KESKO

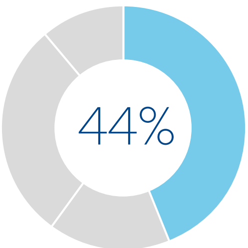
KESKO'S YEAR 2012

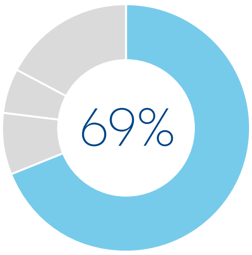
K-GROUP IN VETURI SHOPPING CENTRE

DIVISIONS

FOOD TRADE

SHARE OF KESKO GROUP'S NET SALES	SHARE OF KESKO GROUP'S OPERATING PROFIT EXCLUDING NON-RECURRING ITEMS

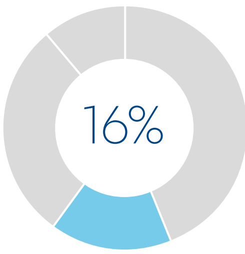


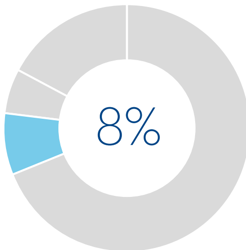


DIVISION'S NET SALES	DIVISION'S OPERATING PROFIT EXCLUDING NON-RECURRING ITEMS
€4,311 million	€168.4 million
CHANGE	CHANGE
+3.1%	€-3.8 million

HOME AND SPECIALITY GOODS TRADE

SHARE OF KESKO GROUP'S NET SALES	SHARE OF KESKO GROUP'S OPERATING PROFIT EXCLUDING NON-RECURRING ITEMS





DIVISION'S NET SALES	DIVISION'S OPERATING PROFIT EXCLUDING NON-RECURRING ITEMS
€1,603 million	€19.8 million
CHANGE	CHANGE
+2.5%	€-16.8 million

citymarket.fi

BUIL
IMPR

SHARE OF
NET SALES

DIVISION'S

€2,
million

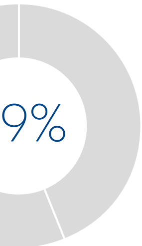
CHANGE

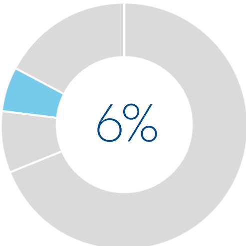
+4.

DING AND HOME
ROVEMENT TRADE

KESKO GROUP'S

SHARE OF KESKO GROUP'S OPERATING PROFIT EXCLUDING NON-RECURRING ITEMS





NET SALES

DIVISION'S OPERATING PROFIT EXCLUDING NON-RECURRING ITEMS

,827

€13.6 million

CHANGE

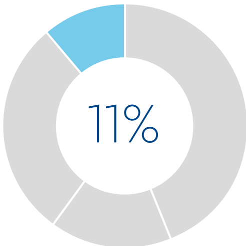
.1%

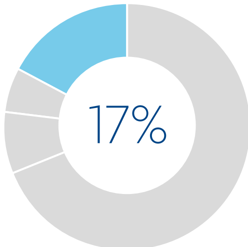
€-13.0 million

CAR AND MACHINERY TRADE

SHARE OF KESKO GROUP'S NET SALES

SHARE OF KESKO GROUP'S OPERATING PROFIT EXCLUDING NON-RECURRING ITEMS





DIVISION'S NET SALES

DIVISION'S OPERATING PROFIT EXCLUDING NON-RECURRING ITEMS

€1,114 million

€42.1 million

CHANGE

-5.1%

CHANGE

€-9.7 million

KESKO GROUP

DIVISIONS

COMMON OPERATIONS

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

KESKO IN BRIEF

Kesko is a highly valued listed trading sector company. It manages retail store chains that are valued by customers, and efficiently produces services for retail store chains' purchasing, logistics, network development and data management. Kesko's operations include the food, home and speciality goods, building and home improvement, and car and machinery trades. Its division parent companies and chains act in close cooperation with retailer entrepreneurs and other partners. Kesko has about 2,000 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus.

Kesko and K-retailers form the K-Group, whose retail sales totalled about €12 billion (VAT 0%) in 2012. The K-Group employs around 45,000 people.

OUR CORE COMPETENCE AREAS

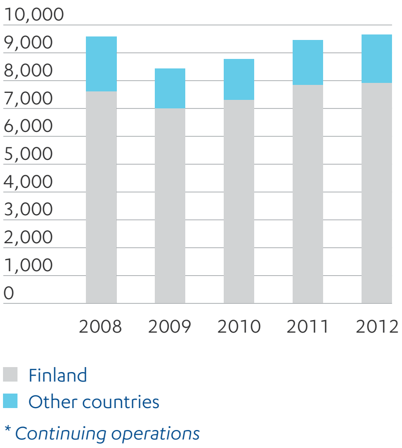
- *Development and management of store concepts and brands.*
- *Development, ownership and management of the store site network.*
- *Efficient purchasing and logistics.*
- *International retail expertise.*
- *Combining retailer entrepreneurship and chain operations efficiently.*
- *Leveraging centralised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

KESKO OPERATES IN EIGHT COUNTRIES

- *Finland: all divisions.*
  Number of stores: 1,535.
- *Sweden and Norway: building and home improvement trade.*
  Number of stores: 127.
- *Baltic countries: building and home improvement trade, machinery trade, furniture trade and distance sales.*
  Number of stores: 46.
- *Russia, mainly St. Petersburg and Moscow areas: building and home improvement trade, sports trade, food trade, machinery trade.*
  Number of stores: 44.
- *Belarus: building and home improvement trade.*
  Number of stores: 9.

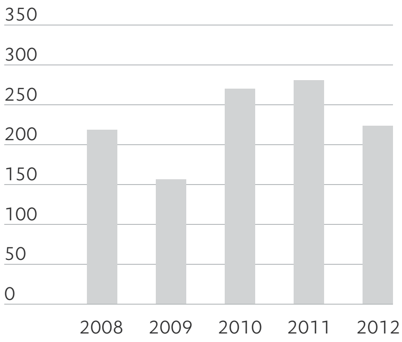
2012 IN FIGURES

NET SALES*
€ million



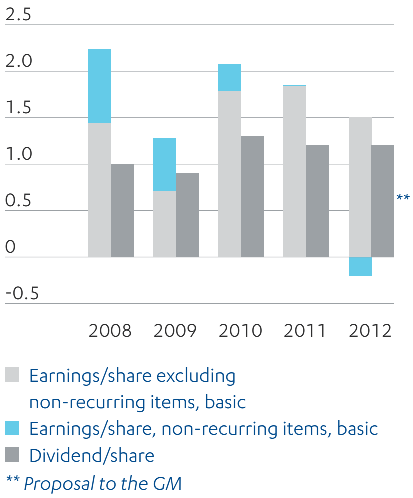
* Continuing operations

OPERATING PROFIT EXCL. NON-RECURRING ITEMS*
€ million



* Continuing operations

EARNINGS/SHARE AND DIVIDEND/SHARE
€



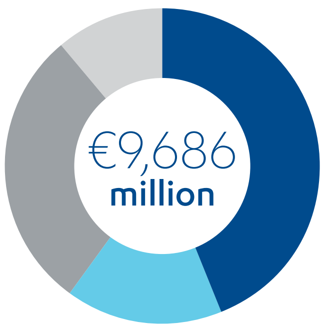
** Proposal to the GM

PERFORMANCE INDICATORS FOR 2012

KEY FIGURES		2012	2011	Change
Net sales	€ million	9,686	9,460	2.4%
Operating profit	€ million	217	281	€-63.9 million
Operating profit excl. non-recurring items	€ million	235	279	€-44.2 million
Profit before tax	€ million	215	282	€-67.0 million
Return on capital employed excl. non-recurring items	%	9.3	13.1	-3.9 pp
Return on equity excl. non-recurring items	%	7.1	8.8	-1.8 pp
Cash flow from operating activities	€ million	382	216	€166.0 million
Capital expenditure	€ million	378	425	€-47.2 million
Equity ratio	%	52.5	53.9	-1.4 pp
Dividend per share	€	1.20*	1.20	€0.0
Earnings per share, diluted	€	1.30	1.84	€-0.54
Earnings per share excl. non-recurring items, basic	€	1.50	1.84	-18.2%
Equity per share	€	22.43	22.20	€0.22
Personnel, average		19,741	18,960	781

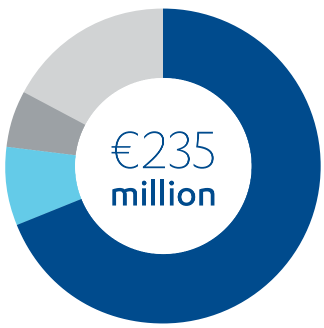
Proposal to the GM

NET SALES IN 2012



- Food trade 44%
- Home and speciality goods trade 16%
- Building and home improvement trade 29%
- Car and machinery trade 11%

OPERATING PROFIT EXCL. NON-RECURRING ITEMS IN 2012



- Food trade 69%
- Home and speciality goods trade 8%
- Building and home improvement trade 6%
- Car and machinery trade 17%

READ MORE
In the financial statements, starting on page 64.

REVIEW BY THE PRESIDENT AND CEO

A YEAR OF CHANGES

For Kesko and for the whole trading sector, 2012 was a year of changes. The year was characterised by the deterioration of the general economic situation and consumer confidence. The role of e-commerce and services was strengthened as consumers demanded an increasing number of multichannel services from the trading sector. The steady growth of previous years continued in the grocery trade.

Kesko's net sales increased by 2.4% in 2012, despite a decline in car sales following the car tax change. Foreign operations grew by 9.0%. Kesko's profitability remained strong, though the profit was down on the previous year owing to several store openings and the expansion of business in Russia. The Kesko Group's solvency and liquidity remained at an excellent level.

In the food trade, net sales increased, though less than market growth. Profitability remained at a good level. Five K-citymarkets and 11 K-supermarkets were opened over the course of the year. Sales of Pirkka products in K-food stores were up by 12%. The first K-grocery store was opened in St. Petersburg, Russia at the beginning of December. In the home and speciality goods trade, sales by both Intersport and Budget Sport showed strong growth. The segment's profitability was adversely affected by several openings of new department stores and the restructuring of Intersport operations in Russia. In the building and home improvement trade, sales particularly increased in Russia, while in the Nordic countries growth clearly declined towards the end of the year. In the building and home improvement trade, the market share increased in Finland. Sales dropped in the car and machinery trade but profitability was at a good level. The market position of Audi and Volkswagen remained at the strong level of previous years.

GROWTH AND PROFITABILITY

The chains' customer programmes play a central role in sales growth. Their aim is to increase customer numbers and the average purchase by strengthening the chains' competitive advantages and targeted marketing.

The deteriorating economic situation and the higher cost levels called for strong measures to ensure Kesko's competitiveness and to improve cost-efficiency. With this in mind, Kesko started a Group-wide profitability programme aimed at securing sales growth, implementing costs savings of €100 million and enhancing the efficiency of capital use by adapting capital expenditure and improving stock turnover rates. Specific actions will focus on operations with poor profitability and result in lowering the costs of foreign operations in the building and home improvement trade segment and in the implementation of the reform and costs savings in Anttila's chain concepts.

As for cost savings, division- and country-specific measures have proceeded as planned and, despite strong cost pressures, significant cost savings were achieved during the latter part of 2012. The savings mainly focus on marketing, personnel, store site and IT expenses.

Most of the targeted cost savings are expected to be achieved during 2013.

CAPITAL EXPENDITURE FOCUSED ON THE FOOD TRADE

Kesko's capital expenditure totalled nearly €380 million in 2012. Store openings included five new K-citymarkets, five K-rauta stores, two Kodin1 department stores, two Anttila department stores and several smaller stores. The Veturi shopping centre was opened in Kouvola in September. By the end of the year, it had already attracted one million customers.

In addition to Finland, growth is also sought in the fast-developing Russian retail market. In December, the first hypermarket size K-grocery store in Russia was opened in St. Petersburg. The K-logo is a familiar sign of quality for many inhabitants in the city and demand for Finnish products is high. Kesko aims to open three more K-grocery stores in the St. Petersburg area during 2013. In the building and home improvement trade, strong growth continued in Russia. The second large K-rauta store in Moscow was opened in 2012 and the third one will open in spring 2013. In the Russian Intersport business, the focus is on improving profitability by reorganising and revising the current network.

In accordance with the profitability programme, capital expenditure will be adjusted to €200–300 million in the next few years. The focus will be on food store sites in Finland and Russia.

COMMERCE AS PART OF A MULTI-CHANNEL NETWORK

Customer needs and purchasing habits change quickly as new online services are introduced and mobile devices are developed. Customers expect stores to provide up-to-date information about selections, products, prices and availability, irrespective of the transaction channel. Kesko has started a Group-level A12 project, which aims to greatly increase electronic transactions, services and dialogue provided by stores and chains. A key target is to offer useful services and a seamless purchasing experience to customers at every phase.

The multi-channel approach was further expanded through the introduction of the citymarket.fi online store in October. The store has gained much popularity; it has attracted around 50,000 visitors per week and already boasts a range of more than 20,000 products. Customers can collect the products they have ordered from the post office or the K-citymarket store they prefer. As much as 70% of deliveries are collected from stores in connection with shopping trips, which increases their customer flow. Due to changes in customer behaviour towards home technology, a decision was made to adopt a business model based on an online store concept for Musta Pörssi. The online store will serve as the primary shopping channel for customers, supported by a limited network of retail stores in shopping centres.

RESULTS FROM RESPONSIBILITY WORK

Responsibility is part of the daily activities at Kesko and K-stores. In 2012, special attention was paid to making responsible actions increasingly visible to customers in stores. With the help of the K-responsibility concept, we tell customers about our responsible actions in stores and help them make sustainable choices as easily as possible.

Kesko's responsibility programme was updated in 2012. When setting objectives, we took into account the future changes in our operating environment and the expectations of our stakeholders. The updated responsibility programme sets both short- and long-term objectives for Kesko's and the whole K-Group's operations and the progress and results will be reported annually in Kesko's Corporate Responsibility Report.

In 2012, Kesko was again included in major sustainability indexes, such as the Dow Jones DJSI World and DJSI Europe, the FTSE4Good and the Nordic Carbon Disclosure Leadership. Kesko is also on The Global 100 Most Sustainable Corporations in the World list and The World's Most Ethical Companies list. These achievements are a good indication of the level of Kesko's responsibility work and reporting.

WELLBEING AT WORK ENHANCES PROFITABILITY

Kesko and K-retailers employ around 45,000 trading sector professionals and experts. Employee competence and a good working atmosphere are key factors that affect wellbeing at work, labour productivity and store competitiveness. Fiercer competition for competent, committed employees and the goal of lengthening careers mean that active measures need to be taken. Kesko and its all division parent companies promote competence and wellbeing at work in many ways with the help of a comprehensive programme. Enhancing the performance of immediate supervisors and working communities plays a major role in this development. The importance of wellbeing at work and supervisory work is emphasised during the implementation of large-scale changes.

THANKS TO ALL EMPLOYEES, SHAREHOLDERS, K-RETAILERS AND PARTNERS

I wish to extend my warmest thanks to all of Kesko's employees for their diligence and for a job well done. I would also like to thank all our shareholders, K-retailers and their staff, and all our business partners for good cooperation in 2012.

Matti Halmesmäki
President and CEO

The purpose of the Kesko Staff Club is to create a good community spirit. In late summer, the club arranged K-Savotta, an annual playful adventure event. This team contest evoked the spirit of the woods.

VISION

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

VALUES

guide our operations

We exceed our customers' expectations

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

We are the best operator in the trading sector

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

We create a good working community

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

We bear our corporate responsibility

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

STRATEGIC OBJECTIVES

1. PROFITABLE GROWTH

- *Our objective is healthy growth exceeding market growth.*
- *We seek growth especially in the growing Russian retail market.*
- *We strongly develop e-services and e-commerce.*
- *Our objective is to improve profitability and increase shareholder value.*

Kesko's key strategic objective is healthy, profitable growth. Growth is sought by actively developing store selections and services to meet customer needs, by actively revising the store site network and by developing e-services and e-commerce.

Capital expenditure in Kesko's business operations in Russia offer significant growth potential for a long time to come.

Kesko's target return on equity is 12%, while the target return on capital employed is 14%. The objective is to maintain good solvency in all market conditions and to increase shareholder value by improving the return on capital expenditures made.

OBJECTIVE TO STRENGTHEN CUSTOMER LOYALTY RELATIONSHIPS

In Finland, growth is sought by increasing market shares and by providing more customer-driven services compared to our competitors. The implementation of chain specific competitive advantage projects and measures for strengthening customer loyalty play a central role. The competitive advantage project of K-food stores, for example, strengthens the selections, the service and the displays of fruit, vegetable and bakery departments and service counters offering meat, fish and ready meals. A key role in strengthening customer loyalty relationships is played by an efficient use of customer information to build customer driven product selections, to implement targeted marketing and to reward customer loyalty. In addition to diversified, high-quality selections, competitive prices and a customer driven store site network, the K-Group chains place a strong emphasis on the development of multi-channel electronic services.

E-SERVICES AND E-COMMERCE

New online services and rapidly developing mobile terminal devices have changed customers' needs and purchasing habits. Customers using multiple channels expect the trading sector to provide real-time information on product selections and product properties, prices and availability. In view of the competitive situation in the trading sector, the importance of electronic shopping and multi-channel services has grown significantly within a few years.

The development of electronic shopping and e-commerce are strategic focal points in all of Kesko's divisions. The projects are coordinated by the Customer Information and E-commerce Unit. The objective is to be strongly present throughout customers' purchase transactions, so that customers will be able, if they wish, to use web services from planning their purchases to using the products.

The development of online services and stores requires significant capital expenditure in various projects related to electronic operating models. Kesko has gained a strong position in the online trade of home and speciality goods through the netanttila.com, kodin1.com, citymarket.fi, mustaporssi.fi, budgetsport.fi and kookenka.fi retail websites. Electronic services are also actively developed in the building and home improvement trade, the food trade and the car and machinery trade.

GROWTH FROM RUSSIA

In addition to Finland, growth is sought especially in the rapidly growing Russian market. In the food trade in Russia, Kesko's objective is to achieve net sales of €500 million and a positive result by 2017. The aim is to open a network of at least 10 stores in St. Petersburg by 2016 and to expand business operations into Moscow after launching them in St. Petersburg. In the building and home improvement trade, the objective is to achieve net sales of €800 million by 2017. At the end of 2012, there were 14 K-rauta stores in Russia and the aim is to operate a network of some 25 stores in 2017. Intersport's objective is to

achieve net sales of €50 million in Russia by 2015.

IMPROVING PROFITABILITY AND INCREASING SHAREHOLDER VALUE

In the last few years, Kesko has made significant capital expenditures especially in the development of the food store network in Finland and the network of building and home improvement store sites abroad. Kesko's key strategic objective is to increase the selling power of the implemented capital expenditures and thereby to reach the targets set for return on capital. In the next few years, capital expenditures will be aligned with funds generated from operations and the emphasis of the capital expenditure strategy will be on leveraging growth potential in Russia and making capital expenditures in the food trade in the Greater Helsinki area in Finland.

As part of profitability improvement, Kesko launched a Group-wide profitability programme in 2012 with the objective to adjust fixed costs in the amount of €100 million. The cost adjustments apply to all of Kesko's divisions and mainly concern marketing, personnel, real estate and IT expenses. In addition, costs are reduced by making adjustments to unprofitable business operations.

Kesko Food opened the K-ruoka chain's first grocery store in Russia in St. Petersburg in December 2012.

2. SALES AND SERVICES FOR CONSUMER-CUSTOMERS

- *We increase the value of our brands.*
- *Our customer satisfaction rating is higher than that of our competitors.*
- *Our competitive asset is the K-retailers, who know local customers and their needs.*
- *We leverage loyal customer information efficiently to serve our customers.*

KESKO'S STRONG BRANDS

Kesko has dozens of successful chain and product brands. Strategic objectives and target images based on customer needs have been defined for each brand. The objective is to strengthen the value of these brands and to improve the efficiency of marketing. This is measured by customer satisfaction and employer image surveys, as well as by financial indicators.

K-Plussa is the joint customer loyalty system of the K-Group. It is the most extensive and diverse customer loyalty system in Finland, providing K-Plussa customers with benefits from nearly 3,000 outlets and 40 chains. Chains and stores utilise customer information in, for example, planning their selections, pricing, marketing and store site network. The key objective is to strengthen customer loyalty relationships.

Kesko is primarily the group brand of a listed company. The target groups of the Kesko brand are investors, owners, suppliers and service providers, employees, society and the rest of the operating environment.

CUSTOMER-DRIVEN BUSINESS MODELS

The business models applied in Kesko's sales to consumer-customers are retailing through retailer entrepreneurs and Kesko's own retailing. Kesko is also engaged in B2B 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 chains managed by Kesko. In Finland, all food stores and building and home improvement stores in the K-Group are run by retailer entrepreneurs. Through its chain operations, Kesko provides a first-class setting for its retailer entrepreneurs to provide the best possible service to their customers. The K-retailer entrepreneur implements the chain concept and is responsible for store management, customer satisfaction, personnel and business profitability. The K-Group's competitive edge is based on having the best selections, excellent service and knowledge of customer needs.

At the end of 2012, Kesko had 1,065 independent K-retailer entrepreneurs and about 200 other retailer entrepreneurs as partners. Kesko's sales to the retailer entrepreneurs accounted for 52% of Kesko's sales in 2012.

2) Kesko's own retailing

Kesko itself acts as a retailer in business operations where its competitive advantage is based on having a centrally managed chain concept and large units. Kesko's own retail stores in Finland include the Anttila and Kodin1 department stores and the K-citymarket chain's home and speciality goods trade. Own retailing is the business model mainly used outside Finland. In 2012, Kesko's own retailing accounted for 26% of sales.

3) B2B sales

Kesko is also engaged in B2B sales. Typical B2B customers include building firms, agricultural entrepreneurs, the manufacturing industry, retail dealers, mass caterers and public institutions. In 2012, Kesko's B2B sales accounted for 22% of sales.

CUSTOMER-DRIVEN BUSINESS MODELS

3. RESPONSIBLE AND EFFICIENT OPERATING PRACTICES

- *Our operating practices are responsible.*
- *We efficiently combine retailer entrepreneurship and chain operations.*
- *We leverage our economies of scale and competence for the benefit of customers.*
- *We automate our processes.*

SUSTAINABLE DEVELOPMENT AND RESPONSIBLE OPERATING PRACTICES

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

EFFICIENT COMBINATION OF RETAILER ENTREPRENEURSHIP AND CHAIN OPERATIONS

A strategic objective is to efficiently combine K-retailer entrepreneurship and chain operations. The K-retailer entrepreneur implements the chain concept and is responsible for store management, customer satisfaction, employees and business profitability.

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

The function of Kesko's purchasing and logistics operations is to source and deliver products efficiently and at competitive prices. Purchasing is always target-oriented and based on plans. The aim is to have product selections which serve customers best and at affordable prices, while applying responsible operating practices. Logistics operations manage the whole supply chain efficiently and provide customers with optimum on-shelf availability at the lowest possible costs.

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

WORK AND PRODUCTIVITY

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

The most important tools for improving productivity include enhancing personnel competencies and management, and increasing the efficiency of operating practices.

Promoting the wellbeing of employees has become an increasingly important factor. Projects are underway to promote welfare in the workplace, with the aim of improving the working capacity and motivation of employees, promoting health and raising the retirement age.

AUTOMATION OF PROCESSES

In order to improve cost-efficiency, projects related to the automation of processes are underway at Kesko. Key areas in process automation include logistics automation projects, the forecasting systems and automated orders that improve the availability of products in stores, the adoption of electronic purchase and sales invoices, and the automation of financial management routines in the Shared Services Centre of the Kesko Group.

READ MORE

More detailed information on each division's strategic emphases and projects is provided in the division-specific presentations starting on page 12.

FINANCIAL OBJECTIVES AND THEIR REALISATION

OBJECTIVES	Target level	Realised in 2012	Realised in 2011
Net sales growth	Growth faster than market growth	Realised**: in building and home improvement trade in Finland, sports trade in Finland, car and machinery trade	Realised**: in food trade, building and home improvement trade in Finland, furniture trade, car and machinery trade
Return on equity*	12%	7.1%	8.8%
Return on capital employed*	14%	9.3%	13.1%
Interest-bearing net debt/EBITDA	< 3	0.4	0.1
Equity ratio	40–50%	52.5%	53.9%
Economic value added	Growing positive EVA as internal indicator	Not realised	Realised in food trade and car and machinery trade

* *Excluding non-recurring items*
** *Kesko's own estimate*


liha
CITYMARKET

FOOD TRADE

Kesko Food is a key operator in the Finnish grocery trade. K-food retailers, with whom Kesko Food applies the efficient chain business model, are responsible for customer satisfaction at more than 900 K-food stores. Kespro is the leading wholesaler in the Finnish HoReCa sector and offers the best sourcing solutions to its customers. In December 2012, Kesko Food opened the first grocery store in the K-ruoka chain in St. Petersburg.

Every day, K-food stores are visited by 900,000 customers, whose expectations are met by providing comprehensive product selections, ease of shopping, favourable prices and responsibility. Meeting individual customer needs and expectations is a prerequisite of success for K-food stores.

Kesko Food's main functions include the centralised purchasing of products, selection management, logistics, and the development of chain concepts and the store site network.

Cooperation between Kesko Food and K-food retailers is based on the chain operations defined in the chain agreement, which ensure the customer-orientation of operations, efficiency and the achievement of competitive advantages.

K-food stores' competitive advantages include the following:

- By far the best fruit and vegetable department in the area, a bakery department and service counters with fresh meat, fish and meals.
- The widest selections which, in addition to a comprehensive chain selection, include products from local producers, valued by customers of the particular store.
- More than 2,000 Pirkka products which combine high quality and permanently low prices.
- Exciting stores with displays and new products, good service and diverse cooking expertise.
- Responsibility, which means, for example, that a wide range of responsible products are offered to customers.
- Electronic services that respond to individual customer needs.

K-RETAILERS SERVE BY TAKING LOCAL NEEDS INTO ACCOUNT

Local K-retailers are responsible for customer service and wide product selections,

K-RETAILERS SERVE BY TAKING LOCAL NEEDS INTO ACCOUNT

DELICIOUS FRUIT, A VARIETY OF BREADS AND ABUNDANT SERVICE COUNTERS

K-food stores offer their customers the best fruit and vegetable department in the area, a bakery department and service counters with fresh meat and fish products and meals. Kesko Food will continue projects to provide competitive advantages in order to enhance the selections, service and displays of these departments. In the K-retailer For You concept, which began in autumn 2012, the marketing focus was increasingly on K-food stores' competitive advantages.

competence of personnel, product quality and profitability of business in their own stores.

Listening to the wishes of local customers and making use of customer data, the K-retailers build a selection of products and services that meet customers' needs. K-food retailers complement the chain's common product selection, for example, with local food from local producers.

K-food retailers offer their customers competitive prices, which are enabled by Kesko Food's centralised sourcing and purchasing, visible to customers as low-priced Pirkka products, chain campaigns, store-specific special offers and the benefits provided by the K-Plussa customer loyalty programme.

EFFICIENCY COMES FROM CHAIN OPERATIONS

More than 900 K-food stores provide a comprehensive network for customers. Approximately half of the Finnish population live less than a kilometre away from a K-food store.

K-food stores operate in four chains:

- K-citymarkets offer their customers the widest selections of groceries and home and speciality goods, a low-price shopping basket and the best special offers – every day. Their special strengths include fresh bread, meat and fish, fruit and vegetables, diversified food expertise, and eye-catching displays. There are 80 K-citymarkets in Finland.
- K-supermarkets are better than average food stores. Their strengths include excellent service and wide selections of food items. Abundant service counters provide meat, fish and meal solutions for everyday needs and more festive occasions, and store selections are always complemented with local products. The growing chain consists of 210 stores.
- K-markets are reliable, service-oriented, local neighbourhood stores located near customers. In addition to good basic selections, K-markets offer customers fresh bread straight from the store oven, fresh, high-quality fruit and vegetables, and the best local services. The chain comprises 452 stores.
- K-extras are neighbourhood stores which focus on personal service and

ELECTRONIC INTERACTION WITH CUSTOMERS

The Pirkka recipe and shopping list app, compatible with iPhone, Android and Windows phones, was launched in spring 2012 to make customers' lives easier. Electronic Pirkka services have received excellent feedback from users in customer satisfaction surveys. Pirkka, which is very popular on Facebook, was expanded to the Twitter, Google+ and Pinterest social media services to enable an increasingly interactive presence for K-food store customers.

provide customers with daily essentials. The chain comprises 116 stores.

K-food stores use K-Plussa customer loyalty information above all to build their product selections, manage pricing, conduct chain marketing and plan a store network that meets customer needs.

The competitiveness of K-food stores and Kesko Food is reinforced by efficient practices and long-term cooperation models with selected partners. Considerable benefits are obtained, both in Finland and internationally, by combining purchasing volumes.

According to the 2012 customer satisfaction survey carried out by EPSI Rating, K-food stores have had the most satisfied customers in Finland for two years in succession. This is an independent, nationwide survey of grocery store customer satisfaction which has been carried out since 2011.

PIRKKA - HIGH QUALITY, PERMANENTLY LOW PRICES AND RESPONSIBILITY

The Pirkka range of more than 2,000 products plays an important role in the K-food stores' total selection. Pirkka products combine high quality and low prices. The success of the Pirkka brand in several consumer surveys is the result of long-term work. Out of all own brands in the trading sector, Pirkka has the best image among Finnish consumers.

At the end of 2012, there were 2,201 Pirkka products in all, with 165 new ones launched during the year. The number of Pirkka Organic products doubled from the previous year and totalled 99. There were 37 Pirkka Fairtrade products. The Pirkka family of local breads was launched in 2012 to meet the growing customer demand for local foods.

All Kesko Food's recipes have been developed and tested by the Pirkka test kitchen, which is part of the Pirkka Product Research Unit. These diverse recipes are published in the Pirkka magazine, on the Pirkka.fi web site and mobile services, on the K-RuokaPirkka leaflet that is available at K-food stores, on the TV programme "What are we having today?", on Pirkka social media channels, and on Pirkka product packaging.

EVENTS IN 2012

- *The profitability of the food trade remained strong despite uncertainty in economy.*
- *K-food stores' grocery sales increased by 3.9% (VAT 0%).*
- *Sales of Pirkka products increased by 11.8% (VAT 0%).*
- *Veturi, the sixth largest shopping centre in Finland, was opened, along with five new K-citymarkets, 11 K-supermarkets and 12 K-markets.*
- *Kesko Food opened the first grocery store in the K-ruoka chain in St. Petersburg on 5 December 2012.*
- *The mobile Pirkka recipe and shopping list service was launched, making customers' lives and shopping easier.*
- *K-food stores started cash withdrawal services at K-markets.*

KESPRO OFFERS THE BEST SOURCING SOLUTIONS IN THE SECTOR

Kesko Food's subsidiary Kespro is the leading wholesaler in the Finnish hotel, restaurant and catering (HoReCa) business and acts as a partner for its customer companies and municipalities in Finland. Kespro provides delivery and cash&carry services to its customers in Finland. In 2012, the total HoReCa market in Finland was worth approximately €2.7 billion (Kesko's own estimate) and Kespro's market share continued to increase.

Kespro offers its customers the best sourcing solutions in the HoReCa sector, making it the most desirable business partner. In customer satisfaction surveys carried out by the Taloustutkimus and Otantatutkimus market research companies, Kespro's customer satisfaction was found to be excellent. The wide, customer-driven product selection comprises food items, alcohol, cookware, tableware and cutlery. Kespro's own Menu range is varied, high-quality and favourably priced.

KESKO FOOD'S EXPANSION INTO RUSSIA

In early December 2012, Kesko Food opened the first grocery store of the K-ruoka chain in St. Petersburg and the objective is to open three more stores in 2013. The store network in Russia will be expanded first in St. Petersburg and then in Moscow to ensure efficient purchasing and logistics. The aim is to achieve net sales of €500 million and a positive business result in Russia by 2017.

ENHANCING CUSTOMER RELATIONSHIPS FOR PROFITABLE GROWTH

Over the next few years, Kesko Food's key strategic focuses will include efficiently implementing customer-oriented projects to generate competitive advantages and strengthening customer loyalty relationships.

Improving electronic transactions and shopping are strategic focuses in all of Kesko's divisions. Kesko Food and K-food stores will speed up and improve the efficiency of developing and implementing interactive electronic services offered to customers. In 2012, a Pirkka recipe and shopping list application was launched on the most common mobile platforms, enabling customers to carry recipes and shopping lists, organised by store department, with them wherever they go. The presence of the Pirkka brand in various channels of social media was further increased in 2012.

New services that increase shopping flexibility are also available in stores. 30 K-markets started testing a cashback service in 2012. Tests with in-store electronic price displays and self-service checkouts were also started.

FOOD TRADE MARKET

The Finnish grocery trade market was worth about €15.9 billion in 2012 (incl. VAT), representing an estimated growth of about 5% in 2012 (statistics from the Finnish Grocery Trade and Kesko's own estimate).

READ MORE

Financial performance is presented in the financial statements, starting on page 64.

MARKET SHARES

K-FOOD STORES

Market share in Finland 34.7%
(Kesko's own estimate)
Competitors: Prisma, S-market and Alepa/Sale (S Group), Valintatalo, Siwa and Euromarket (Suomen Lähikauppa Oy), M chain stores, and Lidl.

HORECA

Kespro, Finland,
Competitors: Meiranova Oy, Metro-tukku, Heinon Tukku Oy.

K-Group's food trade, store numbers, retail and B2B sales

	Number		Sales (VAT 0%), € million	
	2012	2011	2012	2011
K-citymarket, food	80	75	1,526	1,433
K-supermarket	210	205	1,708	1,627
K-market (incl. service station stores)	452	453	1,298	1,274
Others (incl. Russia)	195	231	204	247
K-food stores, retail sales			**4,736**	**4,581**
Kespro			779	732
Food trade, total	**937**	**964**	**5,515**	**5,314**

Food trade, key figures

		2012	2011
Net sales	€ million	4,311	4,182
Operating profit	€ million	171.1	173.7
Operating profit excl. non-recurring items	€ million	168.4	172.2
Operating profit as % of net sales excl. non-recurring items	%	3.9	4.1
Capital expenditure	€ million	200.0	221.5
Return on capital employed* excl. non-recurring items	%	22.2	28.6
Personnel average		2,794	2,706

* *Cumulative average*

Food trade, net sales in 2012

	€ million	Change, %
K-citymarket, food	1,100	+5.5
K-supermarket	1,227	+3.2
K-market and K-extra	1,000	-1.8
Kespro	787	+6.3
Others	197	+3.3
Net sales, total	**4,311**	**+3.1**

Food trade, capital employed at 31 December, € million

	2012	2011
Non-current assets	822	701
Inventories	107	105
Current receivables	460	429
./. Non-interest-bearing debt	-538	-588
./. Provisions	-11	-9
Capital employed	**840**	**637**


INTERSPORT

HOME AND SPECIALITY GOODS TRADE

The K-Group's home and speciality goods chains are K-citymarket's home and speciality goods departments, Anttila and Kodin1, Intersport and Budget Sport, Asko and Sotka, Musta Pörssi and Kookenkä. In addition to around 450 stores, all chains also serve customers online.

Kesko's home and speciality goods chains provide customers with products and services related to clothing, home, sports, leisure, home technology, entertainment, interior design and furniture. Efficient chain operations ensure that there is a wide and price-competitive selection of well-known domestic and foreign brands available to customers.

In addition to around 450 physical stores, customers can buy products and services with direct home delivery from versatile online stores. Alternatively, customers can choose to collect the products from their nearest store. In some of the chains, a sales assistant can order a product for the customer from the chain's online store, the wide selection of which complements the selection found in the physical stores. All of the chains are also accessible via social media.

K-CITYMARKET'S HOME AND SPECIALITY GOODS ALSO ONLINE

K-citymarket is a diversified and favourably-priced hypermarket chain, which provides wide selections of groceries and

REFORM OF MUSTA PÖRSSI

Musta Pörssi opened its first new concept store in the Sello shopping centre, Espoo in March 2012. In late 2012, Konebox was merged into the Musta Pörssi chain and the mustaporssi.fi online store was opened.

home and speciality goods. K-citymarket Oy is responsible for the home and speciality goods business in the stores, while K-retailer entrepreneurs are responsible for the food business. There are 80 hypermarkets in all.

The citymarket.fi online store was opened in October 2012. The online store allows customers to place orders whenever they want, reliably and easily, and gives them access to a wide range of products. The online services are also accessible via mobile phones. In addition, the cmstore.fi download store provides music and talking books.

The store network expanded with five new hypermarkets in 2012.

ANTTILA PROVIDES ENTERTAINMENT, FASHION AND HOME GOODS

Anttila retails entertainment, fashion and home goods. Anttila's extensive store network and online stores seamlessly complement each other. Customers in Finland are served by 31 Anttila department stores, 12 Kodin1 department stores for interior decoration and home goods, the NetAnttila.com and Kodin1.com online stores, and the digianttila.com download store. The NetAnttila online store also operates in Estonia and Latvia.

Anttila department stores offer their customers wide selections of home goods, casual clothing and entertainment at low prices. Kodin1 department stores provide smart, up-to-date products and services for home decoration.

In 2012, the Kodin1 chain expanded into Helsinki, when a department store was re-opened in Kaisaniemi and a new department store was opened in Ruoholahti.

INTERSPORT'S STORE NETWORK EXPANDED IN FINLAND

Intersport Finland's retail store chains in Finland are Intersport, Budget Sport and Kesport. There are 62 Intersport stores, nine Budget Sport stores and 32 Kesport stores in Finland. In 2012, six new Intersport stores and two new Budget Sport stores were opened.

Intersport is part of the international sports trade chain, in which Kesko is a partner. The Intersport chain is the market leader in Finnish sports retailing. The chain's stores provide customers with clothing, equipment and advice needed for active sports, keeping fit and leisure purposes.

Kesko took ownership of the entire Intersport licence and business activities in Russia in April 2012. Major reforms will be carried out in business operations and the store network to improve profitability. There are 29 Intersport stores

CITYMARKET.FI

The citymarket.fi online store, opened in October 2012, provides customers with a wide selection of merchandise. Products can be collected from a K-citymarket store or post office, or ordered for home delivery.

in the country, located in shopping centres mainly in and around St. Petersburg and Moscow. There are few sports stores in Russia like Intersport, selling several brands.

Budget Sport stores offer branded products for physical activities, outdoor sports and leisure easily and at favourable prices. Customers are also served by the diversified budgetsport.fi online store.

Kesport stores, located in smaller rural centres, are the leading sports stores in their areas and provide their customers with expert service and help.

ASKO AND SOTKA INCREASED THEIR SALES

Asko and Sotka are Kesko-owned Indoor's retail store chains selling furniture and interior decoration items. Asko provides home decorators with a wide range of furniture and interior decoration items combined with active and reliable service. Sotka's main target group consists of customers who value low prices and easy shopping. The chains' sales increased in 2012.

The Asko and Sotka chains consist of 83 stores in Finland and eight stores in Estonia. In 2012, Asko launched a new Asko Bonnell mattress store concept, providing customers with a good night's sleep. The Asko Bonnell range also includes a collection of spring mattresses designed in cooperation with the Allergy and Asthma Federation.

New features, such as the 3D design programme and varying interior design ideas and tips, were added to Asko's website to make interior design easier. Sotka launched a Facebook site and added search engines to its website to help customers choose products.

MUSTA PÖRSSI'S FOCUS ON ONLINE TRADE

The Musta Pörssi chain offers its customers home technology products and related services. Customers can choose to have any home technology installed ready to use, if they so wish. In November 2012, Konebox was merged into the Musta Pörssi chain and the diversified mustaporssi.fi online store was opened to serve customers. A good customer experience and a constantly changing product selection are highlights of both the online and physical stores.

The focus in the home technology trade is increasingly on e-commerce. It is easy to compare products online and customers are price-conscious.

There were 31 Musta Pörssi stores at the end of 2012.

EVENTS IN 2012

- *Citymarket.fi online store was opened*
- *Kodin1 returned to Helsinki.*
- *Anttila celebrated its 60th anniversary.*
- *Konebox was merged into Musta Pörssi; mustaporssi.fi was opened.*
- *Intersport's sales growth exceeded that of the market.*
- *Kesko took full ownership of Intersport in Russia.*
- *the Kookenkä chain was launched; it consists of 45 stores and an online store.*

HOME AND SPECIALITY GOODS MARKET

The total Finnish market for home and speciality goods is estimated to be approximately €9.7 billion (VAT 0%). Market development in the home and speciality goods sector varies according to the product line.

The estimated sports trade market in Finland is worth approximately €800 million (VAT 0%), having increased by 9% from the previous year.

In Finland, the market for interior decoration items and furniture was approximately €1.6 billion (VAT 0%), representing an increase of 2%.

The Finnish market for home electronics and entertainment products is estimated to be worth €1.8 billion (VAT 0%), representing an increase of about 8%.

The Finnish shoe market is worth around €470 million (VAT 0%), having increased by approximately 5%.

THE KOOKENKÄ CHAIN WAS LAUNCHED IN SPRING 2012

Kenkäkesko's new retail store chain - Kookenkä - was formed of the best parts of the K-kenkä and Andiamo store types, combined with inspiring new elements and colour schemes. Kookenkä stores offer a high-quality selection of shoes and service for customers who value trends and fashion, as well as comfort, practicality and branded goods. Andiamo, one of Finland's best-known shoe brands, continues as Kenkäkesko's own fashion brand. The kookenka.fi online store was opened in autumn 2012.

There are 48 stores in the chain. The K-Group's shoe outlets also include 20 Kenkäexpertti stores, which serve customers in smaller towns.

STRATEGIC EMPHASIS ON EXPANDING E-SERVICES

Competition in the home and speciality goods trade is becoming more international and the proportion of online business out of total sales in the sector continues to increase. Customers' purchasing behaviour is more individual than before, purchases are made from an increasing number of online stores, and there are more channels of interaction between stores and customers.

The key objective in Kesko's home and speciality goods chains is to offer customers a shopping experience that seamlessly combines the services of an online store and a traditional store. The emphasis is on developing online stores and electronic services that support the extensive store network.

The key objective in developing e-services and making use of customer information is to create the prerequisites for individual customer service in all the chains and via several channels. The contents of the chains' web sites will be diversified by increasing the amount of product information, evaluation opportunities and design features on them. Services will also be adapted to mobile devices. Marketing will become increasingly individual by using customer data, according to customers' wishes and interests. Customers direct the dialogue to a larger extent and decide which messages they want to receive from which channels.

The primary customer channel of Musta Pörssi will be an online store, supported by a network of stores in major shopping centres.

READ MORE

Financial performance is presented in the financial statements, starting on page 64.

MARKET SHARES

HYPERMARKET AND DEPARTMENT STORE TRADE

K-citymarket home and speciality goods, Anttila, Kodin1 and NetAnttila
Market share cannot be reliably calculated.
Competitors: department stores, hypermarkets, speciality store chains and online stores.

SPORTS TRADE

Intersport, Budget Sport and Kesport
Market share in Finland 35%*
Competitors: Sportia, Top Sport, Stadium, department stores and hypermarkets, and other speciality sports stores.

FURNITURE TRADE

Asko and Sotka
Market share in Finland 22%*
Competitors: furniture and interior decoration stores.

HOME TECHNOLOGY TRADE

Musta Pörssi
Market share in Finland 4%*
Competitors: stores specialising in home technology, hypermarkets and online stores.

SHOE TRADE

Kookenkä and Kenkäexpertti
Market share in Finland 10%
(Association of Textile and Footwear Importers and Wholesalers, Kesko's own estimate)
Competitors: other speciality stores, department stores, hypermarkets, sports stores and online stores.

* Kesko's own estimate

K-Group's home and speciality goods trade, number of stores, retail and B2B sales

	Number		Sales (VAT 0%), € million	
	2012	2011	2012	2011
K-citymarket, home and speciality goods*	81	75	652	629
Anttila department stores*	32	31	330	334
Kodin1 department stores for interior decoration and home goods*	13	11	133	133
Intersport	62	56	216	193
Budget Sport*	10	8	38	32
Kesport	32	32	22	23
Asko	34	32	94	91
Sotka	49	49	104	103
Musta Pörssi* **	32	35	72	92
Shoe stores*	69	72	45	44
Home and speciality goods stores, Finland	**414**	**401**	**1,706**	**1,674**
Anttila, Baltic countries (NetAnttila)*	3	3	8	8
Asko and Sotka, Baltic countries*	10	9	9	8
Intersport, Russia	29	36	28	7
Home and speciality goods stores, other countries	**42**	**48**	**45**	**23**
Home and speciality goods stores, total	**456**	**449**	**1,751**	**1,697**

** Including online stores*
*** Konebox merged with Musta Pörssi in November 2012*

Home and speciality goods trade, key figures

		2012	2011
Net sales	€ million	1,603	1,564
Operating profit	€ million	0.3	37.0
Operating profit excl. non-recurring items	€ million	19.8	36.6
Operating profit as % of net sales excl. non-recurring items	%	1.2	2.3
Capital expenditure	€ million	61.1	61.8
Return on capital employed* excl. non-recurring items	%	3.9	8.4
Personnel average		6,139	5,754

** Cumulative average*

Home and speciality goods trade, net sales in 2012

	€ million	Change, %
K-citymarket, home and speciality goods	664	+3.4
Anttila	468	-1.3
Intersport, Finland	181	+6.9
Intersport, Russia	28	-
Indoor	184	+3.4
Musta Pörssi	57	-22.3
Kenkäkesko	23	+3.6
Total	**1,603**	**+2.5**

Home and speciality goods trade, capital employed at 31 December, € million

	2012	2011
Non-current assets	338	332
Inventories	252	263
Current receivables	180	180
./. Non-interest-bearing debt	-291	-300
./. Provisions	-17	-4
Capital employed	**462**	**472**

citymarket.fi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SÄHKÖ

BUILDING AND HOME IMPROVEMENT TRADE

Rautakesko is developing retail and B2B sales of building, renovation and home improvement products and services with an emphasis on customer orientation. Rautakesko operates in eight countries and manages six retail store chains: K-rauta, Rautia, K-maatalous, Byggmakker, Senukai and OMA.

Rautakesko's core functions include the centralised development of chain selections and services, purchasing and logistics, and the development of chain concepts and the store site network. There are 437 building and home improvement stores in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. In terms of the chains' sales, Rautakesko is one of the five largest companies in the European building and home improvement market. In addition, there are 83 K-maatalous agricultural stores in Finland. All stores in Finland are run by retailer entrepreneurs. There are also retailer-run stores in Norway.

STRONG CHAIN CONCEPTS BASED ON CUSTOMER NEEDS

Rautakesko's strong chain concepts are founded on proven customer needs, the best retailing practices which have been replicated internationally, and efficient sourcing. Rautakesko's international business model combines category management, purchasing, logistics, information system control and network improvements in the company's chains which operate in different countries. The synergies enable Rautakesko to offer interesting products and services to customers at competitive prices.

K-rauta is Rautakesko's international concept, the key elements of which are wide product selections, total solutions and services that make customers' lives easier and a reliable price-quality ratio. The concept combines total services and selections for consumers, builders and professional customers. The K-rauta chain operates in Finland, Sweden, Estonia, Latvia and Russia.

The Rautia chain has the widest building and home improvement store network 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 customers and a network of partners. In

EVENTS IN 2012

- *The second K-rauta in Moscow, Russia was opened.*
- *The Kimara houses, built for K-rauta, achieved a double victory in the 'Best holiday home' vote, arranged for visitors at the Holiday Home Fair.*
- *Cello Peittosuoja Aqua, Rautakesko's own-brand exterior paint, was the winner of a test carried out by VTT Technical Research Centre of Finland for the TM Rakennusmaailma magazine.*
- *Rautakesko chains' Energy Expert and Energy Master training programmes were revised and enhanced.*
- *The K-maatalous chain increased its multi-channel approach to customer communications and dialogue in electronic channels.*

many localities, Rautia and K-maatalous stores operate as combined stores.

K-maatalous operates in Finland. The chain's strengths include the K-maatalous retailers who know the local conditions, the wide product range and the comprehensive services and network. Strong knowledge of the needs of local agricultural entrepreneurs, an active network of contacts and utilisation of data and information technology provide the basis for good customer satisfaction.

Byggmakker is one of the leading building and home improvement store chains in Norway. Its special strengths include a store network which extends throughout the country, selling building supplies and knowledge of B2B customers.

The Senukai chain is the market leader in Lithuania. The chain's Mega Store concept offers customers just about every product related to building and living at the stores of over 20,000 m².

OMA is the largest building and home improvement store chain in Belarus.

B2B CUSTOMERS' BEST SOURCING CHANNEL

Rautakesko B2B Sales operates in Finland and serves building professionals in co-operation with the K-rauta and Rautia chains. Its customers include nationwide construction companies, the manufacturing industry, municipalities and other B2B customers. As Rautakesko B2B Sales plans, guides and implements sourcing, the customer can better focus on its core business. Rautakesko B2B Sales benefits from the K-rauta and Rautia networks, enabling deliveries from warehouses to customers.

