tp Real Estate SIA	Riga, Latvia	100.00	
Trögstadveien 13 AS	Ski, Norway	100.00	
Turun VV-Auto Oy	Turku	100.00	
Verdal Eiendom AS	Ski, Norway	100.00	
VV-Autotalot Oy	Helsinki	100.00	

ASSOCIATES

Owned by the 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 Lentokentän Palvelutalo	Vantaa	32.59	32.59
Kiinteistö Oy Mellunmäen Liike- ja Toimintakeskus	Helsinki	23.42	23.42
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
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

Kiinteistö Oy Meri-Pietari	Helsinki	23.12	
Kiinteistö Oy Lahden Teollisuuskeskus	Lahti	48.32	

Parent's financial statements 2008

Parent's income statement (FAS)

€	1 Jan.–31 Dec. 2008	1 Jan.–31 Dec. 2007
Net sales	**18,193,914.32**	**16,761,333.00**
Other operating income	299,019,437.07	249,816,297.07
Materials and services	−454.51	−274.98
Staff expenses	−12,971,150.41	−13,651,741.54
Depreciation and reduction in value	−37,541,067.49	−24,045,119.06
Other operating expenses	−129,245,796.46	−172,452,664.52
Operating profit	**137,454,882.52**	**56,427,829.97**
Financial income and expenses	37,555,785.57	47,808,921.74
Profit before extraordinary items	**175,010,668.09**	**104,236,751.71**
Extraordinary items	99,866,000.00	138,632,000.00
Profit before appropriations and taxes	**274,876,668.09**	**242,868,751.71**
Appropriations	26,513,831.22	5,797,754.74
Profit before taxes	**301,390,499.31**	**248,666,506.45**
Income taxes	−64,679,900.23	−54,392,730.23
Profit for the financial year	**236,710,599.08**	**194,273,776.22**

Parent's balance sheet (FAS)

€	31 Dec. 2008	31 Dec. 2007
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Other capitalised long-term expenditure	6,455,877.43	7,714,791.78
Advance payments and construction in progress	1,641,853.61	2,451,132.91
	8,097,731.04	10,165,924.69
TANGIBLE ASSETS		
Land and waters	111,379,744.40	112,152,662.59
Buildings	309,366,678.87	331,402,014.49
Machinery and equipment	4,980,270.93	5,972,140.83
Other tangible assets	8,158,495.25	7,205,486.53
Advance payments and construction in progress	7,094,125.24	5,410,734.59
	440,979,314.69	462,143,039.03
INVESTMENTS		
Holdings in Group companies	273,535,019.71	402,270,848.48
Participating interests	18,657,266.58	19,761,572.65
Other shares and similar rights of ownership	7,295,881.70	7,284,058.60
	299,488,167.99	429,316,479.73
CURRENT ASSETS		
DEBTORS		
Long-term		
Amounts owed by Group companies	399,439,059.07	384,426,543.03
Amounts owed by participating interests	1,546,010.01	891,396.01
Other long-term loan receivables	3,310,137.35	0.00
	404,295,206.43	385,317,939.04
Short-term		
Trade debtors	184,033.61	1,752,057.86
Amounts owed by Group companies	546,643,021.41	589,954,855.91
Amounts owed by participating interests	3,104,920.53	4,175,243.23
Other receivables	243,510.35	220,795.53
Prepayments and accrued income	25,382,155.33	30,012,572.21
	575,557,641.23	626,115,524.74
INVESTMENTS		
Other investments	383,152,895.82	261,072,406.31
CASH IN HAND AND AT BANKS	22,785,663.82	25,554,085.64
TOTAL ASSETS	**2,134,356,621.02**	**2,199,685,399.18**

€	31 Dec. 2008	31 Dec. 2007
LIABILITIES		
CAPITAL ANDB RESERVES		
Share capital	195,649,708.00	195,535,530.00
Share issue	89,900.00	733.95
Share premium account	190,255,218.02	190,079,543.91
Other reserves	243,415,795.55	243,415,795.55
Retained earnings	531,108,065.33	493,562,881.11
Profit for the financial year	236,710,599.08	194,273,776.22
	1,397,229,285.98	1,316,868,260.74
APPROPRIATIONS		
Depreciation reserve	131,171,455.93	157,685,287.15
PROVISIONS		
Other provisions	8,266,027.48	7,210,259.65
CREDITORS		
Non-current		
Private placement bonds	100,418,410.04	100,418,410.04
Loans from credit institutions	20,512,820.51	25,131,942.70
Trade creditors	279.45	
	120,931,510.00	125,550,352.74
Current		
Loans from credit institutions		
Advances received	90,883.83	2,570.85
Trade creditors	3,068,581.11	5,340,301.42
Amounts owed to Group companies	352,147,751.01	437,093,346.44
Amounts owed to participating interests	37,212,846.36	23,966,613.67
Other debt	69,526,049.14	113,939,237.49
Accruals and deferred income	14,712,230.18	12,029,169.03
	476,758,341.63	592,371,238.90
TOTAL LIABILITIES	**2,134,356,621.02**	**2,199,685,399.18**

Parent's cash flow statement

€	1 Jan.–31 Dec. 2008	1 Jan.–31 Dec. 2007
Cash flow from operating activities		
Profit before extraordinary items	175,010,668.09	104,236,751.71
Adjustments:		
Depreciation according to plan	22,542,266.17	22,521,937.84
Financial income and expenses	-37,555,785.57	-47,808,921.74
Other adjustments	-115,916,129.96	-35,269,899.81
	44,081,018.73	43,679,868.00
Change in working capital		
Interest-free short-term trade receivables, increase/decrease (-/+)	4,314,998.23	1,038,689.43
Interest-free short-term debt, increase/decrease (+/-)	3,239,414.65	2,570,437.40
	7,554,412.88	3,609,126.83
Interests paid	-39,864,151.14	-32,455,510.98
Interests received	72,980,921.01	57,896,930.59
Dividends received	6,220,481.75	23,407,952.75
Taxes paid	-62,090,706.16	-75,024,522.45
	-22,753,454.54	-26,175,150.09
Cash flow from operating activities	**28,881,977.07**	**21,113,844.74**
Cash flow from investing activities		
Purchases of other investments	-50,000.00	-700,000.00
Investments in tangible and intangible assets	-28,940,941.87	-32,866,218.80
Increase in long-term receivables	-61,937,039.62	-50,088,979.36
Subsidiary disposed	149,729,156.38	35,273.57
Associated company disposed	1,388,000.00	411,440.00
Proceeds from other investments	223,047.00	46,582,184.00
Proceeds from sale of tangible and intangible assets	141,294,028.63	19,903,490.88
Cash flow from investing activities	**201,706,250.52**	**-16,722,809.71**
Cash flow from financing activities		
Increase in current creditors	0.00	36,109,586.99
Decrease in current creditors	-106,807,060.53	0.00
Increase in non-current creditors	0.00	854,205.39
Decrease in non-current creditors	-4,618,842.74	0.00
Increase/decrease (-/+) of short-term interest-bearing receivables	45,784,249.44	-95,648,887.51
Short-term money market investments	-18,400,959.74	35,175,640.48
Dividends paid	-156,428,592.00	-146,312,550.32
Group contributions received and paid	99,866,000.00	138,632,000.00
Increase in share capital	379,018.16	2,641,200.22
Others	10,549,067.77	1,145,351.32
Cash flow from financing activities	**-129,677,119.64**	**-27,403,453.43**
Change in liquid assets	**100,911,107.95**	**-23,012,418.40**
Liquid assets at 1 January	**181,120,445.86**	**204,132,864.26**
Liquid assets at 31 December	**282,031,553.81**	**181,120,445.86**

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).

