KESKO'S ANNUAL REPORT 2017

EN

STRATEGY

STRATEGY AND OPERATING ENVIRONMENT

Kesko in brief and key indicators

Kesko is a Finnish trading sector pioneer. We operate in the grocery trade, the building and technical trade and the car trade. Our divisions and chains act in close cooperation with retailer entrepreneurs and other partners. We have around 1,800 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Belarus and Poland.

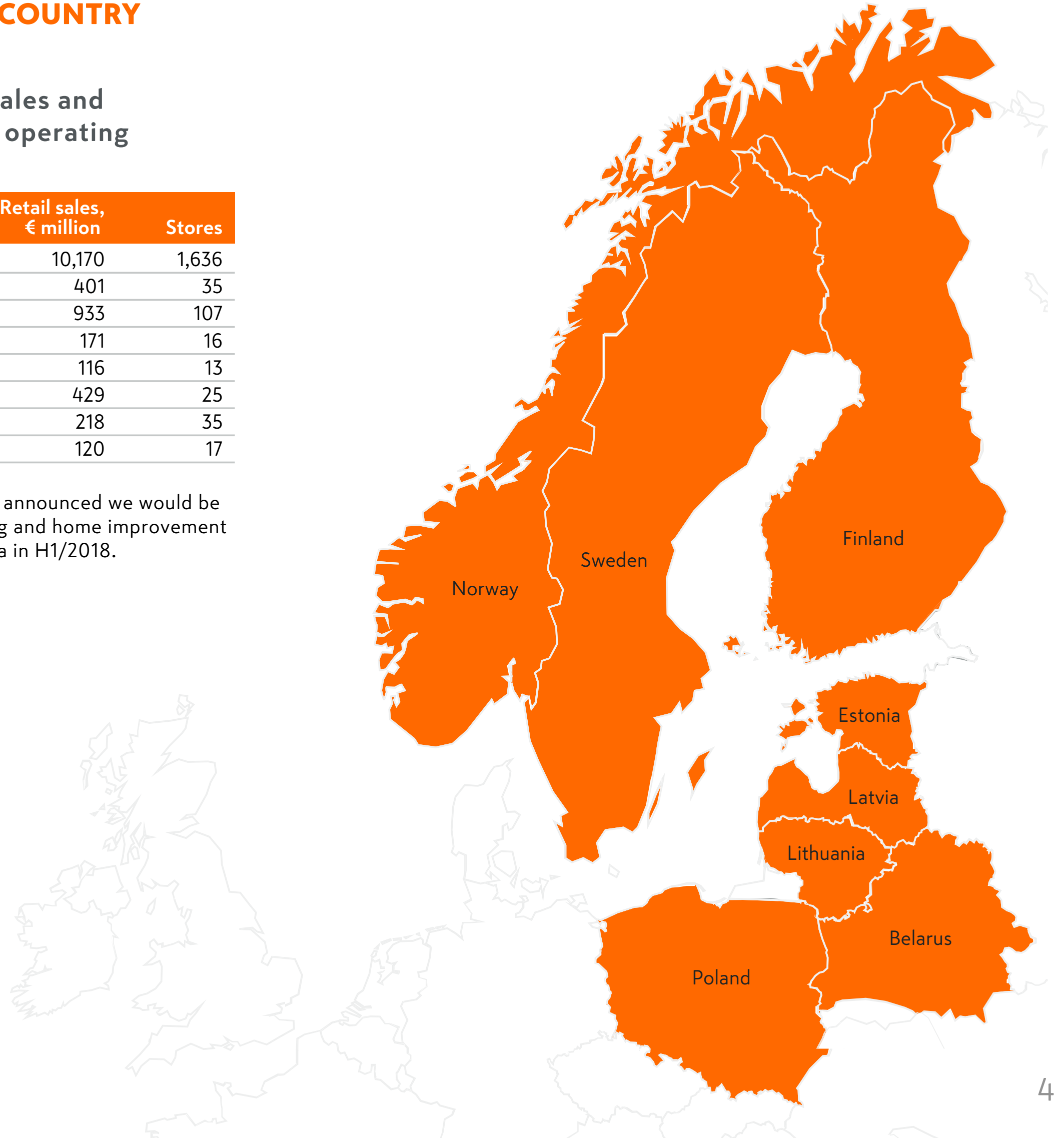
- Kesko and more than 1,100 K-retailers form K Group, the pro forma retail sales of which were around €13 billion (VAT 0%) in 2017.
- K Group is the third largest retail operator in Northern Europe.
- K Group employs around 42,000 people, around 30,000 in Finland.
- Kesko is a listed company and its shares are listed on Nasdaq Helsinki. Market capitalisation is around €4.5 billion, the number of shareholdes is around 42,300 (31 Dec. 2017).
- Kesko's domicile and main premises are in Helsinki.
- Kesko is the world's most sustainable trading sector company (The Global 100 Most Sustainable Corporations in the World).

K GROUP'S RETAIL SALES AND STORE NUMBERS BY OPERATING COUNTRY

K Group's retail sales and store numbers by operating country in 2017

	Retail sales, € million	Stores
Finland	10,170	1,636
Sweden	401	35
Norway	933	107
Estonia	171	16
Latvia	116	13
Lithuania	429	25
Poland	218	35
Belarus	120	17

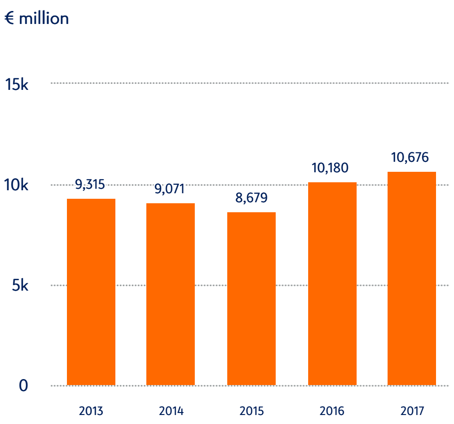
On 16 February 2018, we announced we would be discontinuing our building and home improvement trade operations in Russia in H1/2018.



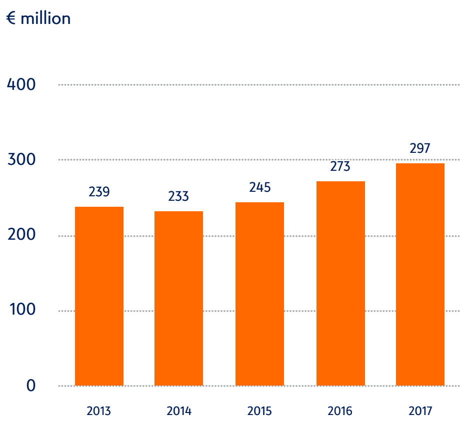
STRATEGY
SUSTAINABILITY
FINANCIAL STATEMENTS
CORPORATE GOVERNANCE

Key indicators

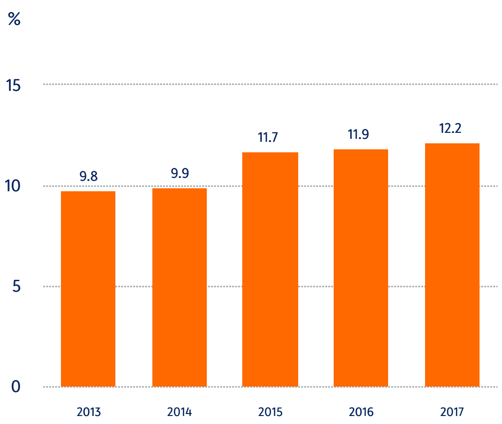
Net sales



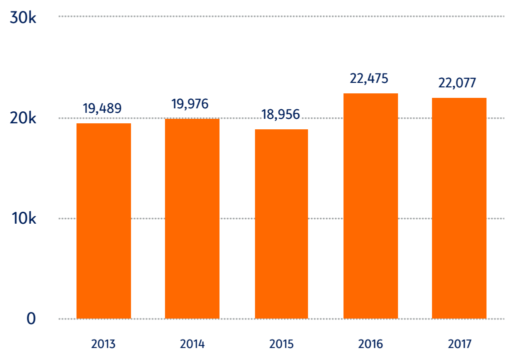
Comparable operating profit



Comparable return on capital employed



Average number of personnel during the reporting period



Read more: Report of the Board of Directors ›

Divisions in brief

Grocery trade

- Net sales €5,282 million
- 1,282 stores in Finland
- Market share approximately 37.2%
- Some 1.2 million customers visit K-food stores every day
- K-retailers tailor their product selections and services to suit the needs of local customers
- The K-food store chains are K-Citymarket, K-Supermarket, K-Market and Neste K service stations
- Kespro is the leading Foodservice provider in Finland

Building and technical trade

- Net sales €4,486 million
- 597 stores
- Operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus
- Leading operator in the Northern European building and home improvement trade markets
- In addition to products for building and home improvement and technical trade, we offer comprehensive multichannel services for building, renovation and building services engineering for both business customers and consumers
- We service our customers under the K-Rauta, Onninen, Byggmakker, K-Senukai and OMA brands

Car trade

- Net sales €909 million
- VV-Auto is the market leader in Finland with a market share of 18.6%
- VV-Auto imports and markets Volkswagen, Audi, SEAT and Porsche passenger cars, and Volkswagen Commercial Vehicles in Finland, and imports and markets SEAT vehicles in Estonia and Latvia
- VV-Auto also imports MAN trucks and MAN and Neoplan buses into Finland
- In addition to its traditional business, VV-Auto develops various service concepts and multi-channel services for the car trade

Key sustainability goals

Purchasing and human rights
Audits of production in high-risk countries ensure social responsibility.

Product safety
Product Research ensures that products are safe for users and meet quality promises.

Environment
Since the beginning of 2017, all electricity purchased by Kesko in Finland has been produced with renewable energy.

Personnel
Our strategy is implemented by a professional and committed personnel.

Prevention of corruption and bribery
The K Code of Conduct guides our daily work.

Kesko's business model

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains.

B2B trade is a significant and growing part of Kesko's business operations. In 2017, its net sales were €3.8 billion, accounting for some 35% of Kesko's net sales.

Outside Finland, we mainly engage in own retailing and B2B trade. Net sales outside Finland accounted for 22% of Kesko's net sales in 2017.

Kesko's net sales by business model

- Retailer entrepreneurs' retailing 43%
- Kesko's own retailing 22%
- B2B trade 35%

Review by the President and CEO

We continue our determined transformation

In 2017, Kesko and K Group continued on a strong growth path, focusing on our three strategic areas: the grocery trade, the building and technical trade, and the car trade. Our good performance confirms that our decision to focus on quality, selections and services has been the right one.

- Net sales grew in comparable terms by 1.8% and comparable operating profit rose to €297 million.
- Net sales grew in all divisions and profitability improved compared to the year before.
- Our determined strategy implementation towards becoming a more focused K Group continued with the divestment of the K-maatalous agricultural business, the Asko and Sotka furniture trade, and leisure machinery trade.

A strong year for the grocery trade

The integration of Suomen Lähikauppa and the resulting synergy benefits have been achieved sooner than anticipated. The last remaining Siwa and Valintatalo stores were converted into K-Markets, sporting the rebranded store look and concept, in the spring of 2017. All of the converted stores will be run by K-retailer entrepreneurs by summer 2018.

The expansion of our neighbourhood store network has led us to adopt a multi-store operating model, in which one retailer may run more than one store. The new model has proved a success and already more than half of all K-food stores operate under the multi-store model.

Our determined transformation efforts combined with the recovery in the Finnish economy and consumer purchasing power have resulted in significant growth in sales and customer numbers in all K-food store chains. K Group now has the most extensive and comprehensive network of food stores in Finland, and our grocery trade market share is at its highest in decades.

Our objective is to offer the most inspiring and customer-oriented stores in the market. K-retailers tailor their product selections and services individually to suit the needs of local customers based on their own customer insight and data obtained from the Plussa customer loyalty

programme, complementing chain selections with, for example, food by local producers.

Kespro is the market leader in Foodservice wholesale in Finland. Kespro's sales grew and profitability improved in 2017. Kespro's strong development is underpinned by the robustly growing trend of eating out.

We have continued the systematic development of digital services and taken big steps in, for example, management by information and online food sales. We offer digital services that make shopping easier for our customers, while providing them with increasingly personalised benefits.

We seek growth in the building and technical trade

Our building and technical trade division operates in eight countries, and our objective is to become an even more significant operator in Northern Europe. Although we have managed to improve our profitability, we are still behind the best sector companies in Europe. We are now strengthening the foundation for future success and value creation in the building and technical trade.

The acquisition of Onninen in 2016 has strengthened our B2B sales and market position in building and technical trade. Our building and home improvement store chains in various countries paired with Onninen's expertise in technical wholesale create a unique service combination where the focus is increasingly on business customers.

As building and renovation become more technical and regulated, consumers increasingly prefer to outsource them to professionals. For consumers, we offer more comprehensive solutions, such as renovation projects with start-to-finish planning and execution, as well as sector-best digital services for support.

In the spring of 2017, we combined the K-Rauta and Rautia chains to form a new K-Rauta chain, which offers both business customers and consumers professional service that meets their needs. The new K-Rauta chain is the market leader in Finland, with the most comprehensive network of stores.

On 16 February 2018 we announced that we are to discontinue building and home improvement trade operations in Russia. Our investments in Russia have not met the objectives set for them, and expanding our operations in Russia would have required significant additional investments. The transaction will have a minor impact on Kesko's net sales and operating profit, but it will significantly improve our return on capital employed. The ownership of the properties will transfer to the buyer during the first half of the year 2018.

Creating new business models for the car trade

Our collaboration and strategic partnership with the world's leading car manufacturer, Volkswagen Group, became even tighter in 2017, as reflected, for example, in the acquisition and integration of the Porsche business in Finland.

The entire automotive sector and the concept of transport are undergoing a transformation, and therefore we need to be constantly developing our operating models, services and technologies. We are actively taking part in the sector development, and seek future growth especially from the service business, with a multichannel approach.

A good example is our Caara.fi concept, under which we offer services ranging from an online store to used car services and leasing for both businesses and private consumers.

Sustainability forms the foundation for our operations

Alongside financial factors, investors are increasingly taking into account aspects related to the environment, social responsibility and corporate governance (ESG) when making investment decisions.

Kesko is included in prestigious global sustainability indices, such as the DJSI World and DJSI Europe. In the autumn of 2017, Kesko received the A– score in CDP's Climate questionnaire, and in January 2018 Kesko ranked 31st on the Global 100 Most Sustainable Corporations in the World list.

In 2017, we were the first Finnish company to set Science Based Targets for reducing emissions from our properties, transportation, and supply chains. To achieve these ambitious targets, we will increase the use of renewable energy and improve our energy efficiency. Since the beginning of 2017, all electricity purchased by Kesko in Finland has been renewable. We invest in solar power, and there are already over 20 solar plants located on the rooftops of K-stores.

Promoting the sustainable use of natural resources and circular economy is a central aspect of our responsibility programme. The rise of the circular economy affects operating models in the trading sector and creates opportunities for new product and service solutions. A good example of this is the biogas made from inedible biowaste collected from our stores and used as energy in the manufacture of new Pirkka products. We will continue to develop new solutions for circular economy, and to support the work, are currently in the process of creating a circular economy strategy.

Our mission is to create welfare responsibly for all our stakeholders and for all society. We want to engage in public discussion more actively and more prominently and develop new solutions. The Little Big Deeds model established by K-Retailers' Association and Kesko brings to public attention responsible deeds relevant to our customers, for example, a retailer creating a meeting place for lonely elderly people, or retailers making stores accessible to those with special needs.

In August 2017, we began a multi-year collaboration with the environmental organisation WWF Finland to save endangered migratory fish. We will map out areas in Finland to find obstacles blocking access to spawning grounds, and in a spirit of cooperation with landowners, local K-retailers and volunteers, make the spawning grounds once again accessible to fish.

Transformation requires agility

Our operating environment is undergoing major changes: new technology and global e-commerce are transforming the trading sector at an accelerating pace. We are already actively taking part in the transformation, but we must become notably faster at implementing new ideas and expanding into new fields.

Our future success requires close co-operation across organisational boundaries and agility in the face of change. The only way we can take K Group to the next level is by transforming ourselves and being as flexible and as digital as possible.

We are currently building new headquarters, K-Kampus, in Kalasatama in Helsinki. Once completed, in spring 2019 K-Kampus will bring together some 1,800 K Group people in the greater Helsinki region, and offer us innovative new premises and solutions for everyday work. We are encouraging our people to actively take part in the planning and implementation of these changes so we can create an agile, open and interactive workplace together.

I want to thank our personnel, K-retailers and stakeholders

I'm very happy with the spirit of co-operation we have at K Group. I want to thank all Kesko employees, K-retailers and their staff, our shareholders, and our partners for the valuable work you have done towards our success.

Mikko Helander
President and CEO

Operating environment

Trading sector operations are affected by various global megatrends, ranging from digitalisation to climate change. By identifying the trends that affect K Group's operations, we are able to effectively anticipate future challenges and opportunities and respond to them better.

MEGATRENDS:

Globalisation

Digitalisation

Urbanisation, single-person households, ageing population

Increased consumer knowledge and power

Sustainability and strong brands

Climate change

TRENDS AFFECTING K GROUP'S OPERATIONS

International operators challenge local companies

- Intensified price competition
- Global supply
- Increased sales of own brand products

What we are doing

- We focus on core businesses
- We use quality and product selections to differentiate ourselves from the competition
- We offer a wide selection of own brand products

Digital stores and services

- Growth in international online sales
- Ease of shopping
- Targeted marketing based on customer data

What we are doing

- We offer the best online store customer experience
- We offer versatile mobile services
- We personalise and target our offering to customers
- We offer versatile electronic services to B2B customers

Increasingly individual customer behaviour

- Ageing population
- More single-person households
- Urbanisation
- Increased cultural diversity
- Changes in eating habits

What we are doing

- We utilise customer data in the development of our store and service concepts
- We make all stores different, customised to meet local customer demand
- We focus heavily on reshaping neighbourhood store services

Increased consumer knowledge and power

- Transparency in product selections, prices and availability
- Importance of social media: source of information, exchange of experiences, interaction
- Product origins and sustainability key selection criteria

What we are doing

- We make clear customer promises and deliver on them – service, quality, price
- We offer products and services in multiple channels to suit customer needs
- We follow the principles of sustainability

Sustainability and strong brands as preconditions for success

- Good corporate governance
- Responsible operating principles
- Climate change and circular economy
- Transparency of purchasing chains
- Open dialogue with stakeholders
- Responsible investments

What we are doing

- We make K a strong top level brand
- We make sure that corporate responsibility is realised in all our operations
- We promote the use and production of renewable energy
- We develop innovative circular economy solutions together with our partners
- We work to ensure responsibility throughout the purchasing chain
- We strengthen our corporate identity and core brands
- We make corporate responsibility visible in stores and marketing

K Group's value chain

We take account of the stages and impacts of our value chain

We operate sustainably and responsibly in all parts of our value chain. In addition to its direct impacts, our value chain generates significant indirect impacts.