STORES AND E-SERVICES THAT INSPIRE CUSTOMERS

In 2012, a new K-rauta was opened in Ylivieska and a refurbished K-rauta opened in Kouvola in Veturi, the largest shopping centre in the Kymenlaakso area. In addition, refurbished Rautia-K-maatalous stores were opened in Oriketo, Turku and in Kiuruvesi. A refurbished Rautia opened in Sastamala and a refurbished K-maatalous opened in Veteli.

In Sweden, a new K-rauta was opened in Uppsala and a refurbished one opened in Linköping. K-rauta Leningradskoe, a Russian store which opened in March, is the second K-rauta store in Moscow. K-rauta was nominated as the building and home improvement chain with the best concept and positioning in Russia (National DIY & Household Award Retail Russia). In Belarus, new building and

ENERGY EXPERTS – K-RAUTA AND RAUTIA STORES' TRAINED ENERGY SPECIALISTS

K-rauta and Rautia stores provide builders and renovators with a total solution for improving the energy efficiency of the dwellings. Increasing energy efficiency reduces the operating costs of a dwelling considerably, while also increasing living comfort. The process starts with a situation survey and proceeds from plan to implementation. Services and products available for customers include energy savings surveys, thermal camera inspections, air and ground heat pumps, solar water heaters and solar panels, installations included.

home improvement stores were opened in Mogilev and Lida.

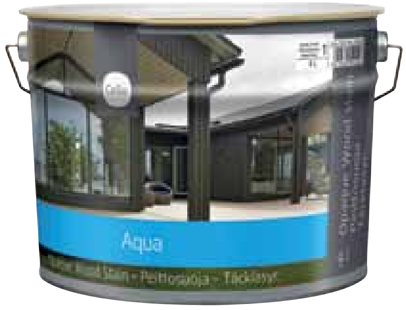
The K-rauta chain's Design Center is a design and service area that helps customers to shop, generate ideas and plan. The centralised display area provides customers with design, services and product displays - a full range from ideas to installation. Rautakesko aims to offer customers an inspiring customer experience combining a traditional store and the internet by improving the content of web services. Store communications and concepts continued to improve and customer-oriented e-services were further enhanced in all chains and operating countries.

Services, planning tools, calculators, instructional videos and mobile applications related to building and energy efficiency, home improvement and renovation, and interior decoration were added to the web sites of the K-rauta and Rautia chains. In Finland and Norway, the chains' customer service was enhanced on web pages by the introduction of store-specific prices and more extensive product information. The K-maatalous chain focused strongly on a multi-channel approach to customer communications and increased customer dialogue in electronic channels.

As a result of the deteriorating economic climate, tighter competition and the rising level of costs, and as part of Kesko's profitability programme, Rautakesko introduced rationalisation measures aimed at adapting its operations to the prevailing market situation and safeguarding international competitiveness. Rautakesko's management system was revised and the new international management board started work. Product category activities were also reorganised. As part of the profitability programme, K-rauta stores in Helsingborg, Sweden and Lasnamäe, Estonia closed down.

CELLO PEITTOSUOJA AQUA, RAUTAKESKO'S OWN-BRAND EXTERIOR PAINT, TRIUMPHED IN A TEST

A test carried out by VTT Expert Services for the TM Rakennusmaailma magazine measured the bond, change in gloss, change in colour and chalking of protective paints. The test also included a visual estimate. Cello Peittosuoja Aqua, which represents Rautakesko's chains' own brands, got the best mark in all sections of the test.



K-maatalous enhanced its cultivation programmes to improve practical farming and developed the machinery sales network. The sale of agricultural implements is a key business area for K-maatalous, and the chain's sales development exceeded the average in the sector.

FURTHER IMPROVED CUSTOMER SOLUTIONS

Rautakesko's aims for 2013 include sales growth exceeding market growth and improvement in profitability. Growth in the building and home improvement trade is expected to slow, particularly due to the slow-down in the Finnish and Swedish construction sector, while steady growth is expected to continue in Russia and Norway. There will also be country-specific differences in demand trends between consumer and professional customer groups.

A full-service K-rauta Skanssi, replacing the previous one with a more limited selection, will open in Turku, Finland in spring 2013. In Russia, the third K-rauta in Moscow will open in Mytishi. The target for net sales in Russia in 2017 is €800 million. Previously, it was anticipated that the target would be achieved in 2015.

Rautakesko will develop its digital customer solutions and continue to improve planning and installation services offered to customers in 2013.

Sales and services provided to professional customers will be enhanced in most operating countries. International category management and sourcing will be further intensified with the help of more efficient retail management.

In-store marketing and electronic customer service for Rautakesko's own brands (Cello, Prof and FXA) will be developed on a long-term basis. The proportion of own-brand sales will grow, particularly in Russia and the Baltic countries.

At the beginning of 2013, Rautakesko's warehousing and terminal operations in Finland were centralised to Itella Logistics' new logistics centre in Orimattila. The centralisation of warehousing services will increase logistics efficiency and reduce the carbon footprint of distribution.

The introduction of the SAP-based enterprise resource planning system is proceeding in chain stores in Finland. The system will harmonise the business models supporting the business operations of chain stores and Rautakesko and retail stores' information systems in most operating countries.

Employees' sales and retail trade competence will be strengthened in all operating countries using a web-based eLearning programme. A revised Energy Expert training course in the building and home improvement trade will continue in Finland. The aim is for one service point to provide customers with all the surveys, plans, products and installations they may need for energy-efficient construction and renovation.

The supply of agricultural inputs by K-maatalous is based on the cultivation programme, founded on the extensive plant variety and cultivation tests carried out at the experimental farm of K-maatalous. In 2013, the farm will celebrate its 50th anniversary in promoting Finnish experimental farming and cultivation.

READ MORE

Financial performance is presented in the financial statements, starting on page 64.

BUILDING AND HOME IMPROVEMENT MARKET

The total retail market in Rautakesko's operating area is around €25 billion (Kesko's own estimate).

In Finland, the retail market in the building and home improvement sector totals about €3.4 billion (VAT 0%), having decreased by 3.5% in 2012 (Finnish Hardware Association, DIY).

In Sweden, the building and home improvement market totals around €3.1 billion (VAT 0%), having decreased by about 2% (HUI).

In Norway, the building and home improvement market totals about €5.6 billion (VAT 0%), up about 6.5% (Virke).

In Estonia, the building and home improvement market totals about €0.3 billion (VAT 0%), having increased by about 6% (Kesko's own estimate).

In Latvia, the total building and home improvement market is worth about €0.3 billion (VAT 0%), up by about 6% (Kesko's own estimate).

In Lithuania, the total building and home improvement market is worth about €0.5 billion (VAT 0%), having increased by about 4% (Kesko's own estimate).

In Russia, the total market for building, home improvement and interior decoration products is worth around €13 billion (VAT 0%), having increased by about 10% (Kesko's own estimate).

In Belarus, the total building and home improvement market is about €0.6 billion (VAT 0%), the size of the market remained nearly unchanged (Kesko's own estimate).

AGRICULTURAL MARKET

The Finnish agricultural market was worth about €1.9 billion, an increase of about 10% in 2012 (Kesko's own estimate). Price increases of products and agricultural inputs contributed to the growth of the market.

MARKET SHARES

BUILDING AND HOME IMPROVEMENT TRADE

Market share in Finland 39% (Finnish Hardware Association DIY, Kesko's own estimate). Main competitors: Starkki, Kodin Terra, S-rauta, Agrimarket, Bauhaus.

Market share in Sweden 6% (HUI, Kesko's own estimate). Main competitors: Bauhaus, Byggmax, Beijer Bygg and Hornbach.

Market share in Norway 23% (Virke, Kesko's own estimate). Main competitors: Monter/Optimera, Maxbo, Coop and XL Bygg.

Market share in Estonia 22% (Kesko's own estimate). Main competitors: Ehitus ABC, Bauhof, Espak and Bauhaus.

Market share in Latvia 16% (Kesko's own estimate). Main competitors: Depo DIY and Kursi.

Market share in Lithuania 30% (Kesko's own estimate). Main competitors: Bauhof and Emeritazas.

Market share Northwestern and central Russia 5% (St. Petersburg and Moscow, Kesko's own estimate). Main competitors: Leroy Merlin, OBI, Castorama, Maxidom, Metrika.

Market share in Belarus 10% (Kesko's own estimate). Main competitors: Novoselkin, Materik.

K-MAATALOUS CHAIN

Market share in Finland 25% (Kesko's own estimate). Main competitors: Agrimarket and Yrittäjien Maatalous (YRMA).

K-Group's building and home improvement trade, number of stores, retail and B2B sales

	Number 2012	Number 2011	Sales (VAT 0%), € million 2012	Sales (VAT 0%), € million 2011
K-rauta*	42	41	587	584
Rautia*	99	106	487	489
Rautakesko B2B sales			209	226
K-maatalous*	83	88	463	417
K-customer contract stores	30	31	47	49
Finland, total	**254**	**266**	**1,792**	**1,765**
K-rauta, Sweden	21	21	215	216
Byggmakker, Norway**	106	110	988	942
Other Nordic countries, total	**127**	**131**	**1,203**	**1,158**
K-rauta, Estonia	8	9	64	60
K-rauta, Latvia	8	8	51	53
Senukai, Lithuania	17	17	268	251
Baltic countries, total	**33**	**34**	**383**	**363**
K-rauta, Russia	14	14	284	237
OMA, Belarus	9	6	86	80
Russia and Belarus, total	**23**	**20**	**370**	**317**
Building and home improvement trade, outside Finland, total	**183**	**185**	**1,956**	**1,838**
Building and home improvement trade, total	**437**	**451**	**3,748**	**3,603**

** In 2012, one K-rauta store and 48 Rautia stores also operated as K-maatalous stores*
** In 2011, one K-rauta store and 49 Rautia stores also operated as K-maatalous stores*
*** In the beginning of 2013 the number of Byggmakker stores decreased to 89*

Building and home improvement trade, key figures

		2012	2011
Net sales	€ million	2,827	2,716
Operating profit	€ million	11.9	26.3
Operating profit excl. non-recurring items	€ million	13.6	26.6
Operating profit as % of net sales excl. non-recurring items	%	0.5	1.0
Capital expenditure	€ million	63.1	109.8
Return on capital employed* excl. non-recurring items	%	1.8	3.8
Personnel average		9,105	8,874

** Cumulative average*

Building and home improvement trade, net sales 2012

	€ million	Change, %
Building and home improvement trade, Finland	1,229	-0.3
K-rauta, Sweden	214	-0.5
Byggmakker, Norway	636	+7.4
Rautakesko, Estonia	64	+7.0
Rautakesko, Latvia	51	-2.9
Senukai, Lithuania	266	+6.7
Rautakesko, Russia	284	+19.6
OMA, Belarus	87	+7.7
Total	**2,827**	**+4.1**

Building and home improvement trade, capital employed at 31 December, € million

	2012	2011
Non-current assets	580	561
Inventories	277	277
Current receivables	262	264
./. Non-interest-bearing debt	-363	-363
./. Provisions	-8	-2
Capital employed	**748**	**738**


Tervetuloa Volkswagenille
Scirocco
Golf

CAR AND MACHINERY TRADE

The car and machinery trade consists of VV-Auto and Konekesko with their subsidiaries. VV-Auto and Konekesko represent the leading brands and are responsible for their sales and after-sales services.

VV-Auto imports and markets Volkswagen, Audi and SEAT passenger cars, and Volkswagen commercial vehicles in Finland. It also imports and markets SEAT passenger cars in Estonia and Latvia. VV-Auto also retails cars and provides after-sales services at its own outlets in the Greater Helsinki area and Turku.

Konekesko is a service company specialising in the import and sale of construction, materials handling, environmental and agricultural machinery, trucks and buses, and recreational machinery. Konekesko operates in Finland, Estonia, Latvia, Lithuania and Russia.

VOLKSWAGEN THE MOST POPULAR CAR BRAND IN FINLAND

Volkswagen passenger car customers are served by a network of 40 dealers and 57 service workshops, and there are 40 dealers and 55 service workshops for Volkswagen commercial vehicles. The corresponding figures for Audis are 21 and 25. SEATs are sold by 22 dealers and maintained and repaired by 35 workshops in Finland. There are four dealers and service workshops for SEATs in the Baltic countries.

The car market in 2012 was strongly affected by the car tax change that came into force on 1 April 2012. As a result, the value of the passenger car and van market in 2012 declined markedly in spite of good sales during the first months of the year.

VV-Auto's overall market share for sales of new passenger cars and vans was 20.2%. The number of registrations of vehicles imported by VV-Auto was about 25,000.

The Volkswagen range was expanded considerably in 2012. New models on

EVENTS IN 2012

- *For the second time, Volkswagen was rated top in the annual Service 1 survey by the Auto Bild Suomi magazine. The result exceeded that of the previous year in nearly all sections. Volkswagen achieved the best result in the survey for car sales displays, for example.*
- *A Volkswagen Beetle donated by VV-Auto made an impressive entry through the window of the National Museum of Finland, where it became an interactive exhibition item in the permanent Suomi Finland 1900 exhibition.*
- *The long-running partnership between Audi and sailing athlete Silja Lehtinen reached a dramatic peak when skipper Lehtinen and her crew became world champions and then won bronze at the London Olympics in the Match Racing class.*
- *European Dealer Council – the annual meeting of European Volkswagen-Audi dealers, hosted by VV-Auto in Helsinki – was attended by chairmen from more than 20 European countries and the top management of the Volkswagen Group.*
- *In Estonia, Konekesko celebrated its 15th anniversary in October. Starting a business in Estonia in 1997 marked the first step in Konekesko's internationalisation.*
- *In Latvia, Konekesko's staff participated in a forest-planting event with schoolchildren in the Gulbene area.*

the market included the Volkswagen up!, Volkswagen CC, Passat Alltrack and Polo BlueGT, which features Active Cylinder Management (ACM) technology that reduces fuel consumption. The new seventh generation Golf was introduced in November. Audi launched the new A1 Sportback and A3 Compact Coupe. In addition, during the year, the Audi A4 range was revised, the A6, A7 and A8 models were all complemented with S types, and new launches included the A6 allroad quattro, A8 hybrid and a revised R8. New SEAT arrivals included the revised Ibiza and the completely new Leon.

A new Volkswagen Center was opened in Olari, Espoo in June. It is the largest Volkswagen outlet in Finland, selling passenger, commercial and trade-in cars, and housing a general and car body repair shop. The repair shop uses the most modern and energy efficient technology available, with hoists, for example, working with water and air pressure instead of traditional oil and electricity. Painting chambers work with liquid gas, which cuts CO_2 emissions by 150 tonnes per year compared with oil-operated chambers.

The expansion and renovation of the Volkswagen Center in Turku was completed at the end of April. In addition to the new trade-in car store and paint shop, the showroom for Volkswagen passenger cars was expanded and its appearance was revamped. At the same time, a separate repair shop for commercial vehicles and an extension for the spare parts stock were completed.

KONEKESKO - MACHINERY TRADE IN FINLAND, THE BALTICS AND RUSSIA

Konekesko's sale of recreational machinery is based on close, long-term co-operation with Yamaha Motor Co. Ltd. Konekesko markets Yamaha motorcycles, mopeds, ATVs, snowmobiles, outboards, generators, PWCs and snowblowers through the network of Yamaha dealers.

Konekesko's own boat brands are Yamarin, Yamarin Cross, Suvi and Palta. In addition, Konekesko represents Linder, Zodiac and TG boats in Finland. Yamarin and Suvi boats are made in Finland and exported to several European countries and Russia. Konekesko's range of recreational machinery also includes Muuli and Saris trailers, Selva outboards and Helly Hansen floatation wear.

Konekesko markets construction, materials handling and environmental machinery in Finland, the Baltic countries and St. Petersburg through its own dealer network. The best-known product brands represented by Konekesko are New Holland, Case, Kubota, Sennebogen, Weidemann, Grove and Still. In the Baltic countries, Konekesko also represents Ponsse forestry machinery and Dynapac asphalt rollers and pavers.

The main brands in Konekesko's agricultural machinery sales in Finland are Claas combines and Massey Ferguson tractors. In the Baltic countries, the selection also includes Claas tractors and a comprehensive range of agricultural implements, the most important of which

are Claas, Lemken and Hardi.

Konekesko is also responsible for the sales and after-sales services of MAN trucks, and MAN and Neoplan buses in Finland.

NEW BOAT MODELS AND FOCUS ON AFTER-SALES SERVICES

In 2012, Konekesko increased its market share in registered boats. In the autumn, Konekesko introduced four new boat models of its own: the Yamarin Cross range was complemented with the 49 Bow Rider and the 60 Cabin, and the Suvi range with the 5700 CC and the 5700 Duo.

Yamaha motorcycles maintained their position as the market leader in Finland. The Yamaha FJR1300, an eagerly anticipated addition to the category of touring motorcycles, was introduced in the autumn. Konekesko also started selling Yamaha snowblowers in Finland. Yamarin boats and Muuli trailers celebrated their 40th anniversary and the Association for Finnish Work granted the Key Flag Symbol of Finnish origin to the Yamarin range. Yamaha has been the market leader in outboards in Finland for 35 years consecutively, since 1977.

Konekesko introduced the first Still hybrid truck to the Finnish market and supplied Sennebogen harbour cranes to the ports of Tornio and Kemi.

Konekesko strengthened its service network by moving into new premises in Jyväskylä and Klaipeda, Lithuania. In late 2012, Konekesko's maintenance contracts were also expanded to cover both agricultural and construction machinery. Konekesko introduced a continuous customer feedback system based on SMS technology to provide a real-time picture of the development of customer satisfaction.

THE MOST SOUGHT-AFTER BRANDS AND STRONG SERVICE NETWORK

Strengths in the car and machinery trade include internationally recognised brands, a wide range of high-quality products and expert staff. Other strengths also include versatile services, a strong sales and after-sales service network, efficient logistics, and our own chain of retail outlets in the car trade.

The objectives of the car and machinery trade segment for 2013 include increasing market share in the brands it represents, further developing the dealer and maintenance network, and strengthening customer satisfaction and loyalty. The main focus areas for improvement will be expanding the selection of products and services and increasing electronic customer communications.

The car and machinery market is expected to decline in 2013; a contributing factor will be the increase in VAT rates in Finland as of 1 January 2013.

CAR AND MACHINERY TRADE MARKET

In 2012, 111,251 passenger cars and 11,469 vans were registered in Finland.

The passenger car market decreased by 11.8% and the van market by 20.9% from the previous year.

Volkswagen was the number one brand in terms of new registrations of both passenger cars and vans. The market share of Volkswagen passenger cars was 12.7%. Audi continued as the number one premium brand and increased its market share to 5.6%. SEAT's market share was 1.3%. The market share of Volkswagen vans increased to 26.5%.

The market for recreational machinery totalled about €250 million in Finland, decreasing by about 5%. The export market for boats declined. The market for construction machinery totalled around €430 million in the operating area, decreasing by approximately 5%. The combined market for agricultural machinery in Finland and the Baltic countries was about €495 million, similar to the previous year's level. The market for trucks (weight class of over 6 tonnes) was approximately €550 million, similar to the previous year's level.

VV-AUTO PARTICIPATED IN THE CAR RECYCLING CAMPAIGN

VV-Auto participated in the Recycling Value campaign organised by Finnish Car Recycling in 2012. A total of 65,058 certificates of destruction (CODs) were written in Finland in 2012. An old car can be removed from the vehicle register for good by taking it to an official take-back point of Finnish Car Recycling, where a certificate of destruction will be issued.

NEW MOBILE SERVICE

Volkswagen has published a new mobile phone application, useful for those touring by car. The Service App contains travel vocabulary in several different languages, route directions to the nearest Volkswagen service shop, route directions back to the parked car, car dashboard symbols and explanations. The app can also be used to prepare a loss report with photos and to save the course of events as an audio file.

YAMARIN CROSS RANGE GAINED GREAT POPULARITY

The Yamarin Cross 53 boat models launched in autumn 2011 were very popular during their first season, thereby further increasing the overall popularity of aluminium-hull boats. In autumn 2012, Konekesko introduced two new Yamarin Cross models: the 49 Bow Rider and the 60 Cabin, an eagerly anticipated new boat with a cabin.

MARKET SHARES

CAR TRADE

Market share in Finland, VV-Auto 20.2%
(Volkswagen, Audi and SEAT passenger cars and Volkswagen vans, total)

MACHINERY TRADE

Market shares in Finland
Outboards*, market share 51%
(Yamaha, Selva)

Boats*, market share 23%
(Yamarin, Suvi, Linder, TG, Zodiac, Palta)

Motorcycles*, market share 16.2%
(Yamaha)

Tractors*, market share 12.5%
(Massey Ferguson)

Trucks*, over 6 tonnes, market share 5.5%
(MAN)

Light transportation trailers*, <750 kg, market share 20%
(Muuli)

* Registered

K-Group's car and machinery trade, number of stores, retail and B2B sales

	Number 2012	Number 2011	Sales (VAT 0%), € million 2012	Sales (VAT 0%), € million 2011
VV-Auto, retail outlets	10	9	412	422
VV-Auto, imports	1	1	396	447
Konekesko, Finland	1	2	210	217
Finland total	**12**	**12**	**1,017**	**1,086**
Konekesko, Estonia			31	32
Konekesko, Latvia			52	42
Konekesko, Lithuania			38	41
Konekesko, Baltic countries, total			**120**	**114**
Car and machinery trade, total	**12**	**12**	**1,138**	**1,200**

Car and machinery trade, key figures

		2012	2011
Net sales	€ million	1,114	1,174
Operating profit	€ million	42.1	51.9
Operating profit excl. non-recurring items	€ million	42.1	51.8
Operating profit as % of net sales excl. non-recurring items	%	3.8	4.4
Capital expenditure	€ million	26.6	29.9
Return on capital employed* excl. non-recurring items	%	22.5	32.8
Personnel average		1,254	1,206

* *Cumulative average*

Car and machinery trade, net sales 2012

	€ million	Change, %
VV-Auto	790	-6.9
Konekesko, Finland	211	-3.6
Konekesko, Baltic countries	116	+4.9
Total	**1,114**	**-5.1**

Car and machinery trade, capital employed at 31 December, € million

	2012	2011
Non-current assets	105	94
Inventories	180	223
Current receivables	64	74
./. Non-interest-bearing debt	-147	-163
./. Provisions	-24	-18
Capital employed	**178**	**210**

READ MORE

Financial performance is presented in the financial statements, starting on page 64.

DOING GOOD TOGETHER

For Kesko, responsible operations are a strategic choice and one of our values. Kesko's responsibility programme sets long-term objectives for responsibility work. Our customers can rely on the fact that they have made a good choice as soon as they enter a K-store.

Kesko's responsibility work is based on the general principles of its corporate responsibility, its vision for corporate responsibility and responsibility programme.

Updating the responsibility programme was begun in late 2011. In 2012, stakeholder expectations and wishes were extensively examined using management and retailer interviews, benchmark surveys and stakeholder workshops.

The updated responsibility programme, announced in February 2013, sets both long-term and short-term objectives for the following matters of material concern to Kesko and its stakeholders:

- responsible operating practices
- welfare in the workplace
- mitigation of climate change
- sustainable use of natural resources
- stakeholder inclusion
- responsible purchasing and selling
- sustainable choices and services for customers.

Kesko reports on its corporate responsibility work in compliance with the Global Reporting Initiative (GRI) and AA1000 Principles – materiality, stakeholder inclusivity and responsiveness to stakeholder issues. Kesko's 13th Corporate Responsibility Report will be published in May 2013.

OUR OPERATIONS ARE RESPONSIBLE

The guide, 'Our Responsible Working Principles', provides the guidelines for the work of every individual at Kesko. The

K-Retailers' Association recommends for the K-Group retailers to operate in compliance with the principles described in the guide. The guide helps us ensure that all our employees in all of our operating countries have a shared understanding of our values and principles. We require that our partners operate in compliance with corresponding responsible working principles.

The guide, 'Our Responsible Working Principles', was updated in 2012. The contents were specified more clearly and practical examples were added to illustrate the principles and guidelines. The updated guide was published in eight languages in summer 2012 and distributed to the personnel in all operating countries. The guide is part of new employees' induction. The guidelines have also been made available on Kesko's website in section 'Our Responsible Working Principles' with a foreword from the President and CEO and animations to illustrate the principles in practice.

The annual personnel survey asks employees to state whether, in their own opinion, they act in compliance with the responsible working principles. The Group average for 2012 was 4.37 (on a scale of 1–5).

Kesko annually organises value discussions on responsible working principles in its companies. In December 2012, a value discussion was held at Kesko Food Rus in St. Petersburg and at Intersport Russia in Moscow. The themes included responsible operating practices, opposing bribery and the management of the business environment in Russia.

INTERNATIONAL RECOGNITION FOR RESPONSIBILITY

Kesko participates in the UN Global Compact initiative and is committed to observing ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption in all of its operating countries.

In 2012, Kesko scored high points for its responsible operating practices, compliance with laws, anti-corruption efforts and corporate governance in the Dow Jones sustainability indexes DJSI World and DJSI Europe and in the FTSE-4Good index assessment. Kesko was listed among The Global 100 Most Sustainable Corporations and The World's Most Ethical Companies.

Thanks to its systematic energy efficiency work, Kesko has been selected as the best in its sector in the assessment of the Nordic Carbon Disclosure Leadership in 2012 and 2011.

Like the year before, Kesko received an award from World Finance Magazine for 'the Best Corporate Governance in Finland' in terms of corporate governance development and reporting.

For the third time, Kesko was placed in the final of the Finnish Responsibility Reporting contest. Kesko received excellent marks on its remuneration statement and the description of risk management, internal control and internal audit.

Kesko's corporate governance principles and ranking in sustainability indexes are described in more detail at www.kesko.fi.

OUR RESPONSIBLE WORKING PRINCIPLES

The guide, 'Our Responsible Working Principles', was updated in 2012. The updated guide was published in eight languages and distributed to the personnel in all operating countries.

READ MORE
www.kesko.fi

IMPACT ON SOCIETY

Kesko's operations generate economic benefits for shareholders, finance providers, personnel, suppliers of goods and services and their employees, as well as municipalities and states.

DIVERSIFIED STORE NETWORK

The K-Group's store network was expanded with both traditional stores and online stores in 2012. The new retail websites citymarket.fi, mustaporssi.fi and kookenka.fi opened during the year.

At the end of 2012, there was 936 K-food stores in Finland in 292 municipalities. Around half of the Finnish population lives within less than one kilometre from a K-food store.

The Veturi shopping centre, opened in Kouvola in September, is one of the largest projects Kesko has ever completed. It was designed taking account of locality, accessibility and environmental aspects. Veturi's favourable location in terms of transportation will attract customers, not only from south-eastern Finland, but also from Russia. Thanks to the recovery of condensation heat and the use of carbon dioxide and ground heat, the shopping centre only needs additional heat energy in very low sub-zero temperatures. The large car park provides plenty of disabled parking bays and three charge points for electric vehicles. Veturi's environmental impacts are categorised in accordance with the international BREEAM environmental assessment method. Veturi was rated 'very good' in the assessment.

WE PROMOTE LOCAL ACTIVITIES

Kesko is increasing the amount of products it sources locally and encourages K-retailers to include products from local producers in their selections. The K-food stores' selections offer fish caught from local waters and meat, vegetables and root crops grown in the nearby area.

In 2012, a special emphasis in the Pirkka product range was put on bread. The Pirkka Local Breads range, developed in cooperation with local producers, was expanded across Finnish regions. In the autumn, several Finnish organic breads were added to the Pirkka range.

The main emphasis in Kesko's and K-stores' sponsorship is to provide support to children and the young. K-Plussa's sponsorship service encourages and supports retailers to take part in local charity and sponsorship work.

INFORMATION ON KESKO TO STUDENTS

Kesko cooperates closely with students and teachers in different fields of study. Kesko representatives regularly visit business universities, polytechnics and recruitment fairs to talk about career and summer job opportunities in the K-Group, the K-trainee programmes and polytechnics' retailer entrepreneur path.

KEY FIGURES FOR 2012

- *Kesko's purchases from suppliers in Finland were €5,478 million and from other countries €2,591 million.*
- *Kesko's salaries and other employee benefits in all operating countries totalled €503 million.*
- *Kesko's income taxes were €76 million, and pension contributions and social security expenses €97 million.*
- *Financial support to various organisations and associations totalled around €0.9 million.*

MANY KINDS OF PERFORMERS

In connection with its centenary year, the K-Retailers' Association launched a project called 'Many kinds of performers' in cooperation with The Finnish Association on Intellectual and Developmental Disabilities (FAIDD). Thanks to the project, dozens of people with disabilities have found an employment or training position in K-stores in different parts of Finland. One of them is Tiina Sulander (pictured on the left), who now has a job she enjoys and co-workers whom she likes at K-supermarket Härkätie in Somero. Retailer Minna Lunden is satisfied: "I want to support the employment of people with disabilities. We all are needed and everyone should be given the opportunity to find real work."

A special programme ('K-Tutuksi' in Finnish) targeted to teachers, business partners and Kesko personnel, is a practical, guided opportunity to become familiar with K-food store operations and competence requirements.

For ten years, Kesko has organised autumn seminars on topical issues for teachers, study guidance counsellors, principals and study field directors of business colleges and polytechnics. The five seminars held in autumn 2012 discussed Kesko's expansion in Russia and the Master Sales Assistant training. The revised Master Sales Assistant training programme, now available entirely online, enables participants to study flexibly according to their own schedules. The Master Sales Assistant training programme was made available to business college and polytechnic students for the 26th time.

WE PERFORM AND OFFER HIGH-QUALITY WORK

The K-Group employs around 45,000 people in eight countries. We offer interesting, varied jobs, flexibility throughout different situations in life, and personal development opportunities. Our objective is to be the most attractive workplace in the trading sector and to have satisfied employees and competent supervisors.

The K-Group provides various training and summer jobs, most of which are at K-stores. Annually, we employ thousands of summer employees, work experience trainees, young people for short-term orientation into working life, and for short-term summer jobs called 'learn and earn'.

In 2012, Kesko ran its first K-summer job campaign, wanting to stress the importance of employing young people. Anni Nurminen, who worked at K-citymarket Seppälä in Jyväskylä, was selected as the K-Summer Employee of the Year, and the retailer couple Mari and Jyrki Koenkytö of K-citymarket Loimaa, who had employed 17 summer employees and trainees, as the K-Summer Employer of the Year.

Personnel affairs are presented in more detail in the Human Resources section.

CHOICES FOR THE BENEFIT OF THE ENVIRONMENT

Working for the benefit of the environment is part of the duties of all Kesko and K-store employees. Compliance with at least corresponding environmental management principles is also required of our business partners.

Kesko has signed the trading sector energy efficiency agreement and committed to saving 65 GWh of energy annually by the end of 2016. The amount corresponds to the annual energy consumption of more than 3,200 one-family houses.

The biggest savings in store operations are achieved by fitting freezers with lids and using LED illuminated signs, as well as by using adjustable and directional lighting in stores.

Nearly all K-food stores recover the condensation heat from their refrigeration systems, thanks to which additional heat energy is only needed in very low sub-zero temperatures. All new K-food stores save energy by using carbon dioxide recovered from industry processes as refrigerant. Savings are also achieved by using cabinets equipped with doors for milk, juices, meat and fish products.

The design of new stores is based on sustainable development and energy efficiency. The Kodin1 department store for home goods and interior decoration to be completed in Raisio in spring 2013 is the first passive commercial building in the Nordic countries. Eco-efficient measures will reduce the department store's consumption of heating energy by about 60% and its electricity consumption by about 50% compared to a traditional department store. The building project is part of the Sustainable Community Technology programme run by Tekes - the Finnish Funding Agency for Technology and Innovation, aimed to set target levels for energy consumption in passive commercial buildings.

WASTE RECOVERY

Kesko's objective is to direct all generated waste to recycling and energy recovery.

Anttila's logistics centre in Kerava recovers nearly all waste, i.e. around 99%. Operations have been made more efficient by, for example, using recyclable pallets in goods transportation, and by recovering excessive packaging materials from

CLIMATE PARTNER NETWORK

In spring 2012, Kesko joined Climate Partners, a cooperative network between the City of Helsinki and businesses, whose objective is to bring climate work pioneers together to find new operating methods for mitigating climate change. In their climate commitments, the companies promise to reduce their carbon dioxide emissions, to improve their energy efficiency and to develop new services which reduce greenhouse gas emissions.

KODIN1 RAISIO WILL SAVE ENERGY

The Kodin1 department store for home goods and interior decoration, to be opened in Raisio in spring 2013, is the first passive commercial building in the Nordic countries. Energy efficiency will be achieved by the recovery of heat from ventilation, air tight structures and lighting solutions which take customer movement into account.

Kesko Food's Product Research analyses product samples of foodstuffs and home and speciality goods and also develops new foodstuffs and flavours.

products destined for department stores at the logistics centre.

Kesko Food has been developing operating systems for K-stores' waste management since 2011. As many as around 90 K-stores in the Greater Helsinki area and the Uusimaa region have already adopted the new system. Their recovery rates have risen to 90% owing to centralised waste management reporting and efficient recovery of organic waste, for example.

Consumer packaging discarded by households, such as deposit beverage packaging, cardboard, glass and metal can be returned to recycling points at K-food stores during shopping visits. Accumulators and batteries can also be returned to the stores.

KESLOG'S DRIVERS DRIVE ECONOMICALLY

The objective of Keslog, the provider of Kesko Food's logistics services, is to reduce its relative carbon dioxide emissions from transportation by 10% by 2020. Methods used for this purpose include efficient route planning, an economical driving style and two-tier trailer trucks.

In autumn 2012, Keslog launched a training programme in economical driving for its contract transporters and their drivers. During the training programme, some 280 vehicles will be equipped with on-board loggers which monitor the drivers' driving styles. In addition, there are seven two-tier trailers used in retail distribution, which reduce the carbon dioxide emissions from transportation by one third.

RESPONSIBLE SOURCING

Kesko's purchasing principles guide its responsible sourcing. Special attention is paid to the human rights and working conditions of employees in the purchasing chain. In the assessment of suppliers in risk countries (many Asian, Central American and African countries, for example), Kesko uses the international auditing systems BSCI auditing and SA8000 certification.

Assessments alone are not enough to improve working conditions, but they increase awareness and provide concrete tools for changing possible drawbacks. Kesko's aim is to trade in risk countries with suppliers who have passed the audit.

The guide, 'Principles and Practice of Socially Responsible Trading', was prepared to help Kesko's buyers and suppliers in purchasing from risk countries. The guide has been used for several years, and a new, updated version was adopted in September 2012.

WE GIVE PREFERENCE TO SUSTAINABLE FISH STOCKS

Kesko Food, Kespro and K-food stores promote species recommended in the WWF fish guide, such as perch, pike and vendace in their product selections.

STATEMENTS SUPPORT PURCHASING

Various sustainability statements have been drawn up to support purchasing. These include a fish and shellfish statement, timber policy, palm oil policy and a stand on the sandblasting of jeans.

In accordance with the fish and shellfish statement, the selections of Kesko Food, Kespro and K-food stores do not contain species given a red rating in WWF's fish guide. The use of green-rated species in selections is promoted and when making decisions concerning selections, sustainable fish stocks and MSC-certified suppliers are given preference.

RESEARCHED AND SAFE PRODUCTS

Kesko Food's Product Research tests samples of foodstuffs and home and speciality goods, develops new foodstuffs and flavours, and is responsible for product recalls.

The Product Research Laboratory tested nearly 11,700 product samples in 2012. The Pirkka test kitchen produced some 580 new recipes for the recipe service. Kesko Food's Customer Service was contacted over 22,200 times during the year.

RESPONSIBLE ACTIONS TO BE MADE VISIBLE IN STORES

We want to make Kesko's and K-stores' responsible actions more visible to customers in stores. The new K-responsibility concept, 'Let's do good. Together.', which will be launched in K-food stores in 2013, presents the stores' good deeds in a practical manner and helps customers make sustainable choices easily.

INFORMATION TO CUSTOMERS FOR BUYING DECISIONS

Product packaging and shelf labelling help customers to make buying decisions. In addition to compulsory labelling, Pirkka products carry a lot of other information: nutritive value and recycling labels, as well as origin markings on meat and fish products.

Especially Kesko's Facebook pages are an important customer service and dialogue channel between Kesko, the K-Group chains, stores and customers. Different mobile and online services, such as the Pirkka.fi recipe and shopping list application, Budget Sport's customer service, Asko's design programme, K-rauta stores' working instruction videos and Volkswagen's service application are provided to help customers.

MORE ENVIRONMENTALLY FRIENDLY PRODUCTS

Fairtrade products and organic products continue to gain popularity. At the end of 2012, Kesko Food's selections included 215 Fairtrade products, 39 of which were Pirkka Fairtrade products. During the year, the number of Pirkka organic products increased from around 70 to nearly 100.

K-citymarkets' and Anttilas' own Anno Collection product range was revised in late 2012. The products contain recycled materials and whenever possible, nearby regions are given preference in production.

READ MORE
www.kesko.fi/responsibility

MORE TARGETED SERVICES WITH CUSTOMER INFORMATION

Making the most of customer information is a key area of strategic emphasis for the K-Group. K-Plus Oy participates in building further customer dialogue and enhancing a multi-channel approach.

Customer information and programmes play an essential role in business planning. In the K-Group, customer information is collected by K-Plus Oy. This information is used by the store chains and retailers to offer customers increasingly targeted benefits and tailored services.

K-Plus Oy carried out important projects to support our key area of strategic emphasis during 2012, including building a campaign management tool that enables multi-channel customer dialogue and developing an environment for the Kesko Group's customer register.

CUSTOMER INFORMATION PROVIDES INDIVIDUAL BENEFITS FOR K-PLUSSA CUSTOMERS

Customer information and analytics are used in the K-Group's business management, whether for targeted marketing or deciding on product selections. Chains use this information to plan their store networks, develop concepts and decide on selections and services. For stores, customer information provides tools for developing products and services that interest customers.

In marketing, it is important to produce interesting, interactive and individual marketing communications. For customers, this means increasingly targeted benefits.

The objective is to provide an individual service to customers in each K-store and chain.

The business partners participating in the K-Plussa customer loyalty programme are also offered the best information and tools available on the market for implementing customer-specific services and communications.

OFFERING BASED ON IDENTIFYING CUSTOMER NEEDS

By using the K-Plussa customer loyalty programme, the K-retailers can provide the best, most up-to-date offers to their customers in each particular area. With the help of the K-Plussa system, K-Group stores carried out more than 1,300 targeted campaigns in 2012.

Instead of relying on mass marketing, retailers approach their customers according to personal preferences and shopping behaviour. The results of targeted campaigns have been very good.

E-SERVICES ALLOW CUSTOMERS TO CHOOSE HOW THEY WANT TO SHOP

The Plussa.com online service was revised in spring 2012 with the purpose of improving the usability of the service. K-Plussa customers can browse the K-Plussa offers by different K-chains and partners, keep track of their purchases, and locate the nearest stores and offers on a map. At the same time, the usability of the pages for mobile devices was improved.

The Oma K-Plussa service at Plussa.com allows customers to manage their own information. Customers can keep track of the accrual of Plussa points by chain and store, transfer points to their bank accounts or donate them to charity.

WARRANTY RECEIPT SERVICE KEEPS INFORMATION EASILY ACCESSIBLE

The electronic warranty receipt service available for K-Plussa customers enables information about products with warranties to be saved in a personal warranty receipt register. Since the beginning of October, it has been possible to save electronic warranty information into the Oma K-Plussa service. Receipt information is currently saved from the following stores: K-market, K-supermarket, K-citymarket, Anttila and Kodin1. It is also saved for purchases from the following online stores: citymarket.fi, netanttila.com and kodin1.com.

K-PLUSSA MONITORS THE DEVELOPMENT OF CONTACTLESS PAYMENT AND MOBILE APPS

In February 2012, a new K-Plussa customer loyalty card based on contactless payment was introduced. This is the largest retail application of near field communication (NFC) technology in Finland.

The contactless K-Plussa card has received recognition: it was one of the finalists for the worldwide Contactless Intelligence 2012 awards and the winner in the Best NFC Service category in 'the Best Mobile Service in Finland' competition.

K-Plussa is working in active partnership with banks. It is possible for an increasing number of customers to attach the K-Plussa symbol to their payment cards. There are already more than 900,000 co-branded cards and the number is constantly growing. The cooperation agreement with OP-Pohjola was renewed in summer 2012 and the K-Plussa symbol can also be attached to Nordea and Danske Bank MasterCards during 2013.

K-Plussa MasterCard is an international credit card with no opening or annual fee. The card is valid at over 30 million outlets across the world. The card also incorporates Pohjola purchase insurance, which covers the breakdown or theft of an item purchased with this card for 90 days from the date of purchase.

PLUSSA POINTS NEARLY A MILLION TIMES A DAY

In 2012, the K-Plussa loyalty programme gained more than 90,000 new customer households.

K-Plussa customers receive benefits from nearly 3,000 outlets and 40 chains. The largest customer loyalty programme in Finland has 3.8 million customers in about 2.2 million households. They use their K-Plussa cards nearly a million times every day.

K-Plussa focuses on benefits and offers available immediately. Every month there are hundreds of K-Plussa offers available for loyal customers, in addition to which they also receive bonuses of up to 5% in the form of K-Plussa points for their purchases.

At the end of 2012, the customer loyalty programmes in Russia, previously implemented on a chain-specific basis, were combined under one programme run jointly by all K-Group chains, called the K-plus Loyalty Program. At the first stage, it provides Russian customers with benefits from all K-Group stores operating in the St. Petersburg area. The intention is to expand the business model to include all K-Group stores operating in Russia during 2013.

MANY KINDS OF BENEFITS TO CUSTOMERS

Keeping track of K-Plussa benefits has been made easy for customers. K-Plussa customers see the benefits they receive in an information sheet, sent by letter or e-mail.

HUMAN RESOURCES

Kesko and its chain stores offer a wide range of career opportunities in the trading sector, varying from sales and customer service jobs to supervisory and specialist jobs and retailer entrepreneurship. In all, the K-Group - Kesko and the K-retailers - employ around 45,000 people.

The average number of personnel in Kesko converted into full-time employees is around 20,000 in eight countries: in the Nordic and Baltic countries, Russia and Belarus. 53% of employees work in Finland and 47% in other countries. HR management is guided by three aims: being the most attractive workplace in the trading sector, having the most competent and motivated people and having the best labour productivity.

FUNCTIONING WORKING COMMUNITY AND HEALTHY EMPLOYEES

At Kesko, wellbeing at work is based on the opportunity to do meaningful work, in line with one's abilities, in a safe, pleasant and supportive working environment. The management of wellbeing at work involves personal life management, work and competence, the working community, as well as management and supervisory work. Wellbeing at work is supported by developing leadership and providing a framework for successful work.

In 2012, the theme of the programme on wellbeing at work was skills for the working community. Within the framework of the theme, an important initiative was utilising the personnel survey to develop the working community. A total of 30 training events were organised for around 500 Kesko Group managers and supervisors, with themes ranging from raising difficult subjects to performance and development reviews. With the purpose of developing skills for the working community, some videos were produced in cooperation with Ketonen & Myllyrinne, popular sketch actors. Humorous videos were used to create discussion and as part of the online Master Sales Assistant training material. In 2012, best practices were also sought by means of an in-company contest, and the good community deeds reported were presented on the intranet site throughout the year.

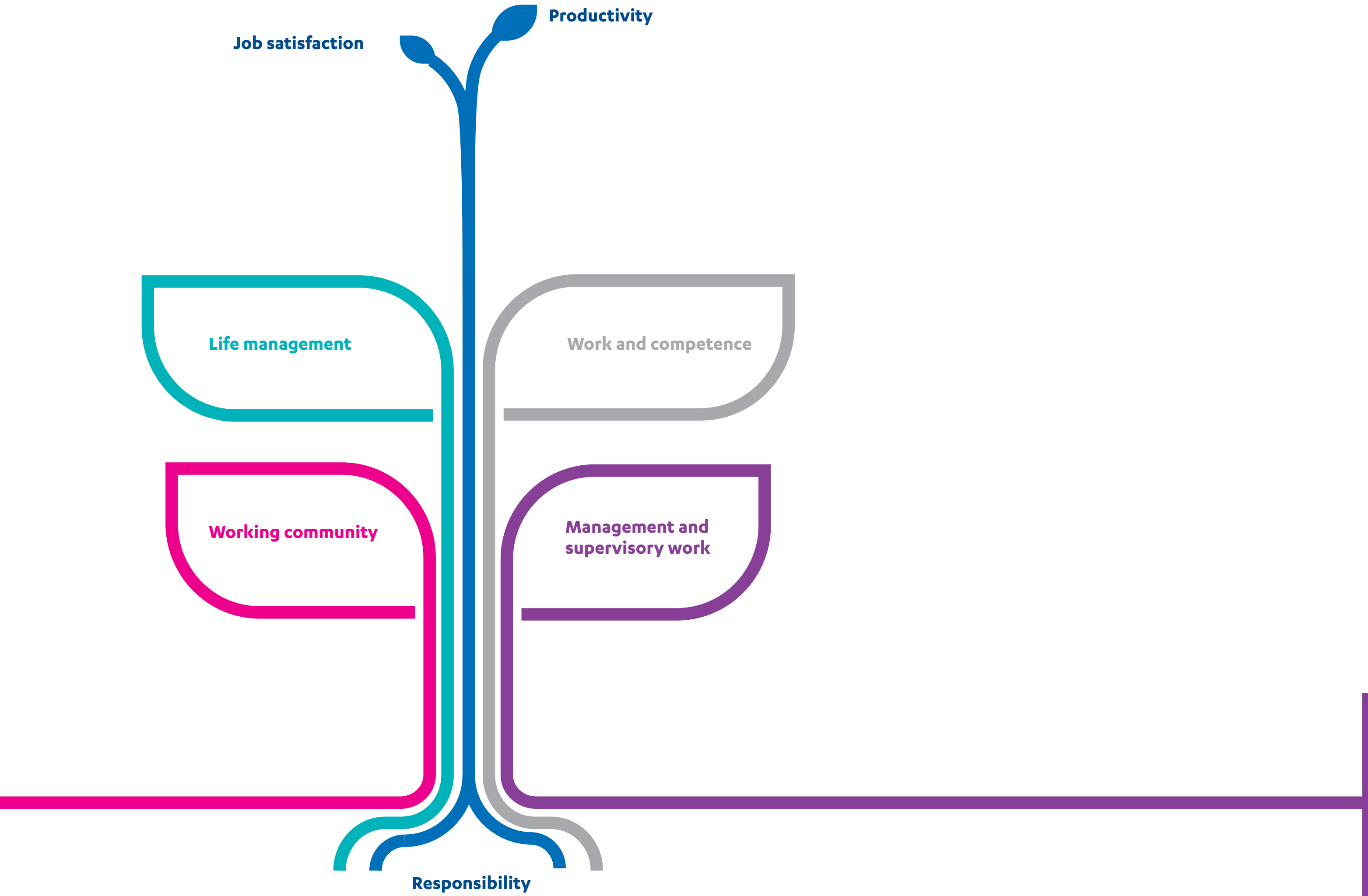
The aim of the profitability programme implemented during the latter part of the year was to improve cost-efficiency in all of the companies and units. Besides other savings, the measures also had a significant impact on personnel. The implementation of the profitability programme was supported with joint training events for supervisors and managers and with group coaching. Employees were given support in the form of employment training.

The results of the annual personnel survey were published in November. Working communities, which had already been highly regarded, further improved their effectiveness compared with the previous year. Supervisory work and good leadership are at the core of wellbeing at work and they have been developed by training supervisors and managers and offering them good tools to support leadership. The personnel survey shows that supervisory work as a whole is considered to be of high quality.

THE MOST COMPETENT AND MOTIVATED PEOPLE IN THE TRADING SECTOR

Competence development at Kesko aims to ensure the level of performance required by the strategy. Competence development is target-oriented, long-standing and diversified. Employees are encouraged to develop their competencies, and different learning styles and needs are also taken into account.

Supervisors are responsible for familiarising each employee with Kesko's values and responsible working principles and ensuring that employees know their duties and objectives. Supervisors carry out a performance and development review with each employee at least once a year,



and they are responsible for staff competencies in their own areas. Supervisors guide, support and encourage employees to achieve maximum performance.

Staff development and career progress are supported by various multi-format specialist, supervisor and management training programmes. A total of about 7,900 K-Group employees participated in the training programmes (traditional on-site learning) organised via the K-instituutti training centre. Online training was organised for around 23,000 employees of Kesko and retail stores. Training and seminars organised for management and other key employees had about 250 participants.

DIVERSE AND LONG-TERM TRAINING PROGRAMMES

In line with our values, meeting customer needs is the key focus for developing occupational competence at Kesko and chain stores. Long-term development of operations and staff is experienced by customers in terms of the high quality of service provided.

The Master Sales Assistant training programme is the largest vocational training programme for adults in Finland, supporting on-the-job learning for retail and wholesale professionals. The complete training package has been revised and is now available as an e-learning course. The training takes various perspectives on sales and customer service work and provides up-to-date product information to support customer service. Stores ordered study rights for over 14,000 students and the number of courses completed using the web environment totalled over 163,000. The training culminated in the Master Sales Assistant competition at the K-Team Event in Turku at the beginning of November. The training programme was also implemented at business colleges and polytechnics, in which nearly 4,500 students participated.

In order to develop staff competence and customer service at K-food stores' superiority departments (fruit and vegetables, bread, fish, meat and ready-to-eat meals), training was given to more than 2,150 department managers and retailers. The annual K-Food Specialist training programme turned out 177 specialists in nutrition and special diets. In all, nearly 700 employees have completed the training.