Non-current assets

Intangible assets

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

Depreciation plan

Other capitalised expenditure	5–14 years

Tangible assets

Tangible 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 tangible 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	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 at the balance sheet date. If a receivable or a debt is tied to a fixed rate of exchange, it has been used for translation. Exchange rate differences have been recognised in profit or loss.

Derivative financial instruments

Interest rate derivative contracts

Interest rate derivatives are used to modify loan durations. The target duration is three years and it is allowed to vary between one and a half and four years. 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 5-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 income tax payments for the period based on the profit for the period, and taxes payable for prior periods, or tax refunds. Deferred taxes are not included in the parent's income statement and balance sheet.

Notes to the income statement

€ million	2008	2007
1. Other operating income		
Profits on sales of real estate and shares	128.1	51.9
Rent income	169.8	197.4
Merger profit	0.8	-
Others	0.3	0.5
Total	299.0	249.8

Sales profits are related to property lease and sale arrangements between Kesko and Nordisk Renting Oy.

€ million	2008	2007
2. Average number of personnel		
Kesko Corporation	160	174
Total	160	174
3. Personnel expenses		
Salaries and fees	10.0	10.6
Social security expenses		
Pension expenses	2.1	2.1
Other social security expenses	0.9	1.0
Total	13.0	13.7
Salaries and fees to the management		
Managing Director and his deputy	0.8	0.7
Board of Directors' members	0.3	0.3
Total	1.1	1.0

An analysis of the management's salaries and fees is included in the notes to the consolidated financial statements.

€ million	2008	2007
4. Depreciation and reduction in value		
Depreciation according to plan	22.5	22.5
Reduction in value, non-current assets	15.0	1.5
Total	37.5	24.0

The reduction in value is related to the Hämeenkylä distribution centre property in Vantaa, which will be replaced by a new logistics centre in 2011.

€ million	2008	2007
5. Other operating expenses		
Rent expenses	87.6	117.1
Marketing expenses	2.2	3.0
Maintenance of real estate and store sites	15.6	17.1
Data communications expenses	12.2	11.1
Losses on sales of real estate and shares	1.0	0.1
Merger losses	2.7	16.2
Other operating expenses	8.6	8.0
Total	129.9	172.5
PricewaterhouseCoopers, Authorised Public Accountants		
Auditor's fees	0.1	0.1
Tax consultation	0.1	0.1
Other fees	0.1	0.0
Total	0.3	0.2

€ million	2008	2007
6. Financial income and expenses		
Dividend income		
From Group companies	6.2	23.4
Dividend income, total	6.2	23.4
Other interest and financial income		
From Group companies	50.7	47.9
From others	67.2	26.4
Interest income, total	117.9	74.3
Interest and other financial expenses		
To Group companies	-27.8	-21.4
To others	-58.8	-28.5
Interest expenses, total	-86.6	-49.9
Total	37.6	47.8
7. Items included in extraordinary income and expenses		
Contributions from Group companies	153.7	171.3
Contributions to Group companies	-53.9	-32.7
Total	99.8	138.6
8. Appropriations		
Difference between depreciation according to plan and depreciation in taxation	26.5	5.8
Total	26.5	5.8
9. Changes in provisions		
Future rent expenses for vacant business premises	-2.0	-1.1
Other changes	3.1	0.0
Total	1.1	-1.1
10. Income taxes		
Income taxes on extraordinary items	-26.0	-36.0
Income taxes on operating activities	-38.6	-18.3
Total	-64.7	-54.4

Deferred taxes

Deferred tax liabilities and assets have not been included in the balance sheet. Their total amount is immaterial.

Notes to the balance sheet

€ million	2008	2007
11. Other capitalised long-term expenditure		
Acquisition cost at 1 January	38.3	39.7
Increases	0.7	0.1
Decreases	-0.9	-1.5
Transfers between items	1.0	0.0
Acquisition cost at 31 December	39.1	38.3

€ million	2008	2007
Accumulated depreciation at 1 January	30.6	29.3
Accumulated depreciation on decreases and transfers	-0.4	-0.9
Depreciation for the financial year	2.4	2.2
Accumulated depreciation at 31 December	32.6	30.6
Book value at 31 December	6.5	7.7
Advance payments		
Acquisition cost at 1 January	2.5	2.2
Increases	0.6	1.6
Decreases	-0.4	-1.3
Transfers between items	-1.0	0.0
Acquisition cost at 31 December	1.7	2.5
Book value at 31 December	1.7	2.5

12. Tangible assets

Land and waters		
Acquisition cost at 1 January	112.2	114.5
Increases	8.3	4.3
Decreases	-9.1	-6.7
Transfers between items	0.0	0.0
Acquisition cost at 31 December	111.4	112.2
Book value at 31 December	111.4	112.2
Buildings		
Acquisition cost at 1 January	513.2	503.9
Increases	24.2	19.1
Decreases	-26.9	-13.6
Transfers between items	4.4	3.9
Acquisition cost at 31 December	514.9	513.2
Accumulated depreciation at 1 January	181.8	166.2
Accumulated depreciation on decreases and transfers	-8.6	-1.7
Value adjustment	15.0	0.0
Depreciation and value adjustments for the financial year	17.3	17.4
Accumulated depreciation at 31 December	205.5	181.8
Book value at 31 December	309.4	331.4
Machinery and equipment		
Acquisition cost at 1 January	25.5	25.1
Increases	1.0	1.0
Decreases	-1.9	-0.8
Transfers between items	0.1	0.2
Acquisition cost at 31 December	24.7	25.5
Accumulated depreciation at 1 January	19.6	18.4
Accumulated depreciation on decreases and transfers	-1.3	-0.6
Depreciation for the financial year	1.5	1.8
Accumulated depreciation at 31 December	19.7	19.6
Book value at 31 December	5.0	6.0
Other tangible assets		
Acquisition cost at 1 January	13.7	12.5
Increases	2.8	1.1
Decreases	-1.4	-0.3
Transfers between items	0.1	0.4
Acquisition cost at 31 December	15.2	13.7

€ million	2008	2007
Accumulated depreciation at 1 January	6.5	5.4
Accumulated depreciation on decreases and transfers	-0.7	0.0
Depreciation for the financial year	1.2	1.1
Accumulated depreciation at 31 December	7.0	6.5
Book value at 31 December	8.2	7.2
Advance payments and construction in progress		
Acquisition cost at 1 January	5.4	5.2
Increases	6.3	4.7
Transfers between items	-4.6	-4.5
Acquisition cost at 31 December	7.1	5.4
Book value at 31 December	7.1	5.4

Revaluation of non-current assets

At the end of the financial year, Kesko Corporation's balance sheet did not contain revaluations.