Raw materials

Sustainable environment

- We promote the sustainable use of natural resources.
- Our soy, palm oil, plastics and other policy statements guide our responsible sourcing.

Purchasing chain

Responsibility across purchasing chains

- We support local production.
- We are accountable for the safety and quality of products.
- We ensure the responsibility of production in high-risk countries.

Logistics

Efficient logistics

- We have customer oriented logistics models.
- We reduce emissions with an efficient transportation fleet and optimisation of logistics.

Multichannel trade

Easy shopping instore and online

- K Group is a significant employer: 42,000 employees.
- We have some 26,300 suppliers.
- Our comprehensive store network is close to our customers.
- We develop digital services that make customers' lives easier.

Products and services

We put the customer first

- Every K-store is different, because every customer is different.
- We make use of customer data and offer personalised benefits and services to our customers.
- We build sustainable partnerships with our business customers.

Circular economy

We promote circular economy

- We develop innovative circular economy solutions.
- K-food stores host nearly 400 Rinki eco take-back points.

Opportunities and risks related to our operating environment

Economic operating environment

Our three strategic growth areas are the grocery trade, building and technical trade, and car trade. From the perspective of growth, key objectives include increasing our market share in the Finnish grocery trade, strengthening our position in the building and technical trade in Northern Europe, consolidating our market leadership in the Finnish car trade, and developing digital services and multi-channel trade.

OPPORTUNITIES	RISKS
• Competitive prices, customer focus, and quality give us a competitive advantage.	• Tight price competition can weaken the profitability of Kesko and the retailers. Failure to deliver on the quality promise would reduce customer satisfaction.
• In the building and technical trade, the growth in B2B trade clearly outpaces that of B2C trade.	• In the building sector, cyclical fluctuations may be strong.
• Our strong financial position provides excellent opportunities to develop operations.	• Kesko's market performance varies greatly from one country and division to another.

Development of retail market in Kesko's operating countries in 2015–2017

Source: Eurostat / Retail trade excluding motor vehicles and fuel, deflated figures

Multi-channel approach

In line with our strategy, we aim to offer customers the best multi-channel shopping experience in the trading sector.

OPPORTUNITIES	RISKS
The combination of online stores and digital services and our comprehensive store site network creates a basis for excellent customer service in K Group.	Challenges to the profitability of online stores include the cost-efficiency of logistics operating models and the adaptability of existing store sites to the logistics of online sales.
We provide our customers with the best possible service that meets their needs, in either physical stores, online or both, irrespective of time and place, at all stages of the buying process.	Continuous changes in e-commerce and digital services present special challenges to the rapid development of new services and their integration into existing operating models and systems.
To improve customer satisfaction and increase sales, we develop personalised customer marketing based on shopping behaviour, and increase the availability of online information about products, prices and availability.	With the growth of e-commerce or changes in market situation, there is a risk that the operations of a chain relying on physical stores or a store site become less profitable.

Purchasing chains

Transparency and responsibility in purchasing chains has become increasingly important.

It is necessary to provide customers with increasingly detailed information on the origins and manufacturing methods of products. We take care to ensure that all operations and the whole supply chain are responsible. Product safety management must be flawless and traceable across the entire supply chain.

OPPORTUNITIES	RISKS
Networking with suppliers of goods and providers of services requires that all operators in the supply chain adopt the same values, objectives and operating practices and are committed to international sustainability assurance procedures.	Non-compliance in the management of social or environmental responsibility within the supply chain may cause human rights violations, environmental damages, financial losses and the loss of customer, owner and investor confidence while negatively affecting the corporate responsibility work and its credibility.
We can help customers make responsible purchasing decisions by means of corporate responsibility communications, the stores' K-responsibility concept and product labelling. We strengthen customer confidence in K Group through careful and traceable product safety control and quality assurance.	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.

Impacts of climate change

Climate change causes risks and opportunities affecting habitats, regulations and reputation factors.

Emissions from the generation of electrical and heat energy of properties represent a significant proportion of the environmental impacts of Kesko and K Group stores. In accordance with our environmental and energy policy, our real estate functions work in co-operation with business partners to develop solutions for the building, renovation, concept changes, maintenance and use of real estate properties which reduce the consumption of materials and energy during the life cycles of these properties. We also help our customers find energy-efficient solutions.

OPPORTUNITIES	RISKS
• We efficiently recover waste heat, such as condensation heat generated by store refrigeration units, for heating using the latest technology.	• Climate change will increase the risk of extreme weather phenomena. • Extreme phenomena may cause damage or business interruptions that cannot be prevented or covered with insurances.
• We also actively examine the use of renewable energy sources. Among other things, the use of soil and water as heat and cold storages, as well as the use of solar energy, will increasingly be potential alternatives as technical solutions become more sophisticated. • Products and services that enhance energy efficiency in homes and are available at the building and home improvement stores make it easy for customers to improve the energy efficiency of their homes and to find solutions that support sustainable development.	• If our energy source policies prove wrong, it may have a negative impact on our reputation and profitability.

Strategy and objectives

The core of Kesko's strategy is profitable growth in three strategic areas: the grocery trade, the building and technical trade, and the car trade. Our strategy is based on our value, which guides all our operations: “The customer and quality – in everything we do”.

Kesko initiated a strategic transformation in 2015. Good progress has since been made in the core areas of customer orientation, stronger growth and profitability, and increased focus of operations. Kesko’s strategic business areas are the grocery trade, building and technical trade, and car trade. These are all areas where we have strong expertise and market positions; they also offer good potential for profitable growth in the long term. Kesko differentiates itself from the competition by emphasising quality and strong customer orientation and by offering the best digital services within the trading sector. The strengthening of profitable growth and efficient allocation of capital create the foundation for growth in Kesko’s shareholder value.

Transforming K

Strategic focus areas

Profitable growth	Tighter focus	Quality and customer orientation	Best digital services	One unified K

Strategic focus areas for divisions

Grocery trade

- Most customer-focused and inspiring food stores
- Most extensive and comprehensive store network in Finland
- Best digital services and online store in the trading sector
- Retailers guarantee quality
- Growing Kespro's business

Building and technical trade

- Strengthening leading market position in Northern Europe
- B2B customers: best customer experience and unique partnership
- B2C customers: best customer experience in all channels and most comprehensive solutions
- Strong development of online stores and digital services
- Improving profitability and ensuring synergies in all operating countries

Car trade

- Developing VV-Auto's business in collaboration with Volkswagen Group
- Expanding the service business
- Developing a multichannel customer experience

Value

The customer and quality – in everything we do

Vision

We are the customers' preferred choice and the quality leader in the European trading sector

Mission

We create welfare responsibly for all our stakeholders and for the whole society

We are determinately implementing our growth strategy

In the grocery trade, our objective is to strengthen our market share in Finland. We want to offer the most inspiring food stores and digital services on the market. K-retailer entrepreneurs guarantee quality and customer orientation. We have the most comprehensive network of stores in Finland, and our grocery trade market share is at its highest in decades.

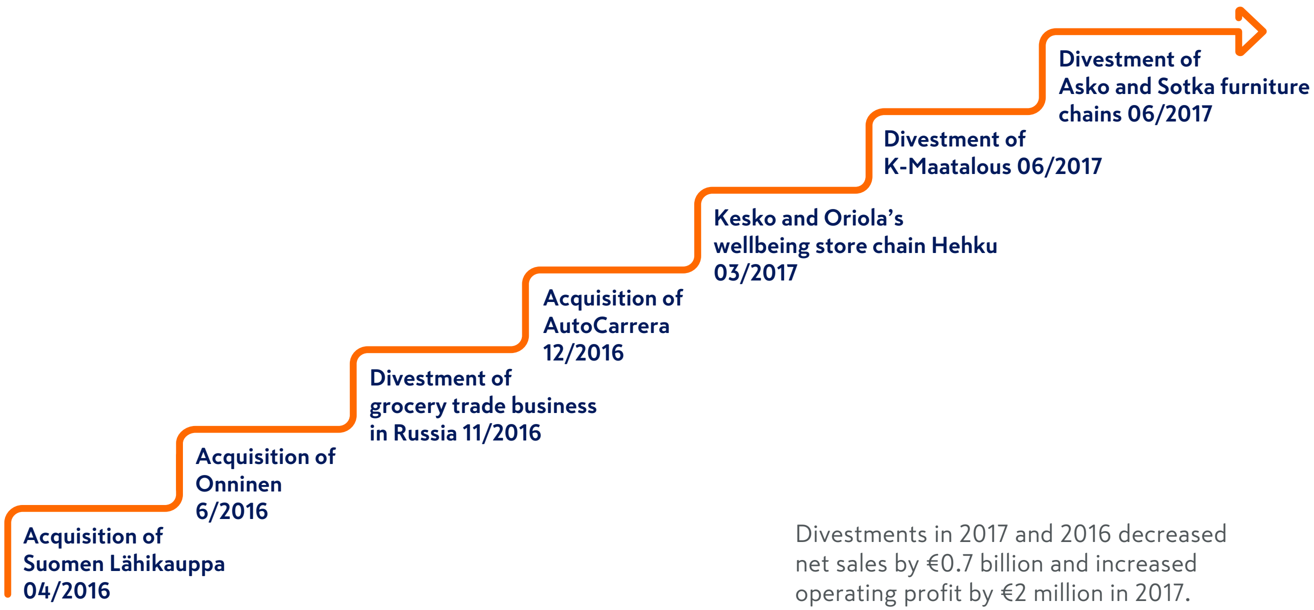
Our key strategic action has been the active transformation of all our K-food store chains. The remodelling of K-Citymarket hypermarkets is well under way: we have made significant changes to fresh food departments and home and speciality goods selections in particular, and now also offer more services. 35 stores have been remodelled so far and almost the whole K-Citymarket chain will be remodelled by the end of 2018. We implemented our neighbourhood market growth strategy by acquiring Suomen Lähikauppa in 2016. This doubled our neighbourhood store network to 800 stores. We have remodelled all the acquired stores and by summer 2018 all K-Market neighbourhood stores will be operated by retailers. Synergies from the acquisition have materialised sooner than anticipated. Megatrends enforcing the demand for neighbourhood services include urbanisation, growth in single-person households and population ageing. The transformation of the K-Supermarket and Neste K chains is also proceeding strongly.

In early 2017, we launched a new model for online food sales in the greater Helsinki region, with notably wider selections and home delivery. In 2018, we will grow the network of stores offering online food sales, and we aim for a 40% share of the market.

STRATEGY IMPLEMENTATION

The implementation of Kesko's growth strategy towards a more focused combination of businesses is progressing

The core of Kesko's strategy is profitable growth in three strategic areas: the grocery trade, the building and technical trade, and the car trade. The implementation of the growth strategy has proceeded robustly thanks to significant acquisitions and divestments.



Divestments in 2017 and 2016 decreased net sales by €0.7 billion and increased operating profit by €2 million in 2017.

Another strategic focus area is actively growing the business of our Foodservice wholesale company Kespro, which serves customers in the hotel and restaurant business. The increased popularity of eating out supports Kespro's business.

In the building and technical trade, our objective is to improve profitability in all operating countries and strengthen our market position in Northern Europe. The biggest growth potential lies in the B2B trade, which is underpinned by megatrends: building and renovation are becoming more technical and increasingly outsourced to professionals. The acquisition of Onninen in 2016 notably strengthened our position in the building and technical trade B2B sales and expanded our product selection from building products to electrical and HEPAC products. Onninen's acquisition also enables significant synergies in sales and purchasing, store site network development, logistics, ICT and administration. For consumers, we offer increasingly comprehensive renovation solutions.

In Finland, we combined the K-Rauta and Rautia chains in the spring of 2017 to form a new K-Rauta chain, and opened a new k-rauta.fi online store. We actively seek growth in our international operations in Sweden, Norway, the Baltic countries, Belarus and Poland through continued investments, updates to the store site network, and the development of digital services.

Building and technical trade is the most international of our divisions. Towards the end of 2017, changes were made to the organisational structure and responsibilities within the division in an effort to accelerate growth and profitability. The role of local companies in our eight operating countries is now emphasised, and they are responsible for meeting our customer value proposition. On 16 February 2018, we announced we would be discontinuing our building and home improvement trade operations in Russia by selling most of our store sites there for the price of some €169 million. The transaction will significantly improve Kesko's return on capital employed.

In the car trade, our goal is to strengthen our market leading position in passenger cars and vans in Finland through tight cooperation with Volkswagen Group. The acquisition of AutoCarrera has expanded our selection of brands to Porsche passenger cars. We also seek growth by creating new business by tapping into the sector's megatrends. An example of our efforts is the Caara.fi platform, where we can add new services to complement the existing online sales of used cars and rental and leasing services.

In addition to our significant acquisitions, we have established a new health and wellbeing store chain, Hehku, together with the pharmaceutical distributor Oriola. The chain opened its first stores and online store on 25 January 2018. The plan is, if legislation is amended, to expand the business to include the sales of pharmaceuticals.

We have determinately implemented our strategy to become a more focused K Group by divesting the K-maatalous agricultural business, the Asko and Sotka furniture trade, and the leisure machinery trade, and earlier the food and sports trade in Russia and department store trade in Finland.

We are a forerunner in sustainability

Corporate responsibility manifests itself in our everyday activities, for example, in our product selections, purchasing, and the use of energy. It is also something our stakeholders expect from us.

We were the first Finnish company to set emission targets approved by the Science Based Targets initiative in line with the Paris Climate Agreement. We are reducing emissions through the use of renewable energy, energy-efficiency at our stores, and efficient logistics. Since the beginning of 2017, all electricity purchased by Kesko in Finland has been produced with renewable energy, and we are the biggest producer of solar power in the country.

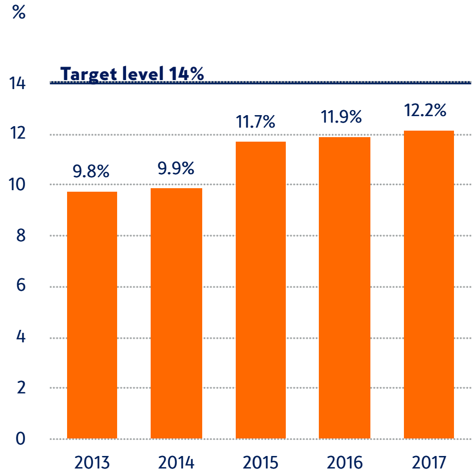
As a sign of our long-term commitment to corporate responsibility, Kesko was again included in the prestigious Dow Jones Sustainability Indices of the world's most responsible companies, the DJSI World and the DJSI Europe. Kesko also ranked 31st on the Global 100 Most Sustainable Corporations in the World list published in January 2018, being the most responsible trading sector company in the world.

Our financial targets

We are proceeding towards our financial targets and a better return on capital employed and return on equity through growth, improved profitability, synergies, and increased working capital efficiency. In addition to growth, we continue to focus on improving the cost-efficiency of all our operations to ensure competitiveness.

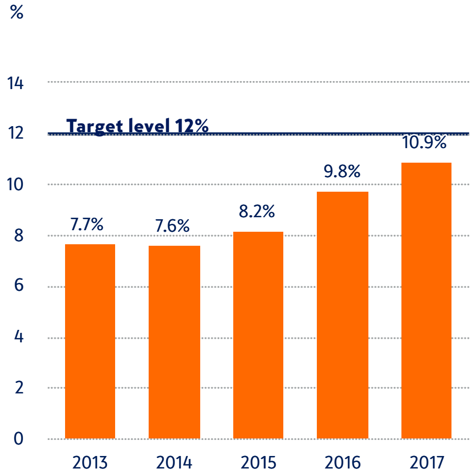
Our strong balance sheet enables us to pay good dividends and develop and grow our business organically as well as through acquisitions and partnerships.

Return on capital employed*



* Comparable

Return on equity*



* Comparable

FINANCIAL TARGETS

Target	Level achieved in 2015	Level achieved in 2016	Level achieved in 2017	Target level
Return on capital employed*	11.7%	11.9%	12.2%	14%
Return on equity*	8.2%	9.8%	10.9%	12%
Interest-bearing net liabilities / EBITDA	-1.4	0.4	0.3	< 2.5

*Comparable

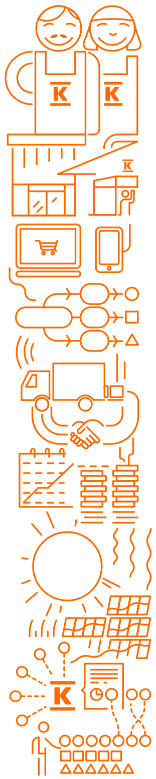
- Net sales growth
- Operating profit growth incl. synergies
- Increased net working capital efficiency
- Enhancing cash flow

Dividend policy: Kesko Corporation distributes at least 50% of its comparable earnings per share as dividends, taking however the company's financial position and operating strategy into account.

Value creation

Our operations are founded on professional and committed personnel throughout the value chain, a strong K brand, efficient logistics operations and information systems, and stable finances. We create value to all our stakeholders: customers, personnel, shareholders, retailers, product and service suppliers, municipalities and states.