In K-citymarket and Anttila, competence development focused on good immediate leadership. A training programme for all supervisors was implemented in the K-citymarket chain and the Kerava logistics centre, in addition to which supervisors also participated in Group-wide training programmes on raising difficult subjects and carrying out performance and development reviews. Every sales assistant of K-citymarket and Anttila had a chance to participate in the Master Sales Assistant training programme and competition, and a large number of them took this opportunity.

The car and machinery trade started its fourth trainee programme for car salespeople, for which 10 suitable candidates were selected. Meeting customer needs and providing good customer service were the objectives of the training programme provided by Konekesko's spare parts sales unit and Audi's couching course, entitled 'We Make Customers Happy'.

READ MORE
on HR issues at
www.kesko.fi/jobs
and in the Corporate
Responsibility Report at
www.kesko.fi/en/responsibility/reports

COMPETITIVE STRENGTH AND ADVANTAGE FROM CHAIN OPERATIONS AND K-RETAILER ENTERPRISE

The K-Group's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. At the end of 2012, Kesko had 1,210 K-chain retailer entrepreneurs as partners.

Cooperation between K-retailers and Kesko - chain operations - is based on equality, openness and willingness to develop joint operations. The objective of chain operations is improving competitiveness and customer satisfaction combined with achieving a higher, 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 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.

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 the retailer 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 50–100. 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 600 contacts annually. The requirement for new retailers is estimated for 1–3 years ahead. In 2012, 65 new K-retailers started their careers.

Future K-retailer entrepreneurs are trained in the retailer training programmes. The training consists of online studies, on-the-job training under a mentor retailer and regional events for exchanging experiences. The content and duration of the programme can be flexibly and efficiently defined for each student on an individual basis, taking their development potential, work experience and education into account. The structure of the training model ensures the reliable monitoring of progress in competence development.

K-RETAILERS FROM ENTREPRENEUR PATH

The retailer entrepreneur path, a systematic training route for would-be K-retailers, has been developed by Kesko Food and polytechnics. It has been adapted to constitute an optional module of polytechnic studies. A related cooperation agreement has been signed with 17 polytechnics and the model is being further expanded in cooperation with the K-Retailers' Association.

Many of those starting the K-retailer trainee programme have a steady amount of retailing experience, but the number of students transferring from other fields or having just finished their general education has grown.

More than 100 people 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 K-retailer careers.

Pictured Retailer Juuso Hemminki of K-market Rauhankatu with his sons. The former opera singer, who has worked in Finland, Germany and Switzerland, is currently a K-retailer entrepreneur. K-market Rauhankatu is his first store.

REAL ESTATE OPERATIONS

A store site network is a strategic competitive factor for Kesko. It provides opportunities for developing business operations and increasing sales and customer satisfaction. Kesko's division parent companies are responsible for their own store sites throughout their life cycles.

The Veturi shopping centre is Kesko's largest shopping centre project of all time. When building the centre, special attention was paid to energy efficiency and ease of shopping.

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 involve important business interests related to the continuity of management, the flexibility of change and the financial value of the premises. In order to protect such interests, Kesko usually prefers to own these properties.

Standard properties are premises owned by the Kesko Group. They can be sold and leased back for use in the Group's business operations.

Realisation properties are those for which Kesko has no further use.

Development properties are those in need of further development for their intended use.

CAPITAL EXPENDITURE

Kesko's capital expenditure in real estate aims 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 makes capital expenditure only in properties needed in its own or supporting business operations. As a result of Kesko's internationalisation, capital expenditure outside Finland has become increasingly important.

LIFE-CYCLE AFFORDABLE AND ECO-EFFICIENT REAL ESTATE OPERATIONS

Kesko's real estate operations are based on the life-cycle affordability and eco-efficiency of store sites. This means optimising the costs and environmental burden across the entire life cycle of a store site. The aim is the lowest life cycle costs in the trading sector.

The Veturi shopping centre was opened in Kouvola in 2012. Its eco-efficiency was assured by using the international BREEAM system for environmental assessment in the planning and construction stages. Environmental assessment allows the users of the premises, the authorities and the owners to compare the energy efficiency of different buildings with uniform methods, reaching a final result that is certified by an independent party. The transparent assessment of a real estate property serves as proof of its environmental efficiency. The BREEAM rating for Veturi was "very good".

PROPERTY MAINTENANCE

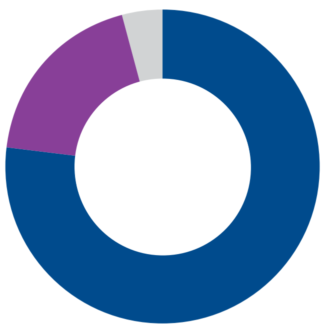
Maintenance services production of the properties managed by Kesko has been outsourced to YIT Kiinteistötekniikka Oy, ISS Palvelut Oy and Ovenia Oy. Systematic and proactive maintenance is managed through a centralised ERP system. Comprehensive management of property data enables efficient maintenance and on-time repairs and replacements in order to secure good conditions and energy efficiency. Kestra Kiinteistöpalvelut Oy, owned by Kesko, is responsible for purchasing electricity for the K-Group.

KESKO IS COMMITTED TO SAVING ENERGY

We are committed to saving 65 GWh of energy by the end of 2016 by improving the efficiency of our energy consumption through various savings measures. This amount corresponds to the annual energy consumption of over 3,200 one-family houses. The energy efficiency of existing properties is being developed by making use of a comprehensive monitoring system for energy consumption and remote monitoring of building automation as part of day-to-day maintenance.

The electricity, heat and water consumption of Kesko's properties has been monitored closely since 1995. During that time, Kesko's specific consumption of heat energy has decreased by over 60%, while specific consumption of electrical energy has decreased by over 20%. Close energy monitoring helps keep the technical systems of properties in order and maintain the value of properties.

BREAKDOWN OF OWNED PROPERTIES



- Strategic properties 77% (76%)
- Standard properties 19% (20%)
- Realisation properties 0% (0%)
- Development properties 4% (4%)

Owned properties

Capital*, € million	2012	2011
Finland	1,015	887
Other Nordic countries	98	96
Baltic countries and Belarus	40	34
Russia	256	202
Total	**1,409**	**1,219**

Area, 1,000 m²	2012	2011
Finland	750	693
Other Nordic countries	121	97
Baltic countries and Belarus	123	117
Russia	111	92
Total	**1,105**	**999**

Area by division, 1,000 m²	2012	2011
Food trade	392	346
Home and speciality goods trade	141	130
Building and home improvement trade	405	372
Car and machinery trade	67	59
Office and warehouse premises	100	92
Total	**1,105**	**999**

Leased properties

Lease liabilities, € million	2012	2011
Finland	2,100	2,055
Other Nordic countries	72	93
Baltic countries and Belarus	106	125
Russia	38	40
Total	**2,316**	**2,313**

Area, 1,000 m²	2012	2011
Finland	2,330	2,338
Other Nordic countries	185	185
Baltic countries and Belarus	466	469
Russia	36	41
Total	**3,017**	**3,033**

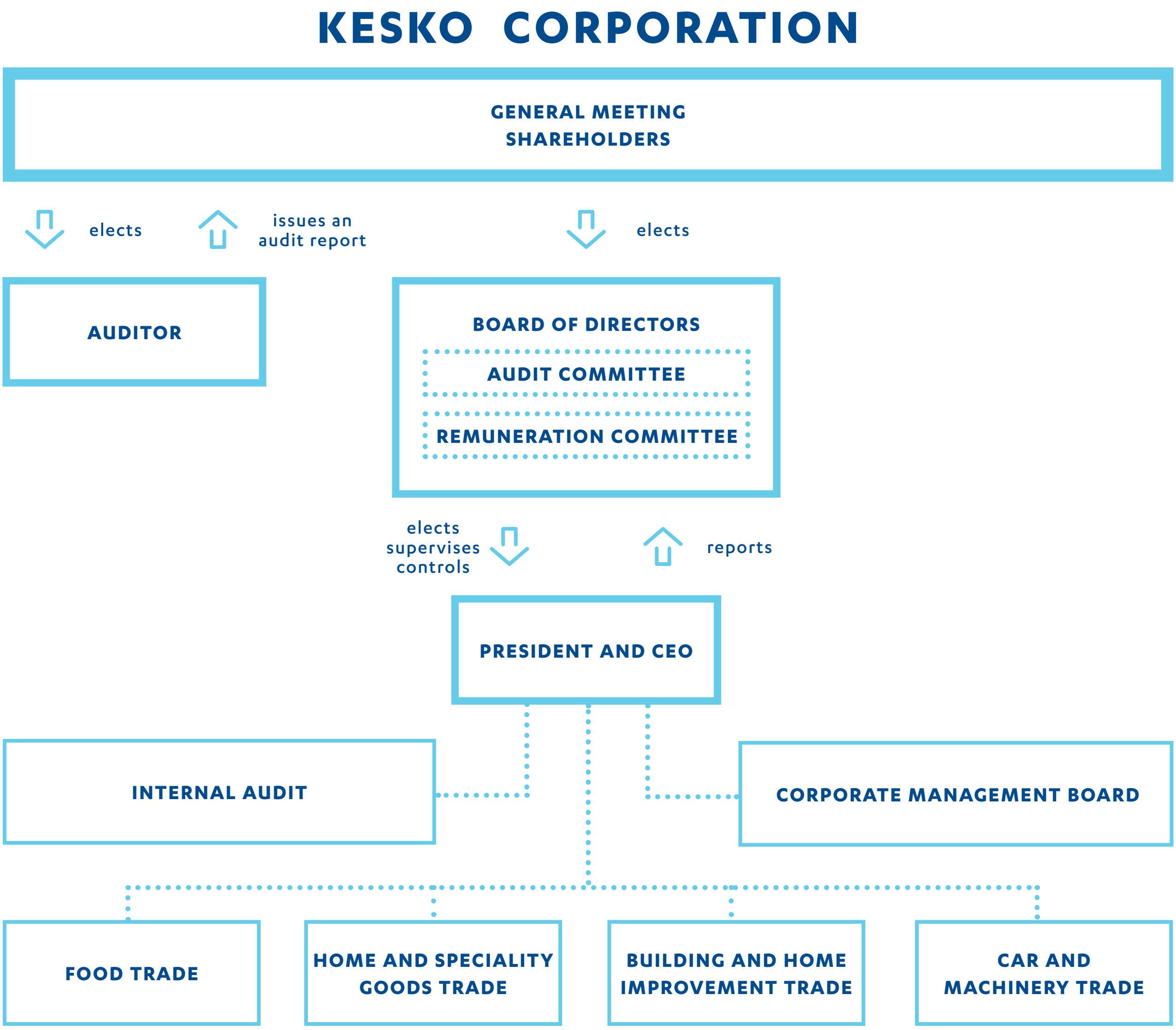
** Carrying amounts*

READ MORE

about energy solutions in our store site projects in the responsibility section on page 40.

KESKO'S CORPORATE GOVERNANCE

KESKO GROUP'S CORPORATE GOVERNANCE STRUCTURE



RULES AND CORPORATE GOVERNANCE CODE OBSERVED BY KESKO

Kesko Corporation (Kesko or the company) is a Finnish public limited company in which the duties and responsibilities of the executive bodies are defined according to the Finnish laws. The Kesko Group comprises the parent company, Kesko, and its subsidiaries.

Kesko's decision-making and corporate governance are guided by Kesko's values and responsible operating practices. Decision-making and corporate governance comply with the Finnish Limited Liability Companies Act, regulations concerning publicly quoted companies, Kesko's Articles of Association, the charters of Kesko's Board of Directors and its Committees and the rules and guidelines of NASDAQ OMX Helsinki Ltd. The company complies with the Finnish Corporate Governance Code for Listed Companies 2010 (available at www.cgfinland.fi).

As provided by the Comply or Explain principle of the Corporate Governance Code, the company departs from the Corporate Governance Code's recommendation concerning a Board member's terms of office. According to Kesko's Articles of Association, the term of a Board member is three years, whereas recommendation 10 of the Corporate Governance Code recommends that Board members should be elected for a term of one year. A shareholder which, together with related entities, holds over 10% of all votes carried by Kesko shares, has informed the company's Board that it considers the term of three

READ MORE
www.kesko.fi/investors

years to be good for the company's long-term development and has not seen any need to shorten the term of office stated in the Articles of Association.

GENERAL MEETING

The highest decision-making power in Kesko is exercised by the company's shareholders at the company's General Meeting. The Annual General meeting is held annually by the end of June on a date designated by the company's Board. The most significant matters falling within the competence of the General Meeting include the election of Board members and the auditor, the adoption of the financial statements, the resolution on discharging the Board members and the Managing Director from liability, and the resolution on the distribution of the company's assets, such as profit distribution.

The company has share series A and B, which differ with respect to the votes they carry. Each A share carries the right to ten (10) votes and each B share to one (1) vote at the General Meeting. When votes are taken, the proposal for which more than half of the votes were cast will normally be the resolution of the General Meeting, as prescribed by the Limited Liability Companies Act.

Shareholders are invited to the General Meeting by a notice published in at least two nationwide newspapers. The notice of the meeting and other General Meeting documents, including the proposals of the company's Board to the General Meeting, are made available to shareholders not later than three weeks prior to the General Meeting at the company's main office and on its website at www.kesko.fi. The notice of the meeting and the proposals of the company's Board to the General Meeting are also published in a stock exchange release.

The company aims for all of Kesko's Board members, the President and CEO, and the auditor to be present at the Annual General Meeting. The minutes of the General Meeting are made available to shareholders at www.kesko.fi within two weeks from the General Meeting. The resolutions of the General Meeting are also published in a stock exchange release immediately after the meeting.

BOARD OF DIRECTORS

According to the Articles of Association, the term of office of a Board member is three years, 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. Kesko's Board of Directors consists of a minimum of five and a maximum of eight members. The Board elects the Chair and the Deputy Chair from among its members for the whole term of the Board.

The Board of Directors elected by Kesko's Annual General meeting of 16 April 2012 consists of seven members:

- Esa Kiiskinen (Chair)
- Seppo Paatelainen (Deputy Chair)
- Ilpo Kokkila
- Tomi Korpisaari
- Maarit Näkyvä
- Toni Pokela
- Virpi Tuunainen.

In accordance with the Articles of Association, their terms will expire at the close of the 2015 Annual General Meeting.

All of Kesko's Board members are non-executive directors. In the latest independence evaluation carried out on 16 April 2012, the Board found all members independent of the company's significant shareholders, and the majority of the members also independent of the company. Board members Kiiskinen, Korpisaari and Pokela are not independent of the company, because companies controlled by them have chain agreements with a Kesko Group company.

Board duties

Kesko's Board of Directors ensures that the company's administration, operations and accounting, and financial management controls are in place. The Board considers and makes decisions on all matters that are financially, commercially or fundamentally significant to the Group. The Board's duty is to promote the best interests of Kesko and all of its shareholders.

Board operations in 2012

In 2012, the Board held 11 meetings. The Board members' average attendance rate at Board meetings was 98.7%.

In its strategy work in 2012, the Board continued to discuss the divisions' controlled expansion into Russia, monitored especially the progress of the chain concept and business model development in the home and speciality goods trade, and continued to discuss electronic customer communications and e-commerce. The Board approved measures for adjusting to the uncertain economic situation by prioritising capital expenditures, among other things. In August 2012, the Board also decided to issue and list a €250 million bond. As in previous years, the Board reviewed the financial reports and monitored the Group's financial situation, approved the most significant capital expenditures in the operating countries, monitored the progress of Group-level projects and approved the interim reports and the financial statements prior to their disclosure.

The Board meetings regularly include a review by the President and CEO on major topical issues, as well as reports by the Chairs of the Board's Audit Committee and Remuneration Committee on preparatory committee meetings preceding the Board meetings. The auditor regularly presents his findings to the Board once a year in connection with the review of the financial statements.

The Board regularly assesses its operations and working practices and carries out a related self-assessment once a year. Most recently, the Board made a self-assessment of its operations and working practices in December 2012. In the assessment, the Board decided to place a special emphasis on monitoring the implementation of strategic projects.

BOARD COMMITTEES

Kesko has a Board's Audit Committee and a Remuneration Committee, both of which consist of three Board members. At the close of the Annual General meeting, the Board elects the Chairs and the members of the Committees from among its members for one year at a time.

The Committees have no independent decision-making power. Instead, the Board makes decisions based on the preparatory work of the Committees.

The Committees regularly assess their operations and working practices and carry out a related self-assessment once a year.

Audit Committee

The Audit Committee members are Maarit Näkyvä (Ch.), Seppo Paatelainen (Deputy Ch.) and Virpi Tuunainen. All members of the Audit Committee are independent of the company and its significant shareholders. In the election of the Audit Committee members, the relevant qualification requirements have been taken into account.

According to its charter, the duties of the Audit Committee include monitoring the Kesko Group's financial and funding situation and the process of financial statements reporting and supervising the company's financial reporting process, as well as monitoring the statutory audit of the financial statements and the consolidated financial statements, and evaluating the independence of the company's audit firm. The Audit Committee also prepares the draft resolution concerning the election of the company's auditor to the General Meeting.

In 2012, the Audit Committee held five (5) meetings, and its members' average attendance rate at the meetings was 93.3%. At the Committee meetings, the Group's CFO, the Corporate Controller, the Chief Audit Executive and the General Counsel regularly report on their areas of responsibility to the Committee. The Committee also receives reports on the Kesko Group's funding situation, risk management and insurances. The auditor is present at the Committee meetings and presents his audit plan and report to the Audit Committee.

During the year, the Committee reviewed reports on the Group's financial situation, including the financial statements release and interim reports and made a recommendation to the Board on handling the interim reports and the financial statements release. In addition, the Committee reviewed the Group's external and internal audit, risk management and legal affairs reports. The Committee approved the updated internal control principles and the guidelines for malpractice investigation and reporting, as well as internal audit's audit plan, budget and resources for 2013.

The Committee also evaluated the auditor's independence and the consultation services provided to the Group. The Audit Committee has prepared and submitted a proposal to Kesko's Annual General Meeting on the auditor to be elected for Kesko. In its self-assessment in December 2012, the Committee concluded that it was necessary to continue discussing the division of duties between the Committee and the Board in handling financial statements, financial statements release and interim reports.

Remuneration Committee

The Remuneration Committee members are Esa Kiiskinen (Ch.), Seppo Paatelainen (Deputy Ch.) and Ilpo Kokkila. All members of the Remuneration Committee are independent of the company's significant shareholder and the majority is also independent of the company.

According to its charter, the duties of the Remuneration Committee include preparing matters pertaining to the appointment, compensation and other financial benefits of the company's President and CEO and Corporate Management Board members responsible for lines of business, and preparing the managing director's service contract to the Board.

In 2012, the Remuneration Committee held three (3) meetings and its members' average attendance rate at the meetings was 100%. The Committee prepared proposals for the Board on the payment of share awards and on the principles of the management's performance bonus scheme. In its self-assessment discussion in December 2012, the Committee decided to discuss management succession in more detail than before.

More information on Kesko's Board members is available on pages 60–61 and at www.kesko.fi.

ATTENDANCE AT MEETINGS BY MEMBERS OF THE BOARD AND ITS COMMITTEES IN 2012

			Attendance		
	Board member since	Committee	Board	Audit Committee	Remuneration Committee
Esa Kiiskinen (Ch.*)	2009	Remuneration Committee (Ch.)	11/11		3/3
Seppo Paatelainen (Dep. Ch.)	2006	Audit Committee (Dep. Ch.) Remuneration Committee (Dep. Ch.)	11/11	5/5	3/3
Ilpo Kokkila	2006	Remuneration Committee	11/11		3/3
Tomi Korpisaari*	2012		9/9		
Maarit Näkyvä	2001	Audit Committee (Ch.)	11/11	5/5	
Toni Pokela*	2012		9/9		
Virpi Tuunainen*	2012		8/9	3/4	
Heikki Takamäki (Ch.)**	2001	Remuneration Committee (Ch.)	2/2		2/2
Mikko Kosonen**	2009	Audit Committee	2/2	1/1	
Rauno Törrönen**	2009		2/2		

** From 16 Apr. 2012*
*** Until 16 Apr. 2012*

BOARD MEMBERS' INDEPENDENCE IN 2012

	Independent of the company	Independent of significant shareholder
Esa Kiiskinen (Ch.*)	No***	Yes
Seppo Paatelainen (Dep. Ch.)	Yes	Yes
Ilpo Kokkila	Yes	Yes
Tomi Korpisaari*	No***	Yes
Maarit Näkyvä	Yes	Yes
Toni Pokela*	No***	Yes
Virpi Tuunainen*	Yes	Yes
Heikki Takamäki (Ch.)**	No***	Yes
Mikko Kosonen**	Yes	Yes
Rauno Törrönen**	No***	Yes

** From 16 Apr. 2012*
*** Until 16 Apr. 2012*
**** At the time of evaluation, each of the companies controlled by Kiiskinen, Korpisaari, Pokela, Takamäki and Törrönen has or has had a chain agreement with a company belonging to the Kesko Group.*

PRESIDENT AND CEO

Kesko has a managing director who is the President and CEO. Kesko's President and CEO is Matti Halmesmäki, Master of Science in Economics and Master of Laws. He has been Kesko's President and CEO since 1 March 2005.

The President and CEO's duty is to manage the company's operations in accordance with the instructions and orders issued by the company Board and to inform the Board about developments in the company's business operations and financial situation. He is also responsible for the company's day-to-day management and for ensuring that financial matters are handled in a reliable manner. The President and CEO also chairs the Corporate Management Board and the Boards essential with regard to business operations.

The President and CEO is elected by the Board, which also makes the decisions on the terms of the President and CEO's service contract. A written managing director's service contract, approved by the Board, has been made between the company and the President and CEO.

More information on Kesko's President and CEO is available on page 62 and at www.kesko.fi.

CORPORATE MANAGEMENT BOARD

The Kesko Group has a Corporate Management Board, the Chair of which is Kesko's President and CEO. The Corporate Management Board has no competence based on legislation or the Articles of Association. The Corporate Management Board's duty is to discuss Group-wide development projects and Group-level policies and practices. In addition, the Corporate Management Board discusses the Group's and the division parent companies' business plans, profit performances and matters handled by Kesko's Board, in the preparation of which it also participates. The Corporate Management Board holds 8–10 meetings a year.

More information on Kesko's Corporate Management Board is available on pages 62–63 and at www.kesko.fi.

REMUNERATION

REMUNERATION OF THE BOARD AND ITS COMMITTEES

The Annual General Meeting adopts resolutions on the fees and other financial benefits of the members of the Kesko Board and its Committees annually. The fees of the members of the Board and its Committees are paid in cash only.

REMUNERATION OF THE PRESIDENT AND CEO AND OTHER MANAGEMENT

The remuneration plan for the President and CEO and for the other members of the Corporate Management Board consists of a non-variable monetary salary (monthly salary), fringe benefits (free car and mobile phone benefit), a performance bonus based on criteria set annually (the maximum performance bonus of the President and CEO corresponds to his monetary salary for a maximum of eight months, and that of the other members of the Corporate Management Board to their monetary salary for a maximum of 4–5 months), share-based compensation and share option plans and management's retirement benefits.

Based on the Remuneration Committee's preparatory work, Kesko's Board makes decisions on the individual compensation, other financial benefits, the performance bonus system criteria and the performance bonuses paid to the President and CEO and the Corporate Management Board members responsible for lines of business. The President and CEO makes decisions on the compensation and other financial benefits of Corporate Management Board members other than those responsible for lines of business within the limits set by the Chair of the Board's Remuneration Committee.

More information on Kesko management's remuneration and the company's share-based compensation and share option plans is available on pages 56–57 and 62–63, and at www.kesko.fi.

RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

RISK MANAGEMENT

Risk management is an integral part of management in Kesko

Kesko's risk management is proactive and an integral part of its management and day-to-day activities. The objective of risk management is to ensure the delivery of customer promises, profit performance, dividend payment capacity, shareholder value, the implementation of responsible operating practices and the continuity of operations in the Kesko Group. Efficient risk management is a competitive advantage for Kesko. The risk management policy confirmed by the Board of Directors guides risk management in the Kesko Group.

The Kesko Group has a uniform risk assessment and reporting system and it applies a business-oriented and comprehensive approach to risk assessment and management. This means that key risks are systematically identified, assessed, managed, monitored and reported as part of business operations at the Group, division, company and unit levels in all operating countries.

CORPORATE MANAGEMENT BOARD MEMBERS AND RESPONSIBILITY AREAS IN 2012

	Since	Responsibility area
Matti Halmesmäki, Ch.	1 Jan. 2001	Kesko's President and CEO
Terho Kalliokoski, President of Kesko Food Ltd	17 Mar. 2005	Food trade and Kesko's store site operations in Russia
Minna Kurunsaari, Senior Vice President, home and speciality goods trade	1 Dec. 2011	Home and speciality goods trade, customer information and e-commerce projects
Arja Talma, President of Rautakesko Ltd	17 Mar. 2005	Building and home improvement trade
Pekka Lahti, President of VV-Auto Group Oy	1 Mar. 2005	Car and machinery trade
Jukka Erlund, Senior Vice President, CFO of Kesko	1 Nov. 2011	Finance and accounting, IT management, financial services
Matti Mettälä, Senior Vice President	1 Oct. 2012	Human resources and stakeholder relations

In 2012, the Corporate Management Board members also included Riitta Laitasalo, Senior Vice President, Human Resources, and Merja Haverinen, Senior Vice President, Corporate Communications and Responsibility, until 30 Sep. 2012.

ANNUAL AND MEETING FEES PAID TO BOARD MEMBERS FOR BOARD AND COMMITTEE WORK IN 2012 (€)

		Meeting fees			
	Annual fees	Board	Audit Committee	Remuneration Committee	Total
Esa Kiiskinen (Ch.*)	69,250	4,500			73,750
Seppo Paatelainen (Dep. Ch.)	50,000	4,500	1,500	1,000	57,000
Ilpo Kokkila	37,000	4,500		1,000	42,500
Tomi Korpisaari*	27,750	3,500			31,250
Maarit Näkyvä	37,000	4,500	3,000		44,500
Toni Pokela*	27,750	3,500			31,250
Virpi Tuunainen*	27,750	3,500	1,000		32,250
Heikki Takamäki (Ch.)**	20,000	1,000		1,000	22,000
Mikko Kosonen**	9,250	1,000	500		10,750
Rauno Törrönen**	9,250	1,000			10,250
Total	**315,000**	**31,500**	**6,000**	**3,000**	**355,500**

** From 16 Apr. 2012*
*** Until 16 Apr. 2012*
The fees are reported on cash basis.

ANNUAL AND MEETING FEES RESOLVED BY THE ANNUAL GENERAL MEETING IN 2009–2012 (€)

	Fee/year
Annual fee	2009–2012
Board Chair	80,000
Board Deputy Chair	50,000
Board member	37,000

	Fee/meeting
Meeting fees	2009–2012
Fee for a Board meeting	500
Fee for a Committee meeting	500
Committee Chair's fee for a Committee meeting, if he/she is not also the Board Chair or Deputy Chair	1,000

PRESIDENT AND CEO MATTI HALMESMÄKI

Salaries, performance bonuses and fringe benefits in 2010–2012 (€)

	2012	2011	2010
Non-variable monetary salary	865,300	642,900	605,100
Performance bonuses*	309,000	339,500	227,500
Fringe benefits	22,023	19,980	22,560
Total	**1,196,323**	**1,002,380**	**855,160**

** Paid based on previous year's performance*

Share-based payments

Share award (pcs)

	2013	2012	2011
Maximum	21,000	21,000	18,000
Granted*		5,607	7,794
Commitment period (until)		31.12.2015	31.12.2014

** The share award for the 2012 vesting period, decided by the Board in February 2013, will be paid by the end of April 2013 in accordance with the terms of the plan. The number of shares granted for the 2013 vesting period will be decided in 2014. The shares decided to be granted for the 2011 vesting period were granted in April 2012.*

The share award is based on the fulfilment of the vesting criteria set by the Board for each vesting period. The Board annually decides on the vesting criteria and the maximum share amounts at the beginning of the vesting period. At the beginning of the year following the vesting period, the Board decides the final amounts of Kesko B shares to be granted based on the fulfilment of the vesting criteria. The vesting criteria with equal weightings for the 2011–2012 vesting periods are Kesko's basic earnings per share (EPS) excl. non-recurring items, the performance of the Kesko Group's sales exclusive of tax for the vesting period, and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap GI Index. In addition, a cash component is paid to cover the taxes and tax-like charges incurred by the award.

Commitment period
The share award in Kesko B shares involves a commitment period of three calendar years, following each vesting period, during which the shares may not be assigned.

Share options
At 31 December 2012, the President and CEO did not hold the 2007A, 2007B and 2007C share options granted to him in 2007–2009. In those years, he received 50,000 share options in each series, or a total of 150,000 share options.

The 2007A-2007C share options carry an obligation set by Kesko's Board to option recipients to use 25% of the proceeds from their share options to buy company shares for permanent ownership.

Period of notice and termination benefit

If the President and CEO's service contract is terminated by the company, he is paid a 12-months' salary for the period of notice and a separate lump sum termination benefit which corresponds to his 12-months' monetary salary and fringe benefits (a total of 24 x termination month's monetary salary + fringe benefits). If the President and CEO resigns, he is entitled to a 6-months' salary for the period of notice.

Retirement benefits

The President and CEO is a member of the Kesko Pension Fund's department A and his retirement benefits are determined based on the department's rules and his managing director's service contract. In 2011, his term of office, based on his managing director's service contract, was extended until his retirement on old age pension at the age of 63. His retirement benefit is based on a defined benefit plan. At retirement, his pension will be 66% of his pensionable salary, which is determined based on his non-variable monetary salary, performance bonuses and fringe benefits for the last 10 years. In 2012, Kesko did not incur pension insurance premiums on the supplementary retirement benefit included in the President and CEO's pension.

SALARIES, PERFORMANCE BONUSES AND FRINGE BENEFITS OF CORPORATE MANAGEMENT BOARD MEMBERS IN 2011–2012 (€)

	Non-variable monetary salary		Performance bonuses		Fringe benefits		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Matti Halmesmäki (Ch.)	865,300	642,900	309,000	339,500	22,023	19,980	1,196,323	1,002,380
Corporate Management Board**	1,491,291	1,537,924	327,950	438,500	108,944	97,127	1,928,185	2,073,550
Total	**2,356,591**	**2,180,824**	**636,950**	**778,000**	**130,968**	**117,107**	**3,124,508**	**3,075,930**

Salaries, performance bonuses and fringe benefits are reported on cash basis. The 2011 accrual is calculated by adding the amount of performance bonus paid in 2012 to the salaries and fringe benefits in 2011. The performance bonus accrued for 2012 will be decided in spring 2013.
*** Excluding President and CEO Halmesmäki. The amounts reported for the Corporate Management Board reflect the changes in its compostition in 2012 and include each member's salaries, performance bonuses and fringe benefits for their terms of office.*

SHARE-BASED PAYMENTS TO CORPORATE MANAGEMENT BOARD MEMBERS

Share award (pcs)	Vesting period 2013	Vesting period 2012		Vesting period 2011	
	Maximum**	Maximum**	To be granted**	Maximum**	Granted
Matti Halmesmäki, Ch.	21,000	21,000	5,607	18,000	7,794
Corporate Management Board*	39,000	32,500	8,678	33,300	14,419
Total	**60,000**	**53,500**	**14,285**	**51,300**	**22,213**

** Excluding President and CEO Halmesmäki. The amounts reported for the Corporate Management Board reflect the changes in its composition in 2012 and are reported as at the end of 2012.*
*** The shares decided by the Board in February 2013 to be granted for the 2012 vesting period, will be granted by the end of April 2013 in accordance with the terms of the plan. The number of shares granted for the 2013 vesting period will be decided in 2014. The shares decided to be granted for the 2011 vesting period were granted in April 2012.*

The share award is based on the fulfilment of the vesting criteria set by the Board for each vesting period. The Board annually decides on the vesting criteria and the maximum share amounts at the beginning of the vesting period. At the beginning of the year following the vesting period, the Board decides the final amounts of Kesko B shares to be granted based on the fulfilment of the vesting criteria. The vesting criteria with equal weightings for the 2011–2012 vesting periods are Kesko's basic earnings per share (EPS) excl. non-recurring items, the performance of the Kesko Group's sales exclusive of tax for the vesting period, and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap GI Index.

In addition, a cash component is paid to cover the taxes and tax-like charges incurred by the award.

The share award in Kesko B shares involves a commitment period of three calendar years, following each vesting period, during which the shares may not be assigned. The commitment period for shares granted for the 2011 vesting period will expire on 31 Dec. 2014 and the commitment period for shares granted for the 2012 vesting period will expire on 31 Dec. 2015.

Share options

At 31 Dec. 2012, Corporate Management Board members, excluding President and CEO Halmesmäki, held a total of 17,000 2007B and 65,500 2007C share options of the total of 138,000 2007A, 138,000 2007B and 145,500 2007C share options granted to them in 2007–2009. The 2007A share options based on the 2007 option scheme expired in spring 2012. At 31 December 2012, the President and CEO Halmesmäki did not hold Kesko share options. The amounts reported for the Corporate Management Board reflect the changes in its composition in 2012.

The 2007A-2007C share options carry an obligation set by Kesko's Board to option recipients to use 25% of the proceeds from their share options to buy company shares for permanent ownership.

RETIREMENT BENEFITS, PERIODS OF NOTICE AND TERMINATION BENEFITS OF CORPORATE MANAGEMENT BOARD MEMBERS

	Old age pension age (yrs)	Pension as percentage of pensionable salary (%)	Period of notice	Termination benefit
Matti Halmesmäki, Ch.	63	66	6*/12 mo	12 mo salary
Terho Kalliokoski	62	66	6 mo	6 mo salary
Minna Kurunsaari	62	66	6 mo	6 mo salary
Arja Talma	based on TyEL**	based on TyEL**	6 mo	6 mo salary
Pekka Lahti	62	66	6 mo	12 mo salary
Jukka Erlund	based on TyEL**	based on TyEL**	6 mo	6 mo salary
Matti Mettälä	62	66	6 mo	12 mo salary

If the company terminates the executive's service contract, he/she is paid a 6–12-months' salary for the period of notice and a separate lump sum termination benefit which corresponds to his/her 6–12-months' non-variable monetary salary and fringe benefits (a total of 12–24 x termination month's salary + fringe benefits). If the executive resigns, he/she is entitled to a salary for the period of notice.

Except for Erlund and Talma, the executives are members of the Kesko Pension Fund's department A. Their retirement ages and retirement benefits are determined based on the department's rules and each of their service contracts. Their retirement benefits are based on defined benefit plans. In 2012, Kesko did not incur pension insurance premiums on the supplementary retirement benefit included in these pensions.
** If the President and CEO resigns, he is entitled to a 6-months' salary for the period of notice.*
*** TyEL = the Employees' Pensions Act*

Providing insurance cover is part of Kesko's risk management

Providing insurance cover is part of Kesko's risk management, and the policy confirmed by Kesko's Board defines the principles of providing insurance. The objective of insurance is to ensure that the Group's personnel, assets, business operations and liabilities have appropriate and economical insurance cover, while taking account of legislative requirements and the Group's risks and risk tolerance at any given time. The Group's risk management function is responsible for the Group-level insurance programmes, their competitive tendering and brokerage services as part of the Group's damage/loss risk management.

Responsibilities and roles in risk management

The business division and Group function managements are responsible for risk management implementation. Each division has appointed a management board member, usually the finance director, to be responsible for coordinating risk management and security, for providing guidelines in each respective division, and for reporting on risk management responses. In addition, divisions have risk managers and security managers responsible for the development and supervision of risk management and security in the division in cooperation with the business management and supporting functions.

Kesko has a Group-level Risk Management Steering Group, which is chaired by the Group's President and CEO and composed of the representatives of the management of the various divisions and Group functions.

The Group's risk management function supervises and coordinates the development of joint risk management and security procedures, the adoption of best practices in the Group, and is responsible for risk reporting to the Group's management.

The management of financial risks is based on the Group's finance policy, which is confirmed by Kesko's Board. Group Treasury is centrally responsible for funding, liquidity management, debt investor relations and the management of financial risks.

Risk reporting

Based on the divisions' and Group functions' risk analyses, the Kesko Group's risk management function quarterly prepares the Group's risk map, which presents the most significant risks and their management. The risk map, the most significant risks and uncertainties, and changes in and responses to them are reported to the Kesko Board's Audit Committee in connection with handling the interim reports and the financial statements. The Audit Committee's Chair reports on risk management to the Board as part of the Audit Committee report. Kesko's Board discusses the most significant risks and the responses required to manage them, and assesses the efficiency of risk management. The most significant risks and uncertainties are reported to the market by the Board in the financial statements, and changes in them in interim reports.

Risk management responses in 2012

Kesko's risk management process is established and no significant changes took place in it in 2012. Risk management resources were increased in Russia and cooperation between business divisions and Group control were strengthened. The risk management, legal affairs and internal audit functions organised value discussions on Kesko's responsible operating practices in Kesko's subsidiaries.

The risk management function was involved in the project for the introduction of the new chip&pin payment terminals completed at the end of the year. Kesko's chains and online stores are now in compliance with the PCI standard. A project for enhanced user rights management was launched in Kesko's various SAP environments.

In 2012, competitive tendering for the Kesko Group's non-life insurances was arranged. As operations in Russia expanded, special attention was paid to establishing efficient operating models in order to ensure a sufficient insurance cover for Russian subsidiaries. In addition, information sessions on the costs of occupational accidents and accident reduction were held.

Focus areas of risk management in 2013

The risk management function will continue working in close cooperation with other Group functions, such as the internal audit, legal affairs, human resources, accounting, treasury and IT functions in order to ensure the adoption of, for example, responsible operating practices, to prevent malpractice, and to develop risk management related to personnel safety, information security and data protection. In 2013, the SAP user rights management project launched in the previous year will continue and its efficient use will be ensured.

The response programme for 2013 emphasizes the cost efficiency of risk management responses, which is the aim of centralised purchasing of services and security technology and increased cooperation between divisions. Jointly with the divisions, the risk management function organises crisis exercises for the company's management and training sessions on safety and security. In addition, continuity planning for premises critical for business operations and for information management is being developed in particular.

The most significant risks and their management responses

Risks and uncertainties impacting Kesko's business operations and their management responses, as well as the organisation and principles of Kesko's risk management are described at www.kesko.fi/investors and in the Report by the Board of Directors starting on page 69 .

Financial risks (such as counterparty risk, liquidity risk, currency risk, interest rate risk and commodity risk relating to electricity derivatives) are described in note 39 to Kesko's financial statements for 2012 on page 115.

INTERNAL CONTROL

Internal control is a part of management, Kesko's governance and day-to-day operations. The Board and the President and CEO are responsible for the organisation of internal control. The Audit Committee of Kesko's Board has confirmed Kesko's internal control policies, which are based on good control principles, widely accepted internationally (COSO).

Internal control refers to all proactive controls, and daily and subsequent control aimed at ensuring the achievement of business objectives. Kesko's values, operating principles and the company's strategy and objectives form the basis of internal control as a whole.

Defining the focus areas for control is based on the identification of business threats and opportunities as part of Kesko's risk management operations. The divisions annually prepare control programmes that contain the focus and development areas for control. Kesko's operating principles have been communicated to Kesko employees in the guide 'Our Responsible Working Principles' and the related Group-wide training programme.

The objective of internal control in the Kesko Group is to ensure the profitability and efficiency of operations, to secure the continuity of operations, the reliability of financial and operational reporting, compliance with laws and agreements and Kesko's values and operating principles, as well as the security of assets and information.

The Kesko Group's internal audit function evaluates and verifies the performance and efficiency of Kesko's internal control, and assists the management and Kesko companies in the development of an internal control system.

INTERNAL AUDIT

Kesko's internal audit is responsible for the Group's independent evaluation and assurance function required of a listed company, which systematically examines and verifies the efficiency of risk management, control, management and governance. The Audit Committee of Kesko's Board has approved Kesko's internal audit function's operating instructions.

Organisation and operation of internal audit

The internal audit function is organised under Kesko's President and CEO and the Audit Committee, and it reports on its findings and recommendations to the Audit Committee, the President and CEO, the management of the audited operation, and the auditor. The function covers all of Kesko's divisions, companies and functions.

Auditing is based on risk analyses and risk management and control discussions with the Group's and divisions' managements. Meetings with the auditor are also arranged on a regular basis. An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The annual plan is modified on a risk basis, if necessary.

As necessary, the internal audit function purchases external services for added resources or for the purpose of conducting audit operations that require special competencies. Audits can also make use of the competencies and contributions of the Kesko Group's other specialists.

The internal audit function cooperates with the Group's risk management function and participates in the work of the Risk Management Steering Group. The internal audit function assesses the efficiency of Kesko's risk management system annually.

Internal audit operations in 2012

In 2012, the focus areas of the internal audit function included Kesko's business operations in Russia and related risks, as well as significant business and IT projects. Other areas of emphasis included payment controls and malpractice risks. In the information system audit, special attention was paid to the progress and management of ongoing projects. Compliance with Kesko's accounting policies and reporting guidelines was verified and assessed in various audits, with an emphasis on the accuracy of inventory values and trade receivables. Close cooperation with the auditor was maintained in order to ensure a sufficient coverage of audit operations and to avoid overlapping operations.

Focus areas of internal audit in 2013

The key focus areas of internal audit operations in 2013 will be the business operations in Russia and related risks, as well as the basic controls, such as payment, store and proactive IT controls. Other focus areas include the ongoing business and IT projects, as well as the data security and controls of online stores.

GROUP'S FINANCIAL REPORTING

Kesko's financial reporting and planning are based on the Kesko Group's management system. The Group units' financial results are reported and analysed within the Group on a monthly basis, and disclosed in interim reports published quarterly. Financial plans are prepared for quarterly periods, in addition to which significant changes are taken into account in monthly performance forecasts. The Group's and its units' strategies and related long-term financial plans are updated annually.

Key actions in 2012

The Kesko Group continued the project for harmonising the financial management information systems, which serves both the Group companies and the K-Group's retailers. The resulting financial management system will be part of the Group's financial reporting system. In addition, the K-Group's financial management processes and the control environment will become uniform.

The adoption of a shared planning system, which was begun earlier, was continued. The project will harmonise the Group companies' planning systems and integrate them into the Group's reporting system.

Key actions in 2013

In 2013, the financial management function will continue the information system project serving the K-Group and the adoption of the system.

AUDIT

According to the Articles of Association, Kesko has one auditor, which shall be an audit firm authorised by the Central Chamber of Commerce. The term of an auditor is the company's financial year and an auditor's duties terminate at the close of the Annual General Meeting following the election.

The 2012 General Meeting elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the company's auditor, with APA Johan Kronberg as the auditor with principal responsibility.

OTHER INFORMATION

More comprehensive information on Kesko's Corporate Governance and the separate statements, referred to in the Corporate Governance Code, Kesko's Corporate Governance Statement and the Remuneration Statement, are available in the Investor section at www.kesko.fi.

AUDITORS' FEES IN 2011–2012 (€, THOUSAND)

	2012					2011				
	PwC		Other audit firms		Total	PwC		Other audit firms		Total
	Kesko Corporation	Other Group companies	Kesko Corporation	Other Group companies		Kesko Corporation	Other Group companies	Kesko Corporation	Other Group companies	
Auditing	132	712	-	87	931	76	758	-	59	892
Tax consultation	22	80	11	5	118	54	68	4	13	139
IFRS consultation	-	5	5	-	10	11	-	4	-	15
Other services	96	126	161	62	445	96	269	30	57	452
Total	**250**	**923**	**177**	**154**	**1,504**	**237**	**1,095**	**38**	**129**	**1,498**

KESKO CORPORATION'S BOARD OF DIRECTORS AS AT 31 DECEMBER 2012

ESA KIISKINEN
b. 1963, Business College Graduate.
Domicile: Helsinki, Finland.

Chair
(Chair of the Remuneration Committee).

Principal occupation: food retailer.
Main employment history: K-food retailer since 1990.
Main positions of trust: Confederation of Finnish Industries EK: Chairman of the Delegation for Entrepreneurs 2012–, Confederation of Finnish Industries EK: Vice-Chairman of the Board 2012–, Finnish Family Firms Association: Board member 2011–, Foundation for Vocational Training in the Retail Trade: Board Chair 2008–, Saija ja Esa Kiiskinen Oy: Board Chair 1995–, Federation of Finnish Commerce: Board member 2008–2012, K-Retailers' Association: Board Chair 2008–2012, Vähittäiskaupan Tilipalvelu VTP Oy: Board member 2008–2012.
Board member since: 30 March 2009.
Kesko shares and share options held:
As at 31 December 2011: a total of 107,350 A shares held by him or his company. No share options.
As at 31 December 2012: a total of 107,350 A shares held by him or his company. No share options.

SEPPO PAATELAINEN
b. 1944, Master of Science (Agriculture and Forestry).
Domicile: Suonenjoki, Finland.

Deputy Chair (Deputy Chair of the Audit Committee and the Remuneration Committee).

Principal occupation: -
Main employment history: Atria Group plc: CEO 1991–2006, Itikka Co-operative and Itikka Lihabotnia Oy: CEO 1988–1991, Luja-Yhtiöt: Director 1973–1987, Itikka Co-operative: Director 1970–1973.
Main positions of trust: Seinäjoki Region Business Service Center: Board Chair 2009–, Alma Media Corporation: Deputy Board Chair 2009–2010, Board Chair 2011–, Ilkka-Yhtymä Oyj: Board Chair 2007–, Board member 1994–2007, Finavia Corporation: Board Chair, Board member 2010–6/2011, Valga Viro: Board Chair 2005–2006, Pit Product (Russia): Board Chair 2005–2006, Liha ja Säilyke Oy: Board Chair 1998–2006, OKO: Supervisory Board member 1997–2006.
Board member since: 27 March 2006.
Kesko shares and share options held:
As at 31 December 2011: No shares. No share options.
As at 31 December 2012: No shares. No share options.

ILPO KOKKILA
b. 1947, Master of Science (Technology).
(Member of the Remuneration Committee).
Domicile: Helsinki, Finland.

Principal occupation: SRV Group Plc: Board Chair.
Main employment history: SRV Group Plc: Board Chair 1987–, Pontos Ltd: Board Chair 2002–, Perusyhtymä Oy: Director 1974–1987, A-Betoni Oy: Constructor 1972–1974.
Main positions of trust: Confederation of Finnish Industries EK: Chairman of the Board 2013–, Finnish-Russian Chamber of Commerce (FRCC): Board Deputy Chair 2006–2011, Board Chair 2012–, JTO School of Management: Board Chair 1999–2012.
Board member since: 27 March 2006.
Kesko shares and share options held:
As at 31 December 2011: 16,100 B shares held by him. No share options.
As at 31 December 2012: 16,100 B shares held by him. No share options.

TOMI KORPISAARI
b. 1968, retailer, Master of Science (Economics).
Domicile: Hausjärvi, Finland.

Principal occupation: retailer, building and home improvement and agricultural trade.
Main employment history: K-retailer since 1995.
Main positions of trust: Federation of Finnish Commerce: Board member 2012–, K-Retailers' Association: Board Chair 2012–, Deputy Chair 2008–2012, Board member 2005–2007, Vähittäiskaupan Tilipalvelu VTP Oy: Board Chair 2012–, Board member 2010–2012, Foundation for Vocational Training in the Retail Trade: Board Chair 2012–, Deputy Chair 2008–2012, Riihimäen Seudun Osuuspankki: Supervisory Board Chair 2007–, Confederation of Finnish Industries EK: member of the Delegation for Entrepreneurs 2008–, Finnish Family Firms Association: Board member 2013–, member of the Delegation of Family Enterprises 2010–2012, Olavi Korpisaari Oy: Board member and Managing Director 2001–.
Board member since: 16 April 2012.
Kesko shares and share options held:
As at 16 April 2012: a total of 87,211 A shares and 500 B shares held by him or his company. No share options.
As at 31 December 2012: a total of 87,211 A shares and 500 B shares held by him or his company. No share options.

MAARIT NÄKYVÄ
b. 1953, Master of Science (Economics).
(Chair of the Audit Committee).
Domicile: Kirkkonummi, Finland.

Principal occupation: -
Main employment history: Sampo Fund Management Ltd: Board member 2007–2008, Sampo Bank plc: Board member 2001–2008, Executive Vice President 2007–2008, Sampo plc: Executive Vice President 2001–2006, Leonia Bank plc: Board member 1998–2000, Merita Fund Management Ltd: President 1996–1997, Merita Bank Ltd.: Director 1995–1996, Unitas Bank Ltd.: Director 1990–1995.
Main positions of trust: Luottokunta: Board member 2007–2008, Realty World Ltd: Board Chair 2004–2008.
Board member since: 1 January 2001.
Kesko shares and share options held:
As at 31 December 2011: No shares. No share options.
As at 31 December 2012: No shares. No share options.

TONI POKELA
b. 1973, retailer, Secondary School Graduate.
Domicile: Helsinki, Finland.

Principal occupation: food retailer.
Main employment history: K-food retailer since 1997.
Main positions of trust: Pokela Oy Iso Omena: Board member and Managing Director 1998–, K-Retailers' Association: Board member 2008–2012, K-Food Retailers' Club: Board Chair 2010–2012, Deputy Chair 2008–2010, Finnish Grocery Trade Association: Board member 2010–2011.
Board member since: 16 April 2012.
Kesko shares and share options held:
As at 16 April 2012: a total of 179,400 A shares held by a company controlled by him. No share options.
As at 31 December 2012: a total of 179,400 A shares held by a company controlled by him. No share options.

