KESKO

Kesko's year 2007


Milla
liked Kodin Ykkönen
because of
Plussa
offers
sensible
prices
moving
to study
interior decoration
trends

Contents

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 of store site network
- International retail expertise
- Generating sourcing, logistics and support services for cooperation partners
- Combining retailer entrepreneurship and chain operations efficiently
- Leveraging centralised resources and economies of scale

Divisions

Kesko Food | Page 10
Kesko Food's retail chains in Finland are K-citymarket, K-supermarket, K-market and K-extra. Kesko Food manages K-food store chains and combines their purchasing power, arranges efficient logistics, acquires store sites and guarantees strong marketing and development support for K-food stores. K-food retailers are responsible for delivering the customer promise in their K-stores. All K-food stores in Finland are run by K-retailer entrepreneurs. Kesko Food's subsidiary Kespro Ltd offers delivery sales and wholesale services to HoReCa customers.

Rautakesko | Page 16
Rautakesko is engaged in the building and home improvement trade through the K-rauta, Rautia, Byggmakker and Senukai retail chains. Rautakesko operates in Finland, Sweden, Norway, the Baltic countries, Russia and Belarus. It manages and develops its retail chains and B-to-B Service sales in its operating area. Rautakesko is responsible for the chains' concepts, marketing, sourcing and logistics services, store network and retailer resources. Working in cooperation with its customers, Rautakesko enhances living and aims to be the leading service provider in the building and home improvement trade in its operating area.

VV-Auto | Page 21
VV-Auto imports Volkswagen, Audi and Seat passenger cars and Volkswagen commercial vehicles. VV-Auto is also engaged in car retailing and provides after-sales services.

Anttila | Page 24
Anttila is the leading home and speciality goods retailer in Finland. Anttila serves its customers with two department store concepts – the Anttila department stores and the Kodin Ykkönen department stores for interior decoration and home goods – and with the NetAnttila concept focused on distance sales. NetAnttila provides products and services in Finland, Estonia and Latvia. Anttila's customers value, above all, diversified, up-to-date and low-priced selections, and good service.

Kesko Agro | Page 27
Kesko Agro operates the K-maatalous and Kesko Agro chains. The company purchases and sells animal feed, chemicals and machinery to agricultural entrepreneurs and trades in grain. Kesko Agro is active in Finland and in all the Baltic countries.

Other operating activities | Page 31
Konekesko is a service company specialised in the import and sale of earthwork and environmental machinery, trucks and buses, and recreational machinery. Konekesko also sells forest machinery in the Baltic countries, arranges the manufacture of and sells Yamarin boats manufactured in Finland and exports them to other European countries, including Russia.

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

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

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

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

Tähti Optikko is a chain of optical stores in Finland.

Kauko-Telko specialises in international technical trading in the Nordic countries, the Baltic countries, Poland, China and Russia.


having been to K-citymarket
the Aaltonen's
recipe for choice was
the best
offers
the broadest
selection
all
under the
same roof
competitive prices

Year 2007 in brief

Kesko continued its strong performance in 2007

- Retail sales of the K-Group increased by 9.7% to €11,575.6 million (incl. VAT).
- The Kesko Group's net sales increased by 9.0% to €9,534 million.
- Net sales in Finland increased by 6.0% to €7,357 million.
- Net sales outside Finland grew by 20.4% to €2,177 million, accounting for 22.8% of the total net sales.
- Operating profit excluding non-recurring items increased by €45.3 million to €325.1 million.
- Kesko Food's sales grew by 7.7%.
- Rautakesko's strong internationalisation continued.
- Earnings per share were €2.61 (€2.45).
- The market capitalisation of the company was €3,692 million (€3,852 million) at the end of the year.
- A dividend of €1.50 per share was distributed for the year 2006. The Board of Directors proposes to the Annual General Meeting that €1.60 per share be distributed as a dividend for 2007.

Sales and profit increased considerably

Kesko's sales and profit continued to increase considerably in 2007. The strong development of operating profit excluding non-recurring items continued for the sixth successive year. Kesko Food and Rautakesko increased their profit most. Particularly encouraging was the growth in the sales of K-food stores. Rautakesko continued its successful expansion and achieved strong growth particularly in international operations.

Investments in new store sites and the renovation of existing ones were are at a high level in Finland. 27 new K-food stores were opened, and several stores were refurbished or expanded. Investments in the building and home improvement sector mainly focused on the development of the international network, but stores were opened and improved in Finland, too. Out of the 16 new building and home improvement stores opened during the year, eleven were outside Finland. The eighth K-rauta outlet in St. Petersburg was opened in December. Major investments in store sites will continue over the next few years.

Corporate strategy was specified

In spring, the Board of Directors revised the company's financial targets and specified the strategy. Due to the expanding international operations and outlook for business development, objectives for return on equity and invested capital were raised. The company is preparing for sizable store site investments in the next few years in all the countries where it operates. Strategic emphases include healthy, focused growth, the focus on sales and services to consumer-customers, and responsible and cost-efficient operations.

K-Plussa is undergoing a reform

Kesko and the K-retailers started a thorough reform of the K-Plussa customer loyalty programme. The choice of cards became more diversified and the benefits for loyal customers increased. The new K-Plussa combination card can be used as a means of payment both at home and abroad. The popularity of the new cards exceeded expectations: their total number has already exceeded 400,000.

Pirkka magazine revamped

The content and appearance of Pirkka, the K-Group's customer loyalty magazine, were changed. The first new-look Pirkka magazine was published in February and was well received by readers. According to the survey published by the National Media Research KMT in September, Pirkka has increased its readership by 60,000 to over 2.5 million readers and is the most widely read magazine in Finland.

Recognition for responsible operating practices

Kesko continues to be one of the top companies in the world judged by sustainability indicators and was again included among 'The Global 100 Most Sustainable Corporations' list published by the World Economic Forum. Furthermore, Kesko was listed for the fifth time in the Dow Jones sustainability index. In the review for 2007, Kesko's environmental performance was evaluated to be the best in the retailing sector.

Actions promoting a healthier way of life

Kesko started a campaign to promote children's and adolescents' physical activity in cooperation with the Young Finland Association. Kesko promised to donate 0.25 cents to support children's and adolescents' healthy way of life every time a customer uses a K-Plussa card in a K-Group store. The total sum raised was about €500,000.

Market capitalisation

The company's market capitalisation was €3.7 billion, showing a decrease of about €150 million compared with the end of 2006. The proportion of foreign owners of the B shares was about 50% at end of the year.

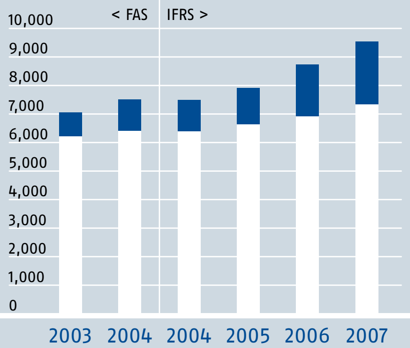
Financial highlights for 2007

Key indicators for 2007

		2007	2006	Change, %
Net sales*	€ million	**9,534**	8,749	9.0
Operating profit*	€ million	**332**	363	-8.5
Operating profit excl. non-recurring items*	€ million	**325**	280	16.1
Profit before tax*	€ million	**369**	358	3.2
Investments*	€ million	**234**	251	-6.6
Cash flow from operating activities	€ million	**248**	328	-24.3
Personnel (average)		**21,176**	23,767	-10.9
Dividend per share**	€	**1.60**	1.50	6.7
Earnings per share, diluted	€	**2.90**	3.76	-22.9
Earnings per share, diluted*	€	**2.61**	2.45	6.6
Equity per share, diluted	€	**19.53**	17.94	8.8
				% points
Return on invested capital	%	**17.4**	22.6	-5.2
Return on equity	%	**16.4**	23.1	-6.7
Equity ratio	%	**48.5**	47.0	1.5
Gearing	%	**14.0**	11.9	2.0

* continuing operations **proposal to the Annual General Meeting

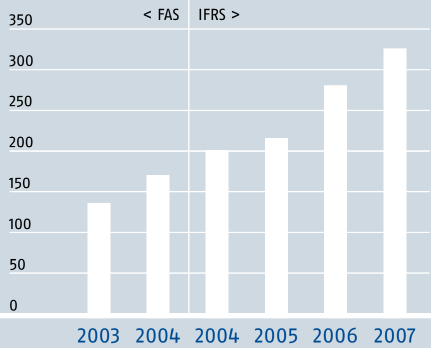
Group's net sales*, € million



FINLAND OTHER COUNTRIES

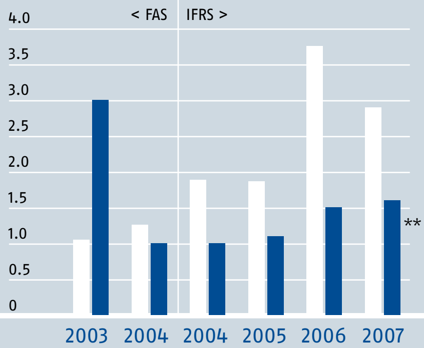
* continuing operations

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



* continuing operations

Earnings per share and dividend per share, €



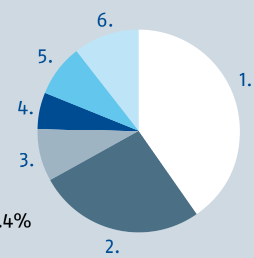
EARNINGS PER SHARE, DILUTED DIVIDEND PER SHARE

** proposal to the Annual General Meeting

Net sales 2007*

1. Kesko Food 40.5%
2. Rautakesko 26.5%
3. VV-Auto 8.4%
4. Anttila 5.9%
5. Kesko Agro 8.3%
6. Other operating activities 10.4%

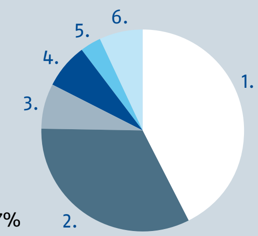
* continuing operations



Operating profit excl. non-recurring items 2007*

1. Kesko Food 42.6%
2. Rautakesko 32.7%
3. VV-Auto 7.3%
4. Anttila 7.1%
5. Kesko Agro 3.5%
6. Other operating activities 67%

* continuing operations



Review by the President and CEO

Increasing Kesko's shareholder value requires healthy growth in sales and profit. The K-Group stores offer the best quality, the most comprehensive selections and the best service at competitive prices. Kesko and the K-retailers daily serve about one million customers in nearly 2,000 stores. We want to exceed our customers' expectations every day.

The Kesko Group's nine per cent sales increase in 2007 and our record profit level show that the strategy we have chosen is soundly based and that its implementation is progressing well.

Measured by retail sales, the K-Group is Finland's biggest trading sector company whose main businesses are the food trade and the building and home improvement trade. In 2007, we strengthened our position both domestically and internationally.

The retail sales of our building and home improvement stores increased significantly in 2007, especially in Russia and the Baltic countries. The profitable growth recorded particularly in foreign operations encourages us to expand in Russia and our other countries of operation, and to commence the building and home improvement trade in new countries.

Kesko Food's positive sales and profit performance continued in 2007. The K-retailers' professional skills and commitment to common objectives provided a strong foundation for efficient cooperation and improved competitiveness. Investments in the retail store network will rapidly increase sales in the coming years. Kesko Food is continuing to actively seek opportunities to expand operations to Russia and the Baltic countries.

The main factor behind Kesko's record result was that almost every profit centre of the Group improved their profits or were able to maintain them at a high level. The biggest improvements were recorded by Kesko Food and Rautakesko.

The Group strategy emphasizes healthy focused growth, sales to consumer-customers, and services, combined with responsible and cost-efficient business models. Kesko has dozens of successful product and chain brands. In order to strengthen the position of our brands we introduced an extensive brand strategy initiative. This was complemented by the establishment of a steering group chaired by the President and CEO and composed of Kesko staff representatives and external members.

Customer loyalty is becoming increasingly important. Through our customer loyalty programmes and various forms of customer communication, we strengthen our service capability and customer satisfaction. We initiated a reform of the K-Plussa customer loyalty programme and an online customer communications project. The new K-Plussa card gives our customers more benefits than before and access to a combination of payment features. The reformed Pirkka magazine was positively received by our customers.

Efficient use of modern information technology, increasing store sizes, labour shortages and soaring costs require that we constantly develop our operating processes. The objective of the work and productivity programme we launched in the Kesko Group and the K-stores is to significantly improve our service and price competitiveness.

Customers expect companies to operate in an increasingly responsible way. Kesko's long-term responsibility work once again received world-wide recognition last year. For the third year in succession, we were included in The Global 100 Most Sustainable Corporations list. In 2008, we intend to announce an extensive environmental, economic and social responsibility programme.

Important development projects include a continuous strengthening of the price competitiveness of each chain, and the expansion of store services and selections. To improve customer satisfaction, we will invest heavily in new stores and the improvement of existing stores. During the next three years, we will open nearly two hundred new stores both in Finland and the other countries.

A service package that exceeds customers' expectations is only achieved by the work of a skilled and competent staff. Kesko and the K-stores employ some 50,000 retail professionals. Maintaining and developing their competencies are important success factors. During the year, some 20,000 trading sector professionals participated in training programmes at the K-instituutti.

The year 2007 was, once again, a busy one. I wish to extend my warmest thanks to all Kesko employees for their diligence and commitment to our common objectives. I would also like to thank our shareholders, the K-retailers and their staff, and all our partners for their trust and successful cooperation during 2007.

Helsinki, 7 February 2008

Matti Halmesmäki
President and CEO

Matti Halmesmäki

Operating environment

Trends in the trading sector

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

Market areas

Kesko's main operating areas are Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Northwestern Russia and Belarus.

Strong growth, about 4.0%, continued in the Finnish economy in 2007. However, growth slowed down towards the end of the year. Private consumption continued to grow briskly, by some 3.7%, but consumer confidence in the economy dropped during the latter half of the year. The Finnish economic growth is expected to slow down to some 2.6% in 2008, mainly due to a decline in export demand. Private consumption is estimated to increase by around 3.0% and investments by about 3.6%. Consumer prices are expected to rise by 2.7%. Housing production is expected to decline in 2008.

The Swedish economy is expected to grow by 2.1% and private consumption by 2.7% in 2008. Consumer prices are expected to rise by 3.2%.

The Norwegian economy is estimated to grow by 2.9% and private consumption by 3.0% in 2008. Consumer prices are expected to rise by about 3.3%.

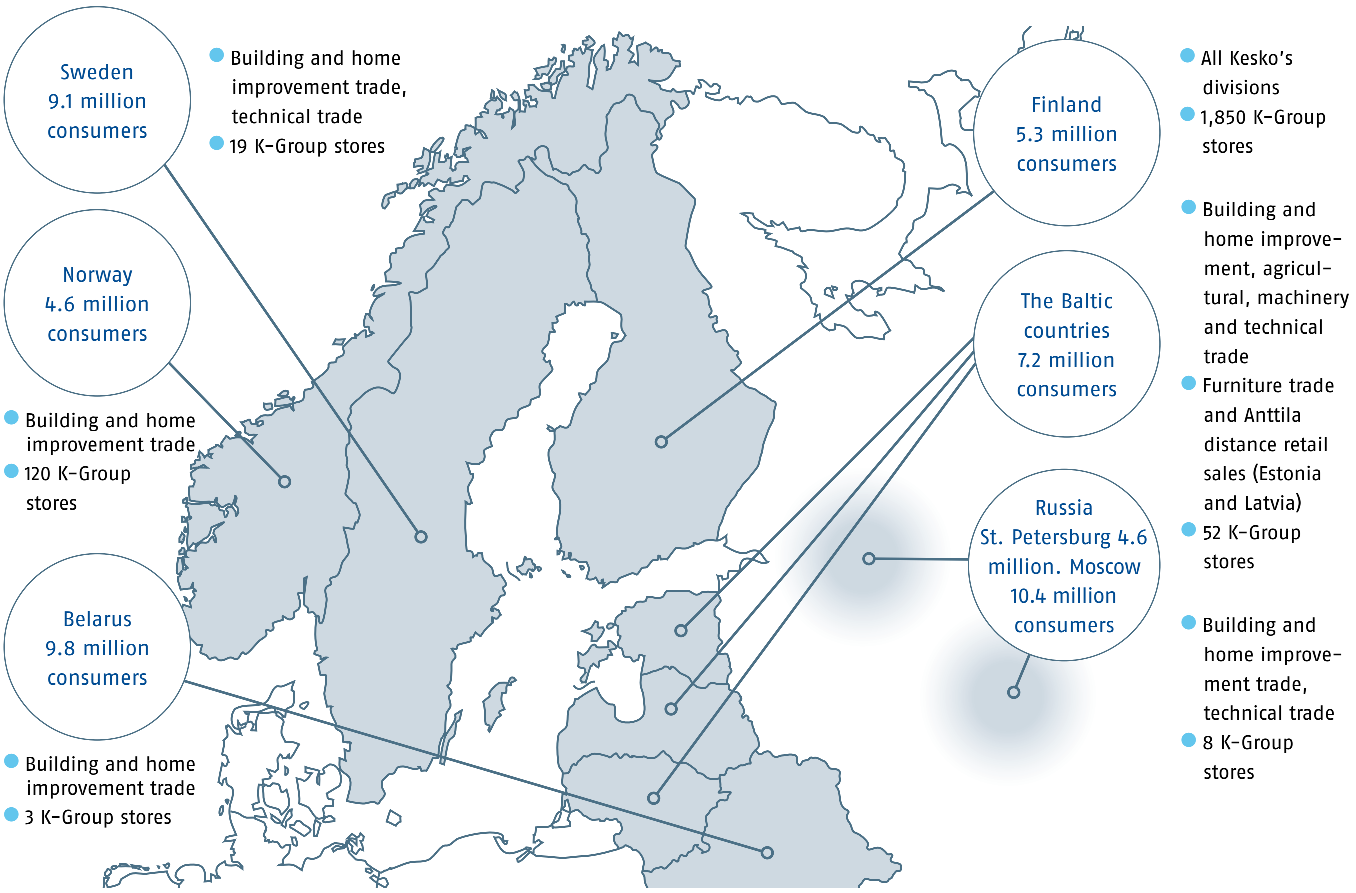
The growth of the Estonian economy is expected to slow down in 2008 and remain at about 4.0%. Private consumption is estimated to grow by about 6.0%. Consumer prices are expected to rise by 7.9%.

The Latvian economy is expected to grow by 5.6% in 2008. Private consumption is anticipated to slow down slightly and remain at around 7.0%. Consumer prices are expected to rise by 12.0%.

The Lithuanian economy is expected to grow by 7.4% in 2008. Private consumption is anticipated to continue growing with a rate of around 14.0%. Consumer prices will rise by about 7.0%.

In Russia, growth in private consumption varies strongly from one region to another; the average growth rate is estimated to be about 7.0% in 2008. Private consumption is anticipated to grow by 10.0% and investments by 21.0%. Consumer prices are expected to rise by 12.0%.

Trends in the market areas of each division are discussed in division-specific presentations.



Sources: Nordea and Statistics Finland

Competitive environment

The market shares for 2007 are specified by division and market area.

The market shares are Kesko's own estimates of the retail trade for 2007, unless another source is given. Markets and market shares always depend on definitions. They depend on the definitions of product lines and geographical market areas, for example, and on the data available. The market share estimates presented on this page and elsewhere in the report are based on the best sources and research available.

Food trade

Finland, market share 33.8%
Competitors: S Group, Tradeka, Lidl
HoReCa
Finland, Kespro's sales have grown at the rate of the market growth
Competitors: Meiranova, Heinon Tukku, Wihuri Metro

Building and home improvement trade

Finland, market share 36%
Competitors: Starkki, Puukeskus, S Group, Bauhaus
Sweden, market share 4.5%
Competitors: Bauhaus, Byggmax, DT Group, and local speciality stores
Norway, market share 18%
Competitors: Monter/Optimera (Saint Gobain), Maxbo, COOP
Estonia, market share 17%
Competitors: Ehitus ABC, Bauhof and Espak
Latvia, market share 16%
Competitors: Depo DIY, Tapeks/Aile and Kursi
Lithuania, market share 25%
Competitors: local building supplies and speciality stores
Russia, St. Petersburg, market share 15%
Competitors in St. Petersburg area: Maxidom, Metrica, OBI, Castorama, Leroy Merlin (2008)

Car trade

Finland
Volkswagen cars, market share 10.2%
Audi cars, market share 3.3%
Volkswagen vans, market share 18.0%

Department store trade

Anttila, K-citymarket home and speciality goods, Kodin Ykkönen
The market share cannot be calculated.
Competitors: department stores, hypermarkets, speciality stores and online stores

Agricultural trade

Finland, market share 35%
Competitor: S Group (the Agrimarket chain of Hankkija-Maatalous)
Tractor trade: Valtra and Agritek
Estonia, market share 25%
Competitors:
Agricultural supplies: Kemira GrowHow and Farm Plant
Agricultural machinery: Stokker, Tatoli, Agriland and Taure
Animal husbandry machinery: De Laval
Latvia, market share 26%
Competitors:
Agricultural supplies: Kemira GrowHow and Latagra
Agricultural machinery: Stokker, BFSC and Preiss
Animal husbandry machinery: De Laval
Lithuania, market share 11%
Competitors:
Agricultural supplies: Kemira GrowHow, Agrokoncernas and Litagra
Agricultural machinery: Olsen Baltic, Lytagra, Rovaltra and Dotnuvos projektai
Animal husbandry machinery: De Laval

Machinery trade

Finland, market share: Konekesko 6–34% depending on product group
Competitors: Otto Brandt, Marine Power (Brunsvik), Suzuki Finland, SGN Group, Vator, Volvo CE Finland Oy (Rolac), Witraktor (Caterpillar), Rotator, Suomen Rakennuskone, Volvo, Scania, Veho, Sisu-Auto
Estonia, market share 10%
Competitors: Intrac, Ladur, Komatsu, Witractor, Swecon, Balti Technica
Latvia, market share 15%
Competitors: Intrac, Ladur, Komatsu, Witractor, Swecon
Lithuania, market share 10%
Competitors: Intrac, Ladur, Komatsu, Witractor, Swecon

Speciality goods trade

Furniture trade

Finland, market share: Asko and Sotka 17%
Competitors: Furniture and interior decoration stores

Sports trade

Market share: Intersport, Budget Sport and Kesport 33%
Competitors: Sportia, Top Sport, Stadium, department stores and hypermarkets, and other speciality sports stores

Home technology trade

Market share: Musta Pörssi 9.5%
Competitors: speciality home technology stores, hypermarkets and online stores

Shoe trade

Market share: K-kenkä, Andiamo, Kenkäexpertti 11%
Competitors: other speciality stores, department stores, hypermarkets and sports stores

Optical trade

Market share: Tähti Optikko 16%
Competitors: Instrumentarium and Silmäasema

Divisions

Kesko Food

Kesko Food's retail chains are K-citymarket, K-supermarket, K-market and K-extra. The K-food stores offer the highest quality and most comprehensive product selections on the market combined with the best service at competitive prices.

K-food stores are visited by nearly 820,000 customers every day. In 2007 the total number of customer visits reached 300 million. From the viewpoint of success, every customer visit is decisive.

The operations of Kesko Food and its chains always aim to provide customers with a successful shopping experience. This is ensured by the highest quality and most comprehensive product selections on the market combined with the best service, competitive prices and by taking customers' wishes into account.

The K-retailer entrepreneur is responsible for his or her store's customer satisfaction, personnel, and profitability of business. Good service, competence and knowledge of local circumstances provide competitive edge. Kesko Food provides K-retailers with strong support for price competition, building selections, marketing and service. These are supported by efficient international sourcing, acquisitions of store sites, advanced logistical solutions and diverse research and training.

Kesko Food's subsidiary Kespro Ltd offers delivery and wholesale services for business customers. Kespro Ltd is the leading wholesaler in the HoReCa business in Finland. Its customers include hotels, restaurants, catering companies, service station stores, kiosks, bakeries, the manufacturing industry and distributors. Kespro serves its customers on a comprehensive basis and offers the best sourcing solutions.

Over 1,000 K-food stores for different customer needs

The K-food store concepts cater for various consumer needs from daily local services to hypermarkets where customers may shop for the needs of the whole week.

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

K-citymarkets are hypermarkets, which offer their customers diversified and wide selections of food, non-food, and home and speciality goods. The low price level and the best selections of K-citymarkets strengthen the customer promise which is "Good shopping. And a whole lot more." There are 56 K-citymarkets in Finland in 43 towns.

K-supermarkets are food stores and their customer promise is "A better than average food store". Competitive advantages include food expertise as well as wide and diversified selections of fresh products. K-supermarkets have a total of over 160 employees with specialist qualification for foods managers. These meat and fish experts give customers cooking advice. The chain consists of 158 stores.

K-markets are high-quality and reliable food stores 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. K-market retailers and their staff ensure friendly service. Many service stations also have a K-market on their premises. The customer promise is "The retailer takes care of it". There are 453 K-markets.

K-extras are neighbourhood stores in which customers can find daily essentials and which focus on personal service. Additionally, as the name implies, many K-extras located in the countryside offer extra services, such as the sale of agricultural and builders' supplies, fuel distribution, lottery and postal services. The customer promise of the K-extra chain is "Good service for you". There are 223 K-extras.

The best food ideas and solutions at low prices

K-food stores provide their customers with the best food ideas and solutions at low prices. Kesko Food's strategy focuses on:

- individual service and approach for each customer
- chain concepts that comply with the customer structure
- competitive price level
- strong store network
- active renewing, learning and management
- the basis is customer information and improved use of it in all activities

The individual service and approach refer to the chain and store-specific wide selections and customer programmes. The wide selections also comprise high-quality Pirkka products. Each customer is given a reply to the question "What are we having today?".

K-food retailers and their staff are responsible for taking customers' wishes into account. In addition to the chain-specific selection, the stores also sell local suppliers' products and local food.


Nina's and Roni's
shopping in K-market
was influenced by
a desire
to try new things
a helpful
retailer
the K-RuokaPirkka
recipe
the good feeling
in the store

Reliable quality

Quality assurance of Pirkka products is made by the in-house Product Research Unit and the K-test kitchen, which give their approval to all own brands and also develop and test all the recipes to be published. In 2007 the Product Research Unit tested some 9,200 samples and developed about 650 recipes. Kesko Food's Product Research Unit also has a special Consumer Service Unit, the duties of which include answering phone calls and email messages concerning Pirkka products. In 2007 the Consumer Service Unit received 20,300 contacts.

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.

The right to know what you are eating – Pirkka

The Pirkka product range, which has been part of Finnish consumers' life for over 20 years, is an important competitive asset for K-food stores. There are over 1,600 Pirkka products, and new ones are continuously being developed. The sales of Pirkka products grew by 16.7% in 2007.

The theme of Pirkka products is "The right to know what you are eating". This is manifested in product safety and uniform quality. The selection is diversified and meets the demands set by various eating habits.

Recipes created around Pirkka products are published in the K-Group's customer loyalty magazine Pirkka and the largest Finnish online cookery book Pirkka.fi. The recipes are also presented in the K-RuokaPirkka leaflet that is published weekly and available in all K-food stores and on the TV programme "What are we having today?". These recipes form an essential part of the affordable food solutions and services offered to customers.

The concepts based on the customer structure are founded on the strengths shared by all chains, their customer structure and the local market situation. K-food retailers are responsible for delivering chain-specific customer promises and taking local customer needs into account.

A competitive price level is a prerequisite for growth and customer satisfaction. Price competitiveness is strengthened by efficient practices all the way from customer to supplier, cooperation between chains and long-term cooperation models with selected partners.

Systematic building of selections, logistics and purchasing create a basis for efficient business operations. Domestic purchasing volumes and the international sourcing cooperation (AMS) generate considerable price benefits.

A strong store network is important for growth. Development of store sites and the store network will be strong. During the next three years Kesko Food will open 20 new K-citymarkets, 50 new K-supermarkets and 40 new K-markets.

Active renewal, learning and management. The best retailer expertise is maintained and increased by ongoing training. The K-instituutti training centre arranges training for Kesko Food people, retailers and store staff and for key stakeholder groups. A strong pioneering position requires adopting new technologies.

In June, Kesko Food received an award for efficient use of GIS technology. The international prize, which is presented annually, was awarded by ESRI (Environmental Systems Research Institute, Inc.).

Customer information and its better use in all operation is based on the customer and product group level information produced by K-Plus Oy. In addition, customer behaviour and market prices, for example, are studied. Key customer programmes are built on the basis of customer information.

Kesko Food

K-Group's food stores

	Number	Number	Sales*, € million	Sales*, € million
	2007	2006	**2007**	2006
K-citymarket	**56**	54	**1,808**	1,700
K-supermarket	**158**	152	**1,478**	1,360
K-market	**453**	428	**1,349**	1,227
Other K-food stores and mobile stores	**403**	437	**410**	413
Finland total	**1,070**	1,071	**5,046**	4,699
Food stores total	**1,070**	1,071	**5,046**	4,699

* (incl. VAT)

Kesko Food financial highlights, continuing operations

		2007	2006
Net sales	€ million	**3,871**	3,615
Operating profit	€ million	**151.3**	173.2
Operating profit as % of net sales	%	**3.9**	4.8
Operating profit excl. non-recurring items	€ million	**151.4**	128.6
Operating profit as % of net sales excl. non-recurring items	%	**3.9**	3.6
Depreciation	€ million	**60.1**	64.9
Investments	€ million	**117.6**	82.2
Return on net assets excl. non-recurring items*	%	**18.4**	14.0
Personnel average		**5,964**	6,171

* Cumulative average

Net sales 2007, continuing operations

	€ million	change, %
K-citymarket	1,221	7.9
K-supermarket	887	10.4
K-market and K-extra	915	6.4
Kespro Ltd	669	2.6
Others and intra-division	179	7.1
Kesko Food total	3,871	7.1

Net assets at 31 December, € million

	2007	2006
Non-current assets	**906**	854
Inventories	**170**	170
Short-term receivables	**308**	271
./. Non-interest-bearing debt	**-527**	-494
./. Provisions	**-7**	-7
Net assets*	**850**	794

* net assets at the end of month


Appelsiini
Navelinas
the things that brought
Venla
to K-supermarket were
freshness
the delicious food
feeling
good
the best
selection

Health-promoting and responsible services and products

Health and responsibility are increasingly important for Finnish consumers. Kesko Food makes healthy choices easier and actively develops responsible operating practices, products and services.

In February, a new cooperation agreement was signed with the Association for Promoting Fairtrade in Finland and new Pirkka Fairtrade products have been introduced to the market as a result. In April we launched UTZ-certified Pirkka Costa Rica, which made K-food stores the Finnish market leader in the sales of responsibly produced coffee. UTZ CERTIFIED is one the world's largest certifier of responsibly produced coffee.

GDA labels were introduced to Pirkka products in September. The GDA (guideline daily amounts) label provides information on how much of each nutrient one serving of the product contains out of the daily requirement. Kesko Food is a pioneer in the introduction of voluntary labelling in Finland.

An agreement was signed on launching the Nutritioncode service, which had been piloted in some K-supermarkets for about a year, to all K-food stores for the use of Plussa customers. The Nutritioncode service is free of charge and will be introduced during 2008. It provides an easy way to monitor and develop the quality of family nutrition.

Pirkka 100% biodegradable shopping bags and Pirkka non-disposable bags as an alternative for plastic bags were introduced to K-food store checkouts in autumn 2007.

The aim of these concrete actions is to support customers' health-promoting and responsible choices.

Market

The Finnish grocery retail market (market definition according to the store register) totalled about €13 billion in 2007. The price trend in basic groceries remained moderate, but accelerated towards the end of the year.

The estimated market share of the K-food stores is 33.8% (Kesko Food's own estimate). K-food stores' main competitors are the S Group, Tradeka and Lidl.

Purchases in the Finnish HoReCa market totalled slightly less than €2.4 billion in 2007. Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the Finnish HoReCa business. Kespro's main competitors are Meiranova, Heinon Tukku and Metrotukku.

Year 2007

Kesko Food's net sales totalled €3,871 million in 2007. The growth in net sales was good, 7.1%. Kesko Food's operating profit excluding non-recurring items was €151.4 million, which exceeded the figure for 2006 by €22.8 million. The retail sales of K-food store chains totalled €5,046 million in 2007, an increase of 7.4% over the previous year.

It is estimated that the total grocery market in Finland has grown in January-December 2007 by approximately 5% over the previous year (own estimate) and the average monthly price increase was about 2% (Statistics Finland).

During the year, one new K-citymarket, five K-supermarkets, and several K-markets and K-extras were established. One K-supermarket was extended into a K-citymarket. A total of 27 K-food stores were opened. Several renovations were also carried out.

In 2007 Kesko Food looked into opportunities to dispose of Kespro Ltd and its sourcing operations. Accounts and assessments proved that the price would have remained low considering the sales and profit expectations of Kespro. Therefore a decision was made to continue developing Kespro as an independent subsidiary of Kesko Food.

Objectives and outlook

The implementation of Kesko Food's strategy aims at growth faster than market, increased customer satisfaction and competitiveness.

Kesko Food's opportunities for internationalisation will also be actively surveyed.

Kesko Food's net sales are expected to grow in 2008. Owing to major investments in store sites and information systems, Kesko Food's operating profit excluding non-recurring items in 2008 is expected to match the level of 2007.

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 and Senukai as well as its B-to-B sales. Rautakesko is responsible for the chains' concepts, marketing, sourcing and logistics services, store network and retailer resources. Working in cooperation with its customers, Rautakesko enhances living and aims to be the leading service provider in the building and home improvement trade in its operating area.

Market

Rautakesko's retail store chains K-rauta, Rautia, Byggmakker and Senukai serve both consumer and professional customers. Consumer customers mainly comprise home builders, renovators and interior decorators. Professional customers include construction companies, manufacturers of prefabricated houses and public institutions.

The total retail market of this sector in Rautakesko's operating area is about €17 billion. Home building and improvement markets are becoming concentrated and international retail chains are establishing stores in the largest cities. The market is growing strongly in Russia and the Baltic countries, whereas growth in the established Nordic market is more moderate. Retail sales of Rautakesko's chains totalled €3,588.2 million (incl. VAT) in 2007.

Finland

The Finnish retail market in the building and home improvement sector totals some €4.0 billion. It increased by approximately 11.7% in 2007 (Finnish Hardware Association, DIY). The K-Group's market share in this sector was about 36% (own estimate).

In Finland, Rautakesko operates the K-rauta and Rautia retail chains and Rautakesko B-to-B Service for construction companies, the manufacturing industry and other professional customers. The K-rauta chain consists of 41 stores, about 70% of whose customers are consumers. The Rautia chain consists of 104 stores, of which 45 also operate as K-maatalous stores engaged in the agricultural trade. In the sales structure of Rautia, the emphasis is on basic building products. All Finnish K-rauta and Rautia stores are run by retailer entrepreneurs.

The combined sales of the K-rauta and Rautia chains, Rautakesko B-to-B Service and K-customer agreement stores in Finland were €1,575.3 million (incl. VAT). Principal competitors in Finland are Starkki, Puukeskus, the S Group and Bauhaus.

Sweden

The Swedish building and home improvement market totals some €4.3 billion, an increase of 10% in 2007 (SCB).

At the end of 2007, Rautakesko had 16 own K-rauta stores and one retailer-owned store in Sweden. K-rauta stores' retail sales in Sweden totalled €231.8 million (incl. VAT). Rautakesko's market share is about 4.5% (own estimate). Private customers account for around 85% of K-rauta customers. Principal competitors are Bauhaus, local speciality stores, Byggmax and DT Group.

Norway

The Norwegian building and home improvement market totals some €5.2 billion (TBF), up by 15% in 2007 (own estimate).

In Norway, Rautakesko owns Byggmakker Norge AS, which manages the Byggmakker chain of 120 building and home improvement stores, 22 of which are owned by Byggmakker. Retailer entrepreneurs have a chain agreement with Byggmakker. Retail sales of the chain's stores totalled €1,194.3 million in 2007. Rautakesko's market share in Norway is about 18% (own estimate). More than half of all sales go to professional customers. Principal competitors are Monter/Optimera (Saint Gobain), Maxbo and Coop.

Estonia

The Estonian building and home improvement market totals some €0.45 billion, an increase of 8.0% in 2007 (own estimate). Rautakesko has five retail stores and a nationwide network of wholesale outlets in Estonia. Retail sales of K-rauta stores totalled €108.7 million (incl. VAT) in 2007. Professional customers account for some 63% of all customers. Rautakesko's market share in Estonia is about 17% (own estimate). Principal competitors are Ehituse ABC, Bauhof and Espak.

Latvia

The Latvian building and home improvement market totals approximately €0.6 billion, an increase of 9-10% in 2007 (CSB). Rautakesko has seven K-rauta stores of its own, two K-rauta partner stores and a wholesale network covering the whole of Latvia. Retail sales of K-rauta stores totalled €100.2 million (incl. VAT) in 2007. It is estimated that Rautakesko's market share in Latvia has grown to 16% (own estimate). Principal 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 increased by 15% in 2007 (own estimate). In Lithuania, Rautakesko has the majority shareholding in UAB Senuku Prekybos centras, which is the market leader

Mika's and Siiri's most important reasons for trusting Rautia

in Lithuania with a share of about 25%. The Senukai chain consists of 14 own stores and 76 partnershop stores. Retail sales of Senukai totalled €537,6 million (incl. VAT) in 2007. 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 about 15-20% in 2007 (Ros Business Consulting and own estimate). There are eight K-rauta stores in St. Petersburg. Retail sales of stores in Russia totalled €177.7 million (incl. VAT) in 2007. 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 (2008).

The total market in Moscow is about 2.5€ billion (source: Ros Business Consulting RBC), representing an increase of 15-20% in 2007. Competitors are Starik Hottabyz, Master dom, Tvoy Dom, OBI, Leroy Merlin, Castorama, the open building supplies market and speciality goods stores. Rautakesko is planning to open several new K-rauta stores in Moscow in the next few years.

Belarus

The building and home improvement market in Belarus totals some €1.3 billion (own estimate). OMA, 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 €38.1 million (incl. VAT) in July-December.

Strengths

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

K-rauta is Rautakesko's international concept. K-rauta operates in Finland, Sweden, Estonia, Latvia and St. Petersburg, Russia. K-rauta meets the customer demand for safe ideas and solutions for building and living. In addition to products, K-rauta offers a comprehensive range of design and assembly services.

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

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

The Byggmakker chain is the largest building and home improvement store chain in Norway. Its characteristic features include reliable, high-quality operations and retailer entrepreneurship. Special strengths include sales of building supplies and sales to professional customers.

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

Rautakesko B-to-B Service operates in Finland. Its customers include national building firms, the manufacturing industry and other professional customers. Customers benefit from close collaboration with the B-to-B Service; the unit plans, directs and executes duties related to purchasing, allowing the customer company to effectively concentrate on its core business. Rautakesko B-to-B Service's strengths also include close cooperation with the Finnish network of K-rauta and Rautia stores, through which a significant part of deliveries are made.

Rautakesko combines – operating in the background – the chains' category management, purchasing, logistics, information system control and network improvements. The synergy benefits and economies of scale achieved enable the company to offer products and services to customers at competitive prices. Joint training programmes between the chains and Rautakesko enhance the competencies of the personnel.

In terms of its chains' retail sales, Rautakesko is one of the five largest companies in the European building and home improvement market. Rautakesko's competitors in the European market include Castorama, Leroy Merlin, OBI, DT Group / Starkki, Bauhaus and Hornbach. (Sources: Verdict 2007, DIY in Europe statistics 5/2007, corporate annual reports and web pages)

Interest in home and interior decoration is increasing. The product groups experiencing growth include, above all, interior surface materials and yard and garden supplies. Increasing numbers of families hire a professional designer to assist them in designing decoration for their houses or gardens. Demand for various services, such as design, transport and installation is growing strongly. The products sold are increasingly processed and, in addition to individual products and services sold separately (DIY = do it yourself), design models help stores sell more and more total solutions (DIFM = do it for me) for homes.

Customers' purchasing behaviour and consumption habits are getting more diversified. Traditional visits to stores are being increasingly complemented by the Internet as an information source and purchasing channel. New international service providers are entering the market and new forms of cooperation are emerging.

Energy efficiency, environmental values and responsibility are gaining more importance in consumers' decision-making. Rautakesko promotes energy efficiency under a special theme, with Motiva and the Pulmonary Association Heli as cooperation partners. Product ranges will also be complemented with items that contribute to energy savings. Environmental values and responsibility are promoted with Rautakesko's responsible timber sourcing policy.

Year 2007

Rautakesko's net sales totalled €2,537.3 million, an increase of 19.2%. Net sales in Finland amounted to €909.3 million, up by 10.7%. The net sales of subsidiaries in other countries totalled €1,625 million, an increase of 24.4%. Foreign subsidiaries accounted for 64.0% of Rautakesko's net sales.

Rautakesko's operating profit excluding non-recurring items was €115.9 million, an increase of €24.8 million. The growth in the operating profit was attributable to the expansion of business and increase in sales in line with the strategy. Rautakesko's invest-

Rautakesko

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

	Number	Number	Sales*, € million	Sales*, € million
	2007	2006	**2007**	2006
K-rauta	**41**	40	**653**	601
Rautia	**104**	105	**547**	501
K-customer agreement stores	**34**	35	**59**	56
B-to-B service			**316**	273
Finland total	**179**	180	**1,575**	1,431
K-rauta, Sweden	**17**	14	**232**	194
K-rauta, Estonia	**5**	4	**109**	87
K-rauta, Latvia	**7**	5	**100**	72
Senukai, Lithuania	**14**	14	**538**	428
OMA, Belarus	**3**		**38**	
Stroymaster, Russia	**8**	7	**178**	121
Byggmakker, Norway	**120**	118	**1,194**	1,080
Other countries, total	**174**	162	**2,388**	1,981
Building and home improvement stores total	**353**	342	**3,963**	3,412

* (incl. VAT)

Rautakesko financial highlights, continuing operations

		2007	2006
Net sales	€ million	**2,537**	2,129
Operating profit	€ million	**117.8**	139.3
Operating profit as % of net sales	%	**4.6**	6.5
Operating profit excl. non-recurring items	€ million	**115.9**	91.2
Operating profit as % of net sales excl. non-recurring items	%	**4.6**	4.3
Depreciation	€ million	**25.7**	23.4
Investments	€ million	**77.0**	75.8
Return on net assets excl. non-recurring items*	%	**22.7**	20.9
Personnel average		**9,111**	7,420

* cumulative average

Net sales 2007, continuing operations

	€ million	change, %
Rautakesko Ltd	915	10.7
K-rauta AB, Sweden	184	19.3
Byggmakker, Norway	618	12.9
Rautakesko AS, Estonia	92	24.7
A/S Rautakesko, Latvia	85	40.0
Senukai Group, Lithuania	486	34.9
Senukai (excl. OMA)	454	25.9
OMA	32	(..)
Stroymaster, Russia	151	47.4
Others and intra-division	7	64.0
Rautakesko total	2,537	19.2

(..) change over 100%

Net assets at 31 December, € million

	2007	2006
Non-current assets	**446**	387
Inventories	**249**	191
Short-term receivables	**216**	193
./. Non-interest-bearing debt	**-328**	-310
./. Provisions	**-11**	-3
Net assets*	**573**	458

* net assets at the end of month

Own brands

High-quality and inexpensive Prof, Cello, FXA and Fiorin product ranges help customers implement their building, interior decoration and renovation projects. International development work was continued by launching several new products and categories in 2007. The new store look and new product ranges were received well in all the countries where Rautakesko operates.

The Cello range of interior decoration items strengthens the sales and market position of Rautakesko's chains in these products. The aim is to help customers reach purchasing decisions with the help of a comprehensive Cello collection. The new web site www.cello-info.com was opened in summer 2007. The Cello range grew by 150 new products during the year.

The Prof product range offers high-quality materials, supplies and tools related to building and renovation for consumers and professionals. The range grew by 200 products during the year.

Inexpensive FXA hand tools were launched in Finland, Sweden, Latvia and Estonia in the autumn.

At the end of 2007, there were more than 1,000 different Prof, Cello, Fiorin and FXA products on the market.

ments totalled €77.0 million, of which investments outside Finland accounted for 59.3%.

In Finland, new K-rauta stores were opened during the year in Hyvinkää, Kirkkonummi and Kotka, and new Rautia stores in Kurikka, Mäntyharju and Klaukkala, Nurmijärvi. Refurbished K-rauta stores were opened in Joensuu, Kouvola, Välivainio and Äimärautio in Oulu, and Rautia stores in Alajärvi, Kaavi, Konnevesi, Oulainen, Raahe and Salo.

In Sweden, new K-rauta stores were opened in Umeå and Växjö, and the refurbished and expanded K-rauta was opened in Gävle where its predecessor had been destroyed by fire a year before. Byggmakker stores were opened in Oslo and Haugesund, Norway. In Tallinn, Rautakesko opened its biggest store in Estonia. In Latvia, K-rauta stores were opened in Tukums and Daugavpils. In St. Petersburg, Russia, Rautakesko opened its eighth K-rauta outlet in December.

Rautakesko renewed its cooperation agreement with the Pulmonary Association Heli in the 'Mould Trap' project, effective in 2007 and 2008. The K-rauta and Rautia chains support the renovation of mould-affected one-family houses by delivering the required supplies for interior decoration, sanitary areas and ventilation free of charge.

Rautia participated in the Hämeenlinna housing fair with the Vieska house brand and K-rauta with the Avainkoti house brand.