13. Investments

Holdings in Group companies		
Acquisition cost at 1 January	404.0	388.0
Increases	3.2	109.7
Decreases	-133.6	-93.7
Acquisition cost at 31 December	273.6	404.0
Accumulated depreciation at 1 January	1.7	0.2
Value adjustments	-1.7	1.5
Accumulated depreciation at 31 December	0.0	1.7
Book value at 31 December	273.6	402.3
Participating interests		
Acquisition cost at 1 January	19.8	20.0
Increases	0.1	-
Decreases	-1.2	-0.2
Acquisition cost at 31 December	18.7	19.8
Book value at 31 December	18.7	19.8
Other shares and similar rights of ownership		
Acquisition cost at 1 January	7.3	16.3
Increases	0.0	0.7
Decreases	0.0	-9.7
Acquisition cost at 31 December	7.3	7.3
Book value at 31 December	7.3	7.3

Kesko Corporation's ownership interests in other companies as at 31 December 2008 are presented in the notes to the consolidated financial statements.

During the period, Kesko Corporation sold its wholly-owned subsidiaries Kauko-Telko Ltd, Tähti Optikko Group Oy and K-Rahoitus Oy. In addition, the company founded a new subsidiary, K-talouspalvelukeskus Oy. Among subsidiaries directly owned by Kesko Corporation, other changes took place in real estate companies only. During the 2007 financial year, Keswell Ltd, a company wholly owned by Kesko Corporation merged into Kesko Corporation.

€ million	2008	2007
14. Debtors		
Amounts owed by Group companies		
Long-term		
Loan receivables	389.4	374.4
Subordinated loans	10.0	10.0
Long-term receivables, total	399.4	384.4
Short-term		
Trade debtors	1.0	1.4
Loan receivables	541.2	586.0
Other debtors	0.0	-
Prepayments and accrued income	4.4	2.6
Short-term receivables, total	546.6	590.0
Total	946.0	974.4
Amounts owed by participating interests		
Long-term		
Loan receivables	1.5	0.9
Short-term		
Trade debtors	0.0	0.0
Loan receivables	3.1	4.1
Short-term receivables, total	3.1	4.2
Total	4.6	5.1
Prepayments and accrued income		
Taxes	7.3	8.7
Others	18.1	21.3
Total	25.4	30.0
15. Capital and reserves		
Share capital at 1 January	195.5	195.0
Subscriptions with options	0.1	0.5
Share capital at 31 December	195.6	195.5
Share issue, exercise of options at 1 January		
Increase	0.4	2.6
Transfer to share capital	-0.1	-0.5
Transfer to share premium account	-0.2	-2.1
Share issue, exercise of options at 31 December	0.1	0.0
Share premium account at 1 January	190.1	187.9
Subscriptions with options	0.2	2.1
Share premium account at 31 December	190.3	190.1
Revaluation reserve at 1 January	-	-
Change in revaluation reserve	-	-
Revaluation reserve at 31 December	-	-
Other reserves at 1 January	243.4	243.4
Other reserves at 31 December	243.4	243.4
Retained earnings at 1 January	687.8	639.9
Distribution of dividends	-156.4	-146.3
Transfer to donations	-0.3	-0.3
Expired dividends 1997–2001		0.3
Retained earnings at 31 December	531.1	493.6
Profit for the financial year	236.7	194.3
Capital and reserves, total	1 397.2	1 316.9

Increase in share capital

During the reporting period, the share capital was increased seven times as a result of share subscriptions with the stock options of the year 2003 option scheme. The increases were made on 11 February 2008 (€210), 28 April 2008 (€38,168), 9 June 2008 (€42,200), 28 July 2008 (€8,600), 1 October 2008 (€4,000), 27 October 2008 (€6,000) and 18 December 2008 (€15,000), and announced in stock exchange notifications on the same days. The subscribed shares were included on the main list of the Helsinki Stock Exchange for public trading with the old B shares on 12 February 2008, 29 April 2008, 10 June 2008, 29 July 2008, 2 October 2008, 28 October 2008, and 19 December 2008.

Distributable reserves		
Other reserves	243.4	243.4
Retained earnings	531.1	493.6
Profit for the financial year	236.7	194.3
Total	1,011.2	931.3

Breakdown of the parent company's share capital

	pcs	counter value, €	€ million
A shares	31,737,007	2	63.5
B shares	66,087,847	2	132.2
Total	97,824,854		195.6

Voting rights carried by shares	number of votes
A share	10
B share	1

Year 2003 and 2007 stock option plans

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.

The Annual General Meeting of 26 March 2007 decided to grant a total of 3,000,000 stock options for no consideration to the Kesko Group management and the management of the other Group companies, to the rest of the key Kesko personnel, and to Sincera Oy, a subsidiary wholly owned by 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 stock option entitles its holder to subscribe for one new Kesko Corporation B share. The stock options shall be marked with symbols 2007A, 2007B and 2007C in units of 1,000,000 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 issued under the year 2003 plan, and with all of the 3,000,000 options issued under the year 2007 plan, the shares subscribed for with options account for 4.69% of shares and 1.23% of all votes. The subscriptions made with stock options may raise the number of the company's shares to 101,712,793, and the voting rights of all shares to 387,345,856 votes. The company has no other options or other special rights entitling to shares.

Authorisations of the Board of Directors

Kesko's Annual General Meeting of 26 March 2007 authorised the Board to decide about the issuance of new B shares.

B shares can be issued against payment to the company's existing shareholders in proportion to their existing shareholdings regardless of whether they consist of A or B shares, or, deviating from shareholders' pre-emptive rights in order for the issued shares to be used as consideration in possible company acquisitions, other company business arrangements, or to finance investments. The maximum number of new shares issued is 20,000,000.

The Board of Directors was also authorised to decide about the subscription price of the shares, to issue shares against non-cash consideration, and to make decisions concerning any other matters relating to share issues. The authorisation is valid for two (2) years after the decision by the Annual General Meeting.