WE CREATE VALUE TO ALL OUR STAKEHOLDERS



Our resources

PERSONNEL AND RETAILERS
25,000 employees
1,100 retailers

STORE SITES
1,800 stores in 8 countries
Online stores and digital services

INTANGIBLE ASSETS
Brands and own brand products
Customer dialogue,
3.6 million K-Plussa customers
Store concepts
Relations to product suppliers and service providers

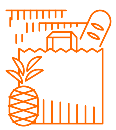
FINANCIAL RESOURCES
Balance sheet €4.5 billion and equity €2.2 billion

NATURAL RESOURCES
Energy consumption 973,105 MWh
Own energy production

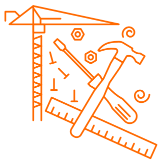
PROCESSES
Management by information
Purchasing and product research
Logistics
Selection management

THE CUSTOMER AND QUALITY – IN EVERYTHING WE DO

DIVISIONS



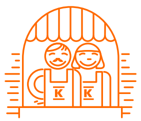
Grocery trade 49%*



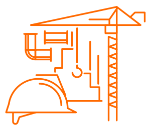
Building and technical trade 42%*

Car trade 9%*

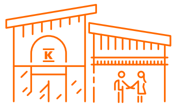
BUSINESS MODELS



Retailer entrepreneurs' retailing 43%*



B2B trade 35%*



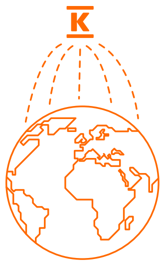
Kesko's own retailing 22%*

*of Kesko's net sales

Added value and impacts

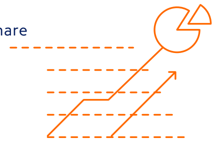
CUSTOMERS
Well-researched, safe and responsibly produced products
Tailored selections and individual stores
Cheaper shopping baskets with own brand products

SUPPLIERS AND SERVICE PROVIDERS
Purchases €9 billion
Business partnerships and distribution channels
Social responsibility audits of suppliers in high-risk countries
Sourcing policies for raw materials critical from a social and environmental responsibility perspective

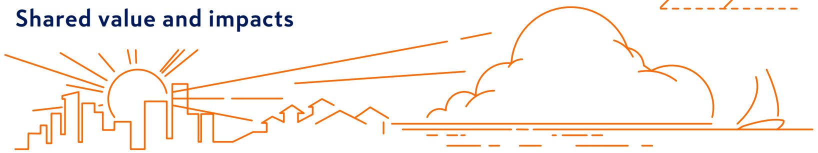


PERSONNEL
Salaries €611 million,
training €4 million

SHAREHOLDERS
Dividend proposal €2.20/share
Comparable EPS €2.28
A responsible investment



Shared value and impacts



SOCIAL IMPACTS
Investments €350 million, of which €299 million in Finland
Remitted and paid taxes €995 million, of which €814 million to Finland
Co-operation with NGOs

ENVIRONMENT
Emissions 130,640 tonnes CO_2e,
Science Based Targets for emissions
Waste recovery in Finland nearly 100%

Key areas of value creation for our stakeholders are customer value, shareholder value, and social value.

Customer value

- K-retailers are our competitive advantage.
- We utilise customer data in determining store selections and offer personal service to our customers.
- Our products are well-researched, safe, and responsibly produced.

K-retailers are our competitive advantage

We operate the retailer business model when it provides a competitive advantage. K-retailer entrepreneurs are responsible for customer satisfaction, product selections, pricing, personnel and business profitability in their stores. They tailor their product selections and services around the needs and wishes of local customers.

In 2017, the retailer business model produced 43% of Kesko's net sales. There are more than 1,100 K-retailer entrepreneurs in Finland. The majority of them, some 850, are K-food retailers, while some 150 operate building and home improvement stores. There are approximately 100 specialty retailers.

The number of K-food retailers increased in 2017, and will continue to do so in 2018, as at least 400 K-Markets that were previously Siwa or Valintatalo stores are or will be taken over by retailer entrepreneurs.

Read more about the retailer perspective ›

Business customers are becoming increasingly important

As building and renovation become more technical and regulated, consumers increasingly outsource them to professionals. The rise in the standard of living, urbanisation and population ageing underpin the trend.

In addition to products for building and home improvement and technical trade, Kesko's building and technical trade offers comprehensive multichannel services for building, renovation and building services engineering for both business customers and consumers. We offer consumers more comprehensive solutions, such as renovation projects with start-to-finish planning and execution.

The K brand is more prominently present in the everyday lives of our customers

The K brand is increasingly present in the everyday lives of our customers through our operations and chains. Our objective is to make everyday life good. The chain brands of K-Rauta, K-Citymarket, K-Supermarket and K-Market operate under the main K brand. During 2017, these chain brands were harnessed to offer our customers even more personalised services at all stages of life, and to provide inspiration and solutions to increasingly differing customer needs.

The K brand is more present, more vocal on issues, and a more active member of communities and society. The K brand wants to be a meaningful part of the everyday lives of our customers - For shopping to be fun.

Every K-store is different

K-Plussa is the most versatile customer loyalty programme in Finland. Some 3.6 million Finns, representing 2.3 million households, carry a Plussa card.

Customer data has reinforced our view that all stores, regions, competitive situations and customers are different. That is why every K-store is different, and tailored to the demands and profiles of local customers.

For our customers, the utilisation of customer data will result in personal, interactive, multi-channel service. Our popular K-Ruoka mobile application now features product information and enables food purchases via the online store.

Feedback enables us to do even better

Listening to our customers and utilising feedback are key factors in Kesko's strategy when it comes to improving customer experience. The amount of digitally obtained customer feedback has grown 50-fold within the past two years in the grocery trade division. By autumn 2017, the amount of feedback requiring a response had grown by 35% compared to the year before, while response times had decreased to one-third. The Hymy system for customer feedback enables efficient, modern, multichannel customer dialogue and the development of operations at various organisational levels.

Own brand products

Our own brand products are a key part of K-stores' diverse product selection. They enable us to offer more affordable shopping baskets and high-quality products that suit various life situations.

The Pirkka product range comprises nearly 2,250 products that combine high quality with affordability. When products are selected for the Pirkka range, priority is always given to the Finnish alternative, provided that it meets the quality and price criteria.

K-Menu consists of quality everyday food products where price is the most important criterion for consumers. The K-Menu range comprised around 300 products.

The own brands of the building and home improvement trade offer customers reliable and affordable home and garden products and building and renovation tools. Onninen's own brands offer electrical, HEPAC and refrigeration products for B2B customers.

Product development and product research

The Product Research Unit's laboratory monitors the product safety and quality of the own brands and own imports in the grocery trade. All of our food product operations have a self-control plan in place.

Read more about responsible purchasing and sustainable selections ›

Shareholder value

- Kesko is a financially sound listed company
- High dividend paying capacity
- A responsible investment

Kesko's financial position is very strong. In 2017 our net sales increased by 1.8% in comparable terms, our comparable operating profit totalled €297 million and the return on capital employed rose to 12.2%. At the end of the year, we had liquid assets of €398 million and a balance sheet total of €4.5 billion. Our strong and stable profit and financial position enable investments in growth and long-term business development. The acquisitions carried out will enable us to obtain significant synergies.

We distribute at least 50% of our comparable earnings per share as dividends, taking into account, however, our financial position and operating strategy. A dividend of €2.20 per share is proposed to be paid for 2017, which would represent 96.6% of the comparable earnings per share. We have paid dividends every year but one (1967) since the company was listed in 1960. In 2017, the price of a Kesko B share was down by 4.7%, with the closing price at €45.25.

Corporate responsibility plays an increasingly important role in investment decisions

Responsible business operations are crucial for the achievement of good and sustainable financial results. Besides financial factors, investors are increasingly taking into account aspects related to the environment, social responsibility, and corporate governance (ESG) when making investment decisions. Our long-term inclusion in sustainability indices provides impartial evidence of our responsible operations and facilitates investment decisions. Kesko is included in prestigious global sustainability indices, such as the DJSI World and DJSI Europe. Kesko ranked 31st (2017: 25th) on the 2018 Global 100 Most Sustainable Corporations in the World listing, and was the most sustainable company in the trading sector.

Read more about Kesko as an investment ›

Social value

- Our mission is to create welfare responsibly for all our stakeholders and for all society.
- We are a significant employer, taxpayer and service provider, and our operations create welfare for the whole society.
- We select our business partners carefully and require that they operate responsibly.

We contribute to creating a better society

We want to engage in public discussion more actively and more prominently and develop new solutions. The Little Big Deeds model established by K-Retailers' Association and Kesko brings to public attention responsible deeds relevant to our customers, for example, a retailer creating a meeting place for lonely elderly people, or retailers making stores accessible to those with special needs.

We create jobs

At the end of 2017, the number of Kesko personnel was approximately 25,000. In total, K Group – i.e. Kesko and the K-retailers – employs approximately 42,000 people. Roles range from jobs at a stores to retailer entrepreneurship and expert and manager positions in various fields.

Through our supply chain, we indirectly create jobs globally in product development, factories, farms and logistics, for example.

We offer a wide range of career and development opportunities in different positions in the trading sector. As the operating environment and customer demands in the trading sector change, continuous competence building becomes increasingly important.

Core areas of competence building are management culture and managerial work, sales and service skills, product line specific competitive advantage projects, and digital services. We engage in constant dialogue with the personnel to identify further areas of competence building.

Read more about personnel ›

Our purchasing activities are guided by responsible principles

- Kesko's purchasing principles
- The 'Principles and Practice of Socially Responsible Trading' guide
- Our corporate responsibility policy statements

We select our business partners with care and require they have responsible operating practices. We add a K Code of Conduct contract clause to agreements signed by Kesko Group companies for purchasing products or services from external parties.

Special attention is paid to human rights issues and working conditions within the purchasing chain. We monitor suppliers, focusing on countries where the risk of violations of these rights are the greatest. Special attention is paid to working conditions in factories in high-risk countries, although the quantities imported from these countries are small (1.2% of all Kesko's purchases in 2017). International assessment systems, such as amfori BSCI auditing, are used for supplier audits in high-risk countries.

Read more about responsible purchasing and sustainable selections ›

Partnerhip with suppliers

Most of the economic benefits generated by our operations – approximately 84% of Kesko's net sales – flows to our suppliers. Our purchases from suppliers totalled €9.0 billion in 2017.

Purchasing Finnish products and services creates economic benefits for Kesko's home country and promotes local work.

Read more about financial benefits generated for our suppliers ›

The taxes we pay benefit the society

Kesko is a significant taxpayer: in addition to paying income and real estate taxes, Kesko collects, reports and remits indirect taxes, such as value added tax and excise duties.

Our principle is always to pay taxes on operating income and assets to the respective operating country in compliance with local laws and regulations.

K Group and its some 30,000 employees in Finland have a substantial impact on the municipal sector. Municipal taxes paid by our personnel account for a considerable proportion of municipalities' tax revenue. In 2017, there were K-food stores in 273 **Finnish municipalities**.

Read more about taxes ›

Kesko as an investment

"In 2017, we successfully continued the implementation of our growth strategy towards becoming a more focused Kesko and K Group. Net sales grew in all divisions and profitability improved. Kesko's financial position is strong and enables attractive dividends as well as active business transformation."

Jukka Erlund, Executive Vice President, Chief Financial Officer

Six reasons for investing in Kesko

Strong market position in Finland and other countries

- Market share of the grocery trade is around 37.2% (Kesko's own estimate) in Finland following the acquisition of Suomen Lähikauppa
- In building and technical trade, the market shares in Finland are 41% in the building and home improvement trade and 37% in technical wholesale; strong market position also in Norway, the Baltics and Belarus
- In the car trade, VV-Auto is the market leader in Finland with a market share of 18.6%

Growth strategy

- Growth of the grocery trade in Finland
- Growth and expansion of the building and technical trade in Northern Europe
- Growth of the car trade, particularly in Finland
- Strong progress was made in implementing the strategy thanks to the acquisitions completed in 2016 and 2017
- Best customer experience in the trading sector in all channels

Strong and stable financial performance and financial position

- Enables investing in growth and long-term business development
- Return on capital employed 12.2% (2017)
- Equity ratio of 50.4% and gearing of 6.1% (2017)
- Significant synergies from acquisitions

Good dividend payment capacity

- Kesko distributes at least 50% of its comparable earnings per share as dividends while taking into account the Company's financial position and operating strategy
- A dividend of €2.20 per share is proposed to be paid for 2017, which would represent 96.6% of the comparable earnings per share, and the effective dividend yield of a B share would be 4.9%
- Dividends for the past five years were paid at the average rate of 100.5% on the comparable earnings per share, and the average effective dividend yield of a B share was 5.4%

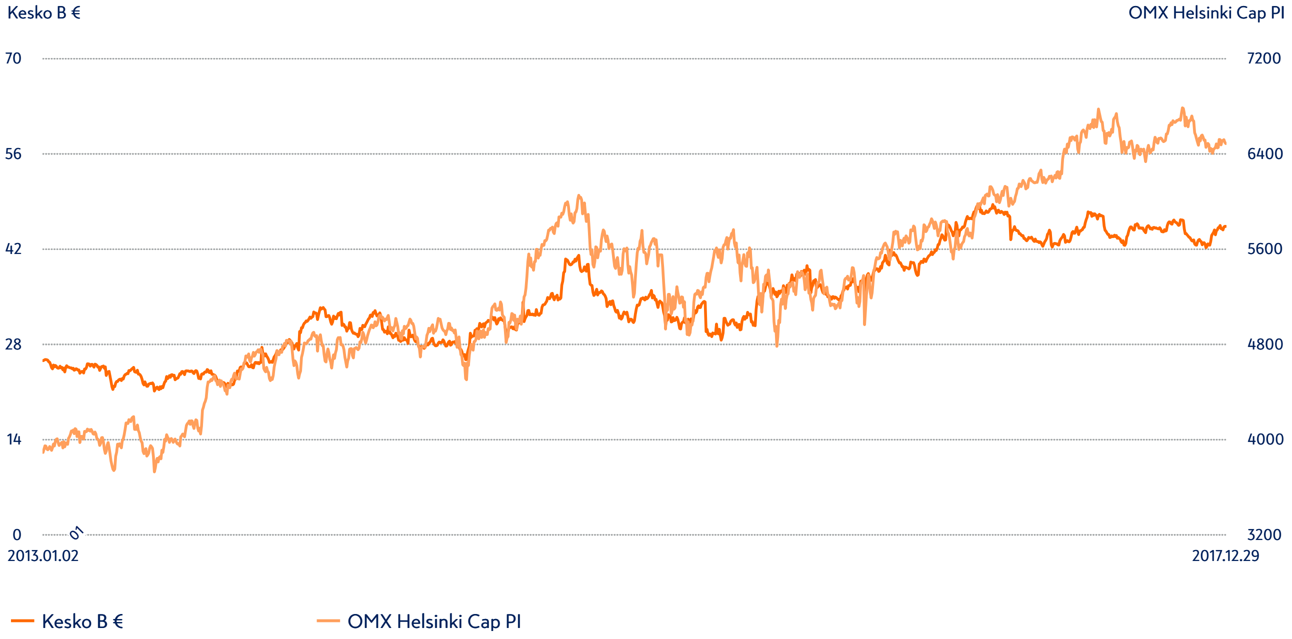
Recognised responsibility work

- Kesko is included in several sustainability indices and listings, such as CDP's Climate A- level, Dow Jones Sustainability (DJSI), FTSE4Good, the STOXX Global ESG Leaders indices, and 'The Global 100 Most Sustainable Corporations in the World' list
- The responsibility programme covers all Kesko's divisions and contains both short-term and long-term objectives

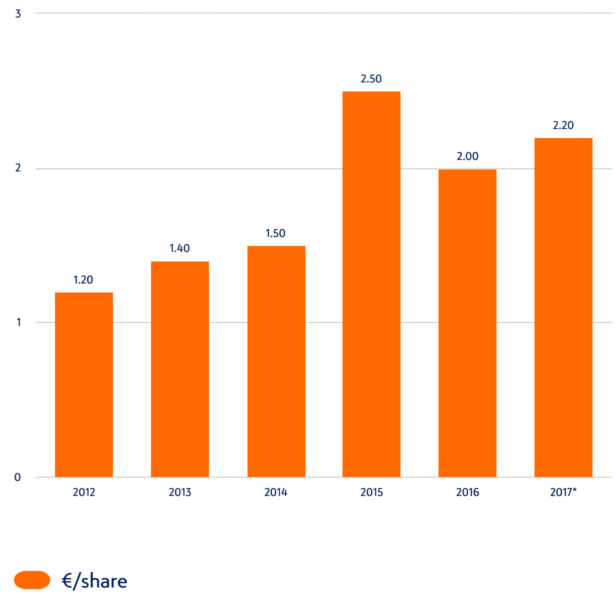
Competitive advantage with retailer enterpreneurship

- We operate the retailer business model when it provides a competitive advantage
- We combine systematic chain operations with retailer operations based on entrepreneurship
- K-retailers tailor their product selections and services to meet the needs of local customers
- In 2017 Kesko had more than 1,100 K-retailer entrepreneurs as partners
- In 2017, 43% of Kesko's net sales were generated by the retailer-entrepreneur business model

Share development



Dividend history 2012–2017



* Proposal to the Annual General Meeting

Kesko Corporation distributes at least 50% of its comparable earnings per share as dividends, taking however the company's financial position and operating strategy into account.

Read more about our financial objectives ›

Stakeholders

We are a major local operator, and our activities have an impact on the whole society. We work in tight co-operation with our various stakeholders, and encounter 1.6 million customers every day at our stores. We examine the views of our stakeholders regularly and develop our operations accordingly.

"Our most important stakeholders are future generations. The decisions we make today will have an impact for decades to come. This includes our strategic objectives, climate work, human rights commitment, and long-term efforts to improve the sustainability of our supply chain. We are committed to promoting the UN Sustainable Development Goals in our operations."

Matti Kalervo, Kesko's Vice President of Corporate Responsibility

We respond to our stakeholders expectations

Knowing the expectations of our stakeholders requires regular dialogue with them. The following table describes our interaction with key stakeholder groups:

Key stakeholders	Engagement and channels for interaction	Responding to stakeholder expectations
Customers Read: Customer perspective	• Daily customer encounters • Customer service channels and applications • Customer surveys • Social media	Customers have to be able to trust the quality and safety of the products, and know that by choosing a K-store, they are making a responsible choice. By utilising customer data, we can offer our customers more personal and interactive multichannel service.
Investors, shareholders and analysts Read: Investor perspective	• General Meeting • Results announcements • Investor meetings • Surveys and assessments • Press conferences • Investor pages and social media	We provide constant, accurate, up-to-date information for the markets for the formation of Kesko's share price. We treat all market parties equally and ensure the same information is available to everyone at the same time. Our aim is to increase awareness of Kesko's operations and the transparency of investor information.

Key stakeholders	Engagement and channels for interaction	Responding to stakeholder expectations
Kesko personnel Read: Personnel perspective	• Performance and competence: personnel survey, performance review and daily interaction • Co-operation with personnel • Intranet and feedback and discussion channels for personnel • SpeakUp reporting channel • K Code of Conduct	Common values and operating principles form the basis for our work. Our workplace is equal and fair. We are adopting new ways of operating, with the goal of being a workplace with skilled, committed personnel. We set goals for work and activities together with the personnel. We monitor personnel satisfaction and performance, and take measures to improve both based on the results.
Retailers and store staff Read: Retailer perspective	• Retailer events and meetings • Digital information channels and joint trade magazine • Responsible operating principles for K-retailers and K-stores (K Code of Conduct) • K Group's joint trade event K-Team Päivät	K-stores operate according to common values and responsible operating principles. K-retailer entrepreneurs develop their selections on the basis of customer wishes, responsibly utilising local products and services and working together with local partners. Employer image is built with a long-term focus by actively communicating the versatility of positions available within K Group
Suppliers and service providers Read: Stakeholder perspective	• Meetings with suppliers and partner events • K Code of Conduct and the Principles and Practice of Socially Responsible Trading • Cooperation in accordance with fair trading practices • Audits and training	Networking with suppliers of goods and service providers requires that all involved parties accept common values, objectives and operating practices. We are jointly responsible for ensuring our customers can rely on our expertise, services and the quality and safety of our products.
Society (media, authorities, non-governmental and other organisations, and trade unions) Read: NGO perspective	• Meetings • Media events and enquiries • Activities in organisations • Enquiries from NGOs	In accordance with our mission, we create welfare responsibly for all our stakeholders and for all society. We cooperate with non-governmental organisations, authorities and other decision-makers.