The Latvia Building Material Traders' Association chose K-rauta Ulmana in Riga as the best building materials retail company in 2006. K-rauta Liepaja was rated third in the contest.

Several new import projects were started in 2007 through the Shanghai sourcing agency established with Kauko-Telko at the end of the previous year. Thanks to a sourcing agency of our own we can leverage the purchasing power and logistics of the entire international Rautakesko to the benefit of our customers.

In July, Senukai acquired the majority of voting rights in the Lithuanian UAB Romos Holdingas, which owns OMA, a Belarussian DIY operator.

Objectives and outlook

Rautakesko will significantly expand and modernise the present store network in every operating country, particularly in Russia, during the next three years. The target is to increase the proportion of services out of total sales and to achieve market leadership in all operating countries.

Eight K-rauta and four Rautia outlets will be refurbished in Finland in 2008. Four new stores will be opened in Sweden, one in Norway, six in the Baltic countries and two in Russia.

The store concepts of the retail chains will be enhanced actively. The stores in Sweden, Estonia and Russia will be reformed to comply with the revised K-rauta store concept. A project has been started to upgrade the Rautia store concept, which will reach the pilot stage during the year 2008. In Norway, 25-30 Byggmakker stores will be annually converted to the revised concept.

Rautakesko will develop its operations and support the retail chains with joint business models and systems in all the operating countries. Synergy benefits are sought with uniform product ranges, own brands, productised services, logistics solutions, centralised information management, partnership cooperation projects, and improving staff competencies.

Rautakesko will gradually adopt the joint information system of its retail chains (Best Practice Retail Solutions, BPRS) in all its operating countries by the end of 2011. The information system will be first adopted in Norway in early 2008. Furthermore, an internationally uniform logistics network is also being planned.

The starting point is strengthening the market position in all operating countries. With the view to achieving the best customer satisfaction Rautakesko focuses on motivated and skilled staff and on close joint operations while taking the local market situation into account. The management's role as trainers and motivators by setting an example will be emphasised.

Rautakesko's fast expansion in many countries has necessitated taking cultural differences into account and introducing new joint business models. During the following three years, the focus will be on arranging training in sales and customer service and common international training events.

In 2008, Rautakesko will continue to invest in new store sites, employee competencies and a uniform information system. It is expected that Rautakesko's net sales will grow in 2008. Its operating profit excluding non-recurring items is expected to grow slightly in 2008.

VV-Auto

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

Market

In 2007, a total of 125,608 new passenger cars and 16,885 vans were registered in Finland. The passenger car market decreased by 13.8%. During the first part of the year, discussion about car taxation, the dropping price level of trade-in cars and the rising interest rates slowed down the sales of new passenger cars. The change in car tax, announced by the government on 2 November 2007, nearly stopped passenger car sales in November-December and postponed deliveries to customers to 2008. Registrations of new vans increased by 10.6% over the previous year.

Volkswagen has maintained its market share and the second place in the registration statistics. The proportion of diesel passenger cars out of all new registrations in Finland grew to nearly 30%. Volkswagen is one of the leading brands in diesel passenger cars. Audi also maintained its market share and attraction as number one among premium brands. The introduction of new Seat models and improved price competitiveness increased the brand's market share. The increase in Seat's market share was particularly good in the Baltic countries. Minibuses included, Volkswagen was the most purchased commercial vehicle.

The Volkswagen passenger car range continued to expand in 2007. New launches to the market included the revised Golf Variant and, towards the end of the year, the range expanded with the new Tiguan. The Audi range was complemented with the new Audi A5 coupe and the new Audi A4, first presented at the Helsinki Motor Show. Seat Altea XL and Freetrack, and Ibiza Cupra and Leon Cupra strengthened the sporty image of Seat. In 2007 the market share of Volkswagen passenger cars in Finland was 10.2%, while Audi had a market share of 3.3% and Seat's share was 1.2%. Seat's market share in Estonia was 1.2% and 0.8% in Latvia.

Year 2007

VV-Auto's net sales totalled €804.8 million in 2007, up by 2.0% over the previous year. The operating profit excluding non-recurring items was €26.1 million, compared with €29.5 million in 2006. The car tax reform considerably effected VV-Auto's sales in November-December and the combined sales of 2007 increased only slightly from the previous year.

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 outlets selling Volkswagens and 62 service centres providing maintenance and repair services for them. The corresponding numbers for Audis are 17 and 44. Seats are sold by 25 outlets and maintained and repaired by 43 centres, three of which are located in the Baltic countries.

Customer service was further enhanced by focusing on technology and customer service training in after-sales services. VV-Auto's own training centre in Herttoniemi, Helsinki provides 5,000 training days annually. The most important investment of the year was a centralised customer relationship management system, which will be introduced at the beginning of 2008. Three new service products were launched to help customers in car purchasing and maintenance: Plussa leasing, Plussa finance and Plussa insurance. The K-Plussa customer loyalty system was expanded to VV-Auto's outlets in late 2007. Plussa points are accrued from spare parts purchases and maintenance services. In December, VV-Auto and SE Mäkinen Logistics Ltd signed an agreement according to which SE Mäkinen will offer import-related transport, maintenance and storage services for the cars imported by VV-Auto. The agreement will enter into force at the completion of the Vuosaari harbour at the end of 2008.


Sami decided
on a Volkswagen because of
space
for family
and things
it retains
its value
customer
service
the service contract
GOLF

Objectives and outlook

It is forecast that the car tax solution will have a significant part to play in the growth of the passenger car market in 2008, while the total market for vans is anticipated to slightly decrease compared with 2007. The change in car taxation is expected to contribute to consumers choosing lower-emission models. Consumers will continue to value safety, comfort and the high level of accessories. The number of diesel cars is expected to grow considerably in 2008.

The annual vehicle tax will be based on carbon dioxide emissions as of 2010, which is also expected to contribute positively to the sales of new, low-consumption cars.

VV-Auto aims to increase the market share of the brands it represents during 2008 and to continue to enhance its network of retail outlets. The focus will be on expanding the range of services, strengthening the concept for trade-in cars, and expanding the centralised customer relationship management system.

In 2008, VV-Auto's net sales and the operating profit excluding non-recurring items are expected to markedly exceed the previous year's level.

K-Group's car stores (Finland)

	Number 2007	Number 2006	Sales*, € million 2007	Sales*, € million 2006
VV-Auto Helsinki and Turun VV-Auto	5	5	426	396

* (incl. VAT)

Financial highlights, continuing operations

		2007	2006
Net sales	€ million	805	789
Operating profit	€ million	26.1	29.4
Operating profit as % of net sales	%	3.2	3.7
Operating profit excl. non-recurring items	€ million	26.1	29.5
Operating profit as % of net sales excl. non-recurring items	%	3.2	3.7
Depreciation	€ million	5.7	7.7
Investments	€ million	6.3	34.2
Return on net assets excl. non-recurring items*	%	22.0	22.9
Personnel average		737	621

* cumulative average

Net sales 2007, continuing operations

	€ million	change, %
VV-Auto Group	805	2.0

Net assets at 31 December, € million

	2007	2006
Non-current assets	44	59
Inventories	130	104
Short-term receivables	31	31
./. Non-interest-bearing debt	-44	-44
./. Provisions	-11	-11
Net assets*	151	139

* Net assets at the end of month

Anttila

Anttila is the leading home and speciality goods retailer in Finland. Anttila serves its customers with two department store concepts – the Anttila department stores and the Kodin Ykkönen department stores for interior decoration and home goods – and with the NetAnttila concept focused on distance sales. NetAnttila provides its online and catalogue sales services and products in Finland, Estonia and Latvia. Anttila's customers value, above all, diversified, up-to-date and low-priced selections, and good service.

Market

In Finland there are 28 Anttila department stores, eight Kodin Ykkönen department stores for interior decoration and home goods, and the Kodin1.com online store. NetAnttila is engaged in distance sales and serves its customers online and by catalogue.

Anttila retails entertainment, fashion and home goods, whose total market is estimated to be €7-8 billion. The annual growth in the market is about 3-5%.

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

Kodin Ykkönen is Finland's widest and most diversified chain of speciality department stores. Customers of Kodin Ykkönen value diversified selections, interior decoration ideas and good design and other service.

Customers of NetAnttila value ease of shopping, low prices, reliability and flexible payment options. NetAnttila operates in Finland, Estonia and Latvia.

Anttila's competitors include department stores, hypermarkets, speciality store chains and online stores. The importance of discounters as competitors to Anttila is growing as they form chains and start to focus on branded goods.

Strengths

Anttila focuses on home and speciality goods retailing. Approximately 26 million customers visit Anttila every year. There are about 2,100 employees in Anttila's customer service.

Anttila bases its selections on customer wishes, purchasing behaviour and over 50,000 annual items of customer feedback. Anttila differentiates itself from competitors not only through its comprehensive selections, but also through its focus on stores providing ideas and sales-oriented service.

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

Year 2007

In 2007 Anttila's net sales totalled €563.7 million, an increase of 2.9%. Sales performance was affected by the closing down of the City department store in Helsinki in January 2007, due to termination of the lease. The Kodin1.com online department store was opened in May 2007 and a new department store in Mikkeli in October 2007. Anttila's operating profit excluding non-recurring items was €25.2 million.

The focus on service and customer-orientation was reflected in good sales growth, particularly towards the end of the year. In Estonia, distance sales declined by 16.9%, which can be attributed to the expansion of the traditional store network and the decrease in the number of catalogues. In Latvia, distance sales increased by 9.4% thanks to the successful customer credit system.

Objectives and outlook

The market for home and speciality goods is estimated to grow overall by 3-4% in 2008, but there will be differences between product lines. The 2007 sales growth in home electronics can, to a great extent, be attributed to the strong sales of digital equipment in the late summer. Interior decoration and home technology will continue to be important for consumers. Anttila's objective is to grow faster than the market and it will continue to highlight customer service and sales training for the staff. The range of services related to home and speciality goods will be developed and they will be marketed actively.

Anttila's strategic objectives include strengthening its market position on a profitable basis, improving customer loyalty, achieving a high level of competence, and increasing online services. New Anttila department stores will be opened in Pori and Rovaniemi in 2008 and the second Kodin Ykkönen department store will be opened in Tampere in autumn 2009. The proportion of branded products in store selections will grow. The average purchase and the number of customer visits will be increased through higher customer loyalty. The range of products and services available online will also be increased.

In 2008, Anttila's net sales are expected to grow, and its operating profit excluding non-recurring items is expected to match the level of 2007.


in Anttila
Heini
was influenced by
a suitable price
a varied selection
a song on the radio
a nice salesperson

Anttila

	Number	Number	Sales*, € million	Sales*, € million
	2007	2006	**2007**	2006
Anttila department stores	**28**	27	**398**	391
Kodin Ykkönen department stores	**8**	8	**184**	172
Distance sales (Mail order, NetAnttila, Kodin1.com)	**2**	–	**89**	84
Finland total	**38**	35	**671**	648
Anttila mail order, Estonia and Latvia	**2**	–	**19**	20
Other countries total	**2**	–	**19**	20
Anttila total	**40**	35	**689**	668

* (incl. VAT)

Anttila financial highlights, continuing operations

		2007	2006
Net sales	€ million	**564**	548
Operating profit	€ million	**27.2**	38.7
Operating profit as % of net sales	%	**4.8**	7.1
Operating profit excl. non-recurring items	€ million	**25.2**	26.5
Operating profit as % of net sales excl. non-recurring items	%	**4.5**	4.8
Depreciation	€ million	**6.1**	8.1
Investments	€ million	**5.8**	4.6
Return on net assets excl. non-recurring items*	%	**18.3**	17.0
Personnel average		**2,045**	2,122

* cumulative average

Net sales 2007, continuing operations

	€ million	change, %
Anttila Group	564	2.9

Net assets at 31 December, € million

	2007	2006
Non-current assets	**53**	67
Inventories	**99**	90
Short-term receivables	**43**	39
./. Non-interest-bearing debt	**-75**	-72
./. Provisions	**-1**	0
Net assets*	**120**	125

* net assets at the end of month

Kesko Agro

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

Market

In Finland, Kesko Agro and 95 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 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.

Kesko Agro Eesti AS in Estonia, SIA Kesko Agro Latvija in Latvia and UAB Kesko Agro Lietuva in Lithuania are the Kesko Agro subsidiaries that are involved in the agricultural trade in the Baltic countries. The Baltic market is currently valued at about €1.2 billion. Kesko Agro is the market leader in the Baltic agricultural trade with a market share of about 25% in Estonia, about 26% in Latvia and about 11% 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 Kesko Agro's 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.

Active contacts and sales and the utilisation of data and information technology provide the basis for close cooperation between farmers and K-maatalous and Kesko Agro. The popular trade-in machinery service, the web trading place and revised web pages provide many kinds 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 innovators 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-Experimental Farm in Hauho does pioneering research and development for agriculture by testing plant varieties, fertilisation and protection.

The annual Kone-Forum exhibition, the most important event in the agricultural machinery calendar, gives customers an opportunity to become acquainted with the new products and machinery offered for the coming season. Experts of 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 2007

In 2007 Kesko Agro's net sales were €793.4 million, an increase of 5.1% over the previous year. In the Baltic countries Kesko Agro's net sales increased by 7.9% to €294.6 million. Kesko Agro's operating profit excluding non-recurring items was €12.4 million in 2007, which was €4.6 million more than in the previous year.

Kesko Agro improved its operational efficiency in 2007 by renewing its organisation and business models.

K-maatalous and Kesko Agro will continue to focus on improving customer satisfaction by offering the best solutions, a diversified product range and excellent services.

Objectives and outlook

The objective of K-maatalous is to improve its profitability in the agricultural trade. To do this, 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.

The rising prices of grain and other agricultural products are creating positive expectations for next year's agricultural trade.

Regardless of the structural changes taking place in the sector, it is expected that in 2008, Kesko Agro's net sales and operating profit excluding non-recurring items will match the level of 2007.


Nova Combi 3000
a familiar salesperson
a good price
expert service
Ville
was directed
towards K-maatalous by
well-known brands

Kesko Agro

K-Group's agricultural stores

	Number	Number	Sales*, € million	Sales*, € million
	2007	2006	**2007**	2006
K-maatalous	**95**	99	**674**	602
Finland total	**95**	99	**674**	602
Kesko Agro Eesti	**6**	6	**81**	74
Kesko Agro Latvija	**4**	4	**127**	115
Kesko Agro Lietuva	**3**	3	**84**	105
Other countries total	**13**	13	**293**	294
Agricultural stores total	**108**	112	**967**	896

*(incl. VAT)

Kesko Agro financial highlights, continuing operations

		2007	2006
Net sales	€ million	**793**	755
Operating profit	€ million	**12.9**	9.2
Operating profit as % of net sales	%	**1.6**	1.2
Operating profit excl. non-recurring items	€ million	**12.4**	7.8
Operating profit as % of net sales excl. non-recurring items	%	**1.6**	1.0
Depreciation	€ million	**4.3**	3.9
Investments	€ million	**7.6**	11.8
Return on net assets excl. non-recurring items*	%	**9.4**	6.0
Personnel average		**797**	885

* cumulative average

Net sales 2007, continuing operations

	€ million	change, %
Kesko Agro Ltd	507	5.2
Kesko Agro Eesti AS	80	5.8
SIA Kesko Agro Latvija	131	27.5
UAB Kesko Agro Lietuva	75	-24.5
Kesko Agro total	793	5.1

Net sales at 31 December, € million

	2007	2006
Non-current assets	**41**	36
Inventories	**136**	109
Short-term receivables	**69**	83
./. Non-interest-bearing debt	**-122**	-113
./. Provisions	**-1**	-1
Net assets*	**123**	114

* Net assets at the end of month

the most relevant things in

Esa's and Niko's

choice were

well-known brands

the upcoming fishing trips

good handling

a new summer cottage

Other operating activities

Other business operations include Konekesko, Intersport Finland, Indoor, Musta Pörssi, Kenkäkesko, Tähti Optikko and Kauko-Telko.

Konekesko

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

Market

Konekesko's sales of recreational machinery are based on over 40 years of close cooperation with Yamaha Motor Co. Quality-conscious consumers are served by the nationwide Yamaha dealer network. The Finnish market for recreational machinery totals about €0.4 billion.

Export sales of Konekesko's own range of Yamarin boats account for about 76% of total sales. In Finland, Yamarin is the market leader of glass-reinforced plastic boats. Yamaha outboard motors have been market leaders for as many as 30 years, and their market share was 33.8% in 2007. Market shares of Yamaha motorcycles, mopeds, ATVs and snowmobiles vary between 6–20% depending on the size category.

Earthwork and environmental machinery and MAN trucks and buses are marketed through Konekesko's own sales organisation. The Finnish market for earthwork and environmental machinery totals approximately €0.4 billion and for trucks (weight class of over 6 tons) about €0.7 billion. The most important customers in this market include transportation and service sector companies, towns and municipalities, and industrial and service entrepreneurs.

Strengths

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

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

Year 2007

In 2007, Konekesko's net sales increased by 14.3% to €229.3 million. Net sales from export operations were €35.8 million and accounted for 15.6% of the total net sales.

Investments in 2007 totalled €1.1 million, most of them in boat moulds.

The dealer network for recreational machinery was reorganised and strengthened. The new Yamarin models for the 2007 boating season were well received by customers. Exports of Yamarin boats increased particularly in countries outside the Nordic area, such as the UK, Russia and Italy.

The growth targets set for market shares in the earthwork and environmental machinery, as well as in the MAN business, were achieved.

Outlook

In 2008, the market for product lines represented by Konekesko in Finland is estimated to remain at the level of the previous year. With respect to the recreational machinery sector, it is estimated that boat exports and ATV sales will increase.

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 the 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. Their 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 a new sports store format of Intersport International Corporation. Based on cost-effective operations and low prices, it offers the sector's largest selections


expert service
in Intersport Anne's
choice was influenced by
the upcoming
marathon
top brands
a broad
selection

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 56 Intersport stores, 39 Kesport stores and two Budget Sport stores in Finland, of which 90 are owned by retailer entrepreneurs and seven by Intersport Finland.

Market

The sports trade market in Finland is growing at the rate of 3-4% per year. People's interest in their own health and wellbeing has increased, which is reflected in the sales growth of special sports and fitness equipment, for example.

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

Year 2007

The net sales of Intersport Finland were €147 million in 2007, representing an increase of 3.4%. The combined retail sales of the company's store formats were €274.1 million, up by 6.7%.

In 2007, an Intersport megastore was opened in the centre of Turku and the second Intersport was opened in Lappeenranta.

The second outlet in the Budget Sport chain was opened in the Ideapark shopping centre in Lempäälä in April.

Objectives and outlook

Stable growth will continue in the sports market. Foreign rivals and increased price competition will tighten competition in the sector. 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 next Budget Sport stores will be opened in Espoo and Raisio in spring 2008.

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

Furniture and interior decoration trade

Indoor Group

Indoor Group is a furniture and interior decoration retailer which operates through the Asko and Sotka store chains in Finland and the Baltic countries. Asko and Sotka together have 85 stores in Finland, six in Latvia, five in Estonia and two in Sweden. In Finland, 51 of the stores are owned by Asko, while 34 operate as a franchise. Asko serves quality- and brand-conscious home decorators with up-to-date and competitive product ranges that cover all interior decoration needs. Sotka offers the sector's most competitive furniture, in terms of its price-quality ratio, to customers who value low prices.

Market

There continued to be strong interest in home furnishing in 2007. Consumers spent an increasing amount of money on home comfort, focusing on both entertainment electronics and interior decoration. The sizable investments of many chains in their store networks further intensified competition. The Finnish furniture market grew to nearly €1.3 billion. Despite the keener competition, the Asko and Sotka chains maintained their position as Finnish market leader and increased their position in the Baltic countries.

Year 2007

Indoor Group's net sales totalled €196.5 million in 2007. The retail sales of the Asko and Sotka chains in Finland were €211.5 million. Indoor Group expanded its store network vigorously in 2007. New Asko and Sotka stores were opened in Kemi, Joensuu, Kajaani, Hyvinkää, Lahti and Vantaa. A new Sotka store was opened in Huittinen and a new Asko store in Rovaniemi. In Latvia, the third Asko and Sotka stores were opened in Riga.

Indoor Group continued to focus on customer service in its chains by improving the reliability of its deliveries and the service skills of its staff.

Objectives and outlook

It is estimated that high interest in home furnishing and decoration will continue. Competition in the furniture sector will be intense and, consequently, it will be increasingly challenging to meet customer expectations. Indoor Group will continue to differentiate its

Other operating activities

Other operating activities

	Number 2007	Number 2006	Sales*, € million 2007	Sales*, € million 2006
Kesko's machinery stores				
Yamaha Center	1	1	17	20
Finland total	1	1	17	20
K-Group's speciality goods stores				
Intersport	58	60	245	231
Kesport	39	37	29	27
Asko	32	31	95	93
Sotka	53	53	117	114
Musta Pörssi	55	57	203	184
Andiamo and K-kenkä	49	52	46	49
Kenkäexpertti	42	44	13	14
Tähti Optikko	131	130	48	48
Finland total	459	464	795	758
Furniture stores Sweden, Estonia, Latvia	13	12	47	34
Other countries total	13	12	47	34
Speciality goods stores total	472	476	842	792
Other operating activities total	473	477	860	812

*(incl. VAT)

Financial highlights, continuing operations

		2007	2006
Net sales	€ million	997	946
Operating profit	€ million	21.2	4.9
Operating profit as % of net sales	%	2.1	0.5
Operating profit excl. non-recurring items	€ million	24.0	21.6
Operating profit as % of net sales excl. non-recurring items	%	2.4	2.3
Depreciation	€ million	11.7	8.6
Investments	€ million	14.6	35.6
Return on net assets excl. non-recurring items*	%	11.0	9.5
Personnel average		2,233	2,135

* cumulative average

Net sales 2007, continuing operations

	€ million	change, %
Konekesko	229	14.3
Intersport	147	3.4
Indoor	197	7.9
Musta Pörssi	148	11.8
Kenkäkesko	23	-3.4
Tähti Optikko	21	7.3
Kauko-Telko	234	-5.7
Total	997	5.4

Net assets at 31 December, € million

	2007	2006
Non-current assets	164	171
Inventories	138	124
Short-term receivables	136	144
./. Non-interest-bearing debt	-201	-192
./. Provisions	-2	-2
Net assets*	235	244

* Net assets at the end of month

chain concepts for the needs of various customer groups by further enhancing the Asko brand. Indoor Group will divest its operations in Sweden by summer 2008. The focal points in 2008 will also include improvements in cost-efficiency and further improving the accuracy of deliveries.

Home technology trade

Musta Pörssi

The Musta Pörssi chain offers its customers home technology products to make housework easier, enhance communications and provide entertainment. In addition, Musta Pörssi offers a comprehensive range of product-related services. The chain consists of 55 stores specialising in home technology, of which 46 are owned by retailer entrepreneurs and nine by Musta Pörssi Oy.

Market

The Finnish total market for home technology products is about €2.1 billion. The market continued to grow as Finnish households moved into the era of digital TV broadcasts. Sales of flat screen TVs and digital adapters in particular grew strongly.

Year 2007

The net sales of Musta Pörssi Oy were €147.5 million, representing an increase of 11.8%. The retail sales of the Musta Pörssi chain were €203 million and, an increase of 10.1% over the previous year. The growth of the Musta Pörssi chain exceeded that of the total market.

Objectives and outlook

The increase in consumers' purchasing power and their interest in home technology products will continue to keep demand high. Rapid technological development will decrease the prices of products. In spite of this, in terms of euros the demand for home technology products is estimated to increase more than the average consumer demand.

The Musta Pörssi chain aims to achieve sales growth exceeding that of the sector. This will be achieved by offering customers the best service package at a competitive price. The package consists of good customer service and availability of products. Besides home technology products, Musta Pörssi offers customers diversified installation services and user guidance.

Shoe trade

Kenkäkesko

Kenkäkesko's two chain store formats 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 continuously renewing and fashionable selection of shoes. The K-Group's speciality shoe outlets also include the Kenkäexpertti stores which operate in the smallest towns.

Market

The total retail market for shoes in Finland is approximately €540 million, of which Kenkäkesko's store types account for about 11%. Shoe retailing has become more of a multiple-channel business and the hypermarkets have taken the largest share of the market growth.

Year 2007

The net sales of Kenkäkesko were €23 million in 2007, a decrease of 3.4% from the previous year. The sales of the Andiamo and K-kenkä stores decreased by 6.6%, and the combined sales of all of the K-Group's speciality shoe stores amounted to €58.9 million.

There were 30 K-kenkä, 19 Andiamo and 42 Kenkäexpertti stores at the end of 2007. Four of them are owned by Kenkäkesko and the others by retailer entrepreneurs.

Objectives and outlook

The shoe market is anticipated to increase by 3-4% in 2008. Specialist shoe retailing will have an increasing number of distribution channels and will continue to concentrate on downtown areas and shopping centres.

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 throughout the whole chain, in particular retail sales and service competence, and improving the cost-efficiency of the operations chain.

Optical trade

Tähti Optikko Group

Tähti Optikko is a chain of speciality stores in the optical trade. The chain consists of 131 stores, of which 99 are owned by retailer-entrepreneurs and 32 by Tähti Optikko Group.

Market

Retail sales in the Finnish optical trade totalled some €282 million in 2007, an increase of 3.3%. According to our estimates, the total retail sales of optical goods valued at approximately €255 million. Based on this, the market share of the Tähti Optikko chain was about 16%.

Year 2007

The net sales of Tähti Optikko Group amounted to €20.8 million in 2007, representing an increase of 7.3%. The retail sales of the Tähti Optikko chain totalled €48.2 million, a growth of 0.6%.

New stores were established in Helsinki, Kerava and Mikkeli. The outlet in downtown Jyväskylä moved into larger premises and the operations of two outlets were combined in Helsinki.

Objectives and outlook

The objective of the Tähti Optikko chain is to grow faster than the sector average.

The Tähti Optikko chain will increasingly focus on a reliable and safe product range, quality of service, individuality and delivery speed. Special attention will be paid to clear pricing by highlighting different price groups ranging from simple basic products to high-tech solutions. This will make it easy for the customer to decide which price range to choose. The ageing of baby-boomers increases the demand for multifocal lenses and consumers' various hobbies place increasing requirements on sports spectacles. In addition, faster changes in trends and increased use of different technical display units contribute positively to the total demand in the sector.

The number of store sites in the Tähti Optikko chain will be boosted through new establishments and by increasing the number of retailer-entrepreneurs.

Kauko-Telko

Kauko-Telko specialises in international technical trading. Kauko-Telko's principal market areas include the Nordic countries, Russia, the Baltic countries, Poland and China.

The most important customer groups are the manufacturing industry, public and private utilities, and corporations.

The most important products include raw materials for the manufacturing industry, machines and equipment, packaging technology, electronics, and system and concept solutions.

Year 2007

Kauko-Telko's net sales amounted to €234 million in 2007, representing a decrease of 6%, which can be attributed to the structural changes implemented according to plan.

Kauko-Telko's continuing business activities increased particularly in Russia. Two relatively small company acquisitions, supporting the strategy, were implemented in the Nordic countries. The company's profitability improved.

In May 2007, Kesko announced that it would look into opportunities to sell Kauko-Telko.


in Asko
Marko and Saara
were pleased with
reliable delivery
friendly service
soft sofas
Uutuus
durable materials

The Group

Vision

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

Values

Kesko's values guide our operations:

Values

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 seetor

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.

Goals

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

Goals

The most satisfied customers – growing customer value

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

Excellent practices, stores and services

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

Competent and motivated people

- Management by values
- Systematic development of competencies

Good performance – increasing shareholder value

- Return on equity 14%
- Return on invested capital 16%
- Growth in Finland in excess of market growth
- Proportion of international operations on the increase


Jelena went to K-rauta
and her decisions
were influenced by
the trustworthy
store
a well set out
store
the best
selection
high
quality
K-РАУТА
323523
Ванна

Strategic emphases

BUSINESS

Kesko is a Finnish retail specialist which provides products and services valued by consumers in the Nordic and Baltic countries, Russia, and Belarus in close cooperation with retailer entrepreneurs and other partners. Kesko manages retail store chains, develops store concepts and business models, data management and logistics services. Kesko's operations include food, building and home improvement, car, department store, home and speciality goods, agricultural and machinery trade.

Healthy, focused growth

Increasing shareholder value by improving profit

Kesko's strategic objective is to strengthen shareholder value by focusing on increasing business divisions' sales and market shares and improving profitability. The proportion of international business will be increased. The target return on invested capital is 16%, while the target return on equity is 14%. The key issue in increasing the shareholder value is achieving customer satisfaction exceeding that of competitors.

Main divisions are expanding to high-growth markets

In Kesko's strategy, the emphasis in investment and internationalisation is above all on the food, and building and home improvement trade. Growth is achieved with considerable store site investments and business acquisitions supporting the growth strategy. Outside Finland, growth is sought particularly from the high-growth Russian and Baltic markets.

The spearhead in Kesko's growth and internationalisation process has been the building and home improvement trade, which is being expanded in accordance with the strategy by opening new store sites in Russia, the Nordic countries and the Baltic states. In addition to store site investments, business has also been grown through acquisitions. The Russian market in particular offers significant growth potential in the building and home improvement trade. In addition to St. Petersburg and Moscow, Rautakesko's objective is to open new stores in other large Russian cities, too. Support for Rautakesko's 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.

Kesko Food's objective is to expand business to Russia, and the Baltic market is also being investigated. Expansion to the Baltic countries in the sports trade is also being studied. Kesko will also strengthen its position in the Baltic machinery and furniture trade.

Kesko's strategic emphases

- We increase the shareholder value by improving profit
- We expand our main divisions to the high-growth markets
- We increase our market share particularly in the domestic food trade
- We expand our store network strongly in the food and building and home improvement trade

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

- 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

Increasing market share particularly in domestic food trade

Besides Kesko's international growth, a key strategic objective is growing the market share in Finland on a long-term basis, particularly in the food trade. Large store site investments and improvement in customer satisfaction will contribute to this growth in market share. K-food stores aim to offer their customers the best food ideas and solutions at low prices. This is achieved with customer-driven, high-quality and diversified selections, individual service and competitive pricing.

Sales and services to consumer-customers

Customer satisfaction exceeding that of competitors

Kesko's strategic growth area is sales to consumer-customers. The target is customer satisfaction that exceeds that of competitors and sales growth. Success in the consumer-customer trade requires clear customer and brand promises and delivering these promises on 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 product and chain brands. Extensive brand strategy work has been started to strengthen the position of these brands. A steering group, comprising Kesko people and outside memebers, has been established to steer this work.

Creation of customer-driven selections and targeted marketing are supported by the K-Plussa customer loyalty system, whose reward and debit card features underwent a major reform in 2007. The objective of the K-Plussa system is to offer considerable product and service benefits to customers, encouraging them to centralise their purchases in the K-Group.

Customer-driven business models

The business models applied in Kesko's sales to consumer-customers are retailing through retailer entrepreneurs and 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, competence and knowledge of local circumstances provide a competitive edge.

At the end of 2007, Kesko had 1,285 K-retailer entrepreneurs as partners and, in addition, about 250 other retailer partners in the Asko, Sotka, Tähti Optikko, Byggmakker and Senukai chains. Kesko's sales to retailer partners accounted for 43% of Kesko's net sales in 2007.

2) Kesko's own retailing

Kesko acts as a retailer in business operations where the competitive advantage is based on the centrally directed 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 the principal model used in expanding business operations outside Finland, where rapid growth and efficient risk management play key roles, particularly in the Baltic and Russian markets. In 2007 Kesko's own retailing accounted for 31% of net sales.

3) B-to-B sales

Kesko is engaged in B-to-B sales particularly in those business operations that support consumer-customer sales. Typical business customers include building companies, VV-Auto dealers, agricultural entrepreneurs, the manufacturing industry, institutional kitchens and the public sector. In 2007 Kesko's B-to-B sales accounted for 26% of net sales.

Development of electronic commerce and services

Electronic commerce is rapidly gaining ground in consumer-customer sales. Kesko's strategic objective is to grow business and improve customer satisfaction through e-commerce and services. In order to achieve this objective, a project covering online customer communications has been started. Kesko holds a strong position in online business in home and speciality goods with the NetAnttila and Kodin1.com concepts. There is plenty of scope for expansion in e-commerce in other product lines, too.

Responsible and cost-efficient business models

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

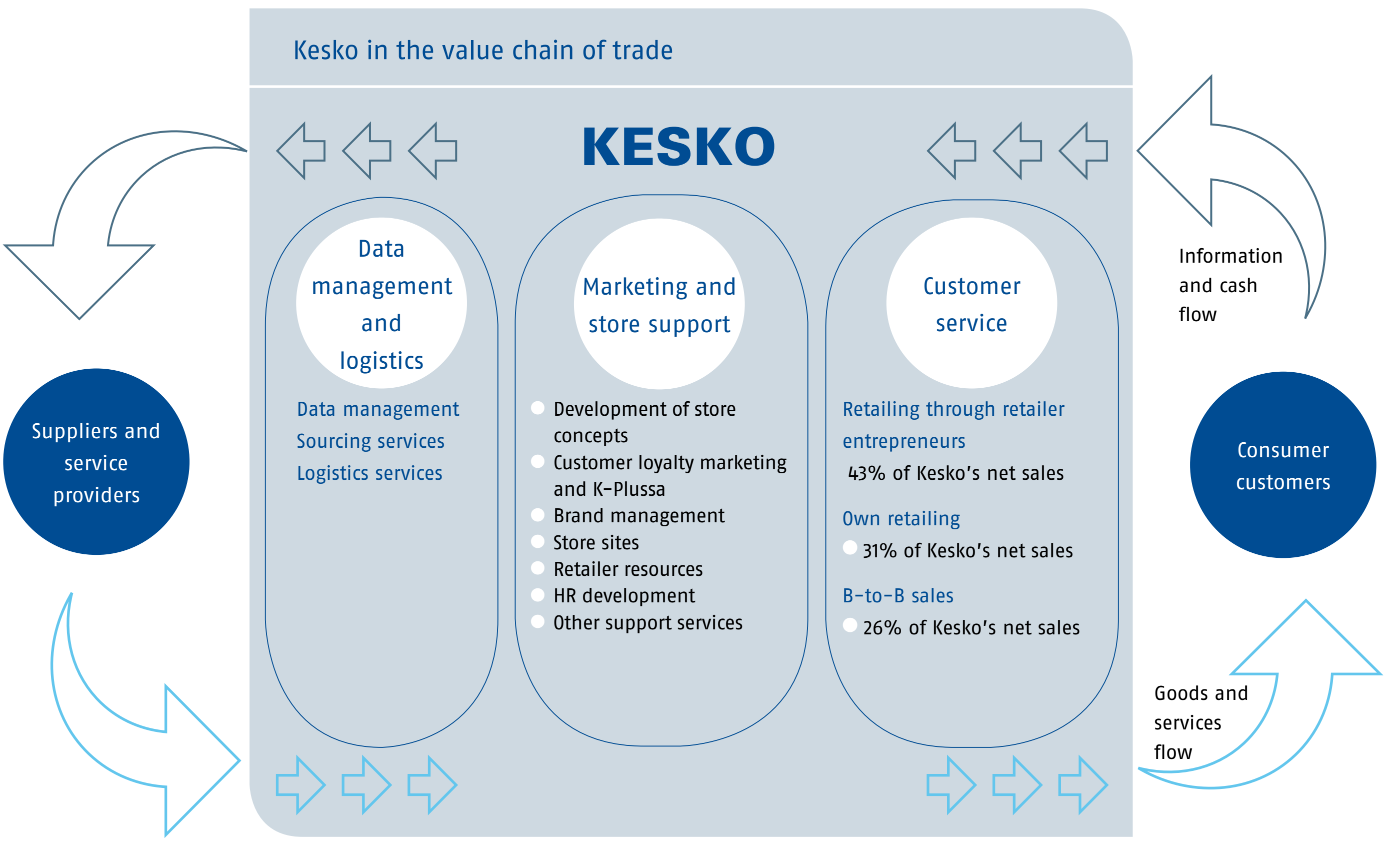
Sustainable development and responsible operating practices

The principles of sustainable development and responsible operating practices are highlighted in Kesko's strategy. Consumer-customers require that the trading sector bear responsibility for products' safety and healthiness, and for the environmental and social impact of business operations. Responsible operating practices are an integral part of Kesko and its chains. 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

Kesko's strategic objectives include the combination of retailer entrepreneurship and efficient chain operations. Consequently cooperation between K-retailers and Kesko takes place in close chains. 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, maximum pricing and marketing. The chains' joint, division-specific processes generate synergy benefits in purchasing, private labels,



logistics, information systems and acquisition of store sites.

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

Data management in guiding business

Efficient data management has a key position in creating customer-driven selections, guiding the flow of merchandise efficiently, in targeted customer marketing and in steering international business. Kesko's information systems are developed for the particular needs of each division, while also leveraging the Group-wide synergy benefits achieved through centralisation. When e-commerce continues to spread, the importance of data management will be emphasised further. The planning systems Kesko has chosen are largely based on the SAP enterprise resource planning system.

Best retailing competence

Developing the competence of personnel is a key factor in the K-Group's competitiveness. Emphasis areas in HR development include competence in retailing and international trading, customer and service competence and development of management skills. K-instituutti, the K-Group's training centre, specialises in the training of retail store staff, managers and retailers. In 2007, a total of about 22,100 persons participated in the K-instituutti training programmes.

Financial objectives

Objective	Target level	Realised 2007
Growth in net sales	In Finland growth exceeding that of market	Realised: Kesko Food, VV-Auto, Konekesko, Intersport Finland, Musta Pörssi
	Increasing proportion of international operations	Growth 2.2% points (continuing operations)
Return on equity	14%	16% excl. non-recurring items 12.7%
Return on invested capital	16%	17% excl. non-recurring items 14.5%
Interest-bearing net debt/ EBITDA	< 3	0.6
Equity ratio	40–45%	48%
Economic value added	Internal indicator growing positive EVA	Realised

Individual customer approach – K-Plussa

The year 2007 was a time of reform for K-Plussa. Kesko and the K-retailers started a programme to thoroughly develop the K-Plussa customer loyalty system – the K-Plussa Supercard. The reform concerns a total of 3.5 million K-Plussa customers.

The reform will increase and diversify the customers' choice of cards and benefits, and many customers will need just one card for payments both at home and abroad. The first stage of the development programme started in May, which also marked the beginning of significant cooperation with the OP Bank Group.

More interaction between the K-store and the customer

Information is gathered from K-Group stores to further improve selections and services and to increase interaction between the K-store and the customer. The more the customer uses the services of the Plussa network, the more he or she gets benefits. There are nearly 3,000 shopping outlets, and we want to continue to actively increase the number of our best cooperation partners. The reform also increases the centralisation and loyalty benefits the K-Plussa customer gets from his or her regular K-store and other Plussa partners.

Customer programmes for all chains

With this reform, the chains of the K-Group, such as K-market, K-supermarket, K-citymarket, K-rauta, Anttila, Kodin Ykkönen, Intersport, Asko and Sotka will considerably increase the benefits they offer to K-Plussa customers in their own and joint customer loyalty programmes.

Besides special offers, customers in the Ykkösasiakas programme of Kodin Ykkönen are offered a free van for their use when they buy furniture at Kodin Ykkönen, a discount for the assembly service, moving boxes against a returnable deposit, and several other services and benefits.

K-Plussa's joint benefits increased

The diversified partnership with OP Bank Group, including cooperation concerning Pohjola Insurance Company, started at the beginning of May. Thanks to the partnership, OP-Visa and OP-Visa Electron cards with the K-Plussa feature, which can be used in a normal way as debit or charge cards, and the new Plussa MasterCard with no annual fee have become available to customers. Cooperation in the card sector expanded in November with the launch of the new Nordea Visa Electron with the Plussa feature.

The reforms implemented made collecting Plussa benefits increasingly easy. K-Plussa's loyal customers can also choose to deposit their K-Plussa points in their bank accounts. The reward level (up to 5%) remained unchanged.

The Pirkka magazine that is distributed as a K-Plussa loyal customer benefit also underwent a reform in 2007. The modernisation was well received, and according to the National Media Research KMT, Pirkka reinforced its position as the most widely read magazine in Finland in 2007. The NiksiPirkka column, which has published Finnish tips and hints in the Pirkka magazine for 33 years, received significant recognition in April 2007, when it was awarded the MediaKONSTA prize as a major promoter of invention and innovation.

Healthy living with the Plussa card

At the beginning of 2007 Kesko started a campaign to promote physical exercise and healthy eating habits among children with the Young Finland Association, its cooperation partner of many years. Every time a customer used a K-Plussa card in a K-Group store, 0.25 cents were donated to promote children's healthy living. The total sum collected was €500,000, of which €250,000 was spent immediately to buy exercise equipment for schoolchildren to increase their physical activity during breaks.

Retailers also arranged presentations for their best Plussa customers, in which Dietician Hanna Partanen spoke about the importance of healthy eating habits in families with children. The presentation tour will continue in spring 2008.

An agreement to extend the Nutritioncode service to other K-food stores as a free-of-charge Plussa benefit during 2008 was signed in September. The service had been piloted in K-supermarkets for a year prior to this. The web service enables Plussa customers to monitor the quality of their food basket and receive practical advice on how to develop the nutrition of the whole household in a healthier direction.

Making donations to charitable causes is also made easy for Plussa customers. They can choose to donate their Plussa points through the OmaPlussa site available at www.plussa.com to five different recipients: the Young Finland Association, UNICEF, WWF Finland, the Finnish War Veterans' Federation, and the Cancer Society of Finland. If the donor does not want to define the recipient, the sum donated will be divided equally between all the above recipients.

Individual customer benefits

To enable us to develop the most rewarding benefit levels and customer programmes we need a sufficient amount of information about customer relationships and 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. The purchases registered in the Plussa system cover consumers' purchases from K-Group stores and Plussa partners. 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. Division parent companies can process anonymous receipt line level purchasing data in their analyses.

Customer information in the Plussa system is household-specific. Utilising this database, K-Plus Oy produces services that are based on customer information and support business operations for the K-Group's chains and stores and the partners belonging to the Plussa network. Key areas of customer information application include chain concepts, selection planning, marketing and customer relationship management. This expertise has a central role in the implementation of the chains' customer programmes.

The use of customer information is increasing continuously with respect to both addressed and unaddressed marketing material. The results obtained from targeting have been very good at both store and chain levels. Direct marketing campaigns have also gained official recognition, of which one example is the second prize in the Huippusuora 2007 competition organised by the Finnish Direct Marketing Association in May.

New analysis tools have contributed to the good results achieved. A good example of this is the classification of eating habit information which allows the identification of customer groups which value health aspects or traditions and the establishment of a centralised approach to them.

At the end of 2007, 3.5 million Finns in 1.9 million households had a K-Plussa card which is accepted by nearly 3,000 stores and other operators. The K-Plussa customer loyalty programme won nearly 160,000 new customers.

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.

Each of Kesko's division parent companies is responsible for its own store sites across 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 Group. They can be sold and leased back for use in the Group's business operations.
- Realisation properties are those for which the business 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. In Finland, the focus of investments is changing from new construction to rebuilding and expansion.

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 decreasing the 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

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 YIT Kiinteistötekniikka Oy and Ovenia Oy, which carry out the work in accordance with Kesko's requirements.

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

Kesko participates in the Fennovoima project

The maintenance and development of the retail service structure necessitate that energy production is ensured. A considerable amount of new basic generation capacity is needed in Finland by the year 2020. For its part, Kesko wants to support the total solution which directs production to the carbon dioxide free sector, reduces Finland's dependency on imported energy and improves the operation of the electricity market.

Kesko participates in the preliminary survey stage of the Fennovoima project together with dozens of local energy companies, and industrial and service enterprises.

Real estate operations indicators for 2007

Owned properties

Capital, € million	2007	2006
Finland	739	717
Other Nordic countries	43	40
Baltic countries	47	63
Russia	26	26
Total	855	846

Area, m²	2007	2006
Finland	807,000	810,000
Other Nordic countries	52,000	36,000
Baltic countries	102,000	129,000
Russia	20,000	20,000
Total	981,000	995,000

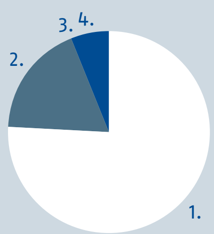
Leased properties

Lease liabilities, € million	2007	2006
Finland	1,640	1,477
Other Nordic countries	148	148
Baltic countries	115	105
Russia	40	7
Total	1,943	1,737

Area, m²	2007	2006
Finland	2,091,000	2,012,000
Other Nordic countries	199,000	185,000
Baltic countries	335,000	293,000
Russia	26,000	18,000
Total	2,651,000	2,508,000

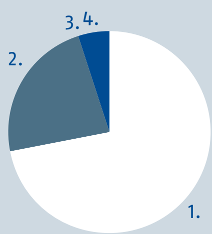
Breakdown of owned properties 2007

1. Strategic properties 76%
2. Standard properties 18%
3. Realisation properties 0%
4. Development properties 6%



Breakdown of owned properties 2006

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



Kesko is a good workplace

At the end of 2007, the aggregate number of the Kesko Group personnel was 25,890, and converted into full-time employees with joint ventures included, the average total in 2007 was 21,180. Of these, 11,338 worked in Finland and 9,842 in other countries. Kesko's most international division is still Rautakesko, with 96% of its employees working abroad.

Kesko and its chain stores employ nearly 50,000 people in eight different countries.