VIRPI TUUNAINEN
b. 1967, Doctor of Science in Economics.
(Member of the Audit Committee).
Domicile: Helsinki, Finland.

Principal occupation: Professor at the Department of Information and Service Economy at Aalto University and Director of Aalto Service Factory.
Main employment history: Helsinki School of Economics: Professor 2004–2009, University of Jyväskylä: Scientific Leader, INFORTE Programme 2008–2011. Since 1995, Visiting Researcher, Visiting Professor and Professor at Finnish and foreign universities and higher education institutions.
Main positions of trust: SFR-Scandinavian Financial Research Ltd: Advisory Board member 2000–, Cambridge Service Alliance: member of Academic Advisory Board 2011–, Aalto University: Chair of Real-Time Economy Competence Center 2007–2012, KP-Media Oy: Board member 2007–2012.
Board member since: 16 April 2012.
Kesko shares and share options held:
As at 16 April 2012: No shares. No share options.
As at 31 December 2012: No shares. No share options.

In 2012, the Board members also included Heikki Takamäki (Ch.), Mikko Kosonen and Rauno Törrönen until the close of the Annual General Meeting on 16 April 2012.

READ MORE
www.kesko.fi/Board-of-Directors
The website provides up-to-date information on the main positions of trust and their terminations. The term of office of each Board member will expire at the close of the 2015 Annual General Meeting in accordance with the Articles of Association.

CORPORATE MANAGEMENT BOARD AS AT 31 DECEMBER 2012

MATTI HALMESMÄKI

b. 1952, Master of Science (Economics), Master of Laws. President and CEO of Kesko Corporation, Chairman of the Corporate Management Board.
Domicile: Helsinki, Finland.

Other major duties: Confederation of Finnish Industries EK: Board Member 2005– and Deputy Board Chair 2005–2011, Finnish Fair Corporation: Board member 2005–, Federation of Finnish Commerce: Board member 2005– and Board Chair 2012–, Ilmarinen Mutual Pension Insurance Company: Board member 2010–, Luottokunta: Supervisory Board member 2005– and Chair 2007–2010, Foundation for Economic Education: Board member 2005–, Finnish Business and Policy Forum EVA: member 2005–, Association for Promoting Voluntary National Defence of Finland: Delegation member 2005–, Savonlinna Opera Festival Patrons' Association, member of the Board of Trustees 2006–, East Office of Finnish Industries: Board member 2008–.
Employment history: employed by Kesko Ltd since 1980. Kesko Corporation's Managing Director and the Kesko Group's President and CEO since 1 March 2005.
Corporate Management Board member since:
1 January 2001.
Kesko shares and share options held:
As at 31 December 2011: 2,000 A shares, 10,000 B shares, 50,000 A share options, 30,000 B share options and 50,000 C share options.
As at **31 December 2012:** 2,000 A shares and 17,794 B shares.

TERHO KALLIOKOSKI

b. 1961, Master of Science (Economics). Kesko Food Ltd's President, and store site operations in Russia. Rautakesko Ltd's President since 5 February 2013.
Domicile: Kirkkonummi, Finland.

Other major duties: Finnish Grocery Trade Association: Board member 2006–, Deputy Chair of the Board 2006–2007, Chair of the Board 2008–2009 and 2013–, Association of Finnish Advertisers: Board member 2005–, Helsinki Region Chamber of Commerce: Board member 2009–, Deputy Chair of the Board 2012–.
Employment history: employed by Kesko Ltd since 1985: Kesko Food Ltd's President 1 May 2005–5 February 2013.
Corporate Management Board member since:
17 March 2005.
Kesko shares and share options held:
As at 31 December 2011: 6,000 B shares, 25,000 A share options, 9,750 B share options and 30,000 C share options.
As at 31 December 2012: 9,464 B shares.

JORMA RAUHALA

b. 1965, Master of Science (Economics). Kesko Food Ltd's President since 5 February 2013.
Domicile: Espoo, Finland

Other major duties: -
Employment history: employed by Kesko Ltd since 1992: Kesko Food Ltd's President since 5 February 2013. Vice President for the K-citymarket chain's food trade 2012–2013, Kespro Ltd's Managing Director 2007–2012.
Corporate Management Board member since: 5 February 2013.
Kesko shares and share options held:
As at 5 February 2013: 1,833 B shares and 8,000 C share options.

MINNA KURUNSAARI

b. 1965, Master of Laws. Senior Vice President, home and speciality goods trade, and Kesko's customer information and e-commerce projects.
Domicile: Espoo, Finland.

Other major duties: Pro Luomu ry: Vice Chair 2011–2012, Finfood - Finnish Food Information: Board member 2008–2011, Finnish Grocery Trade Association: Purchasing and Logistics Group member 2008–2011.
Employment history:
employed by Kesko Ltd since 1995. Senior Vice President, home and speciality goods trade and Kesko's customer information and e-commerce projects since 1 December 2011. Vice President for Kesko Food's Commerce 2008–2011.
Corporate Management Board member since:
1 December 2011.
Kesko shares and share options held:
As at 31 December 2011:
10,800
B shares, 10,000 A share options, 10,000 B share options and 12,500 C share options.
As at 31 December 2012: 12,532 B shares and 12,500 C share options.

Jorma Rauhala was appointed member of the Corporate Management Board on 5 February 2013.

ARJA TALMA
b. 1962, Master of Science (Economics), eMBA. Rautakesko Ltd's President. Senior Vice President, Store Sites and Investments since 5 February 2013.
Domicile: Helsinki, Finland.

Other major duties: Eurobuy GmbH: Board member 2012–, Eurogroup Far East Ltd: Board member 2011–, Sponda Plc: Board member 2007– and Chair of the Audit Committee 2007–, Association for the Finnish Work: Council member 2012–, Finnish Scout Foundation: Member of the Supervisory Board 2010–, VR-Group Ltd: Board member 2006–2012 and Chair of the Audit Committee 2006–2012, Luottokunta: Board member 2008–2012.
Employment history: employed by Kesko Corporation since 2004. Rautakesko Ltd's President 1 November 2011– 5 February 2013.
Corporate Management Board member since: 17 March 2005.
Kesko shares and share options held:
As at 31 December 2011: 2,000 B shares, 25,000 A share options, 25,000 B share options and 25,000 C share options.
As at 31 December 2012: 4,598 B shares, 15,000 B share options and 25,000 C share options.

PEKKA LAHTI
b. 1955, Master of Science (Agriculture). VV-Auto Group Oy's President.
Domicile: Vantaa, Finland.

Other major duties: Association of Automobile Importers in Finland: Board member 2007–2012, Board Chair 2010–2012, Finnish Car Recycling Ltd: Board member 2007–2012, Tieliikenteen tietokeskus TT Oy: Board member 2009–2012, Board Chair 2010–2012, Federation of Finnish Commerce: Board member 2010–2012.
Employment history: employed by Kesko Ltd since 1981. VV-Auto Group Oy's President since 1 February 2006.
Corporate Management Board member since: 1 March 2005.
Kesko shares and share options held:
As at 31 December 2011: 20,000 A share options, 20,000 B share options and 20,000 C share options.
As at 31 December 2012: 2,615 B shares and 20,000 C share options.

JUKKA ERLUND
b. 1974, Master of Science (Economics), eMBA. Senior Vice President, CFO.
Domicile: Helsinki, Finland.

Other major duties: Federation of Finnish Commerce: Chairman of the Tax and Economic Policy Committee 2011–, Confederation of Finnish Industries EK: member of the Finance and Taxation Committee 2012–, Suomen Luotto-osuuskunta: Board member 2012–, Luottokunta: Board member 2012.
Employment history: employed by Kesko Corporation since 2004. Senior Vice President, CFO since 1 November 2011. Kesko Food Ltd's Vice President for Finance 2010–2011.
Corporate Management Board member since: 1 November 2011.
Kesko shares and share options held:
As at 31 December 2011: 580 B shares, 2,000 B share options and 8,000 C share options.
As at 31 December 2012: 1,576 B shares, 2,000 B share options and 8,000 C share options.

MATTI METTÄLÄ
b. 1963, Master of Laws. Senior Vice President, Human Resources and Stakeholder Relations.
Domicile: Helsinki, Finland.

Other major duties: Entrepreneur Day Foundation: Board member 2008–, Foundation for Vocational Training in the Retail Trade: Board member 2005–, Finnish Enterprise Agencies: delegate member 2009–2012, Federation of Finnish Commerce: member of the Cooperation Committee 2010–2012, Finnish Family Firms Association: Advisory Council member 2010–2012.
Employment history: employed by Kesko Ltd in 1990–2005 and since 2012. Senior Vice President, Human Resources and Stakeholder Relations since 1 October 2012. K-Retailers' Association: Managing Director 2005–2012.
Corporate Management Board member since: 1 October 2012.
Kesko shares and share options held:
As at 1 October 2012: 280 B shares, no share options.
As at 31 December 2012: 280 B shares, no share options.

The amounts of shares held by the Corporate Management Board members, except for Mettälä, also include shares granted as share awards which are subject to restriction on transfer.

READ MORE
www.kesko.fi/corporate-management-board
The website provides up-to-date information on the main positions of trust, their terminations and more detailed employment history information.

CONTENTS OF FINANCIAL STATEMENTS

REPORT BY THE BOARD OF DIRECTORS

FINANCIAL PERFORMANCE

NET SALES AND PROFIT FOR 2012

The Group's net sales were €9,686 million, which is 2.4% up on the corresponding period of the previous year (€9,460 million). In Finland, net sales increased by 1.0% and in other countries by 9.0%. International operations accounted for 18.2% (17.1%) of the net sales. Net sales grew in the food trade, the home and speciality goods trade and the building and home improvement trade.

1–12/2012	Net sales	Change	Operating profit*	Change
	€ million	%	€ million	€ million
Food trade	4,311	+3.1	168.4	-3.8
Home and speciality goods trade	1,603	+2.5	19.8	-16.8
Building and home improvement trade	2,827	+4.1	13.6	-13.0
Car and machinery trade	1,114	-5.1	42.1	-9.7
Common operations and eliminations	-169	-3.9	-9.3	-0.9
Total	**9,686**	**+2.4**	**234.7**	**-44.2**

** Excl. non-recurring items*

The operating profit excluding non-recurring items was €234.7 million (€278.9 million), representing 2.4% (2.9%) of net sales. The profit performance was affected by several new store openings, higher level of costs and the expansion of Russian business operations. In addition, profitability was negatively impacted by a total write-off of €6 million related to personnel reductions. The operating profit excluding non-recurring items includes a €12 million amount recognised as revenue in connection with the transfer of the pension insurance portfolio.

Operating profit was €216.7 million (€280.6 million). The operating profit includes a €-18.0 million (€1.7 million) net amount of non-recurring items. The non-recurring items include an impairment charge of €-23.4 million on Anttila's goodwill and a €21.3 million reversal of the impairment of Indoor's brands. In addition, non-recurring expenses in a total of €-16.8 million were recognised for restructuring Musta Pörssi's business operations. The Group's profit before tax was €215.2 million (€282.1 million).

The Group's earnings per share were €1.30 (€1.84). The Group's equity per share was €22.43 (€22.20).

The K-Group's (i.e. Kesko's and the chain stores') retail and B2B sales (VAT 0%) were €12,104 million, up 2.9% compared to the previous year. The K-Group chains' sales entitling to K-Plussa points were €5,876 million excluding tax, up 3.2% compared to the previous year. The K-Plussa customer loyalty programme gained 93,285 new households. At the end of December, there was 2,219,516 K-Plussa households and over 3.8 million K-Plussa cardholders.

FINANCE

The cash flow from operating activities was an excellent €381.7 million (€215.7 million). The cash flow from investing activities was €-390.7 million (€-441.1 million). It included a €24.5 million (€8.2 million) amount of proceeds from the sale of fixed assets.

The Group's liquidity remained at a strong level. In September, a €250 million bond was issued to finance the Group's capital expenditure and to extend the debt financing structure. At the end of the period, liquid assets totalled €489 million (€367 million). Interest-bearing liabilities were €624 million (€400 million) and interest-bearing net debt €135 million (€33 million) at the end of the year. Equity ratio was 52.5% (53.9%) at the end of the period.

The Group's net finance costs were €0.6 million (net finance income €0.8 million).

TAXES

The Group's taxes were €75.8 million (€85.2 million). The effective tax rate was 35.2% (30.2%), affected by loss-making foreign operations.

CAPITAL EXPENDITURE

The Group's capital expenditure totalled €378.3 million (€425.4 million), or 3.9% (4.5%) of net sales. Capital expenditure in store sites was €310.0 million (€361.4 million), in IT €21.7 million (€20.4 million) and other capital expenditure was €46.6 million (€21.8 million). Capital expenditure in foreign operations represented 22.9% (31.7%) of total capital expenditure.

KESKO'S STRATEGIC FOCUS AREAS AND PROFITABILITY PROGRAMME

The key focus areas in Kesko's business operations are to strengthen sales growth and the return on capital in all divisions, to exploit business opportunities in e-commerce and in Russia, and to maintain good solvency and dividend payment capacity.

As a result of weakened general economic situation, tightened competition and an increase in the level of costs, Kesko is implementing the profitability programme announced previously, which aims to ensure price competitiveness and to improve profitability. The profitability programme includes significant measures aimed to increase sales, to enhance purchasing operations and to adjust costs, working capital and capital expenditures.

The Group level cost saving target is a total of around €100 million. Cost savings will be implemented in all divisions and in all operating countries. Most of the cost savings are expected to be achieved in 2013. The measures for staff cost enhancement have been implemented as announced previously, and the reduction of labour in the whole Group is 885 person-years, of which 486 in Finland. In addition to terminations, the reductions include reduced working hours and retirement arrangements. Other significant savings will be implemented by adjusting especially marketing and store site expenses and by centralising ICT purchases. In addition, special enhancement measures will be targeted at operations with poor profitability. The number of personnel in Rautakesko's foreign operations will be adjusted by some 400 person-years, Anttila's chain concepts will be reformed and costs will be adjusted, an e-commerce based operating model will be implemented for Musta Pörssi and its store site network will be strongly adjusted. The chain concept of Intersport's business operations in Russia will be reformed and unprofitable store sites will be closed.

In the next few years, capital expenditure will be aligned with funds generated from operations to some €200–300 million per year.

PERSONNEL

The average number of employees in the Kesko Group was 19,741 (18,960) converted into full-time employees. In Finland, the average increase was 170 people, while outside Finland, it was 611.

At the end of 2012, the total number of employees was 24,031 (23,375), of whom 13,229 (13,124) worked in Finland and 10,802 (10,251) outside Finland. Compared to the end of December 2011, there was an increase of 105 people in Finland and 551 people outside Finland.

The Group's staff cost was €602.9 million, an increase of 5.7% compared to the previous year.

SEGMENT INFORMATION

SEASONAL NATURE OF OPERATIONS

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

FOOD TRADE

	1–12/2012	1–12/2011
Net sales, € million	4,311	4,182
Operating profit excl. non-recurring items, € million	168.4	172.2
Operating profit as % of net sales excl. non-recurring items	3.9	4.1
Capital expenditure, € million	200.0	221.5

Net sales, € million

	1–12/2012	Change, %
Sales to K-food stores	3,327	+2.4
Kespro	787	+6.3
Others	197	+3.3
Total	**4,311**	**+3.1**

In the food trade, the net sales were €4,311 million (€4,182 million), up 3.1%. The grocery sales of K-food stores increased by 3.9% (VAT 0%). The sales of Pirkka products grew by 11.8% (VAT 0%). In the grocery market, retail prices are estimated to have changed by some 5% compared to the previous year (VAT 0%, Kesko's own estimate based on the Consumer Price Index of Statistics Finland), and the total market (VAT 0%) is estimated to have grown by some 5% compared to the previous year (Kesko's own estimate).

The operating profit excluding non-recurring items of the food trade was €168.4 million (€172.2 million), or €3.8 million down on the previous year. The operating profit performance was impacted by the expansion of the store site network and costs related to launching business operations in Russia. Profitability improved towards the end of the year as a result of enhanced operations and cost adjustments. Operating profit was €171.1 million (€173.7 million). Non-recurring income included €2.7 million of gains on disposals of properties.

The capital expenditure of the food trade was €200.0 million (€221.5 million).

HOME AND SPECIALITY GOODS TRADE

	1–12/2012	1–12/2011
Net sales, € million	1,603	1,564
Operating profit excl. non-recurring items, € million	19.8	36.6
Operating profit as % of net sales excl. non-recurring items	1.2	2.3
Capital expenditure, € million	61.1	61.8

Net sales, € million

	1–12/2012	Change, %
K-citymarket home and speciality goods	664	+3.4
Anttila	468	-1.3
Intersport, Finland	181	+6.9
Intersport, Russia	28	-
Indoor	184	+3.4
Musta Pörssi	57	-22.3
Kenkäkesko	23	+3.6
Total	**1,603**	**+2.5**

In the home and speciality goods trade, the net sales were €1,603 million (€1,564 million), up 2.5%. The sales of K-citymarket home and speciality goods, Intersport Finland, Budget Sport, as well as Asko and Sotka grew from the previous year. In addition, the sales performances of all online stores were positive. The sales of Anttila and Musta Pörssi decreased from the previous year.

The operating profit excluding non-recurring items of the home and speciality goods trade was €19.8 million (€36.6 million). Intersport Finland, Budget Sport, Asko and Sotka achieved positive profit performances. Profit was negatively impacted by a decrease in Anttila's sales and profitability, and the loss from Intersport's business operations in Russia. The operating profit excluding non-recurring items was positively impacted by a €8.7 million amount recognised as revenue in connection with the transfer of the pension insurance portfolio.

Operating profit was €0.3 million (€37.0 million). Non-recurring items include an impairment charge of €-23.4 million on Anttila's goodwill and a €21.3 million reversal of the impairment of Indoor's brands. In addition, a non-recurring expense of €-16.8 million was recognised for a significant adjustment of Musta Pörssi's store network. An online store has been established as Musta Pörssi's primary customer channel, supported by a limited network of stores operating in shopping centres.

The capital expenditure of the home and speciality goods trade was €61.1 million (€61.8 million).

BUILDING AND HOME IMPROVEMENT TRADE

	1–12/2012	1–12/2011
Net sales, € million	2,827	2,716
Operating profit excl. non-recurring items, € million	13.6	26.6
Operating profit as % of net sales excl. non-recurring items	0.5	1.0
Capital expenditure, € million	63.1	109.8

Net sales, € million

	1–12/2012	Change, %
Rautakesko, Finland	1,229	-0.3
K-rauta, Sweden	214	-0.5
Byggmakker, Norway	636	+7.4
Rautakesko, Estonia	64	+7.0
Rautakesko, Latvia	51	-2.9
Senukai, Lithuania	266	+6.7
Stroymaster, Russia	284	+19.6
OMA, Belarus	87	+7.7
Total	**2,827**	**+4.1**

In the building and home improvement trade, the net sales were €2,827 million (€2,716 million), up 4.1%. The sales of the building and home improvement trade increased especially in Russia, which was attributable to market growth, as well as a new store opened in Moscow during the year. The market growth rate of the building and home improvement trade fell during the last quarter in the other operating countries, especially in the Nordic countries.

In Finland, the net sales were €1,229 million (€1,233 million), a decrease of 0.3%. The building and home improvement product lines contributed €851 million to the net sales in Finland, a decrease of 4.6%. The agricultural supplies trade contributed €378 million to the net sales, up 10.8%.

The retail sales of the K-rauta and Rautia chains in Finland matched the previous year's level at €1,073 million (VAT 0%). The sales of Rautakesko B2B Service, mainly deriving from basic building materials, decreased by 7.5%. As a whole, the Rautakesko chains' retail and B2B sales performance is estimated to have exceeded that of the Finnish market. The retail sales of the K-maatalous chain were €463 million (VAT 0%), up 11.1%.

The net sales from the foreign operations of the building and home improvement trade were €1,598 million (€1,483 million), an increase of 7.8%. In Sweden, net sales were down by 4.1% in terms of kronas. In Norway, net sales increased by 3.0% in terms of krones. In Russia, net sales increased by 16.8% and in Belarus, by 67.5% in terms of roubles. Foreign operations contributed 56.5% (54.6%) to the net sales of the building and home improvement trade.

The operating profit excluding non-recurring items of the building and home improvement trade was €13.6 million (€26.6 million). In addition to contracted sales towards the year end, profit performance was impacted by new store openings in Sweden and Russia, and write-offs on inventories, trade receivables and raised import duties. Operating profit was €11.9 million (€26.3 million).

The capital expenditure of the building and home improvement trade totalled €63.1 million (€109.8 million), of which 51.4% (85.8%) abroad.

CAR AND MACHINERY TRADE

	1–12/2012	1–12/2011
Net sales, € million	1,114	1,174
Operating profit excl. non-recurring items, € million	42.1	51.8
Operating profit as % of net sales excl. non-recurring items	3.8	4.4
Capital expenditure, € million	26.6	29.9

Net sales, € million

	1–12/2012	Change, %
VV-Auto	790	-6.9
Konekesko	325	-0.5
Total	**1,114**	**-5.1**

The net sales of the car and machinery trade were €1,114 million (€1,174 million), down 5.1%.

VV-Auto's net sales were €790 million (€849 million), a decrease of 6.9% compared to the previous year, as a result of a decrease of the total market. In Finland, new registrations of passenger cars decreased by 11.8% and those of vans by 20.9% compared to the previous year. The combined market share of passenger cars and vans imported by VV-Auto was 20.2% (20.7%). Volkswagen was the best selling passenger car and van brand in Finland in 2012.

Konekesko's net sales were €325 million (€326 million), down 0.5% compared to the previous year. Net sales in Finland were €211 million, down 3.6%. The net sales from Konekesko's foreign operations were €116 million, up 4.9%.

The operating profit excluding non-recurring items of the car and machinery trade was €42.1 million (€51.8 million), down €9.7 million. Regardless of the sales decrease, profitability remained at a good level. Operating profit was €42.1 million (€51.9 million).

The capital expenditure of the car and machinery trade was €26.6 million (€29.9 million).

CHANGES IN THE GROUP COMPOSITION

No significant changes took place in the Group composition during the reporting period.

SHARES, SECURITIES MARKET AND BOARD AUTHORISATIONS

At the end of 2012, the total number of Kesko Corporation shares was 98,712,340, of which 31,737,007, or 32.2%, were A shares and 66,975,333, or 67.8%, were B shares. At 31 December 2012, Kesko Corporation held 608,591 own B shares as treasury shares, the subsidiaries do not hold Kesko Corporation shares. Treasury shares account for 0.91% of the number of B shares and 0.62% of the total number of shares, and 0.16% of votes carried by all shares of the company. Each A share entitles to ten (10) votes and each B share to one (1) vote. The company cannot vote with treasury shares and no dividend is paid on them. At the end of December 2012, Kesko Corporation's share capital was €197,282,584. During the reporting period, the number of B shares was increased five times to account for the shares subscribed for with the options based on the 2007 option scheme. The increases were made on 5 June 2012 (4,500 B shares), 31 July 2012 (600 B shares), 30 October 2012 (26,038 B shares), 28 November 2012 (17,550 B shares) and 27 December 2012 (18,610 B shares) and announced in stock exchange notifications on the same days. The shares subscribed for were listed for public trading on NASDAQ OMX Helsinki (Helsinki Stock Exchange) with the old B shares on 6 June 2012, 1 August 2012, 31 October 2012, 29 November 2012 and 28 December 2012. The combined subscription price of €962,365.02 received by the company was recorded in the reserve of invested non-restricted equity.

The price of a Kesko A share quoted on NASDAQ OMX Helsinki was €24.82 at the end of 2011, and €24.39 at the end of December 2012, representing a decrease of 1.7%. Correspondingly, the price of a B share was €25.96 at the end of 2011, and €24.77 at the end of December 2012, representing a decrease of 4.6%. In January-December, the highest A share price was €27.65 and the lowest was €19.99. For B share, they were €27.81 and €18.08 respectively. In January-December, the Helsinki stock exchange (OMX Helsinki) All-Share index was up by 8.3% and the weighted OMX Helsinki CAP index by 9.6%. The Retail Index was down by 0.8%.

At the end of December 2012, the market capitalisation of A shares was €774 million, while that of B shares was €1,644 million, excluding the shares held by the parent company. The combined market capitalisation of A and B shares was €2,418 million, a decrease of €89 million from the end of 2011. In 2012, a total of 2.3 (2.1) million A shares were traded on the Helsinki stock exchange, up 8.3%. The exchange value of A shares was €57 million. The total number of B shares traded was 68.5 (63.3) million, up 8.2%. The exchange value of B shares was €1,560 million. The Helsinki stock exchange accounted for 76% of all trading in Kesko shares in 2012. In addition, Kesko shares were traded on multilateral trading facilities, the most significant of which were BATS Chi-X with 20% and Turquoise with 4% (source: Fidessa).

The company operates the 2007 option scheme for management and other key personnel, under which the share subscription period of 2007A share options has expired, that of 2007B share options runs from 1 April 2011 to 30 April 2013, and that of 2007C share options runs from 1 April 2012 to 30 April 2014. The 2007B and 2007C share options are included on the official list of the Helsinki stock exchange. During the reporting period, a total of 501,899 2007B share options were traded at a total value of €1,198,991, and correspondingly, a total of 250,729 2007C share options were traded at a total value of €2,435,669.

The Board has the authority, granted by the Annual General Meeting of 16 April 2012 and valid until 30 June 2015, to issue a total maximum of 20,000,000 new B shares. In addition, the Board has the authority, granted by the Annual General Meeting of 4 April 2011 and valid until 30 June 2014, to decide on the issuance of a total maximum of 1,000,000 own B shares held by the company itself. The authority granted by the Annual General Meeting of 4 April 2011 to acquire a total maximum of 1,000,000 own B shares expired on 30 September 2012. Based on the authority to issue own shares and the fulfilment of the vesting criteria of the 2011 vesting period of Kesko's three-year share-based compensation plan, the Board granted a total of 92,751 company shares held by the company itself to the persons included in the target group. The matter was announced in a stock exchange release on 12 April 2012. After the vesting period, a total of 1,342 shares already transferred have been returned to the company in accordance with the terms of the share-based compensation plan. The returns were announced in stock exchange notifications on 20 July 2012 and 9 November 2012. Further information on the Board's authorities is available at www.kesko.fi.

At the end of December 2012, the number of shareholders was 44,554, which is 3,339 more than at the end of 2011. At the end of December, foreign ownership of all shares was 18%. At the end of December, foreign ownership of B shares was 27%.

FLAGGING NOTIFICATIONS

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

MAIN EVENTS DURING THE REPORTING PERIOD

The second phase of the transfer of the Kesko Group companies' statutory pension insurance liability portfolio, agreed between the Kesko Pension Fund and Ilmarinen Mutual Pension Insurance Company, was carried out with effect from 1 January 2012. (Stock exchange release on 15 February 2012)

On 12 April 2012, Kesko transferred a total of 90,889 own B shares held by the company itself to the about 150 Kesko management employees and other named key persons included in the target group of the 2011 vesting period of Kesko's three-year share-based compensation plan. In addition, on the same basis, Kesko transferred a total of 1,862 own B shares held by the company itself in May. After the transfers, the company itself held 607,249 own B shares. (Stock exchange release on 12 April 2012)

On 11 September 2012, Kesko Corporation issued a €250 million unsecured bond. The six-year bond will mature on 11 September 2018 and it carries a fixed annual interest at the rate of 2.75 percent. NASDAQ OMX Helsinki admitted the bond to public trading as from 12 September 2012. (Stock exchange release on 4 and 11 September 2012)

Matti Mettälä, 49, Master of Laws, was appointed Senior Vice President and member of Kesko's Corporate Management Board responsible for human resources and stakeholder relations starting from 1 October 2012. Starting from 1 October 2012, Kesko's Corporate Management Board is composed of Matti Halmesmäki, Chair; Terho Kalliokoski, responsible for the food trade; Minna Kurunsaari, responsible for the home and speciality goods trade and Kesko's electronic marketing and services projects; Arja Talma, responsible for the building and home improvement trade; Pekka Lahti, responsible for the car and machinery trade; Jukka Erlund, responsible for finance, treasury and IT management; and Matti Mettälä, responsible for human resources and stakeholder relations. (Stock exchange release on 21 September 2012)

Kesko's profitability programme is progressing. The objective is to achieve cost savings of €100 million. Most of the savings are expected to be achieved in 2013. The profitability programme covers all of Kesko's divisions. The aim is to reduce especially marketing, personnel, rent and information system expenses. (Stock exchange release on 24 September 2012)

The Financial Supervisory Authority gave its permission to the Kesko Pension Fund to return the surplus assets accumulated in its department B, which managed the pension fund's statutory pension insurance provision, to the Kesko Group companies. The surplus returned from the pension fund to the Group companies generated a cash inflow of approximately €71 million. (Stock exchange release on 14 December 2012)

RESOLUTIONS OF THE 2012 ANNUAL GENERAL MEETING AND DECISIONS OF THE BOARD'S ORGANISATIONAL MEETING

Kesko Corporation's Annual General Meeting, held on 16 April 2012, adopted the financial statements for 2011 and discharged the Board members and the Managing Director from liability. The General Meeting also resolved to distribute €1.20 per share as dividends on 98,035,931 shares held outside the company at the date of dividend distribution, or a total amount of €117,643,117.20, as proposed by the Board. The dividend pay date was 26 April 2012. The General Meeting resolved to leave the number of Board members unchanged at seven and elected Esa Kiiskinen, Ilpo Kokkila, Tomi Korpisaari, Maarit Näkyvä, Seppo Paatelainen, Toni Pokela and Virpi Tuunainen as Board members for a three-year term of office as stated in the Articles of Association. The General Meeting elected PricewaterhouseCoopers Oy as the company's auditor, with Johan Kronberg, APA, as the company's auditor with principal responsibility. The General Meeting also approved the Board's proposal to issue a total maximum of 20,000,000 new B shares until 30 June 2015, and the Board's proposal that it be authorised until the 2013 Annual General Meeting to decide on the donation of a total maximum of €300,000 for charitable or corresponding purposes.

The organisational meeting of Kesko Corporation's Board of Directors, held after the Annual General Meeting, elected Esa Kiiskinen as its Chair and Seppo Paatelainen as its Deputy Chair. The Board elected Maarit Näkyvä as the Chair, Seppo Paatelainen as the Deputy Chair and Virpi Tuunainen as a member of the Audit Committee, and Esa Kiiskinen as the Chair, Seppo Paatelainen as the Deputy Chair and Ilpo Kokkila as a member of the Remuneration Committee. The Board elects the Board Chair and Deputy Chair for the whole three-year term of a Board member, and the Committee Chairs, Deputy Chairs and members for one year at a time.

The resolutions of the Annual General Meeting and the decisions of the Board's organisational meeting were announced in more detail in stock exchange releases on 16 April 2012.

RESPONSIBILITY

In January 2012, Kesko was included on 'The Global 100 Most Sustainable Corporations in the World' list for the eighth time.

In February, World Finance Magazine recognised Kesko for the best corporate governance in Finland in terms of development and reporting for a second successive year.

In March, the US Ethisphere Institute listed Kesko as one of the World's Most Ethical Companies for 2012.

Kesko's Board of Directors granted scholarships in a total of €41,000 to talented young athletes and art students.

For the tenth time, Kesko was included in the Dow Jones sustainability indexes DJSI World and DJSI Europe. Kesko's total score increased from the previous year and Kesko was given the highest scores in four areas in its sector.

Kesko was again included in the FTSE4Good index. Kesko's overall rating for 2012 was 96 out of 100, which is four points up from the previous year. The score given to Kesko's work for curbing climate change was 5 on the scale of 0–5.

Kesko was included in the STOXX Global ESG Leaders index for the second time. Kesko is also one of the companies on the new SSP Fonder list of the world's 100 most responsible companies.

In October, Kesko was awarded the highest score in the Consumer Staples sector in the assessment by the Nordic Carbon Disclosure Leadership climate index. Kesko was included in the index for a second successive year.

INFORMATION CONTAINED IN THE NOTES TO THE FINANCIAL STATEMENTS

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

Information on options, shares under options and voting rights is disclosed in note 35.

Related party transactions are disclosed in note 40.

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

In May 2013, Kesko will publish a separate Corporate Responsibility Report which analyses the Group's performance in economic, social and environmental responsibility. An assurance statement will be provided by an independent external party.

RISK MANAGEMENT

Kesko's risk management is proactive and an integral part of its management and day-to-day activities. The objective of risk management is to ensure the delivery of customer promises, profit performance, dividend payment capacity, shareholder value, the implementation of responsible operating practices and the continuity of operations in the Kesko Group.

Risk management in the Kesko Group is guided by the risk management policy confirmed by the Board of Directors. The policy defines the objectives and principles, organisation, responsibilities and practices of risk management in the Kesko Group. The management of financial risks is based on the Group's finance policy, which is confirmed by Kesko's Board of Directors. The business division and Group managements are responsible for the execution of risk management.

The Kesko Group applies a business-oriented and comprehensive approach to risk assessment and management. This means that key risks are systematically identified, assessed, managed, monitored and reported at the Group, division, company and unit levels in all operating countries.

Kesko has a uniform risk assessment and reporting system. Risk identification is based on business objectives and opportunities and the defined risk appetite. Risks are prioritised on the basis of their significance by assessing the impact and probability of their materialisation and the level of risk management. When assessing the impact of materialisation, the impacts on reputation, people's wellbeing and the environment are considered in addition to financial impacts.

In connection with the strategy process, the divisions assess the risks and opportunities concerning each strategic period. Near-future risks are identified and assessed in accordance with the rolling planning framework. Risk assessment also covers the risks concerning each division's subsidiaries and significant projects.

A division's risk assessment, which includes risk management responses, responsible persons and schedules, is considered by the division's management board or the division parent company's Board quarterly prior to the disclosure of the interim report. The Group functions also assess the risks concerning their responsibility areas.

Risks and management responses are reported in accordance with Kesko's reporting responsibilities. The divisions report on risks and changes in risks to the Group's risk management function on a quarterly basis. Risks are discussed by the risk reporting team including representatives of the divisions and the Group functions. On that basis, the Group's risk management function prepares the Group's risk map, which presents the most significant risks and uncertainties and their management.

The Group's risk map is considered by the Kesko Board's Audit Committee in connection with considering the quarterly interim reports and the financial statements. The Chair of the Audit Committee reports on risk management to the Board as part of the Audit Committee's report. The Kesko Board considers the Kesko Group's most significant risks and uncertainties and their management responses, and assesses the efficiency and performance of risk management at least once a year. The most significant risks and uncertainties are reported to the market by the Board in the financial statements, and any material changes in them in the interim reports.

The following describes the risks and uncertainties assessed as significant.

SIGNIFICANT RISKS AND UNCERTAINTIES

A possible further weakening of economic development, increases in taxes and public payments resulting from the indebtedness of the public sector, coupled with increasing unemployment will weaken purchasing power and consumer confidence, in addition to negatively impacting especially the home and speciality goods trade, the building and home improvement trade and the car and machinery trade. In the food trade, the impacts can be seen in consumption moving towards more affordable alternatives.

E-commerce and e-services are becoming increasingly popular in the retail trade. International e-commerce increases consumers' alternatives at the same time when buying and marketing of products and services become more personalised and increasingly take place online. Buying decisions are increasingly often made based on online information. The achievement of objectives requires attractive e-services and retail websites, utilisation of a multi-channel approach and electronic customer communications to support it. The risk is that the progress of our e-commerce and e-service development projects is outpaced by competitors, or that competing online stores and e-services are more attractive to customers.

As part of capital expenditure prioritisation, Kesko has specified its expansion plans in Russia for the food trade, the building and home improvement trade and the sports trade. The key in expansion is to succeed in the acquisition and building of well located store sites, the development of store concepts, purchasing operations and logistics, as well as the recruitment of key personnel. The country risks in Russia, such as corruption, unpredictability of officials and rapid changes in laws and their application, coupled with unexpected changes in the operating environment can delay the expansion and make business operations more difficult.

The implementation of changes in business operations requires increasingly sophisticated management and control systems and information systems supporting them. Rautakesko's expansion abroad, for example, and the adoption of a uniform selection management, and the integration of K-citymarket home and speciality goods and Anttila with related changes in business operations are long-term projects. Failures in change management, technological choices and the adoption of new operating models and systems would delay the implementation of changes in business operations.

The regulations on the food trade are tightening. Public discussion about food prices and the position of operators in the supply chain has increased. Increasing regulations restricting competitive trading conditions are being imposed in Finland and also by the European Union. Such a development can weaken the trading sector's possibilities to serve customers and operate efficiently.

Kesko's chain operations are, contrary to most competitors, based on a retailer business model to a significant extent. The benefits of the retailer business model include the retailer's knowledge of local customers and ability to rapidly respond to changes in customer needs or competitive situations. Decision-making concerning the development of the chains' operations and the implementation of changes in business operations can, however, be outpaced by competitors.

The trading sector is characterised by increasingly complicated and long supply chains and a dependency on information systems, data communications and external service providers. Failures in information and payment systems, or in other parts of the supply chain can cause significant losses in sales and weaken customer satisfaction.

For the purpose of increasing market share, good store sites are a key competitive factor. The acquisition of store sites can be delayed by zoning and permit procedures and the availability and pricing of sites. Considerable amounts of capital or lease liabilities are tied up in store properties for years. Resulting from changes in the market situation, or an increase in the share of e-commerce, there is a risk that a store site becomes unprofitable and operations are discontinued while long-term liabilities remain.

A failure in product safety control or in the quality assurance of the supply chain can result in financial losses, the loss of customer confidence or, in the worst case, a health hazard to customers.

In lines of business strongly dependent on individual principals and suppliers, such as the car and machinery trade, ownership arrangements and changes in a principal's or supplier's strategy concerning product selections, pricing and distribution channel solutions can mean weakened competitiveness, decreased sales, or loss of business.

Crimes are increasingly committed through data networks and crime is becoming more professional. A failure especially in the protection of payment transactions and personal information can cause losses, claims for damages and endanger reputation. There is a risk that controls against such crime are not sufficient.

Different aspects of responsibility, such as ethicality of production and sourcing, fair and equal treatment of employees and environmental protection are increasingly important for customers and other stakeholders. Possible failures of responsibility would result in negative publicity for Kesko. Kesko's challenges in responsibility work include communicating its responsibility policies to suppliers, retailers and customers, and ensuring responsibility in the supply chain.

Compliance with laws and agreements is an important part of Kesko's responsibility. Non-compliance can result in fines, compensations for damages and other financial losses, and a loss of confidence and reputation.

Kesko's objective is to produce and publish reliable and timely information. If some information published by Kesko proved to be incorrect, or communications failed to meet regulations in other respects, it can result in losing investor and other stakeholder confidence and in possible sanctions.

Accidents, natural phenomena and epidemics can cause damages or business interruptions which cannot be prevented. There is also the risk that insurances do not cover all unexpected accidents and damages.

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

FUTURE OUTLOOK

Estimates of the future outlook for the Kesko Group's net sales and operating profit excluding non-recurring items are given for the 12 months following the reporting period (1/2013–12/2013) in comparison with the 12 months preceding the reporting period (1/2012–12/2012).

Resulting from the problems of European national economies, the outlook for the general economic situation and consumer demand are characterised by significant uncertainty. In addition, tightening taxation and cuts in public finances are expected to weaken the growth in the trading sector.

In the Finnish grocery trade, the market is expected to remain steady. As a result of the weakened economic situation, the markets for the home and speciality goods trade, the building and home improvement trade and the car and machinery trade in Finland are expected to fall. In Russia, the market development in both the building and home improvement trade and the grocery trade is expected to be positive.

The Kesko Group's net sales for 2013 are expected to match the level of the previous year. As a result of measures taken to enhance business operations and cost savings, the operating profit excluding non-recurring items for 2013 is expected to exceed the operating profit excluding non-recurring items for 2012, unless the overall consumer demand significantly weakens. The capital expenditure for 2013 is expected to be lower compared to the capital expenditure for the previous year.

PROPOSAL FOR PROFIT DISTRIBUTION

The parent's distributable profits are €1,141,220,145.13, of which the profit for the financial year is €154,424,274.87.

The Board of Directors proposes to the Annual General Meeting to be held on 8 April 2013 that a dividend of €1.20 per share be paid on shares held outside the company at the date of dividend distribution. No dividend is paid on treasury shares held by the company at the record date of dividend distribution.

At the date of the proposal for distributions of profits, 4 February 2013, a total of 98,103,749 shares were held outside the Company, amounting to a total dividend of €117,724,498.80.

ANNUAL GENERAL MEETING

The Board of Directors decided to convene the Annual General Meeting at the Helsinki Fair Centre on 8 April 2013 at 13.00. Kesko Corporation will publish a notice of the Annual General Meeting at a later date.

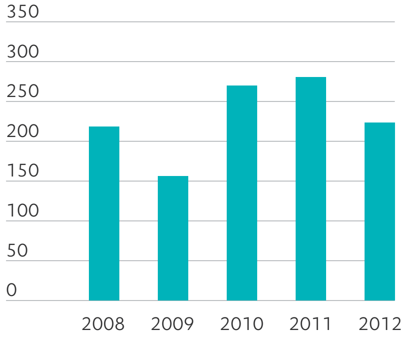
CORPORATE GOVERNANCE STATEMENT

Kesko will publish a separate Corporate Governance Statement on week 10 on its website at www.kesko.fi.

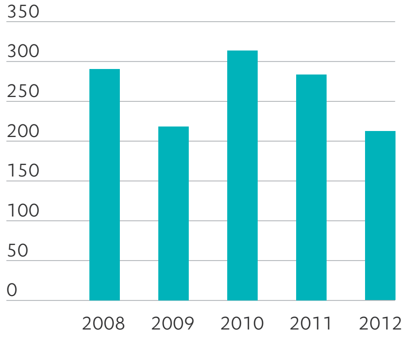
GROUP'S KEY PERFORMANCE INDICATORS

NET SALES*
€ million

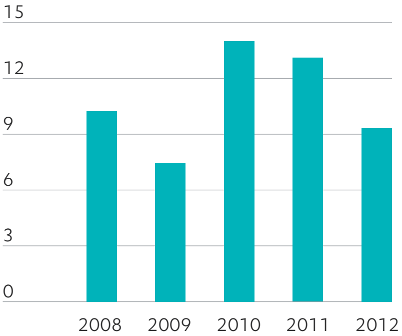
OPERATING PROFIT EXCL. NON-RECURRING ITEMS*
€ million



PROFIT BEFORE TAX*
€ million

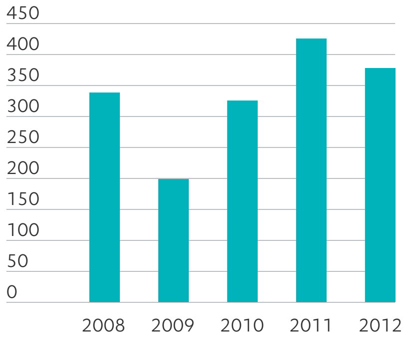


RETURN ON CAPITAL EMPLOYED EXCL. NON-RECURRING ITEMS
%

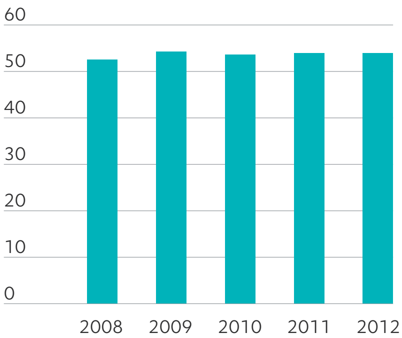


RETURN ON EQUITY EXCL. NON-RECURRING ITEMS
%

CAPITAL EXPENDITURE*
€ million

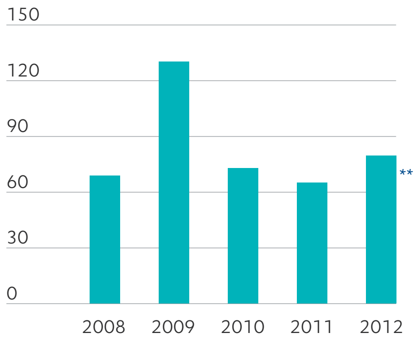


EQUITY RATIO
%



EARNINGS/SHARE AND DIVIDEND/SHARE
€

PAYOUT RATIO EXCLUDING NON-RECURRING ITEMS
%



** Continuing operations*
*** Proposal to the GM*

GROUP'S KEY PERFORMANCE INDICATORS

		2009	2010	2011	2012
Income statement					
Net sales	€ million	8,447	8,777	9,460	9,686
Change in net sales	%	-11.9	3.9	7.8	2.4
Operating profit excl. non-recurring items	€ million	155	268	279	235
Operating profit excl. non-recurring items as percentage of net sales	%	1.8	3.1	2.9	2.4
Profit for the year (incl. non-controlling interests)	€ million	134	216	197	139
Profit for the year as percentage of net sales	%	1.6	2.5	2.1	1.4
Profitability					
Return on equity	%	6.6	10.1	8.9	6.2
Return on equity excl. non-recurring items	%	3.8	8.7	8.8	7.1
Return on capital employed	%	11.0	16.0	13.2	8.5
Return on capital employed excl. non-recurring items	%	7.4	14.0	13.1	9.3
Funding and financial position					
Interest-bearing net debt	€ million	-258.5	-370.5	32.8	135.3
Gearing	%	-12.5	-16.8	1.5	6.0
Equity ratio	%	54.2	53.5	53.9	52.5
Interest-bearing net debt/EBITDA		-0.7	-0.9	0.1	0.4
Other performance indicators					
Capital expenditure	€ million	198	325	425	378
Capital expenditure as percentage of net sales	%	2.3	3.7	4.5	3.9
Cash flow from operating activities	€ million	379	438	216	382
Cash flow from investing activities	€ million	31	-240	-441	-391
Personnel, average for the period		19,200	18,215	18,960	19,741
Personnel, as at 31 Dec.		22,207	22,124	23,375	24,031
Share performance indicators					
Earnings/share, diluted	€	1.27	2.06	1.84	1.30
Earnings/share, basic	€	1.28	2.08	1.85	1.31
Earnings/share excl. non-recurring items, basic	€	0.71	1.78	1.84	1.50
Equity/share	€	20.39	21.81	22.20	22.43
Dividend/share	€	0.90	1.30	1.20	1.20*
Payout ratio	%	70.5	62.6	64.9	91.9*
Payout ratio excl. non-recurring items	%	126.9	72.9	65.3	79.9*
Cash flow from operating activities/share, adjusted	€	3.86	4.45	2.20	3.88
Price/earnings ratio (P/E), A share, adjusted		18.55	16.82	13.55	18.68
Price/earnings ratio (P/E), B share, adjusted		18.14	16.93	14.14	17.21
Effective dividend yield, A share	%	3.8	3.7	4.8	4.9*
Effective dividend yield, B share	%	3.9	3.7	4.6	4.8*
Share price as at 31 Dec.					
A share	€	23.60	34.70	24.82	24.39
B share	€	23.08	34.93	25.96	24.77
Average share price					
A share	€	21.92	30.42	29.20	23.71
B share	€	19.18	29.83	29.36	22.75
Market capitalisation as at 31 Dec., A share	€ million	749	1,101	788	774
Market capitalisation as at 31 Dec., B share	€ million	1,537	2,337	1,719	1,644
Turnover					
A share	Million pcs	1	4	2	2
B share	Million pcs	78	53	63	68
Relative turnover rate					
A share	%	3.1	13.8	6.6	7.6
B share	%	117.4	78.8	94.6	102.0
Diluted number of shares as at 31 Dec.	Thousand pcs	98,382	99,121	98,919	98,472
Yield of A share for the last five periods	%	9.2	11.9	-4.6	-5.2
Yield of B share					
For the last five periods	%	10.3	12.6	-4.3	-3.7
For the last ten periods	%	14.9	20.6	16.9	14.4

** Proposal to the General Meeting*

Net sales by segment

€ million	1–12/2012	1–12/2011	Change, %
Food trade	4,311	4,182	3.1
Food trade total	**4,311**	**4,182**	**3.1**
- of which inter-segment sales	172	168	2.3
Home and speciality goods trade, Finland	1,557	1,541	1.0
Home and speciality goods trade, other countries*	45	23	95.7
Home and speciality goods trade total	**1,603**	**1,564**	**2.5**
- of which inter-segment sales	18	20	-8.3
Building and home improvement trade, Finland	1,229	1,233	-0.3
Building and home improvement trade, other countries*	1,598	1,483	7.8
Building and home improvement trade total	**2,827**	**2,716**	**4.1**
- of which inter-segment sales	0	12	-96.8
Car and machinery trade, Finland	998	1,064	-6.2
Car and machinery trade, other countries*	116	110	4.7
Car and machinery trade total	**1,114**	**1,174**	**-5.1**
- of which inter-segment sales	1	1	-3.7
Common operations and eliminations	-169	-176	-3.9
Finland total	**7,924**	**7,844**	**1.0**
Other countries total*	**1,762**	**1,616**	**9.0**
Group total	**9,686**	**9,460**	**2.4**

** Net sales in countries other than Finland*

Operating profit by segment

€ million	1–12/2012	1–12/2011	Change
Food trade	171.1	173.7	-2.6
Home and speciality goods trade	0.3	37.0	-36.7
Building and home improvement trade	11.9	26.3	-14.4
Car and machinery trade	42.1	51.9	-9.8
Common operations and eliminations	-8.8	-8.3	-0.5
Group total	**216.7**	**280.6**	**-63.9**