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

€ million	**2008**	**2007**
16. Appropriations		
Depreciation reserve	131.2	157.7
Total	131.2	157.7
17. Provisions		
Future rent expenses for vacant business premises	5.2	7.1
Other provisions	3.1	0.1
Total	8.3	7.2
18. Non-current creditors		
Debt falling due later than within five years		
Private placement bonds	100.4	100.4
Loans from credit institutions	20.5	25.1
Total	120.9	125.6

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 creditors		
Debt to Group companies		
Trade creditors	0.6	2.0
Other creditors	349.8	433.6
Accruals and deferred income	1.7	1.5
Total	352.1	437.1
Amounts owed to participating interests		
Trade creditors	0.0	0.0
Other creditors	37.2	24.0
Accruals and deferred income	0.0	–
Total	37.2	24.0
Accruals and deferred income		
Staff expenses	2.6	2.5
Taxes	0.0	–
Others	12.1	9.6
Total	14.7	12.0
20. Interest-free debt		
Current creditors	21.3	21.5
Total	21.3	21.5

Other notes

€ million	**2008**	**2007**
21. Guarantees and contingent liabilities		
Debt for the security of which real estate mortgages have been given		
Other short-term debt	1	1
Mortgages given	6	6
Debt for the security of which shares have been given		
Other short-term debt		2
Pledged shares	14	14
Other contingent liabilities		
Real estate mortgages		
For own debt		1
For Group companies	10	10
Guarantees		
For Group companies	58	101
For shareholders	0	1
For others	1	0
Other contingent liabilities		
For own debt	10	11
Leasing liabilities		
Falling due within a year	1	0
Falling due later	0	1

Liabilities arising from derivative instruments

€ million	**2008**	**Fair value**	**2007**	**Fair value**
Value of underlying instruments at 31 Dec.				
Interest rate derivatives				
Forward and future contracts	–		34	−0.1
Interest rate swaps	201	9.9	201	4.9
Currency derivatives				
Forward and future contracts	333	6.6	366	0.2
Option agreements				
Bought	–	–	–	–
Written	–	–	–	–
Currency swaps	100	−14.2	100	−18.9
Commodity derivatives				
Electricity derivatives	46	−10.8	37	7.9
Grain derivatives	1	0.0	5	−0.4

Signatures

Signatures

Helsinki, 4 February 2009

Heikki Takamäki Keijo Suila

Pentti Kalliala Ilpo Kokkila Maarit Näkyvä

Seppo Paatelainen Jukka Säilä Matti Halmesmäki
Managing Director

The auditors' note

Our auditors' report has been issued today.

Helsinki, 9 February 2009

PricewaterhouseCoopers Oy
Authorised Public Accountants

Johan Kronberg
APA

Auditors' report

To the Annual General Meeting of Kesko Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Kesko Corporation for the year ended on 31 December, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditors' Responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors of the parent company and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

We recommend that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown at the balance sheet and the distribution of other unrestricted equity is in compliance with the Limited Liability Companies Act. We recommend that the Members of the Board of Directors and the Managing Director should be discharged from liability for the financial period audited by us.

Helsinki, 9 February 2009

PricewaterhouseCoopers Oy, Authorised Public Accountants

Johan Kronberg, Authorised Public Accountant

Shares and shareholders

Dividend policy

On 4 February 2009, Kesko's Board of Directors decided to revise Kesko's dividend policy published on 6 April 2005. In addition to the financial position and the operating strategy, the new policy takes account of the nature of non-recurring items. According to Kesko Corporation's revised dividend policy, Kesko Corporation distributes at least 50% of its earnings per share excluding non-recurring items as dividends, taking however the company's financial position and operating strategy into account (stock exchange release 5 February 2009).

The financial objectives are presented on page 12.

Proposed dividends for the year 2008

Kesko Corporation's Board of Directors proposes to the Annual General Meeting that €97,851,050.00 or €1.00 per share, be distributed as dividends from the net profit for the year 2008, representing 44.7% of earnings per share and 69.6% of earnings per share excluding non-recurring items. During the past five years, 71.5% of earnings per share, on the average, has been distributed as dividends.

Basic information on the shares at 31 December 2008

A share

- shortname: KESAV (OMX)
- ISIN code: FI0009007900
- voting rights per share: 10 votes
- number of shares: 31,737,007
- market capitalisation: €698 million

B share

- shortname: KESBV (OMX)
- ISIN code: FI0009000202
- voting rights per share: 1 vote
- number of shares: 66,087,847
- market capitalisation: €1,176 million

Trading unit of both share series: 1 share
Total share capital: €195,649,708
Total number of shares: 97,824,854
Voting rights carried by all shares: 383,457,917
Market capitalisation: €1,875 million

Share series and share capital

Kesko Corporation's share capital is divided into A share series and B share series. The company's share capital was €195,649,708.

The minimum number of A shares is one (1) and the maximum number two hundred and fifty million (250,000,000) and 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).

The total number of shares is 97,824,854, of which 31,737,007 (32.4%) are A shares and 66,087,847 (67.6%) are 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. The number of votes entitled by A shares is 83% and the number of votes entitled by B shares 17% of the total voting rights.

The shares are included in the book-entry securities system held by the Euroclear Finland Ltd.

The right to receive distributions from the company and the right to subscribe for shares when the share capital is increased belongs only to those:

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

Authorisations of the Board of Directors and treasury shares

The Kesko Annual General Meeting, held on 26 March 2007, authorised the company's Board of Directors to decide about the issuance of new B shares. The new B shares can be issued against payment either to the company's shareholders in proportion to their existing shareholdings, regardless of whether they consist of A or B shares, or in a directed issue deviating from shareholders' pre-emptive rights in order for the issued shares to be used as consideration in possible company acquisitions, other company business arrangements, or financial investments. The company must have a weighty financial reason for deviating from pre-emptive rights. The maximum number of new shares issued shall be 20,000,000.

The authorisation also includes an authorisation given by the Board of Directors to decide on the subscription price of the issued shares, the right to issue shares against non-cash consideration and the right to make decisions concerning any other matters relating to share issues.

The authorisation shall be valid for two (2) years after the decision in the General Meeting.

The Board of Directors had no other valid authorisation to issue shares, to increase the share capital, 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 Euroclear Finland Ltd, there were 38,080 shareholders at the end of 2008 (28,925 at the end of 2007). The total number of shares registered in a nominee name was 18,909,587, accounting for 19.33% of the shares (33,170,238 and 33.93% respectively at the end of 2007). The number of votes entitled by these shares was 19,535,132, or 5.09% of the total voting rights (33,733,485 or 8.8% respectively at the end of 2007). A list of Kesko's largest shareholders, updated monthly, is available at www.kesko.fi/investors.

Year 2003 stock option scheme

On 31 March 2003, the Annual General Meeting resolved to gratuitously issue a total of 1,800,000 stock options to the management of the Kesko Group as well as to a wholly-owned subsidiary of Kesko Corporation. A deviation was made from the shareholders' pre-emptive right to subscription since the stock options form a part of the incentive and commitment programme for the management. The scheme comprises approximately 60 persons.

Each stock option entitles its owner to subscribe for one Kesko Corporation B share. The stock options have been marked with shortnames 2003D (KESBVEW103, ISIN code FI0009609317), 2003E

(KESBVEW203, ISIN code FI0009609325), and 2003F (KESBVEW303, ISIN code FI0009609333), in units of 600,000 stock options each.