In 2007, the basis of Kesko's HR management was revised and the HR policy and HR principles were updated. The guide 'Our Responsible Working Principles' was published. It contains two elements, namely the Code of Conduct and day-to-day responsibility. The manual implementation among personnel was begun at the end of the year and will be continued in 2008, complemented by e-learning material for the countries in which Kesko operates.

Aiming to be the most attractive workplace in the trading sector

Kesko and the K-stores offer motivating and rewarding jobs working with products and services valued by customers. Kesko is a good and responsible working community where employees are treated on an equal and fair basis.

In 2007, Kesko employed approximately 12,000 new people, including operations outside Finland. 6,000 of them are permanent and the rest work on a fixed term or seasonal basis. Regional job induction days concentrating on customer service were arranged for the K-Group's summer employees and were attended by over 200 people in all.

In 2007, some 1,500 people transferred internally to new jobs, including operations outside Finland. Internal job rotation is encouraged to promote diversified career paths in the K-Group and various trading sector duties. The efficiency of the K-Group's internal labour market coupled with the promotion of controlled job rotation will continue to be emphasized.

Kesko's first K-trainee recruitment and training programme was completed by 18 young trading sector professionals ready to take on managerial and specialist duties. The recruitment of recently graduated university and polytechnic students for the next K-trainee programme began in September. There were more than 700 applicants of whom 18 were admitted to the next programme started in 2008.

Kesko also ranked high in employer profile surveys in 2007. Among commercial students, Kesko's ranking in the list of ideal employers improved from 42nd to 23rd. The increase was even greater in the ranking by young professionals with a university degree, namely from 28th to 16th (Universum).

The most competent and motivated people in the trading sector

Kesko and the K-stores offer their employees competitive benefits and opportunities to develop their competencies in a target oriented manner. K-instituutti is the service centre for the K-Group's competence development. In 2007, its training programmes were attended by 22,100 people. Programmes relating to the reform of the K-Plussa customer loyalty system constituted the biggest single programme in terms of the number of participants, who totalled some 2,200 trading sector professionals.

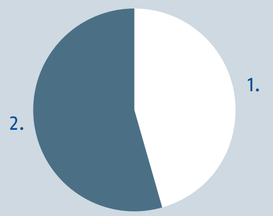
The responsibility for the implementation of the Master Sales Assistant training, which is Finland's largest adult training programme, was transferred from the K-Retailers' Association to K-instituutti at the beginning of 2007. The purpose was to increasingly integrate the Master Sales Assistant training in the staff development programmes. In 2007, there were over 15,000 participants in 12 different product lines. In addition, 6,000 students participated in the Master Sales Assistant training in about one hundred business colleges and polytechnics.

Customer and service competence was the focal area in competence development in every chain. For example, the Best Service sales training in the Anttila and Kodin Ykkönen department stores was attended by some 2,000 employees during the year.

Management and leadership

At Kesko, management is conducted in a responsible manner and in compliance with the corporate values. 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 job satisfaction survey.

Kesko employees by gender, incl. operations outside Finland, %



1. Men 45.6%
2. Women 54.4%

Johanna was attracted to Kodin Ykkönen by

career opportunities

the desire to learn

an interesting field

nice colleagues

A developing and motivating working community is a prerequisite for the wellbeing and excellent performance of employees. At Kesko, the development of the workplace is measured using a job satisfaction survey. The survey measures satisfaction with one's own job, the superior's performance, one's own unit's operations and Kesko's operations in general. The response rate was 63.5%.

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

In addition since 2004, Kesko has implemented a long-term development programme for the management and potential management. There are some 200 participants in the programme, whose purpose is to ensure adequate managerial resources both in terms of quality and quantity. The main themes of management training in 2007 included customer loyalty and responsible management. In August, the K-Group launched its first own K-retail eMBA programme in cooperation with the Helsinki University of Technology. The programme aims to train top experts in international retail management.

For the best personnel productivity in the trading sector

The importance of work productivity has increased. Good productivity relies on efficient and uniform business models determined specifically for each chain, supporting information technology and personnel competence. The immediate supervisors' good leadership ensures that every employee can work efficiently, knows his duties and targets, and is given feedback on his performance.

Kesko's Occupational Health unit focuses on operations that maintain work capacity and promote the wellbeing of the working community. In Finland, 35-45% of the aggregate costs of occupational health are allocated to these activities. Long-term projects focusing on wellbeing at the workplace are being implemented by several companies. The aim is to increase work productivity by reducing sickness absences and raising retirement age.

Work productivity is also raised through different working time systems, which are being increasingly adopted.

The Kesko Staff Club encourages and supports the personnel's hobby and recreational activities.

In 2007, all of the Kesko Group companies in Finland adopted the SAP HR Master main system for personnel data management. The system is planned for adoption abroad and in retail stores in the next few years.

The work and productivity programme launched in 2007 defines the most important HR goals and actions for the new strategy period.

Information about the personnel can also be found in the Corporate Responsibility Report for 2007, which will be published in spring 2008.

HR strategy goals and critical success factors of HR management at Kesko and its stores

- Kesko's and the stores' good reputation as employers
- Responsible and value-guided management
- Efficient performance leadership and motivating immediate superiors
- Competitive salary and benefits
- Competence management and diverse development of competencies in the whole chain
- Service centre of competence development supporting business operations
- Capable and committed key persons

Competitive advantage from chain operations and K-retailer entrepreneurship

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. At the end of 2007, Kesko had 1,285 K-retailer entrepreneurs as partners, as well as 250 other retailer partners.

Cooperation between K-retailers and Kesko - chain operations - is based on the equality of both parties, 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 or her store's customer satisfaction, personnel and profitability of business. The local implementation of chain operations and the management of people and operations by independent retailers in their stores create competitive edge.

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.

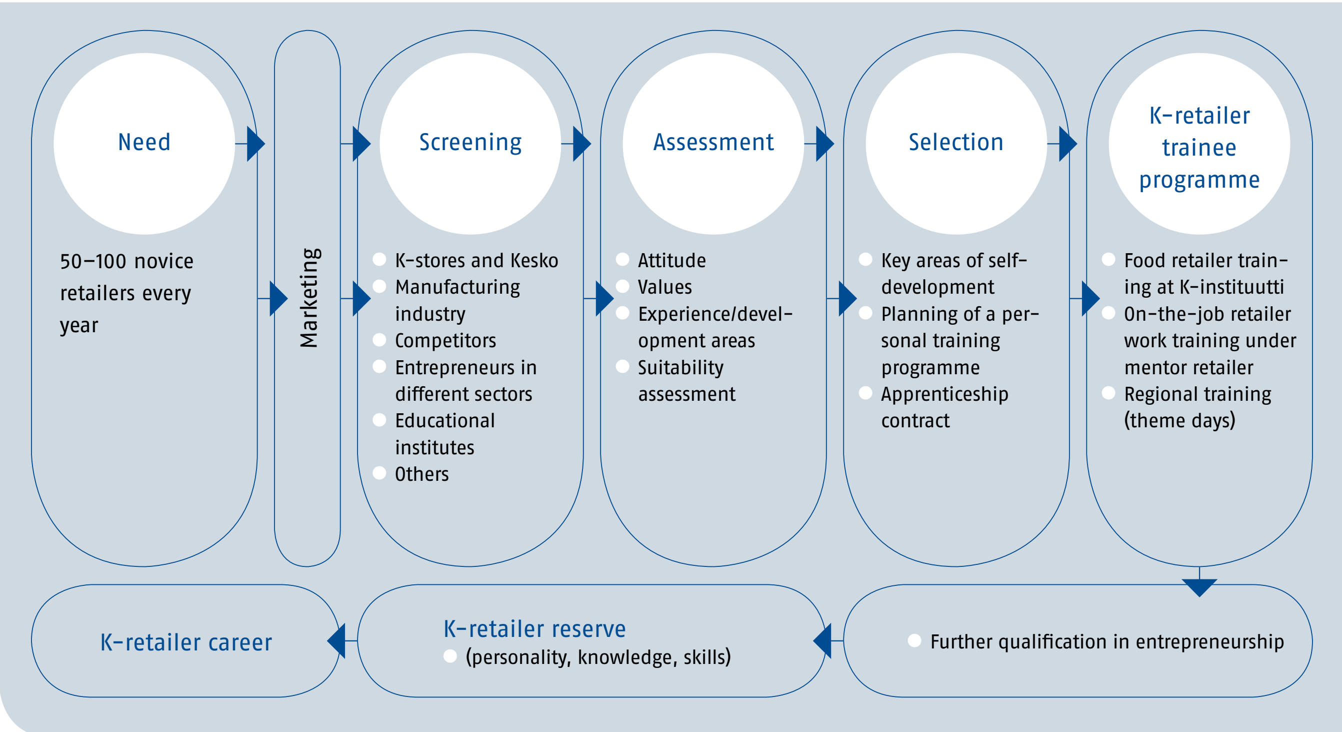
The K-Group systematically trains new retailers to ensure a sufficient supply of people with the appropriate professional skills. New candidates interested in a K-retailer career are sought through different channels. There are about 500 contacts annually. The requirement for new retailers is estimated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

Approximately 50% of those starting the K-retailer trainee 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. When evaluating applicants for the K-retailer trainee programme, attention is paid to their development potential, values, work experience and education.

After selection, would-be K-retailers start the 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. The studies last 6-14 months depending on the participant's education and previous experience. 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



Corporate responsibility in Kesko

Kesko's corporate responsibility comprises good corporate governance, economic, social and environmental responsibility and the work carried out on behalf of product safety and consumer protection. Kesko's corporate responsibility principles were approved by the Corporate Management Board in January 2007. The K-Group's revised environmental policy was approved at the same time. Both have been published at **www.kesko.fi/responsibility**.

Corporate responsibility is an integral part of Kesko's management system and implemented through normal daily activities in the line organisation. Bearing the main responsibility for development, coordination and performance reporting is the corporate responsibility team that operates within the Corporate Communications and Responsibility Unit. The team's work is supported by a Corporate Responsibility Advisory Board, consisting of Kesko's management, appointed by the Corporate Management Board. 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. An Environmental Steering Group is responsible for developing and coordinating of environmental issues in different countries. Kesko Food, the biggest division parent company, has established corresponding steering groups to manage responsibility work in its own organisation.

One of the training programmes provided for Kesko's current and potential managers in spring 2007 – 'Responsible Management' programme – was designed to help participants recognise the importance of responsibility in day-to-day activities and profitable business and to integrate the indicators used in measuring different dimensions of responsibility with business performance indicators and scorecards. In the autumn, the training programme was also implemented at the HR, environmental and communications specialist levels, which raised the total number of participants to some 250.

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 annually handles the Corporate Responsibility Report after it has been published. Kesko's corporate responsibility reporting has been assured by an independent party since 2002.

As in 2006, the 2007 report is assured by csr network, a UK-based CSR consultancy, and by PricewaterhouseCoopers Oy with respect to economic responsibility. The 2007 Corporate Responsibility Report will be published in April 2008.

Top-of-the-world performance continues

Kesko's work for responsibility once again received recognition in many international comparisons evaluating companies' responsibility. For the fifth time in succession, Kesko was included in the Dow Jones sustainability indexes, DJSI World and DJSI STOXX. Kesko's work for the environment, in particular, was highly appreciated in the Dow Jones indexes. In January 2007 the World Economic Forum listed Kesko for the third time among the 100 best companies in the world in sustainable development.

Economic responsibility

Good financial performance makes it easier to assume environmental and social responsibility and, conversely, environmental and social responsibility contribute to reducing costs and promoting job satisfaction. In the Corporate Responsibility Report, economic performance is viewed from the perspective of different stakeholders.

Manufacturing industry an important partner

Kesko's operations produce economic benefit for many different parties. Kesko's purchases from suppliers of products and services totalled about €8.1 billion in 2007. Kesko had about 25,100 active suppliers (from which Kesko's annual purchases exceed €1,000). Approximately 12,500 of these operate in Finland, accounting for 68% of the total purchases. Kesko's investments totalled €233.9 million, of which €177.5 million were spent in Finland. Breakdowns of economic benefits from Kesko's operations in Finland by stakeholder group and region, and the breakdown of imports by country, are given in the Corporate Responsibility Report.

In January-December, the average number of personnel in the Kesko Group was 21,180 converted into full-time employees. There was a decrease of 2,587 employees compared with the corresponding period of the previous year. In Finland, the average decrease was 244 employees and outside Finland 2,343. The number of personnel mainly decreased as


the things emphasized in
Henri's
shopping bag were
care for
the environment
product
safety
a good
feeling
a smooth running
service
100 %
BIOHAJOAVA KASSI
ja 1600 muuta arjen helpottajaa

a result of the disposal of the joint venture Rimi Baltic in December 2006. At the end of December 2007, the total number of personnel was 25,890, of whom 14,192 worked in Finland and 11,698 in other countries. Compared with the end of December 2006, there was an increase of 43 employees in Finland and 2,092 in other countries. The total amount of salaries paid was €501.1 million.

More information on the personnel is given on pages 48–50.

Comprehensive store network for customers

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

At the end of 2007, there was one K-food store fewer than the year before, i.e. 1,070 store located in 367 of Finland's 416 cities and municipalities. 118 new K-retailers started during the year.

There were a total of 179 building and home improvement stores of the K-Group in Finland, 95 agricultural stores, 27 Anttila department stores and 460 speciality stores. In the Baltic countries, there were 26 building and home improvement stores, 13 agricultural stores and 11 furniture stores. In the other Nordic countries, there were 137 building and home improvement stores and 2 furniture stores. In Russia, there were 8 building and home improvement stores, of which three operate in conformity with the new K-rauta concept.

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

Support for the public good

Kesko and its subsidiaries gave financial support amounting to approximately €2.3 million to about one hundred organisations and institutions operating for the public good. The biggest individual campaign was implemented in cooperation with the Young Finland Association to promote physical activity at schools during breaks, for which purpose Kesko donated 2,600 exercise gear bags to schools. The donation was part of the 'Use your K-Plussa card to put children on the move', in which €500,000 were collected to support physical exercise for children.

Environmental responsibility

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

Environmental management

All of Kesko's operations that have a major impact on the environment continued to be certified by the ISO 14001 environmental system. The ISO 14001 certification of Keslog Ltd was revised during the year. VV-Autotalot Oy and Turun VV-Auto Oy received the certificates granted by the Finnish Central Organisation for Motor Trades and Repairs in October 2007. The action plan fulfils the requirements of the ISO 14001 environmental system. ISO 14001 certification also covered Anttila Oy's all operations. At the Anttila department store opened in Mikkeli in October, the building of the environmental system had not yet been completed by the end of the year. Business partners providing property construction, maintenance and waste management services for Kesko also have a corresponding system in place.

At the end of the year, 382 K-food stores, 47 K-rauta and Rautia stores and 23 K-maatalous stores fulfilled the requirements of the K-stores' environmental management concept and qualified for the K-environmental store diploma. Those stores operating as a combination of both building and home improvement stores and agricultural stores are included in the statistics for K-rauta and Rautia stores. The K-instituutti training centre is responsible for environmental store training, while BVQI Finland audits the K-food stores. The concept helps stores improve the efficiency of their energy consumption and waste management, enhance their selection of environmentally sound products and encourage customers to make sustainable consumption choices.

Energy

Energy consumption in the office, warehouse and store properties managed by Kesko and the implementation of consumption targets is monitored in Finland by the EnerKey programme. Electricity consumption is monitored in 81% of properties, while 63% of properties are covered by multi-energy monitoring. Most of these fall under the scope of remote terminal reading via the telephone network, which enables fast reaction to any deviations.

In 2007, the combined electricity consumption of Kesko and the K-stores operating in Kesko's premises in Finland exceeded 746 GWh. Consumption increased by 2%, while the total area of real estate increased by 3.6%. Specific consumption decreased in all the largest property types of Kesko Food. The total consumption of heat (291 GWh) remained at the level of the previous year. Kesko bought, on a centralised basis, 77% of the electricity used. In the generation of the electricity bought by Kesko, the proportion of fossil raw materials had decreased from 2004, but rose in 2007 back to the level of the year 2004, increasing by 25% over the previous year. Fossil fuels and peat were used particularly in condensing power generation, which replaced some of the hydroelectric power and electricity imports.

Kesko was covered by the real estate and construction sector energy saving agreement (KRESS), which terminated at the end of 2007. In 2007, the specific consumption of electricity in the properties included in the agreement increased by 1.2% and the specific consumption of water increased by 3.3%. The increase in the specific consumption of electricity can be attributed mainly to a new banana ripening plant. The specific consumption of heat dropped by as much as 5.1%, in which the K-citymarket's decrease of 4.9% was significant.

Transport

In 2007, Keslog's transport reporting was expanded to cover distance distribution and trunk transportation. In addition, this reporting now covered all outsourced transportation rather than just refrigerated transportation by contract drivers (+2 operators), as had been the case in previous years. Therefore the transport statistics are not comparable with those for previous years. Of the 15.9 million kilometres driven in distribution, 11.6 million kilometres were distance and trunk transportation and 6.7 million kilometres in outsourced transportation. Compared with the previous year, the amount of goods transported by Keslog increased by approximately 10%. The kilometres driven in transportation increased by about 6% per load. The transportation efficiency increased by about one per cent both per kilo and per ton.

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 5% and the waste recovery rate was nearly 90%. Anttila Oy's high recovery rate (98%) matched the level of the previous year. The number of recoverable and reusable packages collected by the K-food stores' return logistics at K-stores and customer restaurants totalled over 92 million. The number of returned cans increased by nearly one half to 81.6 million.

Social responsibility

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

Core areas of Kesko's social responsibility concerning corporate personnel include job satisfaction, equality, competence development, and health and safety. The social responsibility indicators describe the current status and progress of the working community from many perspectives and they are related to Kesko's HR strategy.

In late 2007, a revised guidebook entitled 'Our Responsible Working Principles' was published by Kesko and the K-Group and its message was reinforced by the publication of a web training programme and an animated series. The guidebook has been translated into all the languages used in the Kesko Group and concerns every employee of the K-Group.

Responsible purchasing

In 2007, Kesko established a steering group to develop and coordinate responsible purchasing. During the year the group launched several projects to improve the efficiency of Kesko's supplier audits in developing countries.

Kesko is an active member of the Business Social Compliance Initiative (BSCI), a joint organisation established by European importers to promote social audits in the supplier companies located in developing countries. By the end of the year, the BSCI already had more than 90 companies as its members.

At the end of 2007, BSCI members had a total of 2,582 supplier audits either underway or completed, mainly in Asia. Nearly 30 of these were Kesko's suppliers, and audits have been carried out with 22 of them. Kesko also has 28 suppliers with SA 8000 certification.

The BSCI arranged supplier training in China and Turkey, and supplier and stakeholder meetings related to agricultural supplier audits in Morocco, South Africa and Almería, Spain.

Some of Kesko's Vietnamese suppliers participate in the joint three-year development project by the Social Responsibility in Importing network, the Trade Union Solidarity Centre of Finland (SASK) and the Central Organisation of Finnish Trade Unions -SAK. A BSCI audit was carried out in the supplier companies participating in this project during 2007. The companies also received training in issues related to employees' unionisation.

Responsibility in product trade

At the end of 2007, Kesko Food offered a selection of about 500 organic products and 550 products with environmental labelling. In addition, individual K-retailers continue to purchase local organic and other foods to meet their customers' wishes. The selections included 65 Fairtrade products, eight of which were in the Pirkka range. The extent of the selection varies by store chain. The selection and marketing policies concerning organic and Fairtrade products and products with environmental labelling are included in the K-food stores' chain concepts.

In early 2007 Kesko Food signed an extensive cooperation agreement with the Association for Promoting Fairtrade in Finland. Kesko Food aims to be the market leader in the sales of Fairtrade products in Finland and actively seeks new Fairtrade products for the selection. Fairtrade carnations and mixed bunches were launched in autumn 2007 to complement the Fairtrade roses that had been a huge success.

In April 2007 the K-food stores' own coffee brand, Costa Rica, was replaced by the UTZ-certified Pirkka Costa Rica. The new coffee soon became the most bought responsibly produced coffee in Finland. The UTZ certification is based on complying with the demanding Code of Conduct, which includes both environmental and social aspects. Consumers can trace the UTZ-certified coffee all the way back to the coffee plantation with the help of the coffee pack's 'best before' labelling.

Since the end of 2007, K-food stores have offered the Pirkka 100% biodegradable shopping bag as an alternative for a plastic bag. A new Pirkka non-disposable shopping bag was introduced to the stores at the same time.

The promotion of a healthy way of life is a central part of Kesko Food's responsibility work. The GDA (guideline daily amounts) label was introduced to the Pirkka range, and the amount of salt was reduced in six and the amount of fat in four Pirkka products. The reformulation of Pirkka products with respect to their salt, fat and sugar content will continue during 2008. In cooperation with Dietician Hanna Partanen, Kesko Food has started a series of lectures called 'The best choices of the day', organised by K-food retailers for their customers throughout Finland. The total number of events will reach about 100.

Anttila became the first Nordic retailer to introduce the Swiss Switcher clothing collection in its department stores. Switcher pays special attention to ethical aspects and the environmental impact of the whole production chain. Switcher products have a unique DNA code, which enable the consumer to trace the production phases of the garment all the way back to the cotton field.

Rautakesko offers a wide selection of products with environmental, energy or emission category labelling. The proportion of certified timber out of total timber sales was around 90%. A total of 753 tons of impregnated timber were recycled through the K-rauta and Rautia stores. Tropical wood and timber accounted for under two 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. The heat renovation service of the K-rauta and Rautia chains finds the most suitable heating technique for the customer, surveys opportunities for energy savings and pays special attention to the building's energy efficiency. Rautakesko will publish a guide with advice and hints on sustainable living in March 2008. The themes of the guide are energy, water, internal air, waste management, maintenance and repairs, as well as safety and security. Texts for the guide to be distributed at the K-rauta and Rautia stores have been produced by Motiva, the Ministry of the Environment, the Pulmonary Association Heli, and the Confederation of Finnish Construction Industries.

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 purchasing and marketing units. The recipe service of the unit generates hundreds of recipes for both the K-Group units and directly for consumers. Kesko Food's Consumer Service answers consumer inquiries and receives feedback. In 2007, there were 20,300 such contacts.

Quality control in purchasing is implemented by auditing the operations of product manufacturers and analysing product composition and quality. In 2007, the Product Research Unit audited 28 suppliers, 14 of which were Finnish. These companies mainly included suppliers of Kesko's private labels. A total of 5,022 food novelties and product development samples, and 1,262 product lot and other self-control samples were analysed. Kesko's Product Research Unit also plays a key role in exceptional situations, when a product launched on the market fails to meet safety or quality requirements. A total of 35 product recalls took place, most of which related to defective quality or taste, or a manufacturing or packaging error. Nine of the recall cases were Kesko Food's private label products; in other cases the Product Research Unit assisted the manufacturing industry. Two of the recall cases were public recalls, involving potential health hazards.

Indian guar gum containing dioxin caused extensive recalls in the EU area in early autumn. Guar gum (E412) is used as a thickening additive in very many types of groceries. The Product Research Unit followed the situation carefully and ensured that no polluted lots of guar gum ended up to the manufacturers of Pirkka products. The laboratory also made spot-check type determinations of dioxin, which revealed no deviations. Safety questions of textiles, such as formaldehyde and nonylphenol contents, aroused a lot of discussion throughout the autumn. No contents exceeding the permitted values were found in the analyses made by the Product Research Unit. The new Decree on Food Premises (STMa 905/2007) entered into force on 1 November 2007. The requirements of the revised decree concerning temperatures, for example, will be updated in the K-Group's self-control plans during the transition periods.

Corporate Governance Statement

Decision-making

Rules and regulations to be applied and the Corporate Governance code

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.

Kesko's decision-making and administration comply with the Limited Liability Companies Act, other regulations concerning publicly traded companies, the company's Articles of Association, and the rules and regulations of the OMX Nordic Exchange Helsinki. In addition, the company complies with the Corporate Governance Recommendation for Listed Companies published jointly by the OMX Nordic Exchange Helsinki, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers, which entered into force on 1 July 2004 (Corporate Governance Recommendation).

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

General Meetings

General Meetings are divided into Annual and Extraordinary General Meetings. The Annual General Meeting, which is held on a date by the end of every June designated by the company's Board of Directors, handles the business specified for the Annual General Meeting in the company's Articles of Association and any other proposals that may be made to the Meeting. Kesko's Annual General Meeting has usually been held in March or April. All General Meetings are convened by the company's Board of Directors. If needed, an Extraordinary General Meeting is convened by the Board of Directors. General Meetings usually 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 include

- amendments to the Articles of Association,
- decisions on share issues,
- decisions on increases in the share capital,
- decisions on the distribution of the company's earnings, such as distribution of profit and decreases in the share capital,
- decisions on the number of the Board members,
- the election of all Board members and decisions on their fees,
- the election of the auditor and
- the adoption of the financial statements.

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

Those wishing to attend a General Meeting must notify their intention in advance by the time announced in the notice of the meeting. Shareholders may attend the meeting themselves or through an authorised representative. Each shareholder or representative may have one assistant at the meeting. Minutes are taken at a General Meeting and are made available to shareholders for inspection within two (2) weeks afterwards. The decisions made by a General Meeting are also published in a stock exchange release immediately after the meeting.

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

Further information about the decisions made at Kesko's 2007 Annual General Meeting is available at **www.kesko.fi**.

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. When votes are taken, the proposal supported by more than half of the votes will, in accordance with the Limited Liability Companies Act, normally be the decision of the General Meeting. According to the Limited Liability Companies Act, there are, however, several matters, such as amendments to the Articles of Association and decisions concerning directed share issues, in which a higher qualified majority in relation to the number of shares and the votes to which they give entitlement is needed before a decision is reached.

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.

Supervisory Board

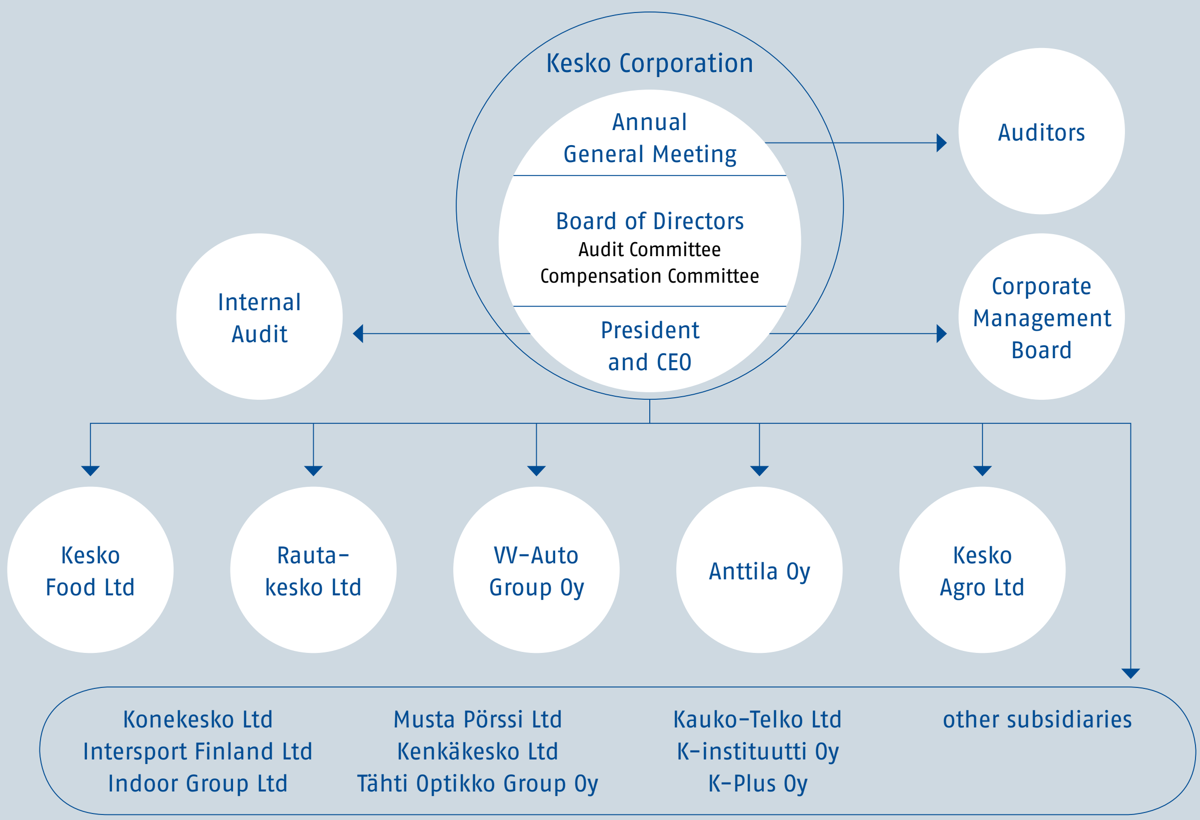
The company has no Supervisory Board.

Board of Directors

Composition and term

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

Kesko Group's Corporate Governance structure



the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election.

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

The Board of Directors elects a Chairman and a Deputy Chairman from among its members annually after the Annual General Meeting.

Deviation from the Corporate Governance recommendation

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

Duties

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

According to the rules of procedure, the responsibilities of the Board of Directors include:

- making decisions on Group strategy and confirming strategies for the divisions,
- making decisions on Group structure and organisation,
- handling and adopting interim financial reports, consolidated financial statements and the Annual Report,
- confirming the Group's operating plan, budget and investment plan,

- making decisions on strategically or financially important individual capital expenditure, acquisitions, disposals or other arrangements, and contingent liabilities,
- confirming the Group's risk management and reporting practice,
- confirming the Group's insurance policy,
- approving the Group's financing policy,
- making decisions on reward and incentive schemes for Group management,
- establishing a dividend policy and being responsible for the development of shareholder value,
- appointing the company's Managing Director and determining his/her remuneration,
- appointing the Managing Directors of the major subsidiaries,
- confirming Kesko's values to be applied in the Group, and
- handling the Corporate Responsibility Report.

Decision-making

Kesko's Board of Directors is always obliged to act in the interests of the company and in such a way that their operations will not give an unjustifiable advantage to a shareholder or other party at the expense of the company or another shareholder. A member of the company's Board of Directors is disqualified to participate in the handling of any matter between him/her and the company. The Chairman of the Board of Directors is responsible for convening and conducting Board meetings. When a vote is taken, the Board of Directors' decision will be the opinion of the majority. If the vote results in a tie, the decision will be the opinion seconded by the Chairman. If the votes cast at an election end in a tie, the result will be decided by drawing lots.

Meeting practice and self-assessment of operations

Kesko's Board of Directors meets about 10 times a year. The Board of Directors has not distributed any special areas of focus in terms of business monitoring to its members. The Board of Directors' Audit Committee and Compensation Committee assist the Board by preparing the matters that must be decided by the Board. The Board of Directors regularly assesses its operations and working practices by carrying out a self-assessment once a year.

Fees and other benefits of the Board of Directors

The Annual General Meeting makes decisions on the fees paid to the members of Kesko's Board of Directors and the basis for compensation for their expenses annually. Fees to the members of the Board of Directors are paid as monetary compensation. Board members have no share-linked fee systems.

Committees of the Board of Directors

Kesko has the Board of Directors' Audit Committee and Compensation 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. In accordance with the Corporate Governance Recommendation, all members of the Audit Committee are independent of the company and its significant shareholders. The Board of Directors has confirmed written rules of procedure for the Committees that lay down their key duties and operating policies.

The Committees have no independent decision-making power, but the Board makes decisions based on the preparations made by the Committees.

Audit Committee

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

Compensation Committee

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

As for the members of the Corporate Management Board, Kesko's Board of Directors decides on the compensation and benefits paid to the Presidents of sub-groups, based on the preparation by the Compensation Committee. Kesko's Board of Directors decides the basis for and the maximum amounts of bonuses paid and the quantity of stock options given to all members of the Corporate Management Board, based on the preparation of the Compensation Committee. The Board of Directors also decides the amounts of bonuses paid to the President and CEO and the Presidents of sub-groups.

Other committees

Kesko's Board of Directors has not established any other committees in addition to the Audit and Compensation Committees.

Further information about Kesko's Board of Directors and its Committees is available on **pages 60–61** 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.

Corporate Management Board

The Kesko Group has a Corporate Management Board, the Chairman 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 matters that are handled by Kesko's Board of Directors, and it also participates in the preparation of these matters. The Corporate Management Board meets 8-10 times a year.

Subsidiary management

Board members of the major subsidiaries are elected from among the management of the Kesko Group. The most important duties of the subsidiary boards include drawing up the companies' and their subgroups' strategies, operating plans and budgets, and making decisions on investments, acquisitions and contingent liabilities within the authorities given by Kesko's Board of Directors.

Reward and incentive schemes

Kesko's Board of Directors has approved the principles of a performance-based bonus system for the Group's management for the year 2007. Depending on the requirements for and profit impact of each management position, the maximum bonuses can vary up to an amount corresponding to a manager'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 an overall assessment. The bonus system covers about 80 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 Compensation Committee.

The company has no valid incentive schemes in which the company would reward the management with company shares.

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

Auditing

According to the Articles of Association, Kesko has one (1) auditor, which shall be a firm of auditors authorised by the Central Chamber of Commerce. The Board of Directors' Audit Committee prepares the Board's proposal concerning the company's auditor for presentation at a General Meeting. The term of an auditor is the company's financial year (a calendar year) and an auditor's duties terminate at the close of the Annual General Meeting following the election.

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

Further information about Kesko's management, auditor and their fees is available on **page 61** and 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 that for profitability is the accumulation of economic value added, monitored via monthly internal reporting. When calculating economic value added, the requirements concerning return on capital are determined annually on market terms. In profit requirements, risk-related division- and country-specific differences have been taken into account. Information about the Group's financial situation is given by interim financial reports and the financial statements release. The Group's sales figures are published in a stock exchange release each month.

Corporate governance – information for 2007

Board of Directors

Kesko's Annual General Meeting held on 27 March 2006 elected seven (7) members to the company's Board of Directors. In accordance with the Articles of Association, the term of the Board members started on 27 March 2006 and will expire at the close of the 2009 Annual General Meeting. The Annual General Meeting elected the following members to the Board of Directors: Retailer Pentti Kalliala, Ilpo Kokkila, Deputy CEO Maarit Näkyvä, Seppo Paatelainen, Keijo Suila, retailer Jukka Säilä, and retailer Heikki Takamäki. The Annual General Meeting held on 26 March 2007 confirmed the number of Board members to be seven.

In its organisation meeting on 27 March 2006, the Board of Directors elected Heikki Takamäki as Chairman and Keijo Suila as Deputy Chairman.

In 2007 Kesko's Board of Directors convened eight (8) times. The average attendance percentage, a figure that illustrates the participation of Board members in the work of the Board, was about 98%.

Board of Directors' Committees

The Chair of the Board of Directors' Audit Committee was Maarit Näkyvä, with Seppo Paatelainen and Keijo Suila as members. The Committee met five (5) times during the year.

The Chair of the Board of Directors' Compensation Committee was Heikki Takamäki, with Pentti Kalliala and Keijo Suila as members. The Committee met four (4) times during the year.

Attendance of Board members at the meetings of the Board of Directors and its Committees in 2007:

	Board	Audit Committee	Compensation Committee	Attendance % (all)	Attendance % (all)
Kalliala, Pentti	7/8		4/4	88	92
Kokkila, Ilpo	8/8			100	100
Näkyvä, Maarit	7/8	5/5		88	92
Paatelainen, Seppo	8/8	5/5		100	100
Suila, Keijo	8/8	5/5	4/4	100	100
Säilä, Jukka	8/8			100	100
Takamäki, Heikki	8/8		4/4	100	100

Board of Directors' fees

Kesko's Board member fees have been paid as monetary compensation. The monthly and meeting fees paid to the Board members in 2007 totalled €291,500 (€274,060 totally in 2006), of which fees paid to Audit Committee members accounted for €10,000 (€8,840) and the fees paid to Compensation Committee members for €6,000 (€3,000). No company shares, stock options or other special rights to company shares have been distributed to Board members. Kesko has given no loans to its Board members or no guarantees or other contingent liabilities for them.

Based on a decision made by the Annual General Meeting on 26 March 2007, the monthly and meeting fees paid in 2007 were the following:

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

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

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

Further information about the members of the Board of Directors and the fees paid to them is available on **pages 66–67** and at **www.kesko.fi**.

Board of Directors' monthly and meeting fees 2003–2007:

Monthly fees	Fee per month, €	
	2006–2007	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, €	
	2006–2007	2003–2005
Fee for Board meeting	500	420
Fee for Committee meeting	500	420
Fee for Chair of a Committee meeting if he/she is not also Chair or Deputy Chair of the Board	1,000	420

Evaluation of independence

Kesko's Board of Directors elected at the Annual General Meeting on 27 March 2006 evaluated the independence of the company's Board members and its significant shareholders, in accordance with item 18 of the Corporate Governance Recommendation, most recently on 26 March 2007. Based on the evaluation, the following persons were found to be independent of the company: Keijo Suila, Deputy Chairman of the Board of Directors, and Ilpo Kokkila, Maarit Näkyvä and Seppo Paatelainen, Board members. The following persons were dependent on the company: Heikki Takamäki, Chairman of the Board of Directors, and Pentti Kalliala and Jukka Säilä, Board members. Pentti Kalliala, Jukka Säilä and Heikki Takamäki are K-retailers, who have a chain agreement with a Kesko Group company.

The Board of Directors evaluated that all its members were independent of significant shareholders of the company as referred to in the Corporate Governance Recommendation.

President and CEO

In 2007, the salaries, bonuses and fringe benefits paid to Matti Halmesmäki, President and CEO, who started in the position at the beginning of March 2005, totalled €736,060 (€598,200 in 2006), of which regular salaries accounted for €500,680 (€446,880), the 2006 bonus paid under the performance-based bonus system for €216,000 (€132,000) and fringe benefits for €19,380 (€19,320).

The President and CEO was paid the maximum bonus for 2006, which equalled his regular salaries for 6 months. Kesko's Board of Directors will make a decision on the 2007 bonuses in spring 2008. During the year, the President and CEO sold 10,000 stock options 2003E and 42,000 stock options 2003F. At the end of the year, he held 50,000 stock options 2007A, the subscription period for which will begin on 1 April 2010.

The retirement ages of the President and CEO is 60 years and his full pension is 66% of the pensionable salary. The President and CEO's notice period is 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.

Corporate Management Board

Starting from 1 June 2007, the Corporate Management Board has comprised Chairman Matti Halmesmäki, Kesko's President and CEO, and members Terho Kalliokoski, President of Kesko Food Ltd; Jari Lind, President of Rautakesko Ltd; Matti Leminen, President of Anttila Oy; Pekka Lahti, President of VV-Auto Group Oy, as well as Arja Talma, Senior Vice President, CFO; Riitta Laitasalo, Senior Vice President, Human Resources; and Paavo Moilanen, Senior Vice President, Corporate Communications and Responsibility, of Kesko. Juhani Järvi, the former Corporate Executive Vice President, Deputy to the President and CEO, renounced his membership in the Corporate Management Board as of 1 June 2007.

In 2007, the members of the Corporate Management Board, excluding the President and CEO, received* €1,378,699 (€1,358,570 in 2006) in salaries, €100,172 (€117,879) in fringe benefits and €218,210 (€174,804) in bonuses, €1,697,081 (€1,651,253) in all.

During 2007, the members of the Corporate Management Board, excluding the President and CEO, sold 5,000 stock options 2003D, 46,000 stock options 2003E and 90,500 stock options 2003F. At the end of the year, they had a total of 13,000 stock options 2003E, 56,500 stock options 2003F and 145,000 2007A stock options, the subscription period for which will begin on 1 April 2010. Further information about Kesko's Corporate Management Board is available on **pages 68–69** and at **www.kesko.fi**.

Auditing

The 2007 Annual General Meeting of Kesko elected one auditor for the company: PricewaterhouseCoopers Oy, Authorised Public Accountants, with Pekka Nikula, APA, as the auditor with principal responsibility.

The fees paid in 2007 to firms that belong to the PricewaterhouseCoopers chain in Finland and other countries for auditing Kesko Group companies totalled €786,815 (€1,122,780 in 2006), while the fees paid for consulting services, including tax and IFRS consultation, totalled €363,201 (€411,420). In some Kesko Group companies, auditing is carried out by auditors other than those belonging to the PricewaterhouseCoopers chain. The amount of auditing fees paid to all auditors totalled €905,351 (€1,271,860) in 2007.

Insider administration

Kesko's insider regulations

Kesko's Board of Directors has confirmed Kesko's insider regulations for permanent and project-specific insiders. They take into account the regulations of the Market Securities Act and the standard on insider holdings and insider registers issued by the Financial Supervision Authority. The contents of the regulations also correspond with the insider rules of the OMX Nordic Exchange Helsinki. 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, and the auditor with principal responsibility in the firm of auditors. Kesko Corporation's Board of Directors has also stipulated that, in addition to the President and CEO, 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 the Finnish Central Securities Depository Ltd. The Legal Affairs Unit sends, at regular intervals, permanent public insiders an extract of the information in the insider register and monitors the permanent insiders' compliance with trading restrictions. Kesko's permanent insiders may not acquire or transfer securities issued by the company, including securities or derivative financial instruments entitling to them, during 21 days prior to the publication of interim financial reports and during 28 days prior to publication of annual financial statements. These dates of publication are announced annually in advance by stock exchange release. Furthermore, the persons involved in possible insider projects may not trade in such securities or derivative financial instruments during the project.

Further information about the holdings of Kesko's permanent public insiders is available on **pages 143–144** or see updated information at **www.kesko.fi**.

Stock exchange releases

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

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

Risk management at Kesko

The objective of Kesko's risk management is to ensure the fulfilment of the Group's customer promises, the improvement of shareholder value, good profit performance, the ability to pay dividends and the continuation of business. Efficient risk management is a competitive advantage for Kesko. In the Kesko Group, a risk has been defined as any kind of uncertainty factor that may lead to:

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

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

*Juhani Järvi is included in the year 2007 figures until 31 May 2007. In the year 2006 figures, Juhani Järvi is included for the whole year.

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 and the Corporate Governance Recommendation. The policy defines the objectives, principles, organisation, responsibilities and key practices of risk management. Risk management is an essential part of management and day-to-day operations. The risk management process generates information about risks and the status of management responses. It leads, if necessary, to remedial actions or the consideration of changes in strategy.

Principles of risk management

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

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

Risk management organisation and responsibilities

The business management is responsible for risk management in practice. Persons responsible for risk management have been appointed in the divisions to coordinate and report on risk management activities. Kesko Food and Rautakesko also have a risk management function of their own, which supports the implementation of risk management in the division.

The Corporate Risk Management Unit is responsible for developing and maintaining risk management tools, introducing best practices to the Group and reporting on risk management to the Group management. The Unit is also responsible for Group-level principles concerning non-life insurances, for insurance programmes and coordination of non-life insurances.

Kesko has a 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 guidelines, and discusses and assesses the Group's risks and the implementation of risk management responses.

Risks are reported to the Audit Committee of Kesko's Board of Directors on a regular basis. Kesko Corporation's Board of Directors considers the major risks and assesses the functioning of risk management at least once a year.

The Internal Audit Department assesses the functioning of risk management annually and reports on the level of risk management to Kesko's Board of Directors' Audit Committee.

Risk management developments in 2007

Systematic implementation of the new risk management policy continued in the business divisions and units. Assessment and reporting of risks and their management activities have been enhanced and specified. The divisions have assessed the risks in connection with the strategy cycle and prioritised them according to their criticality and management level. The impact of risk materialisation has been evaluated in euros. The division parent companies' risks and their management activities have been discussed by the companies' management. The divisions have updated their risk assessments quarterly, and separate risk analyses have been made for major projects. Group units, such as Corporate Accounting, Treasury, Corporate Communications and Responsibility, Legal Affairs and IT Management, have analysed the risks threatening the 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 for Kesko Corporation's Board of Directors' Audit Committee.

Kesko's Corporate Management Board has analysed and prioritised the major risks of the Group.

The Group has confirmed the new information security policy, principles of continuity management, loss prevention principles and directions concerning the inspection and reporting of malpractice. Their implementation has started and, for example, malpractice is regularly reported to senior management and the Board of Directors' Audit Committee. Quarterly reports have also been prepared for the management on topical issues and best practices related to risk management.

Kesko has Group-level cooperation networks in risk management, and corporate and information security. They aim to increase risk awareness, leverage expertise and share best practices across division and country boundaries.

Risk management emphases in 2008

Key issues in operative risk management include improving continuity management and the efficiency of loss prevention. The new deviation reporting system produces information about disturbances in operating activities, so as to effectively prevent disturbances in advance.

Risks and their management

The Kesko Group's risk analyses have, for example, addressed the following risks and their management in 2007.

Delivering the customer promise

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

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. In order to manage this risk the Product Research Unit controls the quality of products sold by Kesko Food and Anttila and also supervises companies manufacturing products for Kesko Food.

The trading sector's self-control practices play a key role in ensuring the quality of foodstuffs sold and the observance of regulations and rules concerning them. The practice of recalling products ensures that defective products are withdrawn from sale quickly. Ethical purchasing principles and related guidelines secures the ethical quality of products.

Store sites

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

Contracts made on leased properties also take flexibility into account. The acquisition of new store sites can be delayed not only by shortage of sites, town planning and permit practices, but also by the price trends of sites and construction. Different countries also have their specific features. Online sales are growing, which affects the store network. Success in e-commerce requires a completely new kind of business expertise, logistics and information security solutions.

Suppliers and distribution channels

In business divisions that are strongly dependent on individual principals, 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.