DIVISIONS

Grocery trade

Our K-food retailers listen to the wishes of their customers in the stores as well in digital channels, and tailor their stores according to local customer needs. K-food stores are also shaped by global megatrends affecting consumer behaviour.

"K Group's position in the Finnish grocery trade market is strong. We have the widest network of food stores in the country with the most extensive coverage, and the work to transform the store network will continue in 2018. We offer the most inspiring food stores in Finland, tailored to the needs and wishes of our customers. We are constantly developing our digital services to ensure effortless shopping for our customers also online."

Ari Akseli, Executive Vice President, grocery trade

Some 1.2 million customers visit K-food stores every day. Customer satisfaction is guaranteed by K-food retailers, and we operate with them under the chain business model. The K-food store chains are K-Citymarket, K-Supermarket, K-Market and Neste K service stations. On the Global 100 Most Sustainable Corporations in the World list, Kesko ranks 31st, being the most responsible trading sector company in the world. Our strengths include versatile high-quality selections, strong emphasis on Finnish products, skilfully constructed fresh food departments, and professional service.

The trend of hybrid consumption is shaping store selections and making them more diverse.

Consumer habits in the grocery trade are changing. Purely price-conscious consumption has given way to hybrid consumption, i.e. consumers who accept only the alternative that is of the highest quality or the most ethical in certain product groups, yet are extremely price conscious about other products. Nearly half of all Finns can already be considered hybrid consumers. K-food stores are responding to the changes in consumer behaviour by offering quality products that have been produced responsibly, while ensuring their selection is also competitively priced.

Most extensive network of neighbourhood stores in Finland

K Group is the second biggest operator in the Finnish grocery trade with a market share of approximately 37.2% (Kesko's own estimate after the acquisition of Suomen Lähikauppa). At the end of 2017, around 6,700 people worked in Kesko's grocery trade.

Following the acquisition of Suomen Lähikauppa in 2016, we now offer the most extensive network of neighbourhood stores in Finland with over 800 K-Markets. The last remaining Siwa and Valintatalo stores were restyled into new K-Markets in the spring of 2017. All of the acquired stores will be run by K-retailer entrepreneurs by summer 2018.

K-food stores are changing

We are redesigning our entire hypermarket concept and nearly all K-Citymarkets by the end of 2018. Our aim is to create individual K-Citymarkets whose product selections and services reflect their respective customer bases. The work began in 2015 and so far 35 K-Citymarkets have undergone a transformation. We have also made changes to our home and speciality goods selections, where the focus is now especially on cosmetics, home textiles, clothing and footwear.

The most extensive and comprehensive store network in Finland with redesigned food stores.

In 2017, we also began the redesign of the K-Supermarket chain stores. Over the next few years, we will change the appearance and marketing of all K-Supermarkets to conform to the new concept. The redesign of Neste K service stations to fit their new concept will continue until the end of 2018.

Kespro is the market leader in Foodservice wholesale

Kespro is the leading wholesale company serving the Finnish hotel, restaurant and catering sector. Kespro is increasingly recognised as a restaurant trend expert that offers its customers tailored, versatile purchasing solutions. Kespro's look was also updated in 2017, and the new look better supports Kespro's leading position in Foodservice. Kespro's strong development is underpinned by the robustly growing trend of eating out.

K-food retailers guarantee quality

The selections and services of K-food stores are shaped by various factors such as the increased demand for vegetarian food, population ageing, the growing number of single-person households, urbanisation and multiculturalism.

K-food retailers independently look after the selections, customer service, staff competence, product quality, and business profitability of their stores. They tailor their product selections and services according to the needs of local customers by listening to customer wishes and making use of customer data obtained from the Plussa customer loyalty programme. They complement chain selections in their stores with, for example, food by local producers.

Digital services make shopping easier

Consumers are increasingly doing their shopping online. We offer digital services that make life easier for our customers and also provide increasingly personalised benefits. Our customers receive local, store-specific offers via the K-ruoka mobile app, for example. We offer our customer an easy-to-use digital channel for feedback, Hymy. Some one million customer contacts happen through Hymy each year. In 2017, we launched the K-Plussa student benefit to make shopping more affordable for students.

In 2017, we began a collaboration in China with the global online store operator Alibaba to export Finnish food brands and our own Pirkka products to the growing Chinese market. The collaboration gives us an opportunity to learn from a global e-commerce pioneer and consequently develop our own online store. Our locally-operated online food stores and click & collect services mean customers can access our wide selections online across Finland. Self-service checkouts are available for customers in a hurry at hundreds of K-food stores.

In November 2017, we announced Pirkka products would return to Russia. Some 80 processed food and home and personal care products, including biscuits, muesli, jam, vitamins and household cleaning products, will be exported to Russia at this stage. K Group's own brand products are available exclusively from Lenta, at first in 38 hypermarkets and 18 supermarkets in St. Petersburg, Petrozavodsk and Murmansk.

New wellbeing chain Hehku begins operations

In 2017, we began work to build a new health and wellbeing store chain, Hehku, together with the pharmaceutical distributor Oriola. Our goal is to establish a chain of 100 Hehku stores and an online store. The first Hehku stores opened early in 2018. If legislation changes, we will expand the business to also include the sale of pharmaceuticals.

Megatrends and strategic focus areas

MEGATRENDS SUPPORT OUR STRATEGY

Urbanisation, increase in the number of single-person households, population ageing

Individualisation of consumption habits

Quality expectations and price consciousness

Corporate responsibility

Digitalisation

STRATEGIC OBJECTIVE	WHAT WE ARE DOING
• Most customer-oriented and inspiring stores on the market	• We are strengthening customer dialogue and constantly striving to improve customer satisfaction. • We focus on our strengths: versatile high-quality selections, Finnish and local products, and first class fresh food departments and service. • We have established a project to create common operating models for the grocery trade, to ensure marketing and selection planning are always customer driven.
• Most extensive and comprehensive store network in Finland	• We are redesigning our hypermarket concept and nearly all K-Citymarkets by the end of 2018. • We are expanding the K-Supermarket chain, and changing the appearance of the stores and their marketing to conform to the new chain concept in upcoming years. • We offer the most comprehensive network of neighbourhood stores in Finland, with over 800 K-Markets. • During 2018, we will update Neste K service stations to reflect their new concept.
• Best digital solutions in the trading sector and extensive online food sales	• We offer digital services to make life easier for our customers and offer more personalised benefits utilising data. • We focus on food online sales: the number of stores offering online sales is growing and we are constantly improving the usability of the service. • We offer our customers the easy-to-use digital feedback channel Hymy, where we annually have some one million customer contacts.
• Quality and customer focus guaranteed by K-retailer entrepreneurs – selection and services tailored to meet local customer demand	• K-food retailers tailor their product selections and services to suit the needs of local customers, using their customer insight and data obtained from the Plussa customer loyalty programme. • At store locations, we offer versatile services together with partners such as Posti, DHL and Starbucks. • We ensure that retailer entrepreneurship continues to be profitable and attractive. We offer retailers the chance to run more than one store.

Grocery trade in figures

Retail sales and number of stores	Number 2017	Number 2016	Sales (pro forma) (VAT 0%)*, € million 2017	Sales (pro forma) (VAT 0%)*, € million 2016
K-Citymarket, food	81	80	1,556	1,503
K-Citymarket, home and speciality goods	81	80	587	575
K-Supermarket	235	228	1,822	1,764
K-Market***	656	433	1,332	1,102
Neste K	71	70	118	112
K-Market, own retail trade***	157	545	459	768
Others**	82	92	42	57
Grocery trade, retail sales			**5,916**	**5,880**
Kespro	-	-	830	789
Grocery trade, total	**1,282**	**1,448**	**6,745**	**6,670**

*The pro forma comparatives have been calculated to illustrate a situation in which the 2016 acquisition (Suomen Lähikauppa) and divestments (grocery trade operations in Russia) would have been completed on 1 January 2016.
** Incl. online sales
*** Number of Suomen Lähikauppa's stores was 400 (563)

Grocery trade, key figures		2017	2016
Net sales	€ million	5,282	5,236
Operating profit	€ million	181.3	93.0
Comparable, operating profit	€ million	203.4	175.9
Comparable operating profit as percentage of net sales	%	3.9	3.4
Capital expenditure	€ million	224	238
Capital employed, average	€ million	791	828
Comparable return on capital employed	%	25.7	21.3
Personnel average		6,733	8,200

Properties		2017	2016
Owned properties, capital	€ million	649	524
Owned properties, area	1,000 m2	420	377
Leased properties, lease liabilities	€ million	2,007	2,101
Leased properties, area	1,000 m^2	1,594	1,684

Competitive advantages

- Quality and customer focus are guaranteed by K-retailer entrepreneurs – services tailored to meet local customer demand
- Skilfully constructed fresh food departments and widest selections – also for local food
- A wide range of digital services to make customers' everyday lives easier and a comprehensive network of online food stores
- Own brands
- Finnish products
- Sustainability

Own brands in 2017

- Retail sales of own brands some €1 bn, share of grocery trade retail sales approximately 17%
- A total of 2,520 Pirkka products, with some 260 new product launches
  - Nearly 200 Pirkka Parhaat products
  - A total of 116 Pirkka Organic products
- A total of some 300 K-Menu products, with some 70 new product launches

Chains

K-Citymarket
K-Citymarket is a modern and affordable hypermarket that offers its customers diverse, extensive selections of food and home and speciality goods. Our service counters offer the best food expertise in Finland. The K-Citymarket chain comprises 81 stores.

K-Supermarket
K-Supermarket's mission is to inspire Finns to eat better, and be the number one choice for customers who are passionate about food. K-Supermarket's strengths lie in quality, providing new food ideas, an extensive and current selection, local products, and customer service. There are 235 K-Supermarkets.

K-Market
K-Markets are personal, service-oriented, genuinely local neighbourhood stores – the village stores for the modern age. K-Markets offer their customers diverse selections of food and local services to conveniently suit their everyday lives. The K-Market chain has more than 800 stores and the most extensive network of neighbourhood stores in Finland.

Neste K
The extensive network of Neste K service stations offers customers restaurant quality food and personalised high-quality services quickly and conveniently. The network currently comprises 71 service stations. Our goal is to establish a network of one-hundred new type of Neste K service stations by the end of 2020.

Kespro
Kespro is the leading Foodservice (previously HoReCa) provider and wholesale company in Finland. Kespro acts as a partner to its customer companies and municipalities in Finland and offers its customers a diverse range of food procurement solutions, as well as delivery and collection services. The selection includes fresh foods, processed foods, specialty goods, wine and alcohol.

Markets and market shares

Markets
In 2017, the Finnish grocery trade market was worth approximately €16.9 billion (incl. VAT), representing an increase of approximately 1.7% (Kesko's own estimate). The growth of the overall market was affected by, among other things, the deregulation of store opening hours and improved consumer purchase power. Price competition in the Finnish grocery market has continued to be tight. However, consumers also increasingly value food that is produced in Finland and is healthy and flavourful.

Market shares

Food trade
The market share in Finland is approximately 37.2% (Kesko's own estimate).

Competitors: Prisma, S-market and Alepa/Sale (S Group), Lidl, Stockmann, Tokmanni, Halpa-Halli and M-chain shops.

K-Citymarket's home and speciality goods
Market share cannot be reliably calculated.

Competitors: department stores, hypermarkets, discounters, specialist chains and online stores.

Foodservice
Kespro, Finland
The market share is estimated to have strengthened to approximately 41% (Kesko's own estimate, based on new peer group and the Finnish Grocery Trade Association's Foodservice wholesale market size as of the start of 2017).

Competitors: Meira Nova, Metro-tukku, Heinon Tukku, Suomen Palvelutukkurit.

Building and technical trade

”We are seeking strong growth in the building and technical trade in Northern Europe, and we offer our customers the best multichannel customer experience”

Jorma Rauhala, Deputy to Kesko’s President and CEO, Executive Vice President, building and technical trade

We are a leading operator in the Northern European building and home improvement trade markets. We seek growth both organically as well as through acquisitions. At the core of our strategy is developing a multichannel customer experience.

In addition to products for building and home improvement and technical trade, we offer comprehensive multichannel services for building, renovation and building services engineering to both business customers and consumers.

We serve our customers under the K-Rauta, Onninen, Byggmakker, K-Senukai and OMA brands and operate in eight countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus.

Of our net sales of €4.5 billion, 51% come from outside Finland. B2B trade accounts for 68% of retail sales.

B2B trade accounts for 68% of retail sales.

Focus on growing our core business

In 2017, we streamlined and focused our building and technical trade operations by divesting the K-maatalous agricultural business, the Asko and Sotka furniture business, and a considerable portion of the Konekesko machinery business. On 16 February 2018 we announced that we are to discontinue the building and home improvement trade operations in Russia. The ownership of the properties will transfer to the buyer during the first half of the year 2018.

We combined the K-Rauta and Rautia chains to form a new K-Rauta chain.

In spring 2017, we combined the K-Rauta and Rautia chains to form a new K-Rauta chain, which is the market leader in Finland with the most comprehensive network of stores. We expanded the Onninen Express store network in Finland to Loimaa, Iisalmi, Varkaus and Viikki, Helsinki. Currently, we are testing joint stores for K-Rauta and Onninen Express in Loimaa, Finland and Jönköping, Sweden.

In the Baltic region, we are remodelling the store network in line with the K-Senukai concept.

The work to create sector-best digital services continued in three Centers of Excellence in Stockholm, Vilnius and Vantaa, and we opened new online stores for Onninen and K-Rauta in Finland.

Building and renovation are increasingly left to professionals

Global megatrends guide our strategy: as building and renovation become more technical and regulated, consumers increasingly outsource them to professionals.

The trend is further underpinned by the rise in the standard of living, urbanisation and population ageing. Online stores and digital services are a natural part of all operations in the trading sector.

The best multichannel customer experience is at the core of our strategy. We promise our business customers they will have ”more time for work”. For consumers, we promise to make renovation, building and shopping ”surprisingly easy”.

"More time for work" for our business customers

We want to help make work more productive for our business customers through deeper collaboration with our partners and by offering solutions that best suit their needs in e.g. logistics and selections. We are improving the service for joint customers of Onninen and our building and home improvement store chains via efficient common functions, so our customers get more with less effort. The majority of our business customers are building and technical contractors, but Onninen's customers also include industry, infrastructure construction and retail dealers.

More comprehensive solutions for consumers

For consumers, we offer increasingly comprehensive solutions, such as renovation projects with start-to-finish planning and execution, and implementation support via sector-best digital services. We want to create an ecosystem where we can bring together our consumer customers with renovation needs and our business customers offering renovation services.

Leisure goods trade

Leisure goods trade is included in the building and technical trade division. Our leisure trade chains are Intersport, Budget Sport, The Athlete's Foot and Kookenkä.

Machinery trade

Konekesko imports and markets agricultural and environmental machinery in Finland, and agricultural, construction and forestry machinery in the Baltic countries. In 2017, Kesko sold a 45% interest in the Baltic subsidiaries of machinery trade to Danish Agro group, and agreed on the option of expanding the holding to include Konekesko's agricultural machinery business in Finland.

Megatrends and strategic focus areas

MEGATRENDS SUPPORT OUR STRATEGY

Building and renovation are becoming more technical and regulated

Consumers are increasingly outsourcing building to professionals

Growing need for renovation building

Higher standard of living leads to increased use of services

Stronger emphasis on a multichannel customer experience

STRATEGIC OBJECTIVE	WHAT WE ARE DOING
• We strengthen our position in the Northern European markets by offering the best customer experience	• We continue to focus on our core business and its profitable growth in the stable and growing Northern European markets both organically and through acquisitions.
• We offer our B2B customers a winning customer experience and unique partnership – "more time for work"	• Serving joint customers of Onninen and our building and home improvement chains through increasingly efficient logistics, extensive store network, and productised services. • We focus strongly on a multichannel customer experience through investments in online stores, our store network, and the skills of our sales staff.
• We offer B2C customers the easiest shopping experience and most comprehensive multichannel services – "surprisingly easy"	• We establish a competitive advantage by offering services that make shopping in building and home improvement stores easier and by creating an ecosystem where our business customers help implement renovation projects for our consumer customers through our Remonttipalvelu service concept. • We invest in the training of store staff and in new sales operating models and tools. • We strengthen our product offering especially with own brand products.
• Strong development of online stores and digital services	• Onninen's new online store was launched in Finland and Sweden in 2017, and will be launched in other countries in 2018. • Online stores are being developed internationally at three Centers of Excellence in Sweden, Finland and Lithuania. • We make digital shopping easier with e.g. the Remonttimestari renovation app launched in 2017, and the OnniApp for Onninen Express shoppers, to be launched spring 2018.
• Improving profitability and ensuring synergies in all operating countries	• The division's new common commerce unit is responsible for purchasing, selections and supply chain management for both Onninen and the building and home improvement chains internationally. • Other common functions also support local companies in our operating countries, and we see synergies especially in purchasing, logistics, store sites and ICT solutions. • Ongoing programmes in Sweden and Poland focus especially on profitability improvement.