The share subscription periods are:
- for stock option 2003D 1 April 2005–30 April 2008,
- for stock option 2003E 1 April 2006–30 April 2009, and
- for stock option 2003F 1 April 2007–30 April 2010.

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

At the end of 2008, the subscription price of a B share subscribed for with stock option 2003E was €8.99, with stock option 2003F €14.88. The subscription period for stock option 2003D ended on 30 April 2008. Dividend rights and other shareholder rights of the share subscribed for with options take effect when the share capital increase has been entered in the Trade Register.

The 2003D stock options were listed on the Helsinki Stock Exchange on 1 April 2005, the 2003E stock options on 1 April 2006 and the 2003F stock options on 1 April 2007.

Year 2007 stock option scheme

The Annual General Meeting of 26 March 2007 decided to grant a total of 3,000,000 stock options for no consideration to the Kesko Group management and other key Kesko personnel, and to a subsidiary wholly owned by Kesko Corporation. The company had a weighty financial reason for granting stock options because they are intended to be part of Kesko's share-based incentive system.

Each stock option entitles its holder to subscribe for one new Kesko Corporation B share. The stock options shall be marked with symbols 2007A, 2007B and 2007C in units of 1,000,000 options each.

The exercise periods of the options shall be:
- for stock option 2007A, from 1 April 2010 until 30 April 2012,
- for stock option 2007B, from 1 April 2011 until 30 April 2013 and
- for stock option 2007C, from 1 April 2012 until 30 April 2014.

The original subscription price for stock option 2007A shall be the trade volume weighted average quotation of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April and 30 April 2007 (€45.82), for stock option 2007B between 1 April and 30 April 2008 (€26.57), and for stock option 2007C between 1 April and 30 April 2009. The subscription prices of shares subscribed for with stock options shall be reduced by the amount decided after the beginning of the period for the determination of the subscription price but before the subscription as at the record date for each dividend distribution or other distribution of funds.

Presuming that shares are subscribed for with all of the 1,800,000 stock options granted under the year 2003 plan and all of the 3,000,000 stock options granted under the year 2007 plan, the shares subscribed for with stock options account for 4.69% of shares and 1.23% of all votes. The subscriptions made with stock options may raise the number of the company's shares to 101,712,793, and the voting rights of all shares to 387,345,856 votes.

Share subscriptions made with stock options

In 2008, the share capital was raised seven times corresponding to share subscriptions made with stock options granted under the year 2003 plan: on 11 February (by €210), on 28 April (by €38,168), on 9 June (by €42,200), on 28 July (by €8,600), on 1 October (by €4,000), on 27 October (by €6,000) and on 18 December (by €15,000). The total share capital increase in 2008 was €114,178 (57,089 shares).

By the end of 2008, 574,088 B shares had been subscribed for with the 2003D options (subscription period has ended), 192,606 B shares with the 2003E options and 119,455 B shares with the 2003F options, or 886,149 B shares in aggregate. The subscribed shares have been included in the main list of the NASDAQ OMX Helsinki Stock Exchange for public trading.

Other special shareholding rights

The company has not issued other stock options, convertible bonds, bonds with warrants or other special rights to company shares.

Shares and stock options held by the management

At the end of 2008, the members of Kesko Corporation's Board of Directors, the President and CEO and the corporations under their control held 202,910 Kesko A shares (197,030 A shares at the end of 2007) and 210,370 Kesko B shares (170,520), i.e. a total of 413,280 shares (367,550), which represented 0.42% (0.38%) of the company's total share capital and 0.58% (0.56%) of its voting rights.

At the end of 2007, the company's Managing Director held a total of 100,000 Kesko stock options (50,000 at the end of 2007), which represented 0.10% (0.05%) of the company's total share capital and 0.03% (0.01%) of voting rights, presuming that shares have been subscribed for with all of these options. No Board members held stock options at the end of 2008 (nor at the end of 2007).

Detailed information on shares and stock options held by the management at the beginning and at the end of 2008 is given on pages 66–69.

Trading in Kesko's shares and stock options in 2008

Kesko Corporation's shares are listed on the NASDAQ OMX Helsinki Stock Exchange. Key information about share trading in 2008 is given in the tables and graphs on this double page spread. The price trends of both shares closely followed the general trend. The prices of liquid B shares dropped by 53 percent and those of less liquid A shares by 42 percent, while the NASDAQ OMX Helsinki All Share Index was down 53 percent. The trading in B shares was lively, nearly matching the high level of the previous year. Instead the value traded almost halved. The number of A shares traded remained at about 40% compared with the previous year, and the value traded represented only about one quarter of last year's level. At the end of the year, the market capitalisation of A shares was €698 million and that of B shares €1,176 million. The total market capitalisation of the company was €1,875 million, a decrease of €1,817 million, or 49% during the year.

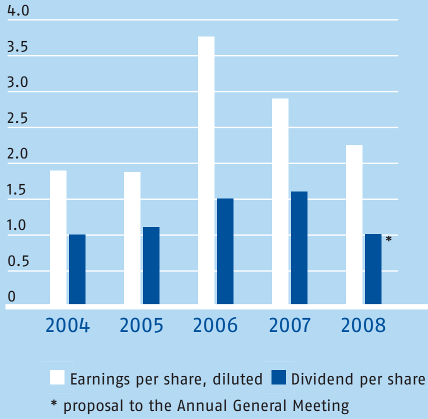
Flagging notifications

Kesko Corporation did not receive any flagging notification during 2008.

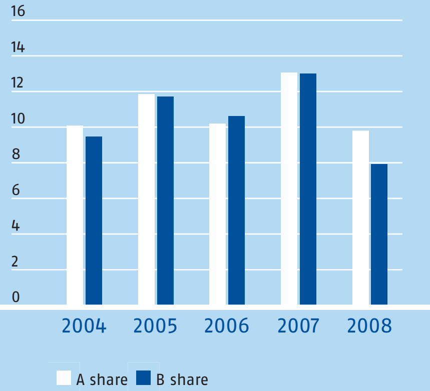
The company has not been informed of any agreements relating to its share ownership or the exercising of its voting rights.