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, for example. The most important loss prevention activities include uniform measuring and monitoring of shrinkage, and the consequent development and introduction of new management methods. Loss resulting from unsuccessful purchasing is managed by surveying customer needs, planning selections carefully, and monitoring.

Internationalisation

Internationalisation aims at growth either through business acquisitions or expanding the existing store network. Success in international growth requires careful planning of acquisitions and expansion projects, resources and risk management. Challenges include different cultures, local business practices, authorities' actions and fast-changing operating environments. Finnish retail trade operating processes and control practices cannot always be introduced as such outside Finland. The efficient steering of operations and the achievement of synergy benefits require implementation of common practices and information systems across country and organisational boundaries.

Personnel

Competition for skilled employees has intensified in the labour market. Recruiting competent employees and retaining their commitment is challenging particularly in the Baltic countries and Russia. Implementation of strategies requires competent and motivated personnel. There is a risk that the trading sector will not attract the most skilled people. Specialisation increases dependence on the competence of individuals. In updating strategies, the competencies required to implement the strategy are identified, and personnel plans are drawn up on that basis. Job satisfaction surveys play a central role in the development of management and leadership. Kesko's employer image is redefined by systematic internal and external communications and stakeholder cooperation.

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 continuity management projects underway which aim 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. Confidentiality of customer and employee information is protected with up-to-date information security solutions. Appropriate guidelines are also of key importance for keeping business secrets confidential. Critical transactions, such as payments, are protected with job descriptions, acceptance limits, access rights and system controls.

Legislation, agreements and ethical principles

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

Contractual risks are managed by harmonising agreements and agreement-making processes. An essential issue in the chain agreements between Kesko and the retailers is finding solutions for the high-quality delivery of customer promise and commitment to the chain business. The efficient steering of chain operations is, to some extent, complicated by interpretations of competition legislation.

Kesko has specified its guidelines concerning responsible working principles and commenced the related communications and introduction. Discussions between managers and other employees are being arranged in connection with the key contents of the guide.

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 wrong or a release fails to meet regulations, this may result in investors and other stakeholder groups losing confidence and in possible sanctions. Further pressure is put on the accuracy of financial information by the tightening of information disclosure schedules and the dependence on information systems. These risks are minimised by careful scheduling and control of the process and by ensuring proper resources and sufficient competence.

Other risks

Damage, accidents and crimes are prevented with uniform practices and cost-efficient safety precautions. Financial losses and interruptions in operations are covered with Group-wide and appropriate insurance, revised on a regular basis.

Financial risks

With respect to financial risks, the Group observes a uniform financial policy that has been approved by Kesko's Board of Directors. The Corporate Treasury unit is responsible centrally for Group funding, liquidity management, relations with providers of finance, and the management of financial risks. Financial risks include the currency risk, the interest rate risk, the liquidity risk, the credit risk and commodity risks. Further information about them is available in Note 44 of the financial statements, 'Financial risk management'.

Internal audit

Roles of management and the Internal Audit Department in internal control

The Audit Committee of Kesko's Board of Directors has confirmed Kesko's internal audit policies, which are based on good auditing principles, widely accepted internationally. The main duty of the Group's Internal Audit Department is to support Kesko's President and CEO, the Board of Directors and management in their task of control.

Internal control is an essential part of corporate governance and management. The Board of Directors and the Managing Director are responsible for organising internal control. The Board of Directors is accountable to shareholders and the Managing Director to the Board of Directors. The chain of responsibilities continues throughout Kesko's organisation so that the direct subordinates of the President and CEO report to him, and each Kesko employee is accountable for the internal control of his/her area of responsibility to his/her immediate superior.

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

Organisation and focus of internal audit

The operating policies of Kesko's Internal Audit Department have been defined in the Charter confirmed by the Audit Committee. The department is subject to the Group's President and CEO and the Audit Committee, 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 Audit Committee regularly handles a summary of the Internal Audit Department's reports and activities.

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

When recruiting people to conduct auditing outside Finland, special attention has been paid to their competence and knowledge of local circumstances in Kesko's main geographical areas. The Internal Audit Department's foreign operations team represents four nationalities and masters seven languages. IT auditing has been strengthened by increasing resources, developing IT-assisted audit models and enhancing all internal auditors' IT competence.

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 purchasing and 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 Internal Audit Department communicates and consults on good audit 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 Internal Audit Department must have sufficient resources available and the knowledge, skills and other competencies needed for performing its duties. The President and CEO and the Audit Committee approve the Department's annual plan and decide on its resources.

The auditors' competencies are developed by systematic professional education and examinations. Kesko's Internal Audit Department has six employees with the international qualification of Certified Internal Auditor and two employees with the qualification of Certified Information System Auditor, both qualifications 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 Internal Audit Department mainly complies with the international professional and ethical IIA standards.

Up-to-date information on Kesko's Corporate Governance is available at **www.kesko.fi**.

Board of Directors on 31 December 2007

Heikki Takamäki

b. 1947.
Domicile: Tampere, Finland.

Chairman
(Chairman of the Compensation 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 2007: €65,500.
Kesko shares and stock options held on 1 January 2007: 104,470 A shares and 42,120 B shares held by him or his company. No stock options.
On 31 December 2007: 104,470 A shares and 42,120 B shares. No stock options.

Keijo Suila

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

Deputy Chairman (member of the Audit Committee, member of the Compensation 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: Supervisory Board Deputy Chairman, the Confederation of Finnish Industry and Employers Foundation: member of the Board of Directors, Nokia Corporation: member of the Board of Directors.
Fees in 2007: €49,500.
Kesko shares and stock options held on 1 January 2007: No shares. No stock options.
On 31 December 2007: No shares. No stock options.

Pentti Kalliala

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

Principal occupation: Retailer, K-supermarket Raisio Center.
Main employment history: K-food retailer 1980–1992. K-supermarket retailer since 1992.
Board member since: 31 March 2003.
Main simultaneous positions of trust: K-Retailers' Association: Chairman, Foundation for Vocational Training in the Retail Trade: Chairman of the Board of Directors, SV-kauppias-kanava Oy: Chairman of the Board of Directors, Vähittäiskaupan Tilipalvelu VTP Oy: member of the Board of Directors, Commercial Employers' Association: deputy member of the Board of Directors, Employers' Confederation of Service Industries (PT): Supervisory Board member, the Federation of Finnish Commerce: member of the Board of Directors, Raisio plc: Supervisory Board member, Confederation of Finnish Industries EK: member of Delegation for Entrepreneurs.
Fees in 2007: €35,000.
Kesko shares and stock options held on 1 January 2007: 88,560 A shares and 111,200 B shares held by him or his company. No stock options.
On 31 December 2007: 88,560 A shares and 111,200 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: Chairman of the Board of Directors.
Main employment history: A-Betoni Oy: constructor 1972–1974, Perusyhtymä Oy: director 1974–1987, SRV Group Plc: Chairman of the Board of Directors 1987–, Pontos Ltd: Chairman of the Board of Directors 2002–
Board member since: 27 March 2006.
Main simultaneous positions of trust: JTO School of Management: Chairman of the Board of Directors, the Finnish Lifeboat Society: Delegation member, the Association for Promoting Voluntary National Defence of Finland: Delegation member, Finnish-Russian Chamber of Commerce (FRCC): Deputy Chairman of the Board of Directors.
Fees in 2007: €34,000.
Kesko shares and stock options held on 1 January 2007: 16,100 B shares held by him. No stock options.
On 31 December 2007: 16,100 B shares held by him. No stock options.

Maarit Näkyvä

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

Principal occupation: Sampo Bank plc: Deputy CEO.
Main employment history: Unitas Bank Ltd.: Director 1990–1995, Merita Bank Ltd.: Director 1995–1996, Merita Fund Management Ltd: President 1996–1997, Leonia Bank plc: member of the Board of Directors 1998–2000. Sampo plc's Executive Vice President 2001–2006. Sampo Bank plc's Deputy CEO since 15 October 2005.
Board member since: 1 January 2001.
Main simultaneous positions of trust: Sampo Pankki plc: member of the Board of Directors.
Fees in 2007: €37,500.
Kesko shares and stock options held on 1 January 2007: No shares. No stock options.
On 31 December 2007: 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: Luja-Yhtiöt: director, Itikka Lihabotnia Oy and Itikka Co-operative: CEO 1988–1991, Atria Group plc: CEO 1991–2006.
Board member since: 27 March 2006.
Main simultaneous positions of trust: Ilkka-Yhtymä Oyj: member of the Board of Directors.
Fees in 2007: €36,000.
Kesko shares and stock options held on 1 January 2007: No shares. No stock options.
On 31 December 2007: No shares. No stock options.

Jukka Säilä

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

Principal occupation: Retailer, K-kenkä Koskikeskus, K-kenkä Turtola, K-kenkä Ideapark.
Main employment history: Ovako Koverhar: Purchasing Department Manager 1979–1988, K-kenkä retailer since 1988.
Board member since: 27 March 2006.
Main simultaneous positions of trust: Confederation of Finnish Industries EK: member of the regional advisory board of Pirkanmaa.
Fees in 2007: €34,000.
Kesko shares and stock options held on 1 January 2007: 4,000 A shares and 1,100 B shares held by him or his company. No stock options.
On 31 December 2007: 4,000 A shares and 1,100 B shares held by him or his company. No stock options.

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

Corporate Management Board on 31 December 2007

Matti Halmesmäki Terho Kalliokoski Jari Lind Matti Leminen

Matti Halmesmäki

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

Other major duties: Confederation of Finnish Industries EK: Deputy Chairman of the Board of Directors, the Finnish Fair Corporation: member of the Board of Directors, the Federation of Finnish Commerce: member of the Board of Directors, Varma Mutual Pension Insurance Company: Supervisory Board member, Luottokunta: Chairman 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 2007: 10,000 E and 42,000 F stock options.
On 31 December 2007: 50,000 A 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: Deputy Chairman of the Board of Directors, the Association of Finnish Advertisers: member of the Board of Directors, Association for the Finnish Work: member of the Council.
Employment history: employed by Kesko Corporation since 1985: Project Planner, Store Site Office (Helsinki) 1985–1987, Investment Manager, Real Estate Department (Helsinki) 1988–1990, Financial Manager, Northern Finland (Oulu) 1990–1995, Retail Services Manager, Grocery Retail Services (Oulu) 1995–1996, Sales Director, Supermarket Chain Unit (Oulu) 1996–1997, District Director, Northern Finland (Oulu) 1998–2002, Senior Vice President, Kesko Real Estate (Helsinki), 2002–2005. President of Kesko Food Ltd since 1 May 2005.
Kesko shares and stock options held on 1 January 2007: 21,000 F stock options.
On 31 December 2007: 1,500 B shares and 21,000 A 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. Rautakesko Ltd's President since 1 March 2005.
Kesko shares and stock options held on 1 January 2007: 24,000 F stock options.
On 31 December 2007: 25,000 A 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.
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 2007: 10,500 E and 15,000 F stock options.
On 31 December 2007: 20,000 A, 7,000 E 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 since 2001 and President of Kesko Agro Ltd 2005. Chairman of the Boards of Kesko Agro Ltd and 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 2007: 10,500 E and 24,000 F stock options.
On 31 December 2007: 20,000 A 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 2007: 5,000 D, 21,000 E and 21,000 F stock options.
On 31 December 2007: 15,000 A, 5,000 E 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 Chairman of the Audit Committee, VR-Group Ltd: member of the Board of Directors and Chairman of the Audit Committee.
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 2007: 9,000 E and 21,000 F stock options.
On 31 December 2007: 25,000 A 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: Senior Vice President, Corporate Communications since 13 October 2005.
Kesko shares and stock options held on 1 January 2007: 8,000 E stock options.
On 31 December 2007: 500 A shares and 15,000 A and 1,000 E 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.

Financial statements

Report by the Board of Directors

Net sales and profit, continuing operations

Net sales and profit in October–December

The Group's net sales in October-December 2007 were €2,455 million, which is 6.5% up on the corresponding period of the previous year (€2,304 million). The Group's net sales increased by 4.6% in Finland and by 13.2% abroad. Excluding business acquisitions and disposals, the Group's net sales increase was 6.1%. Exports and foreign operations accounted for 23.3% (21.9%) of net sales.

In October-December, the K-Group's (i.e. Kesko's and the chain stores') retail sales were €3,125.9 million, an increase of 8.8% on the corresponding period of the previous year.

The Group's profit before taxes for October-December was €68.9 million (€31.3 million). The operating profit excluding non-recurring items was €74.5 million (€71.4 million), representing 3.0% of net sales (3.1%). Especially Rautakesko improved its profit excluding non-recurring items. The operating profit was €70.8 million (€37.6 million), decreased by a net total of €-3.7 million (€-33.8 million) in non-recurring gains and losses from disposal of fixed assets and businesses, and impairment charges. The non-recurring items include €4.3 million of costs relating to the discontinuation of Asko Möbler AB's operations.

The consolidated earnings per share from continuing operations were €0.41 (€0.21). Equity per share was €19.53 (€17.94).

Net sales and profit in January–December 2007

The Group's net sales in January-December 2007 were €9,534 million, which is 9.0% up on the previous year (€8,749 million). The Group's net sales increased by 6.0% in Finland and by 20.4% abroad. Excluding business acquisitions and disposals, the Group's net sales increase was 8.9%. Exports and foreign operations accounted for 22.8% (20.7%) of net sales.

In the whole of 2007, the K-Group's (i.e. Kesko's and the chain stores') retail sales were €11,575.6 million, an increase of 9.7% on the previous year.

The Group's profit before taxes for January-December was €369.3 million (€357.8 million). The Group's profit before taxes included €37.1 million in non-recurring gains on the sale of SATO Corporation shares. The operating profit excluding non-recurring items was €325.1 million (€279.8 million), up €45.3 million on the previous year. Especially Kesko Food and Rautakesko improved their operating profits excluding non-recurring items. The operating profit excluding non-recurring items represented 3.4% (3.2%) of net sales.

The Group's operating profit was €331.9 million (€362.6 million). The operating profit included a net total of €6.8 million (€82.8 million) in non-recurring gains and losses from disposal of fixed assets and businesses, and impairment charges. In 2006, the gains from disposal of fixed assets included €99.3 million received by Kesko from selling its retail store properties to Niam Retail Holding Finland AB.

The consolidated earnings per share from continuing operations were €2.61 (€2.45). Equity per share was €19.53 (€17.94).

Investments

The Group's investments in October-December totalled €69.9 million (€88.0 million), which is 2.8% (3.8%) of net sales. Investments in retail store sites amounted to €62.1 million (€71.4 million). Investments in acquisitions were €0.9 million (€6.9 million) of total investments. The Group's other investments were €6.8 million. Investments in foreign operations represented 24.3% of total investments.

The Group's investments in January-December totalled €233.9 million (€250.5 million), which is 2.5% (2.9%) of net sales. Investments in retail store sites amounted to €189.0 million (€186.6 million). Investments in acquisitions were €6.0 million (€16.2 million) of total investments. The Group's other investments were €38.9 million. Investments in foreign operations represented 24.1% of total investments.

Finance

In October-December, the cash flow from operating activities was €70.2 million (€118.5 million) and the cash flow from investing activities was €-71.0 million (€146.9 million). The latter included €5 million in proceeds received from the disposal of fixed assets.

In January-December, the cash flow from operating activities was €248.4 million (€327.9 million) and the total cash flow from investing activities was €-84.7 million (€202.7 million). The latter included €50 million received from the disposal of food store properties in the Baltic countries, and €46 million from selling SATO Corporation shares. The comparable cash flow from investing activities was increased by the over €200 million amount received in March 2006 from selling real estate, and the €190 million amount received in December 2006 from the sale of Rimi Baltic AB shares.

At the end of the period, liquid funds totalled €351 million (€398 million). The amount was affected by the disposal of food store properties in the Baltic countries and the disposal of SATO Corporation shares mentioned above. Interest-bearing net debt was €275 million (€212 million). At the end of the period, equity ratio was 48.5% (47.0%) and gearing 14.0% (11.9%).

In October-December, the Group's net financial expenses were €1.9 million (€5.9 million). In January-December, the Group's net financial income was €37.0 million (€-5.5 million). They were increased by the €37.1 million non-recurring gain on the sale of SATO shares and interest income from liquid funds, and decreased by the costs of currency risk hedging.

Taxes

In October-December, the Group's taxes were €21.4 million (€8.4 million). The effective tax rate was 31.1% (26.8%). In January-December, the Group's income taxes were €90.2 million (€107.1 million), corresponding to an effective tax rate of 24.4% (29.9%).

The taxes for October-December include €5.8 million relating to Rautakesko Ltd's fiscal year 2001 in consequence of the Helsinki Administrative Court's decision. The taxes for January-December 2006 included taxes from prior periods to the amount of €24.5 million. Rautakesko Ltd and Kesko Corporation apply for leave to appeal against the Administrative Court's decisions from the Supreme Administrative Court.

Discontinued operations

The sale to Rimi Baltic AB of food store properties that had been leased to it was concluded in January. The gain on the disposal was €28.2 million.

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.

Personnel

In October-December, the average number of personnel in the Kesko Group was 22,023 (23,534) converted into full-time employees. There was a decrease of 1,511 employees compared with the corresponding period of the previous year. In Finland, the average decrease was 68 employees, while outside Finland it was 1,443.

In January-December, the average number of personnel in the Kesko Group was 21,180 (23,767) converted into full-time employees. There was a decrease of 2,587 employees compared with the corresponding period of the previous year. In Finland, the average decrease was 244 employees, while outside Finland it was 2,343. The number of personnel mainly decreased as a result of the disposal of the joint venture Rimi Baltic AB in December 2006.

At the end of December 2007, the total number of personnel was 25,890 (23,755), of whom 14,192 (14,149) worked in Finland and 11,698 (9,606) in other countries. Compared with the end of December 2006, there was an increase of 43 employees in Finland and 2,092 in other countries.

Market review

In 2007, the Finnish economy continued its strong growth at a rate of about 4.0%. Towards the end of the year, however, the growth slowed down. In Finland, the strong growth of private consumption continued. It is forecast that the growth rate of the Finnish economy will decelerate in 2008 compared with 2007, mainly as a result of weakening export demand. The worsened outlook for the US economy will affect the growth of the whole euro zone economy. In Finland, private consumption is forecast to grow by some 3% and investments by about 3.6%. The increase in consumer prices is forecast to reach 2.7%. Housing production is expected to shrink during this year (Nordea).

According to the preliminary data of Statistics Finland, in January-November 2007, the volume of Finnish retail trade increased by 8.0% compared with the corresponding period of the previous year. The increase in the wholesale trade volume was 12% in the same period.

According to Statistics Finland's consumer survey of January 2008, consumers' confidence in the economy has been waning steadily since summer 2007, and Finland's economic growth is estimated to slow down further in the near future. Consumers also anticipate that inflation will clearly speed up over the next 12 months. Consumers' views concerning their saving possibilities continue to be bright, although in other respects their views concerning their own finances are more cautious than before. Buying durable goods was considered particularly cost-effective in January.

In 2008, the Estonian economy is forecast to grow by 4.0%, the Latvian economy by 5.6% and the Lithuanian economy by 7.4%. Private consumption is estimated to grow by about 6.0% in Estonia, by 7.0% in Latvia and by 14.0% in Lithuania. Consumer prices are forecast to rise by 7.9% in Estonia, by 12.0% in Latvia and by 7.0% in Lithuania (Nordea).

The Swedish economy is forecast to grow by 2.1% and private consumption by 2.7% in 2008. Consumer prices are expected to increase at a rate of 3.2% (Nordea). The increase in investments is forecast to slow down and that of housing construction to level off (Nordea).

The Norwegian economy is forecast to grow by 2.9% and private consumption by 3.0% in 2008. Consumer prices are expected to increase by about 3.3% (Nordea).

The Russian economy is forecast to grow by 7.0% in 2008. Private consumption is estimated to increase by 10% and investments by 21%. Consumer prices are expected to increase by 12% (Nordea).

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

Divisions

Kesko Food

In October-December, Kesko Food's net sales totalled €1,046 million, up 7.7%. In January-December, the net sales were €3,871 million, an increase of 7.1%.

In October-December, Kesko Food's operating profit excluding non-recurring items was €39.8 million (3.8% of net sales), up by €2.8 million and relatively at the same level as in the previous year. Kesko Food's operating profit was €40.0 million (€36.9 million).

In January-December, Kesko Food's operating profit excluding non-recurring items was €151.4 million (3.9% of net sales), i.e. €22.8 million, or 0.4 percentage points, more than in the previous year. The operating profit increased as a result of good retail sales growth and improved cost efficiency. The operating profit was €151.3 million (€173.2 million). The comparable operating profit was increased by non-recurring gains on the disposal of real estate and businesses.

In October-December, Kesko Food's investments totalled €37.8 million (€36.4 million), of which investments in retail store sites were €36.7

Net sales by division, continuing operations

€ million	2007	2006	change, %
Kesko Food, Finland	3,854	3,597	7.1
Kesko Food, other countries*	17	17	-3.1
Kesko Food, total	3,871	3,615	7.1
Rautakesko, Finland	909	821	10.7
Rautakesko, other countries*	1,628	1,308	24.5
Rautakesko, total	2,537	2,129	19.2
VV-Auto, Finland	779	769	1.3
VV-Auto, other countries*	26	20	27.1
VV-Auto, total	805	789	2.0
Anttila, Finland	544	527	3.1
Anttila, other countries*	20	20	-2.3
Anttila, total	564	548	2.9
Kesko Agro, Finland	499	482	3.5
Kesko Agro, other countries*	295	273	7.9
Kesko Agro, total	793	755	5.1
Other operating activities, Finland	806	776	3.8
Other operating activities, other countries*	192	170	12.9
Other operating activities, total	997	946	5.4
Common operations and eliminations	-34	-32	5.7
Finland, total	7,357	6,941	6.0
Other countries, total*	2,177	1,808	20.4
Group, total	9,534	8,749	9.0

*Export and net sales in other countries than Finland.

million (€34.6 million). In January-December, investments totalled €117.6 million (€82.2 million), of which investments in retail store sites were €104.8 million (€74.2 million).

In October-December, the retail sales of the K-food stores increased by 10.8%, totalling €1,387 million (incl. VAT). In January-December, the retail sales increased by 7.4% to €5,046 million (incl. VAT). At the end of December, there were a total of 1,070 K-food stores.

Kesko Food continued the intensive development of the K-food store network. In October-December, a K-citymarket was opened in Kerava, K-supermarkets in downtown Lahti and Mikkeli, in Muhos and Kiiminki, and K-markets in Aurinkolahti, Helsinki, in downtown Kuopio, in Aittaranta, Joensuu, in the rural municipality of Jyväskylä, in Mouhijärvi and Ii. The K-citymarket in Rauma was reopened after extension. Other renovations and extensions were also implemented.

The most important store sites being built are K-citymarkets in Päiväranta, Kuopio, in Pori, Tornio, Jämsä, Klaukkala, Ylöjärvi, and in the Skanssi shopping centre in Turku, as well as the transformation of a K-supermarket into a K-citymarket in Rusko, Oulu, and K-supermarkets being built in Hämeenlinna and Hämeenkyrö, in the Anttila shopping centre in Joensuu, in Kuninkoja, Raisio, in Mustasaari, Alavus, Haukipudas, Viitasaari, Rauma and Konala, Helsinki.

The growth rate of the total grocery trade market in Finland for January-December is estimated at about 5% up on the previous year. Prices increased at an average monthly rate of about 2% compared with the previous year (Statistics Finland).

Kesko Food's net sales are expected to grow in 2008. Owing to major investments in store sites and information systems, Kesko Food's operating profit excluding non-recurring items in 2008 is expected to match the level of 2007.

Rautakesko

In October-December, Rautakesko's net sales amounted to €622.3 million, an increase of 15.1%. The contribution of acquisitions excluded, the net sales growth was 12.3%. Net sales in Finland were €195.4 million, an increase of 7.1%. The net sales of foreign subsidiaries were €426.1 million, up 19.1%. Foreign subsidiaries contributed 68.5% to Rautakesko's net sales.

Operating profit by division, continuing operations

€ million	2007	2006	change
Kesko Food	151.3	173.2	-21.9
Rautakesko	117.8	139.3	-21.5
VV-Auto	26.1	29.4	-3.4
Anttila	27.2	38.7	-11.5
Kesko Agro	12.9	9.2	3.7
Other operating activities	21.2	4.9	16.2
Common operations and eliminations	-24.5	-32.1	7.7
Group's operating profit	331.9	362.6	-30.8
Net financial income and expenses	37.0	-5.5	42.5
Associates	0.4	0.7	-0.2
Profit before taxes	369.3	357.8	11.5

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

€ million	2007	2006	change
Kesko Food	151.4	128.6	22.8
Rautakesko	115.9	91.2	24.8
VV-Auto	26.1	29.5	-3.4
Anttila	25.2	26.5	-1.2
Kesko Agro	12.4	7.8	4.6
Other operating activities	24.0	21.6	2.4
Common operations and eliminations	-29.9	-25.3	-4.6
Total	325.1	279.8	45.3

Group indicators by quarter

	10-12/2006	1-3/2007	4-6/2007	7-9/2007	10-12/2007
Net sales, € million*	2,304	2,193	2,464	2,421	2,455
Change in net sales, %*	8.2	11.3	8.2	10.2	6.5
Operating profit, € million*	37.6	62.4	103.2	95.4	70.8
Operating profit, %*	1.6	2.8	4.2	3.9	2.9
Operating profit excl. non-recurring items, € million*	71.4	59.8	96.8	94.0	74.5
Operating profit excl. non-recurring items, %*	3.1	2.7	3.9	3.9	3.0
Financial income/expenses, € million*	-5.9	37.9	-1.7	2.8	-1.9
Profit before tax, € million*	31	101	101	98	69
Profit before tax, %*	1.4	4.6	4.1	4.1	2.8
Return on invested capital, %	30.4	23.5	18.6	17.4	12.4
Return on equity, %	36.4	24.4	17.3	16.2	9.8
Equity ratio, %	47.0	44.6	46.5	47.4	48.5
Investments, € million*	88.0	51.6	62.8	49.6	69.9
Earnings per share, €*	0.21	0.77	0.72	0.70	0.41
Equity per share, €	17.94	17.52	18.32	19.08	19.53

*continuing operations

In Sweden, the net sales of K-rauta AB increased by 10.2% to €42.3 million in October-December. In Estonia, Rautakesko's net sales were up by 11.9% to €21.8 million. In Lithuania, the net sales of UAB Senuku Prekybos Centras (Senukai), in which Rautakesko has a majority interest, increased by 35.6% to €139.9 million, of which the contribution of the Belorussian OOO OMA, acquired by Senukai in July, was €15.4 million. In Latvia, Rautakesko's net sales increased by 13.3% to €21.4 million. In Russia, Stroymaster's net sales grew by 32.8% to €42.3 million. In Norway, Byggmakker's net sales grew by 8.2% and were €155.4 million.

In January-December, Rautakesko's net sales amounted to €2,537.3 million, an increase of 19.2%. The contribution of acquisitions excluded, the net sales growth was 17.7%. Net sales in Finland were €909.3 million, an increase of 10.7%. The net sales of foreign subsidiaries were €1,625.0 million, up 24.4%. Foreign subsidiaries contributed 64.0% to Rautakesko's net sales.

In Sweden, in January-December, the net sales increased by 19.3% to €184.3 million. In Estonia, the net sales were up by 24.7% to €92.1 million. The net sales of Senukai, operating in Lithuania, increased by 34.9% to €485.8 million, of which the contribution of its Belorussian subsidiary, OOO OMA, was €32.3 million. In Latvia, the net sales increased by 40.0% to €84.8 million. In Russia, Stroymaster's net sales grew by 47.4% to €150.6 million. In Norway, the net sales grew by 12.9% and were €617.7 million.

In October-December, Rautakesko's operating profit excluding non-recurring items was €21.9 million (3.5% of net sales), i.e. €5.4 million, or 0.5 percentage points more than in the previous year. Rautakesko's operating profit for October-December was €22.1 million (€16.5 million). During the review period, one store was opened in St. Petersburg.

In January-December, Rautakesko's operating profit excluding non-recurring items was €115.9 million (4.6% of net sales), i.e. €24.8 million,

Divisions' net sales by quarter, continuing operations

€ million	10–12/2006	1–3/2007	4–6/2007	7–9/2007	10–12/2007
Kesko Food	971	883	983	959	1,046
Rautakesko	541	534	687	694	622
VV-Auto	152	248	218	195	144
Anttila	185	120	111	143	189
Kesko Agro	206	168	216	196	213
Other operating activities	257	248	259	243	248
Common operations and eliminations	-7	-7	-9	-9	-8
Group's net sales	2,304	2,193	2,464	2,421	2,455

Divisions' operating profits by quarter, including non-recurring items

€ million	10–12/2006	1–3/2007	4–6/2007	7–9/2007	10–12/2007
Kesko Food	36.9	29.2	40.9	41.2	40.0
Rautakesko	16.5	18.6	37.6	39.5	22.1
VV-Auto	1.5	11.7	8.1	6.8	-0.5
Anttila	21.4	-0.9	0.1	6.3	21.6
Kesko Agro	0.3	-0.6	7.9	3.5	2.1
Other operating activities	-17.4	10.7	10.1	5.3	-4.9
Common operations	-21.6	-6.1	-1.6	-7.3	-9.5
Group's operating profit	37.6	62.4	103.2	95.4	70.8

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

€ million	10–12/2006	1–3/2007	4–6/2007	7–9/2007	10–12/2007
Kesko Food	37.0	29.0	41.4	41.1	39.8
Rautakesko	16.5	16.3	38.7	39.0	21.9
VV-Auto	1.5	11.7	8.1	6.8	-0.5
Anttila	21.4	-0.9	-1.8	6.3	21.6
Kesko Agro	0.3	-0.6	7.9	3.0	2.1
Other operating activities	2.7	10.6	9.9	5.3	-1.9
Common operations	-8.0	-6.3	-7.5	-7.6	-8.5
Group's operating profit	71.4	59.8	96.8	94.0	74.5

or 0.3 percentage points, more than in the corresponding period of the previous year. The operating profit excluding non-recurring items increased due to good sales growth and regardless of the fact that a total of 16 new stores, of which 11 abroad, were opened in January-December. Rautakesko's operating profit for January-December was €117.8 million (€139.3 million). During the comparable period, the operating profit was increased by non-recurring gains on disposal of real estate.

In October-December, Rautakesko's investments totalled €21.2 million (€31.1 million), of which 75.5% (74.9%) was abroad. In January-December, the investments were €77.0 million (€75.8 million), of which 59.3% (65.4%) was abroad.

At the end of December, the K-rauta chain in Finland comprised 41 stores and the Rautia chain 104 stores. In October-December, the sales of the K-Group's building and home improvement stores in Finland increased by 5.2% to €277.6 million (incl. VAT). The sales of the Rautakesko B-to-B Service increased by 5.1%. In January-December, the sales of the K-Group's building and home improvement stores in Finland increased by 8.8% to €1,199.8 million (incl. VAT). The sales of the Rautakesko B-to-B Service increased by 15.9%.

Rautakesko operates 17 K-rauta stores in Sweden, one of which is owned by the retailer. The latest K-rauta was opened in Växjö in April. A new K-rauta was opened in Gävle in August 2007 to replace the outlet destroyed in a fire in August 2006. In Estonia, Rautakesko has five K-rauta stores, the latest of which opened in Tallinn in March. In Latvia, Rautakesko has seven stores of its own and two partner stores. A new K-rauta was opened in Tukums in June and another in Daugavpils in September.

In Lithuania, UAB Senuku Prekybos Centras (Senukai) operates 14 Senukai stores and 76 Partnershops. On 12 July 2007, Senukai signed an agreement to acquire an approximately 21% ownership interest in the Lithuanian UAB Romos Holdingas, the owner of 99.99% of the shares of the Belorussian DIY operator, OOO OMA. According to the vote transfer agreement included in the deal, Senukai has the majority of voting rights in Romos Holdingas. The total price of the acquisition is €4 million, of which €2 million was paid for the ownership interest acquired in 2007. According to the terms and conditions of the deed, the buyer has the right to cancel the transaction if the terms and conditions are not fulfilled.

In Norway, Rautakesko owns Byggmakker Norge AS, a company managing the Byggmakker chain of building and home improvement stores. The chain comprises 120 stores, 22 of which are owned by Byggmakker. The other stores of the chain are owned by retailer-entrepreneurs who have signed a chain agreement with Byggmakker. Byggmakker Norge AS opened a new Byggmakker store in Oslo in March and another in Haugesund in September. There are eight K-rauta stores in St. Petersburg, Russia, three of which are new and operate in conformity with the K-rauta concept. The latest K-rauta in St. Petersburg opened in December.

The building and home improvement trade market is anticipated to grow in all countries in which Rautakesko operates. In 2008, a growth rate of about 3-5% is forecast for the Nordic countries and 5-7% for the Baltic countries. The growth forecast for the St. Petersburg area is about 10%. (Own estimate)

In 2008, Rautakesko will continue to invest in new store sites, employee competencies and a uniform information system. It is expected that Rautakesko's net sales will grow in 2008. Its operating profit excluding non-recurring items is expected to grow slightly in 2008.

VV-Auto

In October-December, VV-Auto's net sales totalled €143.7 million, down by 5.3%. The net sales trend was significantly affected by the change in the car tax, announced by the Finnish government on 2 November 2007. In January-December, VV-Auto's net sales totalled €804.8 million, up 2.0%. The new Volkswagen and Audi retail businesses acquired by VV-Auto at the beginning of March 2006 contributed 0.6 percentage points to the growth of VV-Auto's net sales in January-December.

In October-December, the operating profit excluding non-recurring items was €-0.5 million (-0.4% of net sales), down €2.1 million, or 1.4 percentage points, compared with the corresponding period of the previous year. The operating profit excluding non-recurring items was negatively affected by the amendment of the Car Tax Act, which postponed sales to 2008 and caused an impairment charge of €3.6 million to be recognised for the total of all vehicles. In January-December, the operating profit was €26.1 million (3.2% of net sales), down €3.4 million, or 0.5 percentage points, compared with the corresponding period of the previous year.

Investments totalled €1.3 million (€4.6 million) in October-December. In January-December, investments were €6.3 million (€34.2 million).

In January-December, first registrations of new passenger cars totalled 125,608 in Finland, down by 13.8% on the previous year. Compared with the previous year, first registrations of vans were up by 10.6% to 16,885. During the first months of the year, the sale of new cars was constrained by the car tax debate, the fall of used car prices and a rise in interest rates. The amendment of car tax legislation announced by the government nearly stopped passenger car sales in November-December and postponed a significant number of car deliveries to customers to 2008. In October-December, the first registrations of passenger cars dropped by 34.6% compared with the previous year.

In October-December, VV-Auto's retail sales volume decreased by 8.0% in consequence of the new Car Tax Act. In January-December, the retail sales grew by 7.6% compared with the corresponding period of the previous year. The growth is mainly attributable to the business acquisition completed in March 2006.

In January-December, the registrations of Volkswagen passenger cars totalled 12,772 and their market share was 10.2%, compared with 10.3% in the previous year. The number of Volkswagen vans registered was 3,042, while the market share was 18.0% (17.0%). In January-December, the first registrations of Audis were 4,161, and the market share was 3.3% (3.3%). The registrations of new Seat passenger cars totalled 1,497 in Finland, 697 in Estonia and 261 in Latvia. The market share in Finland was 1.2%, compared with 0.8% in the previous year.

It is estimated that Finland's total market for passenger cars will grow compared with 2007. The total market for vans is expected to decrease slightly compared with the previous year (Road Transport Forecasting Group).

In 2008, VV-Auto's net sales and the operating profit excluding non-recurring items are expected to markedly exceed the previous year's level.

Anttila

In October-December, Anttila's net sales totalled €189.5 million, up 2.7% (€4.9 million). The net sales for the whole year were €563.7 million, an increase of 2.9%. Anttila's sales growth and result for 2007 were affected by the closing down of the City department store in Helsinki due to the expiry of the lease in January.

In October-December, Anttila's operating profit excluding non-recurring items was €21.6 million (11.4% of net sales), showing an increase of €0.2 million, but a relative decrease of 0.2 percentage points, on the corresponding period of the previous year. Anttila's operating profit was €21.6 million (€21.4 million).

In January-December, the operating profit excluding non-recurring items was €25.2 million (4.5% of net sales), showing a decrease of €1.2 million, or 0.4 percentage points, on the corresponding period of the previous year. Anttila's operating profit was €27.2 million (€38.7 million). Non-recurring items included €1.9 million in gains on the disposal of real estate. In the corresponding period of the previous year, the gains on the disposal of real estate were €12.2 million.

In January-December, the retail sales of the Anttila department stores were €397.9 million, up 1.7%, which was affected by the closing down of the City department store in Helsinki in January and the opening of the department store in Mikkeli in October. The retail sales of the Kodin Ykkönen department stores for home goods and interior decoration were €183.7 million, up 6.7%. Distance retail sales in Finland were €88.9 million, up 5.5%. In line with strategy, the number of illustrated catalogues in distance sales was reduced while concentrating on the development of online sales. Online sales increased by 22.1%, with the biggest growth in home electronics and information technology.

Trends in the home and speciality goods sales vary by product line. The growth is forecast to average 3-5% in 2008 (own estimate).

In 2008, Anttila's net sales are expected to grow, and its operating profit excluding non-recurring items is expected to match the level of 2007.

Kesko Agro

In October-December, Kesko Agro's net sales were €212.9 million, an increase of 3.5%. The net sales from foreign operations were €82.9 million, accounting for 38.9% of net sales.

In October-December, Kesko Agro's net sales in Finland were €130.0 million, up 7.4%, which is attributable to the positive trend in the grain and tractor trade. In October-December, the net sales from foreign operations dropped by 2.0%, which is due to the discontinuation of the grain, animal feed and chemicals trade in Lithuania.

In January-December, Kesko Agro's net sales were €793.4 million, an increase of 5.1%. The net sales from foreign operations were €294.6 million, accounting for 37.1% of net sales.

In January-December, Kesko Agro's net sales in Finland were €498.7 million, up 3.5%, which is mostly attributable to the successful grain trade. The net sales from foreign operations increased by 7.9% in January-December, which is in line with the trend in the agricultural and earthwork machinery trade.

In October-December, Kesko Agro's operating profit excluding non-recurring items was €2.1 million (1.0% of net sales), i.e. €1.8 million, or 0.9 percentage points, bigger than in the corresponding period of the previous year.

In January-December, the operating profit excluding non-recurring items was €12.4 million (1.6% of net sales), which was €4.6 million, or 0.5 percentage points bigger than in the corresponding period of the previous year. The operating profit, non-recurring items excluded, was affected by sales growth, and cost savings in Finland. In January-December, Kesko Agro's operating profit was €12.9 million (€9.2 million), positively affected by the €0.5 million (€0.8 million) non-recurring gain on the disposal of business.

In October-December, investments totalled €0.9 million, 21.2% of which were in projects abroad. In January-December, investments totalled €7.6 million, 67.1% of which were in projects abroad.

At the end of the period under review, the K-maatalous chain comprised 95 agricultural stores in Finland. The sales of the K-maatalous chain increased by 19.7% in October-December to €192 million (incl. VAT). In January-December, the sales increased by 12.0% to €674 million. Kesko Agro has six stores in Estonia, four in Latvia and three in Lithuania.

It is estimated that in 2008, Finland's total agricultural trade market will increase slightly on the previous year. The total Baltic market is anticipated to grow by about 5-10% (own estimate).

In 2007, Kesko Agro discontinued its grain, animal feed and chemicals trade in Lithuania because of its poor profitability. With the company concentrating on the machinery trade in Lithuania, the profitability of the business is expected to improve.

Regardless of the structural changes taking place in the sector, it is expected that in 2008, Kesko Agro's net sales and operating profit excluding non-recurring items will match the level of 2007.

Other operating activities

Other operating activities comprise the reporting for Konekesko, Intersport Finland, Indoor, Musta Pörssi, Kenkäkesko, Tähti Optikko and Kauko-Telko.

In October-December, the aggregate net sales from other operating activities were €247.9 million, down 3.7%. Net sales from foreign operations were €48.3 million, contributing 19.5% to the net sales.

In January-December, the net sales were €997.3 million, up 5.4%. Net sales from foreign operations were €191.7 million, contributing 19.2% to the net sales.

In October-December, the aggregate operating profit from other operating activities, non-recurring items excluded, was €-1.9 million (-0.8% of net sales), which was down by €4.6 million, or 1.8 percentage points, on the corresponding period of the previous year. The decline in operating profit excluding non-recurring items is mainly attributable to the weakened profitability of the furniture trade. The operating profit from other operating activities was €-4.9 million (€-17.4 million) and includes €4.3 million in costs relating to the discontinuation of Asko Möbler AB. The operating profit of the comparable period was negatively affected by €30.3 million in impairment charges for intangible rights relating to Indoor Group Ltd.

In January-December, the operating profit excluding non-recurring items was €24.0 million (2.4% of net sales), which was €2.4 million, or 0.1 percentage points bigger than in the corresponding period of the previous year. The operating profit was €21.2 million (€4.9 million). The operating profit was improved by the €0.4 million non-recurring gain on the disposal of fixed assets. The operating profit for the comparable period included €3.7 million in non-recurring gains on the disposal of businesses and fixed assets.

In October-December, investments totalled €5.7 million. In January-December, investments were €14.6 million.

Konekesko's net sales in October-December were €42.8 million (€46.4 million), a decrease of 7.7% on the previous year. In Finland, sales were €36.1 million, down by 7.2% in October-December. Konekesko's export sales totalled €6.7 million, a decrease of 10.0%. In January-December, the net sales were €229.3 million (€200.7 million), an increase of 14.3%. In Finland, sales were €193.5 million, up by 13.2% in January-December. Konekesko's export sales totalled €35.8 million, an increase of 20.5%.

Intersport Finland's net sales in October-December were €41 million (€43 million), down 3.7%. The net sales in January-December were €147 million, (€142 million), an increase of 3.4%.

Indoor's net sales in October-December were €50.6 million (€50.8 million), down 0.5%. In October-December, the aggregate net sales of the furniture trade in the Baltic countries and Sweden were €12.2 million, a decrease of 1.2%. In January-December, the net sales were €196.5 million (€182.2 million), up 7.9%. In January-December, the aggregate net sales of the furniture trade in the Baltic countries and Sweden were €51.2 million, an increase of 28.3%. In 2007, Indoor's profitability weakened significantly because of the unprofitability of the business in Sweden. A decision has been made to discontinue Indoor's operatings in Sweden during the spring of 2008.

Musta Pörssi Ltd's net sales in October-December were €41.8 million (€43.6 million), down 4.2%. In January-December, the net sales were €147.5 million (€132.0 million), up 11.8%.

Kenkäkesko Ltd's (former WellStep Ltd) net sales in October-December were €5 million (€5 million), an increase of 14.3%. In January-December, the net sales dropped by 3.4% to €23 million (€24 million).

Tähti Optikko's net sales in October-December were €4.8 million (€4.5 million), up 7.6%. In January-December, the net sales were €20.8 million (€19.4 million), an increase of 7.3%.

Kauko-Telko's net sales in October-December were €62 million (€65 million), down 5%. In October-December, foreign operations contributed €30 million, or 46%, to the net sales. In January-December, the net sales were €234 million (€248 million), down by 5.8% from the previous year. In January-December, foreign operations contributed €113 million, or 48%, to the net sales. Kauko-Telko's profitability improved.

In May, Kesko announced that it would look into opportunities to sell Kauko-Telko (stock exchange release on 23 May 2007). Kauko-Telko will be classified as a discontinuing operation in compliance with the IFRS 5 when it meets the criteria of the standard.

It is expected that in 2008, the net sales of other operating activities will increase somewhat. The operating profit excluding non-recurring items is expected to grow mainly as a result of the discontinuation of Indoor's loss-making business in Sweden.

Changes in Group structure

No significant changes took place in the Group structure during the period under review.

Decisions of the Annual General Meeting

Kesko Corporation's Annual General Meeting held on 26 March 2007 adopted the financial statements for 2006 and discharged the members of the Board of Directors and the Managing Director from liability. The Annual General Meeting also decided to distribute a dividend of €1.50 per share, as proposed by the Board of Directors, or total dividends of €146,314,669.50.

The Annual General Meeting decided 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 Board Chairman is Heikki Takamäki and the Deputy Chairman 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 (in 2009).

The Annual General Meeting elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the company's auditor. The auditor with principal authority has been Pekka Nikula, B.Sc. (Econ.), APA.

The decisions of the Annual General Meeting were published in more detail in a stock exchange release on the day of the meeting and in the 3-month interim financial report.

Corporate governance

Kesko Food Ltd and Rautakesko Ltd, major subsidiaries fully owned by Kesko Corporation, elected the members of their Boards of Directors at their Annual General Meetings held on 23 March 2007. The compositions of the Boards were announced in a stock exchange release on 23 March 2007.

The organising meeting of Kesko Corporation's Board of Directors held after the Annual General Meeting on 26 March 2007 decided to leave the compositions of its committees unchanged. The Board elected Maarit Näkyvä as the Chairman of its Audit Committee, and Seppo Paatelainen and Keijo Suila as its members. The Board elected Heikki Takamäki as the Chairman of its Compensation Committee, and Pentti Kalliala and Keijo Suila as its members. The committees' terms of office always expire at the Annual General Meeting. On the basis of the evaluation of independence carried out by the Board of Directors, all members of the Audit Committee are independent of the company and its significant shareholders. The decisions of the organising meeting of the Board of Directors were published in a stock exchange release on the day of the meeting.