Building and technical trade in figures

Retail sales and number of stores	Number		Sales (pro forma) (VAT 0%)*, € million	
	2017	2016	2017	2016
K-Rauta and Rautia	136	139	1,033	1,006
Rautakesko B2B Service	-	-	248	225
Onninen, Finland	53	50	829	780
Intersport**	56	58	188	192
Budget Sport**	11	11	45	48
The Athlete's Foot**	7	3	4	1
Kookenkä**	37	38	32	32
Konekesko, Finland	-	-	95	144
Others	35	34	17	18
Finland, total	**335**	**333**	**2,491**	**2,445**
K-Rauta, Sweden	17	20	200	217
Onninen, Sweden	18	17	201	234
Byggmakker, Norway	82	80	642	659
Onninen, Norway	25	26	291	284
Other Nordic countries, total	**142**	**143**	**1,334**	**1,394**
K-Senukai, Lithuania	22	22	369	350
K-Rauta and K-Senukai, Estonia	8	8	88	92
K-Rauta and K-Senukai, Latvia	9	8	55	48
Onninen, Baltic countries	15	15	69	60
Konekesko, Estonia	-	-	44	46
Konekesko, Latvia	-	-	46	35
Konekesko, Lithuania	-	-	45	50
Baltic countries, total	**54**	**53**	**717**	**682**
K-Rauta, Russia***	14	13	184	174
OMA, Belarus	17	16	120	101
Onninen, Poland	35	36	218	190
Russia, Belarus and Poland total	**66**	**65**	**522**	**465**
Outside Finland, total	**262**	**261**	**2,573**	**2,541**
Building and technical trade, total	**597**	**594**	**5,063**	**4,986**

Building and technical trade, key figures		2017	2016
Net sales	€ million	4,486	4,100
Operating profit	€ million	154.7	60.8
Comparable operating profit	€ million	95.8	97.9
Comparable operating profit as percentage of net sales	%	2.1	2.4
Capital expenditure	€ million	80	452
Capital employed, average	€ million	1,129	1,000
Comparable return on capital employed	%	8.5	9.8
Personnel average		13,662	12,743

Properties		2017	2016
Owned properties, capital	€ million	329	342
Owned properties, area	1,000 m^2	393	421
Leased properties, lease liabilities	€ million	786	791
Leased properties, area	1,000 m^2	1,115	1,251

*The pro forma comparatives have been calculated to illustrate a situation in which the 2016 acquisition (Onninen) and the 2016 and 2017 divestments (Intersport Russia, K-maatalous operations, Asko and Sotka furniture trade) would have been completed on 1 January 2016.
** Incl. online sales. In addition, the building and home improvement stores offer e-commerce services to their customers.
*** On 16 February 2018 we announced that we are to discontinue the building and home improvement operations in Russia.

Competitive advantages

- Chain concepts and service combinations that are based on customer needs
- One store network can serve different customer groups
- Effective joint use of online stores, electronic services and extensive store network
- Professional customer service in-store and in electronic channels
- Well known and reliable operators, store chains, and product brands
- Efficient procurement and logistics

Own brands in 2017

The building and technical trade division offers a total of some 26,600 own brand products, the biggest of which are:

- Cello, some 6,100 products, also Cello kitchens in Finland
- PROF, some 5,500 products
- FXA, some 2,900 products
- Onnline, some 8,600 products

Building and technical trade chains

K-Rauta

K-Rauta wants to make building, renovation and shopping at building and home improvement stores surprisingly easy, leaving professionals with more time for work. K-Rauta offers products and services for building, renovation, yard and garden, interior decoration and home furnishing to consumers and business customers. In Finland, all K-Rauta stores are run by retailer entrepreneurs. K-Rauta has 136 stores in Finland and 17 stores in Sweden.

Byggmakker

Byggmakker is one of the leading operators in the building and home improvement trade in Norway. It offers a store network covering the entire country and very strong B2B expertise. Nearly all Byggmakker stores operate under the retailer business model. Byggmakker has 82 stores.

K-Senukai

K-Senukai's stores offer extensive non-food product selections to customers in the Baltics, with a focus on products related to building and living. There are a total of 39 stores in the K-Senukai network of stores.

OMA

OMA is the largest building and home improvement store chain in Belarus with 17 stores.

Rautakesko B2B Service

The customers of Rautakesko B2B Service are national and large regional building firms, property maintenance companies, the housing industry and other business customers. The strengths of B2B Service are the extensive selections of building and home improvement products and close collaboration with the K-Rauta store network, through which all of the warehouse deliveries take place.

Onninen

Onninen and Onninen Express stores serve business customers. Onninen delivers products and service packages to contractors, industry, infrastructure building and retail dealers. Customers can collect products for their daily needs from the Onninen Express stores' selection. There are around 150 Onninen Express stores and Onninen points of sale in Finland, Sweden, Norway, Estonia, Latvia, Lithuania and Poland.

The Elfin chain operations include around 220 independent electrical contractors with which Onninen collaborates across Finland.

The Hanakat chain is a retail network comprising around 80 independent HEPAC entrepreneurs in Finland.

The Elfag chain is one of Norway's biggest electrical contractor chains including around 140 business members.

Konekesko

Konekesko imports and markets agricultural and environmental machinery in Finland, and agricultural, construction and forestry machinery in the Baltic countries. Konekesko has subsidiaries in Estonia, Latvia and Lithuania.

Leisure goods trade chains

Intersport, Intersport.fi

Intersport is Finland's market leader in the sports trade. Together with retailer entrepreneurs, it employs almost 1,000 people in 55 stores and its online store. The chain's success is based on extensive selections of sports and leisure products, good service, high-quality products, diverse maintenance services and on providing an expert shopping experience, both in-store and online.

Budget Sport, Budgetsport.fi

There are ten Budget Sport stores across Finland. The stores strive to beat competition by making the shopping of sports trade products quicker, easier and less expensive. A diverse online store complements the customer experience.

The Athlete's Foot, theathletesfoot.fi

The Athlete's Foot is a retailer of sporty leisure footwear, trainers and clothing. The chain represents the world's best known sports goods brands and models, and it aims to promote its customers' passion for sport and bring a touch of style into their lives. The chain has six stores and an online store in Finland.

Kookenkä, Kookenka.fi

Kookenkä is Finland's largest shoe store chain for the whole family. The chain's 36 stores and online store cover the whole country.

Markets and market shares

The building and home improvement trade market by country, along with the improvement from the previous year (retail trade, VAT 0%), market shares and main competitors

Market area	Market size and change	Market share	Main competitors
Finland	€3.2 billion (+2.8%), (RaSi ry, Finnish Hardware Association, DIY)	41% (RaSi ry, Finnish Hardware Association, DIY)	STARK, S Group, Bauhaus
Sweden	€5.3 billion (+4.8%)*	4%*	Byggmax, Bauhaus, XL Bygg, Woody, Beijer
Norway	€5.0 billion (+3.1%)*	13%*	Optimera, Mestergruppen, Maxbo, Coop
Estonia	€0.4 billion (+8.4%)*	23%*	Bauhof, Ehitus ABC, Espak, Bauhaus
Latvia	€0.5 billion (+11.3%)*	12%*	Depo DIY, Kursi
Lithuania	€0.6 billion (+6.5%)*	30%*	Ermitazas, Moki-Vezi, Depo DIY
Belarus	€1.1 billion (+6%)*	11%*	Mile, Materik, Praktik

The technical wholesale market by country, along with the improvement from the previous year (retail trade, VAT 0%), market shares and main competitors

Market area	Market size and change	Market share	Main competitors
Finland	€2.1 billion (+5.1%), (STK, LVI-TEK)	37% (STK, LVI-TEK)	Ahlsell, LVI Dahl, SLO, Rexel
Sweden	€3.8 billion (+8.9%) (SEG, RGF)	5% (SEG, RGF)	Ahlsell, Dahl, Elektroskandia
Norway	€1.3 billion (+4.2%), (EFO, electrotechnical trade)	20% (EFO)	Ahlsell, Elektroskandia, Solar
Poland	€4.7 billion (+5.0%)*	5%*	Tadmar (Saint Gobain), BIMs (GC), Sonepar, W.E.G (Würth)
Estonia	€0.3 billion (+10.4%)*	13%*	FEB (Ahlsell), SLO, W.E.G (Würth)
Latvia	€0.4 billion (+16.2%)*	4%*	Sanistal, EVA-SAT, SLO
Lithuania	€0.5 billion (+9.6%)*	3%*	Sanistal, Dahlgera (Dahl) ja Elektrobalt (Würth), SLO

The leisure goods market in Finland, along with the improvement from the previous year (retail trade, VAT 0%), market shares and main competitors

Market area	Market size and change	Market share	Main competitors
The sports trade	Around €0.9 billion (+1.6%) (Statistics Finland)	Intersport, Budget Sport, The Athlete's Foot and Kesport 28%*	Stadium, XXL, Sportia, Top Sport
The shoe trade	Around €0.3 billion (-1.2%), (Textile and Fashion Suppliers and Retailers Finland TMA and Kesko's own estimate)	Kookenkä and Kenkäexpertti 10%*	Other speciality stores, department stores, hypermarkets, sports stores and online stores

* Kesko's own estimate

Car trade

VV-Auto is a K Group company that specialises in the import and retail of vehicles manufactured by Volkswagen Group and the provision of after-sales service for them. The company also develops advanced service concepts for the automotive sector. VV-Auto is the market leader in Finland.

"We are the market leader in the Finnish car trade, thanks to our extensive selection of brands. The import and retail of Porsche, which we took over in the end of 2016, has developed very positively. Our goal for 2018 is to increase our market shares further. We will also continue the development of a multichannel customer experience and the expansion of our non-brand specific service business."

Johan Friman, Executive Vice President, car trade

VV-Auto imports and markets Volkswagen, Audi, SEAT and Porsche passenger cars and Volkswagen Commercial Vehicles in Finland. It also imports and markets SEAT vehicles in Estonia and Latvia, and imports MAN trucks and MAN and Neoplan buses into Finland. In addition to importing, VV-Auto is also a major vehicle retailer, offering after-sales service at its own outlets in the Greater Helsinki area and Turku. VV-Auto's passenger car, commercial vehicle and truck customers are served by a comprehensive dealer and servicing network throughout Finland. In addition to its traditional business, VV-Auto develops various service concepts and multi-channel services for the car trade. These include online stores, mobile applications and online systems for booking servicing, as well as the Caara.fi service concept, which offers consumers various online store and used car services.

VV-Auto develops various service concepts and multi-channel services for the car trade.

In 2017, the Volkswagen, Audi, SEAT and Porsche ranges were updated and diversified. New models introduced to the market included:

- Volkswagen Arteon, Polo and T-Roc
- Audi RS3 Sedan and Sportback, RS4 Avant, S5 Cabriolet, RS5 Coupe, SQ5 and A8
- SEAT Ibiza and Arona
- Porsche 718 Cayman and Boxster GTS, 911 Exclusive series, 911 GT2 RS, 911 Carrera T, 911 GT3 and GTS, Panamera Sport Turismo 4, 4S, 4 PHEV, Turbo and Turbo S PHEV, Panamera Turbo S PHEV SWB/LWB and Cayenne V6, S and Turbo.

In 2017, the Volkswagen, Audi, SEAT and Porsche ranges were updated and diversified.

A fully updated Volkswagen Golf range was also introduced in 2017, including the Golf Sportsvan, as was the SEAT Leon range. Volkswagen Commercial Vehicles added the entirely new Volkswagen Crafter to its range. The environmentally friendly natural gas/biogas-fuelled Audi A4 Avant g-tron and SEAT Leon TGI were also added to the range.

Volkswagen Commercial Vehicles were the most registered brand of vans in Finland in 2017. Volkswagen was the second most bought passenger car brand in Finland in 2017, while Audi was the second most registered brand among German premium cars.

Various business deals and agreements supporting VV-Auto's strategy were made in 2017.

Various business deals and agreements supporting VV-Auto's strategy were made in 2017. The retail company VV-Autotalot bought LänsiAuto's SEAT business in Espoo, Vantaa and Turku. The deal covered both new car sales and after-sales service. VV-Autotalot is the biggest dealer of brands represented by the Volkswagen Group in Finland, and following the deal with LänsiAuto, it is now also the biggest SEAT dealer. The development of the MAN service network also continued in 2017. VV-Auto and E Hartikainen Oy signed a contract service agreement to start MAN brand servicing operations in Joensuu, Kajaani and Iisalmi. Operations in Joensuu and Kajaani began in 2017 and operations in Iisalmi will begin in 2018.

Caara.fi also expanded in 2017. The service offering now includes Caara Go, a new service where you can obtain a car for temporary use, be it a month or a year, for a monthly fee agreed upon beforehand. Cars are available at Caara Go within 24 hours. We also opened a new Caara Outlet store in Vantaa. The store concentrates on used cars in the lower price range. Caara Outlet's car selection complements and expands the Caara.fi and Caara Go service concepts with a new type of physical store where both private consumers and business customers can easily find cars for different types of usage. In spring 2018, VV-Auto launched Caara Leasing, a service that offers service leasing for business customers, and Caara Deal.

Cars are available at Caara Go within 24 hours.

Car trade customers get separate benefits from VV-Autotalot with their K-Plussa cards and K-Plussa points from purchases of spare parts and trade-in cars via Caara. VV-Auto's dealers' servicing network will join K-Plussa in 2018.

VV-Auto and ALD Automotive signed a partnership agreement in 2017 for the provision of a private leasing service for consumers. Starting in 2018, all VV-Autotalot outlets will offer private leasing as a new alternative to acquiring a car. Of the brands represented by VV-Auto, the deal will cover Volkswagen, Audi, SEAT and Volkswagen Commercial Vehicles. Private leasing will cover all costs and services related to the use of the car, apart from fuel costs and car wash. For the outlets, this provides a new way to offer car financing for private customers.

The recalls and repairs of Volkswagen, Audi and SEAT 2.0, 1.6 and 1.2 litre EA 189 diesel cars proceeded at the planned pace in Finland in 2017. By the end of the year, a software update was available for all approximately 53,000 cars, and over 47,000 cars (88.4%) had been fully updated. After the corrective measures, the cars meet all of the requirements of the EU5 emissions standard. The corrective measures do not affect the cars' fuel consumption, engine power, CO_2 emissions, driving behaviour or acoustics.

Megatrends and strategic focus areas

MEGATRENDS SUPPORT OUR STRATEGY

Car sharing and short-term leasing

Autonomous driving

Emission limits and their impact on car usage

Electric cars

User-oriented multichannel services

STRATEGIC OBJECTIVE	WHAT WE ARE DOING
• Developing VV-Auto's business in collaboration with Volkswagen Group	• Developing the MAN business by e.g. expanding the after-sales service network • Increasing SEAT's market share • Strengthening Volkswagen's market position • Integrating the Porsche business as part of the car trade division and utilising synergies
• Expanding the service business	• Growing the car rental concept (Caara Go), launching Caara Outlet and growing the sales of used cars • Preparing the launch of innovative services such as business and private leasing • Developing after-sales service sales
• Developing a multichannel customer experience	• Developing mobile apps, online services and online sales

Car trade in figures

	Number		Sales (pro forma) (VAT 0%)*, € million	
Retail sales and number of stores	**2017**	**2016**	**2017**	**2016**
VV-Auto, retail outlets	13	10	439	428
VV-Auto, imports	-	-	438	436
AutoCarrera	3	3	55	49
Car trade, total	**16**	**13**	**932**	**912**

*The pro forma comparatives have been calculated to illustrate a situation in which the 2016 acquisition (AutoCarrera) would have been completed on 1 January 2016.

Car trade, key figures		**2017**	**2016**
Net sales	€ million	909	849
Operating profit	€ million	33.1	28.9
Comparable operating profit	€ million	33.1	29.5
Comparable operating profit as percentage of net sales	%	3.6	3.5
Capital expenditure	€ million	17	41
Capital employed, average	€ million	154	124
Comparable return on capital employed	%	21.5	23.8
Personnel average		809	780

Properties		**2017**	**2016**
Owned properties, capital	€ million	53	56
Owned properties, area	1,000 m^2	47	47
Leased properties, lease liabilities	€ million	9	11
Leased properties, area	1,000 m^2	26	23

Competitive advantages

- International brands and strong market position
- Diverse multichannel services, professional personnel
- Strong sales and after-sales service network, efficient logistics

Brands

Markets and market shares

Markets

In 2017, there were 118,583 first registrations of passenger cars, 15,524 first registrations of vans and 3,473 first registrations of trucks in Finland. The passenger car market decreased by 0.4% compared to the year before, while the market for vans grew by 14.8% and the market for trucks by 4.3%.

The total number of registrations of vehicles imported by VV-Auto was 24,697 (excluding motorhomes). The number of MAN trucks registered was 112.

Market shares

Car trade, Finland

- VV-Auto's market share 18.6% (Volkswagen, Audi, SEAT and Porsche passenger cars and Volkswagen Commercial Vehicles combined, excluding motorhomes)
- Volkswagen passenger cars 10.9%
- Audi 4.8%
- SEAT 2.0%
- Porsche 0.2%
- Volkswagen Commercial Vehicles 24.7%
- MAN trucks 3.6% (over 6t)

Store sites

The store site network is a strategic competitive factor for K Group. It enables the development of our business operations as well as the improvement of sales and customer satisfaction, while also supporting online sales.

Our store sites are divided into four categories: strategic properties, basic properties, realisation properties, and development properties

Strategic properties:

- Properties Kesko wants to own
- In 2017, there were 74% (64%) strategic properties
- Significant properties for business operations, for example, properties that are or can be developed into large retail units

Basic properties:

- Properties Kesko owns but could sell and then lease back
- In 2017, there were 20% (28%) basic properties

Realisation properties:

- Properties Kesko no longer has use for

Development properties:

- Plots and properties that require development to fit their planned purpose

Capital expenditure in store sites

In 2017, Kesko's total capital expenditure in store sites amounted to €256 million (€217m).

In terms of growth, key areas for capital expenditure are:

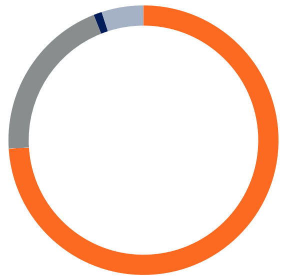
- In the grocery trade, growing and modernising the K-Market network, and expanding the K-Supermarket network
- In the building and technical trade, modernising the K-Rauta network in all operating countries
- Investments in properties needed for or supporting Kesko's business operations

At the end of 2017, the most significant store sites under construction were:

- Eight K-Supermarkets in Finland
- One K-Rauta in Finland and one in Sweden, and two K-Senukai stores in Lithuania. Five Onninen Express stores are under construction in Finland.

Easton Helsinki shopping centre in Itäkeskus, a significant store site project for Kesko, opened to customers in October 2017. The capital expenditure is valued at around €100 million.