Key share performance indicators

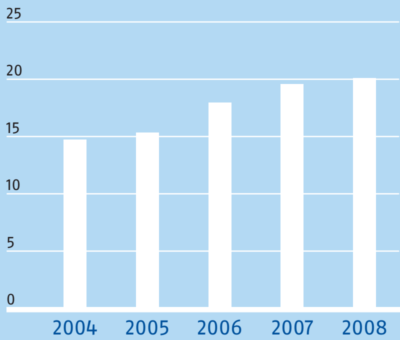
Earnings per share and dividend per share, €



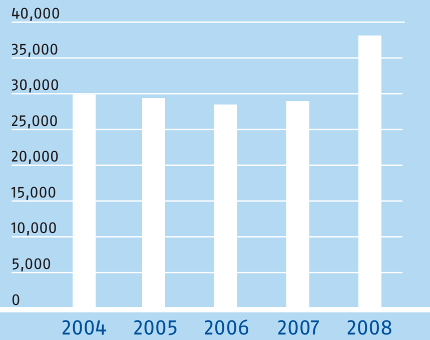
Share price per earnings, P/E ratio, at 31 Dec., diluted



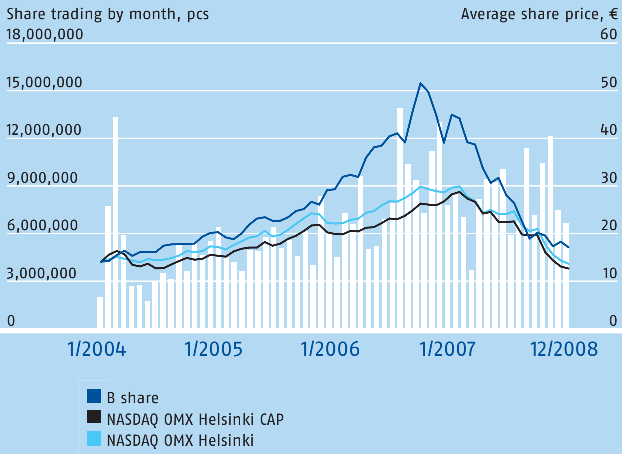
Equity per share, €, at 31 Dec., diluted



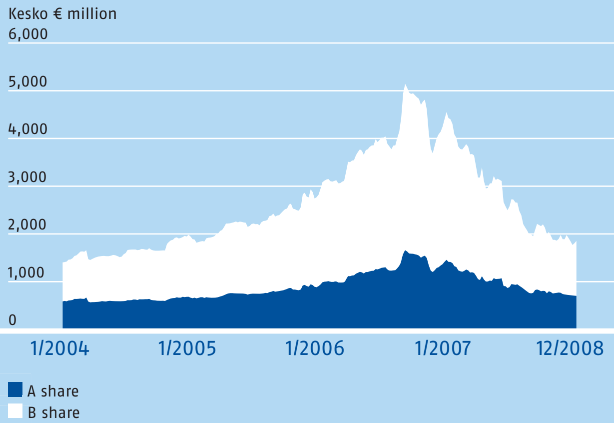
Number of shareholders, at 31 Dec.



Trading volume of Kesko B share



Market capitalisation of Kesko shares



The latest changes in share capital

Year	Subscription period	Subscription ratio and Price/option type	Change	New share capital
2004	6 Feb. 2004	1 for 1 at € 10.11 C stock option	€ 48,600	€ 182,429,600
2004	4 May 2004	1 for 1 at € 9.87 B stock option	€ 1,072,380	€ 183,501,980
		1 for 1 at € 8.11 C stock option		
2004	4 Aug. 2004	1 for 1 at € 9.87 B stock option	€ 156,200	€ 183,658,180
		1 for 1 at € 8.11 C stock option		
2004	31 Dec. 2004	1 for 1 at € 9.87 B stock option	€ 4,022,904	€ 187,681,084
		1 for 1 at € 8.87 B stock option		
		1 for 1 at € 7.11 C stock option		
2005	15 Feb. 2005	1 for 1 at € 8.87 B stock option	€ 2,656,500	€ 190,337,584
		1 for 1 at € 7.11 C stock option		
2005	4 May 2005	1 for 1 at € 7.87 B stock option	€ 912,390	€ 191,249,974
		1 for 1 at € 6.11 C stock option		
		1 for 1 at € 5.63 D stock option		
2005	8 Jun. 2005	1 for 1 at € 7.87 B stock option	€ 536,600	€ 191,786,574
		1 for 1 at € 6.11 C stock option		
		1 for 1 at € 5.63 D stock option		
2005	3 Aug. 2005	1 for 1 at € 7.87 B stock option	€ 172,676	€ 191,959,250
		1 for 1 at € 6.11 C stock option		
		1 for 1 at € 5.63 D stock option		
2005	28 Sep. 2005	1 for 1 at € 7.87 B stock option	€ 588,700	€ 192,547,950
		1 for 1 at € 6.11 C stock option		
		1 for 1 at € 5.63 D stock option		
2005	2 Nov. 2005	1 for 1 at € 7.87 B stock option	€ 97,960	€ 192,645,910
		1 for 1 at € 6.11 C stock option		
		1 for 1 at € 5.63 D stock option		
2005	20 Dec. 2005	1 for 1 at € 7.87 B stock option	€ 321,942	€ 192,967,852
		1 for 1 at € 6.11 C stock option		
		1 for 1 at € 5.63 D stock option		
2006	13 Feb. 2006	1 for 1 at € 7.87 B stock option	€ 640,500	€ 193,608,352
		1 for 1 at € 6.11 C stock option		
		1 for 1 at € 5.63 D stock option		
2006	4 May 2006	1 for 1 at € 7.87 B stock option	€ 938,058	€ 194,546,410
		1 for 1 at € 6.77 B stock option		
		1 for 1 at € 6.11 C stock option		
		1 for 1 at € 5.01 C stock option		
		1 for 1 at € 4.53 D stock option		
2006	9 Jun. 2006	1 for 1 at € 4.53 D stock option	€ 59,200	€ 194,605,610
		1 for 1 at € 12.09 E stock option		
2006	7 Aug. 2006	1 for 1 at € 4.53 D stock option	€ 118,000	€ 194,723,610
		1 for 1 at € 12.09 E stock option		
2006	3 Oct. 2006	1 for 1 at € 4.53 D stock option	€ 94,800	€ 194,818,410
		1 for 1 at € 12.09 E stock option		
2006	1 Nov. 2006	1 for 1 at € 4.53 D stock option	€ 157,200	€ 194,975,610
		1 for 1 at € 12.09 E stock option		
2006	21 Dec. 2006	1 for 1 at € 4.53 D stock option	€ 64,240	€ 195,039,850
		1 for 1 at € 12.09 E stock option		
2007	12 Feb. 2007	1 for 1 at € 4.53 D stock option	€ 46,376	€ 195,086,226
		1 for 1 at € 12.09 E stock option		
2007	26 Apr. 2007	1 for 1 at € 3.03 D stock option	€ 86 800	€ 195 173 026
		1 for 1 at € 10.59 E stock option		
2007	29 May 2007	1 for 1 at € 3.03 D stock option	€ 298,572	€ 195 471,598
		1 for 1 at € 10.59 E stock option		
		1 for 1 at € 16.48 F stock option		
2007	24 Jul. 2007	1 for 1 at € 3.03 D stock option	€ 9,000	€ 195 480,598
		1 for 1 at € 10.59 E stock option		
2007	26 Sep. 2007	1 for 1 at € 3.03 D stock option	€ 39,032	€ 195 519,630
		1 for 1 at € 16.48 F stock option		
2007	19 Dec. 2007	1 for 1 at € 3.03 D stock option	€ 15,900	€ 195,535,530
		1 for 1 at € 10.59 E stock option		
2008	11 Feb. 2008	1 for 1 at € 3.03 D stock option	€ 210	€ 195,535 740
		1 for 1 at € 10.59 E stock option		
2008	28 Apr. 2008	1 for 1 at € 3.03 D stock option	€ 38,168	€ 195 573,908
		1 for 1 at € 2.00 D stock option		
		1 for 1 at € 8.99 E stock option		
2008	9 Jun. 2008	1 for 1 at € 2.00 D stock option	€ 42,200	€ 195,616,108
		1 for 1 at € 14.88 F stock option		
2008	28 Jul. 2008	1 for 1 at € 8.99 E stock option	€ 8,600	€ 195,624,708
2008	1 Oct. 2008	1 for 1 at € 8.99 E stock option	€ 4,000	€ 195,628,708
2008	27 Oct. 2008	1 for 1 at € 8.99 E stock option	€ 6,000	€ 195,634,708
2008	18 Dec. 2008	1 for 1 at € 8.99 E stock option	€ 7,500	€ 195,649,708