Juhani Järvi resigned from the positions of Kesko's Corporate Executive Vice President and Deputy to the President and CEO as of 1 June 2007. He also gave up membership in the Corporate Management Board and in the Boards of Kesko Food Ltd and Rautakesko Ltd. Järvi's duties have been divided between the other Corporate Management Board members. His responsibility areas included corporate development, IT management, real estate services, and corporate responsibility and business development. A more detailed stock exchange release about the matter was published on 24 May 2007.

Shares, securities market and Board authorisations

At the end of the review period, Kesko Corporation's share capital totalled €195,535,530. Of all shares 31,737,007 or 32.5% are A shares and 66,030,758 or 67.5% B shares. The aggregate number of shares was 97,767,765. Each A share entitles to ten (10) votes and each B share to one (1) vote. During the review period, the share capital was increased six times by share subscriptions with the stock options of the year 2003 option scheme. The increases were made on 12 February 2007 (€46,376), 26 April 2007 (€86,800), 29 May 2007 (€298,572), 24 July 2007 (€9,000), 26 September 2007 (€39,032) and on 19 December 2007 (€15,900), and were announced in stock exchange notifications on the respective dates. The subscribed shares were included on the main list of the Helsinki Stock Exchange for public trading with the old B shares on 13 February 2007, 27 April 2007, 30 May 2007, 25 July 2007, 27 September 2007 and 20 December 2007.

The price of a Kesko A share was €38.43 at the end of 2006 and €37.85 at the end of 2007, representing a decrease of 1.5%. The price of a B share was €40.02 at the end of 2006 and €37.72 at the end of 2007, down 5.7%. During the period under review, the highest A share quotation was €53.44 and the lowest was €34.52. For B shares, they were €54.85 and €34.40 respectively. During 2007, the Helsinki Stock Exchange All Share index (OMX Helsinki) rose by 20.5%, the weighted OMX Helsinki CAP index by 3.8%, while the Consumer Staples Index dropped by 5.4% during the review period.

At the end of the review period, the market capitalisation of A shares was €1,201 million, while that of B shares was €2,491 million. Their combined market capitalisation was €3,692 million, a decrease of €159 million from the beginning of the year. In 2007, about 3.6 million A shares were traded on the Helsinki Stock Exchange at a total value of €161 million, while 122.4 million B shares were traded at a total value of €5,294 million.

The 2003D stock options of the year 2003 option scheme were included on the main list of the Helsinki Stock Exchange on 1 April 2005. The number of 2003D options traded during the review period was 87,888 at a total value of €3.4 million.

The 2003E stock options were included on the main list of the Helsinki Stock Exchange on 3 April 2006. The number of 2003E options traded during the review period was 169,108 at a total value of €5.7 million.

The 2003F stock options were included on the main list of the Helsinki Stock Exchange on 2 April 2007. The number of 2003F options traded during the review period was 243,637 at a total value of €7.8 million.

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 decision of the Annual General Meeting.

The Annual General Meeting of 26 March 2007 decided to grant new stock options for no consideration to the Kesko Group management, other key Kesko personnel, and to Sincera Oy, a subsidiary wholly owned by Kesko Corporation. The stock options are marked with the symbols 2007A, 2007B and 2007C, and their total number is 3,000,000 at the maximum. Each option entitles its holder to subscribe for one B share, so that a maximum of 3,000,000 new B shares can be subscribed for with the options in compliance with the terms and conditions of the stock option plan.

The Board's share issue authorisation and the year 2007 stock option scheme were disclosed in more detail in a stock exchange release on 26 March 2007. The Board's decision to grant the year 2007 stock options to persons in the Kesko Group management, other key personnel and Sincera Oy, a subsidiary wholly-owned by Kesko Corporation, was announced in a stock exchange release on 18 July 2007.

The Board has no other valid authorisation concerning an issue of shares, options or other special rights entitling to shares.

Flagging notifications

Under Chapter 2, Section 9 of the Finnish Securities Market Act, Kesko Corporation was notified by Barclays Plc, that the aggregate ownership interest of Barclays Plc's fund management companies in Kesko Corporation shares had exceeded 5% on 4 April 2007. The matter was disclosed without delay after receipt of the notification in a stock exchange notification on 4 October 2007.

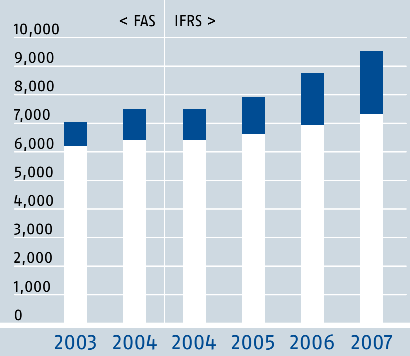
Under Chapter 2, Section 9 of the Finnish Securities Market Act, Kesko Corporation was notified by Barclays Plc and Barclays Global Investor UK Limited on 13 December 2007 that the ownership interest of Barclays Plc in Kesko Corporation had fallen below 5% of the total number of shares on 11 December 2007, whilst Barclays Global Investor UK Limited holds over 5% of the total number of Kesko Corporation shares (stock exchange notification on 13 December 2007).

Main events

Fiesta Real Estate AS, an Estonian subsidiary of Kesko Corporation, sold the food trade properties leased by Rimi Baltic AB in Estonia to Rimi Baltic for €50 million. The €28.2 million gain on the disposal was recognised in discontinued operations for the first quarter of 2007 (stock exchange release on 4 January 2007).

On 16 February 2007, Kesko Corporation and Varma Mutual Pension Insurance Company completed a deal in which Kesko sold its SATO Corporation shares to Varma. Kesko's ownership interest in SATO was

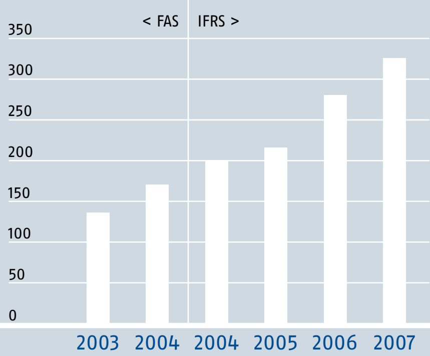
Group's net sales, € million*



Finland ● other countries

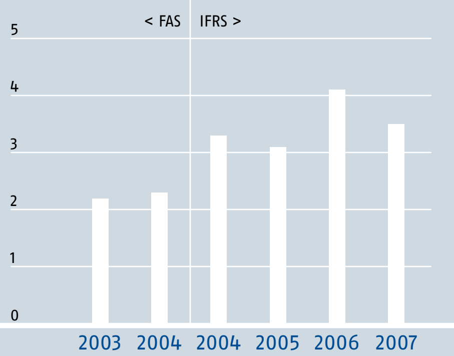
*continuing operations

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



*continuing operations

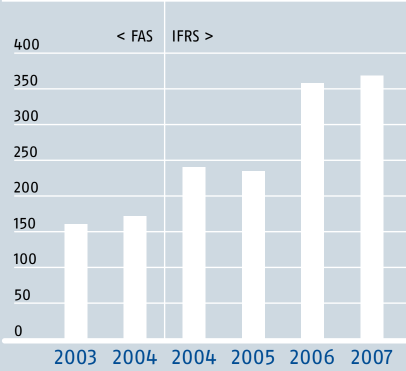
Group's operating profit as % of net sales*



*continuing operations

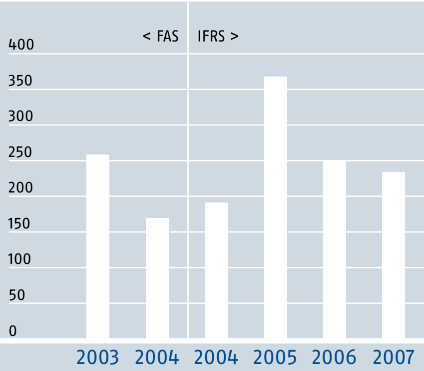
Key indicators

Group's profit before tax, € million*



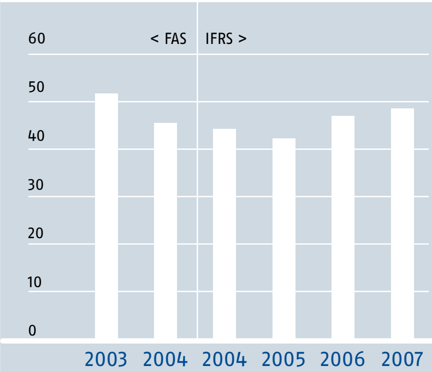
*continuing operations

Group's investments, € million*

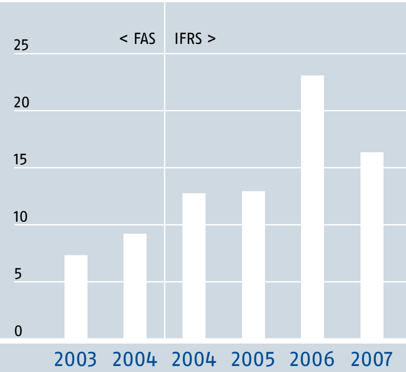


*continuing operations

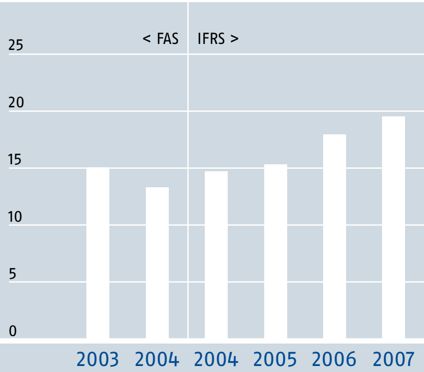
Group's equity ratio, %



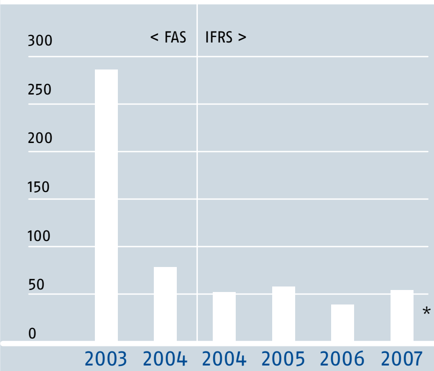
Group's return on equity, %



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

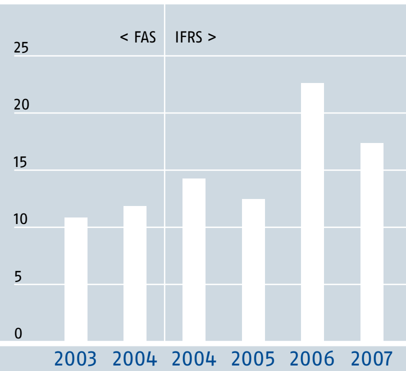


Payout ratio, %

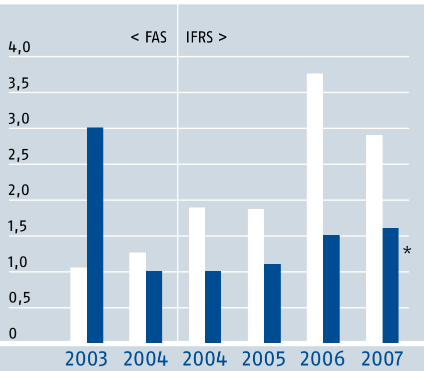


* proposal to the Annual General Meeting

Group's return on invested capital, %



Earnings per share and dividend per share, €



Earnings per share, diluted
Dividend per share
*proposal to the Annual General Meeting

approximately 16.5%. The price of the shares was about €46 million and the gain on the disposal (€37.1 million) was recognised for the first quarter of 2007 (stock exchange releases on 7 and 16 February 2007).

In its meeting, Kesko Corporation's Board of Directors specified the company strategy. Based on the expansion of the Group's international operations and the current business outlook, the targets for return on capital were raised. The target value for return on equity was raised from 12% to 14% and that of invested capital from 12% to 16%. Large-scale store site investments in Finland and the other operating countries are expected to be made during the next few years. The Board also decided to look into possibilities to dispose of Kauko-Telko (stock exchange release on 23 May 2007).

During the summer, Kesko Food Ltd looked into opportunities to sell its HoReCa wholesaling subsidiary, Kespro Ltd, and its sourcing operations. The investigation of sales opportunities carried out during the summer showed that the selling price would be low in relation to the sales and profit expectations of Kespro. Therefore, it was decided that Kespro will continue to be developed as an independent subsidiary of Kesko Food (stock exchange release on 12 October 2007).

On 2 November 2007, VV-Auto announced that its net sales and profit for the last months of 2007 would remain below earlier expectations, as a significant number of passenger car deliveries would be postponed to 2008 in consequence of the change in the Finnish car taxation (stock exchange release on 2 November 2007).

The Administrative Court of Helsinki decided not to accept the €22.5 million write-down made by Rautakesko Ltd on the shares of its Swedish subsidiary, K-rauta AB, in its taxation for the year 2001. The impact of the Administrative Court's decision on the Kesko Group's result for the financial year 2007, consequences for default included, was approximately €-6.4 million (stock exchange release on 14 November 2007).

Indoor Group Ltd started an extensive development programme aimed to strengthen the company's market position in the home furniture and interior decoration trade in Finland and the Baltic countries. At the same time Indoor Group will dispose of its operations in Sweden. The disposal was treated as a non-recurring item, and it had no effect on the future outlook previously published by Kesko (stock exchange release on 13 December 2007).

Kesko Corporation and OKO Bank plc signed an agreement by which OKO Bank will acquire the share capital of K-Rahoitus Oy, a subsidiary wholly owned by Kesko. The purchase price was estimated at about 30 million euros. The final price will be established based on the amount of equity at the transaction closing date and a fixed amount of goodwill. The transaction will be concluded after clearance from the authorities during the first part of 2008 (stock exchange release on 21 December 2007).

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

In April 2008, Kesko will publish a separate corporate responsibility report which analyses the Group's performance in economic, social and environmental responsibility. An assurance statement will be provided by an independent external party. The notes to the financial statements provide information about the Group's risk, uncertainty factors and risk management. The notes also include information about the company insiders, option scheme rules and financial indicators.

Events after the end of the review period

The deal between Kesko Corporation and OKO Bank plc to sell K-Rahoitus Oy's share capital to OKO Bank was concluded on 31 January 2008. The preliminary price paid in connection with the conclusion of the deal was about 30 million euros. The final price will be established based on the amount of equity at the transaction closing date and a fixed amount of goodwill. The cash inflow from the transaction will be about €240 million, which is attributable to financial liabilities repayable to Kesko (stock exchange release on 31 January 2008).

Future outlook

In 2008, the Kesko Group divisions are expected to perform as described in the above division reviews.

The Group's operating activities are affected by the economic outlook in its different market areas and especially by the growth rate of private consumption and any changes therein. Markets in the Baltic countries and in Russia are expected to continue to grow more rapidly than markets in the Nordic countries, although there are clear signs of a slowdown in construction in Finland, the Baltic countries and the other Nordic countries. In Finland, consumer demand in other respects is expected to remain at a good level, which is attributable to the growth of consumers' real earnings.

Although the peak of the economic cycle has passed, the sales from the Group's continuing operations are expected to grow during the next six months, which is partly attributable to the significant increase in car sales forecast for the first part of 2008. Due to the more rapid market growth and the expansion of the retail store network, the Group's sales will grow more strongly in other countries than Finland.

It is estimated that the Kesko Group's profitability will remain good regardless of the fact that the result will be negatively affected by the intensive expansion and renovation of the retail store network carried out especially during the first months of the year. The operating profit for the next six months, non-recurring items excluded, is expected to remain at a level slightly lower than in the corresponding period of the previous year.

Proposal for profit distribution

Parent's distributable earnings are €931,252,452.88 of which net profit for the period is €194,273,776.22.

- The Board of Directors proposes to the Annual General Meeting that the distributable earnings be used as follows:
- To be paid to shareholders as dividends €1.60 per share, €156,428,592.00.
- To be reserved for charitable donations at the discretion of the Board of Directors €300,000.00.
- To be carried forward as retained earnings €774,523,860.88.

Consolidated Financial Statements 2007

Consolidated income statement, IFRS

1 Jan.–31 Dec.	Note	2007 € million	2007 %	2006 € million	2006 %
Continuing operations					
Net sales	1	**9,533.8**	100.0	**8,749.2**	100.0
Cost of sales		-8,142.1	-85.4	-7,474.2	-85.4
Gross profit		**1,391.6**	14.6	**1,275.0**	14.6
Other operating income	4, 6	577.6	6.1	660.8	7.6
Staff cost	7, 37	-576.1	-6.0	-544.2	-6.2
Depreciation and impairment charges	11, 12	-119.2	-1.3	-159.9	-1.8
Other operating expenses	5, 6	-942.1	-9.9	-869.1	-9.9
Operating profit		**331.9**	3.5	**362.6**	4.1
Financial income	8	87.1	0.9	38.1	0.4
Financial expenses	8	-50.1	-0.5	-43.6	-0.5
Total financial income and expenses	8	37.0	0.4	-5.5	-0.1
Income from associates		0.4	0.0	0.7	0.0
Profit before taxes		**369.3**	3.9	**357.8**	4.1
Income tax	9	-90.2	-0.9	-107.1	-1.2
Net profit from continuing operations		279.1	2.9	250.7	2.9
Net profit from discontinued operations	3	28.2	0.3	128.7	1.5
Net profit		**307.4**	3.2	**379.4**	4.3
Attributable to:					
Equity holders of the parent company		285.0		368.7	
Minority interest		22.4		10.7	
		307.4		379.4	
Earnings per share attributable to the equity holders of the parent company, continuing operations:					
Basic, €	10	2.63		2.47	
Diluted, €	10	2.61		2.45	
Earnings per share attributable to the equity holders of the parent company, discontinued operations:					
Basic, €	10	0.29		1.33	
Diluted, €	10	0.29		1.31	
Earnings per share attributable to the equity holders of the parent company, Kesko total:					
Basic, €	10	2.92		3.80	
Diluted, €	10	2.90		3.76	

Consolidated balance sheet, IFRS

€ million	Note	31 Dec. 2007	%	31 Dec. 2006	%
ASSETS					
Non-current assets					
Intangible assets	11	252.2		248.0	
Tangible assets	12	1,153.1		1,115.1	
Interests in associates	13, 50	27.0		25.5	
Available-for-sale assets	14	4.0		12.0	
Long-term receivables	15, 16	36.9		120.2	
Deferred tax assets	17	7.7		5.8	
Pension assets	18	261.6		219.5	
Total non-current assets		**1,742.5**	42.6	**1,746.1**	45.9
Current assets					
Inventories	19	922.3		788.8	
Trade receivables and other non-interest-bearing receivables	20	823.8		760.8	
Interest-bearing receivables	21	16.3		91.6	
Financial assets at fair value through profit or loss	22	105.5		140.7	
Available-for-sale assets	23	155.6		200.4	
Cash and cash equivalents	24	89.7		56.5	
Total current assets		2,113.3	51.6	2,038.9	53.6
Assets held for sale	3, 25	236.9	5.8	22.2	0.6
Total assets		**4,092.7**	100.0	**3,807.2**	100.0
EQUITY AND LIABILITIES					
Equity attributable to parent's equity holders					
Share capital	26	195.5		195.0	
Share premium	27	200.3		195.9	
Other reserves	27	247.1		246.3	
Translation differences		-3.4		-5.7	
Revaluation surplus	27	9.5		-0.7	
Retained earnings		1,260.0		1,119.2	
		1,909.1	46.6	**1,749.9**	46.0
Minority interest		**55.3**	1.4	**27.1**	0.7
Total equity		**1,964.4**	48.0	**1,777.1**	46.7
Non-current liabilities					
Pension obligations	18	4.1		3.6	
Interest-bearing long-term borrowings	28, 29, 30	314.2		316.8	
Non-interest-bearing long-term liabilities		11.5		18.3	
Deferred tax liabilities	17	125.5		112.8	
Provisions	31	15.5		17.6	
Total non-current liabilities		**470.8**	11.5	**469.1**	12.3
Current liabilities					
Interest-bearing short-term borrowings		311.2		293.0	
Trade payables	32	837.8		789.2	
Other non-interest-bearing liabilities	32	191.6		177.6	
Tax liabilities	32	13.4		26.0	
Accrued liabilities	32	277.2		260.9	
Provisions	31	23.0		14.3	
Total current liabilities		**1,654.2**	40.4	**1,561.0**	41.0
Liabilities relating to assets held for sale	3, 25	3.3		-	
Total liabilities		**2,128.3**	52.0	**2,030.1**	53.3
Total equity and liabilities		**4,092.7**	100.0	**3,807.2**	100.0

Consolidated cash flow statement, IFRS

€ million	Note	2007	2006
Cash flow from operating activities			
Profit before tax, continuing operations		369.3	357.8
Profit before tax, discontinued operations		28.2	129.1
Adjustments:			
Planned depreciation		118.7	141.5
Financial income and expenses		-37.0	7.1
Other adjustments	39	-75.2	-215.5
		6.5	-66.9
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		-37.3	-84.9
Inventories increase (-)/decrease (+)		-123.1	-35.9
Current non-interest-bearing liabilities, increase (+)/decrease (-)		95.5	142.2
		-65.0	21.4
Interest paid		-31.1	-35.6
Interest received		33.2	20.7
Dividends received		0.1	5.0
Tax paid		-92.9	-103.6
		-90.7	**-113.5**
Net cash flow from operating activities		**248.4**	**327.9**
Cash flow from investing activities			
Acquisition of subsidiary, net of cash acquired		-21.9	-20.6
Investments in available-for-sale assets		-1.2	-1.0
Investments in tangible and intangible assets		-214.0	-215.5
Disposal of subsidiary, net of cash disposed of	40	1.5	40.6
Disposal of associate	41	0.6	204.8
Proceeds from available-for-sale investments	42	46.9	10.3
Proceeds from tangible and intangible assets		97.1	194.0
Increase in long-term loan receivables		0.0	-9.9
Decrease in long-term loan receivables		6.3	0.0
Net cash used in investing activities		**-84.7**	**202.7**
Cash flow from financing activities			
Increase in current liabilities		15.7	18.4
Decrease in non-current liabilities		-5.2	-119.6
Repayments of finance lease liabilities		-14.5	-14.6
Current interest-bearing receivables, increase (-) / decrease (+)		-52.1	-24.6
Dividends paid		-155.6	-112.7
Share capital increase		2.6	6.4
Short-term money market investments		35.2	-140.5
Others		0.7	-2.7
Net cash used in financing activities		**-173.1**	**-389.9**
Change in cash and cash equivalents and current available-for-sale financial assets		-9.4	140.7
Cash and cash equivalents at 1 January		256.9	114.6
Translation difference adjustment		-0.4	1.7
Cash and cash equivalents relating to available-for-sale assets	43	1.8	0.0
Cash and cash equivalents at 31 December		245.3	256.9

Consolidated statement of changes in equity

€ million	Share capital	Issue of share capital	Share premium	Other reserves	Currency translation differences	Re-valuation surplus	Retained earnings	Minority interest	Total equity
	Attributable to equity holders of the parent company								
Balance at 1 January 2006	**193.0**	**0.7**	**188.7**	**245.8**	**-3.7**	**-0.4**	**857.3**	**26.5**	**1,507.9**
Currency translation differences					-3.1		-0.8		-3.9
Cost of options granted			2.1						2.1
Cash flow hedges:									
Hedging result amortised in equity					1.0	-0.4			0.6
Taxes recorded in equity						0.1			0.1
Items recognised directly in equity			2.1		-2.1	-0.3	-0.8		-1.1
Net profit for the period							368.7	10.7	379.4
Total recognised income and expenses for the period			**2.1**		**-2.1**	**-0.3**	**367.9**	**10.7**	**378.3**
Dividend							-106.5	-5.7	-112.2
Shares subscribed for with options	2.0	-0.7	5.1						6.4
Other changes				0.5	0.1		0.5	-4.4	-3.3
Balance at 31 December 2006	**195.0**	**0.0**	**195.9**	**246.3**	**-5.7**	**-0.7**	**1,119.2**	**27.1**	**1,777.1**
Balance at 1 January 2007	**195.0**	**0.0**	**195.9**	**246.3**	**-5.7**	**-0.7**	**1,119.2**	**27.1**	**1,777.1**
Currency translation differences					2.2		0.8		3.0
Cost of options granted			2.3						2.3
Cash flow hedges:									
Hedging result amortised in equity					0.1	13.8			13.9
Taxes recorded in equity						-3.6			-3.6
Items recognised directly in equity			2.3		2.3	10.2	0.8		15.6
Net profit for the period							285.1	22.4	307.5
Total recognised income and expenses for the period			**2.3**		**2.3**	**10.2**	**285.9**	**22.4**	**323.1**
Dividend							-146.3	-9.3	-155.6
Shares subscribed for with options	0.5	0.0	2.1						2.6
Other changes				0.8			1.3	15.1	17.2
Balance at 31 December 2007	**195.5**	**0.0**	**200.3**	**247.1**	**-3.4**	**9.5**	**1,260.0**	**55.3**	**1,964.4**

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

Other changes include a minority interest in entities acquired during the accounting period.

An amount of €-2.2 million (€7.6 million) in cash flow hedges, here electricity hedges, has been removed from equity and recognised in purchase adjustment items in the income statement, and €4.9 million (€3.6 million) has been recorded in equity. A fair value change of €6.6 million (€3.6 million) of the USD-denominated private placement arrangement has been recognised in equity, and €-0.1 million (€0.4 million) in the financial items of the income statement.

Notes to the consolidated financial statements

General information about the company

Kesko is a Finnish retail specialist whose stores offer quality to the daily lives of consumers through valued 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 business segments which are Kesko Food operating in the grocery trade, Rautakesko in the building and home improvement trade, VV-Auto specialising in car importing, marketing and retailing, Anttila in the department store trade, and Kesko Agro in the agricultural trade. In addition, 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, Kenkäkesko in the shoe trade, Tähti Optikko in the optical trade, and Kauko-Telko specialising in the international technical 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 at Kesko Corporation, Satamakatu 3, FI-00016 Kesko, and on the Internet at www.kesko.fi.

Accounting policies for consolidated financial statements

Basis of preparation

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 2007 have been applied. The International Reporting Standards refer to the Finnish Accounting Standards and regulations based on them, approved for adoption within the EU in accordance with the procedure enacted in EC regulation 1606/2002. Accounting standards not yet effective have not been adopted voluntarily.

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

Starting from 1 January 2007, the Group has adopted the following new and revised standards:

- IFRS 7 Financial Instruments: Disclosures. IFRS 7 requires disclosures that report on the significance of financial instruments for the entity's financial position and performance, and the nature and extent of risks arising from financial instruments. The adoption of the standard increases the number of notes to the financial statements.
- The amendment to IAS 1, Presentation of Financial Statements, increases the number of notes on the entity's capital management objectives.
- In addition, the following interpretations have become effective during the financial period but have no effect on the company's financial statements: IFRIC 8 Scope of IFRS 2, IFRIC 9 Reassessment of Embedded Derivatives, and IFRIC 10 Interim Financial Reporting and Impairment.

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 performance of the asset and its future use in Kesko's operating activities. The measurement of intangible assets, in particular, is based on discounted cash flows and requires management estimates and assumptions regarding future cash flows and the use of assets.

Impairment test

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

Employee benefits

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

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

Consolidation principles

Subsidiaries

The consolidated financial statements combine the financial statements of Kesko Corporation and all subsidiaries controlled by the Group. Control exists when the Group owns more than 50% of the voting rights of a subsidiary or otherwise exerts control. Control refers to the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Acquired subsidiaries are consolidated from the date on which the Group gains control until the date on which control ceases. When determining the existence of control, the potential voting rights that are currently exercisable have been taken into account. The main subsidiaries are listed in Note 50.

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 profit are disclosed in the income statement and the amount of equity attributable to minority interest is disclosed separately in the Group's equity in the balance sheet.

Associates

Associates are enterprises in which the Group owns 20–50% of the voting rights, or otherwise has significant influence, but not control. Associates are consolidated by using the equity method. A share of an associate's net profit for the period corresponding to the Group's ownership interest is disclosed separately in the consolidated financial statements. The Group's share of an associate's post-acquisition net profit is added to the acquisition cost of the associate's shares in the consolidated balance sheet. Conversely, the Group's share of an associate's post acquisition 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 profit and the cost of the shares. An investment in an associate includes the goodwill generated by the acquisition. Goodwill is not amortised. The main associates are listed in Note 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.

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.

Monetary foreign currency transactions are recorded in euros by applying the exchange rate at the date of the transaction. Foreign currency receivables and liabilities are translated into euros using the closing rate. Profits and losses from foreign currency transactions and from receivables and liabilities are recognised in the income statement with the exception of those loan exchange rate movements designated to provide a hedge against foreign net investments and regarded as effective. Foreign exchange gains and losses from operating activities are included in the respective items above operating profit. 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 units and the fair value adjustments of assets and liabilities made upon their acquisition have been treated as assets and liabilities of these foreign units and translated into euros at the closing rate. The goodwill and fair value adjustments of acquisitions made prior to 1 January 2004 have been recorded in euros.

Financial assets

As of 1 January 2005, the Group has applied IAS 32 Financial Instruments: Disclosure and Presentation, and IAS 39 Financial Instruments: Recognition and Measurement, as well as IFRS 7 Financial Instruments: Disclosures starting from 1 January 2007.

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 'regular way' 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 flown from the Group.

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. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The impairment loss is disclosed in the financial expenses of the income statement, net of interest income.

1) Financial assets at fair value through profit or loss

All derivatives which do not qualify for hedge accounting in compliance with IAS 39 are classified as financial assets at fair value through profit or loss. 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. The subcategory of financial assets at fair value through profit of loss in initial recognition includes investments in bond and special investment 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 category in question.

2) Available–for–sale financial assets

Available-for-sale financial assets are 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 category.

3) Loans and receivables

Loans and receivables are non-derivative assets with fixed or measurable payments. The Group's loans and 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 in the balance sheet. 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 fair value, 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 changes in the fair value of derivatives that do not fulfil the hedge accounting requirements of IAS 39 are disclosed in the income statement. The results of instruments hedging commercial currency risks are recognised in other operating income or expenses. The portion of derivatives hedging financial transactions to be recognised in the income statement is included in financial items.

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

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. 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 debt and receivables.

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

Hedging a net investment in a foreign entity

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

Embedded derivatives

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

Goodwill and other intangible assets

Goodwill represents the excess of the Group's share of the fair value of the acquiree's net assets 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 impairment 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 rights 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. The estimated useful lives are:

Computer software and licences	3-5 years
Customer and supplier relationships	10 years

Research and development

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

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 when incurred.

Tangible assets

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

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

Tangible assets are written off on a straight-line basis during their estimated useful lives.

The most common estimated useful lives are:

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

The residual 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. Land is not depreciated.

Gains and losses from sales and disposals of tangible assets are recognised in the income statement and presented as other operating income and 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 of an asset's net selling price less the costs of disposal, and its value in use. Often it is not possible to assess the recoverable amount for an individual asset. Then, as in the case of goodwill, the recoverable amount is determined for the cash generating unit to which the goodwill or asset belongs. The recoverable amount of available-for-sale financial assets is the fair value based on either the market price or the present value of cash flows.

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

Leases

In accordance with IAS 17, leases that substantially transfer all the risks and rewards incident to ownership to the Group are classified as finance leases. An asset leased under a finance lease is recognised in the balance sheet at the lower of its fair value at the inception date and the present value of minimum lease payments. The rental obligations of finance leases are recorded in interest-bearing liabilities in the balance sheet. Lease payments are allocated between interest expense and reduction of the lease 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 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 of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. The cost is primarily assigned by using the weighted average cost formula. The cost of certain classifications of inventory is assigned by using the FIFO formula. The cost of finished products 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 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 of the carrying amount and fair value net of estimated 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 of its balance sheet value 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 Group has classified certain real estate properties removed from business use as assets held for sale.

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 several pension plans classified either as defined contribution plans or defined benefit plans. The contributions payable under defined contribution plans are recognised as an expense in the income statement of the period in which they incur.

In defined benefit plans, after the Group has paid the amount for the period, obligations or assets 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 Projected 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 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' Pensions 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 stock options issued as part of the Group management's incentive and commitment programme are measured at fair value at the issue date and expensed on a straight-line basis over the 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. For net sales, sales revenue is adjusted by indirect taxes, sales adjustment items and the exchange differences of foreign currency sales.

Revenue from the sale of goods is recognised when the significant risks of ownership of the goods have transferred to the buyer, and it is probable that the economic benefits associated with the transaction will flow to the Group. Normally revenue from the sale of goods can be recognised at the time of delivery of the goods. Revenue from the rendering of services is recognised after the service has been rendered and when a flow of economic benefits associated with the service is probable. The revenue and costs of construction contracts are recognised as revenue and expenses by reference to the stage of completion of the contract when the total contract revenue can be measured reliably. Interest is recognised as revenue on a time proportion basis.

Dividends are recognised as revenue when the right to receive payment is established.

Other operating income and expenses

Other operating income includes income other than that associated with the sale of goods or services, such as rent income, store site and chain fees and various 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 commercial currency risks.

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 if the distribution of earnings is not probable and causes 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 decision of the Annual General Meeting.

New IFRS standards and interpretations

In 2007, the IASB (International Accounting Standards Board) published the following standards, amendments to standards, and interpretations whose application will become mandatory in 2008 or later. They will be adopted by the Group as they become effective.

IFRS 8, Operating Segments (effective from accounting periods beginning after 1 January 2009). IFRS 8 supersedes IAS 14, Segment Reporting. The standard requires the 'management approach' in the sense that segment information is reported on the same principles as those used internally by the management for monitoring segment performance. The Group's management 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.

IAS 1, (revised) Presentation of Financial Statements (effective from accounting periods beginning after 1 January 2009). The revised standard will mainly have an impact on the face of financial statements. The Group's management assesses that the revision of the standard will mainly have an impact on the presentation of the income statement and the statement of changes in equity. The revised standard has not yet been endorsed by the European Union.

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 estimates that the change will affect the accounting for business acquisitions. The revised standard has not yet been endorsed for application in the EU.

Amendment to IAS 23, 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 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 consolidated profit. The revised standard has not yet been endorsed by the European Union.

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 the recognition of goodwill or profit or loss in the income statement. The standard also specifies the accounting for transactions when control is transferred. The Group's management estimates that the change will have an impact in possible business arrangement situations. The revised standard has not yet been endorsed by the European Union.

IFRIC 13, Customer Loyalty Programmes (effective from accounting periods beginning after 1 July 2008). The interpretation will be 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 not yet been endorsed by the European Union.

IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction. The interpretation applies to the extent to which the excess of a defined benefit plan can be recognised. The Group's management assesses that the interpretation will not be relevant to the Group's financial statements. The interpretation has not yet been endorsed by the European Union.

Note 1

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 organisation and internal financial reporting.

The basis of inter-segment pricing is fair market price.

The segment income statement is disclosed down to operating profit. Segment assets and liabilities consist of items used by the segment in its operating activities, or items justifiably allocated to segments. Segment assets comprise intangible assets including goodwill, tangible assets, inventories, trade receivables and deferred revenue and other accruals 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 real estate during their whole lifecycles.

The Group changed its business segment classification with effect from the beginning of the 2007 accounting period. The change was due to the reorganisation of the home and speciality goods chains. Consequently, these companies are accounted for as separate entities. The information for the comparison year has been modified to correspond to the new segment classification.

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. With effect from 10 October 2006, the Baltic joint venture was classified as a discontinuing operation. Kesko Food manages K-food store chains and combines their purchasing power, arranges efficient logistics, acquires store sites and guarantees strong marketing and development support for K-food stores. Kesko Food’s subsidiary Kespro Ltd offers delivery sales and wholesale services to HoReCa customers.

Rautakesko operates in the building and home improvement trade in the Nordic countries, the Baltic countries, Russia and Belarus. Its retail chains are K-rauta, Rautia, Byggmakker and Senukai. Rautakesko manages its chains and combines their purchasing power, arranges efficient logistics, acquires store sites and guarantees strong marketing and development support for the stores. Rautakesko's B-to-B Service serves building firms, industrial 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 in its own retail outlets.

Anttila concentrates on the department store trade. Anttila comprises the Anttila department stores and the Kodin Ykkönen department stores for home goods and interior decoration, Anttila MailOrder and the NetAnttila online department store.

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

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, Kenkäkesko in the shoe trade, Tähti Optikko in the optical trade, and Kauko-Telko specialising in the international technical trade.

Common operations include joint intra-Group support functions.

Geographical segments, continuing operations

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

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

Business segments 2007, continuing operations

€ million	Kesko Food	Rauta-kesko	VV-Auto	Anttila	Kesko Agro	Other operating activities	Common operations	Elimi-nations	Total
External sales	3,920.9	2,580.1	820.3	565.6	797.9	1,011.3	151.6		9,847.7
Inter-segment sales								-185.1	-185.1
Adjustment items	-50.1	-42.8	-15.5	-1.9	-4.5	-14.0			-128.8
Net sales	**3,870.8**	**2,537.3**	**804.8**	**563.7**	**793.4**	**997.3**	**151.6**	**-185.1**	**9,533.8**
Other operating income	378.7	104.7	0.6	13.4	7.3	63.6	26.5		594.8
Other inter-segment income								-17.2	-17.2
Total other operating income	**378.7**	**104.7**	**0.6**	**13.4**	**7.3**	**63.6**	**26.5**	**-17.2**	**577.6**
Operating profit	151.3	117.8	26.1	27.2	12.9	4.2	-20.0	12.4	331.9
Operating profit excl. non-recurring items	**151.4**	**115.9**	**26.1**	**25.2**	**12.4**	**24.0**	**-30.1**	**0.2**	**325.1**
Financial income and expenses									37.0
Income from associates									0.4
Income tax expense									-90.2
Net profit from discontinued operations									28.2
Net profit									**307.4**

Other information

€ million	Kesko Food	Rauta-kesko	VV-Auto	Anttila	Kesko Agro	Other operating activities	Common operations	Elimi-nations	Total
Segment assets	1,355.3	901.3	205.9	195.5	244.2	416.1	83.1		3,401.4
Assets held for sale							236.9		236.9
Interests in associates									27.0
Unallocated assets									427.6
Eliminations								-0.2	-0.2
Total assets	**1,355.3**	**901.3**	**205.9**	**195.5**	**244.2**	**416.1**	**320.0**	**-0.2**	**4,092.7**
Segment liabilities	521.8	290.4	54.7	75.6	129.9	200.2	80.7		1,353.3
Liabilities related to assets held for sale							3.3		3.3
Unallocated liabilities									800.1
Eliminations								-28.4	-28.4
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	14.6	9.7	-4.7	233.9
Depreciation	60.1	25.9	5.7	6.1	4.3	11.7	5.4	-0.3	118.7
Impairment						0.5			0.5

Business segments 2006, continuing operations

€ million	Kesko Food	Rauta-kesko	VV-Auto	Anttila	Kesko Agro	Other operating activities	Common operations	Elimi-nations	Total
External sales	3,653.2	2,167.2	806.6	547.7	758.6	959.3	151.7		9,044.3
Inter-segment sales								-183.1	-183.1
Adjustment items	-38.7	-38.3	-17.5	-0.1	-3.9	-13.4	-0.2		-112.1
Net sales	**3,614.5**	**2,128.9**	**789.1**	**547.6**	**754.7**	**945.9**	**151.5**	**-183.1**	**8,749.2**
Other operating income	403.8	140.5	0.4	21.9	8.8	62.0	32.7		670.1
Other inter-segment income								-9.3	-9.3
Total other operating income	**403.8**	**140.5**	**0.4**	**21.9**	**8.8**	**62.0**	**32.7**	**-9.3**	**660.8**
Operating profit	173.2	139.3	29.4	38.7	9.2	4.9	-23.6	-8.5	362.6
Operating profit excl. non-recurring items	**128.6**	**91.2**	**29.5**	**26.5**	**7.8**	**21.6**	**-26.4**	**1.1**	**279.9**
Financial income and expenses									-5.5
Income from associates									0.7
Income tax expense									-107.1
Net profit from discontinued operations	128.7								128.7
Net profit									**379.4**
Other information									
Segment assets	1,271.0	764.6	193.3	196.7	226.7	396.2	85.5		3,134.0
Assets held for sale							22.2		22.2
Interests in associates									25.5
Unallocated assets									627.1
Eliminations								-1.6	-1.6
Total assets	**1,271.0**	**764.6**	**193.3**	**196.7**	**226.7**	**396.2**	**107.7**	**-1.6**	**3,807.2**
Segment liabilities	486.8	273.4	54.5	71.7	125.2	192.7	90.5		1,294.8
Liabilities related to assets held for sale									
Unallocated liabilities									782.9
Eliminations								-47.8	-47.8
Total liabilities	**486.8**	**273.4**	**54.5**	**71.7**	**125.2**	**192.7**	**90.5**	**-47.8**	**2,029.9**
Investments	82.2	75.8	34.2	4.6	11.8	35.6	16.0	-9.7	250.5
Depreciation	64.9	23.4	7.7	8.1	3.9	8.6	12.4	-0.3	128.7
Impairment						30.3	0.6	0.2	31.1

Geographical segments 2007

€ million	Finland	Other Nordic countries	Baltic countries	Other countries	Eliminations, unallocated	Total
Net sales	7,515.9	848.0	978.9	233.7	-42.7	9,533.8
Segment assets	2,621.0	269.2	359.6	93.1	512.9	3,855.8
Assets held for sale	102.8		134.1			236.9
Investments	177.7	29.2	20.6	6.6	-0.2	233.9

Geographical segments 2006

€ million	Finland	Other Nordic countries	Baltic countries	Other countries	Eliminations, unallocated	Total
Net sales	7,083.1	740.9	824.5	143.9	-43.2	8,749.2
Segment assets	2,458.6	226.7	349.5	64.3	708.1	3,807.2
Assets held for sale	1.6		20.7			22.2
Investments	189.4	15.5	24.8	21.4	-0.6	250.5

Note 2

Acquisitions

Acquisitions in 2007

In 2007, the Kesko Group acquired companies at immaterial cost. Their acquisition cost totalled €6.0 million and the cash outflow, additional purchase prices included, €21.9 million.

Acquisitions in 2006

VV-Auto Group

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

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

No goodwill was generated on the acquisition.

Purchase consideration (acquired operations excluding real estate)

€ million	
Cash paid	15.8
Costs allocated to acquisitions	-
Total consideration	15.8
Fair value of net assets acquired	15.8
Goodwill	0.0

Analysis of net assets acquired

€ million	Fair value	Acquiree's carrying amount
Intangible assets	1.1	1.1
Property, plant and equipment	2.3	2.3
Inventories	3.1	1.5
Receivables	11.1	11.0
Non-interest-bearing debt	0.1	0.1
Pension obligations	-1.9	-1.9
Net assets acquired	15.8	14.1
Minority interest acquired	0.0	0.0
Fair value of net assets acquired	15.8	14.1
Consideration settled in cash	15.8	
Cash outflow on acquisition	15.8	

In addition, the Kesko Group acquired companies with immaterial financial impact, most of which are real estate companies. The cost of these acquisitions totalled €10.8 million. The total cash outflow from all acquisitions was €-20.6 million.

Note 3

Discontinued operations and disposal of other assets

Discontinued operations in 2007

In 2006, Kesko Food Ltd sold its 50% ownership interest in Rimi Baltic AB. The real estate included in the deal was sold in January 2007. The gain on the disposal of the properties, €28.2 million, is presented in the results of discontinued operations.

Disposal group in 2007

In December 2007, Kesko Corporation signed an agreement by which it sells the share capital of K-Rahoitus Oy, a subsidiary wholly owned by it. K-Rahoitus Oy provides 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 has 7 employees in Finland and 15 in the Baltic countries. The whole personnel will transfer to the new employer. The transaction will be concluded after clearance from the authorities during the first part of 2008. When the deal is concluded, Kesko will recognise a non-recurring gain on the disposal of about 10 million euros. K-Rahoitus Oy's on-balance-sheet items are presented as assets held for sale and related liabilities (Note 25).

Discontinued operations in 2006

Rimi Baltic AB

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

Net assets of discontinued operations at date of disposal

€ million	2007	2006
Cash	-	10.9
Intangible assets	-	23.1
Property, plant and equipment	-	85.1
Inventories	-	33.8
Receivables	-	11.6
Non-interest-bearing debt	-	-64.5
Interest-bearing debt	-	-42.3
Deferred tax liabilities (net)	-	1.1
		58.8
Gains/losses on disposal	-	131.2
Total consideration	-	190.0

€ million	2007	2006
Received in cash	-	190.0
Received in shares	-	
Cash and cash equivalents in disposed entity	-	-10.9
Cash inflow on disposal	-	179.2

Income statement for discontinued operations

€ million	2007	2006
Net sales	-	461.9
Expenses	-	464.0
Profit before tax	-	-2.1
Income taxes	-	-0.4
Profit after tax	-	-2.5
Profit before tax on disposal of operations	-	131.2
Net profit on the disposal of operations	-	128.7

Cash flow statement for discontinued operations

Milj.€	2007	2006
Cash flow from operating activities	-	10.8
Cash flow from investing activities	-	-21.0
Cash flow from financing activities	-	-3.2
Cash flow from discontinued operations	-	-13.4

Other assets sold in 2006

BT warehouse technology

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

Real estate sold

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

Notes to the consolidated income statement

Note 4

Other operating income

€ million	2007	2006
Sales of services	433.0	403.7
Rent income	35.4	42.6
Gains on disposal of tangible assets	13.9	120.1
Gains from derivative instruments	2.2	2.6
Others	93.1	91.8
Total	577.6	660.8

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

Note 5

Other operating expenses

€ million	2007	2006
Rent expenses	-317.7	-290.1
Marketing costs	-258.9	-235.4
Occupancy costs of real estate and store sites	-112.7	-104.7
Data communications costs	-62.3	-62.0
Other trading expenses	-186.7	-170.6
Losses from disposal of tangible assets	-1.7	-3.8
Losses from derivative instruments *)	-2.1	-2.5
Total	-942.1	-869.1

*) Includes revaluations of embedded derivatives.