Operating profit excl. non-recurring items by segment

€ million	1–12/2012	1–12/2011	Change
Food trade	168.4	172.2	-3.8
Home and speciality goods trade	19.8	36.6	-16.8
Building and home improvement trade	13.6	26.6	-13.0
Car and machinery trade	42.1	51.8	-9.7
Common operations and eliminations	-9.3	-8.3	-0.9
Group total	**234.7**	**278.9**	**-44.2**

Group's performance indicators by quarter

	1–3/2011	4–6/2011	7–9/2011	10–12/2011	1–3/2012	4–6/2012	7–9/2012	10–12/2012
Net sales, € million	2,103	2,472	2,404	2,481	2,318	2,460	2,449	2,459
Change in net sales, %	7.4	8.5	7.8	7.4	10.2	-0.5	1.9	-0.9
Operating profit, € million	35.7	83.9	88.2	72.8	26.3	59.0	78.6	52.7
Operating margin, %	1.7	3.4	3.7	2.9	1.1	2.4	3.2	2.1
Operating profit excl. non-recurring items, € million	34.9	83.3	89.2	71.5	23.6	60.7	78.6	71.8
Operating margin excl. non-recurring items, %	1.7	3.4	3.7	2.9	1.0	2.5	3.2	2.9
Finance income/costs, € million	-0.6	0.3	0.3	0.8	-0.1	-0.3	-1.3	1.1
Profit before tax, € million	36.1	84.0	88.0	74.0	26.3	58.5	77.3	53.0
Profit before tax, %	1.7	3.4	3.7	3.0	1.1	2.4	3.2	2.2
Return on capital employed, %	7.2	16.0	16.4	12.8	4.3	9.2	12.2	8.1
Return on capital employed excl. non-recurring items, %	7.0	15.9	16.6	12.5	3.9	9.5	12.2	11.1
Return on equity, %	4.5	10.6	10.9	10.0	3.3	7.3	9.9	4.6
Return on equity excl. non-recurring items, %	4.4	10.6	11.1	9.8	3.0	7.5	9.9	8.2
Equity ratio, %	54.4	52.1	54.0	53.9	52.7	51.1	51.2	52.5
Capital expenditure, € million	64.1	130.5	126.3	104.5	104.1	67.8	102.6	103.8
Earnings/share, diluted, €	0.25	0.55	0.53	0.51	0.17	0.38	0.51	0.24
Equity/share, €	22.04	21.21	21.66	22.20	22.42	21.59	22.21	22.43

Net sales by segment

€ million	1–3/2011	4–6/2011	7–9/2011	10–12/2011	1–3/2012	4–6/2012	7–9/2012	10–12/2012
Food trade	948	1,077	1,049	1,108	1,010	1,091	1,078	1,132
Home and speciality goods trade	348	339	376	501	369	352	395	487
Building and home improvement trade	570	757	731	657	629	782	759	657
Car and machinery trade	279	342	290	263	353	274	259	227
Common operations and eliminations	-42	-43	-42	-48	-42	-41	-41	-45
Group total	**2,103**	**2,472**	**2,404**	**2,481**	**2,318**	**2,460**	**2,449**	**2,459**

Operating profit by segment

€ million	1–3/2011	4–6/2011	7–9/2011	10–12/2011	1–3/2012	4–6/2012	7–9/2012	10–12/2012
Food trade	42.1	45.9	45.7	40.0	37.6	38.9	49.6	45.0
Home and speciality goods trade	-7.4	2.8	8.7	32.9	-12.9	-0.6	0.9	12.9
Building and home improvement trade	-9.1	18.8	21.0	-4.5	-9.0	13.6	18.0	-10.8
Car and machinery trade	12.2	19.7	13.0	7.0	15.6	10.3	11.5	4.7
Common operations and eliminations	-2.2	-3.3	-0.2	-2.6	-5.1	-3.2	-1.4	0.9
Group total	**35.7**	**83.9**	**88.2**	**72.8**	**26.3**	**59.0**	**78.6**	**52.7**

Operating profit excl. non-recurring items by segment

€ million	1–3/2011	4–6/2011	7–9/2011	10–12/2011	1–3/2012	4–6/2012	7–9/2012	10–12/2012
Food trade	41.4	45.8	46.4	38.6	34.9	38.9	49.6	45.0
Home and speciality goods trade	-7.4	2.4	8.7	32.9	-12.9	-0.6	0.9	32.4
Building and home improvement trade	-9.1	18.8	21.3	-4.4	-9.0	15.3	18.0	-10.8
Car and machinery trade	12.2	19.6	13.0	7.0	15.6	10.3	11.5	4.7
Common operations and eliminations	-2.2	-3.3	-0.2	-2.6	-5.1	-3.2	-1.4	0.5
Group total	**34.9**	**83.3**	**89.2**	**71.5**	**23.6**	**60.7**	**78.6**	**71.8**

CALCULATION OF PERFORMANCE INDICATORS

Profitability			
Return on equity, %	=	$\frac{\text{(Profit/loss before tax − income tax)}}{\text{Shareholders' equity}}$	x 100
Return on equity excl. non-recurring items, %	=	$\frac{\text{(Profit/loss adjusted for non-recurring items before tax − income tax adjusted for the tax effect of non-recurring items)}}{\text{Shareholders' equity}}$	x 100
Return on capital employed, %	=	$\frac{\text{Operating profit}}{\text{(Non-current assets + inventories + receivables + other current assets − non-interest-bearing liabilities) for a 12 month average}}$	x 100
Return on capital employed excluding non-recurring items, %	=	$\frac{\text{Operating profit excluding non-recurring items}}{\text{(Non-current assets + inventories + receivables + other current assets − non-interest-bearing liabilities) for a 12 month average}}$	x 100
EBITDA	=	Operating profit + depreciation and amortisation + impairments	

Funding and financial position			
Equity ratio, %	=	$\frac{\text{Shareholders' equity}}{\text{(Balance sheet total − prepayments received)}}$	x 100
Gearing, %	=	$\frac{\text{Interest-bearing net debt}}{\text{Shareholders' equity}}$	x 100
Interest-bearing net debt	=	Interest-bearing liabilities − money market investments − financial assets	
Interest-bearing net debt/EBITDA	=	$\frac{\text{Interest-bearing net debt}}{\text{EBITDA}}$	

Share performance indicators			
Earnings/share, diluted	=	$\frac{\text{Profit/loss − non-controlling interests}}{\text{Average number of shares adjusted for the dilutive effect of options}}$	
Earnings/share, basic	=	$\frac{\text{Profit/loss − non-controlling interests}}{\text{Average number of shares}}$	
Earnings/share excl. non-recurring items, basic	=	$\frac{\text{Profit/loss adjusted for non-recurring items − non-controlling interests}}{\text{Average number of shares}}$	
Equity/share	=	$\frac{\text{Equity attributable to equity holders of the parent}}{\text{Basic number of shares at balance sheet date}}$	
Payout ratio, %	=	$\frac{\text{(Dividend/share)}}{\text{(Earnings/share)}}$	x 100
Price/earnings ratio, (P/E)	=	$\frac{\text{Share price at balance sheet date}}{\text{(Earnings/share)}}$	
Effective dividend yield, %	=	$\frac{\text{(Dividend/share)}}{\text{Share price at balance sheet date}}$	x 100
Market capitalisation	=	Share price at balance sheet date × number of shares	
Cash flow from operating activities/share	=	$\frac{\text{Cash flow from operating activities}}{\text{Average number of shares}}$	
Yields of A share and B share	=	Change in share price + annual dividend yield	

ANALYSIS OF SHAREHOLDING

Analysis of shareholding by shareholder type as at 31 Dec. 2012

All shares	Number of shares, pcs	Percentage of all shares, %
Non-financial corporations and housing corporations	30,556,837	30.96
Financial and insurance corporations	5,250,913	5.32
General government*	7,980,773	8.08
Households	29,994,173	30.39
Non-profit institutions**	6,816,217	6.91
Rest of the world	1,312,044	1.33
Nominee registered	16,801,383	17.02
Total	**98,712,340**	**100.00**

A shares	Number of shares, pcs	Percentage of A shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	21,608,624	68.09	21.89
Financial and insurance corporations	1,402,307	4.42	1.42
General government*	294,386	0.93	0.30
Households	6,667,721	21.01	6.75
Non-profit institutions**	1,568,328	4.94	1.59
Rest of the world	7,074	0.02	0.01
Nominee registered	188,567	0.59	0.19
Total	**31,737,007**	**100.00**	**32.15**

B shares	Number of shares, pcs	Percentage of B shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	8,948,213	13.36	9.06
Financial and insurance corporations	3,848,606	5.75	3.90
General government*	7,686,387	11.48	7.79
Households	23,326,452	34.83	23.63
Non-profit institutions**	5,247,889	7.84	5.32
Rest of the world	1,304,970	1.95	1.32
Nominee registered	16,612,816	24.80	16.83
Total	**66,975,333**	**100.00**	**67.85**

** General government, for example, municipalities, the provincial administration of Åland, authorised pension provider and social security funds*
*** Non-profit institutions, for example, foundations awarding scholarships, organisations safeguarding certain interests and various charitable associations*

Analysis of shareholding by number of shares held as at 31 Dec. 2012

All shares	Number of share-holders, pcs	Percentage of share-holders, %	Share total, pcs	Percentage of shares, %
Number of shares				
1–100	13,889	31.17	793,012	0.80
101–500	16,803	37.71	4,593,000	4.65
501–1,000	5,982	13.43	4,706,338	4.77
1,001–5,000	6,077	13.64	13,378,862	13.55
5,001–10,000	966	2.17	6,891,466	6.98
10,001–50,000	681	1.53	13,950,850	14.13
50,001–100,000	90	0.20	6,386,815	6.47
100,001–500,000	50	0.11	11,004,560	11.15
500,001–999,999,999,999	16	0.04	37,007,437	37.49
Total	**44,554**	**100.00**	**98,712,340**	**100.00**

A shares	Number of share-holders, pcs	Percentage of holders of A shares, %	A share total, pcs	Percentage of A shares, %
Number of shares				
1–100	2,382	31.47	114,857	0.36
101–500	1,784	23.57	461,601	1.45
501–1,000	1,059	13.99	905,197	2.85
1,001–5,000	1,586	20.95	3,900,808	12.29
5,001–10,000	395	5.22	2,800,746	8.82
10,001–50,000	315	4.16	6,800,118	21.43
50,001–100,000	32	0.42	2,303,152	7.26
100,001–500,000	12	0.16	2,620,416	8.26
500,001–999,999,999,999	5	0.07	11,830,112	37.28
Total	**7,570**	**100.00**	**31,737,007**	**100.00**

B shares	Number of share-holders, pcs	Percentage of holders of B shares, %	B share total, pcs	Percentage of B shares, %
Number of shares				
1–100	12,496	31.60	730,056	1.09
101–500	15,918	40.26	4,360,615	6.51
501–1,000	5,213	13.18	4,045,824	6.04
1,001–5,000	4,857	12.28	10,319,728	15.41
5,001–10,000	581	1.47	4,170,913	6.23
10,001–50,000	382	0.97	7,640,575	11.41
50,001–100,000	48	0.12	3,398,305	5.07
100,001–500,000	33	0.08	7,644,994	11.41
500,001–999,999,999,999	12	0.03	24,664,323	36.83
Total	**39,540**	**100.00**	**66,975,333**	**100.00**

10 largest shareholders by number of shares held as at 31 Dec. 2012

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	3,564,635	3.61	35,646,350	9.27
2.	Vähittäiskaupan Takaus Oy	3,491,771	3.54	27,148,568	7.06
3.	Kruunuvuoren Satama Oy	3,438,885	3.48	34,388,850	8.95
4.	Ilmarinen Mutual Pension Insurance Company	2,809,777	2.85	5,419,435	1.41
5.	Valluga-sijoitus Oy	1,340,439	1.36	13,404,390	3.49
6.	Varma Mutual Pension Insurance Company	1,130,986	1.15	1,130,986	0.29
7.	Tapiola Mutual Pension Insurance Company	1,100,000	1.11	1,100,000	0.29
8.	Foundation for Vocational Training in the Retail Trade	1,009,948	1.02	8,728,528	2.27
9.	Oy The English Tearoom Ab	1,000,000	1.01	1,000,000	0.26
10.	The State Pension Fund	770,000	0.78	770,000	0.20

10 largest shareholders by number of votes as at 31 Dec. 2012

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	3,564,635	3.61	35,646,350	9.27
2.	Kruunuvuoren Satama Oy	3,438,885	3.48	34,388,850	8.95
3.	Vähittäiskaupan Takaus Oy	3,491,771	3.54	27,148,568	7.06
4.	Valluga-sijoitus Oy	1,340,439	1.36	13,404,390	3.49
5.	Foundation for Vocational Training in the Retail Trade	1,009,948	1.02	8,728,528	2.27
6.	Ilmarinen Mutual Pension Insurance Company	2,809,777	2.85	5,419,435	1.41
7.	Heimo Välinen Oy	400,000	0.41	4,000,000	1.04
8.	Food Paradise Oy	389,541	0.39	3,895,410	1.01
9.	K-Food Retailers' Club	384,617	0.39	3,846,170	1.00
10.	A. Toivakka Oy	211,450	0.21	1,934,500	0.50

Management's shareholdings

At the end of December 2012, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 375,961 Kesko Corporation A shares and 34,394 Kesko Corporation B shares, i.e. a total of 410,355 shares, which represents 0.42% of the company's total share capital and 0.99% of votes.

At 31 December 2012, the President and CEO held 2,000 Kesko Corporation A shares and 17,794 Kesko Corporation B shares, which represented 0.02% of the company's total share capital and 0.01% of votes. At 31 December 2012, the Corporate Management Board including the President and CEO held 2,000 Kesko Corporation A shares and 43,981 Kesko Corporation B shares, which represented 0.05% of the company's total share capital and 0.02% of votes. At 31 December 2012, the Corporate Management Board held 17,000 Kesko Corporation 2007B share options and 65,500 2007C share options, or a total of 82,500 share options. If the share options were exercised, they would correspond to 0.08% of shares and 0.02% of all votes.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated income statement

€ million	Note	1 Jan.–31 Dec. 2012	%	1 Jan.–31 Dec. 2011	%
Net sales	2	**9,685.9**	100.0	**9,460.4**	100.0
Cost of sales		-8,366.9	-86.4	-8,163.2	-86.3
Gross profit		**1,319.0**	13.6	**1,297.2**	13.7
Other operating income	5, 7	747.2	7.7	704.9	7.5
Staff cost	8, 35	-602.9	-6.2	-570.5	-6.0
Depreciation, amortisation and impairment	13, 14	-158.5	-1.6	-124.7	-1.3
Other operating expenses	6, 7	-1,088.2	-11.2	-1,026.3	-10.8
Operating profit		**216.7**	2.2	**280.6**	3.0
Interest income and other finance income	9	21.1	0.2	22.2	0.2
Interest expense and other finance costs	9	-17.2	-0.2	-18.0	-0.2
Foreign exchange differences	9	-4.5	0.0	-3.5	0.0
Total finance income and costs	9	-0.6	0.0	0.8	0.0
Share of profit from associates		-0.9	0.0	0.7	0.0
Profit before tax		**215.2**	2.2	**282.1**	3.0
Income tax	10	-75.8	-0.8	-85.2	-0.9
Profit for the year		**139.4**	1.4	**196.9**	2.1
Profit for the year attributable to					
Owners of the parent		128.0		181.5	
Non-controlling interests		11.4		15.4	
Earnings per share for profit attributable to owners of the parent					
Basic, €	12	1.31		1.85	
Diluted, €	12	1.30		1.84	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit for the year		**139.4**		**196.9**	
Other comprehensive income					
Currency translation differences related to a foreign operation	11	-0.5		-17.3	
Adjustment for hyperinflation	11	3.8		6.3	
Cash flow hedge revaluation	11	-2.6		-15.0	
Revaluation of available-for-sale financial assets	11	9.1		0.1	
Others	11	-0.2		-0.1	
Tax related to other comprehensive income	11	0.7		3.9	
Total other comprehensive income for the year, net of tax		**10.5**		**-22.1**	
Comprehensive income for the year		**149.8**		**174.8**	
Comprehensive income for the year attributable to					
Owners of the parent		136.0		170.4	
Non-controlling interests		13.9		4.4	

Consolidated statement of financial position

€ million	Note	31 Dec. 2012	%	31 Dec. 2011	%
ASSETS					
Non-current assets					
Property, plant and equipment	13	1,677.8		1,490.5	
Intangible assets	14	192.1		189.4	
Investments in associates	15, 42	83.0		58.1	
Available-for-sale financial assets	16, 28, 39	22.3		10.6	
Non-current receivables	17, 18, 28	88.6		78.0	
Deferred tax assets	19	2.4		2.0	
Pension assets	20	147.0		200.1	
Total non-current assets		**2,213.2**	50.6	**2,028.8**	48.4
Current assets					
Inventories	21	814.2		867.5	
Interest-bearing receivables	22, 28	25.0		59.7	
Trade receivables	22, 28, 39	703.0		700.0	
Current tax assets	22, 28	2.4		33.7	
Other non-interest-bearing receivables	22, 28	126.0		125.0	
Financial assets at fair value through profit or loss	23, 28, 39	137.2		97.8	
Available-for-sale financial assets	24, 28, 39	249.0		185.5	
Cash and cash equivalents	25	102.9		84.0	
Total current assets		**2,159.7**	49.4	**2,153.2**	51.4
Non-current assets held for sale	26	2.3	0.0	8.0	0.0
Total assets		**4,375.2**	100.0	**4,190.0**	100.0
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	27	197.3		197.3	
Share premium	27	197.8		197.8	
Other reserves	27	243.8		242.8	
Currency translation differences	27	-2.1		-3.4	
Revaluation reserve	27	9.9		2.6	
Retained earnings		1,553.6		1,537.5	
		2,200.2	50.3	**2,174.7**	51.9
Non-controlling interests		**66.8**	1.5	**58.3**	1.4
Total equity		**2,267.0**	51.8	**2,233.0**	53.3
Non-current liabilities					
Interest-bearing non-current liabilities	28, 29, 39	450.3		210.4	
Non-interest-bearing non-current liabilities	28, 39	10.3		18.4	
Deferred tax liabilities	19	79.1		91.1	
Pension obligations	20	1.6		1.7	
Provisions	30	20.5		10.4	
Total non-current liabilities		**561.9**	12.8	**332.0**	7.9
Current liabilities					
Current interest-bearing liabilities	28	174.1		189.7	
Trade payables	28, 31	808.4		885.8	
Other non-interest-bearing liabilities	28, 31	237.1		225.3	
Current tax liabilities	28, 31	16.2		37.5	
Accrued liabilities	28, 31	271.0		262.8	
Provisions	30	39.5		23.8	
Total current liabilities		**1,546.3**	35.3	**1,624.9**	38.8
Total liabilities		**2,108.2**	48.2	**1,956.9**	46.7
Total equity and liabilities		**4,375.2**	100.0	**4,190.0**	100.0

Consolidated statement of cash flows

€ million	Note	2012	2011
Cash flows from operating activities			
Profit before tax		215.2	282.1
Adjustments			
Depreciation according to plan		154.7	124.8
Finance income and costs		0.7	-0.7
Other adjustments	37	98.4	-6.5
		253.7	117.6
Change in working capital			
Current non-interest-bearing receivables, increase (-)/decrease (+)		4.9	-89.0
Inventories increase (-)/decrease (+)		56.9	-118.9
Current non-interest-bearing liabilities, increase (+)/decrease (-)		-70.2	126.7
		-8.4	-81.2
Interest paid and other finance costs		-18.9	-16.0
Interest received		18.2	22.0
Dividends received		0.1	0.1
Income tax paid		-78.2	-109.0
Net cash generated from operating activities		**381.7**	**215.7**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		0.0	-20.7
Acquisition of associate		-22.5	-
Purchases of tangible and intangible assets		-387.4	-427.1
Purchases of available-for-sale financial assets		-1.2	-1.1
Proceeds from disposal of tangible and intangible assets		24.4	8.2
Increase in non-current loan and receivables		-4.0	-0.4
Net cash used in investing activities		**-390.7**	**-441.1**
Cash flows from financing activities			
Increase (+)/decrease (-) in interest-bearing liabilities		232.1	-55.5
Repayments of finance lease obligations		-2.0	-2.7
Increase (-)/decrease (+) in current interest-bearing receivables		37.3	-37.3
Dividends paid		-123.0	-132.9
Proceeds from issuance of shares		1.0	0.1
Purchase of treasury shares		-	-22.9
Increase (-)/decrease (+) in short-term money market investments		-1.5	199.4
Other items		-13.6	0.5
Net cash used in financing activities		**130.3**	**-51.2**
Change in cash and cash equivalents and current available-for-sale financial assets		**121.3**	**-276.6**
Cash and cash equivalents and current available-for-sale financial assets at 1 Jan.	38	230.8	509.4
Currency translation difference adjustment and change in fair value		-0.1	-2.0
Cash and cash equivalents and current available-for-sale financial assets at 31 Dec.	38	**351.9**	**230.8**

Consolidated statement of changes in equity

€ million	Share capital	Reserves	Currency translation differences	Revaluation reserve	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to owners of the parent								
Balance as at 1 January 2012	**197.3**	**440.7**	**-3.4**	**2.6**	**-22.0**	**1,559.4**	**2,174.7**	**58.3**	**2,233.0**
Shares subscribed for with options		1.0					1.0		**1.0**
Share-based payment					2.5	0.5	3.0	0.0	**3.0**
Dividends						-117.6	-117.6	-5.3	**-123.0**
Other changes			0.7		0.0	2.6	3.3	-0.1	**3.1**
Profit for the year						128.0	128.0	11.4	**139.4**
Other comprehensive income									
Currency translation differences related to a foreign operation		0.0	0.6				0.6	-1.0	**-0.5**
Adjustments for hyperinflation						0.3	0.3	3.5	**3.8**
Cash flow hedge revaluation				-2.6			-2.6		**-2.6**
Revaluation of available-for-sale financial assets				9.1			9.1		**9.1**
Others						-0.2	-0.2		**-0.2**
Tax related to other comprehensive income				0.7			0.7		**0.7**
Total other comprehensive income		0.0	0.6	7.3		0.2	8.0	2.5	**10.5**
Total comprehensive income for the period		0.0	0.6	7.3		128.1	136.0	13.9	**149.8**
Balance as at 31 December 2012	**197.3**	**441.6**	**-2.1**	**9.9**	**-19.4**	**1,573.0**	**2,200.2**	**66.8**	**2,267.0**
Balance as at 1 January 2011	**197.3**	**440.6**	**-2.7**	**13.6**	**0.0**	**1,503.1**	**2,151.8**	**58.5**	**2,210.3**
Shares subscribed for with options		0.1					0.1		**0.1**
Treasury shares					-22.9		-22.9		**-22.9**
Share-based payment					0.9	2.5	3.4	0.0	**3.4**
Dividends						-128.2	-128.2	-4.5	**-132.7**
Change in non-controlling interests						-3.7	-3.7	-0.1	**-3.8**
Other changes		0.0	0.0			3.9	3.9		**3.9**
Profit for the year						181.5	181.5	15.4	**196.9**
Other comprehensive income									
Currency translation differences related to a foreign operation		0.0	-0.6				-0.6	-16.7	**-17.3**
Adjustments for hyperinflation						0.6	0.6	5.7	**6.3**
Cash flow hedge revaluation				-15.0			-15.0		**-15.0**
Revaluation of available-for-sale financial assets				0.1			0.1		**0.1**
Others						-0.1	-0.1		**-0.1**
Tax related to other comprehensive income				3.9			3.9		**3.9**
Total other comprehensive income			-0.6	-11.0		0.4	-11.1	-11.0	**-22.1**
Total comprehensive income for the period		0.0	-0.6	-11.0		182.0	170.4	4.4	**174.8**
Balance as at 31 December 2011	**197.3**	**440.7**	**-3.4**	**2.6**	**-22.0**	**1,559.4**	**2,174.7**	**58.3**	**2,233.0**

Further information on share capital and reserves is presented in note 27 and on option schemes in note 35.

Notes to the consolidated financial statements

NOTE 1.
ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Basic information about the company

Kesko is a leading provider of trading sector services and a highly valued listed company. Kesko has about 2,000 stores engaged in chain operations in the Nordic and Baltic countries, Russia and Belarus.

The Kesko Group's reportable segments consist of its business divisions, namely the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade.

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

On 4 February 2013 Kesko's Board of Directors has approved these financial statements for disclosure.

General information

Kesko's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved for adoption by the European Union, and they comply with the IAS and IFRS standards and respective IFRIC and SIC Interpretations effective on 31 December 2012. The International Reporting Standards refer to standards and their interpretations approved for adoption within the EU in accordance with the procedure enacted in EU regulation (EC) 1606/2002, included in the Finnish Accounting Standards and regulations based on them. Accounting standards not yet effective have not been adopted voluntarily for the consolidated financial statements. The notes to the consolidated financial statements also include compliance with Finnish accounting and corporate legislation.

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

With effect from 1 January 2012, the Group has adopted the following new and revised standards:

IFRS 7 Financial instruments: Disclosures – Transfer of financial assets (amendment)

The amendment promotes transparency in the reporting of transfer transactions and improves users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment has not had a material impact on the consolidated financial statements.

IAS 12 Deferred tax (amendment)

Currently the standard requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The amendment has not had an impact on the consolidated financial statements.

Critical accounting estimates and assumptions

The preparation of consolidated financial statements in conformity with international accounting standards 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. The most significant estimates relate to the following.

The estimates and judgements made are continuously evaluated, and they are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Allocation of cost of acquisition

Assets and liabilities acquired in business combinations are measured at their fair values at the date of acquisition. The fair values on which cost allocation is based are determined by reference to market values to the extent they are available. If market values are not available, the measurement is based on the estimated earnings-generating capacity of the asset and its future use in Kesko's operating activities. The measurement of intangible assets, in particular, is based on the present values of future cash flows and requires management estimates regarding future cash flows and the use of assets.

Impairment test

The amounts recoverable from cash generating units' operating activities are determined based on value-in-use calculations. In the calculations, forecast cash flows are based on financial plans approved by the management, covering a period of three years. (Note 14)

Employee benefits

The Group operates both defined contribution pension plans and defined benefit pension plans. The calculation of items relating to employee benefits requires the application of judgement to several factors. Pension calculations under defined benefit plans in compliance with IAS 19 include the following factors that rely on management estimates (Note 20):

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

Changes in these assumptions can significantly impact the amounts of pension liability and future pension expenses. In addition, a significant part of the pension plan assets is invested in real estate and shares, whose value adjustments also impact the amounts of liabilities and pension expenses.

Measurement of inventories

The Group regularly reviews inventories for obsolescence and turnover and for a possible reduction in the net realisable value below its cost, and recognises obsolescence as necessary. Such reviews require estimates of future demand for products. Possible changes in these estimates may cause changes in inventory measurement in future periods.

Trade receivables
The Group companies apply a uniform practice to measuring receivables past due. Possible changes in customers' solvency may cause changes in the measurement of trade receivables in future periods.

Provisions
The existence of criteria for recognising provisions and the amounts of provisions are determined based on estimates of the existence and amount of the obligation. Estimates may differ from the actual future amount of the obligation and with respect to the existence of the obligation.

Critical judgements in applying accounting policies
The Group's management makes judgements concerning the adoption and application of accounting policies to the financial statements. The management has exercised its judgement in the process of applying the Group's accounting policies when, for example, measuring receivables, determining provisions for restructuring and classifying leases.

Consolidation principles
Subsidiaries
The consolidated financial statements combine the financial statements of Kesko Corporation and 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. The existence of potential voting rights has been considered when assessing the existence of control in the case that the instruments entitling to potential control are currently exercisable. Subsidiaries are listed in note 42.

Internal shareholdings are eliminated by using the costing method. The cost of assets acquired is determined on the basis of the fair value of the acquired assets as at the acquisition date, the issued equity instruments and liabilities resulting from or assumed on the date of the exchange transaction. Until 1 January 2010, the cost of acquisition included directly attributable costs. The identifiable assets, liabilities and contingent liabilities are measured at their fair values at the acquisition date, gross of non-controlling interest.

Intragroup transactions, receivables and payables, unrealised gains and internal distributions 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. Non-controlling interest in the profit for the period is disclosed in the income statement and the amount of equity attributable to the non-controlling interest is presented separately on the balance sheet as part of equity.

The Group accounts for its real estate company acquisitions as acquisitions of assets.

Associates
Associates are all companies over which the Group has significant influence but not control. In the Kesko Group, significant influence accompanies a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of post-acquisition profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Dividends received from associates are deducted from the Group's result and the cost of the shares. An investment in an associate includes the goodwill generated by the acquisition. Goodwill is not amortised. Associates are listed in note 42.

Mutual real estate companies
Mutual real estate companies are consolidated as assets under joint control on a line-by-line basis in proportion to ownership. The Group's share of mutual real estate companies' borrowings and reserves is accounted for separately in the consolidation. The jointly controlled mutual real estate companies consolidated on a line-by-line basis are listed in note 42.

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 presentation currency. On initial recognition, the amounts with respect to the result and financial position of Group companies located outside the euro zone are recorded in the functional currency of their operating environment. The functional currency of the real estate companies in St. Petersburg and Moscow, Russia has been determined to be the euro, which is why no significant exchange differences are realised from their balance sheets for the Group.

Foreign currency transactions are recorded in euros by applying the exchange rate prevailing at the date of the transaction. Foreign currency receivables and liabilities are translated into euros using the closing rate. Foreign exchange gains and losses resulting from foreign currency transactions and receivables and liabilities are recognised in the income statement, with the exception of those exchange rate movements on borrowings designated as hedges of foreign net investments and regarded as effective. These exchange differences are recognised in equity, in compliance with the rules of hedge accounting, and their changes are presented in other comprehensive income. Foreign exchange gains and losses resulting from operating activities are included in the respective items above operating profit. Foreign exchange gains and losses from forward foreign exchange contracts and options used for hedging financial transactions, and from foreign currency borrowings are included in financial income and costs.

The income statements of Group companies 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 foreign exchange difference resulting from the use of different rates, and 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, and the changes are presented in other comprehensive income. 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.

Goodwill arising on the acquisition of foreign operations and the fair value adjustments of assets and liabilities made upon their acquisition are treated as assets and liabilities of these foreign operations and translated into euros at the closing rate.

The on-balance-sheet assets and liabilities of operations in countries that have experienced hyperinflation are restated prior to foreign currency translation based on the change in purchasing power.

Financial assets

The Group classifies its financial assets in the following categories:

- at fair value through profit or loss
- available for sale
- loans and receivables.

The classification at initial recognition depends on the purpose for which the financial assets were acquired.

Purchases and sales of financial assets are accounted for at settlement date. Financial assets are classified as non-current if they have a maturity date greater than 12 months after the balance sheet date. If financial assets are expected to be settled within 12 months, they are classified as current. Financial assets at fair value through profit or loss are classified as current.

Financial assets are derecognised when the rights to receive cash flow from the financial asset have expired or have been transferred from the Group, and when the risks and rewards of ownership have been transferred from the Group.

At each reporting date, the Group assesses whether there is evidence that a financial asset is impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the fair value based on the market price or the present value of cash flows. The fair value of financial assets is determined on the basis of a maturity-based interest rate quotation. An impairment loss is recognised if the carrying amount of a financial asset exceeds its recoverable amount. Impairment losses are recognised in the income statement within financial items.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include instruments initially classified as financial assets at fair value through profit or loss (the fair value option). These instruments are managed based on fair value and they include investments in interest rate funds, as defined by the Group's treasury policy, as well as investments in other interest-bearing investments with maturities of over three months. The interest income and fair value changes of these financial assets, as well as any commissions returned by funds are presented in the income statement on a net basis in the interest income of the category in question.

In addition, financial assets at fair value through profit or loss include all derivatives that do not qualify for hedge accounting in compliance with IAS 39. Derivatives are measured at fair value using prices quoted in active markets. The result of derivatives used for hedging purchases and sales are recognised in other operating income or expenses. The result of derivatives used for hedging financial items is recognised in financial items, unless the derivative has been designated as a hedging instrument.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets designated as available for sale at the date of initial recognition. Available-for-sale financial assets are measured at fair value at the balance sheet date and their fair value changes are recognised in equity, and the fair value change is presented in other comprehensive income. The fair value of publicly quoted financial assets is determined based on their market value. Financial assets not quoted publicly are measured at cost if their fair values cannot be measured reliably.

The dividends from equity investments included in available-for-sale financial assets are recognised in financial items in the income statement. The interest income from available-for-sale financial assets is recognised in the financial items of the relevant class. When an available-for-sale financial asset is sold, the accumulated fair value changes recognised in equity are included in the income statement within other financial income/expenses.

Loans and receivables

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

Cash and cash equivalents

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

Financial liabilities

Financial liabilities have initially been recognised at their cost, net of transaction costs. In the financial statements, financial liabilities are measured at amortised cost using the effective interest rate method. Fees paid on the establishment of borrowing facilities and financial liabilities are amortised over the period of the facility to which it relates. Financial liabilities having maturities greater than 12 months after the balance sheet date are classified as non-current liabilities. Those maturing within 12 months after the balance sheet date are classified as current liabilities.

Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently re-measured at their fair values. The recognition of changes in the fair value of derivatives depends on whether the derivative instrument qualifies for hedge accounting and, if so, on the hedged item. When entered into, derivative contracts are treated either as fair value hedges of receivables or liabilities, or in the case of interest rate risk and electricity price risk, as cash flow hedges, as hedges of net investments in a stand-alone foreign entity, or as derivative contracts that do not meet the hedge accounting criteria. If the hedge accounting criteria are not met, the results of instruments hedging a commercial currency risk are recognised in profit or loss in other operating income or expenses. The portion of derivatives hedging financial transactions to be recognised in the income statement is included in financial items.

When a hedging arrangement is entered into, the relationship between the hedged item and the hedging instrument, as well as the objectives of the Group's risk management are documented. The effectiveness of the hedge relationship is tested regularly and the effective portion is recognised, according to the nature of the hedged item, against the change in the fair value of the hedged item, in translation differences in equity, or in the revaluation reserve. The ineffective portion is recognised, according to its nature, either in financial items or other operating income and expenses. The effective portion of changes in the fair value of instruments used for hedging cash flows, such as long-term credit facilities, is recognised in the revaluation reserve. A change in the fair value of foreign currency derivatives relating to the credit facility is recognised in borrowings, and a change in the fair value of interest rate derivatives in other non-interest-bearing receivables or liabilities.

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 at that time 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 prices at 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 foreign exchange contracts is determined by measuring the forward contracts at the forward rate prevailing at the balance sheet date. Currency options are measured by using the counterparty's price quotation, but the Group also verifies the price with the help of the Black–Scholes method. Electricity derivatives are measured at fair value using the market quotations at the balance sheet date.

Hedging a net investment in a stand-alone foreign entity

The Group applies hedge accounting in accordance with IAS 39 to hedge foreign currency net investments in foreign entities. Forward foreign exchange contracts or currency denominated borrowings are used as hedging instruments. Spot price changes in forward foreign exchanges are recognised in currency translation differences under equity, and disclosed in components of comprehensive income. The interest rate differentials of forward exchange agreements are recognised as income under financial items. The exchange differences of foreign currency borrowings are recognised in currency translation differences under equity. When a foreign entity is partially or wholly disposed of or wound up, cumulative gains or losses from hedging instruments are recognised in profit or loss.

Embedded derivatives

The Group has prepared method descriptions for identifying embedded derivatives and applies fair value measurement to them. In the Kesko Group, embedded derivatives are included in firm commercial contracts denominated in a currency which is not the functional currency of either party and not commonly used in the economic environment in which the transaction takes place. The fair value of embedded derivatives is determined using the market prices at the measurement date and the change in fair value is recognised in the income statement.

Property, plant and equipment

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

Subsequent costs relating to items of property, plant and equipment are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced commodity is derecognised. The machinery and equipment of buildings are treated as separate commodities and any significant expenditure related to their replacement is capitalised. All other repairs, service and maintenance expenditures of items of property, plant and equipment are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method over their estimated useful lives. Land is not depreciated.

The most common estimated useful lives are:

Buildings	10–33 year
Components of buildings	8–10 years
Machinery and equipment	3–8 years
Cars and transport equipment	5 years

The residual values and useful lives of property, plant and equipment 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.

The depreciation of property, plant and equipment ceases when an item is classified as a non-current asset held for sale.

Gains and losses on disposals of property, plant and equipment are recognised in the income statement and stated as other operating income and expenses.

Intangible assets

Goodwill and trademarks

Goodwill is not amortised but is instead tested for impairment annually and whenever there is an indication of impairment. For testing purposes, goodwill is allocated to the cash generating units. Goodwill is measured at original cost and the share acquired prior to 1 January 2004 at deemed cost net of impairment. Any negative goodwill is immediately recognised as income. For goodwill, a recognised impairment loss is not reversed.

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, recorded at their fair values at the acquisition date.

Other intangible assets

The cost of intangible assets with definite useful lives are stated in the balance sheet and recognised as expenses during their useful lives. Such intangible assets include software licences, customer relationships and licences to which acquisition cost has been allocated upon acquisition, and leasehold interests that are amortised during their probable terms.
The estimated useful lives are:

Computer software and licences	3–5 years
Customer and supplier relationships	10 years
Licences	20 years

Research and development expenses

The costs of research and development activities have been expensed as incurred, because the Group does not have development costs eligible for capitalisation. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software

The labour costs of the Group employees working on projects for developing new software and other directly attributable costs are capitalised as part of software cost. On the balance sheet, computer software is included in intangible assets and its costs are amortised over the useful life of the software. Costs associated with maintaining computer software are recognised as an expense as incurred.

Impairment of non-financial assets

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

The recoverable amount is the higher rate of an asset's fair value less costs to sell and value in use. Often, it is not possible to estimate 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.

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

Leases

The Group acts as both lessor and lessee of real estate and machines. Leases in which risks and rewards incidental 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.

Leases that substantially transfer all risks and rewards incidental to ownership to the Group are classified as finance leases. An asset leased under a finance lease is recognised in the balance sheet at the lower rate of its fair value at the inception date and the present value of minimum lease payments. The rental obligations of finance leases are recorded in interest-bearing liabilities in the balance sheet. Lease payments are allocated between finance charges and the liability. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Similarly, leases in which assets are leased out by the Group, and substantially all the risks and rewards incidental 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 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.

In sale and leaseback transactions, the selling price and the future lease payments are usually interdependent. If a sale and leaseback transaction results in a finance lease, any proceeds exceeding the carrying amount are not immediately recognised as income. Instead, the amount is recognised as a liability in the balance sheet and amortised over the period of the lease. 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 selling price is less than 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 selling price exceeds fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used. If 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 to sell. The cost is primarily assigned by using the weighted average cost formula. The cost of certain classifications of inventory is assigned by using the FIFO formula. The cost of an acquired asset comprises all costs of purchase including freight. The cost of self-constructed goods comprises all costs of conversion including direct costs and allocations of variable and fixed production overheads. The cost excludes borrowing costs.

Trade receivables

Trade receivables are recognised initially at the original sales amounts. Impairment is recognised when there is objective evidence of impairment loss. The Group uses a uniform ageing analysis for measuring impairment of trade receivables. In addition, impairment is recognised if there is other evidence of a debtor's insolvency, bankruptcy or liquidation. Impairment is recognised in other operating expenses. If an amount previously written off is subsequently settled, it is deducted from other operating expenses.

Non-current assets held for sale and discontinued operations

Non-current assets (or a disposal group) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction and the sale is highly probable. If their carrying amount will be recovered principally through a sale transaction rather than through their continuing use, they are measured at the lower of carrying amount and fair value net of costs to sell.

The comparative information in the income statement is adjusted for operations classified as discontinued during the latest financial period being reported. Consequently, the result of discontinued operations is presented as a separate line item also for the comparatives. In the financial years 2012 and 2011, the Group had no discontinued operations.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as the 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 on 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 and a provision is recognised for them, if the leased premises become vacant, or if they are subleased at a rate lower than the original. A provision is recognised for the estimated loss from vacant leased premises over the remaining lease term and for losses from subleased premises.

Employee benefits

Pension plans

The Group operates both defined contribution plans and defined benefit plans. The contributions payable under defined contribution plans are recognised as expenses in the income statement for the period to which the payments relate. In defined contribution plans, the Group does not have a legal or constructive obligation to make additional payments, in case the payment recipient is unable to pay the retirement benefits.

In defined benefit plans, after the Group has paid the amount for the period, an excess or deficit may result. The pension obligation represents the present value of future cash flows from payable benefits. The present value of pension obligations has been calculated using the project unit credit method. Pension costs are expensed during employees' service lives based on actuarial calculations. The discount rate assumed in calculating the present value of the pension obligations is the market yield of high-quality bonds issued by companies. Their maturity substantially corresponds to the maturity of the calculated pension liability. 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 the plan assets.

Share-based payments

Options

Share options are measured at fair value at the grant date and expensed on a straight-line basis over the commitment period. The corresponding amount is recognised in retained earnings. The expenditure determined at the option grant date is based on the Group's estimate of the number of options expected to vest at the end of the commitment period. The Group updates the estimate of the final number of options at each balance sheet date. Any movements in estimates are recorded in the income statement. The fair value of options has been calculated using the Black–Scholes option pricing model.

When share options are exercised, the proceeds received from share subscriptions, adjusted for possible transaction costs, are recognised in shareholders' equity. Proceeds from share subscriptions based on options granted prior to the entry into force of the new Limited Liability Companies Act (1 Sept. 2006), have been recorded in shareholders' equity and share premium, in accordance with the plan rules. The proceeds from share subscriptions based on option plans implemented after the new Limited Liability Companies Act entered into force are recorded in shareholders' equity and the reserve of invested non-restricted equity, in accordance with the plan rules.

Share-based compensation

The costs relating to share-based payments are recorded in the income statement and the corresponding liability for share-based payments settled in cash is deferred. The liability recognised in the balance sheet is measured at fair value at every balance sheet date. For equity-settled share-based payment transactions, an increase corresponding to the expensed amount is recorded in equity.

The company's Board of Directors has granted a share-based compensation plan for the management under which a benefit in B series shares and a benefit in cash is paid upon fulfilling the plan objectives. The fair value of the benefit paid in shares is the value of the share at the grant date and it is recognised as an expense on a straight-line basis over the vesting period. The expensed amount is based on the Group's estimate of the amount of benefits payable in shares at the end of the vesting period. The effects of non-market conditions are not included in the fair value of the benefits. Instead, they are included in the assumptions of the number of shares expected to vest at the end of the vesting period. At each balance sheet date, the Group updates its estimate of the final number of shares. The changes in estimates are recognised in the income statement. The benefit paid in cash covers the tax and tax-like charges incurred by the award. It is recognised as a liability on the date of the grant and at each balance sheet date based on the estimated amount of benefits paid in shares and allocated over the accrued years of service. The changes in estimates are recognised in the income statement.

Revenue recognition policies

Net sales comprise the sale of products, services and energy. The contribution of the sales of services and energy to net sales is not significant.

For net sales, sales revenue is adjusted for indirect taxes, sales adjustment items and the exchange differences of foreign currency sales. Sales adjustment items include loyalty award credits relating to the K-Plussa customer loyalty programme, which are recognised at fair values as part of sales transactions. Loyalty award credits affect the net sales of those segments which grant K-Plussa customer loyalty credits and are engaged in retailing.

The Group sells products to retailers and other retail dealers and engages in own retailing. Revenue from the sale of goods is recognised when significant risks, benefits and control relating to the 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. As a rule, revenue from the sale of goods can be recognised at the time of sale. Sales to retailers and other retail dealers are based on central invoicing. Retail sales are mainly in cash and by credit card.

For sales of services, revenue is recognised after the service has been rendered and when a flow of economic benefits associated with the service is probable.

Interest income is recognised on a time proportionate basis using the effective interest method. Dividend income is recognised 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 lease income, store site and chain fees and various other service fees and commissions. Gains and losses on the disposal of property, plant and equipment are disclosed in other operating income and expenses. Other operating income and expenses also include realised and unrealised gains and losses on derivatives used for hedging currency risks associated with trade.

Borrowing costs

The Group has not capitalised interest costs, because the Group does not have qualifying assets.

Directly attributable transaction costs clearly associated with a certain borrowing are included in the original amortised cost of the borrowing and amortised as an interest expense 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 have been calculated from the taxable profit of each company determined by local jurisdiction.

Deferred tax assets and liabilities are recognised on all temporary differences arising between the tax bases and carrying amounts of assets and liabilities. Deferred tax liability has not been calculated on goodwill insofar as goodwill is not tax deductible. Deferred tax on subsidiaries' undistributed earnings is not recognised unless a distribution of earnings is probable, causing tax implications.

Deferred tax has been determined using tax rates enacted by the balance sheet date, and as the rates changed, at the new rate expected to apply. A deferred income tax asset is recognised to the extent that it is probable that it can be utilised against future taxable income. The Group's deferred income 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, property, plant and equipment (depreciation difference, finance lease) and measurements at fair value of asset items in connection with acquisitions.

Dividend distribution

The dividend proposed by the Board to the General Meeting has not been deducted from equity. Instead, dividends are recognised on the basis of the resolution by the General Meeting.

New IFRS standards and IFRIC interpretations and amendments to the existing standards and interpretations

In addition to the standards and interpretations presented in the 2012 financial statements, the Group will adopt the following standards, interpretations and amendments to standards and interpretations issued for application in its 2013 financial statements:

IAS 1 Presentation of financial statements (amendment)

The main change is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The management assesses that the amendment will have an impact on the presentation of other comprehensive income.

IAS 19 Employee benefits (amendment)

The amendment eliminates the use of corridor approach. The calculation of the expected return on funded defined benefit plan assets will change. Finance costs will be calculated on a net funding basis (of obligation and plan assets). In addition, the number of notes will increase. The management assesses that as the so-called corridor approach is eliminated, the Group's pension assets and equity will increase. In addition, the management assesses that as the calculation of the expected return on assets changes, the net return recognised in the income statement will decrease.

IFRS 13 Fair value measurement

The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting. The Group management assesses that the amendment will not have a material impact on the consolidated financial statements.

IFRS 7 Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (amendment)

The amended disclosures require more extensive disclosures than are currently required on offset financial instruments reported on a net basis in the balance sheet and on instruments that are subject to master netting or similar arrangements, irrespective of being presented at their gross amounts in the balance sheet. The management assesses that the amendment will not have a material impact on the consolidated financial statements.

The Group will adopt the following standards, interpretations and amendments to the existing standards in 2014 or later:

IFRS 10 Consolidated financial statements

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard defines the principles of control, and establishes controls as the basis for consolidation. The standard sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. The standard also sets out the accounting requirements for the preparation of consolidated financial statements. The Group management assesses that the amendment will not have a material impact on the consolidated financial statements.

IFRS 11 Joint arrangements

IFRS 11 is a reflection on accounting for joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group management assesses that the amendment will not have a material impact on the consolidated financial statements.

IFRS 12 Disclosures of interests in other entities

The standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance-sheet vehicles. The Group management assesses that the amendment will have an impact on the information contained in the notes.

IAS 27 Separate financial statements (revised)

The revised standard includes the provisions on separate financial statements that are left after the control provisions have been included in the new IFRS 10. The Group management assesses that the amendment will not have an impact on the consolidated financial statements.

IAS 28 Associates and joint ventures (revised)

The revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The Group management assesses that the amendment will not have an impact on the consolidated financial statements.

IFRS 9 Financial instruments

The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. Two parts of IFRS 9 have been issued, one in 2009 and the other in 2010, to replace the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group management assesses that the new standard will have an impact on the accounting for consolidated available-for-sale debt instruments.

IAS 32 Offsetting Financial Assets and Financial Liabilities (amendment)

The amendment addresses inconsistencies in current practice when applying the criteria for reporting financial assets and financial liabilities on a net basis in the balance sheet. The management assesses that the amendment will not have a material impact on the consolidated financial statements.

NOTE 2.
SEGMENT INFORMATION

The Group's reportable segments are composed of the Group's divisions, namely the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade.

Segment information is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources to the operating segments, has been identified as the Corporate Management Board. The reportable operating segments derive their net sales from the food trade, the home and speciality goods trade, the building and home improvement trade, and the car and machinery trade. Sales between segments are charged at prevailing market rates.

The Corporate Management Board assesses the performances of the segments in terms of operating profit, operating profit adjusted for non-recurring items, and return on capital employed. Exceptional transactions outside ordinary course of business are treated as non-recurring items and allocated to segments. The Group identifies gains and losses on the disposal of real estate, shares and operating activities, impairments and costs of discontinuing significant operations as non-recurring items. Gains on disposals are presented within other operating income in the income statement, and losses on disposals within other operating expenses. In other respects, the Management Board's performance monitoring is in full compliance with IFRS reporting. Finance income and costs are not allocated to segments, as the Group's cash and cash equivalents are managed by Group Treasury. Changes in the fair values of forward foreign exchange contracts entered into inside the Group are reported as part of other operating income and expenses to the extent that they hedge the segments' operational foreign currency risk.

The assets and liabilities of a segment's capital employed consist of items which can be justifiably allocated to segments. The assets of capital employed comprise property, plant and equipment and intangible fixed assets, investments in associates, pension assets, inventories, trade receivables and other non-interest-bearing receivables, interest-bearing receivables and available-for-sale assets. The liabilities of capital employed consist of trade payables, other non-interest-bearing liabilities and provisions. The Group's real estate assets and the revenue and costs derived from them have been allocated to the segments.