Prices and trading of Kesko A and B shares on the NASDAQ OMX Helsinki Stock Exchange in 2008

Share	Share price, € 31 Dec. 2007	Share price, € 31 Dec. 2008	Change,%	Lowest price, €	Highest price, €	Trading volume, 1,000 pcs	Total value traded, € thousand
A share	37.85	22.00	- 41.9	21.33	38.20	1,427	40,977
B share	37.72	17.80	- 52.8	15.31	38.12	121,109	2,859,234

During the year, the NASDAQ OMX Helsinki All Share Index dropped by 53.4% and the NASDAQ OMX HelsinkiCAP Index by 50.1%, while the Helsinki Stock Exchange Consumer Staples Index fell by 57.1%. Up-to-date information on shares and shareholders is available at www.kesko.fi.

10 largest shareholders by number of shares (A and B series) at 31.12.2008

	Number of shares, pcs	% of shares	Number of votes	% of votes
1 Kesko Pension Fund	4,438,885	4.54	35,388,850	9.23
2 The K-Retailers´ Association	3,348,433	3.42	33,116,680	8.64
3 Vähittäiskaupan Takaus Oy	2,802,533	2.86	26,459,330	6.90
4 Ilmarinen Mutual Pension Insurance Company	2,113,608	2.16	4,583,649	1.20
5 Valluga-sijoitus Oy	1,340,439	1.37	13,404,390	3.50
6 Varma Mutual Pension Insurance Company	1,310,986	1.34	1,310,986	0.34
7 Oy The English Tearoom Ab	1,008,400	1.03	1,008,400	0.26
8 The State Pension Fund	950,000	0.97	950,000	0.25
9 Foundation for Vocational Training in the Retail Trade	917,913	0.94	7,808,178	2.04
10 Tapiola Mutual Pension Insurance Company	674,500	0.69	674,500	0.18
10 largest, total	**18,905,697**	**19.32**	**124,704,963**	**32.54**

Ownership structure at 31.12.2008

All shares	Number of shares	% of all shares
Non-financial corporations and housing corporations	25,959,020	26.54
Financial and insurance corporations	6,325,086	6.47
General Government*	11,166,916	11.42
Households	28,725,937	29.36
Non-profit institutions serving households**	6,136,081	6.27
Rest of the world	602,227	0.62
Nominee registered	18,909,587	19.33
Total	**97,824,854**	**100.00**

A shares	Number of shares	% of A shares	% of all shares
Non-financial corporations and housing corporations	18,346,462	57.81	18.75
Financial and insurance corporations	1,380,444	4.35	1.41
General Government*	3,717,534	11.71	3.80
Households	6,648,273	20.95	6.80
Non-profit institutions serving households**	1,570,174	4.95	1.61
Rest of the world	4,615	0.01	0.00
Nominee registered	69,505	0.22	0.07
Total	**31,737,007**	**100.00**	**32.44**

B shares	Number of shares	% of B shares	% of all shares
Non-financial corporations and housing corporations	7,612,558	11.52	7.78
Financial and insurance corporations	4,944,642	7.48	5.05
General Government*	7,449,382	11.27	7.62
Households	22,077,664	33.41	22.57
Non-profit institutions serving households**	4,565,907	6.91	4.67
Rest of the world	597,612	0.90	0.61
Nominee registered	18,840,082	28.51	19.26
Total	**66,087,847**	**100.00**	**67.56**

* 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 31.12.2008

		Number of shares, pcs	% of shares	Number of votes	% of votes
1	Kesko Pension Fund	4,438,885	4.54	35,388,850	9.23
2	The K-Retailers´ Association	3,348,433	3.42	33,116,680	8.64
3	Vähittäiskaupan Takaus Oy	2,802,533	2.86	26,459,330	6.90
4	Valluga-sijoitus Oy	1,340,439	1.37	13,404,390	3.50
5	Foundation for Vocational Training in the Retail Trade	917,913	0.94	7,808,178	2.04
6	Ilmarinen Mutual Pension Insurance Company	2,113,608	2.16	4,583,649	1.20
7	Ruokacity Myyrmäki Oy	389,541	0.40	3,895,410	1.02
8	The K-Food Retailers´ Club	337,605	0.35	3,376,050	0.88
9	Heimo Välinen Oy	300,000	0.31	2,824,500	0.74
10	Svenska litteratursällskapet i Finland r.f.	329,000	0.34	2,129,000	0.56
10 largest, total		**16,317,957**	**16.69**	**132,986,037**	**34.71**

Distribution of share ownership at 31.12.2008

All shares **Number of shares**	**Number** **of shareholders**	**% of shareholders**	**Shares total**	**% of shares**
1–100	10,626	27.90	631,146	0.65
101–500	14,158	37.18	3,938,334	4.03
501–1,000	5,567	14.62	4,398,590	4.50
1,001–5,000	5,910	15.52	13,244,056	13.54
5,001–10,000	944	2.48	6,755,357	6.91
10,001–50,000	719	1.89	14,922,743	15.25
50,001–100,000	95	0.25	6,625,994	6.77
100,001–500,000	47	0.12	10,066,836	10.29
500,001–	14	0.04	37,241,798	38.07
Total	**38,080**	**100.00**	**97,824,854**	**100.00**

A shares **Number of shares**	**Number** **of shareholders**	**% of holders** **of A shares**	**A shares total**	**% of A shares**
1–100	1,475	24.44	74,605	0.24
101–500	1,254	20.78	338,466	1.07
501–1,000	913	15.13	782,534	2.47
1,001–5,000	1,596	26.45	3,949,939	12.45
5,001–10,000	401	6.65	2,851,593	8.99
10,001–50,000	343	5.68	7,285,258	22.96
50,001–100,000	35	0.58	2,487,290	7.84
100,001–500,000	12	0.20	2,486,297	7.83
500,001–	5	0.08	11,481,025	36.18
Total	**6,034**	**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	10,007	29.12	601,702	0.91
101–500	13,719	39.92	3,812,374	5.77
501–1,000	4,909	14.29	3,819,874	5.78
1,001–5,000	4,682	13.63	10,156,487	15.37
5,001–10,000	561	1.63	4,085,083	6.18
10,001–50,000	394	1.15	8,089,973	12.24
50,001–100,000	47	0.14	3,240,455	4.90
100,001–500,000	33	0.10	7,230,826	10.94
500,001–	10	0.03	25,051,073	37.91
Total	**34,362**	**100.00**	**66,087,847**	**100.00**