Note 6

Non-recurring items

€ million	2007	2006
Gains on disposal of real estate and shares	13.9	122.2
Losses on disposal of real estate and shares and impairment	-1.6	-3.2
Impairment losses	-0.5	-31.1
Others	-5.0	-5.1
Total	6.8	82.8

Extraordinary transactions that are not related to ordinary operating activities are treated as non-recurring items and allocated to segments. The Group classifies as non-recurring items gains and losses on the disposal of real estate, shares, operating activities, and impairment and discontinuation costs of significant operating activities. The gains on disposal are presented in the income statement in other operating income, and the losses on disposal in other operating expenses.

Impairment losses

During the period, a total amount of €0.5 million (€31.3million) in impairment losses was recognised as an expense in the income statement.

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

Note 7

Staff costs, number of employees and management's salaries

€ million	2007	2006
Salaries and fees	-501.1	-459.5
Social security costs	-47.8	-43.9
Pension costs	-24.9	-38.7
Defined benefit plans	25.0	11.2
Defined contribution plans	-49.9	-49.9
Stock options granted	-2.3	-2.1
Total	-576.1	-544.2

The employee benefits and loans 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 Group companies' Managing Directors and Boards of Directors

Salaries of managing directors (incl. fringe benefits)	6.6	7.8
Fees of Board members	0.3	0.4
Total	6.9	8.2

Average number of the Group employees	2007	2006
Kesko Food	5,964	6,171
Rautakesko	9,111	7,420
VV-Auto	737	621
Anttila	2,058	2,058
Kesko Agro	797	885
Other operating activities	2,233	2,135
Other entities	276	372
Total Group companies	21,176	19,662
Joint ventures	-	4,105
Total Kesko Group	21,176	23,767

Note 8

Financial income and expenses

€ million	2007	2006
Financial income		
Dividend income from available-for-sale financial assets	0.1	2.8
Interest income from loans and other receivables	26.9	20.1
Interest income from financial assets carried at fair value through profit or loss	4.1	0.2
Interest income from available-for-sale financial assets	7.6	2.7
Interest income	38.6	23.0
Exchange differences and fair value changes of derivative financial instruments and currency-denominated loans and bank accounts not qualified for hedge accounting	11.1	8.5
Gains from disposals of available-for-sale financial assets	37.2	3.8
Total	87.1	38.1
Financial expenses		
Interest expenses on financial liabilities carried at amortised cost	-33.1	-32.2
Exchange differences and fair value changes of derivative financial instruments and currency-denominated loans and bank accounts not qualified for hedge accounting	-15.7	-7.7
Other financial expenses	-1.3	-3.7
Total	-50.1	-43.6
Total financial income and expenses	37.0	-5.5

The gains on disposal of available-for-sale financial assets include the €37.1 million gain on the disposal of SATO shares.

Other financial expenses include €0.6 million (€3.0 million) in servicing fees for customer finance receivables sold.

Financial expenses include €10.8 (€10.5 million) in interest on finance leases recognised as expenses for the period. Financial income include €1.6 (€1.4 milion) in interest on finance leases reported as income for the period.

The profit from the realised interest rate derivative instruments 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	2007	2006
Net sales	-0.1	-0.2
Purchases and other expenses	-4.5	6.0
Financial income and expenses	-4.7	0.5
Total	-9.3	6.3

Note 9

Income taxes

Income taxes in the income statement

€ million	2007	2006
Current tax	-78.2	-95.1
Tax for prior periods	-7.5	-24.2
Deferred taxes	-4.5	12.2
Total	-90.2	-107.1

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

Profit before tax	369.3	357.8
Tax at parent's rate (26%)	-96.0	-93.0
Effect of foreign subsidiaries' different tax rates	5.0	6.0
Effect of income not subject to tax	12.8	1.4
Effect of expenses not deductible for tax purposes	-11.0	-8.3
Effect of tax losses	-0.7	7.8
Effect of consolidation and elimination	2.2	0.5
Taxes for prior periods	-7.5	-24.2
Adjustment of prior period deferred taxes	2.4	0.0
Others	2.6	2.7
Taxes in the income statement	**-90.2**	**-107.1**

Most part, €-5.8 million, of prior period taxes relate to Rautakesko Ltd's 2001 fiscal year, on which the Helsinki Administrative Court gave its decision in 2007. Most part of the prior period taxes in the amount of €-24.2 million recorded in 2006 consisted of the recovery of the €67.3 million impairment made by Kesko Corporation on the shares of Hämeenkylän Kauppa Oy (former Tuko Oy) in 1996.

Note 10

Earnings per share

Basic earnings per share is calculated by dividing the 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 stock option scheme with a dilutive effect, which increases the number of stocks. The stock 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 stock options to issue an equal number of shares at fair value. The fair value of a share is based on the average share price during the period.

€ million	2007	2006
Profit for the period attributable to parent's equity holders, € million	285.0	368.7
Profit for the period attributable to parent's equity holders, continuing operations, € million	256.8	240.0
Profit for the period attributable to parent's equity holders, discontinued operations, € million	28.2	128.7
Number of shares		
Weighted average of outstanding shares	97,665,884	97,152,281
Effect of options granted	729,435	874,714
Diluted weighted average of outstanding shares	98,395,319	98,026,995
Basic earnings per share	2.92	3.80
Diluted earnings per share	2.90	3.76
Basic earnings per share from continuing operations	2.63	2.47
Diluted earnings per share from continuing operations	2.61	2.45
Basic earnings per share from discontinued operations	0.29	1.33
Diluted earnings per share from discontinued operations	0.29	1.31

Notes to the consolidated balance sheet

Note 11

Intangible assets

€ million	Goodwill	Trademarks	Other intangible assets	Pre-payments	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 groups	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		-112.1
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 and impairment 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**

€ million					Total 2006
Cost					
Cost at 1 January 2006	172.4	88.3	118.4	2.9	382.0
Currency translation differences	-1.5	-1.2	-0.5		-3.2
Additions	4.2	0.1	15.2	9.4	28.9
Acquisition of subsidiary	-1.8	0.0	1.5		-0.3
Disposals	-15.9	-6.9	-18.9	-1.2	-42.9
Transfers between groups	3.6	-3.3	-3.4	-1.4	-4.5
Cost at 31 December 2006	161.0	77.0	112.3	9.7	360.1
Accumulated amortisation					
Accumulated amortisation and impairment at 1 January 2006	-20.6		-53.8		-74.4
Currency translation differences			0.1		
Accumulated amortisation of disposals and transfers			18.8		18.8
Amortisation for the period			-25.6		-25.6
Impairment	-9.6	-21.3			-30.9
Accumulated amortisation and impairment at 31 December 2006	-30.2	-21.3	-60.5		-112.1
Carrying amount at 1 January 2006	151.8	88.3	64.6	2.9	307.6
Carrying amount at 31 December 2006	**130.8**	**55.7**	**51.8**	**9.7**	**248.0**

Goodwill and intangible assets by segment

€ million	Intangible assets * 2007	Goodwill 2007	Discount rate (WACC) ** 2007	Intangible assets * 2006	Goodwill 2006	Discount rate (WACC) ** 2006
Rautakesko						
Other Nordic countries	39.2	48.9	7.5%	37.9	46.8	7.0%
Baltic countries		18.3	9.0–11.0%		18.3	9.0%
Others		14.0	12.0%		13.9	12.0%
Anttila						
Finland		23.4	7.0%	17.8	23.4	6.5%
Other operating activities						
Finland	17.8	29.8	7.0–7.5%		28.4	6.5–7.0%
Other countries		1.5				
Total	57.0	134.3		55.7	130.8	

* intangible assets with indefinite useful lives ** after tax

Cash-generating units have mainly been identified at a level lower than business segments. The units have been identified by chain/country, which substantially 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.

Impairment test for goodwill and intangible assets

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by the management covering a period of 3-5 years. The key assumptions used for the plans are total market development and profitability, changes in store network, product and service selection and pricing. Cash flows beyond the period are extrapolated using mainly 1-2% growth rates. The discount rate used is the WACC, specifed for each division and country after tax, which is adjusted by tax effects in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks.

Impairment losses

During the 2007 accounting period, impairment was not allocated to goodwill and trademarks with indefinite useful lives.

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

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

Sensitivity analysis

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

When cash generating units are estimated according to the management's assumptions, a foreseeable possible change in any key variable would not create a situation in which the recoverable amounts of cash generating units would be less than their carrying amounts. The intangible assets related to Indoor Group's and Bryggmakker's operating activities are the most sensitive to changes in assumptions. A change of 1 percentage point in their discount rates would not cause impairment. A 0.5 percentage point change in future years' operating margins would not result in impairment either.

Note 12

Tangible assets

€ million	Land and water	Buildings	Machinery and equipment	Other tangible assets	Pre-payments and purchases in progress	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 groups	-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		-693.9
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 2007	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**

						Total 2006
Cost						
Cost at 1 January 2006	185.1	1,150.3	509.8	27.9	18.7	1,891.7
Currency translation differences	0.1	0.0	0.2	0.0	0.1	0.4
Additions	44.0	58.2	85.2	3.6	34.4	225.4
Acquisition of subsidiary	1.2	12.3	0.4	0.0	0.0	13.9
Disposals	-38.2	-227.8	-130.0	-9.4	-0.9	-406.3
Transfers between groups	20.5	86.4	0.2	3.6	-27.2	83.5
Cost at 31 December 2006	212.7	1,079.4	465.8	25.7	25.1	1,808.6
Accumulated depreciation						
Accumulated depreciation and impairment at 1 January 2006	-2.5	-425.2	-308.9	-10.9	-1.5	-749.1
Currency translation differences		-0.1	-0.1			-0.2
Accumulated depreciation of disposals and transfers	0.2	96.0	68.4	4.8	1.6	171.1
Depreciation for the period		-48.3	-64.8	-2.7	-0.3	-116.1
Impairment	-0.1	0.8	-0.1	-0.2		0.4
Accumulated depreciation at 31 December 2006	-2.4	-376.8	-305.5	-9.0	-0.2	-693.9
Carrying amount at 1 January 2006	182.6	725.1	200.9	17.0	17.2	1,142.7
Carrying amount at 31 December 2006	**210.4**	**702.6**	**160.3**	**16.7**	**24.9**	**1,115.1**

Tangible assets include assets leased under finance leases as follows:

€ million	Buildings	Machinery and equipment	Other tangible assets	Total
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
2006				
Cost	149.9	67.8	0.1	217.8
Accumulated depreciation	-60.3	-36.9	-0.1	-97.2
Carrying amount	89.6	31.0	0.0	120.6

Note 13

Investments in associates

€ million	2007	2006
Carrying amount at 1 January	25.5	29.4
Share of income for the period	0.4	0.6
Additions	2.2	-0.6
Disposals	-1.1	-3.9
Currency translation differences	0.0	0.0
Carrying amount at 31 December	27.0	25.5

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, %
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	34.0
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	
2006					
Valluga-sijoitus Oy, Helsinki	24.4	3.7	1.3	0.6	39.0
Vähittäiskaupan Takaus Oy, Helsinki	47.1	0.3	1.0	2.8	34.0
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	3.3	2.5	8.7	0.2	30.0
Others	11.0	7.4	33.7	0.7	
Total	85.8	13.9	44.7	4.3	

Note 14

Long-term available-for-sale financial assets

Available-for-sale financial assets include unquoted shares primarily measured at cost because their fair values cannot be reliably measured.

€ million	2007	2006
Carrying amount at 1 January	12.0	11.6
Additions	1.2	0.5
Disposals	-9.2	-0.1
Changes in fair value	0.0	0.0
Carrying amount at 31 December	4.0	12.0

In 2007, €37.1 million of gains on disposal of available-for-sale financial assets were recognised in financial items.

Note 15

Long-term receivables

€ million	2007	2006
Non-interest-bearing long-term receivables	8.8	2.4
Finance lease receivables	27.0	23.5
Loan receivables from associates	0.9	1.0
Other long-term receivables	0.2	93.3
Total	36.9	120.2

In 2006, other long-term receivables included customer finance receivables, which were classified as available-for-sale assets in 2007 (Note 3, 25). The non-interest-bearing long-term receivables include €8.0 million in derivative value changes, the balance sheet value of which corresponds to their fair value. The fair values of finance lease receivables cannot be reliably measured.

Maturities of long-term receivables at 31 Dec. 2007

€ million	2009	2010	2011	2012	2013-	Total
Non-interest-bearing long-term receivables	2.5	0.6	0.0	0.0	5.7	8.8
Finance lease receivables	8.1	7.4	5.2	3.1	3.3	27.0
Loan receivables from associates					0.9	0.9
Other long-term receivables					0.2	0.2
Total	10.6	8.0	5.2	3.1	10.0	36.9

Note 16

Finance lease receivables

€ million	2007	2006
Finance lease receivables fall due as follows:		
Not later than one year	8.9	7.7
Later than one year and not later than five years	25.5	22.6
Later than five years	4.2	3.1
Gross investment in finance leases	**38.6**	**33.4**
Present value of minimum lease receivables:		
Not later than one year	7.4	6.5
Later than one year and not later than five years	23.0	20.5
Later than five years	4.0	3.0
Total finance lease receivables	**34.4**	**30.0**
Unearned financial income	**4.2**	**3.4**

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 €60 million. The lease terms are 3-8 years.

Note 17

Deferred taxes

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	6.0	0.3				6.3
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
Changes in Group structure	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:	2007	2006
Deferred tax assets	7.7	5.8
Deferred tax liabilities	125.5	112.8

The 'Others' group of deferred tax assets include e.g. timing differences of deferred tax assets relating to gains on sale and leaseback transactions, and timing differences relating to depreciation.

Changes in deferred taxes during 2006:

€ million	31 Dec. 2005	Charged/credited to the in- come statement	Charged to equity	Exchange rate differences	Subsidiaries acquired/ disposed of	31 Dec. 2006
Deferred tax assets						
Margin included in inventories	2.1	0.2			0.0	2.3
Finance lease assets	4.8	0.4			0.0	5.2
Provisions	5.8	0.2			0.0	6.0
Pensions	1.6	0.0		0.0	0.0	1.6
Unused tax losses	3.4	2.1		0.1	-2.3	3.3
Others	14.8	2.5	-0.9		0.3	16.7
Total	32.5	5.3	-0.9	0.1	-1.9	35.1
Deferred tax liabilities						
Accumulated depreciation differences	61.6	-4.6			0.3	57.3
Change in Group structure	29.4	-5.5		-0.5	-1.9	21.5
Pensions	54.6	2.5			0.0	57.1
Others	7.5	1.0	-1.0		-1.4	6.1
Total	153.1	-6.6	-1.0	-0.5	-3.0	142.0
Net deferred tax liability	120.6					106.9

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

At 31 December 2007, the Group had €10.1 million of unused tax losses not recognised as carry-forwards, because it is probable that the Group will not be able to accumulate an equivalent taxable profit against which the losses could be used.

Unused tax losses not recognised as tax assets expire as follows:	2008	2009	2010	2011	2012	2012–	Total
	0.7	1.4	0.2	1.3	0.1	6.4	10.1

The consolidated financial statements do not recognise deferred tax liabilities for the undistributed earnings of subsidiaries and associates, because the distribution of profit is at the discretion of the Group, and is not probable in the near future. At 31 December 2007, the amount of such earnings was immaterial.

Note 18

Pension assets

The Group operates several retirement plans. In Finland, employees' pension insurance is partly arranged with insurance companies and partly by the Kesko Pension Fund, whose department A granting additional benefits was closed on 9 May 1998. Pension plans arranged with the Kesko Pension Fund have been treated as defined benefit plans.

As regards foreign subsidiaries, the plan adopted in the Norwegian subsidiary is classified as a defined benefit plan. Retirement plans in other foreign subsidiaries are arranged in accordance with local regulations and practices. They do not include any significant defined benefit pension plans.

	2007		2006	
€ million	**Finland**	**Norway**	**Finland**	**Norway**
Obligation arising from plan at 31 December	-560.6	-12.6	-440.9	-11.5
Plan assets at 31 December	897.0	8.5	794.8	7.6
Unrecognised actuarial profits/losses (-)/(+)	-74.3	1.2	-134.4	1.4
Net assets (+) /liabilities (-) recognised in the balance sheet*	262.1	-2.9	219.5	-2.4
Obligation arising from plan at 1 January	440.9	11.5	426.8	9.2
Current service cost	12.0	1.2	7.1	1.9
Interest cost	24.8	0.5	20.6	0.4
Benefits paid	-26.7	-0.2	-25.6	
Actuarial losses	68.5	-0.8	11.9	
Others	41.1	0.4		
Obligation arising from plan at 31 December	560.6	12.6	440.9	11.5
Plan assets at 1 January	794.8	7.6	628.7	7.2
Expected return on plan assets	56.2	0.3	39.6	0.4
Contributions to plan	16.1	0.9	-2.7	
Benefits paid	-26.7	-0.2	-25.6	
Actuarial profits	11.8	0.1	154.8	
Others	44.8	-0.2		
Plan assets at 31 December	897.0	8.5	794.8	7.6
Expense recognised in the income statement:				
Current service cost	-12.0	-1.2	-7.1	-0.8
Interest cost	-24.8	-0.5	-20.6	-0.4
Expected return on plan assets	56.2	0.3	39.6	0.4
Change	3.8			
Actuarial profits (+) and losses (-)	3.3	-0.1	0.5	
Others				-0.4
Total expense recognised in the income statement	26.5	-1.5	12.4	-1.2
Change in net assets recognised in the balance sheet:				
Beginning of the period	219.5	-2.3	209.8	-2.1
Income/expenses recognised in the income statement	26.5	-1.5	12.4	-1.2
Benefits paid from funds				0.1
Contributions to plan	16.1	0.9	-2.7	0.8
End of the period*	262.1	-2.9	219.5	-2.4

Finland	2007	2006	2005	2004
Plan obligation	-560.6	-440.9	-426.8	-420.6
Plan assets	897.0	794.8	628.7	608.2
Actuarial profits and losses	-74.3	-134.4	8.1	8.1
Net receivable in the balance sheet*	262.1	219.5	209.9	195.6

*€0.5 million of the net receivable is attributable to K-Rahoitus Oy, which is presented in available-for-sale assets.
The return on plan assets (Finland) was €68.0 million (€152.9 million).
In 2008, the Group expects to pay €37.7 million in contributions to defined benefit plans.

Plan assets by category, % of plan asset fair values	2007	2006
Real estate	34.7%	34.5%
Shares	33.6%	37.8%
Long-term interest investments	17.6%	19.7%
Short-term interest investments	8.8%	3.4%
Alternative investments	5.3%	4.6%
Total	100.0%	100.0%

Plan assets, € million		
Kesko Corporation shares included in fair value	130.2	132.2
Real estate leased and primarily subleased to retailers by the Kesko Group, included in fair value	341.5	297.2

	2007		2006	
Principal actuarial assumptions used:	Finland	Norway	Finland	Norway
Discount rate	5.00%	5.00%	5.00%	4.35%
Expected return on plan assets	6.60%	6.00%	6.60%	5.50%
Future salary increase assumption	3.50%	4.50%	3.50%	4.50%
Inflation	2.00%		2.00%	
Expected average remaining service life, years	15-20		13-15	

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 6.9%-9.9%.

Note 19

Inventories

€ million	2007	2006
Goods	913.7	782.6
Prepayments	8.6	6.2
Total	922.3	788.8
During the period, inventories have been written down to correspond to their net realisable value	18.4	16.4

Note 20

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

€ million	2007	2006
Trade receivables	682.1	646.3
Other non-interest-bearing receivables		
Non-interest-bearing loan and other receivables	26.8	19.6
Deferred revenue and other accruals	114.9	94.9
Total other non-interest-bearing receivables	141.7	114.5
Total short-term non-interest-bearing receivables	823.8	760.8

A total amount of €5.0 million (€3.7 million) of trade receivables has been recognised in the income statement as losses on loans and advances. 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 is assumed to nearly equal the carrying amounts based on their short maturities.

Note 21

Short-term interest-bearing receivables

€ million	2007	2006
Interest-bearing loan and other receivables	8.9	85.0
Finance lease receivables	7.4	6.6
Total short-term interest-bearing receivables	16.3	91.6

The fair value of short-term trade and loan receivables is assumed to nearly equal the carrying amounts based on their short maturities. In 2006, interest-bearing loans and other receivables included K-Rahoitus Oy's customer receivables which in 2007 are presented in available-for-sale assets.

Note 22

Financial assets at fair value through profit or loss

€ million	2007	2006
Financial assets at fair value through profit or loss	105.5	140.7
Total	105.5	140.7

Financial assets at fair value through profit or loss include interest and special investment fund investments and other investments with over 3-month maturities.

Note 23

Available-for-sale financial assets

€ million	2007	2006
Carrying amount at 1 January	200.4	38.3
Changes	-44.8	162.1
Changes in fair value	-	-
Carrying amount at 31 December	155.6	200.4

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

Note 24

Cash and cash equivalents

€ million	2007	2006
Cash on hand and balances with banks	89.7	56.5
Total	89.7	56.5

Note 25

Assets classified as held-for-sale and related liabilities

Assets held for sale

€ million	2007	2006
Land	5.9	3.2
Buildings and real estate shares	1.9	19.0
Long-term receivables	95.0	-
Short-term receivables	134.1	-
Total	236.9	22.2

In December 2007, Kesko Corporation signed an agreement by which it sells the share capital of K-Rahoitus Oy during the first part of 2008. The assets relating to K-Rahoitus Oy are presented in available-for-sale assets. In addition to available-for-sale assets, the disposal entity includes current assets eliminated in the Kesko Group in the amount of €2.4 million and current liabilities in the amount of €211.3 million.

In 2006, in connection with the disposal of Rimi Baltic AB shares by Kesko Food Ltd, it was agreed that Rimi Baltic would acquire the properties leased by it from an Estonian subsidiary of Kesko. The transaction was concluded in January 2007. The €20.7 million balance sheet value of the properties was included in assets held for sale in 2006. In addition, some retail store properties used for the Group’s operating activities have become vacant because they are no longer needed for the purpose they were acquired for. Buyers for such properties are being actively sought. Assets classified as held-for-sale include vacant retail store properties and real estate shares totalling €7.7 million (€1.6 million).

Liabilities included in held-for-sale disposal group

€ million	2007	2006
Current non-interest-bearing liabilities	2.1	-
Non-current non-interest-bearing liabilities	1.2	-
Total	3.3	-

In December 2007, Kesko Corporation signed an agreement by which it sells the share capital of K-Rahoitus Oy during the first part of 2008. Liabilities relating to K-Rahoitus's asset items are presented as liabilities linked to assets held for sale.

Note 26

Changes in share capital

Share capital	Number of shares A	B	Total	Share capital € million	Share premium € million	Total € million
At 1 January 2006	31,737,007	64,746,919	96,483,926	193.0	188.7	381.7
Exercise of stock options	–	1,035,999	1,035,999	2.0	7.2	9.2
At 31 December 2006	31,737,007	65,782,918	97,519,925	195.0	195.9	390.9
Exercise of stock 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
Number of votes	317,370,007	66,030,758	383,400,765			

In 2007, the share capital was increased six times as a result of stock subscriptions pursuant to stock options: by €46,376 in February, by €86, 800 in April, by €298,572 in May, by €9,000 in July, by €39,032 in September and by €15,900 in December. The corresponding numbers of shares subscribed for were 23,188; 43,400; 149,286; 4,500; 19,516 and 7,950. The increases were entered in the Trade Register respectively on 12 February, 26 April, 29 May, 24 July, 26 September and 19 December 2007.

All issued shares have been fully paid. The maximum number of A shares is 250,000,000 and the maximum number of B shares is also 250,000,000, provided that the total number of shares is at maximum 400,000,000. One A share entitles the holder to 10 votes and one B share to 1 vote.

The book counter value of the shares is €2.

An analysis of share-based payments is given in Note 37.

Dividends

After the balance sheet date, the Board has proposed that €1.60 per share be distributed as dividends.

Note 27

Equity and reserves

Restricted and non-restricted equity

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

Share premium

The amount exceeding the par value of shares received by the enterprise in connection with share subscription, gains on sale of treasury shares, and in some cases unraised amounts from sale of unsubscribed shares are recognised in the share premium account. The share premium includes the premium received on exercise of share options.

Other reserves

The other reserves have mainly been created and accumulated as a result of decisions by the Annual General Meeting.

Revaluation surplus

The revaluation surplus includes the effective portion of fair value based on hedge accounting applied to electricity derivatives and to interest rate derivatives hedging a private placement bond. The revaluation surplus will dissolve by the year 2019.

Currency translation differences

Currency translation differences arise from the consolidation of the results of foreign operations. Also gains and losses arising from net investment hedges in foreign entities are included in currency translation differences provided that hedge accounting requirements are fulfilled.

Note 28

Maturities of interest-bearing liabilities

€ 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					
Commercial papers	98.1	443.6	541.7	98.1				
Total	625.4	668.6	1,294.0	311.2	58.8	17.9	28.1	209.4

€ million	At 31 Dec. 2006	Available	Total	2007	2008	2009	2010	2011 and later
Loans from financial institutions	107.5		107.5	42.5	19.6	18.3	0.6	26.5
Private placement bonds (USD)	99.9		99.9					99.9
Pension loans	14.3		14.3	11.5	0.8	0.8	0.8	0.4
Finance lease liabilities	168.1		168.1	19.0	21.9	20.3	12.6	94.3
Debt to K-retailers	121.7		121.7	121.7				
Other interest-bearing liabilities	76.1		76.1	76.1				
Binding credit limits		225.0	225.0					
Commercial papers	22.2	399.5	421.7	22.2				
Total	609.8	624.5	1,234.2	293.0	42.3	39.4	14.0	221.1

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 same documented terms are applied to prepayments and chain rebates for all retailers in a chain. 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. 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 interest-bearing receivables		28.9					
– Derivatives					8.0	36.9	36.9
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 long-term liabilities				295.3			
– Derivatives					18.9	314.2	324.2
Non-interest-bearing long-term 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**

Carrying amounts of financial assets and liabilities by measurement group at 31 Dec. 2006

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			12.0			12.0	12.0
Long-term interest-bearing receivables		119.1					
- Derivatives					1.1	120.2	120.2
Current financial assets							
Trade receivables and other non-interest-bearing receivables		759.8					
- Derivatives	1.0					760.8	760.8
Interest-bearing receivables		91.6				91.6	91.6
Financial assets at fair value through profit or loss	140.7					140.7	140.7
Available-for-sale financial assets			200.4			200.4	200.4
Carrying amounts by measurement group	**141.4**	**970.5**	**212.4**		**1.1**	**1,325.7**	**1,325.7**
Non-current financial liabilities							
Interest-bearing long-term liabilities				307.5			
- Derivatives					9.3	316.8	324.2
Non-interest-bearing long-term liabilities				16.5			
- Derivatives					1.8	18.3	18.3
Current financial liabilities							
Current interest-bearing liabilities				293.0		293.0	293.0
Trade payables				789.2		789.2	789.2
Other non-interest-bearing liabilities				177.6		177.6	177.6
Accrued liabilities				259.7			
- Derivatives	0.8				0.4	260.9	260.9
Carrying amounts by measurement group	**0.8**			**1,843.5**	**11.5**	**1,855.8**	**1,863.2**

The fair values of loans have been calculated based on the present value of future cash flows using the 4.2%-5.6% 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 40.

Note 30

Finance lease liabilities

€ million	2007	2006
The maturities of finance lease liabilities are as follows:		
Not later than 1 year	27.8	28.2
Later than 1 year and not later than 5 years	103.4	111.7
Later than 5 years	86.1	93.9
Total minimum lease payments	**217.3**	**233.8**
Present values of minimum lease payments:		
Not later than 1 year	18.8	19.0
Later than 1 year and not later than 5 years	78.8	76.7
Later than 5 years	68.5	72.3
Finance lease liabilities	**166.1**	**168.0**
Accumulating financial expenses	**51.2**	**65.8**
Contingent rents recognised for the period	**1.5**	**1.5**
Expected sublease rentals	**33.2**	**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 most leases include a call option.

Note 31

Provisions

€ million	Onerous leases	Warranty provisions	Other provisions	Total
Provisions at 1 Jan. 2007	9.1	11.7	11.1	31.9
Exchange rate effects				0.0
Additional provisions	2.9	1.7	14.3	18.9
Unused amounts reversed	-0.9	-0.2	-7.5	-8.6
Expensed in income statement	11.1	13.2	17.9	42.2
Used amounts	-2.0	-0.3	-1.4	-3.7
Provisions at 31 Dec. 2007	9.1	12.9	16.5	38.5
Analysis of total provisions				
Non-current	5.2	9.1	1.2	15.5
Current	3.9	3.8	15.3	23.0

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	2007	2006
Trade payables	837.8	789.2
Other current non-interest-bearing liabilities	191.6	177.6
Tax liabilities	13.4	26.0
Accrued liabilities	277.2	260.9
Total current non-interest-bearing liabilities	1,320.0	1,253.7

Accrued liabilities are mainly due to the timing of purchases and staff costs.

Note 33

Major subsidiaries directly owned 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
Kauko-Telko Ltd	Finland	100.0	100.0
Kenkäkesko Ltd	Finland	45.1	100.0
Keslog Ltd *	Finland	100.0	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
Tähti Optikko Group Oy	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	2007	2006
Non-current assets	48.5	48.7
Current assets	3.7	0.7
	52.2	49.4
Non-current liabilities	20.4	20.8
Current liabilities	7.5	12.7
	27.9	33.5
Net assets	24.3	15.9
Income	7.0	6.5
Expenses	6.3	6.1
Profit	0.7	0.4

Note 35

Contingent liabilities

Commitments

€ million	2007	2006
Collateral given for own commitments		
Pledges	38	57
Mortgages	26	26
Guarantees	101	118
Other commitments and contingent liabilities	50	62
Collateral given for shareholders		
Guarantees	1	1
Collateral given for others		
Other commitments and contingent liabilities	6	9
Guarantees	3	4

Note 36

Operating leases

Group as the lessee

Minimum lease payments under non-cancellable operating lease agreements:

€ million	2007	2006
Not later than 1 year	285.3	191.9
Later than 1 year and not later than 5 years	830.5	767.3
Later than 5 years	675.8	570.9
Total	1,791.5	1,530.1
Expected future minimum lease payments under non-cancellable sublease agreements	46.4	40.3
Lease and sublease payments recognised for the period:		
Minimum lease expenses	262.6	246.5
Contingent lease expenses	0.3	2.0
Sublease payments (-income/+expense)	-16.4	-17.6

The 2007 income statement includes operating lease payments in a total amount of €317.7 million (€290.1 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. Future minimum lease payments for the comparison year (2006) have been adjusted to correspond to their actual amounts.

Group as the lessor

Minimum lease payments based on non-cancellable operating leases:

€ million	2007	2006
Not later than 1 year	8.9	11.2
Later than 1 year and not later than 5 years	15.1	18.3
Later than 5 years	20.0	22.5
Total	44.1	52.0
Aggregate contingent rents charged to the income statement	0.2	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.

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 stock 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
- 2003E 1 April 2006-30 April 2009 and
- 2003F 1 April 2007-30 April 2010.

The original exercise price per share of option 2003D was equal to the volume weighted average price of a Kesko Corporation B share on the Helsinki Stock Exchange between 1 April-30 April 2003 (€9.63), that of option 2003E between 1 April-30 April 2004 (€15.19) and that of option 2003F between 1 April-30 April 2005 (€19.08). The exercise prices were reduced by the amounts of dividends per share distributed after the end of the above period for the determination of the exercise price, but before the exercise date. At the end of 2007, the price of a B share subscribed for with option 2003D was €3.03 and with option 2003E it was €10.59, and the exercise period started on 1 April 2006. At the end of 2007, the price of a B share subscribed for with option 2003F was €16.48 and the exercise period started on 1 April 2007. The option plan covers approximately 50 employees.

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. The stock options shall be marked with symbols 2007A, 2007B and 2007C in units of 1,000,000 options each. The exercise periods of options shall be:

- 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, 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.

Share of issued stock options of shares and votes

Presuming that shares are subscribed for with all of the 1,800,000 stock options granted under the year 2003 plan and with all of the 3,000,000 stock options of the year 2007 plan, the shares subscribed for with stock options account for 4.72% of shares and 1.24% of all votes. The subscriptions made with stock options may raise the number of the company's shares to 101,738,705, and the voting rights of all shares to 387,371,768 votes.

The company has not granted other options or special rights entitling to shares.

Stock options during the period 1 January 2007–31 December 2007

	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	–	–
Dividend adjustment	Yes	Yes	Yes	Yes	Yes	Yes
Exercise price 31 Dec. 2005	€ 5.63	€ 13.19	€ 19.08	–	–	–
Exercise price 31 Dec. 2006	€ 4.53	€ 12.09	€ 17.98	–	–	–
Exercise price 31 Dec. 2007*	€ 3.03	€ 10.59	€ 16.48	€ 45.82	€ 0.00	€ 0.00
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	0.3	1.3	2.3	4.3	5.3	6.3
Plan participants at end of period	13	27	36	100	–	–

* for 2007B option, the exercise price is the trading volume weighted average price of a Kesko B share in April 2008, and for 2007C option, the exercise price is the trading volume weighted average price of a Kesko B share in April 2009

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)	534,088	362,444	211,000	0			1,107,532	8.07 €
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 year 2007 trade volume weighted average price of a B share, and for 2003F: trade volume weighted average price of a B share in April-December 2007

2006	Stock options 2003 2003D	2003E	2003F	Total	Subscription price (weighted)
At 1 Jan. 2006					
Options granted at beginning of period	574,088	576,000	579,000	1,729,088	12.65 €
Options available for grant at beginning of period	25,912	24,000	21,000	70,912	12.17 €
Shares subscribed for with options at beginning of period	195,400	0	0	195,400	5.63 €
Options outstanding at beginning of period	378,688	576,000	579,000	1,533,688	13.55 €
Movements during period					
Options granted during period			17,000	17,000	17.98 €
Options returned during period			43,500	43,500	17.98 €
Shares subscribed for with options during period	250,900	134,920		385,820	7.17 €
Average price weighted by grant date trading volume *)	31.28 €	32.84 €			
Options lapsed during period					
At 31 Dec. 2006					
Options granted at end of period	574,088	576,000	552,500	1,702,588	11.45 €
Options expected to vest	0	576,000	552,500	1,128,500	14.97 €
Number of granted options sold (by original holder)	448,800	216,500	0	665,300	6.99 €
Options available for grant at end of period	25,912	24,000	47,500	97,412	12.95 €
Shares subscribed for with options at end of period	446,300	134,920	0	581,220	6.28 €
Options outstanding at end of period	127,788	441,080	552,500	1,121,368	14.13 €

*) for 2003D and 2003E: trade volume weighted average price of a B share in April-December 2006

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 period 1 January-31 December 2007, the options contributed €2.3 million (€2.2 million) to the Group's profit.

Black-Scholes model assumptions	Granted in 2007	Granted in 2006	All options
Number of options granted	789,000	17,000	2,601,500
B share average (weighted) price	€49.37	€26.91	€25.72
Average (weighted) subscription price	€45.82	€18.56	€24.11
Expected average (weighted) volatility	21.7%	21.9%	24.6%
Average (weighted) term of option	4.8 yrs	4.0 yrs	4.9 yrs
Average (weighted) risk-free interest rate	4.5%	3.4%	3.5%
Returned options (weighted average)	9.2%	14.0%	8.1%
Total fair value, €	11,312,665	166,332	19,414,210

The expected volatility of a Kesko B share has been estimated based on historic volatility using weekly changes over a period of time corresponding to the option's exercise period. The risk-free interest rate is the government zero coupon bond interest rate at the measurement date with a maturity equalling the option exercise period.

Notes to the cash flow statement

Note 38

Non-cash flow related investments

€ million	2007	2006
Total purchases of fixed assets,	233.9	281.9
of which settlement in cash	238.3	237.5
Settlement of prior period investments	-35.4	-16.0
Investments financed by finance lease or other borrowing	31.0	60.4

Note 39

Adjustments to cash flows from operating activities

€ million	2007	2006
Adjustment of non-cash transactions in the income statement or items presented elsewhere in the cash flow statement:		
Change in provisions	1.7	5.4
Income from associates	-0.4	-0.7
Impairment	0.5	30.4
Losses on loans and advances	5.0	3.7
Non-recurring gains on disposal of fixed assets	-43.8	-252.4
Non-recurring losses on disposal of fixed assets	1.7	3.8
Option expenses	2.3	2.1
Defined benefit pensions	-43.1	-9.8
Others	0.9	2.0
Total	-75.2	-215.5

Note 40

Subsidiary disposals

2007

Kauko-Telko Ltd sold its ownership interests in Glastech Oy, Glastech Eesti AS and UAB Glastech on 20 February 2007.

2006

- Byggmakker Norge AS, a subsidiary of Rautakesko Ltd, sold its ownership interest in Norgros Eiendom AS on 1 March 2006.
- Indoor Group Ltd, a subsidiary of Keswell Ltd, sold its ownership interest in Kiinteistö Oy Tourulan Liikekeskus on 6 March 2006.
- Kesko Corporation and Hämeenkylän Kauppa Oy sold 77 retail store properties to Niam Retail Holding Finland AB on 3 March 2006. In addition to directly owned properties, the transaction included real estate companies consolidated as subsidiaries and associates. The subsidiary disposals contributed €27 million to the cash flow.
- Keswell Ltd, a subsidiary of Kesko Corporation, sold its ownership interest in Academica Oy on 6 October 2006.

Note 41

Associate disposals

€ million	2007	2006
Cash flow from disposals		
Proceeds Rimi Baltic AB (Note 3)	0.0	190.0
Cash and cash equivalents Rimi Baltic AB (Note 3)	0.0	-10.9
Proceeds other associates	0.6	25.7
Net cash inflow	0.6	204.8

Note 42

Proceeds from available-for-sale financial assets

2007

In 2007, the proceeds from available-for-sale financial assets totalled €46.9 million, of which €46 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	2007	2006
Available-for-sale financial assets	155.6	200.4
Cash on hand and balances with banks	89.7	56.5
Total	245.3	256.9

Note 44

Financial risk management

Financial risk management

With respect to financial risks, the Group observes a uniform funding policy that has been approved by the company's Board of Directors. Compliance with this policy and developments in the Group's financial situation are monitored by the Audit Committee of the Board of Directors. The policy covers the sectors for which Corporate Treasury holds central responsibility, namely Group funding, liquidity management, bank relations and the management of financial risks. In the main, the Group's funding is arranged through the parent company, and the Corporate Treasury arranges intra-Group loans for the funding of subsidiaries in their local currencies. For companies with significant external ownership, the Group has not guaranteed financial liabilities in excess of its ownership interest.

Currency risk and sensitivity analysis

The Group's balance sheet is exposed to translation risks in connection with investments in subsidiaries outside the eurozone. This balance sheet exposure has been hedged by using currency-denominated loans and forward fx agreements if the translation risk is in excess of €1 million. The most significant balance sheet exposure positions are in Estonian kroon, Norwegian krone, Swedish krona, Russian rouble, Lithuanian lit and Latvian lat.

The Group has not hedged foreign currency denominated goodwill (incl. allocated goodwill) with a counter value of €112.4 million (€105.6 million) at 31 December 2007.

The currency risk exposed to translation risk, excluding foreign-currency-denominated goodwill, is small in proportion to the volume of operations and the balance sheet total. A simultaneous 10% weakening of the six central currencies (NOK, EEK, LTL, RUB, LVL, SEK) against the euro would result in a €4.6 million negative change in equity at 31 December 2007 (€7.3 million).

Kesko Corporation's USD-denominated private placement loan has been hedged against currency risk and interest rate risk by 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. Due to the fast turnover of some products, the exposure related to their purchases cannot grow to a significant level because the selling prices of these products can be changed as necessary. The percentage of hedging is decided by the subsidiaries and business units concerned. Transaction risk exposures mainly relate to the US dollar. Business units carry out their hedging operations together with Corporate Treasury, which hedges risk positions using market transactions within the limits confirmed for each currency.

A sensitivity analysis for the currency risk relating to the USD, prepared in compliance with IFRS 7, would have contributed a pre-tax profit of €+/-0.4 million (€+/-0.7 million) at the balance sheet date of 31 December 2007, 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 €6.4 million (€9.7 million). The analysis does not consider the foreign currency denominated orders, some of which are also hedged.

The Group's foreign subsidiaries also buy currency independently for commercial purchases. Such purchases do not, however, constitute a significant proportion of total purchases.

The Group does not apply hedge accounting in accordance with IAS 39 to hedge commercial currency risks. In initial recognition, derivative instruments are recorded at fair value 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 are financed in the local currency of each company. The parent company hedges against related foreign currency risks

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

Translation risk and hedging at 31 December 2006

€ million	Latvia	Norway	Estonia	Sweden	Russia	Lithuania	Others	Total
Equity exposed to translation risk*)	7.6	42.6	39.1	9.3	18.8	29.5	4.1	151.0
Hedging derivatives	2.9	9.7		2.2	8.7	15.9		39.4
Hedging loans		24.3	9.6			4.3		38.2
Open position	4.7	8.6	29.5	7.1	10.1	9.3	4.1	73.4

*) equity excl. allocated goodwill

using derivative instruments or foreign currency denominated borrowing.

Loan interest rate risk and sensitivity analysis

Changes in the 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 Corporate Treasury, which adjusts loan duration using interest rate derivative instruments. The target duration is three years and it is allowed to vary from one and a half (1.5) to four (4) years. The actual duration during the period was 3.0 years on average (2.9 years).

A sensitivity analysis for variable rate loans and commercial paper liabilities realised during the period, prepared in compliance with IFRS, uses average balance values realized during the period. At the balance sheet date of 31 December 2007, the interest-bearing variable rate liabilities and interest rate derivatives hedging loans from financial institutions would have contributed €-/+4.6 million to the profit, had the interest rate level risen or fallen by 1 percentage point (€-/+4.8 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. All retailers in a chain have the same terms applicable to prepayments and chain rebates.

Private placement notes, pension loans and the amount of €128.3 million of loans from financial institutions have fixed rates and the effective interest cost represents 5.2%. At the end of period, the average rate of loans from financial institutions with variable interest rates, liabilities to retailers and other interest-bearing liabilities was 5.9%. Some of the loans are euro-denominated, private placement notes are USD-denominated, and loans from financial institutions and commercial paper liabilities include NOK-denominated loans corresponding to €25.1 million (€24.3 million), EEK-denominated loans corresponding to €26.0 million (€15.1 million), LVL-denominated loans corresponding to €47.6 million (€24.3 million) and LTL-denominated loans corresponding to €24.4 million (€18.9 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 combinations of return and risk. At regular intervals, the Group's management approves the instruments and limits for each investment.

The Group's treasury policy includes a portfolio classification, which organises liquid funds by their usage in investments in the money market. The nature of the cash portfolio is more liquid, with a maximum duration of 2 months. In 2007, the average duration was 1 month (1 month). The target duration of the money market portfolio is 6 months, and the average duration was 4.8 months in 2007 (6 months). Financial assets have been invested in euro zone commercial papers, bank certificates of deposit, and deposits. At 31 December 2007, investments in commercial papers totalled €176.6 million (€165.3 million), in bank certificates of deposit and deposits €17.5 million (€58.6 million). Financial assets at fair value through profit or loss include globally investing bond and special investment funds. At 31 December 2007, these investments totalled €66.9 million (€117.2 million). The maximum credit risk of these investments is their fair value in the balance sheet at the balance sheet date.

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							
Foreign currency hedge forward contracts							
of net investment	79.0						**79.0**
Foreign currency forward 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**
Foreign currency forward 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	0.0	2.9	0.7	0.0			**8.4**
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	2.8	**7.1**

Cash flows from financial liabilities and relating financial expenses at 31 Dec. 2006

€ million	2007	2008	2009	2010	2011	2012-	Total
Loans from financial institutions	**42.5**	**19.6**	**18.3**	**0.6**	**0.5**	**26.0**	**107.5**
financial expenses	4.6	2.8	2.2	1.2	1.2	4.5	16.5
Private placement bonds (USD)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**91.1**	**91.1**
financial expenses	5.7	5.7	5.7	5.7	5.7	23.4	51.7
Pension loans	**11.5**	**0.8**	**0.8**	**0.8**	**0.4**		**14.3**
financial expenses	0.3	0.1	0.1	0.0	0.0		0.6
Finance lease liabilities	**19.0**	**21.9**	**20.3**	**12.6**	**11.8**	**82.5**	**168.1**
financial expenses	9.6	8.8	8.2	7.3	7.1	19.5	60.5
Liabilities to K-retailers	**121.7**						**121.7**
financial expenses	2.9						2.9
Other interest-bearing liabilities	**68.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**68.9**
financial expenses	0.8	0.0	0.0	0.0	0.0	0.0	0.8
Commercial papers	**22.2**						**22.2**
financial expenses	0.7						0.7
Non-current non-interest-bearing liabilities		**1.0**	**0.9**	**0.9**	**0.0**	**0.0**	**2.9**
Current non-interest-bearing liabilities							
Trade payables	**789.2**						**789.2**
Accrued liabilities	**258.6**						**258.6**
Other non-interest-bearing liabilities	**159.8**						**159.8**

Cash flows from derivative instruments at 31 Dec. 2006

€ million	2007	2008	2009	2010	2011	2012–	Total
Payables							
Foreign currency hedge forward contracts of net investment	39.3						**39.3**
Foreign currency forward contracts outside hedge accounting	217.2	7.1	7.2				**231.4**
Net settlement of payables							
Interest rate derivatives	0.3						**0.3**
Electricity derivatives	1.6	0.4	0.1	0.0			**2.1**
Grain derivatives	0.0						
Derivatives relating to private placement bonds*							
Foreign currency derivatives	0.6	0.6	0.6	0.6	0.6	11.7	**14.6**
Receivables							
Net investment hedging instruments	39.0						**39.0**
Foreign currency forward contracts outside hedge accounting	217.3	7.3	7.3				**231.8**
Net settlement of receivables							
Interest rate derivatives	0.0						**0.0**
Electricity derivatives	1.6	1.4	0.3	0.0			**3.2**
Derivatives relating to private placement bonds*							
Interest rate derivatives	0.9	0.9	0.9	0.9	0.9	3.6	**8.0**

* 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, prepared in compliance with IFRS, uses average 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 (€+/-2.4 million) to the pre-tax profit at the balance sheet date, had the interest rate level changed by +/-1 percentage point. The variable rate receivables include receivables of the K-Rahoitus group and excluding them, the profit contribution would have been €+/-2.5 million (€+/-1.0 million).