Breakdown of owned properties, €



- Strategic properties 74%
- Standard properties 20%
- Realisation properties 1%
- Development properties 5%

OWNED STORE SITES AND PROPERTIES

Book value by region, € million	2017	%	2016
Finland	817	77.3%	688
Other Nordic countries	40	3.8%	48
Baltic countries and Belarus	38	3.6%	33
Russia	162	15.3%	168
Total	**1,057**	**100.0%**	**937**

Area by region, 1,000 m²	2017	%	2016
Finland	618	68.8%	547
Other Nordic countries	59	6.6%	65
Baltic countries and Belarus	78	8.7%	105
Russia	143	15.9%	137
Total	**898**	**100.0%**	**854**

Book value by division, € million	2017	%	2016
Grocery trade	649	61.4%	524
Building and technical trade	329	31.1%	342
Car trade	53	5.0%	56
Others	26	2.5%	15
Total	**1,057**	**100.0%**	**937**

Area by division, 1,000 m²	2017	%	2016
Grocery trade	420	46.8%	377
Building and technical trade	393	43.8%	421
Car trade	47	5.2%	47
Others	38	4.2%	9
Total	**898**	**100.0%**	**854**

LEASED STORE SITES AND PROPERTIES

Area by region, 1,000 m²	2017	%	2016
Finland	2,407	73.2%	2,682
Other Nordic countries	199	6.1%	222
Baltic countries and Belarus	615	18.7%	555
Poland	58	1.8%	60
Russia	8	0.2%	8
Total	**3,287**	**100.0%**	**3,527**

Area by division, 1,000 m²	2017	%	2016
Grocery trade	1,594	48.5%	1,684
Building and technical trade	1,115	33.9%	1,251
Car trade	26	0.8%	23
Others	552	16.8%	569
Total	**3,287**	**100.0%**	**3,527**

Lease liabilities by region, € million	2017	%	2016
Finland	2,455	84.9%	2,698
Other Nordic countries	73	2.5%	92
Baltic countries and Belarus	350	12.1%	199
Poland	15	0.5%	6
Russia	0	0.0%	0
Total	**2,892**	**100.0%**	**2,996**

Lease liabilities, € million	2017	2016
No later than one year	382	400
Later than one year and no later than five years	1,273	1,326
Later than five years	1,237	1,269
Total	**2,892**	**2,996**

STAKEHOLDER PERSPECTIVES

Customer perspective
The Kylä community gives customers a chance to voice their views

Improving customer experience is a key objective for K Group, which is why we wanted to try a new proactive way to engage our customers in the development of our operations and services. This gave rise to the Kylä customer community.

Kylä ('Village') gives our customers the chance to voice their views on topics that matter to them by taking part in a variety of user-friendly surveys and studies. During the 2017 pilot, Kylä hosted some 30 customer studies and surveys for K Group divisions, sometimes innovatively through, for example, real-time discussions on the community platform. This has given us valuable customer insights into various topics.

Kylä has hosted studies and surveys on a wide range of topics. The building and technical trade division, for example, turned to the community for views on how to create a good customer experience, while the grocery trade division has gathered opinions on a new brand, the importance of neighbourhood stores, and ways to make everyday life easier. The Kylä community members have also been involved in developing K-Plussa and the K-Ruoka mobile app.

Customers have welcomed these new ways of engaging and survey response rates have been high. Kylä members cite the chance to make a difference and voice their opinion as the best things about the community, but are also motivated by the communal aspects, a sense of belonging, and interaction.

The successful pilot means we will continue to utilise Kylä.

Hanna Kortström
Kesko's grocery trade division, Store operations

Investor perspective
Varma incorporates responsibility systematically in all investment operations

Varma Mutual Pension Insurance Company invests the assets collected as pension contributions profitably and securely for current and future pensions. Responsibility is an integral part of Varma's strategy and we incorporate responsibility systematically in all our investment operations.

Responsible investment provides a framework for incorporating environmental, social and corporate governance criteria into investment operations and ownership policies, acknowledging that these issues may have a major impact on investment returns in the longer term.

We require that our investees comply with international agreements and standards, the most important of which are the UN Global Compact initiative on corporate responsibility, the OECD guidelines for multinational enterprises and the ILO labour conventions. In addition to this Varma excludes tobacco and nuclear weapons from its investments and has also set climate policy, which details how the company will achieve a lower-carbon portfolio. Varma supports comparable and well reported data and initiatives like Science Based Targets and TCFD.

Many other global megatrends come under responsible investment umbrella like product sustainability and cyber security. What is relevant from investor's perspective depends on the industry investor invest in. For example in analyzing a consumer brand owner or a retailer, responsible investors focus on the supply chain control and transparency of the supply chain, working conditions and the traceability of the products as well as waste management and energy efficiency.

So happy to continue to follow how Kesko develops these topics!

Hanna Kaskela, Director, responsible investment, Varma

Personnel perspective
Building K-Kampus and a new workplace culture

K-Kampus will be completed in Kalasatama, Helsinki in the spring of 2019 and will offer us innovative new premises and tools.

The move gives us a chance to rethink our common ways of doing work and to improve the workday experience while also making work more meaningful, and we intend to utilise it as fully as possible. K-Kampus Work is a project for developing a new kind of working environment. It gives all Kesko employees the chance to take part in shaping our workplace culture. Together, we aim to create an agile, open and interactive work community that enables results and positive workdays.

A Value Scout survey was conducted in June-August 2017 to find out how the people of K Group view our current workplace culture and what they think an optimal workplace culture would be like. Both personnel and management agreed that there should be less bureaucracy and rigidity and more enthusiasm and flexibility.

Respondents felt an ideal workplace culture would be open and open-minded, efficient, dynamic, direct, relaxed and should promote collaboration. Encouragement and humour were also seen as important aspects of an ideal workday.

Personnel involved in the planning

The planning for solutions to be implemented on K-Kampus began in working groups that gathered ideas and user experiences from both within and outside K Group. The work now continues in expert teams that are creating solutions related to space, practices and tools, while also trying to find innovative new solutions for everyday work.

Work has also began in the K-Kampus change network, which consists of 26 personnel members who were chosen to act as change agents. They will lend support and act as development partners during the project at all locations and organisations. The agents will also participate in the testing of new solutions and help to create and promote new rules for K-Kampus.

The work towards establishing a new workplace culture continues as we seek and promote concrete ways to improve our workdays together.

Let's create a great workplace!

Hanna Laavainen
Kesko, Manager, Workplace Innovations

Retailer perspective
The advantages and challenges of the multi-store model

The integration of former Siwa and Valintatalo stores, acquired through Suomen Lähikauppa, into the K-Market network continued with good results in 2017. All the stores will be transferred to K-retailers by summer 2018, ahead of schedule.

At least 400 former Siwas and Valintatalos in total will become K-Markets. The multistore model is becoming increasingly common and experiences so far have been positive. Nearly half of all K-food stores now operate under the multi-store model.

When Kesko decided that individual retailers could run several stores, it gave us the chance to take charge of stores acquired earlier from Suomen Lähikauppa. We now have five K-Markets.

The new multi-store model enables profitable operations. At the same time, developing store-specific business ideas and tailoring each store to meet local demands presents us with interesting challenges.

We are able to save costs by concentrating some functions and by moving staff resources between the stores when necessary. We also get better purchase conditions from our suppliers when we make orders for five stores instead of one. We can offer extra shifts to our staff members, as all our stores are fairly closely located and all staff members can easily work at any of the stores. We currently have over 30 employees. As our business is bigger than that of just one smaller store, the multi-store model also enables us to get better offers from banks, insurance companies and the providers of refrigeration unit maintenance.

Over the course of the year, we took over the stores gradually. We have been happy with our decision to take on the multi-store model and we look forward to the future.

Retailers Henri and Reetta Puromäki

K-Market Aittorinne
K-Market Halssila
K-Market Jyskä
K-Market Vaajakoski
K-Market Äijälä

Stakeholder perspective
Towards a more transparent supply chain

Kesko and the Swedish ICA have worked together on the sourcing of home and speciality goods via ICA Global Sourcing (IGS) in Asia since 2016. The cooperation concentrates on the sourcing of home and speciality goods sold at K-food stores. The local IGS corporate responsibility team is, together with Kesko, in charge of assuring the social responsibility of factories.

ICA Global Sourcing (IGS) has offices in China, Hong Kong, Vietnam, Bangladesh and India, with over 100 employees.

Assuring the social responsibility of suppliers' factories and securing product quality form a central part of the cooperation. In addition to third-party social audits such as amfori BSCI, IGS has developed its own social auditing tools, the ICA social audit. The pragmatic approach of the ICA social audit allows for easier communications between factory representatives and IGS auditors.

ICA social audit has four steps:

- Management interview
- Factory and dormitory tour
- Document review
- Confidential employee interview

Social responsibility issues are a challenge in high-risk countries. In India, for example, working at home and subcontracting are prevailing. Therefore, we strive for transparency rather than perfection in our supply chain. We can only demand continuous improvement from the factories if we know their actual situation.

In case any critical findings are identified during the auditing of a factory, the IGS CR team will communicate with Kesko's purchasing team and CR team within 24 hours. If required, a red alert meeting will be called for, in which all parties will discuss the best possible solution to handling the specific case.

The combination of the ICA social audit and third-party audits has proved to be an excellent way to promote the transparency of the supply chain. The sourcing cooperation enables wider and high-quality selections of home and speciality goods, and, thus, creates added value to Kesko and the customers of K-stores. Thanks to the efficient process, Kesko now has a good command of their supply chain.

Cindy Chan, Social Compliance Manager of ICA Global Sourcing

NGO perspective
Mating belongs to all

The situation is dire for Finnish migratory fish as obstacles in rivers and streams block their passage to suitable spawning grounds. As a result, the sea trout, for example, is now critically endangered.

K Group and WWF Finland began a multi-year collaboration in 2017 under the heading 'Mating belongs to all'. The objective is to map out and remove unnecessary structures such as small damns or culverts that prevent migratory fish from rising upstream, and to increase general awareness about Finnish migratory fish. We began the work to remove small barriers in rivers and streams in co-operation with K Group, local organisations, landowners and volunteers. During the autumn, we were able to open up some 20 kilometres of new living and spawning grounds for species living in flowing waters, including trout. We also created areas for shelter, wintering and spawning. Our collaboration with K Group has brought the plight of the Finnish migratory fish to the attention of the general public and expanded the reach and impact of our work for flowing water restoration.

We have been happy to see how people from K Group and people reached through K Group have joined the volunteer effort to help our migratory fish. With K Group, we have been able to achieve greater visibility for this issue than we otherwise would have.

Leena Oiva, Development Manager, WWF Finland

SUSTAINABILITY

RESPONSIBILITY PROGRAMME

Kesko's responsibility programme contains both short-term and long-term objectives

The programme has six themes:

- Good corporate governance and finance
- Customers
- Society
- Working community
- Responsible purchasing and sustainable selections
- Environment

2017 Highlights and Challenges

Highlights

Science Based Targets for emissions

We were the first Finnish company to set science based targets for reducing emissions from our properties, transportation, and supply chains. To achieve these ambitious targets, we will increase the use of renewable energy and improve our energy efficiency. **Find out more.**

Renewable electricity 100%

Since the beginning of 2017, all electricity purchased by Kesko in Finland has been produced with renewable energy. The electricity has a Guarantee of Origin and, in 2017, was produced with Finnish bioenergy. **Find out more.**

K Fishpaths

In August 2017, we began a multi-year collaboration with the environmental organisation WWF Finland to save endangered migratory fish. We will map out areas in Finland to find obstacles in migratory fish spawning grounds, and in a spirit of cooperation with landowners, local K-retailers and volunteers, make the spawning grounds once again accessible to fish. **Find out more.**

Challenges

Supply chains

We purchase and sell responsibly and support our customers in making sustainable choices. Our goal is to know the supply chains of all of our products and to ensure they are sustainable. This is challenging, as our selections comprise tens of thousands of products purchased from around the world. Moreover, food products, for example, often contain a multitude of different ingredients. We pay special attention to human rights issues and working conditions within the supply chain. Suppliers are monitored especially in countries where the risk of violations of these rights is the greatest.

Find out more.

Professional and committed personnel

K Group, i.e. Kesko and the K-retailers, employs approximately 42,000 people. Roles range from jobs at stores to retailer entrepreneurship and expert and manager positions in various fields. Professional, committed personnel forms the basis for all our operations. Tightening competition for skilled labour requires active development of employer image, performance and competence management, and maintaining employee wellbeing and working ability.

Find out more.

Good corporate governance and finance

We are committed to our operating principles. Together, we generate economic value added.

- The K Code of Conduct steers all our operations.
- We follow good corporate governance principles.
- Together, we improve financial profitability.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
K Code of Conduct	All of our personnel act in compliance with the K Code of Conduct. GRI 205-1, 205-2, 205-3	As of 2017, we oblige the entire personnel to annually confirm their compliance with the K Code of Conduct guidelines. By the end of 2017, 65% of personnel had made the annual confirmation.	We updated Our Responsible Working Principles guidelines in 2016. The new guidelines were named the K Code of Conduct and were published in the languages of all our operating countries in October 2016. We named 20 K Code of Conduct ambassadors as the messengers and contact persons. We will update all new and renewed employment contracts to include a clause about the requirement for personnel to familiarise themselves and comply with the K Code of Conduct. We will add a K Code of Conduct contract clause to all agreements signed by Kesko Group companies. As of 2017, we oblige the entire personnel to annually acknowledge their compliance with the K Code of Conduct guidelines.	From the beginning of 2015, all of Kesko's Russian business companies have had their own anti-corruption policies. We decided to update Our Responsible Working Principles guidelines in 2016.
	We organise regular training on the K Code of Conduct. GRI 205-1, 205-2, 205-3	We continued to communicate and implement the K Code of Conduct in practice according to the annual plan. Some 20 K Code of Conduct ambassadors in different operating countries have been appointed to act as messengers and contact persons. Kesko's Legal Affairs, Risk Management and Internal Audit organised K Code of Conduct training in the subsidiaries in Norway, Poland and Sweden in 2017. The events focused especially on corruption and fraud-related issues. The K Code of Conduct eLearning programme targeted at the entire personnel had been completed by 8,867 people by the end of 2017.	As part of the ongoing responsibility training, a training event on the K Code of Conduct was organised in Suomen Lähikauppa and two Russian subsidiaries in 2016. The events focused largely on corruption and fraud-related issues. The eLearning training targeted at all personnel had been attended by 3,159 people at the end of 2016. We drew an annual plan for 2017 which includes procedures to increase the personnel's awareness of the K Code of Conduct such as communication and training events for every quarter.	The online training on responsibility, which was published in 2015 and directed at all Kesko employees, describes Our Responsible Working Principles. As part of the ongoing responsibility training, a training event on Our Responsible Working Principles was organised for the key employees of Kesko's company in Belarus in 2015.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Return on capital	Kesko's objective is to achieve a 14% comparable return on capital employed and a 12% return on equity.	In 2017, the comparable return on capital employed was 12.2% and the comparable return on equity was 10.9%.	The comparable return on capital employed was 11.9%, and the comparable return on equity was 9.8%.	The comparable return on capital employed was 11.7%, and the comparable return on equity was 8.2%.
Human rights	We respect human rights and take them into account in all our operations. GRI 412-1, 412-2	We followed up our human rights assessment by conducting a review of working conditions in the supply chain of grapes in collaboration with the Trade Union Solidarity Centre of Finland (SASK). The human rights assessment will be reviewed every three years, with the next review taking place in 2019.	We published our human rights assessment and human rights commitment on our website. We will review and update it every three years. We will construct our operating models so that respect for human rights is observed in all our operations.	We continued to assess human rights related impacts in accordance with the UN Guiding Principles on Business and Human Rights. During the extensive report work, we heard the thoughts of customers and personnel as well as employees in high-risk countries' factories on human rights and how well they are realised in K Group's operations.

Economic performance

201-1 Direct economic value generated and distributed

Kesko's operations generate economic benefits for the different stakeholder groups in Kesko's operating countries and market areas. Key stakeholder groups include shareholders, customers, personnel, retailers, suppliers of goods and providers of services, and society. Kesko promotes the growth of welfare throughout its supply chain, including developing countries.

The following tables show cash flows between Kesko and its stakeholders, as well as the distribution of economic value added between stakeholder groups. The most important cash flows comprise revenue from customers and retailers, purchases from suppliers of goods and providers of services, dividends to shareholders, salaries and wages paid to personnel, taxes and capital expenditure.

In June 2017, Kesko sold Indoor Group, which is responsible for the Asko and Sotka furniture trade chains, and the K-maatalous agricultural business. K-maatalous is consolidated into Kesko Group up until 31 May 2017 and Indoor Group up until 30 June 2017.

In April 2016 Kesko acquired Suomen Lähikauppa Oy, in June 2016 Onninen Oy and in December 2016 Oy Autocarrera Ab. Suomen Lähikauppa Oy (currently K-Market Oy) has been consolidated into Kesko Group as of 12 April 2016, Onninen Group as of 1 June 2016 and Oy Autocarrera Ab as of 1 December 2016. In 2016, Kesko disposed of the Russian grocery trade and the Russian Intersport business. The Russian grocery trade business is included in the figures until 30 November 2016.

In February 2018, Kesko announced it will discontinue its building and home improvement trade operations in Russia. The Russian building and home improvement trade operations are included in the 2017 figures.

Further information on the structural changes is available in note 3.2 to the financial statements.

The consolidated income statement, the consolidated statement of financial position and the consolidated statement of cash flows can be read in full in the Report by the Board of Directors and financial statements section.

ECONOMIC BENEFITS FROM KESKO'S OPERATIONS TO STAKEHOLDERS

Value added generated

Customers[1]
Revenues
€11,467 million

Distribution of value added

Suppliers
Goods, materials and services purchased
€-10,221 million

Employees
Salaries, fees and social security expenses
€-759 million

Payments to providers of capital
Net finance income / costs **€1 million**

Public sector
Taxes[3]
€-63 million

Community investments
Donations
€-2 million

Shareholders
Dividends[2]
€-219 million

Development of business activities
€205 million

[1] Incl. net sales and other operating income
[2] Proposal to the General Meeting
[3] Incl. income taxes, real estate taxes and net worth taxes

ECONOMIC BENEFITS FROM KESKO'S OPERATIONS TO STAKEHOLDER GROUPS

€ million		2017	2016	2015
Customers[1]	Revenues	11,467	10,879	9,479
Value added generated		**11,467**	**10,879**	**9,479**
Distribution of value added:				
Suppliers	Goods, materials and services purchased	-10,221	-9,839	-8,593
Employees	Salaries, fees and social security expenses	-759	-723	-545
Payments to providers of capital	Net finance income/costs	1	-1	-7
Owners	Dividend	-219[2]	-199	-248
Public sector	Taxes[3]	-63	-50	-92
Community investments	Donations	-2	-2	-1
Development of business operations		**205**	**67**	**-7**

The data is based on audited figures.

[1] Incl. net sales and other operating income
[2] Proposal to the General Meeting
[3] Incl. income taxes, real estate taxes and net worth taxes

The division of the economic benefit generated by Kesko and K-retailers to Finnish regions is presented under Society in the Responsibility programme.

Additional information on employee benefit expenses can be found in note 2.4 of the financial statements.

Dividend policy

According to its dividend policy, Kesko Corporation distributes at least 50% of its comparable earnings per share as dividends, taking into account, however, the company's financial position and operating strategy. Kesko's Board of Directors proposes to the General Meeting to be held in April 2018 that a total dividend of €219 million be paid for the year 2017, which would represent 84.9% of earnings per share and 96.6% of comparable earnings per share. In 2017, Kesko distributed a total of €199 million as dividends for the 2016 profit, which represented 201.3% of earnings per share and 99.5% of comparable earnings per share.

Further information on the financial statements' indicators and Kesko shares and shareholders can be found in the Report by the Board of Directors and financial statements section.