Share capital and shares

		2004	2005	2006	2007	2008
Share capital	€ million	188	193	195	196	196
Number of shares at 31 Dec.	1,000 pcs	93,840.5	96,483.9	97,519.9	97,767.8	97,824.9
Adjusted number of shares at 31 Dec.	1,000 pcs	93,840.5	96,483.9	97,519.9	97,767.8	97,824.9
Adjusted average number of shares during the year	1,000 pcs	93,134.9	97,215.5	98,027.0	98,395.3	98,256.2
of which A shares	%	34	33	32	32	32
of which B shares	%	66	67	68	68	68
Market capitalisation, A shares	€ million	600	768	1,220	1,201	698
Market capitalisation, B shares	€ million	1,115	1,551	2,632	2,491	1,176
Number of shareholders at 31 Dec.	pcs	29,801	29,339	28,414	28,925	38,080
Share turnover						
A share	€ million	23	29	61	161	41
B share	€ million	1,368	1,383	2,410	5,294	2,859
Share turnover						
A share	million pcs	1	1	2	4	1
B share	million pcs	83	66	77	122	121
Turnover rate						
A share	%	3.8	4.1	6.4	11.5	4.5
B share	%	133.6	101.5	117.1	185.3	183.3
Change in share turnover						
A share	%	-3.5	7.6	57.2	78.8	-61.0
B share	%	158.5	-24.0	15.4	58.8	-1.0
Share price at 31 Dec.						
A share	€	18.90	24.19	38.43	37.85	22.00
B share	€	17.95	23.95	40.02	37.72	17.80
Average share price						
A share	€	19.12	21.93	30.10	43.85	28.30
B share	€	16.49	21.04	31.34	43.36	23.51
Highest share price during the year						
A share	€	21.50	24.60	38.99	53.44	38.20
B share	€	18.27	24.44	40.48	54.85	38.12
Lowest share price during the year						
A share	€	15.70	18.61	23.72	34.52	21.33
B share	€	13.58	17.80	23.80	34.40	15.31
Earnings per share, diluted	€	1.89	1.87	3.76	2.90	2.24
Earnings per share,basic	€	1.92	1.89	3.80	2.92	2.25
Equity per share, diluted	€	14.73	15.35	17.94	19.53	20.09
Dividend per share	€	1.00	1.10	1.50	1.60	1.00*
Payout ratio	%	52.9	58.8	39.9	55.2	44.7*
Cash flow from operating activities per share, diluted	€	2.29	3.07	3.35	2.52	1.37
Price per earnings ratio (P/E), A share, diluted		10.12	11.86	10.22	13.07	9.84
Price per earnings ratio (P/E), B share, diluted		9.50	11.74	10.64	13.02	7.96
Dividend yield, A share	%	5.3	4.6	3.9	4.2	4.6*
Dividend yield, B share	%	5.6	4.6	3.8	4.2	5.6*
Effective dividend yield of A share	%	15.7	15.4	29.3	26.6	10.9
Effective dividend yield of B share						
for the last five periods	%	19.8	29.2	42.8	36.1	12.9
for the last ten periods	%	14.9	18.6	22.7	18.7	11.7

* Proposal to the Annual General Meeting

Information for shareholders

Financial reporting calendar and key dates in 2009

Year 2008 financial statements release	5 February 2009
Year 2008 Annual Report and audited financial statements	Week 11
Year 2009 Annual General Meeting	30 March 2009
Interim financial report for the first 3 months of the year	28 April 2009
Interim financial report for the first 6 months of the year	24 July 2009
Interim financial report for the first 9 months of the year	22 October 2009

In addition, the Kesko Group's sales figures are published monthly and the K-Group's retail sales figures are published in connection with the 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), Helsinki, on 30 March 2009 at 13.00.

All shareholders entered in the register of Kesko Corporation shareholders kept by Euroclear Finland Ltd on 20 March 2009 (Annual General Meeting record date) are entitled to attend the Annual General Meeting.

Shareholders wishing to attend the meeting should notify, not later than 23 March 2009 at 16.00, to Kesko Corporation/Legal Affairs, FI-00016 Kesko, by fax to +358 1053 23421, by telephone to +358 1053 23211, by e-mail to taina.hohtari@kesko.fi, or through the Internet 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" on pages 58–65.

The resolutions 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 €1.00 per share be paid for 2008. The dividend will be paid to all shareholders entered in the register of Kesko Corporation shareholders kept by Euroclear Finland Ltd on 2 April 2009 (record date for the 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 30 March 2009. Dividends of the 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 9 April 2009.

Financial publications

Kesko publishes its Annual Report as a printed publication in Finnish, Swedish and English. The company maintains a mailing list of persons to whom the Annual Report is sent. Those who wish to be included on the mailing list may fill in the form on the Internet pages www.kesko.fi/Material.

The financial statements release, the three interim financial reports, monthly sales figures and other key releases are published on the Internet pages at www.kesko.fi/Media.

Kesko publishes a Corporate Responsibility Report as a printed publication in Finnish and English.

Publications may be ordered from

Kesko Corporation/Corporate Communications and Responsibility
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Changes of address

Shareholders should notify changes of address to the bank, brokerage firms 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 its business 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 to consumers and other customers, whose impressions and behaviour ultimately decide Kesko's success.

Investor communications

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 financial statements release and three interim financial reports are available on Kesko's Internet pages. The company maintains a mailing list of persons to whom the Annual Report is sent. Those who wish to be included on the mailing list may fill in the form on the Internet at www.kesko.fi/Material. Kesko's stock exchange and press releases sent by e-mail can be ordered through the material service on the Internet pages www.kesko.fi/Material.

Kesko arranges press conferences for analysts and the media at the time of publishing financial statements 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 its results releases. 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.

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Kesko Corporation's Board of Directors and Corporate Management Board are presented on pages 66–67 and 68–69.

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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 World-Wide Retail Exchange. The WWRE is a business-to-business web marketplace.

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 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 m^2. 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).

K-Group consists of the K-retailers, the K-Retailers' Association and the 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 1,305– 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, as a rule, calculated as a percentage of the retailer's gross profit or net sales.

Strategy is a comprehensive plan of the means the organisation intends to use in order to achieve its visions and goals.

Supermarket is a grocery store that focuses on food sales and works on a self-service principle. Its sales area is at least 400 m^2, with food accounting for over half of the total sales area.

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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