At the balance sheet date, the total value of undrawn committed long-term credit facilities was €225 million (€225 million). 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 €541.7 million (€421.7 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 managing credit risks related to receivables from customers. They prepare and maintain a documented credit policy. In Finland, the main part of the Group's business activities is carried out in cooperation with retailers. According to the retailer agreements, retailers lodge bank overdrafts as collateral against their trade payables to the relevant Kesko subsidiaries.

The 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	2007	2006
Trade receivables not matured	613.2	582.7
1–7 days mature	17.1	10.6
8–30 days mature	27.8	33.5
31–60 days mature	11.2	9.6
over 60 days mature	13.0	9.9
Total	682.1	646.3

Of trade receivables, €214.4 million (€203.0 million) were from K-food store, K-rauta and Rautia retailers, and €27.4 million (€22.5 million) were credit card receivables.

Among the Group divisions, Kesko Agro has the biggest customer finance needs. A Kesko Corporation subsidiary, K-Rahoitus Oy, with its subsidiary provide interest-bearing financing to Kesko Agro's and Konekesko's professional customers in Finland and the Baltic countries. At the end of the period, K-rahoitus Oy's interest-bearing financial receivables totalled €199.9 million (€170.7 million). K-Rahoitus Oy's non-Group receivables are reported in available-for-sale assets (Notes 3 and 25).

Financial credit risk

Financial instruments involve the risk that a counterparty fails to discharge an obligation. Kesko only makes currency and other derivative contracts with banks that have good creditworthiness. Liquid funds are invested annually, within limits confirmed separately 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 withdrawn loan amounts.

According to the terms of either loan agreement, a transfer of ownership to retailers or a retailers' association shall not be considered a change of control.

Credit ratings

For the present, Kesko Corporation has not applied for a credit rating, because it has not been considered necessary in the company's present treasury situation.

Commodity risks and their sensitivity analysis

The Group uses electricity derivatives to even out energy costs. The electricity price risk is assessed for three-year periods. The value changes of derivatives hedging the price of electricity supplied during the period are included in the adjustment items of purchases. Hedge accounting is applied to contracts hedging future purchases. The effective portion of derivatives that meet hedge accounting criteria are recognised in the revaluation reserve of equity and the ineffective portion in other operating income or expenses in the income statement. Hedge accounting resulted in no significant ineffectiveness.

At the balance sheet date, a total quantity of 853,044 MWH (949.244 MWH in 2006) of electricity had been purchased with derivatives and the 1-12 month hedging rate was 75.8% (86.8%), the 13-24 month rate was 47.2% (61.4%) and the 25-36 month rate was 20.2% (32.8%).

A sensitivity analysis for electricity derivatives, prepared in compliance with IFRS, assumes that derivatives maturing within less than 12 months have an impact on profit. If the market price of electricity derivatives had changed by +/-10 percentage points at the balance sheet date 31 December 2007, it would have contributed €+/-1.9 million (€(+/-2.1 million) to equity and €+/-1.5 million (€+/-1.5 million) to profit. 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

The Kesko Group's capital management objectives include targets set for the Group's capital productivity, solvency and liquidity.

The purpose of setting objectives for the Group's capital productivity is to guide the divisions to work for increased shareholder value on a long-term basis. The objectives of capital productivity have been set to equity (target 14%) and to the total of invested capital (target 16%). The calculation formulas for the indicators 'return on equity' and 'return on capital invested' are presented in the financial statements, p. 130. 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 net assets.

Fair values of derivative financial instruments

€ million	2007 Positive fair value (balance sheet value)	2007 Negative fair value (balance sheet value)	2007 Net fair value	2006 Net fair value
Interest rate derivatives	4.9 **	-0.1	4.8	-2.0
Forward exchanges	1.4 */**	-20.1 */**	-18.7	-9.2
Currency options (bought)				
Electricity derivatives	7.9		7.9	1.0
Grain derivatives	0.0	-0.4	-0.4	0.0

Nominal values of derivative financial instruments

€ million	31 Dec. 2007 Nominal value	31 Dec. 2006 Nominal value
Interest rate derivatives	240.7 **	231.9
Forward exchanges	466.3 */**	372.1
Currency options (bought)		
Electricity derivatives	36.6	38.1
Grain derivatives	5.0	0.7

*) Derivative financial instruments also include fx agreements used to hedge net investments in foreign entities with a fair value of €-0.2 million (€-0.3 million) and a nominal value of €79.3 million (€39.4 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 €4.9 million (€-1.8 million), and currency swaps with a nominal value of €100.4 million and a fair value of €-18.9 million (€-9.3 million).

The maximum credit risk of derivatives is the fair value of the balance sheet at the reporting date.

Economic value added formula:

Operating profit excluding non-recurring items
less operational taxes
less return requirement for average restricted capital
+/- other adjustment items

The objectives for the Group's solvency and liquidity are set with the purpose of securing the Group's liquidity in all market 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 (target 40-45%) and interest-bearing net debt/operating margin (target < 3). The calculation formulas for these indicators are presented in the financial statements, p. 130. The Group's interest-bearing debt include covenants, whose terms and conditions have been taken into account in the target levels. The Group does not have a credit rating given by any external credit rating institution.

The above target levels set for consolidated financial indicators are revised annually as part of the Group's strategy process and changes are submitted for approval to the Group's Board of Directors.

Target level	2007	2006
Return on equity	14%	12%
Return on invested capital	16%	12%
Equity ratio	40–45%	40–45%
Interest-bearing net debt/operating margin	< 3	< 3

Note 45

Risk management

Kesko's risk management policy

The risk management policy approved by the Board of Directors guides risk management in the Kesko Group. The divisions have assessed the risks in connection with the strategy cycle and have updated their risk assessments quarterly. Separate risk analyses have been made for major projects. Also the Group units have analysed the risks threatening the 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 for Kesko Corporation's Board of Directors' Audit Committee. Kesko's Corporate Management Board has analysed and prioritised the major risks of the Group.

Risks and their management

The Kesko Group's risk analyses have, for example, addressed the following risks and their management in 2007.

Delivering the customer promise

The price-quality ratio is a key competitive factor. If Kesko does not succeed in this competition, it will not achieve the sales targets. The general cost development can also endanger the implementation of objectives. Enhancing price competitiveness calls for improvements in the efficiency of operations throughout the supply chain from the supplier to the store shelf.

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 and manufacturer audits ensure the quality and safety of the products sold.

Store sites

Store sites are a strategic competitive factor. Considerable amounts of capital are tied up in store properties for decades. Local competitive situations can change fast and there is a risk that operations at the store site will become unprofitable. The risk is managed by long-term planning of the store network, by careful preparation of each store site investment decision and by applying a sale and lease back approach.

The acquisition of new store sites can be delayed not only by shortage of sites, town planning and permit practices, but also by the price trends of sites and construction. Different countries also have their specific features. Online sales are growing, which affects the store network. Success in e-commerce requires a completely new kind of business expertise, logistics and information security solutions.

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.

Shrinkage

Shrinkage is a significant problem in the retail trade. Shrinkage can result from spoilage or breakage of goods, theft or other malpractice, and unsuccessful purchasing, for example. The most important loss prevention activities include uniform measuring and monitoring of shrinkage, and the consequent development and introduction of new management methods.

Internationalisation

Internationalisation aims at growth either through business acquisitions or expanding the existing store network. Success in international growth requires careful planning of acquisitions and expansion projects, resources and risk management. Challenges include different cultures, local business practices, authorities' actions and fast-changing operating environments. Finnish retail trade operating processes and control practices cannot always be introduced as such outside Finland. The efficient steering of operations and the achievement of synergy benefits require implementation of common practices and information systems across country and organisational boundaries.

Personnel

Competition for skilled employees has intensified in the labour market. Recruiting competent employees and retaining their commitment is challenging particularly in the Baltic countries and Russia. Implementation of strategies requires competent and motivated personnel. There is a risk that the trading sector will not attract the most skilled people. Specialisation increases dependence on the competence of individuals. In updating strategies, the competencies required to implement the strategy are identified, and personnel plans are drawn up on that basis. Kesko's employer image is redefined by systematic internal and external communications and stakeholder cooperation.

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 continuity management projects underway which aim 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 have grown. Confidentiality of customer and employee information, and business secrets is protected with up-to-date practices and information security solutions.

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.

An essential issue in the chain agreements between Kesko and the retailers is finding solutions for the high-quality delivery of customer promise and commitment to the chain business. The efficient steering of chain operations is, to some extent, complicated by interpretations of competition legislation.

One of the goals of Kesko's corporate communications is to produce and publish reliable information at the right time. If some information published by Kesko proved to be wrong or a release failed 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 that would have a material effect on the Group's performance.

Other risks

Damage, accidents and crimes are prevented with uniform practices and cost-efficient safety precautions. Financial losses and interruptions in operations are covered with Group-wide and appropriate insurance, revised on a regular basis.

Note 46

Related party transactions

The Group's related parties include its directors (the Board of Directors, the Managing Director and the Corporate Management Board), subsidiaries, associates, joint ventures and the Kesko Pension Fund. The subsidiaries, joint ventures and associates are listed in a separate note.

The following transactions were carried out with related parties:

Sales of goods and services

€ million	2007	2006
Sales of goods		
Associates	0.0	0.3
Board of Directors and management	24.1	25.9
Other related party	4.6	0.0
	28.7	26.2
Sales of services		
Associates	0.7	1.6
Board of Directors and management	1.8	3.0
Kesko Pension Fund	1.5	1.2
	4.0	5.8

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 €130.2 million. Real estate and premises owned by the Pension Fund have been leased to the Kesko Group, which has subleased most of them to retailers. In 2007, the Kesko Group paid a total amount of €45.6 million (€18.8 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	2007	2006
Purchases of goods		
Associates	0.4	14.2
Board of Directors and management	2.9	2.4
Total	3.3	16.6
Purchases of services		
Associates	1.9	7.2
Board of Directors and management	0.0	0.1
Pension Fund	0.0	0.1
Total	1.9	7.4

In addition, other operating expenses include rents paid by the Kesko Group to the Kesko Pension Fund in a total amount of €18.4 million (€15.6 million).

Board of Directors' remunerations

€ thousands	2007	2006
Members of the Board of Directors		
Heikki Takamäki, Chairman	65.5	61.2
Keijo Suila, Deputy Chairman	49.5	43.4
Matti Kavetvuo, Deputy Chairman (until 27 March 2006)	–	8.0
Pentti Kalliala	35.0	33.3
Eero Kasanen (until 27 March 2006)	–	6.8
Ilpo Kokkila (from 27 March 2006)	34.0	25.5
Maarit Näkyvä	37.5	35.8
Seppo Paatelainen (from 27 March 2006)	36.0	27.5
Kari Salminen (from 30 March 2005)	–	6.8
Jukka Säilä (from 27 March 2006)	34.0	25.5

Salaries and fees of Managing Director, Deputy Managing Director and Corporate Management Board

€ thousands	2007	2006
Matti Halmesmäki, Managing Director (from 1 March 2005)	736.1	598.2
Juhani Järvi, Deputy Managing Director (17 March 2005–31 May 2007)	124.6	254.3
Corporate Management Board (other members)	1,697.1	1,397.0

Other top management employee benefits

Share-based payments

At 31 December 2007, the Managing Director held 50,000 stock options and the other Corporate Management Board members held a total of 214,000 stock options In 2007, the other Corporate Management Board members were granted a total of 145,000 2007 A options. The options held by the Corporate Management Board have equal terms and vesting periods with the other options included in the management's option plans.

Retirement benefits

The retirement age of the Managing Director is 60 years and his full retirement benefit is 66% of his pensionable salary. The retirement 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 Managing Director is 6 months. Severance compensation paid in addition to the salaries for the notice period corresponds to 12 months' salary. The notice period of the other Corporate Management Board members is 6 months and severance compensation paid in addition to the salaries for the notice period corresponds to 6–12 months' salary.

Financial income

€ million	2007	2006
Associates	0.0	0.0
	0.0	0.0

Financial expenses

€ million	2007	2006
Associates	1.2	1.0
Board of Directors and management	0.0	0.0
Pension Fund	0.1	0.0
	1.3	1.0

Trade receivables

€ million	2007	2006
Associates	0.1	0.3
Board of Directors and management	1.7	1.9
Pension Fund	0.5	0.1
	2.3	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 (€2.1 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-guaranteee 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 €5.9 million (€6.0 million).

Other current liabilities

€ million	2007	2006
Associates	24.1	37.0
Board of Directors and management	0.9	0.8
Pension Fund	1.9	2.6
	26.9	40.4

Other current liabilities include e.g. chain rebate liabilities payable to the companies controlled by three members of Kesko's Board of Directors acting as K-retailers. Chain rebates are paid in arrears on criteria linked to the amount of realised annual sales and the quality of operations.

In addition, Kesko's long-term receivable from a real estate associate totals €1.0 million.

Note 47

Other notes

Events after the balance sheet date

The deal between Kesko Corporation and OKO Bank plc to sell K-Rahoitus Oy's share capital to OKO Bank was concluded on 31 January 2008. The preliminary price paid in connection with the conclusion of the deal was about 30 million euros. The final price will be established based on the amount of equity at the transaction closing date and a fixed amount of goodwill.

Note 48

Financial statement indicators

Continuing operations		2004 IFRS	2005 IFRS	2006 IFRS	2007 IFRS
Income statement					
Net sales	€ million	7,509	7,922	8,749	9,534
Change in net sales	%	6.2	5.5	10.4	9.0
Staff cost	€ million	386	477	544	576
Staff cost of net sales	%	5.1	6.0	6.2	6.0
Depreciation and impairment charges	€ million	132	149	160	119
Operating profit	€ million	251	245	363	332
Operating profit of net sales	%	3.3	3.1	4.2	3.5
Operating profit excl. non-recurring items	€ million	201	216	280	325
Operating profit excl. non-recurring items of net sales	%	2.7	2.7	3.2	3.4
Financial income and expenses	€ million	-11	-1	-6	37
Income from associates	€ million	2	2	1	0
Profit before taxes	€ million	241	236	358	369
Profit before taxes	%	3.2	3.0	4.1	3.9
Income tax	€ million	56	50	107	90
Discontinued operations	€ million		3	128	28
Investments	€ million		367.3	250.5	233.9
Investments of net sales	%		4.6	2.9	2.5
Personnel, average number for the period			19,650	19,651	21,176
Personnel at 31 Dec., incl. part-time employees			21,952	23,755	25,890
Earnings/share, diluted			1.83	2.45	2.61
Earnings/share, basic			1.86	2.47	2.63

Consolidated operations		2004 IFRS	2005 IFRS	2006 IFRS	2007 IFRS
Profit for the period (incl. minority interest)	€ million	185	189	379	307
Profit for the period of net sales	%	2.3	2.3	4.2	3.2
Attributable to equity holders of the parent company		176	181	369	285
Attributable to minority interest	€ million	9	8	10	22
Profitability					
Return on equity	%	12.8	13.0	23.1	16.4
Return on invested capital	%	14.3	12.5	22.6	17.4
Finance and financial position					
Gearing	%	37.0	42.4	11.9	14.0
Equity ratio	%	44.2	42.3	47.0	48.5
Other indicators					
Investments	€ million	192	454	282	234
Investments of net sales	%	2.6	5.4	3.1	2.5
Personnel, average number for the period		17,275	21,305	23,756	21,176
Personnel at 31 Dec., incl. part-time employees		22,146	26,608	23,755	25,890
Share indicators					
Consolidated indicators					
Earnings/share, diluted	€	1.89	1.87	3.76	2.90
Earnings/share, basic	€	1.92	1.89	3.80	2.92
Equity/share, adjusted	€	14.73	15.35	17.94	19.53
Dividend/share	€	1.00	1.10	1.50	1.60*
Payout ratio	%	52.9	58.8	39.9	55.2*
Cash flow from operating activities/share, adjusted	€	2.29	3.07	3.35	2.52
Price/earnings ratio (P/E), A share, adjusted		10.12	11.86	10.22	13.07
Price/earnings ratio (P/E), B share, adjusted		9.50	11.74	10.64	13.02
Effective dividend yield, A share	%	5.3	4.6	3.9	4.2*
Effective dividend yield, B share	%	5.6	4.6	3.8	4.2*
Share price at 31 Dec.	€				
A share		18.90	24.19	38.43	37.85
B share		17.95	23.95	40.02	37.72
Average share price	€				
A share		19.12	21.93	30.10	43.85
B share		16.49	21.04	31.34	43.36
Market capitalisation, A share	€ million	600	768	1,220	1,201
Market capitalisation, B share	€ million	1,115	1,551	2,632	2,491
Turnover	million pcs				
A share		1	1	2	4
B share		83	66	77	122
Turnover rate	%				
A share		3.8	4.1	6.4	11.5
B share		133.6	101.5	117.1	185.3
Adjusted number of shares at 31 Dec.	million pcs	93	97	98	98
Yield of A share	%	14.3	16.7	21.4	30.3
Yield of B share					
For the last five financial periods	%	14.7	25.9	38.9	59.9
For the last ten financial periods	%	13.0	16.3	19.0	23.3

* proposal to the Annual General Meeting

Calculation of financial indicators

Profitability

Indicator		Numerator	Denominator	
Return on equity, % (ROE)	=	profit before tax – income tax	shareholders' equity + minority interest (average for the year)	x 100
Return on invested capital, % (ROI)	=	profit before tax + interest and other financial expenses	balance sheet total – non-interest-bearing liabilities (average for the year)	x 100
Return on net assets, % (RONA)	=	operating profit	net assets (= balance sheet total – cash and cash equivalents – non-interest-bearing liabilities – provisions) average	x 100

Finance and financial position

Indicator		Numerator	Denominator	
Equity ratio, %	=	shareholders' equity + minority interest	balance sheet total – advances received	x 100
Debt to equity ratio, %	=	debt + provisions	balance sheet total – advances received	x 100
Gearing	=	interest-bearing debt – marketable securities – cash on hand and balances with banks	shareholders' equity + minority interest	x 100

Share performance indicators

Indicator		Numerator	Denominator	
Earnings/share, diluted	=	profit before extraordinary items – income tax ± minority interest	average number of shares adjusted for share issues and dilutive effect of options	
Earnings/share	=	profit before extraordinary items – income tax ± minority interest	average number of shares adjusted for share issues	
Equity/share	=	shareholders' equity	adjusted number of shares	
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 x number of shares		
Cash flow from operating activities/share	=	cash flow from operating activities	average number of shares	
Yield of A share and B share	=	change in share price + annual dividend yield		

Others

Cash flow from operating activities	=	operating profit + depreciation, amortisation and impairment ± change in net working capital ± financial income and expenses – income tax

Note 49

Analysis of shareholdings by type at 31 Dec. 2007

All shares	Number of shares	% of all shares
Non-financial corporations and housing corporations	23,153,111	23.68
Financial and insurance corporations	3,299,783	3.38
General government	7,584,105	7.76
Households	24,758,084	25.32
Non-profit institutions serving households	5,537,050	5.66
Rest of the world	265,394	0.27
Nominee registered	33,170,238	33.93
Total	97,767,765	100.00

10 largest shareholdings by size at 31 Dec. 2007

		Number of shares	% of shares	Number of votes	% of votes
1.	The Kesko Pension Fund	3,438,885	3.52	34,388,850	8.97
2.	The K-Retailers' Association	3,221,539	3.30	31,847,740	8.31
3.	Vähittäiskaupan Takaus Oy	2,628,533	2.69	26,285,330	6.86
4.	Valluga-Sijoitus Oy	1,340,439	1.37	13,404,390	3.50
5.	Oy The English Tearoom Ab	1,008,400	1.03	1,008,400	0.26
6.	Varma Mutual Pension Insurance Company	930,158	0.95	930,158	0.24
7.	Foundation for Vocational Training in the Retail Trade	895,679	0.92	7,585,838	1.98
8.	The State Pension Fund	746,000	0.76	746,000	0.19
9.	Tapiola Mutual Insurance Company	559,500	0.57	559,500	0.15
10.	Ilmarinen Mutual Pension Insurance Company	543,392	0.56	3,333,392	0.87

10 largest shareholders by number of votes at 31 Dec. 2007

		Number of shares	% of shares	Number of votes	% of votes
1.	The Kesko Pension Fund	3,438,885	3.52	34,388,850	8.97
2.	The K-Retailers' Association	3,221,539	3.30	31,847,740	8.31
3.	Vähittäiskaupan Takaus Oy	2,628,533	2.69	26,285,330	6.86
4.	Valluga-Sijoitus Oy	1,340,439	1.37	13,404,390	3.50
5.	Foundation for Vocational Training in the Retail Trade	895,679	0.92	7,585,838	1.98
6.	Ruokacity Myyrmäki Oy	389,541	0.40	3,895,410	1.02
7.	Ilmarinen Mutual Pension Insurance Company	543,392	0.56	3,333,392	0.87
8.	The K-Food Retailers' Club	318,955	0.33	3,189,550	0.83
9.	Heimo Välinen Oy	274,009	0.28	2,740,090	0.71
10.	Mutual Insurance Company Pension-Fennia	362,400	0.37	2,402,358	0.63

Shares held by the management

At the end of December 2007, the members of Kesko Corporation's Board of Directors, the Managing Director and the corporations under their control held 197,030 Kesko Corporation A shares and 170,520 Kesko Corporation B shares, i.e. a total of 367,550 shares which represented 0.38% of the company's total share capital and 0.56% of its voting rights.

Note 50

Subsidiaries and associates at 31 Dec. 2007

INTERESTS IN GROUP COMPANIES Owned by the parent	Domicile	Group's ownership interest %	Parent's ownership interest %
Anttila Oy	Helsinki	100.00	100.00
Fiesta Real Estate AS	Tallinn, Estonia	100.00	100.00
Hirvensalon LiikeKiinteistö Oy	Turku	100.00	100.00
Indoor Group Ltd	Lahti	100.00	100.00
Intersport Group Ltd	Helsinki	100.00	100.00
K-instituutti Oy	Helsinki	90.00	90.00
K-Plus Oy	Helsinki	100.00	100.00
K-rahoitus Oy	Helsinki	100.00	100.00
Kauko-Telko Ltd	Espoo	100.00	100.00
Kempeleen Ostokeskus Oy	Kempele	67.27	67.27
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 Joutsentulli	Oulu	100.00	100.00
Kiinteistö Oy Kangasalan Palvelukeskus	Kangasala	82.50	82.50
Kiinteistö Oy Kemin Asemakatu 4	Kemi	66.50	66.50
Kiinteistö Oy Keravan Viertolan Market	Kerava	100.00	100.00
Kiinteistö Oy Kouvolan Länsikeskus	Espoo	100.00	100.00
Kiinteistö Oy Lahden Lyhytkatu 1	Lahti	50.00	50.00
Kiinteistö Oy Pallintalo	Turku	100.00	100.00
Kiinteistö Oy Pontsonkulma	Helsinki	94.57	94.57
Kiinteistö Oy Porin Hyväntuulentie 2	Pori	70.80	70.80
Kiinteistö Oy Päivärannantie 18	Kuopio	100.00	100.00
Kiinteistö Oy Riipilän Kauppakeskus	Vantaa	100.00	100.00
Kiinteistö Oy Soppeenmäen market	Ylöjärvi	100.00	100.00
Kiinteistö Oy Sunan Hallitalo	Espoo	100.00	100.00
Kiinteistö Oy Turun Noutotukku	Turku	100.00	100.00
Kiinteistö Oy Turvesuonkatu 10	Tampere	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Lappeenranta	100.00	100.00
Kiinteistö Oy Välivainion Ostoskeskus	Oulu	65.97	65.97
Klintcenter Ab	Mariehamn	100.00	100.00
Kesko Agro Ltd	Helsinki	100.00	100.00
Malmintorin Pysäköintitalo Oy	Helsinki	99.91	99.91
Musta Pörssi Ltd	Helsinki	100.00	100.00
Pirkkalaistorin Liikekeskus Oy	Nokia	51.66	51.66
Plussa Oü	Tallinn, Estonia	100.00	100.00
Rautakesko Ltd	Helsinki	100.00	100.00
Roihuvuoren Liiketalot Oy	Helsinki	74.00	74.00
Kesko Food Ltd	Helsinki	100.00	100.00
Sincera Oy	Helsinki	100.00	100.00
Tähti Optikko Group Oy	Helsinki	100.00	100.00
Variston Liikekeskus Oy	Vantaa	75.00	75.00
VV-Auto Group Oy	Helsinki	100.00	100.00

Owned by other Group companies	Domicile	Group's ownership interest %	Parent's ownership interest %
Antti Sia	Riga, Latvia	100.00	
Anttila As	Viljandi, Estonia	100.00	
Ap Real Estate Sia	Riga, Latvia	100.00	
Asko Möbler Ab	Huddinge, Sweden	100.00	
Asm Sweden Ab	Malmö, Sweden	100.00	
Auto-Span Oy	Helsinki	100.00	
Baltic Tape Uab	Klaipeda, Lithuania	100.00	
Barker-Littoinen Oy	Espoo	100.00	
Bruland Bygg As	Förde, Norway	66.30	
Byggmakker Distribution As	Ski, Norway	100.00	
Byggmakker Norge As	Oslo, Norway	99.92	
Byggsenteret As	Steinkjer, Norway	100.00	
Cassa Oy	Helsinki	100.00	
Citymarket Oy	Helsinki	100.00	
Daugavkrasts M Sia	Riga, Latvia	100.00	
Focus Eesti As	Tallinn, Estonia	80.00	
Glastech ZP	Minsk, Belarus	100.00	
Härkätien Maatalous- ja Rautakauppa Oy	Helsinki	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	Vilna, Lithuania	100.00	
Indoorpalvelu Oy	Lahti	100.00	
Insofa Oy	Lahti	100.00	
Ka Jelgava Sia	Jelgava, Latvia	100.00	
Kauko Time Ab	Stockholm, Sweden	100.00	
Kauko Zao	Moscow, Russia	100.00	
Kesko Agro Eesti As	Tallinn, Estonia	100.00	
Kesko Agro Lietuva Uab	Vilna, Lithuania	100.00	
Kesko Agro Latvija Sia	Riga, Latvia	100.00	
Keslog As	Tallinn, Estonia	100.00	
Kespro Ltd	Helsinki	100.00	
Kestroy 1 Zao	Moscow, Russia	100.00	
K-Finance Estonia As	Viro	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	

Owned by other Group companies	Domicile	Group's ownership interest %	Parent's ownership interest %
Kiinteistö Oy Kemin Asematie 4	Kemi	66.50	
Kiinteistö Oy Kotkan Kauppahuone	Kotka	100.00	
Kiinteistö Oy Kuninkojan Ranta		100.00	
Kiinteistö Oy Länsi-Kaisla	Espoo	100.00	
Kiinteistö Mesta Oy	Helsinki	100.00	
Kiinteistö Oy Muhoksen Puoti	Helsinki	100.00	
Kiinteistö Oy Paavolantori	Lahti	96.90	
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00	
Kiinteistö Oy Tampuri		100.00	
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00	
Knuto As	Norway	100.00	
Konekesko Ltd	Helsinki	100.00	
K Prof Sia	Riga, Latvia	100.00	
K Rauta Sia	Riga, Latvia	100.00	
K-rauta AB	Stockholm, Sweden	100.00	
Kesko Fastigheter Ab	Sollentuna, Sweden	100.00	
Kr Fastigheter i Eskilstuna	Sollentuna, Sweden	100.00	
Kr Fastigheter I Järfalla Ab	Sollentuna, Sweden	100.00	
Kr Fastigheter i Karlstad Ab	Sollentuna, Sweden	100.00	
Kr Fastigheter i Umeå Ab	Sollentuna, Sweden	100.00	
Kr Fastigheter i Täby Ab	Sollentuna, Sweden	100.00	
Kr Fastigheter i Sundsvall Ab	Sollentuna, Sweden	100.00	
K-rauta Fastigheter I Malmö Ab	Sollentuna, Sweden	100.00	
Leipurien Tukku Oy	Espoo	100.00	
Leipurien Tukku Eesti As	Tallinn, Estonia	100.00	
Leitok Oy	Espoo	100.00	
Limingan Portti		100.00	
Loimaan Maatalous- ja Rautakauppa Oy	Helsinki	100.00	
000 Leipurien Tukku	St. Petersburg, Russia	100.00	
000 Kesko Real Estate	St. Petersburg, Russia	100.00	
Master Oil Ab	Göteborg, Sweden	100.00	
Metex Deutschland Gmbh	Lucka, Germany	100.00	
Mezciems Real Estate Sia	Riga, Latvia	100.00	
Molub-Alloy Ab	Göteborg, Sweden	100.00	
Nmt Prekyba Uab	Kaunas, Lithuania	100.00	
Nordica Plast & Gummi Ab	Malmö, Sweden	100.00	
Norgros Handel As	Lilleström, Norway	100.00	
Optiimi Oy	Tampere	100.00	
Optikem Oy	Helsinki	100.00	
Polo Ls Sia	Riga, Latvia	100.00	
Pikoil Oy	Helsinki	100.00	
Rake Bergen As	Oslo, Norway	100.00	
Rake Eiendom As	Oslo, Norway	100.00	
Rautakesko AS	Tallinn, Estonia	100.00	
Rautakesko A/S	Riga, Latvia	100.00	
Ruokakeskon Kiinteistöt Oy	Helsinki	100.00	
Senukai Uab	Kaunas, Lithuania	99.20	
Senuku Prekybos Centras	Vilna, Lithuania	50.00	
Senuku Tirdzniecibas Centras Sia	Riga, Latvia	100.00	

Owned by other Group companies	Domicile	Group's ownership interest %	Parent's ownership interest %
Sotka Eesti Oü	Tallinn, Estonia	100.00	
Stroymaster Holding Finland Oy	Helsinki	100.00	
Stroymaster Zao	St.Petersburg, Russia	100.00	
Tampereen Silmälaboratorio Oy	Tampere	66.67	
Telko Denmark A/S	Copenhagen, Denmark	100.00	
Telko Hong Kong LTD	Hong Kong, China	100.00	
Telko Shanghai LTD	Shanghai, China	100.00	
000 Telko Rus	St.Petersburg, Russia	100.00	
SIA Telko Latvia	Riga, Latvia	100.00	
Telko Poland	Warsaw, Poland	100.00	
Tp Real Estate Sia	Riga, Latvia	100.00	
Trögstadveien 13 As	Ski, Norway	100.00	
Turun VV-Auto Oy	Turku	100.00	
Ulkokaupat Eesti As	Tallinn, Estonia	100.00	
Ulkokaupat Vilnius Uab	Vilna, Lithuania	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 Rauman Viaporinaukio 3:n Vsuoja	Rauma	43.80	43.80
Kiinteistö Oy Ulvilan Hansa	Ulvila	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa	27.87	27.87
Levin Aquahovi Kiinteistöt Oy	Kittilä	25.00	25.00
Mukkulan Ostoskeskus Oy	Lahti	35.76	35.76
Raksilan Paikoitus Oy	Oulu	33.33	33.33
Valluga-sijoitus Oy	Helsinki	39.00	39.00
Vähittäiskaupan Takaus Oy	Helsinki	34.35	34.35
Vähittäiskaupan Tilipalvelu VTP Oy	Helsinki	30.00	30.00

Owned by other Group companies			
Helsingin Reunahiomo Hrh Oy	Helsinki	50.00	
Kajaanin Pienteollisuustalo Oy	Kajaani	34.00	
Kiinteistö Oy Meri-Pietari	Helsinki	23.12	
Kiinteistö Oy Lahden Teollisuuskeskus	Lahti	48.32	
Nordic Optical Partners A/s	Albertslund, Denmark	33.30	
Nordic Optical Alliance Ab	Väsby, Sweden	25.00	

Parent's financial statements 2007

Parent's income statement (FAS)

Parent's income statement (FAS)	1.1.–31.12.2007	1.1.–31.12.2006
Net sales	**16,761,333.00**	**16,407,204.37**
Other operating income	249,816,297.07	487,660,165.50
Materials and services	-274.98	2,604.22
Personnel expenses	-13,651,741.54	-11,863,486.34
Depreciation and value adjustments	-24,045,119.06	-28,537,648.47
Other operating expenses	-172,452,664.52	-232,033,609.10
Operating profit	**56,427,829.97**	**231,635,230.18**
Financial income and expenses	47,808,921.74	10,565,408.15
Profit before extraordinary items	**104,236,751.71**	**242,200,638.33**
Extraordinary items	138,632,000.00	129,673,784.00
Profit before appropriations and taxes	**242,868,751.71**	**371,874,422.33**
Appropriations	5,797,754.74	21,708,520.51
Profit before taxes	**248,666,506.45**	**393,582,942.84**
Income tax	-54,392,730.23	-86,558,154.41
Net profit	**194,273,776.22**	**307,024,788.43**

Parent's balance sheet (FAS)

	31.12.2007	31.12.2006
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Other capitalised expenditure	7,714,791.78	10,391,131.28
Advance payments and construction in progress	2,451,132.91	2,158,578.08
	10,165,924.69	12,549,709.36
Tangible assets		
Land and water	112,152,662.59	114,513,468.94
Buildings	331,402,014.49	337,721,596.03
Machinery and equipment	5,972,140.83	6,776,859.81
Other tangible assets	7,205,486.53	7,114,024.62
Advance payments and construction in progress	5,410,734.59	5,190,383.18
	462,143,039.03	471,316,332.58
Investments		
Holdings in Group companies	402,270,848.48	387,830,032.45
Holdings in participating interests	19,761,572.65	19,991,322.33
Other shares and similar rights of ownership	7,284,058.60	16,252,345.69
	429,316,479.73	424,073,700.47
Current assets		
Receivables		
Long-term		
Receivables from Group companies	384,426,543.03	354,337,563.67
Receivables from participating interests	891,396.01	891,396.01
	385,317,939.04	355,228,959.68
Short-term		
Trade receivables	1,752,057.86	2,147,110.34
Receivables from Group companies	589,954,855.91	506,759,172.25
Receivables from participating interests	4,175,243.23	5,223,736.22
Loan receivables	-	-
Other receivables	220,795.53	228,676.87
Prepayments and accrued income	30,012,572.21	4,404,912.45
	626,115,524.74	518,763,608.13
Marketable securities		
Other marketable securities	261,072,406.31	341,094,016.95
Cash on hand and at bank	25,554,085.64	3,720,533.88
Total assets	**2,199,685,399.18**	**2,126,746,861.05**

	31.12.2007	31.12.2006
LIABILITIES		
Shareholders' equity		
Share capital	195,535,530.00	195,039,850.00
Share issue	733.95	-
Share premium account	190,079,543.91	187,934,757.64
Revaluation reserve	-	-
Other reserves	243,415,795.55	243,415,795.55
Retained earnings	493,562,881.11	332,837,613.94
Profit for the financial year	194,273,776.22	307,024,788.43
	1,316,868,260.74	1,266,252,805.56
Appropriations		
Depreciation reserve	157,685,287.15	163,483,041.89
Provisions		
Other provisions	7,210,259.65	8,344,307.01
Liabilities		
Non-current		
Private placement bonds	100,418,410.04	100,418,410.04
Loans from financial institutions	25,131,942.70	24,277,737.31
	125,550,352.74	124,696,147.35
Current		
Loans from financial institutions	-	9,262,482.96
Advances received	2,570.85	37,620.93
Trade payables	5,340,301.42	3,089,163.71
Debt to Group companies	437,093,346.44	454,373,029.20
Debt to participating interests	23,966,613.67	36,434,382.97
Other debt	113,939,237.49	40,089,385.17
Accruals and deferred income	12,029,169.03	20,684,494.30
	592,371,238.90	563,970,559.24
Total liabilities	**2,199,685,399.18**	**2,126,746,861.05**

Parent's cash flow statement

	1.1.–31.12.2007	1.1.–31.12.2006
Cash flow from operating activities		
Profit before extraordinary items	104,236,751.71	242,200,638.33
Adjustments:		
Depreciation according to plan	22,521,937.84	28,535,592.36
Financial income and expenses	-47,808,921.74	-10,565,408.15
Other adjustments	-35,269,899.81	-212,876,837.42
	43,679,868.00	**47,293,985.12**
Change in working capital		
Interest-free short-term trade receivables, increase/decrease (-/+)	1,038,689.43	7,400,219.61
Interest-free short-term debt, increase/decrease (+/-)	2,570,437.40	5,122,390.29
	3,609,126.83	12,522,609.90
Interests paid	-32,455,510.98	-31,016,632.50
Interests received	57,896,930.59	33,637,541.04
Dividends received	23,407,952.75	6,787,979.43
Taxes paid	-75,024,522.45	-86,195,918.27
	-26,175,150.09	-76,787,030.30
Cash flow from operating activities	**21,113,844.74**	**-16,970,435.28**
Cash flow from investing activities		
Subsidiary acquired	0.00	-6,531,336.11
Associated company acquired	0.00	-9,920.00
Purchases of other investments	-700,000.00	-13,141.67
Investments in tangible and intangible assets	-32,866,218.80	-22,414,792.11
Increase in long-term receivables	-50,088,979.36	-46,330,556.40
Subsidiary disposed	35,273.57	12,479,707.53
Associated company disposed	411,440.00	22,435,185.39
Proceeds from other investments	46,582,184.00	5,471,442.91
Proceeds from sale of tangible and intangible assets	19,903,490.88	145,576,472.97
Cash flow from investing activities	**-16,722,809.71**	**110,663,062.51**
Cash flow from financing activities		
Increase in current liabilities	36,109,586.99	55,643,141.86
Increase in non-current liabilities	854,205.39	0.00
Decrease of non-current liabilities	0.00	-89,223,889.05
Increase/decrease (-/+) of short-term interest-bearing receivables	-95,648,887.51	-67,402,825.34
Short-term money market investments	35,175,640.48	140,469,842.03
Dividends paid	-146,312,550.32	-106,484,593.60
Group contributions received and paid	138,632,000.00	129,673,784.00
Increase in shareholders' equity	2,641,200.22	6,377,964.03
Others	1,145,351.32	-5,381,209.81
Cash flow from financing activities	**-27,403,453.43**	**63,672,214.12**
Change in liquid funds	**-23,012,418.40**	**157,364,841.35**
Liquid funds at 1 January	**204,132,864.26**	**46,768,022.91**
Liquid funds at 31 December	**181,120,445.86**	**204,132,864.26**

Notes to the parent's financial statements

Principles used for preparing the parent's financial statements

Kesko Corporation's financial statements have been prepared in compliance with the Finnish Accounting Standards (FAS).

Valuation of fixed assets

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

Depreciation plan

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

The periods adopted for depreciation are as follows:

Buildings	15-33 years
Fixtures and fittings	8 years
Machinery and equipment	8 years
or machinery and equipment purchased since 1999	25% reducing balance method
Transportation fleet	5 years
Information technology equipment	3-5 years
Other tangible assets and other capitalised expenditure	5-14 years

Land has not been depreciated.

The total of depreciation according to plan and the change in depreciation reserve comply with the Finnish tax legislation. The change in depreciation reserve has been treated as appropriations in the parent company.

Valuation of financial assets

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

Foreign currencies

Items denominated in foreign currencies have been translated into Finnish currency at the average exchange rate of the European Central Bank on the balance sheet date. If a receivable or a debt is tied to a fixed rate of exchange, it has been used for translation.

Profits and losses arising from foreign currency transactions have been dealt with in the income statement.

Derivative financial instruments

Interest rate derivative contracts

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 3-year time span. With respect to derivative contracts hedging the price of electricity supplied during the financial year, changes in value are recognised in Kesko under interest income and expenses. The unrealised gains and losses of contracts hedging future purchases are not recognised through profit or loss. With respect to grain derivative contracts, the open contracts in the income statement are recognised at market prices. Valuation differences related to open contracts are recognised in Kesko under financial items.

Pension plans

The pension insurances of Kesko Corporation's personnel are arranged through the Kesko Pension Fund. The Fund's A department, which provides supplementary pension benefits, was closed on 9 May 1998. The job-based retirement age agreed for a number of directors and other superiors in the Group is 60 or 62 years.

Provisions

Provisions stated in the balance sheet include items bound to by agreements or otherwise, but remain unrealised. Changes in provisions are included in the income statement. Rent liabilities for vacant rented premises no longer used for the Group business operations, as well as the losses resulting from renting the premises to outsiders, are included in provisions.

Income tax

Income tax includes the taxes for the period based on the profit for the period, and taxes payable for prior periods, or tax refunds. Deferred taxes are not included in the parent's income statement and balance sheet.

Notes to the income statement

€ million	2007	2006
1. Other operating income		
Profits on sales of real estate and shares	51.9	95.5
Rent income	197.4	271.9
Merger profit	-	120.0
Others	0.5	0.3
Total	249.8	487.7
2. Average number of personnel		
Kesko Corporation	174	179
Total	174	179
3. Personnel expenses		
Salaries and fees	10.6	9.9
Social security expenses		
Pension expenses	2.1	1.0
Other social security expenses	1.0	1.0
Total	13.7	11.9
Salaries and fees to the management		
Managing Director and his deputy	0.7	0.6
Board of Directors' members	0.3	0.3
Total	1.0	0.9

An analysis of the management's salaries and fees is included in the notes to the consolidated financial statements.

€ million	2007	2006
4. Depreciation and value adjustments		
Depreciation according to plan	22.5	28.5
Value adjustments, non-current assets	1.5	0.0
Total	24.0	28.5
5. Other operating expenses		
Rent expenses	117.1	194.2
Marketing expenses	3.0	0.7
Maintenance of real estate and store sites	17.1	15.6
Data communications expenses	11.1	10.0
Losses on sales of real estate and shares	0.1	3.3
Merger losses	16.2	-
Other operating expenses	8.0	8.2
Total	172.5	232.0
6. Financial income and expenses		
Dividend income		
From Group companies	23.4	2.6
From participating interests	-	1.5
From others	0.0	2.7
Dividend income, total	23.4	6.8
Other interest and financial income		
From Group companies	47.9	32.4
From others	26.4	12.8
Interest income, total	74.3	45.2

€ million	2007	2006
Interest and other financial expenses		
To Group companies	-21.4	-21.7
To others	-28.5	-19.7
Interest expenses, total	-49.9	-41.4
Total	47.8	10.6
7. Items included in extraordinary income and expenses		
Contributions from Group companies	171.3	161.0
Contributions to Group companies	-32.7	-31.3
Total	138.6	129.7
8. Appropriations		
Difference between depreciation according to plan and depreciation in taxation	5.8	21.7
Total	5.8	21.7
9. Changes in provisions		
Future rent expenses for vacant business premises	-1.1	-0.8
Other changes	0.0	0.2
Total	-1.1	-0.6
10. Income taxes		
Income taxes on extraordinary items	-36.0	-33.7
Income taxes on operating activities	-18.3	-52.8
Total	-54.4	-86.4

Deferred taxes

Deferred tax liabilities and assets have not been included in the balance sheet. The amounts are not significant.