ECONOMIC BENEFITS FROM KESKO'S OPERATIONS BY MARKET AREA IN 2017

€ million	Purchases	Capital expenditure	Salaries and share-based payments	Social security expenses	Taxes[1]	Total
Finland	5,821	299	440	98	814	7,472
Other Nordic countries	1,008	3	65	22	61	1,159
Baltic countries and Poland	534	22	87	9	103	756
Russia and Belarus	210	25	29	9	17	289
Other countries	1,388					1,388
Total	**8,961**	**350**	**621**	**138**	**995**	**11,065**

[1] Taxes include income taxes, real estate taxes, value-added taxes, excise duties, car taxes, customs duties, net-worth taxes and withholding taxes

201-2 Financial implications and other risks and opportunities for the organisation's activities related to climate change

One of the themes of Kesko's responsibility programme is mitigating the progress of climate change. In June 2017, the Science Based Targets initiative approved the emission targets set by Kesko through which Kesko shows its commitment to the target of below 2°C global warming, as set by the Paris Climate Agreement.

Kesko's operations are surveyed regularly by risk assessments, which also cover changes that may be necessitated by climate change. The Group's risk map, the most significant risks and uncertainties, as well as changes in and management responses to them are discussed by the Kesko Board's Audit Committee when the interim reports and financial statements are handled.

Read more about our risk management and control practices.

Climate change presents physical and regulatory risks and opportunities as well as risks and opportunities affecting reputational factors

Physical impacts

- Extreme weather phenomena, such as storms and heavy rains, have consequences for the built environment. Physical risks are related to both the physical store network and logistics. Unusual weather patterns can cause interruptions in operations or problems in the availability of products and changes in sales, particularly in the building and technical trade.
- Climate change can affect the procurement sources and availability of products both within and outside Europe. Due to drought and desertification, water has become less available in many countries, reducing the productive potential of local economies. Agricultural production will suffer if desertification and rising sea levels reduce arable land area. Drought or floods may destroy agricultural harvests. Intensifying competition for raw materials may lead to higher prices.
- The availability of energy sources and emission limits may affect energy prices.
- Accidents and epidemics resulting from natural phenomena can cause damage or business interruptions that cannot be prevented.

Regulation

- Climate change may have an impact in terms of risks involved in regulation, such as various permit procedures, or costs arising from emission pricing and taxation.
- The implementation of the EU and Finnish Government climate and energy policy will affect energy solutions and may increase energy prices, adding to pressures for energy savings and energy self-sufficiency.

Customers

- Customers are paying increasing attention to issues related to sustainability. Environmentally friendly products, corporate responsibility communications, retail stores' K-responsibility concept and package labelling can help customers make purchasing decisions that mitigate climate change. Any failures to implement responsible practices in this area may weaken Kesko's reputation.
- Kesko takes part in the development of circular economy by offering recycling services at its stores and by taking part in innovative initiatives such as the Ham Trick campaign or the manufacture of Pirkka products using biogas made from inedible biowaste collected from K-food stores.

Opportunities and risks related to climate change are also described in the report's Operating environment / Opportunities and Risks section.

201-3 Coverage of the organisation's defined benefit plan obligations

The Group operates several pension plans in its different operating countries. In Finland, statutory pension provision for personnel is organised through pension insurance companies and voluntary supplementary pension provision is mainly organised through Kesko Pension Fund's department A. At the end of the year, the number of employees eligible to receive supplementary retirement benefits from department A was 2,651.

The statutory pension provision organised through a pension insurance company is a defined contribution plan. The supplementary pension provision organised by Kesko Pension Fund is a defined benefit plan. As at 31 December 2017, the defined benefit plan obligation was €266.6 million (€302.3 million in 2016), which is fully covered. Calculated under IFRS, the surplus amount was €207.5 million as at 31 December 2017 (€164.7 million in 2016). Calculated under IFRS, the Group's total pension expenses represent 13.9% of the amount of salaries (13.6% in 2016). Read more in the financial statements section, note 3.8.

In the other countries, pensions are arranged in compliance with local legislation. The former pension plan operated in Norway was classified as a defined benefit plan, but the related liability expired during the financial year 2017.

201-4 Financial assistance received from government

In 2017, the Group received financial assistance of €1.4 million from the public sector. This amount mainly consists of assistance received from Finland (€1.1 million) and from Sweden (€0.3 million). The majority of public sector assistance in Finland is related to investments in the utilisation of solar power.

Indirect economic impacts

203-2 Significant indirect economic impacts, including the extent of impacts

Kesko is a service sector company which has significant indirect impacts related to the production, use and recyclability of products.

Purchases by Kesko and the retailers have economic impacts on the suppliers and service providers, such as an increase in the number of jobs. Furthermore, purchases from local producers affect regional business activities. The salaries, taxes, social security expenses and capital expenditure paid by Kesko and retailers have impacts on regional economic welfare.

In 2017, Kesko operated in nine countries in which it is engaged in both retail and wholesale. On 16 February 2018, we announced we would discontinue our building and home improvement trade operations in Russia.

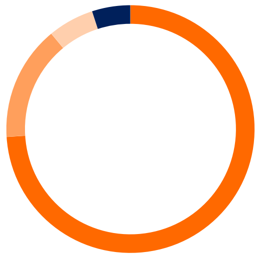
It is one of Kesko's principles that taxes on operating income and assets are always paid to the respective operating country in compliance with local laws and regulations.

Kesko is a significant tax payer. In 2017, the income taxes paid by Kesko to Finland totalled €46.5 million and to other countries €9.7 million. The Group's effective tax rate was 17.9%. Kesko paid €3.7 million in real estate taxes and net worth taxes to Finland and €2.8 million to its other operating countries in 2017.

Kesko collects, reports and remits also indirect taxes, such as value-added taxes and excise duties. Kesko remits value-added taxes to tax recipients in its capacity as a company selling goods and services. In 2017, Kesko's value-added taxes payable in Finland amounted to €410.3 million, and €129.2 million in other countries. Kesko remits car taxes and excise duties on, for instance, confectionery, alcohol and soft drinks. In 2017, Kesko remitted excise duties in Finland to a total amount of €61.1 million.

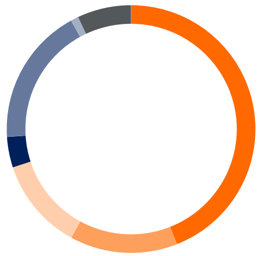
Kesko's measurable indirect impact on society, such as its employment impact, increased municipal tax income, or income in the producer and supply chain, is evaluated case-by-case, in connection with the establishment of a new store, for example.

Taxes payable 2017



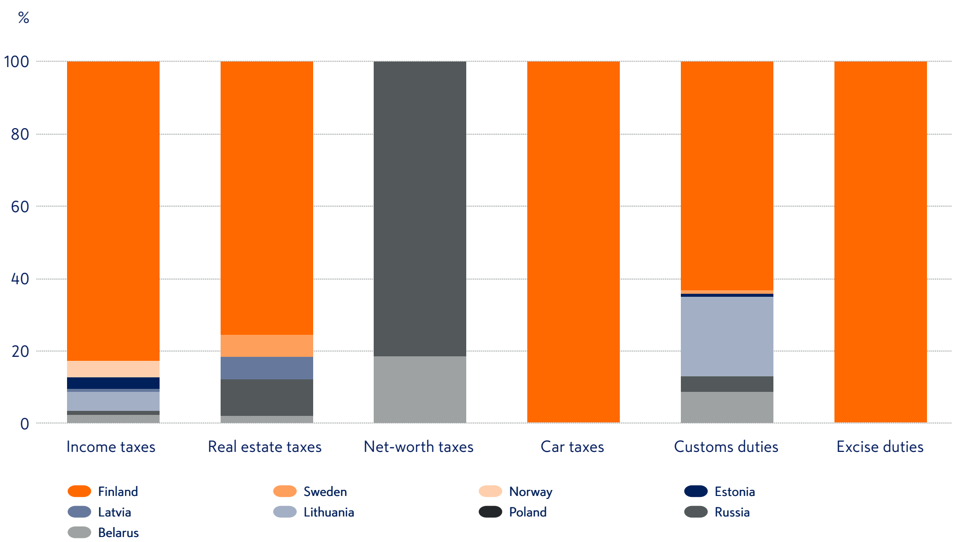
- Income taxes, Finland €47 million (€32 million) 74%
- Income taxes, other countries €10 million (€10 million) 15%
- Real estate taxes, Finland €4 million (€4 million) 6%
- Real estate and net-worth taxes, other countries €3 million (€4 million) 5%

Taxes remitted in 2017



- Value-added taxes, Finland €410 million (€380 million) 44%
- Value-added taxes, other countries €129 million (€110 million) 14%
- Withholding taxes, Finland €115 million (€111 million) 12%
- Withholding taxes, other countries €35 million (€31 million) 4%
- Car taxes, Finland €170 million (€178 million) 18%
- Customs duties, Finland €7 million (€7 million) 1%
- Customs duties, other countries €4 million (€7 million) 0%
- Excise duties, Finland €61 million (€67 million) 7%

Taxes by country in 2017



Anti-corruption

205-1 Operations assessed for risks related to corruption,

205-2 Communication and training about anti-corruption policies and procedures,

205-3 Confirmed incidents of corruption and actions taken

Risks related to corruption are discussed as part of Kesko Group's risk management. Key risks, including risks related to corruption, are identified, assessed, managed, monitored and reported regularly as part of business operations in all operating countries.

Kesko's anti-corruption principles are included in the K Code of Conduct guidelines published in 2016. The guidelines and website have been published in the languages of all our operating countries. Kesko employees and business partners have their own versions of the K Code of Conduct.

Kesko has prepared a mandatory eLearning package for its employees to smoothly internalise the K Code of Conduct.

Kesko arranges K Code of Conduct sessions in its companies: in 2017, such events were organised in the Norwegian, Polish and Swedish subsidiaries. The events focused largely on corruption and fraud-related issues.

In 2017, the prevention of malpractice was one of the focus areas for Kesko's corporate security function. During the year, individual cases of suspected malpractice came to our knowledge and the corporate security unit assisted in investigating them.

Towards the end of 2016, Kesko introduced the Group-wide SpeakUp channel through which employees and business partners can report any violations of the K Code of Conduct. During 2017, 38 notices were submitted through the SpeakUp channel, related to e.g. managerial work, store staff and customer service, and Kesko's partnerships with its suppliers.

In 2017, no corruption related lawsuits against any Kesko Group company came to our knowledge.

Anti-competitive behaviour

206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices

In August 2017, Kesko Senukai Latvia received a €920,618 fine for breach of competition law regulations.

Labour/management relations

402-1 Minimum notice periods regarding operational changes

Kesko complies with local legislation in all of its operating countries. In Finland, the key statutes governing restructuring situations are included in the Act on Co-operation within Undertakings, which stipulates that the employer must provide reasonable notice of decisions for consideration on the basis of negotiations. The collective agreement for the trading sector does not specify any minimum notice periods applying to restructuring situations.

In Sweden, the statutory minimum notice period in the event of organisational changes is 8–24 weeks depending on the nature of the change. The collective agreement applying to operations in Sweden also does not specify minimum notice periods for restructuring situations. No specific minimum notice period for organisational changes is defined in Norway, but both legislation and the collective agreement stipulate that personnel shall be informed of organisational changes at the earliest opportunity.

Russian legislation states that personnel must be informed of restructuring 8.5 weeks before the new structure takes effect. For major organisational changes concerning more than 20% of the personnel, the authorities must also be informed 8–12 weeks prior to the change. In Estonia and Latvia, the minimum notice period in restructuring situations is four weeks. The corresponding notice period in Belarus is eight weeks. There are no collective agreements in these operating countries.

In all its operating countries, Kesko applies the notice periods specified in local labour legislation. In Finland, the notice period is from two weeks to six months depending on the duration of employment.

Non-discrimination

406-1 Incidents of discrimination and corrective actions taken

There were no pending incidents of discrimination in 2017.

Freedom of association and collective bargaining

407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk

The freedom of association or the right to collective bargaining is not seen to be at risk in Kesko's operating countries within the EU (Finland, Sweden, Estonia, Latvia, Lithuania and Poland) or Norway.

Out of the total personnel, 44% are covered by collective agreements.

So far, no binding industry-wide collective agreements have been drawn up in the Baltic countries and Poland.

The control of the association of suppliers' employees in high-risk countries and corrective actions are included in social responsibility audits.

Human rights assessments

412-1 Operations that have been subject to human rights reviews or impact assessments

In September 2016, Kesko published its statement of commitment on human rights and impact assessment in compliance with **the UN's Guiding Principles on Business and Human Rights**.

The extensive survey involved listening to the views of customers, personnel and high-risk country factory workers on human rights and on the implementation of human rights in K Group's operations. The survey covered the customers of all of Kesko's lines of business, and personnel in Finland. Surveys in high-risk countries were carried out in China, India, Bangladesh and the Philippines. **Read more about Kesko's commitment and impact assessment**.

In November 2017, Kesko followed up the assessment by publishing a study on working conditions in the supply chain of grapes in Brazil, South Africa and India. The study showed that the human rights of workers involved in the picking, packaging and transport of grapes are vulnerable to violations. Kesko has proposed expanding amfori BSCI audits to cover also logistics in high-risk countries. **Read more about the study**.

412-2 Employee training on human rights policies or procedures

The K Code of Conduct guidelines include a section on human rights. The K Code of Conduct eLearning programme targeted at the entire personnel had been completed by 8,867 people by the end of 2017. Awareness of the K Code of Conduct is regularly promoted through communications and training arranged by K Code of Conduct ambassadors. An article related to the #metoo campaign was published in December 2017 on intranets in Kesko's operating countries, noting the K Code of Conduct guideline "We treat one another equally" and giving instructions on what to do if people notice inappropriate behaviour at the workplace.

Trainings in responsible purchasing continued in 2017. The trainings focused on the implementation of human rights in global purchasing chains. A total of three trainings were organised in Finland for people engaged in purchasing in Kesko's grocery trade and building and technical trade. One training was held for the personnel of the Kesko Onninen Purchasing Office in Shanghai, China. The training sessions discussed the amfori BSCI Code of Conduct principles, the assurance process in purchasing from high-risk countries, and the social responsibility assessment systems approved by Kesko. The trainings will continue in 2018.

Public policy

415-1 Political contributions

In election years, political parties and candidates are given equal opportunities to arrange campaign events in the yards and entrance halls of K Group stores. In addition, Kesko may participate in economic and tax policy seminars arranged by political parties, on content basis at its discretion and without indicating partiality.

Kesko does not make monetary donations to political parties. In 2017, Kesko did not participate in political parties' seminars subject to a charge and did not publish commercial advertisements in party newspapers.

Non-compliance concerning marketing communications

417-3 Incidents of non-compliance concerning marketing communications

Kesko constantly monitors the amendments to legislation and authorities' recommendations related to marketing communications and provides information about them to the staff responsible for marketing in each unit.

In 2017, there were no advertisements by Kesko or its subsidiaries submitted for consideration by the Council of Ethics in Advertising or any incidents of non-compliance with legislation or voluntary principles.

In June 2017, the Consumer Ombudsman imposed a prohibition order with a notice of a conditional fine in a matter concerning Intersport Finland Oy's offer marketing in 8/2016-1/2017.

Kesko Senukai Lithuania received a caution from authorities in 2017 for sending direct marketing to one customer who had prohibited it.

Customer privacy

418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data

In 2017, no information leaks or other personal data breaches were detected.

Compliance

419-1 Non-compliance with laws and regulations in the social and economic area

There were no non-compliance with laws and regulations in the social and economic area in 2017.

GRI management approach

Material aspects

- Economic performance
- Indirect economic impacts
- Anti-corruption
- Anti-competitive behaviour
- Compliance
- Grievance mechanisms for impacts on society
- Customer privacy

We generate economic value added

At Kesko, economic responsibility refers to the good management of finances, the efficient use of resources, as well as generating stable, long-term economic benefits for the various stakeholders. Kesko's operations generate economic benefits for shareholders, personnel, retailers, suppliers of goods and services and their employees and customers, as well as municipalities and states.

The K Code of Conduct and reputation management

Different aspects of responsibility, such as the ethicality of production and sourcing, the fair and equal treatment of employees and environmental protection are increasingly important for customers. Kesko's attitude to bribery and other malpractice is absolutely uncompromising. Responsible working principles are essential for building trust between Kesko, K-stores, our customers and our business partners.

Public policy

Kesko plays an active role in trade and industry organisations in Finland and in the European Union, contributing its expertise to social development and legislative work. Kesko does not donate funds to political parties.

Customer privacy

Customers' personal data is, for instance, processed in various personal data registers and online stores' customer registers that are collected for the implementation of marketing activities. Furthermore, Kesko manages and maintains the K-Plussa customer loyalty system, operated by K-chains and K-Plussa partners. Using the information received from the K-Plussa customer loyalty system, we can develop and tailor our operations to better suit our customers' needs. Taking care of our customers' privacy is of utmost importance to us.

Policies, principles and commitments

Accounting policies

- Kesko Group complies with International Financial Reporting Standards (IFRS) approved for adoption by the European Union.

Corporate Governance principles

- Kesko's decision-making and corporate governance are guided by Kesko's values and the K Code of Conduct guidelines. 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 and its Committees and the rules and guidelines of Nasdaq Helsinki Ltd. The company complies with the Finnish Corporate Governance Code for Listed Companies that entered into force on 1 January 2016.

Risk management principles

- The risk management policy confirmed by the Board of Directors guides risk management in Kesko.

Good trading practices

- Kesko's grocery trade and Kespro are committed to good trading practices.

K Code of Conduct

- The K Code of Conduct is used to ensure that everyone at Kesko has the same understanding of the values and principles that guide our daily work. The principles are the same for every Kesko employee in all our operating countries. We also expect our business partners to operate responsibly.

Data protection policy

- The data protection policy defines how Kesko Group strives for compliance with the law in the processing of personal data and a high level of data protection in all of its operations and operating countries.

Monitoring and control systems

Financial reporting and planning

- Kesko's financial reporting and planning are based on the Kesko Group's management system. The Group's financial development and achievement of financial objectives are monitored by financial reporting covering the entire Group.

Compliance

- Kesko runs compliance programmes to ensure that Kesko employees are familiar with the key laws relating to operations and act in compliance with them. For Kesko, knowledge of and compliance with competition laws is of primary importance.

Prevention of malpractice

- The Kesko Group's Internal Audit monitors and secures the functioning and efficiency of management, supervision, risk management and corporate governance in the Kesko Group. Kesko's Internal Audit pays special attention to the efficiency of controls that prevent malpractice and financial losses. Kesko organises K Code of Conduct training in its various companies. The events focus especially on corruption and fraud-related issues.