Capital employed does not include deferred tax assets and liabilities, financial assets at fair value through profit or loss, except for fair value measurements of forward foreign exchange contracts recognised in the balance sheet, available-for-sale financial assets, cash and cash equivalents, or interest-bearing liabilities.

Food trade

The food trade comprises Kesko Food's grocery trade in Finland and Russia, as well as Kespro's grocery wholesale trade. In Finland, Kesko Food's operating activities are based on the K-retailer business model and in Russia, Kesko Food acts as a retail operator. The retail trade comprises nearly 1,000 K-food stores operated using the K-retailer business model. These stores form the K-citymarket, K-supermarket, K-market and K-extra retail chains of the food trade. Kesko Food manages the operations of the chains made up of the stores. Chain operations ensure higher competitiveness and a strong operational base for K-retailers in terms of sourcing, building selections, marketing and price competition. Kesko Food's subsidiary Kespro Ltd engages in wholesaling in the Finnish hotel, restaurant and catering (HoReCa) business.

Home and speciality goods trade

The home and speciality goods trade comprises Anttila and Kodin1, K-citymarket's home and speciality goods, Intersport and Budget Sport, Asko and Sotka, Musta Pörssi and Kookenkä. In addition to around 450 stores, the chains also serve customers online. Intersport engages in the sports equipment trade in Finland and Russia. Kesko's home and speciality goods trade offers customers products and services related to clothing, home, sports, leisure, home technology, entertainment as well as interior decoration and furniture. Efficient chain operations ensure that a wide and price competitive selection of well-known Finnish and foreign product brands are available to customers.

Building and home improvement trade

The building and home improvement trade comprises Rautakesko's building and home improvement trade and agricultural trade in Finland, Sweden, Norway, the Baltic countries, Russia and Belarus. Rautakesko's operations are based on strong chain concepts, efficient sourcing, and best practices duplicated internationally. Rautakesko is responsible for the chains' concepts, marketing, and sourcing and logistics services, store site network in all operating countries and retailer resources in Finland. Rautakesko itself is a retail operator in Sweden, Norway, the Baltic countries, Russia and Belarus. The retail store chains are K-rauta, Rautia, K-Maatalous, Byggmakker (Norway), Senukai (Lithuania) and OMA (Belarus). Rautakesko's building and home improvement stores serve both consumer and professional customers.

Car and machinery trade

The car and machinery trade comprises the business operations of VV-Auto and Konekesko. VV-Auto imports and markets Volkswagen, Audi and Seat passenger cars and Volkswagen commercial vehicles in Finland. VV-Auto is also engaged in car retailing and provides after-sales services at its own retail outlets. Konekesko is a service company specialising in the import and sales of construction, environmental and agricultural machinery, trucks and buses, and recreational machinery. Konekesko operates in Finland, the Baltic countries and Russia.

Common operations

Common operations comprise Group support functions.

Segment information for 2012

Profit

€ million	Food trade	Home and speciality goods trade	Building and home improve-ment trade	Car and machinery trade	Common operations	Elimi-nations	Total
Segment net sales	4,311.4	1,602.7	2,827.0	1,113.7	156.1		10,010.8
of which inter-segment sales	-172.3	-18.1	-0.4	-1.0	-133.2		-325.0
Net sales from external customers	**4,139.1**	**1,584.5**	**2,826.6**	**1,112.7**	**22.9**		**9,685.9**
Other segment income	625.0	82.7	117.0	5.0	7.3		837.0
of which inter-segment income	-81.5	-6.0	-3.2	-0.1	0.9		-89.9
Other operating income from external customers	**543.5**	**76.7**	**113.8**	**4.9**	**8.2**		**747.2**
Depreciation and amortisation	-57.3	-31.7	-50.3	-11.1	-4.3	0.1	-154.7
Impairment		-2.1	-1.7				-3.8
Operating profit	**171.1**	**0.3**	**11.9**	**42.1**	**-9.7**	**0.9**	**216.7**
Non-recurring items	2.7	-19.5	-1.7		-0.2	0.7	-18.0
Operating profit excluding non-recurring items	**168.4**	**19.8**	**13.6**	**42.1**	**-9.5**	**0.2**	**234.7**
Finance income and costs							-0.6
Share of profit from associates							-0.9
Profit before tax							**215.2**

Assets and liabilities

€ million	Food trade	Home and speciality goods trade	Building and home improve-ment trade	Car and machinery trade	Common operations	Elimi-nations	Total
Tangible and intangible assets	789.4	330.1	570.4	100.3	77.5	2.2	1,869.8
Investments in associates and other investments	3.5	0.1	0.2	0.0	102.2	-0.6	105.4
Pension assets	28.6	7.9	9.4	4.8	96.3		147.0
Inventories	107.0	251.6	276.5	180.0		-1.0	814.2
Trade receivables	309.4	142.9	204.1	58.5	16.1	-27.7	703.2
Other non-interest-bearing receivables	39.1	35.3	56.7	5.3	15.4	-21.6	130.2
Interest-bearing receivables	110.3	2.0	1.1	0.1	2.0	-4.0	111.5
Assets held for sale	1.6		0.2		0.5		2.3
Assets included in capital employed	**1,388.8**	**769.9**	**1,118.7**	**349.0**	**309.9**	**-52.7**	**3,883.6**
Unallocated items							
Deferred tax assets							2.4
Financial assets at fair value through profit or loss							137.2
Available-for-sale financial assets							249.0
Cash and cash equivalents							102.9
Total assets	**1,388.8**	**769.9**	**1,118.7**	**349.0**	**309.9**	**-52.7**	**4,375.2**
Trade payables	389.9	127.6	251.8	55.6	5.7	-27.0	803.6
Other non-interest-bearing liabilities	148.3	163.3	110.8	91.8	49.2	-22.5	541.0
Provisions	10.7	17.1	8.0	24.0	0.9	-0.7	60.0
Liabilities included in capital employed	**548.9**	**308.0**	**370.6**	**171.4**	**55.8**	**-50.1**	**1,404.7**
Unallocated items							
Interest-bearing liabilities							624.5
Deferred tax liabilities							79.1
Total liabilities	**548.9**	**308.0**	**370.6**	**171.4**	**55.8**	**-50.1**	**2,108.2**
Total capital employed as at 31 Dec.	**839.9**	**461.9**	**748.0**	**177.5**	**254.1**	**-2.6**	**2,478.9**
Average capital employed	**758.3**	**512.2**	**757.6**	**187.4**	**303.8**	**17.2**	**2,536.5**
Return on capital employed excl. non-recurring items, %	**22.2**	**3.9**	**1.8**	**22.5**			**9.3**
Capital expenditure	**200.0**	**61.1**	**63.1**	**26.6**	**27.6**	**-0.1**	**378.3**
Number of personnel as at 31 Dec.	**3,114**	**8,950**	**10,204**	**1,259**	**504**		**24,031**
Average number of personnel	**2,794**	**6,139**	**9,105**	**1,254**	**450**		**19,741**

Segment information for 2011

Profit

€ million	Food trade	Home and speciality goods trade	Building and home improvement trade	Car and machinery trade	Common operations	Eliminations	Total
Segment net sales	4,181.9	1,564.3	2,715.7	1,174.1	146.1		9,782.2
of which inter-segment sales	-168.3	-19.7	-11.6	-1.1	-121.0		-321.7
Net sales from external customers	**4,013.5**	**1,544.6**	**2,704.1**	**1,173.1**	**25.1**		**9,460.4**
Other segment income	587.9	77.1	112.4	3.1	10.1		790.7
of which inter-segment income	-75.2	-6.9	-3.9	-0.3	0.5		-85.8
Other operating income from external customers	**512.7**	**70.2**	**108.5**	**2.9**	**10.6**		**704.9**
Depreciation and amortisation	-44.6	-24.0	-44.0	-8.7	-3.8	0.3	-124.8
Operating profit	**173.7**	**37.0**	**26.3**	**51.9**	**-8.3**		**280.6**
Non-recurring items	1.5	0.4	-0.3	0.2			1.7
Operating profit excluding non-recurring items	**172.2**	**36.6**	**26.6**	**51.8**	**-8.3**		**278.9**
Finance income and costs							0.8
Share of profit from associates							0.7
Profit before tax							**282.1**

Assets and liabilities

€ million	Food trade	Home and speciality goods trade	Building and home improvement trade	Car and machinery trade	Common operations	Eliminations	Total
Tangible and intangible assets	655.0	281.7	551.3	90.0	76.4	25.5	1,679.9
Investments in associates and other investments	2.3	0.1	0.2		60.8	5.2	68.6
Pension assets	43.4	50.7	9.6	4.5	92.0		200.1
Inventories	104.9	263.2	277.5	223.1		-1.1	867.5
Trade receivables	295.4	147.2	202.6	67.8	15.4	-28.1	700.3
Other non-interest-bearing receivables	33.4	32.9	60.8	6.1	45.0	-14.6	163.5
Interest-bearing receivables	93.2	0.2	0.5		41.6	-3.1	132.6
Assets held for sale	6.9		0.2		0.9		8.0
Assets included in capital employed	**1,234.4**	**775.9**	**1,102.7**	**391.6**	**332.2**	**-16.2**	**3,820.6**
Unallocated items							
Deferred tax assets							2.0
Financial assets at fair value through profit or loss							97.8
Available-for-sale financial assets							185.5
Cash and cash equivalents							84.0
Total assets	**1,234.4**	**775.9**	**1,102.7**	**391.6**	**332.2**	**-16.2**	**4,189.9**
Trade payables	422.2	146.8	263.0	69.4	5.5	-26.0	881.0
Other non-interest-bearing liabilities	165.7	153.0	100.1	94.0	50.8	-13.0	550.7
Provisions	9.4	3.7	1.9	18.1	1.1		34.2
Liabilities included in capital employed	**597.3**	**303.6**	**364.9**	**181.5**	**57.4**	**-39.0**	**1,465.8**
Unallocated items							
Interest-bearing liabilities							400.0
Deferred tax liabilities							91.1
Total liabilities	**597.3**	**303.6**	**364.9**	**181.5**	**57.4**	**-39.0**	**1,956.9**
Total capital employed as at 31 Dec.	**637.0**	**472.3**	**737.8**	**210.1**	**274.8**	**22.8**	**2,354.8**
Average capital employed	**601.4**	**437.4**	**696.1**	**157.7**	**214.9**	**21.3**	**2,128.8**
Return on capital employed excl. non-recurring items, %	**28.6**	**8.4**	**3.8**	**32.8**			**13.1**
Capital expenditure	**221.5**	**61.8**	**109.8**	**29.9**	**3.2**	**-0.8**	**425.4**
Number of personnel as at 31 Dec.	**2,984**	**8,765**	**9,895**	**1,250**	**481**		**23,375**
Average number of personnel	**2,706**	**5,754**	**8,874**	**1,206**	**420**		**18,960**

Group-wide information

The Group operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. The food trade and the home and speciality goods trade mainly take place in Finland and Russia, the car and machinery trade in Finland, the Baltic countries and Russia, and the building and home improvement trade in Finland, Norway, Sweden, the Baltic countries, Russia and Belarus.

Net sales, assets, capital expenditures and personnel are disclosed by location.

2012

€ million	Finland	Other Nordic countries	Baltic countries	Russia and Belarus	Elimi-nations	Total
Net sales	7,942.7	849.4	511.5	403.2	-20.9	9,685.9
Assets	3,007.3	290.6	188.2	353.9	43.6	3,883.6
Capital expenditure	291.6	7.8	3.1	75.8		378.3
Average number of personnel	10,226	1,440	4,254	3,822		19,741

2011

€ million	Finland	Other Nordic countries	Baltic countries	Russia and Belarus	Elimi-nations	Total
Net sales	7,861.3	806.7	487.1	324.9	-19.6	9,460.4
Assets	3,009.4	310.3	178.7	270.8	51.5	3,820.6
Capital expenditure	290.6	22.4	2.2	110.2		425.4
Average number of personnel	10,056	1,602	4,174	3,128		18,960

Net sales are nearly completely derived from sales of goods. The amount derived from sales of services is immaterial.

The Kesko Group had no income derived from a single customer amounting to more than 10% of the Kesko Group's total income.

NOTE 3.
ACQUISITIONS

Acquisitions in 2012

In 2012, the Kesko Group did not have acquisitions to be accounted for as business combinations.

Acquisitions in 2011

On 3 June 2011, Kesko signed an agreement with Intersport International Corporation and OOO Intersport CIS on the transfer of the Intersport licence in Russia to Kesko. Kesko established OOO Johaston, a subsidiary for Intersport operations in Russia, in which Kesko Corporation's ownership interest was 80% and Melovest Ltd's 20%. The acquisition of Intersport operations in Russia was concluded on 24 August 2011. By the end of 2011, 36 sports stores had transferred to OOO Johaston. The total price of acquisition was €21.8 million. In April 2012, Kesko acquired the 20% non-controlling interest in Intersport Russia from Melovest Ltd. As a result, Kesko's ownership interest in Intersport Russia increased to 100%.

Composition of purchase consideration

€ million	
Cash paid	21.8
Fair value of net assets acquired	21.8

Details of net assets acquired

€ million	Fair value
Intangible rights	7.2
Property, plant and equipment	11.4
Inventories	4.5
Deferred tax (net)	-1.4
Net assets acquired	21.8
Cash paid	21.8
Transaction price payable	1.2
Cash outflow from acquisition	20.7

NOTE 4.
DISPOSAL OF ASSETS

In 2012 or 2011, the Kesko Group did not make any significant disposals of assets.

NOTE 5.
OTHER OPERATING INCOME

€ million	2012	2011
Income from services	583.5	564.8
Lease income	43.0	39.0
Gains on the disposal of tangible and intangible assets	3.5	1.2
Realised gains on derivative financial instruments and changes in fair value*	1.2	2.4
Others	116.0	97.5
Total	747.2	704.9

** Includes changes in fair values of embedded derivatives.*

Income from services mainly comprises chain and store site fees paid by chain companies.

Other operating income includes €2.7 million (€0.4 million) of non-recurring gains on disposals.

NOTE 6.
OTHER OPERATING EXPENSES

€ million	2012	2011
Lease expenditure	-433.6	-398.1
Marketing costs	-276.2	-267.6
Property and store site occupancy costs	-133.5	-127.5
Data communication costs	-97.9	-87.4
Other trading expenses	-143.1	-140.9
Losses on disposal of tangible assets	-0.3	-1.0
Realised losses on derivative financial instruments and changes in fair value*	-3.6	-3.8
Total	-1,088.2	-1,026.3

** Includes changes in fair values of embedded derivatives.*

Other operating expenses include €0.2 million (€0.8 million) of non-recurring losses on disposals.

Auditors' fees

€ million	2012	2011
PricewaterhouseCoopers, Authorised Public Accountants		
Audit	0.8	0.8
Tax consultation	0.1	0.1
Other services	0.2	0.4
Total	1.2	1.3
Other audit firms	0.3	0.2

NOTE 7.
NON-RECURRING ITEMS

€ million	2012	2011
Gains on disposal of real estate and shares	2.7	0.4
Losses on disposal of real estate and shares	-0.2	-0.8
Impairment losses	-3.8	0.1
Costs of discontinued operating activities	-16.7	2.0
Total	-18.0	1.7

Exceptional transactions outside ordinary course of business are treated as non-recurring items and they have been allocated to segments. The Group identifies gains and losses on disposal of real estate, shares and business operations, impairments and significant costs of discontinuing business operations as non-recurring items. Gains on disposals have been presented within other operating income, and losses on disposals within other operating expenses in the income statement. Impairments have been presented within depreciation, amortisation and impairment in the income statement.

During the period, a total impairment loss of €23.4 million was recognised as expense in the income statement. The impairment was made against the goodwill of Anttila in the home and speciality goods division. The €21.3 million impairment recorded against Indoor's brands in the home and speciality goods trade in 2006 was reversed. In addition, non-recurring expenses in a total of €-16.8 million were recognised for restructuring Musta Pörssi's business operations.

NOTE 8.

STAFF COSTS, NUMBER OF PERSONNEL AND MANAGEMENT COMPENSATION

€ million	2012	2011
Wages, salaries and fees	-503.4	-473.2
Social security costs	-49.2	-45.7
Pension costs	-47.6	-45.4
Defined benefit plans	18.5	14.5
Defined contribution plans	-66.1	-59.9
Share-based payment	-2.6	-6.3
Total	-602.9	-570.5

During the financial year 2012, the management of the statutory pension provision and related insurance portfolio of the Kesko Group employees was partly transferred from the Kesko Pension Fund to an authorised pension insurance company. Pensions are disclosed in more detail in note 20.

Disclosures on compensation paid to the Group's management for employee services, and other related party transactions are disclosed in note 40, and on share-based payment in note 35.

Remuneration of the Group companies' managing directors and board members

€ million	2012	2011
Salaries of managing directors (incl. fringe benefits)	6.5	6.2
Board member remuneration	0.4	0.5
Total	6.9	6.7

Average number of the Group personnel

	2012	2011
Food trade	2,794	2,706
Home and speciality goods trade	6,139	5,754
Building and home improvement trade	9,105	8,874
Car and machinery trade	1,254	1,206
Others	450	420
Total	19,741	18,960

NOTE 9.

FINANCE INCOME AND COSTS

€ million	2012	2011
Interest income and other finance income		
Interest income on loans and receivables	13.8	12.8
Interest income on financial assets carried at fair value through profit or loss	1.4	2.9
Interest income on available-for-sale financial assets	4.9	5.9
Gains on disposal of available-for-sale financial assets	0.9	0.4
Other finance income	0.1	0.1
Total interest income and other finance income	21.1	22.2
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-15.8	-15.9
Losses on disposal of available-for-sale financial assets	0.0	-0.2
Other finance costs	-1.4	-1.9
Total interest expense and other finance costs	-17.2	-18.0
Exchange differences		
Exchange differences and changes in fair values of derivatives, borrowings denominated in foreign currencies and cash at bank not qualifying for hedge accounting	-4.5	-3.5
Total exchange differences	-4.5	-3.5
Total finance income and costs	**-0.6**	**0.8**

The interest expense includes €3.4 million (€3.4 million) of interests on finance leases recognised as expenses for the period. The interest income includes €2.3 million (€2.3 million) of interests on finance leases recognised as income for the period.

The realised result of the derivative interest-rate contract hedging a USD-denominated private placement credit facility is recognised in net terms in interest expenses with the loan interest.

Exchange differences recognised in the income statement

€ million	2012	2011
Sales	0.0	0.0
Other income	1.2	2.4
Purchases	0.8	-7.6
Other expenses	-2.7	-2.6
Finance income and costs	-4.5	-3.5
Total	-5.2	-11.3

NOTE 10.
INCOME TAX EXPENSE

€ million	2012	2011
Current tax	-85.6	-77.3
Tax for prior years	-2.4	-2.3
Deferred tax	12.1	-5.6
Total	-75.8	-85.2

Reconciliation between tax expense and tax calculated at domestic rate

€ million	2012	2011
Profit before tax	215.2	282.1
Tax at parent's rate 24.5% (26%)	-52.7	-73.4
Effect of foreign subsidiaries' different tax rates	3.4	3.2
Effect of income not subject to tax	1.7	1.1
Effect of expenses not deductible for tax purposes	-12.9	-9.9
Effect of tax losses	-12.2	-9.3
Effect of consolidation	-0.2	0.2
Tax for prior years	-2.4	-2.3
Adjustment of deferred tax in respect of prior years	0.0	-0.2
Effect of change in tax rate	0.0	4.7
Others	-0.4	0.7
Tax charge	-75.8	-85.2

For 2012, the change in the corporation tax rate in Sweden effective 1 January 2013, does not have a significant impact on the Group's taxes.

NOTE 11.
COMPONENTS OF OTHER COMPREHENSIVE INCOME

Components of other comprehensive income and related tax

2012 € million	Before tax	Tax charge/ credit	After tax
Currency translation differences relating to a foreign operation	-0.5		-0.5
Adjustments for hyperinflation	3.8		3.8
Cash flow hedge revaluation	-2.6	0.6	-1.9
Revaluation of available-for-sale financial assets	9.1	0.1	9.2
Other components	-0.2		-0.2
Total	9.7	0.7	10.5

2011 € million	Before tax	Tax charge/ credit	After tax
Currency translation differences relating to a foreign operation	-17.3		-17.3
Adjustments for hyperinflation	6.3		6.3
Cash flow hedge revaluation	-15.0	3.9	-11.1
Revaluation of available-for-sale financial assets	0.1	0.0	0.1
Other components	-0.1		-0.1
Total	-26.0	3.9	-22.1

Hyperinflation

In December 2011, Belarus was identified as a hyperinflationary economy to which accounting in accordance with IAS 29 shall be applied. Hyperinflationary accounting requires the presentation of financial statements in the measurement units as at the end of the reporting period irrespective of their statement at original cost or current cost. The amounts recognised in the 2012 income statement and balance sheet have been restated using the general price index. As a result of the restatement, an amount of €3.8 million (€6.3 million) including tax was recognised in equity, of which €0.3 million (€0.6 million) is attributable to the Group and €3.5 million (€5.7 million) to the non-controlling interest. The revaluations have been made using the Belarusian consumer price index.

NOTE 12.
EARNINGS PER SHARE

Basic earnings per share are 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 are calculated by adjusting the weighted average number of all shares to assume conversion of all potentially dilutive shares. The Group operates a share option scheme with a dilutive effect, which increases the number of shares. The share options have a dilutive effect when their exercise price is lower than the fair value of a share. The dilutive effect is the number of shares which has to be issued without consideration, because the Group could not use the assets received from the exercise of the share options to issue an equal number of shares at fair value. The fair value of a share is based on the average share price during the period.

	2012	2011
Profit for the period attributable to equity holders of the parent, € million	128.0	181.5
Number of shares		
Weighted average number of shares outstanding	98,040,939	98,233,241
Effect of options issued	431,193	685,732
Diluted weighted average number of shares outstanding	98,472,132	98,918,972
Earnings per share from profit attributable to equity holders of the parent		
Basic, €	1.31	1.85
Diluted, €	1.30	1.84

NOTE 13.
PROPERTY, PLANT AND EQUIPMENT

2012

€ million	Land and waters	Buildings	Machinery and equipment	Other property, plant and equipment	Prepayments and purchases in progress	Total 2012
Cost						
Cost at 1 Jan. 2012	352.3	1,255.7	566.1	65.5	107.5	2,347.0
Currency translation differences	1.6	3.9	3.4	0.7	0.5	10.1
Additions	52.3	147.7	62.2	10.3	65.8	338.2
Disposals	-4.5	-24.6	-65.9	-1.1	-1.8	-97.9
Transfers between items	0.2	78.7	3.4	12.3	-103.2	-8.7
Cost at 31 Dec. 2012	401.9	1,461.4	569.2	87.6	68.7	2,588.7
Accumulated depreciation, amortisation and impairment						
Accumulated depreciation, amortisation and impairment charges at 1 Jan. 2012	-4.8	-437.6	-386.4	-27.8		-856.6
Currency translation differences		-1.0	-1.9	-0.3		-3.3
Accumulated depreciation of disposals and transfers		21.8	60.6	0.9		83.4
Depreciation charge for the year		-66.3	-60.7	-5.7		-132.8
Impairments		-1.7				-1.7
Accumulated depreciation, amortisation and impairment charges at 31 Dec. 2012	-4.8	-484.8	-388.4	-32.9		-911.0
Carrying amount at 1 Jan. 2012	347.6	818.0	179.7	37.7	107.5	1,490.5
Carrying amount at 31 Dec. 2012	**397.1**	**976.5**	**180.8**	**54.7**	**68.7**	**1,677.8**

2011

€ million	Land and waters	Buildings	Machinery and equipment	Other property, plant and equipment	Prepayments and purchases in progress	Total 2011
Cost						
Cost at 1 Jan. 2011	312.4	1,112.8	537.7	57.9	62.6	2,083.5
Currency translation differences		-5.1	-2.3	-0.6	-0.7	-8.7
Additions	46.8	144.0	70.2	7.9	131.2	400.1
Disposals	-0.4	-31.2	-42.4	-0.8	-42.1	-116.9
Transfers between items	-6.5	35.0	2.9	1.0	-43.6	-11.1
Cost at 31 Dec. 2011	352.3	1,255.7	566.1	65.5	107.5	2,347.0
Accumulated depreciation, amortisation and impairment						
Accumulated depreciation, amortisation and impairment charges at 1 Jan. 2011	-3.5	-421.6	-373.4	-24.0		-822.5
Currency translation differences		0.5	1.3	0.1		1.9
Accumulated depreciation of disposals and transfers	-1.2	32.8	37.0	0.7		69.3
Depreciation charge for the year		-49.3	-51.3	-4.6		-105.3
Impairments			0.1			0.1
Accumulated depreciation, amortisation and impairment charges at 31 Dec. 2011	-4.8	-437.6	-386.4	-27.8		-856.6
Carrying amount at 1 Jan. 2011	308.9	691.3	164.3	34.0	62.6	1,261.0
Carrying amount at 31 Dec. 2011	**347.6**	**818.0**	**179.7**	**37.7**	**107.5**	**1,490.5**

Property, plant and equipment include the following amounts where the Group is a lessee under a finance lease:

2012

€ million	Land and waters	Buildings	Machinery and equipment	Other property, plant and equipment	Total 2012
Cost	2.7	38.7	40.3	0.1	81.7
Accumulated depreciation		-26.0	-34.9	-0.1	-61.0
Carrying amount	2.7	12.6	5.4	0.0	20.7

2011

€ million	Land and waters	Buildings	Machinery and equipment	Other property, plant and equipment	Total 2011
Cost	2.7	38.7	38.2	0.1	79.6
Accumulated depreciation		-25.5	-33.0	-0.1	-58.6
Carrying amount	2.7	13.1	5.1	0.0	21.0

NOTE 14.
INTANGIBLE ASSETS

2012

€ million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2012
Cost					
Cost at 1 Jan. 2012	152.2	78.5	184.7	3.5	419.0
Currency translation differences	2.6	2.2	2.5		7.3
Additions			14.3	8.1	22.4
Disposals			-15.9		-15.9
Transfers between items			7.7	-1.8	5.9
Cost at 31 Dec. 2012	154.9	80.7	193.2	9.9	438.6
Accumulated amortisation and impairment					
Accumulated amortisation and impairment charges at 1 Jan. 2012	-88.3	-30.4	-110.9		-229.6
Currency translation differences	-2.7	-0.5	-1.6		-4.8
Accumulated amortisation of disposals and transfers			11.8		11.8
Amortisation charge for the year			-21.9		-21.9
Impairments	-23.4	21.3			-2.1
Accumulated amortisation and impairment at 31 Dec. 2012	-114.3	-9.7	-122.6		-246.7
Carrying amount at 1 Jan. 2012	63.9	48.0	73.8	3.5	189.3
Carrying amount at 31 Dec. 2012	**40.5**	**71.1**	**70.6**	**9.9**	**192.1**

Other intangible assets include other long-term costs, of which €31.3 million (€32.5 million) are software and licence costs.

2011

€ million	Goodwill	Trademarks	Other intangible assets	Prepayments	Total 2011
Cost					
Cost at 1 Jan. 2011	151.9	78.3	170.6	2.7	403.5
Currency translation differences	0.3	0.2	0.0		0.5
Additions			27.0	2.4	29.4
Disposals			-17.4	-0.5	-17.8
Transfers between items			4.5	-1.1	3.3
Cost at 31 Dec. 2011	152.2	78.5	184.7	3.5	419.0
Accumulated amortisation and impairment					
Accumulated amortisation and impairment charges at 1 Jan. 2011	-88.0	-30.3	-105.4		-223.7
Currency translation differences	-0.3	-0.1	-0.1		-0.5
Accumulated amortisation of disposals and transfers			14.2		14.2
Amortisation charge for the year			-19.5		-19.5
Accumulated amortisation and impairment at 31 Dec. 2011	-88.3	-30.4	-110.9		-229.5
Carrying amount at 1 Jan. 2011	63.9	48.0	65.2	2.7	179.8
Carrying amount at 31 Dec. 2011	**63.9**	**48.1**	**73.8**	**3.5**	**189.4**

Goodwill and intangible rights by segment

	Trademarks*	Goodwill	Discount rate (WACC)**	Trademarks*	Goodwill	Discount rate (WACC)**
€ million	**2012**	**2012**	**2012**	**2011**	**2011**	**2011**
Building and home improvement trade						
Byggmakker, Norway	32.0		7.0%	30.3		7.0%
Rautakesko, Estonia		1.1	9.0%		1.1	9.0%
Senukai, Lithuania		17.2	11.0%		17.2	11.5%
Stroymaster, Russia		14.1	13.0%		14.1	13.0%
Home and speciality goods trade						
Anttila, Finland			6.0%		23.4	6.0%
Indoor, Finland	39.1	4.1	6.0%	17.8	4.1	6.0%
Car and machinery trade						
Machinery trade		3.8	7.0%		3.8	7.0%
Others		0.2			0.2	
Total	71.1	40.5		48.1	63.9	

** Intangible assets with indefinite useful lives*
*** After tax, used in impairment testing*

Cash generating units have been identified at a level lower than the reportable segments. The units have been identified by chain/country, and most of them are legal entities.

The useful lives of trademarks (brands) included in intangible assets have been classified as indefinite, because it has been estimated that the period over which they generate cash inflows is indefinite. 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 useful lives are tested annually for possible impairment and whenever there is an indication of impairment.

Impairment test for goodwill and intangible assets

In impairment testing, 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 management, covering a period of three years. The key assumptions used for the plans are total market growth and profitability trends, changes in store site network, product and service selection, pricing and movements in operating costs. Cash flows beyond this period have been extrapolated mainly based on 1.5–4.0% (2.0–4.0%) forecast growth rates, allowing for country-specific differences.

The discount rate used is the WACC, specified for each segment 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. Compared to the previous year, the discount rate only fell in Lithuania as a result of decreased country risk.

Impairment losses

In the financial year 2012, a €23.4 million impairment charge was recognised against the goodwill of Anttila (the home and speciality goods trade). The impairment loss was attributable to weaker than expected profitability performance. The impairment is presented as a non-recurring item. The €21.3 million impairment charge recognised against Indoor's brands (the home and speciality goods trade) in 2006 was reversed in 2012. The impairment was reversed because the recoverable amount exceeded the remaining carrying amount of the company's tested assets. The reversal of the impairment is presented as a non-recurring amount.

Sensitivity analysis

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

A one percentage point rise in the discount rate would not cause an impairment of any cash generating unit.

When cash generating units other than the above are estimated according to management's assumptions, a foreseeable change in any key variable would not create a situation in which the unit's recoverable amount would be lower than its carrying amount.

NOTE 15.
INVESTMENTS IN ASSOCIATES

€ million	2012	2011
Carrying amount at 1 Jan.	58.1	53.5
Share of profit for the year	-0.9	0.7
Additions	25.8	3.9
Carrying amount at 31 Dec.	83.0	58.1

Shares in associates are not quoted publicly.

Disclosures on the Group's associates and the Group's ownership interest in their aggregated assets, liabilities, net sales and profits/losses:

€ million	Assets	Liabilities	Net sales	Profit/loss	Ownership interest, %
2012					
Kruunuvuoren Satama Oy, Helsinki	394.4	277.8	13.8	1.9	49.0
Valluga-sijoitus Oy, Helsinki	23.1	0.2	0.0	1.4	46.2
Vähittäiskaupan Takaus Oy, Helsinki	64.2	0.3	1.1	2.5	34.4
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	6.8	2.3	11.2	0.5	30.0
Others	5.3	3.6	2.0	0.0	
Total	493.8	284.3	28.1	6.2	
2011					
Kruunuvuoren Satama Oy, Helsinki	261.7	192.3	12.1	0.0	49.0
Valluga-sijoitus Oy, Helsinki	36.3	0.1	0.0	1.6	39.0
Vähittäiskaupan Takaus Oy, Helsinki	62.9	0.2	1.2	4.1	34.4
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	5.8	1.9	10.8	0.3	30.0
Others	5.3	3.7	2.0	0.0	
Total	372.0	198.2	26.1	6.0	

NOTE 16.
NON-CURRENT AVAILABLE-FOR-SALE FINANCIAL ASSETS

€ million	2012	2011
Carrying amount at 1 Jan.	10.6	7.6
Additions	1.2	2.2
Disposals	-0.4	-0.2
Changes in fair values	11.0	0.9
Carrying amount at 31 Dec.	22.3	10.6

The non-current available-for-sale financial assets include private equity funds and unquoted shares. The measurement of private equity funds is disclosed in more detail in note 39. The unquoted shares have been measured at cost, if their fair values cannot be measured reliably.

NOTE 17.
NON-CURRENT RECEIVABLES

€ million	2012	2011
Non-interest-bearing non-current receivables	2.1	5.0
Finance lease receivables	83.3	71.1
Loans and receivables from associates	1.5	1.5
Other non-current receivables	1.7	0.4
Total	88.6	78.0

The non-interest-bearing non-current receivables include €0.8 million (€4.1 million) of derivative revaluations and their balance sheet value equals the fair value.

The carrying amount of finance lease receivables equals their fair value.

Maturity analysis of non-current receivables at 31 Dec. 2012

€ million	2014	2015	2016	2017	2018–	Total
Non-interest-bearing non-current receivables	0.8	0.1	0.4	0.0	0.9	2.1
Finance lease receivables	16.2	16.2	16.2	16.2	18.5	83.3
Loans and receivables from associates					1.5	1.5
Other non-current receivables	1.7					1.7
Total	18.6	16.3	16.6	16.2	20.9	88.6

Maturity analysis of non-current receivables at 31 Dec. 2011

€ million	2013	2014	2015	2016	2017–	Total
Non-interest-bearing non-current receivables	0.2	1.3	0.1	1.4	2.0	5.0
Finance lease receivables	14.0	14.0	14.0	14.0	15.1	71.1
Loans and receivables from associates					1.5	1.5
Other non-current receivables	0.4					0.4
Total	14.6	15.3	14.1	15.4	18.6	78.0

NOTE 18.
FINANCE LEASE RECEIVABLES

€ million	2012	2011
Finance lease receivables are due as follows:		
Not later than 1 year	24.3	21.5
Later than 1 year and no later than 5 years	70.6	62.0
Later than 5 years	19.0	15.7
Gross investment in finance leases	**113.9**	**99.2**
Present value of minimum lease payments receivable:		
Not later than 1 year	20.7	17.9
Later than 1 year and no later than 5 years	64.7	56.0
Later than 5 years	18.5	15.1
Finance lease receivable	**103.9**	**89.0**
Unearned finance income	**9.9**	**10.3**

The finance lease receivables consist of store fixtures owned by Kesko Food Ltd and leased to chain companies. During the lease term, the leased item is held as collateral, and after the actual lease term, the lessee may extend the lease over low-cost extension periods. The lease terms are between 3 and 8 years.

NOTE 19.
DEFERRED TAX

Movements in deferred tax in 2012:	1 Jan. 2012	Income statement charge	Tax charged/ credited to equity	Exchange differences	Acquisition/ disposal of subsidiary	31 Dec. 2012
€ million						
Deferred tax assets						
Margin included in inventories	1.1	-0.2				1.0
Finance lease assets	0.1	-0.1				0.0
Provisions	7.8	5.4				13.2
Pensions	0.4	-0.1				0.3
Confirmed losses	3.6	1.3		0.2		5.0
Others	13.3	-1.0	-0.2	-0.6		11.6
Total	26.2	5.5	-0.2	-0.4	0.0	31.1
Deferred tax liabilities						
Cumulative depreciation differences	37.9	1.5				39.4
Consolidation allocation difference	14.8	1.4		0.6		16.8
Pensions	49.1	-13.0				36.0
Others	13.4	3.5	-0.9	0.7		15.5
Total	115.3	-6.7	-0.9	1.3	0.0	107.8
Net deferred tax liability	89.0					76.6

Balance sheet division of net deferred tax liability

€ million	2012	2011
Deferred tax assets	2.4	2.0
Deferred tax liabilities	79.1	91.1
Total	76.6	89.0

The group ‘others’ within deferred tax assets includes €0.9 million of deferred tax assets arising from compliance with the Group’s accounting principles and €3.3 million of deferred tax assets resulting from timing differences between local accounting policies and tax treatment.

Movements in deferred tax in 2011:	1 Jan. 2011	Income statement charge	Tax charged/ credited to equity	Exchange differences	Acquisition/ disposal of subsidiary	31 Dec. 2011
€ million						
Deferred tax assets						
Margin included in inventories	1.1	0.1				1.1
Finance lease assets	0.2	-0.1				0.1
Provisions	9.2	-1.4				7.8
Pensions	0.5	-0.1				0.4
Confirmed losses	3.2	0.3				3.6
Others	13.7	0.3	0.2	-0.9		13.3
Total	27.9	-1.0	0.2	-0.9		26.2
Deferred tax liabilities						
Cumulative depreciation differences	36.3	1.6				37.9
Consolidation allocation difference	13.9	-0.4		0.1	1.3	14.8
Pensions	47.2	1.9				49.1
Others	14.8	1.6	-3.7	-0.5		13.4
Total	112.2	4.7	-3.7	-0.4	1.3	115.3
Net deferred tax liability	84.3					89.0

Confirmed losses

At 31 December 2012, the Group’s unused confirmed losses were €182.9 million, for which deferred tax assets have not been recognised, because the realisation of the related tax benefit through future taxable profits is not probable.

Confirmed losses for which tax assets have not been recognised expire as follows:

€ million	2013	2014	2015	2016	2017	2018–	Total
	0.0	0.0	0.3	7.1	0.0	175.6	182.9

Deferred tax liabilities have not been recognised for taxes that would be payable on subsidiaries’ unremitted earnings, because the subsidiaries’ distributions are at the discretion of the Group and a distribution of profits with tax effect is not probable in the near future.

NOTE 20.
PENSION ASSETS

The Group operates several pension plans. In Finland, the retirement benefits of employees are managed partly by pension insurance companies and partly by the Kesko Pension Fund. The statutory retirement benefits of the Kesko Group employees are managed by pension insurance companies and additional retirement benefits are managed by Pension Fund's department A. Department A was closed on 9 May 1998. The pension plans managed by the Kesko Pension Fund are classified as defined benefit plans.

On 1 January 2012, the management of the statutory retirement benefits and the related insurance portfolio of some 5,600 Kesko Group employees was transferred from the Kesko Pension Fund to Ilmarinen Mutual Pension Insurance Company. The transfer was part of the plan to transfer the management of Kesko's statutory retirement benefits and the related insurance portfolio in two phases from the Kesko Pension Fund to Ilmarinen announced on 30 December 2009.

An actuarial gain of €11.8 million was recognised on the transfer of the pension insurance portfolio in 2012. The fair value of the Kesko Pension Fund's investment assets exceeded the amount of pension liabilities and their difference was shown within the assets in the consolidated statement of financial position. Relating to the transfer of the pension insurance portfolio, the Pension Fund returned pension assets to employer companies. The returned assets contributed a €71.2 million cash inflow to the Kesko Group.

As regards foreign subsidiaries, the plan operated by the Norwegian subsidiary is classified as a defined benefit plan. At 31 December 2012, the net liability relating to the defined benefit plan in Norway was €0.3 million (€0.4 million).

Pension plans in other foreign subsidiaries are governed by local regulations and practices.

The defined benefit asset recognised in the balance sheet in respect of the Kesko Pension Fund is determined as follows:

€ million	2012	2011
Present value of funded obligations	-243.0	-292.4
Fair value of plan assets	396.9	502.7
Deficit/surplus	**153.8**	**210.3**
Unrecognised actuarial gains (-)/losses (+)	-6.8	-10.3
Net assets (+)/liabilities (-) recognised in the balance sheet	**147.0**	**200.1**
The movement in the present value of the obligation is as follows:		
Plan obligation at 1 Jan.	292.4	285.8
Current service cost	1.9	7.2
Interest cost	10.1	14.8
Benefits paid	-14.4	-16.4
Actuarial gains (-)/losses (+)	34.0	-5.4
Transfer of insurance portfolio	-85.0	-
Curtailment	4.0	-
Others	-	6.4
Plan obligation at 31 Dec.	**243.0**	**292.4**
The movement in the fair value of plan assets is as follows:		
Plan assets at 1 Jan.	502.7	528.7
Expected return on plan assets	22.7	32.7
Contributions to plan	-0.4	-0.9
Benefits paid	-14.4	-16.4
Actuarial gains (+)/losses (-)	37.9	-53.2
Transfer of insurance portfolio	-80.4	-
Pension asset returned	-71.2	-
Others	-	11.8
Plan assets at 31 Dec.	**396.9**	**502.7**
The amounts recognised in the income statement are as follows:		
Current service cost	-1.9	-7.2
Interest cost	-10.1	-14.8
Expected return on plan assets	22.7	32.7
Effect of insurance portfolio transfer	11.8	-
Curtailment	-4.0	-
Others	-	3.8
Total recognised in the income statement	**18.5**	**14.5**
The change in net assets recognised in the balance sheet is as follows:		
At 1 January	200.1	185.8
Income/cost recognised in the income statement	18.5	14.5
Contributions to plan	-0.4	-0.9
Pension asset returned	-71.2	-
Others	-	0.7
At 31 December	**147.0**	**200.1**

Pensions managed by the Kesko Pension Fund

	2012	2011	2010	2009	2008
Present value of plan obligation	-243.0	-292.4	-285.8	-525.1	-530.4
Fair value of plan assets	396.9	502.7	528.7	871.6	819.5
Surplus/deficit	153.8	210.3	242.9	346.5	289.1
Experience adjustments on plan assets	21.0	53.3	58.5	18.2	-130.9
Experience adjustments on plan liabilities	-2.1	-5.4	-2.7	4.3	-15.6

The actual return on plan assets was €60.4 million (€-20.6 million).
In 2013, the Group expects to pay €0.0 million in contributions to defined benefit plans.

Classes of plan assets, % of fair values of plan assets

€ million	2012	2011
Real estate and collateralised borrowings secured by real estate	48.8%	39.0%
Shares	37.4%	31.2%
Long-term interest investments	5.9%	6.1%
Short-term interest investments	3.4%	20.6%
Other investments	4.5%	3.1%
Total	100.0%	100.0%

Plan assets, € million		
Kesko Corporation shares included in fair value	12.0	32.5
Real estate leased by the Kesko Group included in fair value	178.1	210.6

Principal actuarial assumptions	2012	2011
Discount rate	3.60%	5.00–5.25%
Expected return on plan assets	6.30%	6.30%
Expected salary growth rate	2.50%	3.50%
Inflation	2.00%	2.00%
Expected average remaining service life	13	14–26

When calculating the Pension Fund's expected return, investment assets have been divided into five classes. The 6.3% total expected return on the investment portfolio is composed of the compound returns on these asset classes. The returns expected on different asset classes are based on the parameters of an investment portfolio analysis model widely used in the earnings-related pension scheme, and calculated based on long-term historical data. The most significant class of assets affecting the total returns is shares.

NOTE 21.
INVENTORIES

€ million	2012	2011
Goods	809.2	863.2
Prepayments	5.0	4.3
Total	814.2	867.5
At the end of the financial year, inventories have been written down to correspond to their net realisable value	50.0	38.6

NOTE 22.
TRADE AND OTHER CURRENT RECEIVABLES

€ million	2012	2011
Interest-bearing receivables		
Finance lease receivables	20.7	17.9
Interest-bearing loans and receivables	4.3	41.9
Total interest-bearing receivables	25.0	59.7
Trade receivables	703.0	700.0
Tax assets	2.4	33.7
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	30.6	29.7
Deferred receivables	95.4	95.3
Total other non-interest-bearing receivables	126.0	125.0
Total	856.3	918.4

A total amount of €7.2 million (€4.8 million) of trade receivables has been recognised within credit losses in the income statement. Credit risk is described in more detail in note 39.

Deferred receivables mainly comprise amortised marketing revenue, discounts and staff costs.

The fair values of current trade and loan receivables, and those of current interest-bearing receivables are estimated to nearly equal the carrying amounts based on their short maturities.

NOTE 23.
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

€ million	2012	2011
Financial assets at fair value through profit or loss	137.2	97.8
Total	137.2	97.8

The financial assets at fair value through profit or loss include commercial papers, certificates of bank deposits and other money market investments. An analysis of the assets is given in note 39.

NOTE 24.
CURRENT AVAILABLE-FOR-SALE FINANCIAL ASSETS

€ million	2012	2011
Carrying amount at 1 Jan.	185.5	549.0
Changes	64.1	-362.7
Changes in fair value	-0.6	-0.8
Carrying amount at 31 Dec.	249.0	185.5

The available-for-sale financial assets include short-term investments in commercial papers, certificates of bank deposits, other interest rate instruments and Finnish Government bonds. An analysis of the assets is given in note 39.

NOTE 25.
CASH AND CASH EQUIVALENTS

€ million	2012	2011
Cash in hand and at bank	102.9	84.0
Total	102.9	84.0

NOTE 26.
NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND RELATED LIABILITIES

€ million	2012	2011
Land	1.9	7.2
Buildings and real estate shares	0.4	0.7
Total	2.3	8.0

The assets classified as held for sale did not include liabilities at 31 December 2012 (at 31 December 2011).

NOTE 27.
SHAREHOLDERS' EQUITY

Changes in share capital

	Number of shares			Share capital	Reserve of invested non-restricted equity	Share premium	Total
Share capital	**A**	**B**	**Total**	**€ million**	**€ million**	**€ million**	**€ million**
1 Jan. 2011	31,737,007	66,904,285	98,641,292	197.3		197.8	395.1
Exercise of share options	-	3,750	3,750		0.1		0.1
Purchase of treasury shares		-700,000	-700,000				
31 Dec. 2011	31,737,007	66,208,035	97,945,042	197.3	0.1	197.8	395.1
Exercise of share options		67,298	67,298		1.0		1.0
Purchase/disposal of treasury shares		91,409	91,409				
31 Dec. 2012	**31,737,007**	**66,366,742**	**98,103,749**	**197.3**	**1.1**	**197.8**	**396.1**
Number of votes	**317,370,070**	**66,366,742**	**383,736,812**				

During the reporting period, the number of B shares was increased five times corresponding to share subscriptions made with the options of the 2007 option scheme. The increases were made on 5 June 2012 (4,500 B shares, €60,480), 31 July 2012 (600 B shares, €8,064), 30 October 2012 (26,038 B shares, €349,951), 28 November 2012 (17,550 B shares, €293,054) and 27 December 2012 (18,610 B shares, €250,817) and announced in stock exchange notifications on the same days. The subscribed shares were included on the main list of NASDAQ OMX Helsinki for public trading with the old B shares on 6 June 2012, 1 August 2012, 31 October 2012, 29 November 2012 and 28 December 2012. The total share subscription price of €962,365 received by the company was recorded in the reserve of invested non-restricted equity.

All issued shares have been fully paid. The maximum number of A shares is 250 million and the maximum number of B shares is also 250 million, provided that the total number of shares is 400 million at maximum. One A share carries 10 votes and one B share one vote.

An analysis of share-based payments is given in note 35.

Treasury shares
Kesko Corporation's Annual General Meeting held on 4 April 2011 authorised the company's Board to acquire own B shares. Based on the Board's decision, the company acquired a total of 700,000 own B shares in the 2011 financial year which represent 0.7% of all shares. The total amount of €23.7 million paid for the shares was deducted from earnings retained in equity. The shares are held by the company as treasury shares and the company's Board has been authorised to issue them. Based on the authority to issue own shares and the fulfilment of the vesting criteria of the 2011 vesting period of Kesko's three-year share-based compensation plan, the Board granted a total of 92,751 company shares held by the company itself to the persons included in the target group of the vesting period. The matter was announced in a stock exchange release on 12 April 2012. After the vesting period, a total of 1,342 shares already granted have been returned to the company in accordance with the terms of the share-based compensation plan. The returns were announced in a stock exchange notification on 20 July 2012 and 9 November 2012.

Dividends
After the balance sheet date, the Board has proposed that €1.20 per share be distributed as dividends. A dividend of €1.20 per share was distributed on the profit for 2011.

Equity and reserves
Equity consists of share capital, share premium, reserve of invested non-restricted equity, other reserves, revaluation reserve, currency translation differences and retained earnings including treasury shares. In addition, the portion of accumulated depreciation difference and optional provisions net of deferred tax liabilities are included in equity.

Share premium
The amount exceeding the par value of shares received by the company in connection with share subscriptions is recorded in share premium in cases where options have been granted under the old Limited Liability Companies Act (29 Sept. 1978/734).

Reserve of invested non-restricted equity
The reserve of invested non-restricted equity includes the other equity-related investments and share subscription prices to the extent not designated to be included in share capital.

Other reserves
Other reserves have mainly been created and increased as a result of resolutions by the General Meeting. Other reserves mainly comprise contingency reserves.

Currency translation differences
Currency translation differences arise from the translation of foreign operations' financial statements. Also gains and losses arising from net investment hedges in foreign operations are included in currency translation differences, provided they qualify for hedge accounting. The change in the reserve is stated within comprehensive income.

Revaluation reserve
The revaluation reserve includes the change in the fair value of available-for-sale financial instruments and the effective portion of the change in the fair value based on hedge accounting applied to derivatives. Cash flow hedges include electricity derivatives and interest rate derivatives hedging the private placement note interest. The change in the reserve is stated within comprehensive income.

Result of cash flow hedging

Hedge accounting is applied for hedging electricity price risk. As a result, an amount of €-2.8 million (€2.4 million) was removed from equity and included in income statement as purchase cost adjustment, and €-2.1 million (€-13.0 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €0.7 million (€-15.4 million) before accounting for deferred tax assets.