Notes to the balance sheet

€ million	2007	2006
11. Other capitalised expenditure		
Acquisition cost at 1 January	39.7	41.8
Increases	0.1	0.8
Decreases	-1.5	-3.1
Transfers between groups	0.0	0.2
Acquisition cost at 31 December	38.3	39.7
Accumulated depreciation at 1 January	29.3	28.0
Accumulated depreciation on decreases and transfers	-0.9	-1.8
Depreciation for the financial year	2.2	3.1
Accumulated depreciation at 31 December	30.6	29.3
Book value at 31 December	7.7	10.4

€ million	2007	2006
Advance payments		
Acquisition cost at 1 January	2.2	0.4
Increases	1.6	2.9
Decreases	-1.3	-1.0
Transfers between groups	0.0	-0.2
Acquisition cost at 31 December	2.5	2.2
Book value at 31 December	2.5	2.2

12. Tangible assets

€ million	2007	2006
Land and water		
Acquisition cost at 1 January	114.5	121.5
Increases	4.3	10.7
Decreases	-6.7	-17.7
Transfers between groups	0.0	-
Acquisition cost at 31 December	112.2	114.5
Book value at 31 December	112.2	114.5
Buildings		
Acquisition cost at 1 January	503.9	564.4
Increases	19.1	24.5
Decreases	-13.6	-85.4
Transfers between groups	3.9	0.4
Acquisition cost at 31 December	513.2	503.9
Accumulated depreciation at 1 January	166.2	176.1
Accumulated depreciation on decreases and transfers	-1.7	-32.0
Depreciation for the financial year	17.4	22.1
Accumulated depreciation at 31 December	181.8	166.2
Book value at 31 December	331.4	337.7
Machinery and equipment		
Acquisition cost at 1 January	25.1	29.2
Increases	1.0	1.1
Decreases	-0.8	-5.2
Transfers between groups	0.2	0
Acquisition cost at 31 December	25.5	25.1
Accumulated depreciation at 1 January	18.4	18.6
Accumulated depreciation on decreases and transfers	-0.6	-2.5
Depreciation for the financial year	1.8	2.2
Accumulated depreciation at 31 December	19.6	18.3
Book value at 31 December	6.0	6.8
Other tangible assets		
Acquisition cost at 1 January	12.5	14.9
Increases	1.1	0.5
Decreases	-0.3	-2.9
Transfers between groups	0.4	0
Acquisition cost at 31 December	13.7	12.5

€ million	2007	2006
Accumulated depreciation at 1 January	5.4	5.4
Accumulated depreciation on decreases and transfers	0.0	-1.0
Depreciation for the financial year	1.1	1.0
Accumulated depreciation at 31 December	6.5	5.4
Book value at 31 December	7.2	7.1
Advance payments and construction in progress		
Acquisition cost at 1 January	5.2	1.5
Increases	4.7	4.1
Decreases	-	-
Transfers between groups	-4.5	-0.4
Acquisition cost at 31 December	5.4	5.2
Book value at 31 December	5.4	5.2

Revaluation of non-current assets

At the end of the financial year, Kesko Corporation's balance sheet did not contain revaluations.

13. Investments

€ million	2007	2006
Holdings in Group companies		
Acquisition cost at 1 January	388.0	731.3
Increases	109.7	8.0
Decreases	-93.7	-351.3
Acquisition cost at 31 December	404.0	388.0
Accumulated depreciation at 1 January	0.2	67.4
Value adjustments	1.5	-67.2
Accumulated depreciation at 31 December	1.7	0.2
Book value at 31 December	402.3	387.8
Holdings in participating interests		
Acquisition cost at 1 January	20.0	29.3
Increases	-	0.2
Decreases	-0.2	-9.5
Acquisition cost at 31 December	19.8	20.0
Book value at 31 December	19.8	20.0
Other shares and similar rights of ownership		
Acquisition cost at 1 January	16.3	17.0
Increases	0.7	1.0
Decreases	-9.7	-1.8
Acquisition cost at 31 December	7.3	16.3
Book value at 31 December	7.3	16.3

Kesko Corporation's ownership interests in other companies as at 31 December 2007 are presented in the notes to the consolidated financial statements.

During the period, Keswell Ltd, a subsidiary wholly-owned by Kesko Corporation, was merged into Kesko Corporation. Among subsidiaries directly owned by Kesko Corporation, other changes took place in real estate companies only. A total of two real estate companies were sold outside the Group.

€ million	2007	2006
14. Receivables		
Receivables from Group companies		
Long-term		
Loan receivables	374.4	343.6
Subordinated loans	10.0	10.7
Long-term receivables, total	384.4	354.3
Short-term		
Trade receivables	1.4	4.1
Loan receivables	586.0	501.3
Other receivables	-	0.0
Prepayments and accrued income	2.6	1.4
Short-term receivables, total	590.0	506.8
Total	974.4	861.1
Receivables from participating interests		
Long-term		
Loan receivables	0.9	0.9
Short-term		
Trade receivables	0.0	0.1
Loan receivables	4.1	5.1
Short-term receivables, total	4.2	5.2
Total	5.1	6.1
Prepayments and accrued income		
Taxes	8.7	1.2
Others	21.3	3.2
Total	30.0	4.4
15. Shareholders' equity		
Share capital at 1 January	195.0	193.0
Subscriptions with options	0.5	2.0
Share capital at 31 December	195.5	195.0
Share issue, exercise of options at 1 January	-	0.7
Increase	2.6	6.3
Transfer to share capital	-0.5	-2.0
Transfer to share premium account	-2.1	-5.0
Share issue, exercise of options at 31 December	0.0	0.0
Share premium account at 1 January	187.9	182.9
Subscriptions with options	2.1	5.0
Share premium account at 31 December	190.1	187.9
Revaluation reserve at 1 January	-	0.3
Change in revaluation reserve	-	-0.3
Revaluation reserve at 31 December	-	-

€ million	2007	2006
Other reserves at 1 January	243.4	243.4
Other reserves at 31 December	243.4	243.4
Retained earnings at 1 January	639.9	439.6
Distribution of dividends	-146.3	-106.5
Transfer to donations	-0.3	-0.3
Expired dividends 1997–2001	0.3	-
Retained earnings at 31 December	493.6	332.8
Profit for the financial year	194.3	307.0
Shareholders' equity, total	**1,316.9**	**1,266.3**

Increase in share capital

In 2007, the share capital was increased six times as a result of share subscriptions pursuant to share options: by €46,376 in February, by €86,800 in April, by €298,572 in May, by €9,000 in July, by €39,032 in September, and by €15,900 in December. The corresponding numbers of shares subscribed for were 23,188; 43,400; 149,286; 4,500; 19,516 and 7,950. The increases were entered in the Trade Register respectively on 12 February, 26 April, 29 May, 24 July, 26 September and 19 December 2007.

Distributable reserves		
Other reserves	243.4	243.4
Retained earnings	493.6	332.8
Profit for the financial year	194.3	307.0
Total	931.3	883.3

Breakdown of parent company's share capital

	pcs	counter value, €	€ million
A shares	31,737,007	2	63.5
B shares	66,030,758	2	132.1
Total	97,767,765		195.5

Voting rights given 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 4.72% of shares and 1.24% of all votes. The subscriptions made with stock options may raise the number of the company's shares to 101,738,705, and the voting rights of all shares to 387,371,768 votes.

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

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	**2007**	**2006**
16. Appropriations		
Depreciation reserve	157.7	163.5
Total	157.7	163.5
17. Provisions		
Future rent expenses for vacant business premises	7.1	8.2
Other provisions	0.1	0.1
Total	7.2	8.3
18. Non-current liabilities		
Debt falling due later than within five years		
Private placement bonds	100.4	100.4
Loans from financial institutions	25.1	24.3
Total	125.6	124.7

On 10 June 2004, Kesko Corporation issued a private placement of USD 120 million in the US. The arrangement consists of three bullet loans: a 10-year loan (USD 60 million), a 12-year loan (USD 36 million) and a 15-year loan (USD 24 million). Kesko has hedged the loan by using currency and interest rate swaps, as a result of which the loan capital totals €100.4 million and the fixed capital-weighted average interest rate is 5.4%.

19. Current liabilities		
Debt to Group companies		
Advances received	–	0.0
Trade payables	2.0	1.7
Other debt	433.6	451.2
Accruals and deferred income	1.5	1.5
Total	437.1	454.4
Debt to participating interests		
Trade payables	0.0	0.0
Other debt	24.0	36.4
Accruals and deferred income	–	0.0
Total	24.0	36.4
Accruals and deferred income		
Personnel expenses	2.5	2.5
Taxes	–	13.5
Others	9.6	4.7
Total	12.0	20.7
20. Interest-free debt		
Short-term liabilities	21.5	29.5
Total	21.5	29.5

Other notes

€ million	**2007**	**2006**
21. Securities given and contingent liabilities		
Debt for the security of which mortgages have been given		
Other short-term debt	0.9	0.8
Mortgages given	6.0	6.0
Debt for the security of which shares have been given		
Other short-term debt	2.0	1.7
Pledged shares	13.6	13.6
Other contingent liabilities		
Real estate mortgages		
For own debt	1	1
For Group companies	10	10
Guarantees		
For Group companies	101	184
For shareholders	1	1
For others	0	1
Other contingent liabilities		
For own debt	11	37
Leasing liabilities		
Falling due within a year	0	0
Falling due later	1	1

Liabilities arising from derivative instruments

€ million	**2007**	**fair value**	**2006**	**fair value**
Value of underlying instruments at 31 Dec.				
Interest rate derivatives				
Forward and future contracts	34	-0.1	26	-0.2
Interest rate swaps	201	4.9	204	-1.8
Currency derivatives				
Forward and future contracts	366	0.2	272	0.1
Option agreements				
Bought	–	–	–	–
Written	–	–	–	–
Currency swaps	100	-18.9	100	-9.3
Commodity derivatives				
Electricity derivatives	37	7.9	38	1.0
Grain derivatives	5	-0.4	1	0.0

Signatures

Helsinki, 4 February 2008

Heikki Takamäki
Keijo Suila

Pentti Kalliala
Ilpo Kokkila
Maarit Näkyvä

Seppo Paatelainen
Jukka Säilä
Matti Halmesmäki
Managing Director

The Auditors' Note

The above financial statements and the Report of the Board of Directors have been prepared in accordance with generally accepted accounting principles. Our auditors' report has been issued today.

Helsinki, 7 February 2008
PricewaterhouseCoopers Oy, Authorised Public Accountants

Pekka Nikula, Authorised Public Accountant

Audit Report

To the shareholders of Kesko Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and administration of Kesko Corporation for the period 1 January–31 December 2007. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the parent company's financial statements, the report of the Board of Directors and the administration.

We conducted the audit in accordance with good auditing practice, which requires that we perform an audit of the accounting records, the accounting policies and those for preparing the Board of Directors' Report, their contents and disclosure in order to obtain reasonable assurance that the financial statements and the Board of Directors' report are free of material misstatement. The audit of administration was conducted to verify that the operations of the members of the parent company's Board of Directors and the Managing Director are in compliance with the rules of the Limited Liability Companies' Act.

Consolidated financial statements

The consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, give a true and fair view, as defined in those standards and the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

The parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable rules and regulations, and give a true and fair view of the parent company's result of operations and of the financial position as defined in the Finnish Accounting Act.

The report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable rules and regulations. The report of the Board of Directors is consistent with the financial statements and gives a true and fair view of the parent company's result of operations and of the financial position as defined in the Finnish Accounting Act.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the parent company's Board of Directors and the Managing Director can be discharged from liability for the period audited by us. The proposal by the Board of Directors concerning the disposal of distributable funds is in compliance with the Limited Liability Companies' Act.

Helsinki, 7 February 2008

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pekka Nikula
Authorised Public Accountant

Shares and shareholders

Financial objectives

Kesko Corporation measures its long-term performance and balance sheet development with several financial indicators, the target levels of which are:

Objective	Target level	Realised 2007
Growth in net sales	In Finland growth exceeding that of market	Realised: Kesko Food, VV-Auto, Konekesko, Intersport Finland, Musta Pörssi
	Increasing proportion of international operations	Growth 2.2% points (continuing operations)
Return on equity	14%	16% excl. non-recurring items 12.7%
Return on invested capital	16%	17% excl. non-recurring items 14.5%
Interest-bearing net debt/EBITDA	< 3	0.6
Equity ratio	40–45%	48%
Economic value added	Internal indicator growing positive EVA	Realised

Dividend policy

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

Proposed dividends for the year 2007

Kesko Corporation's Board of Directors proposes to the Annual General Meeting that €156,428,592.00 or €1.60 per share, be distributed as dividends from the net profit for the year 2007, representing 55.2% of earnings per share. In 2002-2006, an average of 81.5% of earnings per share was distributed in dividends.

Basic information on the shares at 31 December 2007

A share

- shortname: KESAV (OMX)
- ISIN code: FI0009007900
- voting rights per share: 10 votes
- number of shares: 31,737,007
- market value: €1,201 million

B share

- shortname: KESBV (OMX)
- ISIN code: FI0009000202
- voting rights per share: 1 vote
- number of shares: 66,030,758
- market value: €2,491 million

Trading unit of both share series: 1 share
Total share capital: €195,535,530
Total number of shares: 97,767,765
Voting rights carried by all shares: 383,400,828
Market capitalisation: €3,692 million

Share series and share capital

Kesko Corporation's share capital is divided into A shares and B shares. On December 31 2007, the company's share capital was €195,535,530.

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).

On 31 December 2007, the total number of shares was 97,767,765, of which 31,737,007 (32.5%) were A shares and 66,030,758 (67.5%) were B shares.

Each A share entitles the holder to 10 votes and each B share to 1 vote. Both shares give the same dividend rights. On 31 December 2007, the number of votes entitled by A shares was 83% and the number of votes entitled by B shares was 17% of the total voting rights.

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

The share-based right to receive funds distributed by the company and to receive shares or similar rights belongs to those who hold the shares on the date of fund distribution, share issue or a record date set in any other resolution.

Authorisations of the Board of Directors and treasury shares

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 Finnish Central Securities Depository Ltd, there were 28,925 shareholders at the end of 2007 (28,414 at the end of 2006). The total number of shares registered in a nominee name was 33,170,238, accounting for 33.93% of the share capital (32,535,936 and 33.36% respectively at the end of 2006). The number of votes entitled by these shares was 33,733,485, or 8.8% of the total voting rights (33,299,883 or 8.7% respectively at the end of 2006). The shares registered in a nominee name accounted for 50.14% of the B shares at the end of the year. 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 2007, the subscription price of a B share subscribed for with stock option 2003D was €3.03, with stock option 2003E €10.59 and with stock option 2003F €16.48. Dividend rights and other shareholder rights of the share subscribed for with options shall 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, 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 4.72% of shares and 1.24% of all votes. The subscriptions made with stock options may raise the number of the company's shares to 101,738,705, and the voting rights of all shares to 387,371,768 votes.

Share subscriptions made with stock options

In 2007, the share capital was raised six times corresponding to share subscriptions made with stock options: in February (12 Feb.) by €46,376 (23,188 shares), in April (26 April) by €86,800 (43,400 shares), in May (29 May) by €298,572 (149,286 shares), in July (24 July) by €9,000 (4,500 shares), in September (26 Sept.) by €39,032 (19,516 shares), and in December (19 Dec.) by €15,900 (7,950 shares), or by €495,680 (247,840 shares) in aggregate.

By 4 December 2007, 540,938 B shares had been subscribed for with the 2003D options, 169,867 B shares with the 2003E options and 118,255 B shares with the 2003F options, or 829,060 B shares in aggregate. The subscribed shares have been included in the main list of the 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 2007, the members of Kesko Corporation's Board of Directors, the Managing Director and the corporations under their control held 197,030 Kesko A shares (197,030 A shares at the end of 2006) and 170,520 Kesko B shares (170,520), i.e. a total of 367,550 shares (367,550), which represented 0.38% (0.38%) of the company's total share capital and 0.56% (0.56%) of its voting rights.

At the end of 2007, the company's Managing Director held a total of 50,000 Kesko stock options (73,000 at the end of 2006), which represented 0.05% (0.07%) of the company's total share capital and 0.01% (0.02%) 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 2007 (nor at the end of 2006).

Detailed information on shares and stock options held by the management at the beginning and at the end of 2007 is given on pages 68-69.

Trading in Kesko's shares and stock options in 2007

Kesko Corporation's shares are listed on the OMX Helsinki Stock Exchange. Key information about share trading in 2007 is given in the tables and graphs on this double page spread. The price trends of both shares were fluctuated exceptionally; after a strong increase during the first months of the year, the prices took a downward trend in the summer and fell below the market average towards the end of the year. As a result, the overall price trends of both shares were slightly decreasing for the whole year. Share trading was lively; the number of B shares traded increased by about 60% and their total value by nearly 120%. At the end of the year, the market value of A shares was €1,201 million and that of B shares €2,491 million. The total market capitalisation of the company was €3,692 million, a decrease of €159 million during the year.

Flagging notifications

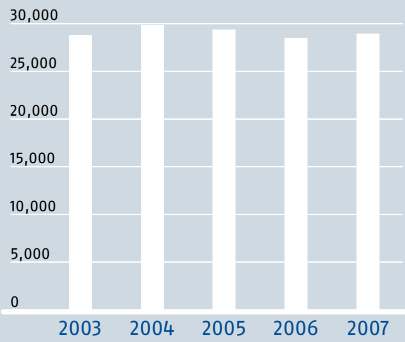
On 3 October 2007 Kesko Corporation was notified by Barclays Plc that the aggregate ownership interest of Barclays Plc's fund management companies in Kesko Corporation shares had exceeded 5% on 4 April 2007.

On 13 December 2007 Kesko Corporation was notified by Barclays Plc and Barclays Global Investor UK Limited that the ownership interest of Barclays Plc's in Kesko Corporation shares had dropped below 5% on 11 December 2007, but that the ownership interest of Barclays Global Investor UK Limited in Kesko Corporation shares had exceeded 5%.

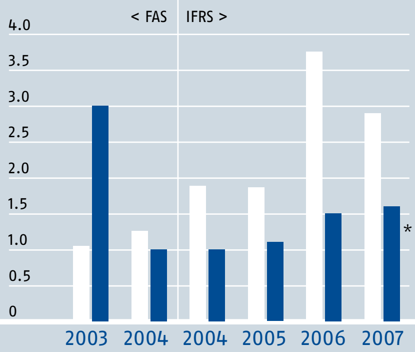
The company has not been informed of any agreements relating to its share ownership or the exercising of its voting rights.

Key indicators

Number of shareholders, at 31 Dec.



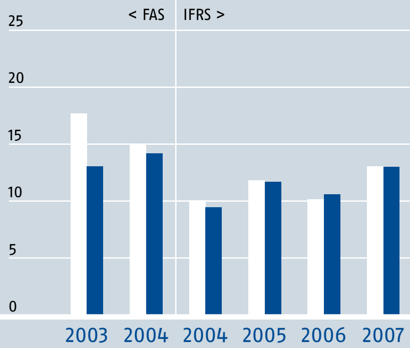
Earnings per share and dividend per share, €



● Earnings per share, diluted
● Dividend per share

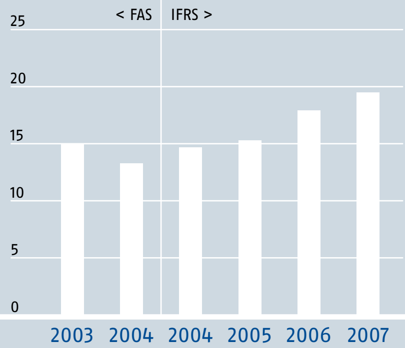
* proposal to the Annual General Meeting

Share prices per earnings, P/E ratio, at 31 Dec., diluted

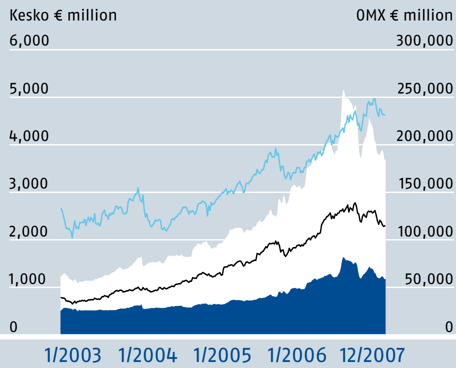


● A share ● B share

Equity per share, €, 31 Dec., diluted

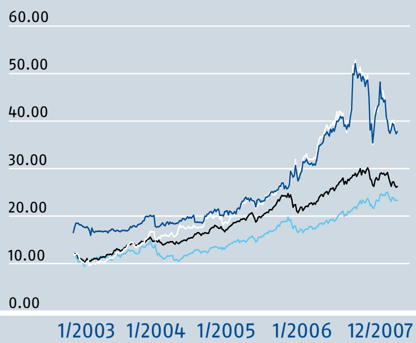


Market values of Kesko shares



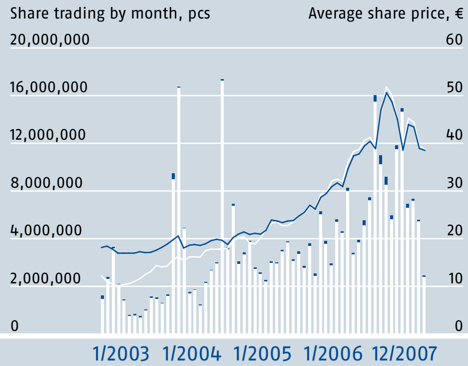
● A share
● B share
● OMX Helsinki CAP
● OMX Helsinki

Kesko A and Kesko B share price trends, €



● A share
● B share
● OMX Helsinki CAP
● OMX Helsinki

Trading volumes of Kesko A and Kesko B shares



● A share
● B share

Latest changes in share capital

Year	Registration date	Subscription terms	Change	New share capital
2003	19 Dec. 2003	S 1 for 1 at €11.87 B stock option	€140,200	€182,381,000
		S 1 for 1 at €10.11 C stock option		
2004	6 Feb. 2004	S 1 for 1 at €10.11 C stock option	€48,600	€182,429,600
2004	4 May 2004	S 1 for 1 at €9.87 B stock option	€1,072,380	€183,501,980
		S 1 for 1 at €8.11 C stock option		
2004	4 Aug. 2004	S 1 for 1 at €9.87 B stock option	€156,200	€183,658,180
		S 1 for 1 at €8.11 C stock option		
2004	31 Dec. 2004	S 1 for 1 at €9.87 B stock option	€4,022,904	€187,681,084
		S 1 for 1 at €8.87 B stock option		
		S 1 for 1 at €7.11 C stock option		
2005	15 Feb. 2005	S 1 for 1 at €8.87 B stock option	€2,656,500	€190,337,584
		S 1 for 1 at €7.11 C stock option		
2005	4 May 2005	S 1 for 1 at €7.87 B stock option	€912,390	€191,249,974
		S 1 for 1 at €6.11 C stock option		
		S 1 for 1 at €5.63 D stock option		
2005	8 June 2005	S 1 for 1 at €7.87 B stock option	€536,600	€191,786,574
		S 1 for 1 at €6.11 C stock option		
		S 1 for 1 at €5.63 D stock option		
2005	3 Aug. 2005	S 1 for 1 at €7.87 B stock option	€172,676	€191,959,250
		S 1 for 1 at €6.11 C stock option		
		S 1 for 1 at €5.63 D stock option		
2005	28 Sep. 2005	S 1 for 1 at €7.87 B stock option	€588,700	€192,547,950
		S 1 for 1 at €6.11 C stock option		
		S 1 for 1 at €5.63 D stock option		
2005	2 Nov. 2005	S 1 for 1 at €7.87 B stock option	€97,960	€192,645,910
		S 1 for 1 at €6.11 C stock option		
		S 1 for 1 at €5.63 D stock option		
2005	20 Dec. 2005	S 1 for 1 at €7.87 B stock option	€321,942	€192,967,852
		S 1 for 1 at €6.11 C stock option		
		S 1 for 1 at €5.63 D stock option		
2006	13 Feb. 2006	S 1 for 1 at €7.87 B stock option	€640,500	€193,608,352
		S 1 for 1 at €6.11 C stock option		
		S 1 for 1 at €5.63 D stock option		
2006	4 May 2006	S 1 for 1 at €7.87 B stock option	€938,058	€194,546,410
		S 1 for 1 at €6.77 B stock option		
		S 1 for 1 at €6.11 C stock option		
		S 1 for 1 at €5.01 C stock option		
		S 1 for 1 at €4.53 D stock option		
2006	9 June 2006	S 1 for 1 at €4.53 D stock option	€59,200	€194,605,610
		S 1 for 1 at €12.09 E stock option		
2006	7 Aug. 2006	S 1 for 1 at €4.53 D stock option	€118,000	€194,723,610
		S 1 for 1 at €12.09 E stock option		
2006	3 Oct. 2006	S 1 for 1 at €4.53 D stock option	€94,800	€194,818,410
		S 1 for 1 at €12.09 E stock option		
2006	1 Nov. 2006	S 1 for 1 at €4.53 D stock option	€157,200	€194,975,610
		S 1 for 1 at €12.09 E stock option		
2006	21 Dec. 2006	S 1 for 1 at €4.53 D stock option	€64,240	€195,039,850
		S 1 for 1 at €12.09 E stock option		
2007	12 Feb. 2007	S 1 for 1 at €4.53 D stock option	€46,376	€195,086,226
		S 1 for 1 at €12.09 E stock option		
2007	26 Apr. 2007	S 1 for 1 at €3.03 D stock option	€86,800,	€195,173,026
		S 1 for 1 at €10.59 E stock option		
2007	29 May 2007	S 1 for 1 at €3.03 D stock option	€298,572	€195,471,598
		S 1 for 1 at €10.59 E stock option		
		S 1 for 1 at €16.48 F stock option		
2007	24 July 2007	S 1 for 1 at €3.03 D stock option	€9,000	€195,480,598
		S 1 for 1 at €10.59 E stock option		
2007	26 Sep. 2007	S 1 for 1 at €3.03 D stock option	€39,032	€195,519,630
		S 1 for 1 at €16.48 F stock option		
2007	19 Dec. 2007	S 1 for 1 at €3.03 D stock option	€15,900	€195,535,530
	19 Dec. 2007	S 1 for 1 at €10.59 E stock option		

S = subscription with share stock options

Prices and trading of Kesko A and B shares on the Helsinki Stock Exchange in 2007

Share	Share price, € 31 Dec. 2006	Share price, € 31 Dec. 2007	Change,%	Lowest price, €	Highest price, €	Trading volume, 1,000 pcs	Total value, € thousand
A share	38.43	37.85	- 1.5	34.52	53.44	3,656	161,035
B share	40.02	37.72	- 5.7	34.40	54.85	122,361	5,294,130

During the year, OMXHelsinki All Share Index rose by 20.5%, OMXHelsinkiCAP Index by 3.8%, and the Helsinki Stock Exchange Consumer Staples Index by 5.4%.

10 largest shareholders by number of shares (A and B series) at 31.12.2007

	Number of shares, pcs	% of shares	Number of votes	% of votes
1 Kesko Pension Fund	3,438,885	3.52	34,388,850	8.97
2 The K-Retailers´ Association	3,221,539	3.30	31,847,740	8.31
3 Vähittäiskaupan Takaus Oy	2,628,533	2.69	26,285,330	6.86
4 Valluga-sijoitus Oy	1,340,439	1.37	13,404,390	3.50
5 Oy The English Tearoom Ab	1,008,400	1.03	1,008,400	0.26
6 Varma Mutual Pension Insurance Company	930,158	0.95	930,158	0.24
7 Foundation for Vocational Training in the Retail Trade	895,679	0.92	7,585,838	1.98
8 The State Pension Fund	746,000	0.76	746,000	0.19
9 Tapiola Mutual Pension Insurance Company	559,500	0.57	559,500	0.15
10 Ilmarinen Mutual Pension Insurance Company	543,392	0.56	3,333,392	0.87
10 largest shareholders, total	**15,312,525**	**15.67**	**120,089,598**	**31.33**

Breakdown of share ownership by shareholder category at 31 Dec. 2007

All shares	Number of shares, pcs	% of all shares
Non-financial corporations and housing corporations	23,153,111	23.68
Financial and insurance corporations	3,299,783	3.38
General Government*	7,584,105	7.76
Households	24,758,084	25.32
Non-profit institutions serving households**	5,537,050	5.66
Rest of the world	265,394	0.27
Nominee registered	33,170,238	33.93
Total	**97,767,765**	**100**

A shares	Number of shares, pcs	% of A shares	% of all shares
Non-financial corporations and housing corporations	18,058,619	56.90	18.47
Financial and insurance corporations	1,341,306	4.23	1.37
General Government*	3,979,747	12.54	4.07
Households	6,694,087	21.09	6.85
Non-profit institutions serving households**	1,596,083	5.03	1.63
Rest of the world	4,582	0.01	0.00
Nominee registered	62,583	0.20	0.06
Total	**31,737,007**	**100**	**32.46**

B shares	Number of shares, pcs	% of B shares	% of all shares
Non-financial corporations and housing corporations	5,094,492	7.72	5.21
Financial and insurance corporations	1,958,477	2.97	2.00
General Government*	3,604,358	5.46	3.69
Households	18,063,997	27.36	18.48
Non-profit institutions serving households**	3,940,967	5.97	4.03
Rest of the world	260,812	0.39	0.27
Nominee registered	33,107,655	50.14	33.86
Total	**66,030,758**	**100**	**67.54**

* 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 31.12.2007

	Number of shares, pcs	% of shares	Number of votes	% of votes
1 Kesko Pension Fund	3,438,885	3.52	34,388,850	8.97
2 The K-Retailers´ Association	3,221,539	3.30	31,847,740	8.31
3 Vähittäiskaupan Takaus Oy	2,628,533	2.69	26,285,330	6.86
4 Valluga-sijoitus Oy	1,340,439	1.37	13,404,390	3.50
5 Foundation for Vocational Training in the Retail Trade	895,679	0.92	7,585,838	1.98
6 Ruokacity Myyrmäki Oy	389,541	0.40	3,895,410	1.02
7 Ilmarinen Mutual Pension Insurance Company	543,392	0.56	3,333,392	0.87
8 The K-Food Retailers´ Club	318,955	0.33	3,189,550	0.83
9 Heimo Välinen Oy	274,009	0.28	2,740,090	0.71
10 Mutual Insurance Company Pension-Fennia	362,400	0.37	2,402,358	0.63
10 largest shareholders, total	**13,413,372**	**13.74**	**129,072,948**	**33.68**

Breakdown of share ownership by number of shares held at 31 Dec. 2007

All shares Number of shares	Number of shareholders	% of share shareholders	Total number of shares	% of shares
1–100	7,035	24.32	417,873	0.43
101–500	10,548	36.47	2,959,653	3.03
501–1 000	4,616	15.96	3,634,556	3.72
1 001–5,000	5,132	17.74	11,539,532	11.80
5,001–10,000	846	2.92	6,010,651	6.15
10,001–50,000	623	2.15	12,926,586	13.22
50,001–100,000	74	0.26	5,146,707	5.26
100,001–500,000	38	0.13	6,939,866	7.10
500,001–	13	0.04	48,192,341	49.29
Total	**28,925**	**100.00**	**97,767,765**	**100.00**

A shares Number of shares	Number of shareholders	% of share shareholders	Total number of shares	% of shares
1–100	1,137	20.59	59,244	0.19
101–500	1,165	21.09	315,832	1.00
501–1,000	853	15.44	726,779	2.29
1,001–5,000	1,575	28.52	3,922,779	12.36
5,001–10,000	397	7.19	2,823,104	8.90
10,001–50,000	340	6.16	7,170,466	22.59
50,001–100,000	39	0.71	2,764,537	8.71
100,001–500,000	12	0.22	2,622,369	8.26
500,001–	5	0.09	11,331,897	35.71
Total	**5,523**	**100.00**	**31,737,007**	**100.00**

B shares Number of shares	Number of shareholders	% of share shareholders	Total number of shares	% of shares
1–100	6,632	26.06	396,956	0.60
101–500	10,154	39.90	2,841,576	4.30
501–1,000	4,002	15.73	3,098,820	4.69
1,001–5,000	3,843	15.10	8,226,127	12.46
5,001–10,000	456	1.79	3,290,425	4.98
10,001–50,000	303	1.19	6,332,417	9.59
50,001–100,000	30	0.12	2,115,177	3.20
100,001–500,000	20	0.08	3,666,337	5.55
500,001–	7	0.03	36,062,923	54.62
Total	**25,447**	**100.00**	**66,030,758**	**100.00**

Share capital and shares

		2002 FAS	2003 FAS	2004 FAS	2004 IFRS	2005 IFRS	2006 IFRS	2007 IFRS
Share capital	€ million	182	182	188	188	193	195	196
Number of shares at 31 Dec.	1,000 pcs	91,120.4	91,190.5	93,840.5	93,840.5	96,483.9	97,519.9	97,767.8
Adjusted number of shares at 31 Dec.	1,000 pcs	91,120.4	91,190.5	93,840.5	93,840.5	96,483.9	97,519.9	97,767.8
Adjusted average number of shares during the year	1,000 pcs	90,807.3	91,435.8	93,134.9	93,134.9	97,215.5	98,027.0	98,395.3
of which A shares	%	35	35	34	34	33	32	32
of which B shares	%	65	65	66	66	67	68	68
Market capitalisation, A shares	€ million	520	578	600	600	768	1,220	1,201
Market capitalisation, B shares	€ million	718	825	1,115	1,115	1551	2,632	2,491
Number of shareholders at 31 Dec.	pcs	25,485	28,761	29,801	29,801	29,339	28,414	28,925
Share turnover								
A share	€ million	15	22	23	23	29	61	161
B share	€ million	249	349	1,368	1,368	1,383	2,410	5,294
Share turnover								
A share	pcs	1	1	1	1	1	2	4
B share	pcs	23	31	83	83	66	77	122
Turnover rate								
A share	%	3.0	4.0	3.8	3.8	4.1	6.4	11.5
B share	%	38.6	51.7	133.6	133.6	101.5	117.1	185.3
Change in share turnover								
A share	%	-23.3	32.4	-3.5	-3.5	7.6	57.2	78.8
B share	%	60.3	34.0	158.5	158.5	-24.0	15.4	58.8
Share price at 31 Dec.								
A share	€	16.40	18.20	18.90	18.90	24.19	38.43	37.85
B share	€	12.10	13.88	17.95	17.95	23.95	40.02	37.72
Average share price								
A share	€	16.26	17.46	19.12	19.12	21.93	30.10	43.85
B share	€	10.92	11.38	16.49	16.49	21.04	31.34	43.36
Highest share price during the year								
A share	€	17.70	18.55	21.50	21.50	24.60	38.99	53.44
B share	€	12.28	14.66	18.27	18.27	24.44	40.48	54.85
Lowest share price during the year								
A share	€	14.40	16.00	15.70	15.70	18.61	23.72	34.52
B share	€	9.75	9.35	13.58	13.58	17.80	23.80	34.40
Earnings per share, diluted	€	0.75	1.05	1.26	1.89	1.87	3.76	2.90
Earnings per share,basic	€	0.75	1.06	1.28	1.92	1.89	3.80	2.92
Equity per share, diluted	€	15.02	15.07	13.34	14.73	15.35	17.94	19.53
Dividend per share	€	1.00	3.00	1.00	1.00	1.10	1.50	1.60*
Payout ratio	%	134.4	285.7	79.4	52.9	58.8	39.9	55.2*
Cash flow from operating activities per share, diluted	€	1.60	1.80	2.06	2.29	3.07	3.35	2.52
Price per earnings ratio (P/E), A share, diluted		21.96	17.17	14.96	10.12	11.86	10.22	13.07
Price per earnings ratio (P/E), B share, diluted		16.21	13.09	14.21	9.50	11.74	10.64	13.02
Dividend yield, %, A share	%	6.1	11.0	5.3	5.3	4.6	3.9	4.2*
Dividend yield, %, B share	%	8.3	14.4	5.6	5.6	4.6	3.8	4.2*
Effective dividend yield of A share	%	9.9	11.4	14.3	14.3	16.7	21.4	30.3
Effective dividend yield of B share								
for the last five periods	%	2.8	8.9	14.7	14.7	25.9	38.9	59.9
for the last ten periods	%	12.8	10.7	13.0	13.0	16.3	19.0	23.3

* proposal to the Annual General Meeting

Information for shareholders

Financial reporting calendar and key dates in 2008

Year 2007 financial statements	5 February 2008
Year 2007 Annual Report and audited financial statements	Week 11
Year 2008 Annual General Meeting	31 March 2008
Interim Financial Report for the first 3 months	22 April 2008
Interim Financial Report for the first 6 months	22 July 2008
Interim Financial Report for the first 9 months	21 October 2008

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 31 March 2008 at 13 hours.

All shareholders entered in the register of Kesko Corporation shareholders kept by the Finnish Central Securities Depository Ltd on 20 March 2008 (Annual General Meeting record date) are entitled to attend the Annual General Meeting.

Shareholders wishing to attend the meeting should notify, not later than 25 March 2008 at 16 hours by letter to Kesko Corporation/Legal Affairs, FI-00016 Kesko, by fax to +358 1053 23421, by telephone to +358 1053 23211, by e-mail to taina.hohtari@kesko.fi, or through the Internet at www.kesko.fi/investors. The notifications must be received by the end of the registration period. Any proxies authorising the holders to attend the Annual General Meeting shall be sent to the above mailing address by the end of the registration period. Shareholders may use the proxy form at www.kesko.fi/investors in giving the authorisation.

More information about the Annual General Meeting, attendance and decision-making is given under the heading 'Corporate Governance Statement' on pages 57-65.

The decisions of the Annual General Meeting are published without delay after the meeting in a stock exchange release.

Payment of dividends

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of €1.60 per share be paid for 2007. The dividend will be paid to all shareholders entered in the register of Kesko Corporation shareholders kept by the Finnish Central Securities Depository Ltd on 3 April 2008 (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 31 March 2008. Dividends for shares traded on the date of the Annual General Meeting are paid to buyers.

According to the Board of Directors' proposal the payment of dividends starts on 10 April 2008.

Financial publications

The Annual Report and Interim Financial Reports are published in Finnish, Swedish and English. No separate printed interim financial reports are published. The Annual Report, Interim Financial Reports, monthly sales figures and other key releases are published on the Kesko Group's Internet pages at www.kesko.fi/media.

Kesko also publishes a separate Corporate Responsibility Report in Finnish and English.

Publications may be ordered from

Kesko Corporation/Corporate Communications and Responsibility
FI-00016 Kesko
Tel. +358 1053 22404
Fax +358 9 174 398
Internet: www.kesko.fi/material

Changes of address

Shareholders should notify changes of address to the bank, brokerage firm or other account operator with which they have a book-entry securities account.

Information about Kesko for investors

Communications policy and principles

The purpose of Kesko's communications is to promote the business of the Group and cooperation partners by taking the initiative in providing stakeholders with correct information on Group objectives and operations. The general principles followed in providing communications also include openness, topicality and truthfulness. No comments are made on confidential or unfinished business, nor on competitors' affairs.

The primary objective of communications is to describe what added value Kesko and its cooperation partners generate 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 Annual Report is mailed to all shareholders. The annual finance statements release and three interim financial reports are available on Kesko's Internet pages. In addition to shareholders, the company maintains a mailing list of other persons to whom the Annual Report is sent. Those who wish their names to be entered on the mailing list may fill in the service form at the Internet site www.kesko.fi/material. Kesko's stock exchange and press releases can be ordered by e-mail through the material service at the Internet site.

Kesko arranges press conferences for analysts and the media at the time of accouncing the annual and interim financial results or other significant news, and holds Capital Market Days on various themes 1–2 times a year.

Kesko observes a two-week period of silence before publishing information on its results. At other times, we are happy to answer the enquiries of analysts and investors by phone or e-mail, or at the investor meetings arranged.

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Organisation, management and contact information

Kesko Corporation's Board of Directors and Corporate Management Board are presented on pages 66-67 and 68-69.

Kesko Corporation

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Tel. +358 10 5311, fax +358 9 174 398
E-mail firstname.lastname@kesko.fi
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Finance: Senior Vice President, CFO Arja Talma
Corporate Accounting: Vice President, Corporate Controller Jukka Erlund
Treasury: Vice President, Group Treasurer Heikki Ala-Seppälä
IT Management:
Vice President, CIO Markku Laak
Human Resources: Senior Vice President Riitta Laitasalo
Legal Affairs, Risk Management and Internal Audit: Vice President, General Counsel Anne Leppälä-Nilsson
Corporate Communications and Responsibility: Senior Vice President Paavo Moilanen
Corporate Responsibility:
Assistant Vice President Ulla Rehell
Brand Management:
Brand Director Anne Laakso

Subsidiaries

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Tel. Customer service +358 1053 37370, reception +358 1053 37271
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Managing Director Eija Jantunen

K-Plus Oy
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Managing Director Niina Ryynänen

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District Director Eero Ahtela

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District Director Jari Saarinen (e-mail: jari.k.saarinen@kesko.fi)

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K-citymarket, Food:
Vice President Mika Rautiainen
K-citymarket Oy:
Managing Director Juha Ahtinen
K-supermarket:
Vice President Minna Kurunsaari
K-market (K-market, K-extra):
Vice President Ari Svensk
Commerce: Vice President Ari Akseli
Customer relationship:
Vice President Niina Ryynänen
Retail services: Vice President Kari Heiskanen (e-mail: kari.j.heiskanen@kesko.fi)
Logistics and finance:
Vice President Petteri Niemi

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Managing Director Ari Svensk

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Managing Director Mika Salmijärvi

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Business support:
Vice President Jouko Björkman
K-rauta chain: Vice President Olli Honkasaari
Rautia chain: Vice President Kimmo Vilppula
Rautia chain: Vice President Jorma Mykrä
Commerce: Vice President Sakari Malka
International projects: Vice President Matti Vatanen, Director Seppo Paalasmaa
Norway and Sweden:
Region Director Jarmo Turunen
Baltic countries and Russia:
Region Director Raul Kadaru
Country Manager for Russia: Mikko Pasanen

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Managing Director Alo Ivask

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Glossary

In this glossary we have compiled a list of some key terms used in the Annual Report.

After-sales marketing refers in the car and machinery trade in particular to after-sales activities, such as maintenance, repairs, sales of spare parts, accessories and equipment.

AMS is an abbreviation of AMS Sourcing BV. Kesko Food works in cooperation with the leading European food chains in AMS, and is a partner in the WorldWide Retail Exchange. The WWRE is a business-to-business web marketplace.

Assortment is the number of product categories sold for different purposes (e.g. food, clothing, shoes, cosmetics, books and domestic appliances). The assortment can be wide, such as in department stores, or narrow, such as in speciality stores.

Brand is a trademark, logo or branded product. It is an embodiment of all information relating to the company product or service. A brand is an image, created by the way of doing things, by quality and the willingness to reach the set destination.

Certification of goods sold by stores is an audit carried out by an independent third to verify the compliance of operating systems with certain criteria (e.g. with an ISO standard).

Chain agreement is a contract between the retailer and Kesko that enables the retailer join one of Kesko's retail store chains. Under the terms of the chain agreement, the retailer and Kesko agree on their rights and responsibilities regarding chain operations.

Chain concept is a comprehensive description of retail business operations and guidelines for their similar implementation in all stores of the chain.

Chain Executive Committee is a body elected by retailers from their midst. It can make proposals and give opinions to the chain unit in matters concerning chain cooperation.

Chain planning groups are groups that plan different areas of chain operations. They include chain retailers, their personnel and chain unit representatives.

Chain selection in the K-Group is that part of a selection which is the same in all stores of the chain. The chain unit makes decisions concerning the selection.

Chain unit is the Kesko unit responsible for store chain operations and chain concept development in the K-Group. It has decision-making power in matters concerning the chain.

Corporate responsibility refers to voluntary responsibility towards key stakeholders. It is measurable, based on the company's values and objectives, and is divided into economic, social and environmental responsibility.

Customer value refers to the chain's way of defining and communicating the benefits or values that it generates to the customer.

Dealer, for instance in the car trade, is a company authorised by the importer to sell and service branded products. The dealer meets the quality standards set by the manufacturer and the importer.

Department store is a retail store that sells a wide variety of goods. Its sales area is at least 2,500 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).

Hypermarket centre is usually located on one level. The hypermarket accounts for over 50% of the total business premises.

Intellectual capital refers to the resource that arises from the mutual interaction between the knowledge and competencies of the individuals operating in the organisation, the attitudes prevailing in the organisation and its environment, and the data management and communications systems. The company's intellectual capital arises from information, data and competencies.

K-Group consists of the K-retailers, the K-Retailers' Association and 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 1,285 – 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 m². In Finland they have unrestricted opening hours even in town plan areas.

New establishment (greenfielding) refers to new store sites or business premises.

Operations control system (ERP Enterprise Resource Planning system) is an information system that supports the planning and control of business operations. It includes the information systems supporting the core processes of the company, such as category management and purchasing logistics in the trading sector, e.g. SAP R3.

Organic product is, according to the EU regulation on organic production, a product in which at least 95% of the raw materials of agricultural origin have been organically produced.

Private label (own brand, house brand) product is a branded product made for the trading company by a manufacturer and marketed as part of a larger product family under one brand name. A company markets its private label products through its own network.

Retail trade refers to sales to consumer customers.

Sales area refers to the store area reserved for sales, such as goods areas, aisles, service counters, checkout areas and air lock entrances.

Selection is the range of products sold for the same purpose, for instance a selection of bread. Speciality stores carry a deep selection in the category.

Self-control is an entrepreneur's own control system, the purpose of which is to prevent problems arising in food hygiene. In compliance with legislation, self-control is based on HACCP (Hazard Analysis and Critical Control Points) principles. The hazards related to products are assessed, the critical control points needed for hazard monitoring are identified and then controlled. The system is applied to the hygiene of manufacturing plants' machinery and equipment, the quality of raw materials and products, the effectiveness of manufacturing processes, and transportation and warehousing conditions.

Service company is an enterprise that offers all the products and services wanted or expected by customers at the same time. The service company provides customers with a combination of products and related services, taking care of product assemblies and other user functions that may be required.

Shopping centre houses many trading companies, but has joint management and marketing. A shopping centre has one or more main companies, but no individual store accounts for over 50% of the total business premises. A shopping centre has a minimum of 10 stores, in most cases joined by a common mall.

Store-specific selection in the K-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 m², with food accounting for over half of the total sales area.

Trading house is a company that offers its principals sales services and international trading in various forms. A company that is engaged in imports, exports or trading between third countries in products manufactured by other companies can be considered as a trading house.

Value chain is used to define the combination of all the activities and resources needed for generating products and services. The value chain often consists of several operators (manufacturing industry, wholesale trade, retail trade, customer, etc.). The value chain ends with the customer.

Wholesale trade is purchasing from suppliers in large quantities and then selling to enterprises engaged in the retail trade.

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