A fair value change of €-3.3 million (€0.4 million) was recognised in equity for the USD-denominated private placement facility before accounting for deferred taxes. In addition, a €0.8 million (€0.8 million) interest expense adjustment for interest rate derivatives has been recognised in the income statement.

NOTE 28.
CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

31 December 2012

	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 assets as per balance sheet	Fair value
Assets as per balance sheet, € million							
Non-current financial assets							
Available-for-sale financial assets			22.3			22.3	22.3
Non-current non-interest-bearing receivables		1.2		0.1			
Derivatives					0.8	2.1	2.1
Non-current interest-bearing receivables		86.5				86.5	86.5
Current financial assets							
Trade and other non-interest-bearing receivables		831.0					
Derivatives	0.3					831.3	831.3
Interest-bearing receivables		25.0				25.0	25.0
Financial assets at fair value through profit or loss	137.2					137.2	137.2
Available-for-sale financial assets			249.0			249.0	249.0
Carrying amount by category	**137.5**	**943.7**	**271.4**	**0.1**	**0.8**	**1,353.5**	**1,353.5**
Non-current financial liabilities							
Non-current interest-bearing liabilities				440.8		440.8	455.6
Derivatives					9.5	9.5	9.5
Total non-current interest-bearing liabilities						450.3	465.0
Non-current non-interest-bearing liabilities				8.5		8.5	8.5
Derivatives					1.8	1.8	1.8
Total non-current non-interest-bearing liabilities						10.3	10.3
Current financial liabilities							
Current interest-bearing liabilities				174.1		174.1	174.3
Trade payables				808.4		808.4	808.4
Other non-interest-bearing liabilities				235.2		235.2	235.2
Derivatives					1.9	1.9	1.9
Total other non-interest-bearing liabilities						237.1	237.1
Accrued liabilities				283.4		283.4	283.4
Derivatives	3.7					3.7	3.7
Total accrued liabilities						287.2	287.2
Carrying amount by category	**3.7**			**1,950.6**	**13.1**	**1,967.4**	**1,982.3**

31 December 2011

Assets as per balance sheet, € 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 assets as per balance sheet	Fair value
Non-current financial assets							
Available-for-sale financial assets			10.6			10.6	10.6
Non-current non-interest-bearing receivables		0.9					
Derivatives					4.1	5.0	5.0
Non-current interest-bearing receivables		73.0				73.0	73.0
Current financial assets							
Trade and other non-interest-bearing receivables		856.9					
Derivatives	1.8					858.7	858.7
Interest-bearing receivables		59.7				59.7	59.7
Financial assets at fair value through profit or loss	97.8					97.8	97.8
Available-for-sale financial assets			185.5			185.5	185.5
Carrying amount by category	**99.6**	**990.5**	**196.1**		**4.1**	**1,290.3**	**1,290.3**
Non-current financial liabilities							
Non-current interest-bearing liabilities				202.7		202.7	222.2
Derivatives					7.7	7.7	7.7
Total non-current interest-bearing liabilities						210.4	229.9
Non-current non-interest-bearing liabilities				17.4		17.4	17.4
Derivatives					1.0	1.0	1.0
Total non-current non-interest-bearing liabilities						18.4	18.4
Current financial liabilities							
Current interest-bearing liabilities				189.7		189.7	189.6
Trade payables				885.8		885.8	885.8
Other non-interest-bearing liabilities				222.6		222.6	222.6
Derivatives					2.4	2.4	2.4
Total other non-interest-bearing liabilities						225.0	225.0
Accrued liabilities				295.0		295.0	295.0
Derivatives	5.3					5.3	5.3
Total accrued liabilities						300.3	300.3
Carrying amount by category	**5.3**			**1,813.2**	**11.1**	**1,829.6**	**1,849.0**

The fair values of loans have been calculated based on the present value of future cash flows using the 0.2%–2.6% market rates of interest of the balance sheet date. The fair value of current interest-bearing liabilities has been estimated to nearly equal their balance sheet value. The maturity analysis of non-current receivables is presented in note 17, and that of non-current borrowings in note 39.

NOTE 29.
FINANCE LEASE LIABILITIES

€ million	2012	2011
Finance lease payments are as follows:		
No later than 1 year	12.0	14.4
Later than 1 year and no later than 5 years	33.2	44.6
Later than 5 years	0.0	0.3
Total minimum lease payments	**45.2**	**59.4**
Present value of minimum lease payments		
No later than 1 year	9.7	11.6
Later than 1 year and no later than 5 years	30.4	39.9
Later than 5 years	0.0	0.3
Total finance lease liabilities	**40.2**	**51.8**
Cumulative finance costs	**5.1**	**7.6**
Contingent rents for the period	**-0.1**	**-0.2**
Expected sublease rentals	**22.4**	**32.1**

The finance lease liabilities mainly consist of store fixtures leased by Kesko Food Ltd from finance companies and subleased to chain companies.

In addition, finance leases include real estate leases with lease payments linked to interest rate.

NOTE 30.
PROVISIONS

€ million	Onerous leases	Warranty provisions	Other provisions	Total
At 1 Jan. 2012	10.7	16.1	7.3	34.2
Foreign exchange effects			0.0	0.0
Additional provisions	15.1	5.6	13.5	34.1
Unused amounts reversed	-3.2	-1.5	-4.1	-8.9
Expensed in income statement	22.6	20.2	16.7	59.4
Used during year	0.3	0.1	0.2	0.6
At 31 Dec. 2012	22.9	20.2	16.9	60.0
Analysis of total provisions				
Non-current				20.5
Current				39.5

Provisions for onerous leases relate to lease liabilities for premises vacated from the Group's operating activities, and to net rental losses on subleased premises. Relating to Musta Pörssi's restructuring, provisions for onerous leases and costs of termination of operations included in other reserves have been recognised. Provisions related to personnel reductions are included in other provisions. A warranty provision has been recorded for vehicles and machines sold by the Group companies. The provision amount is based on experience of realised warranty obligations in previous years.

NOTE 31.
TRADE PAYABLES AND OTHER CURRENT NON-INTEREST-BEARING LIABILITIES

€ million	2012	2011
Trade payables	808.4	885.8
Other non-interest-bearing liabilities	237.1	225.3
Current tax liabilities	16.2	37.5
Accrued liabilities	271.0	262.8
Total current non-interest-bearing liabilities	1,332.7	1,411.5

Accrued liabilities are mainly due to the timing of purchases and staff cost.

NOTE 32.
JOINTLY CONTROLLED ASSETS

These figures represent the Group's interests in jointly controlled assets and liabilities and income and profit included in the consolidated statement of financial position and income statement.

€ million	2012	2011
Non-current assets	66.4	69.1
Current assets	0.3	0.4
	66.7	69.5
Non-current liabilities	7.2	8.1
Current liabilities	14.1	15.4
	21.3	23.5
Net assets	45.4	46.0
Income	4.0	4.2
Costs	3.9	3.5
Profit	0.1	0.7

NOTE 33.
COMMITMENTS

€ million	2012	2011
Collateral given for own commitments		
Pledges	66.7	74.4
Mortgages	14.5	20.7
Guarantees	21.8	25.8
Other commitments and contingent liabilities	73.3	61.1
Collateral given for associates		
Guarantees	65.0	-
Collateral given for others		
Guarantees	0.3	0.3
Other commitments and contingent liabilities	9.4	7.6

The financial guarantees given do not include guarantees related to the item presented within liabilities in the consolidated statement of financial position or as a lease liability in note 34.

NOTE 34.
OPERATING LEASES

Group as the lessee

Minimum lease payments under non-cancellable operating lease agreements:

€ million	2012	2011
No later than 1 year	368.5	366.5
Later than 1 year and no later than 5 years	1,089.6	1,086.9
Later than 5 years	870.3	876.1
Total	2,328.4	2,329.5
Expected future minimum lease payments under non-cancellable sublease agreements	52.0	44.1
Lease and sublease payments recognised for the period:		
Minimum lease payments	391.2	360.2
Contingent rents	-0.1	-0.3
Sublease income	23.4	27.4

The 2012 income statement includes capital and maintenance rentals on real estate under operating leases, and other rentals in a total amount of €433.6 million (€398.1 million). Maintenance rentals are not included in minimum lease payments.

Kesko leases retail and logistics premises for its operating activities. Most of the leases are index-linked and in conformity with local market practice.

Group as the lessor

Minimum lease payments received under non-cancellable operating lease agreements:

€ million	2012	2011
No later than 1 year	16.4	15.6
Later than 1 year and no later than 5 years	32.4	33.7
Later than 5 years	11.0	10.3
Total	59.8	59.7
Aggregate contingent rents charged to the income statement	1.8	0.9

Kesko leases premises to entrepreneurs other than K-retailers in order that the total service offer of a store site supports its profit generation potential. Such premises typically include so-called store entrance stores at large retail outlets.

NOTE 35.
SHARE-BASED PAYMENTS

Options

The Group operates share option plans as part of management's incentive and commitment plan. Each option gives its holder the right to subscribe for one Kesko Corporation B share at the price and during the period specified in the terms and conditions of the option plan. The options are forfeited if the employee leaves the company before the end of the commitment period, unless, in an individual case, the Board decides that the option recipient can keep all or some of the options under offering obligation.

2007 option scheme

On 26 March 2007, the Annual General Meeting decided to grant a total of 3,000,000 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 option entitles its holder to subscribe for one new Kesko Corporation B share. In addition, the option scheme includes an obligation placed by Kesko Board to grantees to buy company shares for permanent ownership for the value of 25% of the proceeds from the sale of options. The options are marked with the symbols 2007A, 2007B and 2007C in units of 1,000,000 options each.

The options are exercisable as follows:

- 2007A 1 April 2010–30 April 2012 (subscription period has expired)
- 2007B 1 April 2011–30 April 2013
- 2007C 1 April 2012–30 April 2014

The original price of a share subscribed for with option 2007A was 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), with option 2007B, between 1 April and 30 April 2008 (€26.57), and with option 2007C, between 1 April and 30 April 2009 (€16.84). The prices of shares subscribed for with options are reduced by the amount decided after the beginning of the period for the determination of the subscription price but before the subscription, as at the record date for each distribution of profits or other assets. After the distribution of dividends for 2011, the price of a B share subscribed for with option 2007B was €22.17 and with option 2007C €13.44. The option scheme covers approximately 130 people.

Percentage of issued share options out of all shares and votes

If all of the exercisable share options remaining of the 2,000,000 issued under the 2007 option scheme are assumed to be exercised, the shares subscribed for with the options would account for 1.99% of all shares and for 0.52% of all votes. The subscriptions made with share options can raise the number of the company shares to 100,641,292. As a result of the subscriptions, the votes attached to all shares could increase to 386,274,355 votes.

Dividend rights and other shareholder rights attached to the shares will apply after the share capital increase has been entered in the Trade Register.

Share options in financial year 1 Jan.-31 Dec. 2012

Principal terms of the plans	2007 SHARE OPTIONS		
Grant date	26 March 2007		
Instrument	share option		
Target group	management, other key personnel		
	2007A	2007B	2007C
Original number of options	1,000,000	1,000,000	1,000,000
Number of shares per option	1	1	1
Original exercise price	€45.82	€26.57	€16.84
Dividend adjustment	Yes	Yes	Yes
Exercise price at 31 Dec. 2007	€45.82	-	-
Exercise price at 31 Dec. 2008	€44.22	€26.57	-
Exercise price at 31 Dec. 2009	€43.22	€25.57	€16.84
Exercise price at 31 Dec. 2010	€42.32	€24.67	€15.94
Exercise price at 31 Dec. 2011	€41.02	€23.37	€14.64
Exercise price at 31 Dec. 2012	-	€22.17	€13.44
Fair value at grant date			
17 Jul. 2007: 2007A	€50.25		
19 Sep. 2007: 2007A	€45.02		
12 Dec. 2007: 2007A	€39.42		
13 Sep. 2010: 2007A	€32.57		
29 May 2008: 2007B		€26.47	
13 Sep. 2010: 2007B		€32.57	
27 May 2009: 2007C			€20.12
13 Sep. 2010: 2007C			€32.57
First allocation, date	1 Apr. 2010	1 Apr. 2011	1 Apr. 2012
Expiry date	expired	30 Apr. 2013	30 Apr. 2014
Remaining vesting period, years	-	0.3	1.3
Plan participants at end of year		114	116

Movements in the number of share options and their related exercise prices in 2012

	2007 SHARE OPTIONS			
	2007A	2007B	2007C	Weighted average exercise price
2012				
Options outstanding at beginning of period	728,700	695,450	720,200	€26.44
Options available for grant at beginning of period	271,300	300,800	279,800	€26.12
Options granted during period	-	-	-	-
Options forfeited during period	-	-	4,500	€13.44
Options exercised during period	-	6,630	60,668	€14.30
Options expired during period	1,000,000			
Options outstanding at end of period	0	688,820	655,032	€17.91
Options exercisable at end of period	0	989,620	939,332	€17.92
Average price weighted by grant date trading volume		€24.68	€23.20	
Kesko B share price at end of grant year				
2007	€37.72			
2008		€17.80		
2009			€23.08	
2010	€34.93	€34.93	€34.93	

Movements in the number of share options and their related exercise prices in 2011

	2007 SHARE OPTIONS			
	2007A	2007B	2007C	Weighted average exercise price
2011				
Options outstanding at beginning of period	728,700	700,200	752,700	€27.55
Options available for grant at beginning of period	271,300	299,800	247,300	€27.88
Options granted during period	-	-	-	-
Options forfeited during period		1,000	32,500	€14.90
Options exercised during period		3,750		€23.37
Options expired during period				
Options outstanding at end of period	728,700	695,450	720,200	€26.44
Options exercisable at end of period	1,000,000	996,250	1,000,000	€26.34
Average price weighted by grant date trading volume		€32.48		
Kesko B share price at end of grant year				
2007	€37.72			
2008		€17.80		
2009			€23.08	
2010	€34.93	€34.93	€34.93	

Fair value measurement

For fair value measurement of options, Kesko Corporation has consulted an external specialist. The fair value of options has been determined using the Black-Scholes option pricing model. The fair value determined for options at grant date has been recognised as an expense over their commitment period.

In the financial year 2012, the options contributed €0.5 million (€2.4 million) to the Group's profit.

Black-Scholes model assumptions

	Granted in 2010	Granted in 2009	Granted in 2008	Granted in 2007	All options
Number of options granted	5,100	785,500	776,000	789,000	2,355,600
B share average (weighted) price	€32.57	€20.12	€26.47	€49.37	€32.03
Average (weighted) exercise price	€29.74	€16.84	€26.57	€45.82	€29.78
Expected average (weighted) volatility	34.7%	32.0%	27.4%	21.7%	27.0%
Average (weighted) vesting period	2.6 yrs	4.9 yrs	4.9 yrs	4.8 yrs	4.9 yrs
Average (weighted) risk-free interest	1.1%	3.0%	4.4%	4.5%	4.0%
Returned options (weighted average)	0.0%	4.4%	10.0%	6.1%	6.7%
Total fair value, €	51,173	5,767,017	5,994,134	11,697,745	23,510,069

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 vesting period. The risk-free interest rate is the government zero coupon bond interest rate at the measurement date with a maturity equalling the option vesting period.

Share-based compensation plan

Kesko's share-based compensation plan 2011–2013, decided by the Board, is targeted to the Group's management and other named key personnel, in which a total maximum of 600,000 own B shares held by the company can be granted within a period of three years.

The share-based compensation plan includes three vesting periods, namely the calendar years 2011, 2012 and 2013. The Kesko Board will decide on the target group and vesting criteria separately for each vesting period based on the proposal by the Remuneration Committee. The award possibly payable after the end of each vesting period is based on the fulfilment of the vesting criteria decided by the Board for the vesting period. The criteria for the vesting periods 2011 and 2012 are Kesko's basic earnings per share (EPS) excluding non-recurring items, the Kesko Group's sales performance exclusive of tax in the vesting year and the percentage by which the total earnings of a Kesko B share exceeds the OMX Helsinki Benchmark Cap GI index.

The award possibly paid for a vesting period will be partly in Kesko B shares and partly in cash.

The cash component will be used to pay the taxes and tax-like charges incurred by the award.

A commitment period of three calendar years following each vesting period is attached to the shares issued in compensation, during which shares may not be assigned. If a person's employment or service relationship ends prior to the expiry of a commitment period, he/she must return the shares under the assignment restriction for no consideration to Kesko or its designate.

Based on the 2011 vesting period, 92,751 shares were assigned during the financial year ended 31 December 2012.

The assumptions in accounting for the share-based compensation plan are presented in the tables below.

Share award grant dates and fair values, vesting period 2011

Grant dates	16 Feb. 2011	27 Apr. 2011	16 May 2011
Grant date fair value of share award, €	31.70	32.25	32.20
Share price at grant date, €	32.40	32.25	32.20
Share-based compensation plan duration			
Vesting period start date			1 Jan. 2011
Vesting period end date			31 Dec. 2011
Commitment period end date			31 Dec. 2014

Share award grant dates and fair values, vesting period 2012

Grant dates	2 Feb. 2012	20 Feb. 2012	22 Mar. 2012
Grant date fair value of share award, €	23.76	25.04	23.44
Share price at grant date, €	24.96	26.24	24.64
Share-based compensation plan duration			
Vesting period start date			1 Jan. 2012
Vesting period end date			31 Dec. 2012
Commitment period end date			31 Dec. 2015

Assumptions applied in determining the fair value of share award

	Vesting period 2012	Vesting period 2011
Number of share awards granted, maximum, pcs	257,400	239,000
Changes in the number shares granted, pcs	-6,575	-13,242
Actual amount of share award, pcs, vesting period 2011	-	92,751
Number of plan participants at end of financial year	140	121
Share price at balance sheet date, €	24.77	24.77
Assumed fulfilment of vesting criteria, %	30.0	53.3
Estimated number of share awards returned prior to the end of restriction period, %	5.0	5.0

The impact of the above share-based compensation plans on the Group's profit for 2012 was €-2.2 million (€-3.0 million).

As at 31 December 2012, the write-down to be recognised as expense for the financial years 2013–2015 is estimated at €2.7 million. The actual amount may differ from the estimate.

NOTE 36.
NON-CASH FLOW INVESTING ACTIVITIES

€ million	2012	2011
Total purchases of fixed assets,	378.3	425.4
of which settlement in cash	411.2	441.9
Settlement of prior period purchases of fixed assets	-9.7	-9.8
Purchases of assets leased to customers	-34.2	-29.6
Purchases financed by finance lease or other liability	11.0	22.9

NOTE 37.
ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

€ million	2012	2011
Adjustment of non-cash transactions in the income statement, and items presented elsewhere in the cash flow statement:		
Change in provisions	26.2	-6.8
Share of profit from associates	0.9	-0.7
Impairments	3.8	0.3
Credit losses	7.2	4.8
Non-recurring gains on disposal of fixed assets	-3.6	-1.4
Non-recurring losses on disposal of fixed assets	0.3	1.0
Option expenses	1.2	2.4
Defined benefit pensions	52.8	-18.9
Others	9.7	12.9
Total	98.4	-6.5

The group ‘others’ within the adjustments to cash flows from operating activities includes the adjustment of unrealised foreign exchange gains and losses on purchases and sales, and the adjustment of other transactions of non-cash nature.

NOTE 38.
CASH AND CASH EQUIVALENTS WITHIN THE STATEMENT OF CASH FLOWS

Components of cash and cash equivalents in the statement of cash flows:

€ million	2012	2011
Available-for-sale financial assets (maturing in less than 3 months)	249.0	146.8
Cash and cash equivalents	102.9	84.0
Total	351.9	230.8

In the statement of cash flows, cash and cash equivalents includes those recognised in the balance sheet and the portion of available-for-sale financial assets that are expected to be settled in less than three months from acquisition.

NOTE 39.
FINANCIAL RISK MANAGEMENT

Financial risk management
With respect to financial risk management, the Group observes a uniform financing policy that has been approved by the company Board. Compliance with this policy and developments in the Group's financial situation are monitored by the Board's Audit Committee. Group Treasury is centrally responsible for obtaining financial resources for the Group, for liquidity management, relations with providers of finance, and the management of financial risks. In the main, the Group's financial resources are obtained through the parent company, and Group Treasury arranges financial resources for subsidiaries in their functional currencies. For subsidiaries with significant external ownership, the Group has not guaranteed financial liabilities in excess of its ownership interest.

Currency risks
The Kesko Group operates in eight countries in addition to which it makes purchases from numerous other countries. In consequence, the Group is exposed to various foreign exchange risks arising from net investments in foreign operations (translation risks), foreign currency assets, liabilities and forecast transactions (transaction risks).

The Group companies' financial resources are arranged in their functional currencies. The parent company bears the ensuing currency risk and hedges it by using derivatives or foreign currency borrowings. The Belarusian currency BYR is not a freely convertible currency and hedging against the associated currency risk is not possible.

Translation risks
The Group's assets are exposed to foreign currency translation risks relating to net investments in subsidiaries outside the euro zone. This balance sheet exposure has not been hedged. The hedge is capitalised if equity is repatriated, or if a currency is expected to be exposed to a significant devaluation risk. The most significant translation exposures are to the Swedish krona, Russian ruble, Lithuanian litas, Latvian lat and Norwegian krone. The exposure does not include the non-controlling interest in equity. Relative to the Group's volume of operations and the balance sheet total, the translation risk is low.

The functional currency of the real estate companies operating in St. Petersburg and Moscow in Russia has been determined to be the euro, which is why net investments in these companies are not exposed to translation risk, and consequently are not included in the translation exposure.

Group's translation exposure at 31 Dec. 2012

€ million	LVL	NOK	SEK	RUB	LTL	BYR
Net investment	34.4	25.2	86.1	47.1	41.5	2.5

Group's translation exposure at 31 Dec. 2011

€ million	LVL	NOK	SEK	RUB	LTL	BYR
Net investment	15.5	26.2	22.8	50.5	39.7	1.3

The following table shows how a 10% change in the Group companies' functional currencies would affect the Group's equity.

Sensitivity analysis, effect on equity at 31 Dec. 2012

€ million	LVL	NOK	SEK	RUB	LTL	BYR
Change +/-10%	3.4	2.5	8.6	4.7	4.2	0.3

Sensitivity analysis, effect on equity at 31 Dec. 2011

€ million	LVL	NOK	SEK	RUB	LTL	BYR
Change +/-10%	1.6	2.6	2.3	5.1	4.0	0.1

Transaction risks

International purchasing activities and foreign currency denominated financial resources arranged by the parent to subsidiaries expose the Group to transaction risks relating to several currencies. The currency-specific transaction risk consists of receivables and liabilities denominated in foreign currencies in the balance sheet, forecasted cash flows in foreign currencies, and foreign subsidiaries' liabilities and receivables with respect to the parent. The risk is commercially managed by, for example, transferring exchange rate changes to selling prices, or by replacing suppliers. The remaining exposures are hedged by currency derivative instruments. The level of hedging in commercial transactions is decided by each relevant subsidiary within the limits of documented hedging policies. The subsidiaries report their currency exposures to Group Treasury on a monthly basis.

In the main, the subsidiaries carry out their hedging operations with Group Treasury, which hedges risk exposures by using market transactions within the limits confirmed for each currency. Intra-Group derivatives are allocated to the segments in segment reporting.

The Group does not apply hedge accounting in accordance with IAS 39 to the hedging of transaction risks relating to purchases and sales. In initial measurement, derivative instruments are recognised at cost and at subsequent measurement they are recognised at fair value. The change in fair value of currency derivatives used for hedging purchases and sales is recognised in other operating income or expenses.

The Group monitors the transaction risk in respect of the existing and projected cash flows. The accompanying table analyses the transaction exposure excluding future cash flows. The presentation does not illustrate the Group's actual currency risk after hedgings. Forecasted amounts included in the transaction exposure, the most significant differences from the table below are in the USD and LTL exposures. At 31 December 2012, the exposure to USD risk was €-8.0 million, and the exposure to LTL risk was €0.0 million.

Group's transaction exposure at 31 Dec. 2012

€ million	USD	SEK	NOK	LVL	LTL	RUB	BYR
Group's transaction risk	-2.7	49.8	75.6	4.9	-1.2	65.0	0.4
Hedging derivatives	33.3	-45.9	-34.7	4.3	-11.6	-57.1	0.0
Hedging borrowings	0.0	0.0	-27.2	-7.2	0.0	0.0	0.0
Exposure	30.6	3.9	13.7	2.0	-12.8	7.9	0.4

Group's transaction exposure at 31 Dec. 2011

€ million	USD	SEK	NOK	LVL	LTL	RUB	BYR
Group's transaction risk	-4.7	130.2	60.5	11.8	0.3	53.2	0.0
Hedging derivatives	33.2	-127.5	-19.3	-2.6	-8.7	-52.4	0.0
Hedging borrowings	0.0	0.0	-25.8	-7.1	0.0	0.0	0.0
Exposure	28.5	2.7	15.4	2.1	-8.4	0.8	0.0

A sensitivity analysis of the transaction exposure shows the profit impact of a +/-10% exchange rate change in intra-Group receivables and liabilities denominated in foreign currencies and hedging foreign currency derivatives and borrowings.

Sensitivity analysis, pre-tax profit impact at 31 Dec. 2012

€ million	USD	SEK	NOK	LVL	LTL	RUB	BYR
Change +/-10%	3.1	0.4	1.4	0.2	-1.3	0.8	0.0

Sensitivity analysis, pre-tax profit impact at 31 Dec. 2011

€ million	USD	SEK	NOK	LVL	LTL	RUB	BYR
Change +/-10%	2.9	0.3	1.5	0.2	-0.8	0.1	0.0

Interest rate risk on borrowings and sensitivity analysis

Changes in interest rates have an impact on the Group's interest expense. The policy for hedging interest rate exposure is aimed at balancing the effects of interest rate movements on the profits for different accounting periods.

The interest rate risk is centrally managed by Group Treasury, which adjusts interest rate durations by using interest rate derivative instruments. The target duration is three years, which is allowed to vary between one and a half and four years. The actual duration during the period was 2.5 (2.9) years on average.

On 11 September 2012, Kesko Corporation issued a €250 million bond. The bond carries a fixed coupon interest at 2.75% and a maturity of six years.

On 10 June 2004, Kesko Corporation issued a USD private placement in a total amount of USD 120 million in the United States. The facility has three tranches with bullet repayments due in 2014 (USD 60 million), in 2016 (USD 36 million) and in 2019 (USD 24 million).

Kesko Corporation's USD private placement credit facility qualifies for hedge accounting against both foreign exchange and interest rate risk and it has been hedged by currency swaps and interest rate swaps with the same maturities as the borrowing. As a result, the borrowing is fully hedged against foreign exchange and interest rate risk. During the financial year, there was no ineffectiveness to be recorded in the income statement from this credit facility.

A sensitivity analysis for commercial paper liabilities realised during the financial year used average balance values. At the balance sheet date of 31 December 2012, the effect of variable rate borrowings on the pre-tax profit would have been €-/+2.1 million, if the interest rate level had risen or fallen by 1 percentage point (€-/+2.2 million).

Undiscounted cash flows from financial liabilities and related finance costs as at 31 Dec. 2012

€ million	2013	2014	2015	2016	2017	2018–	Total
Borrowings from financial institutions	**1.0**	**8.0**	**28.0**	**0.4**	**0.4**	**3.0**	**40.8**
finance costs	1.4	1.4	1.3	0.1	0.1	0.1	4.3
Private placement notes (USD)		**45.5**		**27.3**		**18.2**	**91.0**
finance costs	5.6	4.3	2.9	2.0	1.2	1.8	17.8
Bonds						**250.0**	**250.0**
finance costs	6.9	6.9	6.9	6.9	6.9	6.9	41.3
Pension loans	**5.8**	**5.8**	**5.8**	**5.8**	**5.8**	**8.8**	**37.9**
finance costs	1.4	1.2	1.0	0.7	0.5	0.3	5.2
Finance lease liabilities	**9.8**	**8.3**	**4.6**	**13.8**	**3.9**	**0.0**	**40.3**
finance costs	2.3	1.2	0.9	0.4	0.2	0.0	5.0
Payables to K-retailers	**130.3**						**130.3**
finance costs							0.0
Other interest-bearing liabilities	**27.2**						**27.2**
finance costs	0.0						0.0
Non-current non-interest-bearing liabilities	**4.5**	**4.7**	**1.0**	**0.2**	**0.1**	**0.0**	**10.4**
Current non-interest-bearing liabilities							
Trade payables	**808.4**						**808.4**
Accrued liabilities	**267.5**						**267.5**
Other non-interest-bearing liabilities	**182.7**						**182.7**

Undiscounted cash flows from financial liabilities and related finance costs as at 31 Dec. 2011

€ million	2012	2013	2014	2015	2016	2017–	Total
Borrowings from financial institutions	**8.6**	**1.2**	**1.0**	**26.7**	**0.6**	**2.7**	**40.8**
finance costs	1.5	1.3	1.3	1.3	0.1	0.2	5.6
Private placement notes (USD)			**46.4**		**27.8**	**18.5**	**92.7**
finance costs	5.8	5.8	4.3	2.9	2.1	3.0	23.9
Pension loans	**5.8**	**5.8**	**5.8**	**5.8**	**5.8**	**14.6**	**43.8**
finance costs	1.7	1.4	1.2	1.0	0.7	0.8	6.9
Finance lease liabilities	**11.6**	**7.5**	**10.1**	**6.5**	**15.7**	**0.3**	**51.8**
finance costs	2.9	1.5	1.4	1.1	0.6	0.0	7.6
Payables to K-retailers	**117.6**						**117.6**
finance costs	0.1						0.1
Other interest-bearing liabilities	**45.7**						**45.7**
finance costs	**0.1**						**0.1**
Non-current non-interest-bearing liabilities	**2.5**	**4.2**	**1.2**	**0.1**	**0.0**	**0.0**	**8.0**
Current non-interest-bearing liabilities							
Trade payables	**885.8**						**885.8**
Accrued liabilities	**261.4**						**261.4**
Other non-interest-bearing liabilities	**181.7**						**181.7**

Undiscounted cash flows from derivative instruments as at 31 Dec. 2012

€ million	2013	2014	2015	2016	2017	2018–	Total
Payables							
Forward foreign exchange contracts outside hedge accounting	244.4						244.4
Net settlement of payables							
Interest rate derivatives	0.1	0.1	0.1				0.2
Electricity derivatives	1.7	1.1	0.5	0.2	0.1	0.0	3.6
Derivatives relating to private placement notes*							
Foreign currency derivatives	0.6	5.2	0.3	3.1	0.1	2.1	11.3
Receivables							
Forward foreign exchange contracts outside hedge accounting	241.0						241.0
Net settlement of payables							
Derivatives relating to private placement notes*							
Interest rate derivatives	0.9	0.7	0.5	0.3	0.2	0.3	2.8

** The cash flows from private placement notes and related foreign currency derivatives and interest rate derivatives are settled on a net basis.*

Undiscounted cash flows from derivative instruments as at 31 Dec. 2011

€ million	2012	2013	2014	2015	2016	2017–	Total
Payables							
Forward foreign exchange contracts outside hedge accounting	354.1						354.1
Net settlement of payables							
Interest rate derivatives	0.1	0.1	0.1	0.1	0.0		0.4
Electricity derivatives	2.2	0.8	0.3	0.1	0.0		3.4
Derivatives relating to private placement notes*							
Foreign currency derivatives	0.5	0.5	4.2	0.2	2.5	1.8	9.7
Receivables							
Forward foreign exchange contracts outside hedge accounting	350.7						350.7
Net settlement of payables							
Derivatives relating to private placement notes*							
Interest rate derivatives	0.9	0.9	0.7	0.4	0.3	0.5	3.7

** The cash flows from private placement notes and related foreign currency derivatives and interest rate derivatives are settled on a net basis.*

The bond, private placement notes and some of the borrowings from financial institutions, €426.8 million in aggregate, have fixed rates, and their effective interest cost was 3.7%. At the end of the financial year, the average rate of variable-interest-rate borrowings from financial institutions, payables to retailers and other interest-bearing liabilities was 0.2%. Some of the borrowings are euro-denominated, the private placement notes are USD-denominated, and the borrowings from financial institutions include NOK-denominated borrowings totalling €27.2 million (€25.8 million) and LVL-denominated borrowings totalling €7.2 million (€7.1 million).

Liquidity risk and sensitivity analysis for interest-bearing receivables

Liquidity risk management aims to maintain sufficient liquid assets and borrowing facilities in order to ensure the availability of sufficient financial resources for the Group's operating activities at all times.

The objective is to invest liquidity consisting of financial assets in the money market by using efficient combinations of return and risk. At regular intervals, the Group's management approves the investment instruments and limits for each counterparty among those analysed by Group Treasury. The risks and actual returns of investments are monitored regularly.

A sensitivity analysis for variable-rate receivables uses average annual balance values of invested assets. The receivables include customer financing receivables, finance lease receivables, other interest-bearing receivables, and within investments, commercial papers and bond funds. The sensitivity of bond funds has been determined based on duration. At the balance sheet date, the effect of these items on the pre-tax profit would have been €+/-3.0 million (€+/-5.5 million), and €+/-0.2 million (€+/-1.5 million) on equity, if the interest rate level had changed by +/-1 percentage point.

At the balance sheet date, the total of undrawn committed long-term borrowing facilities was €100.0 million (€100.0 million). In addition, the Group's uncommitted financial resources available contain commercial paper programmes denominated in euros totalling an equivalent of €359 million (€359 million).

The terms and conditions of the private placement and the committed facilities include ordinary financial covenants. The requirements of these covenants have been met. The terms of the borrowing include a financial covenant defining the ratio between net debt and EBITDA, which remained well below the maximum throughout the financial year.

Maturity analysis for liabilities in 2012

€ million	31 Dec. 2012	Available	Total	2013	2014	2015	2016	2017 and later
Borrowings from financial institutions	40.9		40.9	1.1	8.0	28.0	0.4	3.4
Bonds	247.9		247.9					247.9
Private placement notes	100.3		100.3		50.2		30.1	20.0
Pension loans	37.8		37.8	5.8	5.8	5.8	5.8	14.6
Finance lease liabilities	40.1		40.1	9.7	8.2	4.5	13.8	3.9
Payables to K-retailers	130.3		130.3	130.3				
Other interest-bearing liabilities	27.2		27.2	27.2				
Trade payables	808.4		808.4	808.4				
Accrued liabilities	267.5		267.5	267.5				
Other non-interest-bearing liabilities	182.7		182.7	182.7				
Committed borrowing facilities		100.0	100.0				50.0	50.0
Commercial paper programmes		359.0	359.0					
Financial guarantees	86.8		86.8	8.5	77.0	0.4		0.9
Total	1,969.9	459.0	2,428.9	1,441.3	149.2	38.7	100.1	340.7

Maturity analysis for liabilities in 2011

€ million	31 Dec. 2011	Available	Total	2012	2013	2014	2015	2016 and later
Borrowings from financial institutions	40.8		40.8	8.6	1.2	1.0	26.7	3.3
Private placement notes	100.2		100.2			50.1		50.1
Pension loans	43.5		43.5	5.8	5.8	5.8	5.8	20.3
Finance lease liabilities	51.8		51.8	11.6	7.5	10.1	6.5	16.1
Payables to K-retailers	117.6		117.6	117.6				
Other interest-bearing liabilities	45.7		45.7	45.7				
Trade payables	885.8		885.8	885.8				
Accrued liabilities	261.4		261.4	261.4				
Other non-interest-bearing liabilities	181.7		181.7	181.7				
Committed borrowing facilities	*	258.6	265.9	165.9				100.0
Commercial paper programmes		359.0	359.0					
Financial guarantees	25.8		25.8	20.4		4.5		0.9
Total	1,754.4	617.6	2,379.3	1,704.5	14.5	71.5	39.0	190.7

** The amount withdrawn from committed borrowing facilities is included in borrowings from financial institutions.*

The financial guarantees given do not include guarantees relating to an item presented as a liability in the consolidated balance sheet or as a lease liability in note 34.

Payables to K-retailers consist of two types of interest-bearing liabilities by Kesko to K-retailers: retailers' prepayments to Kesko and Kesko's chain rebate liabilities to retailers. Chain rebates are subsequent discounts given to retailers and the terms vary from one chain to another. The private placement notes include the change in fair value of currency derivative instruments.

Financial assets and liabilities recognised at fair value

The Group's liquid assets have mainly been invested in the debt instruments of major Finnish companies, in certificates of deposit and in deposits with banks operating in Kesko's market area, in Finnish government bonds, and in the bonds of selected companies. The return on these investments for 2012 was 1.5% (1.6%). The maximum credit risk is the fair value of these investments on the balance sheet at the balance sheet date as presented below.

The table below analyses financial instruments carried at fair value, by valuation method.

Fair value hierarchy of financial assets and liabilities

	Fair value at 31 Dec. 2012			
€ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Commercial papers		77.2		77.2
Bank certificates of deposit and deposits		60.1		60.1
Total		137.2		137.2
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		1.1		1.1
Derivative financial liabilities		16.8		16.8
Available-for-sale financial assets				
Private equity funds			6.9	6.9
Commercial papers (maturing in less than 3 months)		83.5		83.5
Bank certificates of deposit and deposits (maturing in less than 3 months)		165.6		165.6
Bonds	0.0			0.0
Total	0.0	249.0	6.9	255.9

Level 1 instruments are traded in active markets and their fair values are directly based on quoted market prices. The fair values of level 2 instruments are derived from market data. The fair values of level 3 instruments are not based on observable market data (unobservable input).

The table below presents the changes in level 3 instruments for 1 Jan.–31 Dec. 2012:

€ million	Private equity funds
Opening balance at 1 Jan. 2012	5.9
Purchases	1.1
Refunds received	-0.3
Changes in fair values	0.2
Total	6.9

Fair value hierarchy of financial assets and liabilities

	Fair value at 31 Dec. 2011			
€ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Commercial papers		77.8		77.8
Bank certificates of deposit and deposits		19.9		19.9
Total		97.7		97.7
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		5.9		5.9
Derivative financial liabilities		8.7		8.7
Available-for-sale financial assets				
Private equity funds			5.9	5.9
Commercial papers (maturing in less than 3 months)		59.3		59.3
Bank certificates of deposit and deposits (maturing in less than 3 months)		87.5		87.5
Bonds	38.8			38.8
Total	38.8	146.8	5.9	191.5

The table below presents the changes in level 3 instruments for 1 Jan.–31 Dec. 2011:

€ million	Private equity funds
Opening balance at 1 Jan. 2011	4.4
Purchases	0.6
Changes in fair values	0.9
Total	5.9

Private equity funds have been classified as non-current available-for-sale financial assets. Private equity funds are measured based on valuation calculations obtained from fund management companies. Gains or losses on private equity funds have not been recognised in profit or loss for the 2012 (2011) financial year.

Credit and counterparty risk

The division companies are responsible for the management of credit risk associated with amounts due from customers. The Group has a credit policy and its implementation is controlled. The aim is to ensure the payment of receivables by carefully assessing customers' creditworthiness, by specifying customer credit terms and collateral requirements, by effective credit control and credit insurances, as applicable. In Finland, the main part of the Group's business activities is carried out in cooperation with retailers. According to retailer agreements, retailers shall arrange overdraft facilities to be held as collateral for their trade payables by the relevant Kesko subsidiary.

The Group companies apply a uniform practice to measuring past due receivables. A receivable is written down when there is objective evidence of impairment. The ageing analysis of trade receivables at 31 December was as follows:

Ageing analysis of trade receivables

€ million	2012	2011
Trade receivables fully performing	655.8	655.5
1–7 days past due trade receivables	15.8	12.1
8–30 days past due trade receivables	12.6	15.4
31–60 days past due trade receivables	3.1	4.6
over 60 days past due trade receivables	15.8	12.4
Total	703.0	700.0

The above analysis includes impaired receivables in a total amount of €31.8 million (€24.3 million).

Within trade receivables, €362.1 million (€376.2 million) were from chain retailers and €46.7 million (€37.5 million) were credit card receivables. The collateral for chain retailer receivables is an overdraft facility granted by a Kesko associate, Vähittäiskaupan Takaus Oy, with the maximum always limited to the realisable value of the counter-security from the K-retail company and entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the aggregate value of counter-securities was €151.3 million (€157.4 million). In addition, the collateral for receivables includes other collaterals, such as business mortgages and other pledged assets.

Trade receivables include a provision for impairment in a total of €17.9 million (€13.5 million). An aggregate amount of €7.2 million (€4.8 million) in credit losses and impairments has been recognised in the net profit for the period.

At 31 December 2012, the amount of receivables with renegotiated terms amounted to €2.0 million (€3.1 million).

Financial credit risk

Financial instruments involve the risk of non-performance by counterparties. Kesko only enters into currency and interest rate derivative contracts with creditworthy banks. Liquid funds are invested, in accordance with limits set annually for each counterparty, in instruments with good credit quality. Company and bank-specific euro and time limits are set for interest investments. These limits are reviewed during the year depending on the market situation.

Loan agreements at change of control (interest over 50%)

According to the terms of Kesko Corporation's USD-denominated private placement credit facility, 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 loan facilities, the lenders have the right to cancel the loan facility and any amounts drawn down.

According to the terms of both loan agreements, a transfer of ownership to retailers or a retailers' association shall not be considered a change of control.

Credit ratings

For the present, Kesko Corporation has not applied for a credit rating, because it has not been considered necessary in the company's present financial situation.

Commodity risks and their sensitivity analyses

The Group uses electricity derivatives for the purpose of balancing energy costs. The electricity price risk is assessed for five-year periods. The fair value changes of derivatives hedging the price of electricity supplied during the financial year are recognised within adjustments to purchases. Hedge accounting is applied to contracts hedging future purchases. The effective portion of derivatives that qualify for hedge accounting is recognised in the revaluation reserve of equity and the ineffective portion in the income statement within other operating income or expenses. The change in the revaluation reserve recognised in equity is presented in the statement of comprehensive income under revaluation of cash flow hedge.

At the end of the year, the ineffective portion of hedge accounting was €-2.2 million (€-1.1 million).

At the balance sheet date, a total quantity of 1,077,792 MWH (798,200 MWH) of electricity had been purchased with electricity derivatives, and the 1–12 month hedging rate was 89% (78%), the 13–24 month rate was 51% (46%), the 25–36 month rate was 31% (14%), the 37–48 month rate was 21% (3%) and the 49–60 month rate was 16% (0%).

A sensitivity analysis for electricity derivatives assumes that derivatives maturing in less than 12 months have an impact on profit. If the market price of electricity derivatives changed by -/+20% from the balance sheet date 31 December 2012, it would contribute €-/+3.3 million (€-/+3.3 million) to the 2013 profit and €-/+4.8 million (€-/+2.9 million) to equity. The impact has been calculated before tax.

Fair values of derivative contracts

€ million	31 Dec. 2012 Positive fair value (balance sheet value)	31 Dec. 2012 Negative fair value (balance sheet value)	31 Dec. 2011 Positive fair value (balance sheet value)	31 Dec. 2011 Negative fair value (balance sheet value)
Interest rate derivatives	0.8	0.0	4.1*	0.0
Foreign currency derivatives	0.3	-13.1*	1.8	-12.9*
Electricity derivatives	0.0	-3.6	0.0	-3.4

Notional principal amounts of derivative contracts

€ million	31 Dec. 2012 Notional principal amount	31 Dec. 2011 Notional principal amount
Interest rate derivatives	203.4*	207.7*
Foreign currency derivatives	356.3*	458.1*
Electricity derivatives	40.7	31.5

** Derivative contracts include interest rate swaps relating to a foreign currency borrowing facility with a gross notional principal amount of €200.8 million and a fair value of €0.8 million (€4.1 million), and currency swaps with a notional principal amount of €100.4 million and a fair value of €-9.5 million (€-7.7 million).*

The maximum credit risk of derivatives is the fair value of the balance sheet at the reporting date.

Capital structure management

The Kesko Group's objectives in capital management include targets set for the Group's solvency and liquidity. The Group's capital structure (equity-to-debt ratio) is optimised at the Group level. 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 capital expenditure programmes based on the Group's strategy, and maintaining the shareholder value. Objectives have been set for the indicators 'equity ratio' and 'interest-bearing net debt/EBITDA'. Some of the Group's interest-bearing liabilities include covenants, whose terms and conditions have been taken into account in the above target levels. The Group does not have a credit rating from any external credit rating institution.

The target levels for the Kesko Group's financial indicators are approved by the Board of Directors. On 4 February 2009, the Board approved the following values for the indicators 'equity ratio' and 'interest-bearing net debt/EBITDA':

	Target level	Level achieved in 2012	Level achieved in 2011
Equity ratio	40–50%	52.5%	53.9%
Interest-bearing net debt/EBITDA	< 3	0.4	0.1

€ million	2012	2011
Shareholders' equity	2,267.0	2,233.0
Balance sheet total	4,372.7	4,190.0
- Prepayments received	54.4	44.0
Total	4,318.4	4,146.0
Equity ratio	**52.5%**	**53.9%**
Interest-bearing liabilities	624.5	400.0
Financial assets	489.2	367.3
Interest-bearing net debt	135.3	32.8
EBITDA	375.1	405.4
Interest-bearing net debt/EBITDA	**0.4**	**0.1**

NOTE 40.
RELATED PARTY TRANSACTIONS

The Group's related parties include its key management (the Board of Directors, the President and CEO and the Corporate Management Board), subsidiaries, associates and the Kesko Pension Fund. The subsidiaries and associates are listed in a separate note (note 42).

The related party transactions disclosed consist of transactions carried out with related parties that are not eliminated in the consolidated financial statements.

The associate consolidated using the equity method, Kruunuvuoren Satama Oy, owns properties which have 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 for use by the Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

The Kesko Pension Fund is a stand-alone legal entity which manages part of the pension assets related to the voluntary pensions of the Group's employees in Finland. The pension assets include Kesko Corporation shares in the amount of €12.0 million (€32.5 million). Real estate and premises owned by the Pension Fund have been leased to the Kesko Group.

During the 2012 financial year, the Kesko Group did not pay contributions to the Pension Fund (€26.0 million).

During the 2012 financial year, the management of the statutory pension provision and the related Kesko Group employees' insurance portfolio was partly transferred from the Kesko Pension Fund to a pension insurance company. Relating to the transfer of the pension insurance portfolio, the Pension Fund returned pension assets to employer companies. The returned assets resulted in a €71.2 million cash inflow to the Kesko Group.

The following transactions were carried out with related parties:

Sales of goods and services

€ million	2012	2011
Sales of goods		
Board of Directors and management	65.1	37.3
Total	65.1	37.3

€ million	2012	2011
Sales of services		
Associates	2.6	2.2
Board of Directors and management	8.4	4.6
Pension Fund	0.5	0.5
Total	11.5	7.3

Some members of Kesko's Board of Directors act as K-retailers. The Group companies sell goods and services to enterprises controlled by them.

Goods and services are sold to related parties on normal market terms and conditions and at market prices.

Purchases of goods and services

€ million	2012	2011
Purchases of goods		
Board of Directors and management	10.0	2.5
Total	10.0	2.5

€ million	2012	2011
Purchases of services		
Associates	4.6	4.7
Board of Directors and management	0.0	0.1
Total	4.6	4.9

Items included in other operating expenses include lease rentals paid by the Kesko Group to the Kesko Pension Fund in a total amount of €13.9 million (€16.2 million), and to associates in a total amount of €10.4 million (€9.9 million).

Other operating income

€ million	2012	2011
Associates	0.1	0.0
Board of Directors and management	0.3	1.3
Pension Fund	0.1	0.1
Total	0.5	1.5

Other operating expenses

€ million	2012	2011
Associates	10.4	9.9
Pension Fund	13.9	16.1
Other related party	0.1	1.1
Total	24.5	27.2

Finance costs

€ million	2012	2011
Associates	0.1	0.4
Pension Fund	0.0	0.6
Total	0.2	1.0

Current receivables

€ million	2012	2011
Associates	0.2	0.1
Board of Directors and management	5.5	3.7
Pension Fund	0.0	-
Total	5.7	3.9

Some Kesko Board members act as K-retailers. At the balance sheet date, the receivables resulting from sales by Kesko to enterprises controlled by them totalled €5.5 million (€3.7 million). The receivables are secured 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-security from the K-retailer's enterprise and the K-retailer entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the value of the counter-security was €3.9 million (€3.4 million).

Other current liabilities

€ million	2012	2011
Associates	20.4	35.5
Board of Directors and management	2.9	1.2
Pension Fund	0.8	8.2
Total	24.1	44.9

Other current liabilities include, among other things, chain rebate payables to enterprises controlled by three Kesko Board members acting as K-retailers. Chain rebates are paid retrospectively based on criteria related to the amount of actual annual purchases and the quality of operations.

A Kesko Group associate, Kruunuvuoren Satama Oy, and its subsidiary have borrowings from external providers of finance, which are secured on mortgages on properties owned by the companies. Kesko has issued a conditional guarantee for the €65 million bank borrowing of the subsidiary of Kruunuvuoren Satama Oy. In the 2011 financial year, the Kesko Group sold one real estate company to the Pension Fund. The Kesko Group had a €39.7 million loan and receivable from the real estate company. The loan was at three-month Euribor plus a margin of 0.5%. The loan was repaid in 2012. The loan was secured on a mortgage.

In addition, Kesko has a €1.5 million non-current receivable from a real estate associate.

Management's employee benefits

Board remuneration

€ thousand	2012	2011
Esa Kiiskinen, Chair	73.8	42.0
Heikki Takamäki, Chair (until 16 Apr. 2012)	22.0	86.5
Seppo Paatelainen, Deputy Chair	57.0	59.0
Ilpo Kokkila	42.5	43.0
Tomi Korpisaari (from 16 Apr. 2012)	31.3	-
Mikko Kosonen (until 16 Apr. 2012)	10.8	44.5
Maarit Näkyvä	44.5	44.5
Toni Pokela (from 16 Apr. 2012)	31.3	-
Rauno Törrönen (until 16 Apr. 2012)	10.3	42.0
Virpi Tuunainen (from 16 Apr. 2012)	32.3	-

Remuneration of the President and CEO, and the Corporate Management Board members

€ thousand	2012	2011
Matti Halmesmäki, President and CEO	1,196.3	1,002.4
Corporate Management Board (the other members)	1,928.2	2,073.6

Shares and share options held

At 31 December 2012, the President and CEO held 2,000 Kesko Corporation A shares and 17,794 Kesko Corporation B shares, which represent 0.02% of the company's total share capital and 0.01% of votes. The Corporate Management Board, including President and CEO, held 2,000 Kesko Corporation A shares and 43,981 Kesko Corporation B shares, which represent 0.05% of the company's total share capital and 0.02% of votes. The Corporate Management Board held 17,000 Kesko Corporation 2007B share options and 65,500 2007C share options. If the share options were exercised, they would represent 0.08% of shares and 0.02% of all votes.

Retirement benefits

The President and CEO and the other Corporate Management Board members, except for two (2), belong to the Kesko Pension Fund's department A which was closed in 1998, and their pensions are determined based on its rules and their personal service contracts. They have defined retirement benefit plans. Two of the members have joined Kesko after 1998, and their pensions are determined based on the Employees' Pensions Act (TyEL) applied in Finland.

Termination benefits

If given notice by the company, the President and CEO and the other Corporate Management Board members are entitled to a monetary salary for the period of notice, fringe benefits and a separate non-recurring termination payment determined on the basis of the executive's monetary salary and fringe benefits for the month of notice. The termination payment and granted share options, or income from them are not part of the executive's salary and they are not included in the determination of the salary for the period of notice, termination payment or, in case of retirement, pensionable salary. If an executive resigns, he/she is only entitled to a salary for the period of notice and fringe benefits. When a service relationship terminates due to retirement, the executive is paid a pension based on the service contract without other benefits.

NOTE 41.
OTHER NOTES

Events after the reporting period

After the balance sheet date, no significant events have taken place within the Group.

NOTE 42.

SUBSIDIARIES AND ASSOCIATES AS AT 31 DEC. 2012

INTERESTS IN GROUP COMPANIES

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Anttila Oy	Helsinki	100.00	100.00
Asunto Oy Kirkkonummen Västeruddintie 33	Kirkkonummi	100.00	100.00
Indoor Group Ltd	Helsinki	100.00	100.00
Intersport Finland Ltd	Helsinki	100.00	100.00
Johaston Oy	Helsinki	100.00	100.00
Kenkäkesko Ltd	Helsinki	100.00	100.00
Kesko Food Ltd	Helsinki	100.00	100.00
Keslog Ltd	Helsinki	100.00	54.95
Kestra Kiinteistöpalvelut Oy	Helsinki	100.00	100.00
Kiinteistö Oy Helsingin Satamakatu 3	Helsinki	100.00	100.00
Kiinteistö Oy Lahden Lyhytkatu 1*	Lahti	50.00	50.00
Kiinteistö Oy Sunan Hallitalo	Helsinki	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki	100.00	100.00
Kiinteistö Oy Välivainion Ostoskeskus	Oulu	65.97	65.97
K-instituutti Oy	Helsinki	72.00	72.00
Klintcenter Ab	Maarianhamina	100.00	100.00
Konekesko Ltd	Helsinki	100.00	100.00
K-Plus Oy	Helsinki	100.00	100.00
K-talouspalvelukeskus Oy	Helsinki	100.00	51.02
Musta Pörssi Ltd	Helsinki	100.00	100.00
Plussa OÜ	Tallinn, Estonia	100.00	100.00
Rautakesko Ltd	Helsinki	100.00	100.00
Sincera Oy	Helsinki	100.00	100.00
VV-Auto Group Oy	Helsinki	100.00	100.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Ansami OOO	St. Petersburg, Russia	100.00	
Antti SIA	Riga, Latvia	100.00	
Anttila AS	Viljandi, Estonia	100.00	
App-Hallinta Oy	Helsinki	100.00	
Asko Möbler AB	Huddinge, Sweden	100.00	
Bansemko OOO	Moscow, Russia	100.00	
Barker-Littoinen Oy	Espoo	100.00	
Bruland Bygg AS	Förde, Norway	66.31	
Byggmakker Distribusjon AS	Ski, Norway	100.00	
Byggmakker Norge AS	Oslo, Norway	100.00	
Daugavkrasts M SIA	Riga, Latvia	100.00	
Fiesta Real Estate AS	Tallinn, Estonia	100.00	
Hasti-Ari AS	Ski, Norway	100.00	
Hauhon Kiinteistö- ja Kauppakeskus Oy	Hämeenlinna	100.00	
Ikosen OÜ	Tallinn, Estonia	100.00	
Indoor Group AS	Tallinn, Estonia	100.00	
Insofa Oy	Lahti	100.00	
Johaston OOO	Moscow, Russia	100.00	
K-citymarket Oy	Helsinki	100.00	
Keru Kiinteistöt Oy	Helsinki	100.00	
Kesko Food Russia Holding Oy	Helsinki	100.00	
Kesko Food Rus OOO	St. Petersburg, Russia	100.00	
Kesko Real Estate Latvia SIA	Riga, Latvia	100.00	
Kesko Real Estate OOO	St. Petersburg, Russia	100.00	
Kespro Ltd	Helsinki	100.00	
KFR Real Estate 1 OOO	St. Petersburg, Russia	100.00	
Kiinteistö Mesta Oy	Helsinki	100.00	
Kiinteistö Oy Furupuro	Vantaa	100.00	
Kiinteistö Oy Hannunhelmi	Helsinki	100.00	
Kiinteistö Oy Kankaanpään Liikekeskus	Kankaanpää	100.00	
Kiinteistö Oy Keravan Alikeravantie 77	Helsinki	100.00	
Kiinteistö Oy Kirkkonummen Sundetin kauppakortteli	Kirkkonummi	100.00	
Kiinteistö Oy Kolmisopentie 3	Kuopio	100.00	
Kiinteistö Oy Lahden Karisma	Helsinki	100.00	
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki	100.00	
Kiinteistö Oy Liike-Jaako	Rovaniemi	67.88	
Kiinteistö Oy Mäntyharjun Liiketori	Mäntyharju	100.00	
Kiinteistö Oy Pajalantie 19	Järvenpää	100.00	
Kiinteistö Oy Piispansilta	Espoo	100.00	
Kiinteistö Oy Pälkäneen Liikekeskus	Pälkäne	84.14	
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00	
Kiinteistö Oy Tampuri	Helsinki	100.00	
Kiinteistö Oy Tarkkaiikka	Oulu	100.00	
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
K-maatalouskaupat Oy	Helsinki	100.00	
Knuto AS	Ski, Norway	100.00	
Konekesko Eesti AS	Tallinn, Estonia	100.00	
Konekesko Holding Oy	Helsinki	100.00	
Konekesko Latvija SIA	Riga, Latvia	100.00	
Konekesko Lietuva UAB	Vilnius, Lithuania	100.00	
Konekesko OOO	St. Petersburg, Russia	100.00	
Konsoma JLLC	Minsk, Belarus	8.94	
K Prof SIA	Riga, Latvia	100.00	
K rauta SIA	Riga, Latvia	100.00	
K-rauta AB	Stockholm, Sweden	100.00	
K-rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00	
KR Fastigheter AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Eskilstuna AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Halmstad AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Järfälla AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Linköping AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Norrbotten AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Sundsvall AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Umeå AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Uppland AB	Sollentuna, Sweden	100.00	
KR Fastigheter Servicekontor AB	Sollentuna, Sweden	100.00	
KR Group OOO	St. Petersburg, Russia	100.00	
Limingan Portti 1 Oy	Liminka	100.00	
Loimaan maatalous- ja rautakauppa Oy	Helsinki	100.00	
Malmintorin Pysäköintitalo Oy*	Helsinki	99.91	
Match-Point OOO	St. Petersburg, Russia	100.00	
Mežciems Real Estate SIA	Riga, Latvia	100.00	
Midgard OOO	St. Petersburg, Russia	100.00	
Norgros Handel AS	Lilleström, Norway	100.00	
OMA OOO	Minsk, Belarus	8.94	
Pikoil Oy	Helsinki	100.00	
Polo LS SIA	Riga, Latvia	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	
Romos Holdingas UAB	Kaunas, Lithuania	8.94	
Senukai UAB	Kaunas, Lithuania	49.61	
Senuku Prekybos Centras UAB	Vilnius, Lithuania	50.00	
Senuku Tirdzniecibas Centrs SIA	Riga, Latvia	50.00	
SPC Holding UAB	Kaunas, Lithuania	50.00	
Stroymaster Holding Finland Oy	Helsinki	100.00	
Stroymaster ZAO	St. Petersburg, Russia	100.00	
SunRetail OOO	Moscow, Russia	100.00	
Suomenojan Kauppakeskus Oy	Espoo	100.00	
Tampereen Länsikeskus Oy	Tampere	100.00	
Tarondi Estate OOO	Moscow, Russia	100.00	
TP Real Estate SIA	Riga, Latvia	100.00	
Trøgstadveien 13 AS	Ski, Norway	100.00	
Turun VV-Auto Oy	Helsinki	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	36.16	36.16
Kiinteistö Oy Itäaukio	Lahti	26.20	26.20
Kiinteistö Oy Janakkalan Linnatuuli	Janakkala	29.86	29.86
Kiinteistö Oy Joensuun Kaupunginportti	Joensuu	22.77	22.77
Kiinteistö Oy Mellunmäen Liike- ja toimintakeskus	Helsinki	23.42	23.42
Kiinteistö Oy Ulvilan Hansa*	Ulvila	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus*	Vantaa	27.81	27.81
Kruunuvuoren Satama Oy	Helsinki	49.00	49.00
Munkkivuoren Ostoskeskus Oy*	Helsinki	30.65	30.65
Valluga-sijoitus Oy	Helsinki	46.15	46.15
Vähittäiskaupan Takaus Oy	Helsinki	34.35	34.35
Vähittäiskaupan Tilipalvelu VTP Oy	Helsinki	30.00	30.00

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Kiinteistö Oy Lahden Teollisuuskeskus*	Lahti	48.32	
Talo Oy Kalevanpuisto*	Kuopio	47.60	
Toomax Asia Ltd	Hong Kong	33.33	
Eurobuy GmbH	Germany	33.33	
Eurogroup Far East Ltd	Hong Kong	11.09	

** Jointly controlled mutual real estate companies consolidated on a line-by-line basis*

PARENT COMPANY'S FINANCIAL STATEMENTS (FAS)

Parent's income statement

€	1 Jan.–31 Dec. 2012	1 Jan. –31 Dec. 2011
Net sales	**33,567,173.18**	**25,621,748.61**
Other operating income	120,242,432.29	123,529,699.73
Materials and services	-3,543.68	189.39
Staff expenses	-14,669,805.20	-14,739,739.34
Depreciation and reduction in value	-17,606,273.46	-15,912,629.43
Other operating expenses	-97,752,542.30	-99,201,860.46
Operating profit	**23,777,440.83**	**19,297,408.50**
Financial income and expenses	-23,327,262.51	13,569,860.15
Profit before extraordinary items	**450,178.32**	**32,867,268.65**
Extraordinary items	212,597,735.08	103,123,780.45
Profit before appropriations and taxes	**213,047,913.40**	**135,991,049.10**
Appropriations	1,641,976.10	222,906.59
Profit before taxes	**214,689,889.50**	**136,213,955.69**
Income taxes	-60,265,614.63	-35,660,765.71
Profit for the financial year	**154,424,274.87**	**100,553,189.98**

Parent's balance sheet

€	31 Dec. 2012	31 Dec. 2011
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	53,432.51	124,834.67
Other capitalised long-term expenses	11,016,397.39	9,893,042.86
Advance payments	1,222,567.53	1,976,928.89
	12,292,397.43	11,994,806.42
TANGIBLE ASSETS		
Land and waters	93,820,808.85	81,256,474.49
Buildings	211,708,285.03	207,339,953.84
Machinery and equipment	3,658,800.10	3,554,390.98
Other tangible assets	5,372,323.24	5,213,897.51
Advance payments and construction in progress	753,663.20	4,307,434.52
	315,313,880.42	301,672,151.34
INVESTMENTS		
Holdings in Group undertakings	261,603,340.95	290,885,444.71
Participating interests	76,701,603.69	50,428,962.48
Other investments	11,806,710.53	12,367,622.37
	350,111,655.17	353,682,029.56
CURRENT ASSETS		
DEBTORS		
Long-term		
Amounts owed by Group undertakings	325,225,096.75	354,779,677.39
Amounts owed by participating interest undertakings	1,685,896.28	1,546,010.01
Other debtors	2,357,709.80	-
	329,268,702.83	356,325,687.40
Short-term		
Trade debtors	58,095.83	120,317.26
Amounts owed by Group undertakings	817,231,665.60	704,423,650.80
Amounts owed by participating interest undertakings	258,028.51	80,421.63
Loan receivables	-	39,654,941.99
Other receivables	4,007.90	247,336.90
Prepayments and accrued income	4,408,717.51	36,354,322.90
	821,960,515.35	780,880,991.48
INVESTMENTS		
Other investments	365,000,152.17	240,812,775.14
CASH IN HAND AND AT BANKS	46,849,032.41	44,094,169.82
TOTAL ASSETS	**2,240,796,335.78**	**2,089,462,611.16**

€	31 Dec. 2012	31 Dec. 2011
LIABILITIES		
CAPITAL AND RESERVES		
Share capital	197,282,584.00	197,282,584.00
Share premium account	197,498,010.90	197,498,010.90
Other reserves	244,465,798.07	243,503,433.05
Retained earnings	742,330,072.19	757,495,654.85
Profit for the financial year	154,424,274.87	100,553,189.98
	1,536,000,740.03	1,496,332,872.78
APPROPRIATIONS		
Depreciation reserve	78,168,639.50	79,810,615.60
PROVISIONS		
Other provisions	182,481.78	308,363.01
CREDITORS		
Non-current		
Bonds	250,000,000.00	-
Private placement notes	100,418,410.04	100,418,410.04
Loans from credit institutions	34,383,583.38	25,793,139.03
Other creditors	11,283.86	12,651.73
	384,813,277.28	126,224,200.80
Current		
Loans from credit institutions	-	7,147,962.83
Advances received	12,340.38	37,165.30
Trade creditors	3,957,471.54	4,068,791.84
Amounts owed to Group undertakings	200,289,290.49	319,714,249.62
Amounts owed to participating interest undertakings	20,290,800.58	35,543,101.97
Other creditors	5,233,623.17	6,741,000.02
Accruals and deferred income	11,847,671.03	13,534,287.39
	241,631,197.19	386,786,558.97
TOTAL LIABILITIES	**2,240,796,335.78**	**2,089,462,611.16**

Parent's cash flow statement

€	1 Jan.–31 Dec. 2012	1 Jan.–31 Dec. 2011
Cash flow from operating activities		
Profit before extraordinary items	450,178.32	32,867,268.65
Adjustments		
Depreciation according to plan	17,606,273.46	15,912,629.43
Financial income and expenses	23,327,262.51	-13,569,860.15
Other adjustments	-2,638,394.81	-1,726,000.62
	38,745,319.48	**33,484,037.31**
Change in working capital		
Interest-free short-term trade receivables, increase/decrease (-/+)	-5,264,328.50	3,320,954.86
Interest-free short-term debt, increase/decrease (+/-)	12,675,317.37	-571,717.25
	7,410,988.87	2,749,237.61
Interests paid	-17,905,039.48	-18,981,566.75
Interests received	31,414,936.74	35,143,055.26
Dividends received	60,000.00	105,961.20
Taxes paid	-30,133,797.02	-40,676,089.59
	-16,563,899.76	-24,408,639.88
Cash flow from operating activities	**29,592,408.59**	**11,824,635.04**
Cash flow from investing activities		
Purchases of other investments	-	-427,410.59
Investments in tangible and intangible assets	-44,913,282.73	-22,247,633.99
Increase in long-term receivables	27,056,984.57	-52,827,011.44
Subsidiary acquired	-6,000,001.00	-5,651,403.87
Subsidiary disposed	-	3,800.00
Associated undertaking acquired	-22,500,000.00	-
Proceeds from other investments	30,420.36	-
Proceeds from sale of tangible and intangible assets	7,752,581.03	1,696,049.13
Cash flow from investing activities	**-38,573,297.77**	**-79,453,610.76**
Cash flow from financing actitivites		
Increase/decrease (+/-) in current creditors	-139,291,929.16	-42,791,255.48
Increase/decrease (+/-) in non-current creditors	258,589,076.48	-6,896,644.64
Increase/decrease (-/+) in short-term interest-bearing receivables	-66,386,701.26	-323,916,887.35
Short-term money market investments	-1,534,073.79	199,649,938.45
Dividends paid	-117,643,117.20	-128,233,679.60
Group contributions received and paid	212,597,735.08	103,123,780.45
Increase in invested unrestricted equity fund	962,365.02	87,637.50
Increase in own shares	-	-22,863,905.23
Others	-12,904,300.16	302,338.55
Cash flow from financing activities	**134,389,055.01**	**-221,538,677.35**
Change in liquid assets	**125,408,165.83**	**-289,167,653.07**
Liquid assets at 1 January	**149,411,832.16**	**438,579,485.23**
Liquid assets at 31 December	**274,819,997.99**	**149,411,832.16**

Notes to the parent company's financial statements

PRINCIPLES USED FOR PREPARING THE FINANCIAL STATEMENTS

Kesko Corporation's financial statements have been prepared in compliance with the Finnish Accounting Standards (FAS).

NON-CURRENT ASSETS

INTANGIBLE ASSETS

Intangible assets are stated in the balance sheet at cost less depreciation according to plan.

Depreciation plan

Other capitalised expenditure	5–20 years
IT software and licences	3–5 years

TANGIBLE ASSETS

Tangible assets are stated in the balance sheet at cost less depreciation according to plan.

Depreciation plan

Depreciation according to plan is calculated on a straight line basis so as to write off the cost of tangible assets over their estimated useful lives.

The periods adopted for depreciation are as follows:

Buildings	10–33 years
Fixtures and fittings	8 years
Machinery and equipment	25% reducing balance method
Transportation fleet	5 years
IT equipment	3–5 years
Other tangible assets	5–14 years

Land has not been depreciated. The total of depreciation according to plan and the change in depreciation reserve comply with the Finnish Business Tax Act. The change in depreciation reserve has been treated as appropriations.

VALUATION OF FINANCIAL ASSETS

Marketable securities have been valued at the lower of cost and net realisable value.

FOREIGN CURRENCIES

Items denominated in foreign currencies have been translated into Finnish currency at the average exchange rate of the European Central Bank at the balance sheet date. If a receivable or a debt is tied to a fixed rate of exchange, it has been used for translation. Exchange rate differences have been recognised in profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate derivatives

Interest rate derivatives are used to modify the interest rate durations of borrowings. 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 interest rate forward agreements, futures, options and swaps are stated at market values but unrealised revaluation is not stated as income. Any valuation losses are included in interest expenses.

Foreign exchange derivatives

Foreign exchange derivative contracts are used for hedging against translation and transaction risks. Foreign exchange forward 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, 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 Corporation is an external counterparty in electricity derivative contracts made with a bank, and internally hedges the corresponding price with the subsidiary. At no stage does Kesko Corporation have derivative positions, and thus there are no effects on profit or loss. The electricity price risk is reviewed on a 5-year time span. With respect to derivative contracts hedging the price of electricity supplied during the financial year, value changes are recognised at Kesko under interest income and expenses. Unrealised gains and losses of contracts hedging future purchases are not recognised through profit or loss.

PENSION PLANS

Pension costs are recognised as expenses in the income statement for the whole financial year and the personnel's statutory pension coverage is managed by a pension company.

PROVISIONS

Provisions stated in the balance sheet include items bound to by agreements or otherwise, but remain unrealised. Changes in provisions are included in the income statement. Rent liabilities for vacant rented premises no longer used for the Group business operations, as well as the losses resulting from renting the premises to outsiders, are included in provisions.

INCOME TAX

Income tax includes the income tax payments for the period based on the profit for the period, and taxes payable for prior periods, or tax refunds. Deferred taxes are not included in the parent's income statement and balance sheet.

NOTES TO THE INCOME STATEMENT

NOTE 1.
OTHER OPERATING INCOME

€ million	2012	2011
Profits on sales of real estate and shares	2.7	0.0
Rent income	117.0	123.1
Others	0.5	0.4
Total	120.2	123.5

NOTE 2.
AVERAGE NUMBER OF PERSONNEL

	2012	2011
Kesko Corporation	180	162
Total	180	162

NOTE 3.
PERSONNEL EXPENSES

€ million	2012	2011
Salaries and fees	-13.2	-12.3
Social security expenses		
Pension expenses	-0.8	-1.8
Other social security expenses	-0.7	-0.6
Total	-14.7	-14.7

During the financial year 2012, a surplus amount of €0.9 million, related to the insurance portfolio transfer in 2010, was returned to Kesko Corporation by the Kesko Pension Fund.

Salaries and fees to the management

€ million	2012	2011
Managing Director	1.2	1.0
Board members	0.3	0.4
Total	1.5	1.4

An analysis of the management's salaries and fees is included in the notes to the consolidated financial statements.

NOTE 4.
DEPRECIATION AND VALUE ADJUSTMENTS

€ million	2012	2011
Depreciation according to plan	-17.4	-15.9
Value adjustments, non-current assets	-0.2	-
Total	-17.6	-15.9

NOTE 5.
OTHER OPERATING EXPENSES

€ million	2012	2011
Rent expenses	-59.5	-67.8
Marketing expenses	-1.3	-1.5
Maintenance of real estate and store sites	-7.9	-7.2
Data communications expenses	-23.3	-15.8
Losses on sales of real estate and shares	-0.2	-
Other operating expenses	-5.6	-6.9
Total	-97.8	-99.2

Auditors' fees

€ million	2012	2011
PricewaterhouseCoopers, Authorised Public Accountants		
Audit	0.1	0.1
Tax consultation	0.0	0.1
Other services	0.1	0.1
Total	0.2	0.3

NOTE 6.
FINANCIAL INCOME AND EXPENSES

€ million	2012	2011
Income from long-term investments		
Dividend income from Group undertakings	0.1	0.1
Income from long-term investments, total	0.1	0.1
Other interest and financial income		
From Group undertakings	21.6	23.9
From others	24.1	18.2
Interest and financial income, total	45.7	42.1
Reduction in value of investments held as non-current assets		
Reduction in value of shares	-34.9	0.0
Reduction in value of investments held as non-current assets, total	-34.9	0.0
Interest and other financial expenses		
To Group undertakings	-3.6	-6.7
To others	-30.6	-21.9
Interest and financial expenses, total	-34.2	-28.7
Total	-23.3	13.6

NOTE 7.
ITEMS INCLUDED IN EXTRAORDINARY INCOME AND EXPENSES

€ million	2012	2011
Contributions from Group undertakings	261.5	130.9
Contributions to Group undertakings	-48.9	-27.8
Total	212.6	103.1

NOTE 8.
APPROPRIATIONS

€ million	2012	2011
Difference between depreciation according to plan and depreciation in taxation	1.6	0.2
Total	1.6	0.2

NOTE 9.
CHANGES IN PROVISIONS

€ million	2012	2011
Future rent expenses for vacant business premises	0.2	1.4
Other changes	-0.1	0.3
Total	0.1	1.7

NOTE 10.
INCOME TAXES

€ million	2012	2011
Income taxes on extraordinary items	-52.1	-26.8
Income taxes on ordinary activities	-8.2	-8.9
Total	-60.3	-35.7

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

NOTE 11.
INTANGIBLE ASSETS

€ million	2012	2011
Intangible assets		
Acquisition cost at 1 January	36.3	38.9
Increases	1.8	6.7
Decreases	-0.2	-10.4
Transfers between items	1.5	1.1
Acquisition cost at 31 December	39.4	36.3
Accumulated depreciation at 1 January	-26.3	-35.1
Accumulated depreciation on decreases and transfers	0.2	10.4
Depreciation for the financial year	-2.2	-1.6
Accumulated depreciation at 31 December	-28.3	-26.3
Book value at 31 December	11.1	10.0
Advance payments		
Acquisition cost at 1 January	1.9	1.7
Increases	0.7	1.8
Decreases	-	-0.5
Transfers between items	-1.4	-1.1
Acquisition cost at 31 December	1.2	1.9
Book value at 31 December	1.2	2.0

NOTE 12.
TANGIBLE ASSETS

€ million	2012	2011
Land and waters		
Acquisition cost at 1 January	81.3	80.9
Increases	13.7	0.4
Decreases	-1.2	-
Acquisition cost at 31 December	93.8	81.3
Book value at 31 December	93.8	81.3
Buildings		
Acquisition cost at 1 January	376.0	377.9
Increases	19.6	14.5
Decreases	-4.7	-16.4
Transfers between items	1.7	0.1
Acquisition cost at 31 December	392.6	376.0
Accumulated depreciation at 1 January	-168.7	-172.7
Accumulated depreciation on decreases and transfers	1.2	16.4
Depreciation for the financial year	-13.4	-12.4
Accumulated depreciation at 31 December	-180.9	-168.7
Book value at 31 December	211.7	207.3
Machinery and equipment		
Acquisition cost at 1 January	17.9	19.7
Increases	0.9	1.0
Decreases	-2.0	-3.4
Transfers between items	0.3	0.6
Acquisition cost at 31 December	17.1	17.9
Accumulated depreciation at 1 January	-14.3	-16.8
Accumulated depreciation on decreases and transfers	1.8	3.4
Depreciation for the financial year	-0.9	-0.9
Accumulated depreciation at 31 December	-13.4	-14.3
Book value at 31 December	3.7	3.6
Other tangible assets		
Acquisition cost at 1 January	12.9	12.8
Increases	0.2	0.8
Decreases	-0.2	-0.8
Transfers between items	1.1	0.1
Acquisition cost at 31 December	14.0	12.9
Accumulated depreciation at 1 January	-7.7	-7.5
Accumulated depreciation on decreases and transfers	0.1	0.8
Depreciation for the financial year	-1.0	-1.0
Accumulated depreciation at 31 December	-8.6	-7.7
Book value at 31 December	5.4	5.2
Advance payments and construction in progress		
Acquisition cost at 1 January	4.3	2.8
Increases	0.1	3.5
Decreases	-	-1.2
Transfers between items	-3.6	-0.8
Acquisition cost at 31 December	0.8	4.3
Book value at 31 December	0.8	4.3

Revaluation of non-current assets

At the end of the financial year, Kesko Corporation's balance sheet did not contain revaluations.

NOTE 13.
INVESTMENTS

€ million	2012	2011
Holdings in Group undertakings		
Acquisition cost at 1 January	290.9	290.9
Increases	6.0	-
Acquisition cost at 31 December	296.9	290.9
Reduction in value	-35.3	-
Book value at 31 December	261.6	290.9
Participating interests		
Acquisition cost at 1 January	50.4	50.4
Increases	26.3	-
Acquisition cost at 31 December	76.7	50.4
Book value at 31 December	76.7	50.4
Other investments		
Acquisition cost at 1 January	12.4	12.0
Increases	0.8	0.4
Decreases	-1.4	-
Acquisition cost at 31 December	11.8	12.4
Book value at 31 December	11.8	12.4

Kesko Corporation's ownership interests in other companies as at 31 December 2012 are presented in the notes to the consolidated financial statements.

NOTE 14.
DEBTORS

€ million	2012	2011
Amounts owed by Group undertakings		
Long-term		
Loan receivables	282.5	316.8
Subordinated loans	42.7	38.0
Long-term, total	325.2	354.8
Short-term		
Trade receivables	3.2	2.5
Loan receivables	806.7	701.0
Other receivables	5.7	-
Prepayments and accrued income	1.6	0.9
Short-term, total	817.2	704.4
Total	1,142.4	1,059.2

Kesko Corporation has advanced subordinated loans to Indoor Group Ltd, Kiinteistö Mesta Oy and Johaston Oy, in the amounts of €4.0 million, €10.0 million and €32.7 million respectively.

The loan advanced to Indoor Group Ltd will mature on 31 March 2014. The loan capital will be repaid in five equal repayments. Loan capital repayment is applicable only if the provisions of chapter 12, section 1, paragraph 1 of the Limited Liability Companies Act are fulfilled. Interest is payable only if the amount of the company's unrestricted equity plus all subordinated loans at the time of repayment exceeds the amount of loss shown in the balance sheet of the financial statements to be adopted for the company's financial year last ended or of more recent financial statements. If the repayment criteria are met, a 10% interest will be paid on the loan. In 2012, Indoor Group Ltd made a €6.0 million repayment of the subordinated loan. The loan will be repaid within 2013. The loan and receivable is presented within short-term loan receivables.

The loan advanced to Kiinteistö Mesta Oy will be repaid only if the restricted shareholders' equity and other non-distributable items in the balance sheet confirmed for the debtor's financial year last ended are fully funded after loan repayment. The loan is interest free.

The loan advanced to Johaston Oy will mature on 31 December 2016. The loan capital will be repaid in a single instalment. The loan capital will be repaid provided that the legal requirements regarding the repayment of a subordinated loan are met. The loan is interest free.

€ million	2012	2011
Amounts owed by participating interest undertakings		
Long-term		
Loan receivables	1.5	1.5
Other receivables	0.1	-
Long-term, total	1.7	1.5
Short-term		
Loan receivables	0.3	0.1
Short-term, total	0.3	0.1
Total	1.9	1.6

€ million	2012	2011
Prepayments and accrued income		
Taxes	1.2	31.6
Others	3.2	4.8
Total	4.4	36.4

NOTE 15.
CAPITAL AND RESERVES

€ million	Share capital	Share premium account	Contingency fund	Invested unrestricted equity fund	Retained earnings	Capital and reserves, total
Capital and reserves at 1 January 2011	197.3	197.5	243.4	-	908.7	1,546.9
Increase				0.1	0.0	0.1
Distribution of dividends					-128.2	-128.2
Own shares					-22.9	-22.9
Transfer to donations					-0.1	-0.1
Profit for the financial year					100.6	100.6
Capital and reserves at 31 December 2011	197.3	197.5	243.4	0.1	858.0	1,496.3
Increase				1.0	0.0	1.0
Distribution of dividends					-117.6	-117.6
Own shares					2.1	2.1
Transfer to donations					-0.2	-0.2
Profit for the financial year					154.4	154.4
Capital and reserves at 31 December 2012	**197.3**	**197.5**	**243.4**	**1.1**	**896.7**	**1,536.0**

During the reporting period, the number of B shares was increased five times corresponding to share subscriptions with the share options of the 2007 option plan. The increases were made on 5 June 2012 (4,500 B shares, €60,480), 31 July 2012 (600 B shares, €8,064), 30 October 2012 (26,038 B shares, €349,951), 28 November 2012 (17,550 B shares, €293,054) and 27 December 2012 (18,610 B shares, €250,817) and announced in stock exchange notifications on the same days. The subscribed shares were included on the main list of the Helsinki stock exchange for public trading with the old B shares on 6 June 2012, 1 August 2012, 31 October 2012, 29 November 2012 and 28 December 2012. The combined share subscription price of €962,365 received by the company was recorded in the invested unrestricted equity fund.

Calculation of distributable profits

	2012	2011
Other reserves	244.5	243.5
Retained earnings	742.3	757.5
Profit for the financial year	154.4	100.6
Total	1,141.2	1,101.6

Breakdown of the parent's share capital

	Pcs	€ million
A shares	31,737,007	63.5
B shares	66,975,333	133.8
Total	98,712,340	197.3

Votes attached to shares

	Number of votes
A share	10
B share	1

Board's authorisations to acquire and issue own shares

The Board has the authority, granted by the Annual General Meeting of 16 April 2012 and valid until 30 June 2015, to issue a total maximum of 20,000,000 new B shares. In addition, the Board has the authority, granted by the Annual General Meeting of 4 April 2011 and valid until 30 June 2014, to decide on the issuance of a total maximum of 1,000,000 own B shares held by the company itself. The authority granted by the Annual General Meeting of 4 April 2011 to acquire a total maximum of 1,000,000 own B shares expired on 30 September 2012.

Based on the authority to issue own shares and the fulfilment of the vesting criteria of the 2011 vesting period of Kesko's three-year share-based compensation plan, the Board granted a total of 92,751 company shares held by the company itself to the persons included in the target group. The matter was announced in a stock exchange release on 12 April 2012. After the vesting period, a total of 1,342 shares already transferred have been returned to the company in accordance with the terms of the share-based compensation plan. The returns were announced in stock exchange notifications on 20 July 2012 and 9 November 2012. By virtue of the share acquisition authorisation, a total of 700,000 own B shares were acquired from the Helsinki stock exchange during the 2011 financial year. The beginning of acquisition was announced on a stock exchange release on 28 April 2011. Each subsequent acquisition was announced in a stock exchange notification on the same day. The total price paid for the shares was €23.7 million.

Options

The Group operates share option plans as part of management's incentive and commitment plan. Each option gives its holder the right to subscribe for one Kesko Corporation B share at the price and during the period specified in the terms and conditions of the option plan. The options are forfeited if the employee leaves the company before the end of the vesting period, unless, in an individual case, the Board decides that the option recipient can keep all or some of the options under offering obligation.

2007 option scheme

On 26 March 2007, the Annual General Meeting decided to grant a total of 3,000,000 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 option entitles its holder to subscribe for one new Kesko Corporation B share. In addition, the option scheme also includes an obligation to buy company shares for permanent ownership for the value of 25% of the proceeds from the sale of options. The options are marked with the symbols 2007A, 2007B and 2007C in units of 1,000,000 options each.

The options are exercisable as follows:
- 2007A 1 April 2010–30 April 2012 (exercise period has expired)
- 2007B 1 April 2011–30 April 2013
- 2007C 1 April 2012–30 April 2014

The original price of a share subscribed for with option 2007A was 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), with option 2007B, between 1 April and 30 April 2008 (€26.57), and with option 2007C, between 1 April and 30 April 2009 (€16.84).

The prices of shares subscribed for with options are reduced by the amount decided after the beginning of the period for the determination of the subscription price but before the subscription, as at the record date for each distribution of profits or other assets.

After the distribution of dividends for 2011, the price of a B share subscribed for with option 2007B was €22.17 and with option 2007C €13.44. The option scheme covers approximately 130 people.

Percentage of share options out of all shares and votes

If all of the exercisable share options remaining of the 2,000,000 issued under the 2007 option scheme are assumed to be exercised, the shares subscribed for with the 2007 options would account for 1.99% of all shares and for 0.52% of all votes. The subscriptions made with share options can raise the number of the company's shares to 100,641,292. As a result of the subscriptions, the voting rights carried by all shares could increase to 386,274,355 votes.

Dividend rights and other shareholder rights carried by the shares will apply after the share capital increase has been entered in the Trade Register.

NOTE 16.
APPROPRIATIONS

€ million	2012	2011
Depreciation difference	78.2	79.8
Total	78.2	79.8

NOTE 17.
PROVISIONS

€ million	2012	2011
Future rent expenses for vacant business premises	-	0.3
Other provisions	0.2	-
Total	0.2	0.3

NOTE 18.
NON-CURRENT CREDITORS

€ million	2012	2011
Debt falling due later than within five years		
Bonds	250.0	-
Private placement notes	20.1	20.1
Total	270.1	20.1

On 10 June 2004, Kesko Corporation issued a private placement of USD 120 million in the US. The facility has three tranches with bullet repayments due in 2014 (USD 60 million), in 2016 (USD 36 million) and in 2019 (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%.

On 11 september 2012, Kesko Corporation issued a €250 million bond. The bond carries a fixed coupon rate of 2.75%. The bond matures after six years.

NOTE 19.
CURRENT CREDITORS

€ million	2012	2011
Amounts owed to Group undertakings		
Trade creditors	0.7	0.1
Other creditors	198.3	317.7
Accruals and deferred income	1.3	1.9
Total	200.3	319.7
Amounts owed to participating interest undertakings		
Other creditors	20.3	35.5
Total	20.3	35.5
Accruals and deferred income		
Staff expenses	3.2	3.4
Taxes	-	0.3
Others	8.6	9.8
Total	11.8	13.5

NOTE 20.
INTEREST-FREE DEBT

€ million	2012	2011
Current creditors	20.2	21.3
Total	20.2	21.3

OTHER NOTES

NOTE 21.
GUARANTEES, LIABILITY ENGAGEMENTS AND OTHER LIABILITIES

€ million	2012	2011
Real estate mortgages		
For own debt	6	6
For Group undertakings	4	10
Pledged shares	39	44
Guarantees		
For own debt	-	1
For Group undertakings	48	50
For associated undertakings	65	-
Other liabilities and liability engagements		
For own debt	12	9
Rent liabilities on machinery and fixtures		
Falling due within a year	1	0
Falling due later	1	1
Rent liabilities on real estate		
Falling due within a year	51	55
Falling due later	269	305

€ million	2012	Fair value	2011	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments at 31 December				
Interest rate derivatives				
Forward and future contracts				
Interest rate swaps	201	0.8	201	4.1
Currency derivatives				
Forward and future contracts				
Outside the Group	239	-3.2	351	-3.4
Inside the Group	23	0.6	24	-1.0
Option agreements				
Bought, inside the Group	2	0.0		
Written, outside the Group	11	0.0		
Written, inside the Group	2	0.1		
Currency swaps	100	-9.5	100	-7.7
Commodity derivatives				
Electricity derivatives				
Outside the Group	41	-3.6	32	-3.4
Inside the Group	41	3.6	32	3.4

SIGNATURES

SIGNATURES

Helsinki, 4 February 2013

Esa Kiiskinen	Seppo Paatelainen	
Ilpo Kokkila	Tomi Korpisaari	Maarit Näkyvä
Toni Pokela	Virpi Tuunainen	Matti Halmesmäki President and CEO

THE AUDITOR'S NOTE

Our auditor's report has been issued today.

Helsinki, 14 February 2013

PricewaterhouseCoopers Oy
Authorised Public Accountants

Johan Kronberg
APA

AUDITOR'S REPORT

TO THE ANNUAL GENERAL MEETING OF KESKO CORPORATION

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Kesko Corporation for the year ended 31 December, 2012. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

OTHER OPINIONS

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki, 14 February 2013

PricewaterhouseCoopers Oy
Authorised Public Accountants

Johan Kronberg
Authorised Public Accountant

SHARES AND SHAREHOLDERS

DIVIDEND POLICY

According to Kesko Corporation's dividend policy, Kesko Corporation distributes at least 50% of its earnings per share excluding non-recurring items as dividends, taking into account, however, the company's financial position and operating strategy

The financial objectives are presented on page 11.

PROPOSED DIVIDENDS FOR 2012

Kesko Corporation's Board proposes to the General Meeting that a dividend of €1.20 per share be distributed on the basis of the adopted balance sheet for 2012, representing 92% of earnings per share and 80% of earnings per share excluding non-recurring items. In the past five years, 82.9% of earnings per share excluding non-recurring items, on average, has been distributed as dividends.

BASIC SHARE INFORMATION AS AT 31 DEC. 2012

A share

- symbol: KESAV (OMX)
- ISIN code: FI0009007900
- voting rights per share: 10 votes
- number of shares: 31,737,007 pcs
- market capitalisation: €774 million

B share

- symbol: KESBV (OMX)
- ISIN code: FI0009000202
- voting rights per share: 1 vote
- number of shares: 66,975,333 pcs
- market capitalisation: €1,644 million

Trading unit of both share series: 1 share
Total share capital: €197,282,584
Total number of shares: 98,712,340 pcs
Voting rights carried by all shares: 384,345,403
Total market capitalisation: €2,418 million

SHARE SERIES AND SHARE CAPITAL

Kesko Corporation's share capital is divided into A and B share series. As at 31 December 2012, the company's total share capital was €197,282,584.

The minimum number of A shares is one (1) and the maximum number two hundred and fifty million (250,000,000), while the minimum number of B shares is one (1) and the maximum number two hundred and fifty million (250,000,000), provided, however, that the minimum aggregate number of shares is two (2) and the maximum aggregate number is four hundred million (400,000,000). As at 31 December 2012, the total number of shares was 98,712,340, of which 31,737,007 (32.2%) were A shares and 66,975,333 (67.8%) were B shares.

Each A share carries 10 votes and each B share one vote. Both shares have equal dividend rights. The number of votes carried by A shares is 83% and the number of votes carried by B shares is 17% of the total voting rights.

The shares are included in the book-entry securities register held by Euroclear Finland Ltd.

The right to receive funds distributed by the company and to subscribe for shares when shares are issued belongs only to those who are registered as shareholders in the shareholder register at the record date, whose right to receive payments has been entered into the book-entry securities account of the shareholder registered in the shareholder register by the record date, and registered in the shareholder register and if a share is registered in a nominee name, into whose book-entry securities account the share is registered at the record date, and whose custodian is registered in the shareholder register as the custodian of the shares at the record date.

AUTHORISATIONS OF THE BOARD AND TREASURY SHARES

2011 SHARE ISSUE AUTHORISATION

The Annual General Meeting held on 4 April 2011 authorised the company's Board to make decisions concerning the issuance of a total maximum of 1,000,000 B shares held by the company as treasury shares. Own B shares held by the company as treasury shares can be issued for subscription by shareholders in a directed issue in proportion to their existing holdings of the company shares, regardless of whether they own A or B shares. Shares can also be issued in a directed issue, deviating from the shareholder's pre-emptive right, for a weighty financial reason of the company, such as using the shares to develop the company's capital structure, to finance possible business acquisitions, capital expenditures or other arrangements within the scope of the company's business operations, and to implement the company's incentive plan.

Own B shares held by the company as treasury shares can be assigned either against or without consideration. According to the Finnish Limited Liability Companies' Act, a directed share issue can only be without consideration, provided that the company, taking into account the best interests of all of its shareholders, has a particularly weighty financial reason.

The authorisation also includes the Board's authorisation to make decisions concerning any other issues related to share issuances. The amount possibly paid for the company's own shares is recorded in the reserve of unrestricted equity.

The authorisation is valid until 30 June 2014.

AUTHORISATION TO ACQUIRE OWN SHARES

The Annual General Meeting held on 4 April 2011 authorised the company's Board to make decisions concerning the acquisition of a total maximum of 1,000,000 own B shares. Based on the authorisation, 700,000 own B shares of the company were acquired during its validity period. The authorisation expired on 30 September 2012.

As at 31 December 2012, Kesko Corporation held 608,591 own B shares as treasury shares. Subsidiaries do not hold Kesko Corporation shares. Treasury shares account for 0.91% of B shares and 0.62% of the total shares, and 0.16% of the total voting rights carried by the company shares.

2012 SHARE ISSUE AUTHORISATION

The Annual General Meeting held on 16 April 2012 authorised the company's Board to make decisions concerning the issuance of a total maximum of 20,000,000 new B shares. The shares can be issued against payment for subscription by shareholders in a directed issue in proportion to their existing shareholdings regardless of whether they consist of A or B shares. The shares can also be issued deviating from the shareholder's pre-emptive right, in a directed issue, if there is a weighty financial reason for the company, such as using the shares to develop the company's capital structure, and financing possible acquisitions, capital expenditures or other arrangements within the scope of the company's business operations.

The shares can only be assigned against payment.

The authorisation also includes the Board's authorisation to decide on the share subscription price, the right to issue shares against non-cash consideration and the right to make decisions on other matters concerning share issuances. The amount paid for the shares is recognised in the reserve of invested non-restricted equity

The authorisation is valid until 30 June 2015.

SHAREHOLDERS

According to the register of Kesko Corporation's shareholders held by the Euroclear Finland Ltd, there were 44,554 shareholders at the end of 2012 (41,215 at the end of 2011). The total number of shares registered in a nominee name was 16,801,383, accounting for 17.02% of all shares (18,654,661 and 18.91% respectively at the end of 2011). These shares carried 18,498,486 votes, or 4.81% of the total voting rights (19,305,001 or 5.02% respectively at the end of 2011).

OTHER SPECIAL RIGHTS ENTITLING TO SHARES

The company does not have other valid authorisations to issue shares, to increase the share capital, or to acquire or assign own shares.

TRADING IN KESKO CORPORATION SHARES AND SHARE OPTIONS IN 2012

Kesko Corporation shares are listed on the Helsinki stock exchange. The price trends of both shares followed the general share price trend. The price of liquid B shares decreased by 4.6% and those of less liquid A shares by 1.7%, while the NASDAQ OMX Helsinki All Share Index increased by 8.3%. The B share turnover rate on the Helsinki stock exchange rose by 8% and the exchange value fell by 16%. The A share turnover rate rose by 8% and the exchange value fell by 8% from the previous year. At the end of the year, the market capitalisation of A shares was €744million and that of B shares €1,644 million. The total market capitalisation was €2,418 million, a decrease of €89 million, or 4% during the year.

READ MORE:

Shares and share options held by management, pages 60–63.
The 2007 share option plan and the share-based compensation plan, pages 111–113 and 56–57.

INFORMATION ABOUT KESKO FOR INVESTORS

COMMUNICATIONS POLICY AND PRINCIPLES

The purpose of Kesko's communications is to promote the business of the Kesko Group and its business partners by taking the initiative in providing stakeholders with correct information on Group objectives and operations. The general principles followed in providing communications also include openness, topicality and truthfulness. No comments are made on confidential or unfinished business, nor on competitors' affairs.

The primary objective of communications is to describe what added value Kesko and its cooperation partners generate to consumers and other customers, whose impressions and behaviour ultimately decide Kesko's success.

INVESTOR RELATIONS

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

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

Kesko publishes the Annual Report in Finnish and English. The online report is available at http://annualreport2012.kesko.fi/. The printed report can be ordered at www.kesko.fi/media.

The financial statements release and the three interim reports are available on the company's website. Kesko's stock exchange and press releases, sent by e-mail, can be ordered at www.kesko.fi/media.

Kesko publishes a printed Corporate Responsibility Report in Finnish and English.

Kesko arranges press conferences for analysts and the media at the time of publishing financial statements or other significant news, and holds Capital Market Days for analysts and institutional investors on various themes 1–2 times a year.

Kesko observes a three-week period of silence before publishing its results releases. At other times, we are happy to answer the enquiries of analysts and investors by phone or e-mail, or at the investor meetings arranged.

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SHAREHOLDER INFORMATION

FINANCIAL REPORTING CALENDAR AND KEY DATES IN 2013

Year 2012 financial statements release	5 Feb. 2013
Year 2012 Annual Report (incl. the financial statements and the report by the Board of Directors)	Week 10
Annual General Meeting	8 April 2013
Year 2013 3 month interim report	25 April 2013
Year 2013 6 month interim report	24 July 2013
Year 2013 9 month interim report	24 October 2013

In addition, the Kesko Group's sales figures are published monthly and the K-Group's retail sales figures in connection with the interim reports.

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 8 April 2013 at 13.00.

Shareholders included in Kesko Corporation's shareholder register, kept by Euroclear Finland Ltd, on 25 March 2013 (Annual General Meeting record date) are entitled to attend the Annual General Meeting. Shareholders whose shares are registered in their personal Finnish book-entry account are included in the company's shareholder register.

Shareholders wishing to attend the meeting should notify, not later than 3 April 2013 at 16.00, either by post addressed 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 website at www.kesko.fi/investors. The notification 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 postal address by the end of the registration period.

Holders of nominee registered shares are advised to request necessary instructions for registering in the shareholder register, submitting proxies and registering for the Annual General Meeting from their custodian banks. The account operator of the custodian bank reports the information on the owner of a nominee registered share wishing to attend the Annual General Meeting for entry into the company's temporary shareholder register not later than 3 April 2013 at 10.00.

More information about the Annual General Meeting, attendance and decision-making is given at Corporate Governance on pages 52–59.

The resolutions of the Annual General Meeting are published without delay after the meeting in a stock exchange release.

PAYMENT OF DIVIDENDS

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of €1.20 per share be paid based on the balance sheet adopted for 2012. The dividend will be paid to all shareholders included in the register of Kesko Corporation's shareholders kept by Euroclear Finland Ltd on 11 April 2013, the record date for the payment of dividend. The registration 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 8 April 2013. Dividends on the shares traded on the date of the Annual General Meeting are paid to buyers.

According to the Board of Directors' proposal, the payment of dividends starts on 18 April 2013.

FINANCIAL PUBLICATIONS

Kesko publishes the Annual Report in Finnish and English. The online report is available at http://annualreport2012.kesko.fi/. The printed report can be ordered at www.kesko.fi/media.

The financial statements release and the three interim reports are available on the company's website. Kesko's stock exchange and press releases, sent by e-mail, can be ordered at www.kesko.fi/media.

Kesko publishes a printed Corporate Responsibility Report in Finnish and English.

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.

KESKO CORPORATION

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www.kesko.fi
www.twitter.com/Kesko_Oyj
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VISUAL PLANNING: Bond Creative Agency Oy
LAYOUT: Miltton Oy
PHOTOS: Kaapo Kamu, Rami Hanafi, Juho Kuva, Matti Immonen, Mats Vuorenjuuri, Kesko's image banks
PRINTED BY: Libris Oy

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