Risk management

- 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 evaluating their impact in financial terms and probability. When assessing the impact of materialisation, the impacts on reputation, people's wellbeing and the environment are considered in addition to the impact in euros. Risk management measures are assigned persons in charge who are responsible for planning, implementing and monitoring the measures. The measures defined are added in action plans and monitoring systems. Kesko's Internal Audit has annually assessed the functioning and efficiency of Kesko's risk management system.

Privacy protection

- Personal data collected for various purposes on the grounds defined in the Finnish Personal Data Act form separate person registers. For example, the customer information of K-Plussa cardholders forms a customer database that is used, with the customer's permission, for managing customer relationships, for customer contacts and the marketing purposes of the companies that have joined the K-Plussa system. K-Plussa customers can prohibit the connection of product or product group level information to their identified customer relationship. In compliance with the Personal Data Act, the file description is available in Finnish at **www.plussa.com**.

- Data controllers ensure that customer information is only used for the purposes specified in the file description. Information on individual customers is secured by issuing instructions to personnel and by using technical systems. Customer data is only disclosed to third parties if required by law.

Responsibilities and resources

- Kesko's Corporate Governance structure is presented at **Kesko's Corporate Governance principles**

- Group Legal Affairs Unit

- Internal Audit Unit

- Risk Management and Corporate Security Unit

- K Digital Unit

Grievance mechanisms

Through Kesko's intranet, employees can give feedback and ask questions concerning operations not only in their own units but also directly to top management. Feedback can be given openly or anonymously.

SpeakUp is a confidential reporting channel meant for reporting crime and malpractice suspicions when, for one reason or another, the information cannot be passed directly to Kesko's persons in charge.

Boundaries

Corporate governance	Kesko
Finance	Kesko

Customers

We offer sustainable products and multi-channel services

- We make people's lives more convenient and easier.
- We offer healthy products and services that promote wellbeing.
- We develop the multi-channel aspect of our store network based on our customers' expectations.
- We encourage our customers to make sustainable choices.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Dialogue with customers	We constantly engage in dialogue with customers in stores and social medial channels. We conduct surveys on customer satisfaction and brand and utilise customer views in the development of our responsibility work.	Listening to our customers and utilising feedback are key factors in Kesko's strategy when it comes to improving customer experience. We offer our customers an easy-to-use digital feedback channel Hymy. Some one million customer contacts happen through Hymy each year. We are testing Kylä, a new type of customer community, to get our customers proactively involved in the development of our operations and services. Read more: Stakeholder perspective. In the spring of 2017, we conducted a qualitative study concerning K Group's competitive advantage and strong corporate responsibility to find out what responsible and reliable operations of a trading sector company mean to Finnish consumers. We used the findings to further develop our operations.	The human rights assessment generated invaluable information for developing customer services. We will investigate the possibility of implementing the suggestions we received. We carried out an extensive study among grocery trade experts, retailers, suppliers and K-Plussa customers on the expected food trends and phenomena of 2017. The significance of social media channels in customer interaction has grown. In 2017, we will more actively listen to our customers' opinions and carry out more systematic and focused communication within social media communities.	As part of Kesko's human rights assessment, we heard the stakeholders' views on how well they thought human rights were realised, for example, in customer service situations. The online questionnaire was directed at both majority representatives as well as special groups. Kesko was assessed as slightly higher than the average Finnish company in the materialisation of a variety of human rights issues. However, the assessment given by special groups was, with regards to certain aspects (e.g. unrestricted access, accessibility, personnel diversity), considerably poorer when compared to the answers given by majority representatives.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Consultation services to customers	We offer our customers multi-channel information on our products and services.	In September, K-Rauta launched in Finland the Remonttineuvonta renovation consultation service, an example of a multichannel advice service for customers. K Consumer Service responds to consumer feedback concerning the own brand products (Pirkka, K-Menu, Euro Shopper) and own imports of the grocery trade division. In 2017, K Consumer Service gave 22,218 responses. Our key customer communication channels are K Group's social media channels and Pirkka Media, which comprises Pirkka magazine and the digital channels Pirkka.fi and Pirkka's Facebook, Twitter and Instagram. Pirkka magazine has a readership of 1.7 million (Kansallinen Mediatutkimus, a national media survey, autumn 2016 / spring 2017).	Customer feedback received through the new customer feedback system, launched in summer 2016, increased significantly. The K Group's customer magazine Pirkka was revamped. The K Consumer Service was contacted 19,619 times.	The K Consumer service was contacted 19,770 times. Information about good products and responsible actions was given in stores and marketing with the help of the K-responsibility concept and its slogan 'Let's do good. Together.'
Welfare	We offer products and services that promote health and wellbeing.	In 2017, we began work to build a new health and wellbeing store chain Hehku together with the pharmaceutical distributor Oriola. Our goal is to establish a chain of 100 Hehku stores and an online store. If legislation changes, we will expand the business to also include the sale of pharmaceuticals. The first Hehku stores opened in January-February 2018. We joined the National Nutrition Council of Finland's nutrition commitment by making a vegetable commitment, which encourages K-food store customers to increase their use of vegetables through the following actions, which extend to year 2020: • By 2020, at least 400 K-food stores will have a "veggie shelf" for vegetable protein products. In 2017, 250 K-food stores had dedicated veggie shelves. • We organise at least 250 vegetable-related campaigns at K-food stores each year (2018-2020). In 2017, K-food store chains organised 240 vegetable campaigns. • We will add at least 50 new fruit or vegetable products to our selections by 2020. In 2017, we added 55 new fruit and vegetable products to our selections.	In addition to the recipe search function, the K-food mobile app gives the user suggestions about the most popular recipes made with seasonal ingredients. K-stores launched veggie shelves. The product reformulation policy (less salt, sugar and fat) is to be updated in 2017. Cello indoor and outdoor paints received the Swan label. Onninen Norway provides welfare technology-related solutions. Intersport organised sports training during different seasons.	In 2015, K-ruoka.fi produced the Keveämpi arki customer programme consisting of recipes and ideas that promote a healthier lifestyle and well-being. Intersport's sports training offered expert tips, inspiring content and exercise programmes for people of different fitness levels.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Sustainable consumption	We help our customers make sustainable choices.	In accordance with our plastics policy, we create operating models that prevent plastics from ending up in water bodies and elsewhere in the environment. We strive to increase awareness of the environmental impacts of plastic waste through active communications in customer channels and at our stores. In 2017, we removed environmentally harmful microbeads from all our own brand cosmetic products. During 2018, microplastics will also be removed from all our own brand detergents. The Pirkka ESSI circular economy bags were introduced to K-food stores' shopping bag selections at the start of 2017. The bags are made of over 90% recycled materials, around half of which is plastic packaging separately collected from households. In 2017, we took part in the second Ham Trick campaign, where roasted ham fat is used to produce renewable diesel. K-Citymarkets collected fat from 117,000 households, i.e. 81% of the total fat collected in the campaign. We introduced two products in 2017 that reduce the environmental load on the Baltic Sea: the Pirkka fish patty, which is made from Baltic bream, and the Pirkka Parhaat Benella Rainbow Trout, which is farmed in Finland with feed made from Baltic herring and sprat from the Baltic Sea.	K Group has the most comprehensive neighbourhood store network in Finland. We provide an extensive and free charging network for electric cars. We participated in the Kinkkutemppu campaign which used the roasted ham fat to produce renewable diesel. K-food stores participated in the Food Waste Week campaign organised by the Consumers Union Of Finland. At the start of 2017, Pirkka ESSI circular economy bags were introduced in K-food stores. K-food stores introduced shared vege shelves for all vegetable protein products. We published our soy policy and committed to it; by 2020, all soy used in the production chain of own-brand products will be sustainably produced RTRS or ProTerra certified soy. We published our plastics policy and committed to introducing measures to reduce the consumption of plastic bags.	The K-responsibility concept theme "Let's do good. Together" was an essential part of the communication and marketing of the grocery trade, as well as our building and home improvement stores and agricultural stores. Our building and home improvement stores offered their customers energy efficient and environmentally friendly products and services. K-food stores participated in the Food Waste Week campaign organised by the Consumers Union Of Finland. VV-Auto participated in the Finnish Transport Agency's car scrapping reward trial. The range of electric and hybrid cars available in car dealers widened. As a new service, we started building new charging points for electric and hybrid cars in the most significant store locations.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Digital services	We offer the best digital services to K Group customers in all divisions.	We utilise artificial intelligence for product and content recommendations in our services, and are improving the customer experience in our digital services. New features in the K-Ruoka mobile application include product information and food purchases via online store. We opened an entirely redesigned online food store and new online stores for Onninen and K-Rauta in Finland. In the car trade, the Caara.fi service was complemented with a new Caara Go service, where you can obtain a car for temporary use, be it a month or a year, for a monthly fee agreed upon beforehand. We launched Student K-Plussa, a loyalty programme for higher education and university level students that offers e.g. a 5% rebate on purchases at K-food stores. Some 20,000 students joined the programme over the first few months. In the autumn of 2017, we began a collaboration with the global online store operator Alibaba to sell Finnish food brands in China. We export Finnish food brands and our own Pirkka products to the growing Chinese market.	Almost 100 K-food stores nationwide offer locally operating online grocery stores and click and collect services. All K-Rauta stores have an online store which also provides a delivery and click and collect service. We developed the K-food mobile app further. We developed a joint online store solution for the business customers of building and home improvement stores and Onninen. We launched a new concept online: a used car store, Caara.fi. We opened a new K Digital unit and recruited dozens of new digital experts. The five trainees that completed the K Digital Trainee programme found employment in various digital positions within the K Group.	Stores' click and collect services became more common. We published a K-food mobile app, which offers personalised benefits and shop-specific offers and a smart shopping list. Sotka's online store was opened.
Management by information	Each K-store is customised to meet its local customer demand by utilising customer data.	We created three new applications for all K-food stores, which support store management by information. New tools combined with our existing customer data-based application that supports store-specific business ideas clearly improve the ability to run stores based on customer insight and data. The number of users for new tools aimed at store management by information has tripled within a year.	The retailers received a new application based on customer data, among other things, that supports store management and offers a tool for targeted product ranges and marketing. We will revamp the K-food store chains. We will revamp our entire hypermarket concept and all K-Citymarkets by the end of 2018. We will revamp the K-Rauta brand in all its countries of operation in stages.	Dozens of new ideas and operational models were tested in K-Myllypuro over a year. The test store's customers and customer jury were asked for feedback on a regular basis. Based on customer wishes, the test store became a K-Supermarket in August 2016. The experiences gathered from the K-Myllypuro test store were used in the planning of the renewal of the K-Market chain.
	Using marketing based on customer data, we offer our customers the best customer experience in the trading sector.	We continued the systematic development of K Group's marketing through marketing process automation and increased investments in the development and utilisation of marketing technologies. Our objective is to utilise customer data better in our marketing so we can offer our customers a better, more personalised customer experience. In 2016, our own team of experts initiated programmatic targeted marketing using customer data, and nearly half of all digital marketing is now programmatic marketing.	We expanded the K Group's targeted marketing using customer data and began carrying out programmatic marketing relying on our own team of experts. Using our customer data, we offer our customers more personalised, interactive and multi-channel services. The revamped K-Plussa loyal customer card ensures personalised, targeted benefits for customers. We developed the K-food mobile app further.	Personalised marketing based on purchase history means that customers receive benefits better suited to them. After purchasing, customers receive service messages, customer questionnaires or personalised offers using their chosen channel.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Additional services in connection to stores	We want to offer our customers a convenient shopping experience. GRI 203-1	We offer our customers the chance to recycle packaging plastics in 173 RINKI eco take-back points located at K-store premises. To increase shopping convenience, self-service checkouts are available for customers at hundreds of K-food stores.	In connection to K-food stores, there were 396 consumer packaging recycling Rinki eco points, of which 160 also collected plastic. Many eco points also accepted paper and used clothing. All K-food stores have reverse vending machines for returning beverage containers. Core additional services in K-food stores were: Post Office service points in 327 stores, Matkahuolto parcel points in 568 stores, DHL service points in 27 stores, Post Office parcel lockers in 144 stores and Osta & Nosta cash points in 1,011 stores. We provide an extensive and free charging network for electric cars. The Liiteri service tested the rental service for K-Rauta's tools.	There were 255 consumer packaging recycling eco points at K-food stores. 38 eco points collected plastic. Many eco points also accepted paper and used clothing. All K-food stores have reverse vending machines for returning beverage containers. Posti and DHL expanded their operations into K-food stores. DHL Express and the K Group started cooperation which will bring 250-300 DHL service points nationwide in food stores and building and home improvements stores. There were 137 SmartPost self-service parcel lockers at K-stores.

Store network

203-1 Development and impact of infrastructure investments and services supported

Kesko operates in the grocery trade, the building and technical trade, and the car trade. In 2017, Kesko had approximately 1,800 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Belarus and Russia. On 16 February 2018, we announced we would discontinue our building and home improvement trade operations in Russia.

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Retailer operations accounted for 43% of Kesko's net sales in 2017. At the end of 2017, Kesko had over 1,100 independent K-retailer entrepreneurs as partners. Kesko and K-retailers form K Group, whose retail sales (pro forma) totalled around €13 billion (VAT 0%) in 2017. K Group employs around 42,000 people.

Outside Finland, Kesko mainly engages in own retailing and B2B trade. B2B trade accounted for 35% of Kesko's net sales in 2017. Kesko's own retailing accounted for 22% of net sales.

Kesko hosts a comprehensive K-food store network in Finland, and there are K-food stores in most Finnish municipalities. K-food stores are visited by around 1.2 million customers every day.

K-food stores in Finnish municipalities at 31 Dec. 2017

- 10 stores or more 23 pcs 7.4%
- 7–9 stores 17 pcs 5.5%
- 5–6 stores 23 pcs 7.4%
- 3–4 stores 39 pcs 12.5%
- 2 stores 58 pcs 18.6%
- 1 store 112 pcs 36.0%
- No K-food store 39 pcs 12.5%

Especially outside growth centres, retail stores can offer community services which may otherwise be scarcely available. In 2017, the following services were located in connection with K-food stores:

- Cashback services at more than 1,200 stores
- Parcel and postal services at over 800 stores

The store site network is a strategic competitive factor for K Group. In 2017, Kesko's total capital expenditure in store sites amounted to €256 million (2016: €217 million). Kesko's most significant recent store site project is the new shopping centre, Easton Helsinki, in Itäkeskus, Eastern Helsinki. The capital expenditure is valued at €100 million, with an employment impact of approximately 250 person-years for a period of two years. Easton Helsinki was opened in October 2017 and it offers people in the region the best and most versatile food selections both in the physical store as well as online. Easton is a forerunner in combining digital and physical channels and services. The new shopping centre and its occupants provide employment to some 300 people.

In addition to statutory waste recycling obligations, K-stores provide the following recycling services:

- Collection of impregnated wood.
- Collection of clothing.

Waste statistics are presented under 306-2 Waste.

Kesko's community investments are presented under Society in the Responsibility programme.

GRI management approach

Material aspects

- Customer health
- Product safety

Policies and commitments

The K-responsibility concept is used to tell customers about the store's good deeds and to help them make healthy and sustainable choices easily. The K-responsibility concept is in use in K-food stores and K-Rauta stores.

Customers' needs and consumption behaviour change greatly as new electronic services and, particularly, mobile services become increasingly widespread. Kesko's key strategic objective is to serve customers in all of its divisions by using the opportunities provided by mobile services, online services and digital marketing.

Monitoring and control systems

Kesko Product Research Unit's laboratory monitors the safety and quality of groceries and home and speciality goods sold by K-food stores and K-Citymarket hypermarkets.

In addition to the laboratory, the Product Research Unit includes a test kitchen and K-Consumer Service. The test kitchen's duties include sensory evaluations of products and the testing of their cooking properties. The consumer service provides information on Pirkka products: customers can give feedback on products and ask about various aspects of our products, such as product origins, ingredients, their suitability for different kinds of users and instructions for use and preparation.

Responsibilities and resources

- Kesko's divisions
- Kesko's Product Research Unit
- K-stores

Programmes, projects and initiatives

The home economics teachers in Kesko's grocery trade's marketing unit develop and test hundreds of new food recipes annually. The recipes in the K-ruoka.fi service include the nutritional content of each dish to make it easier for people to make choices.

In the building and home improvement store operations, the assessment of a store's operational responsibility comprises the store's annual self-assessment, the criteria defined in the store's quality system and a responsibility audit performed by an external party on a specified sample. The auditor reports the results to the store and to Kesko. Food store operations utilise the Hymy quality review system.

The service level, recognition level and images of Kesko's chains are regularly monitored in brand surveys targeted at consumers in all product lines. The same practice is applied to the K-Plussa customer loyalty programme and the grocery trade's own-brand products. Store-level customer satisfaction is measured by customer satisfaction surveys and the mystery shopping method in food stores and building and home improvement stores.

Grievance mechanisms

- Plussa.com
- K-Consumer Service
- Chain's customer feedback systems

Boundaries

Customer health and safety	Kesko Group – Own-brand products and own imports
Product and service information	Kesko Group – Own-brand products and own imports
Marketing communications	Kesko Group
Compliance	Kesko Group

Society

We contribute to creating a better society

- We create partnerships and participate in developing local communities.
- We develop our business in interaction with our customers.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Local production	We support local producers. GRI 204-1	We organised six local food dates around Finland, giving K-retailers and local food producers a chance to meet and establish a collaboration. K-food stores had 10 'Thank the Producer' products in their selections. Overall, some six million 'Thank the Producer' products were sold during the year, for which we pay more than €350,000 extra to Finnish food producers. K-food stores' **'Even better from Finland'** campaign encouraged buying Finnish products. K Group was the main cooperation partner in the 'MTK 100' celebrations (the Central Union of Agricultural Producers and Forest Owners, MTK) nationwide. In our social media channels, we published **'Shared growth stories'** on growth-generating collaborations between producers, local entrepreneurs and K-retailers.	K-food stores, K-Rauta stores and Rautia stores participated in the Blue and White Footprint campaign. We organised **Local Food Dates** in six different locations. K-food stores sold 12 different Pirkka **'Thank the Producer' products** for which we paid extra directly to the producer. In 2017, we will be the main cooperation partner in the 'MTK 100' celebrations.	K-food stores, K-Citymarket Oy (home goods), K-Rauta stores and Rautia stores participated in the Blue and White Footprint campaign. We organised Local Food Dates in six different locations. We created the 'Thank the Producer' operating model to highlight the position of producers and increase the appreciation of Finnish production.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Donations, sponsoring and charity campaigns	We participate in projects, which are connected to improving families' daily life and sustainable development. GRI 201-1	In August 2017, we began an extensive multi-year collaboration, K Fishpaths, with the environmental organisation WWF Finland to save and restore endangered migratory fish populations in Finland. Read more in 304-3. We continued our co-operation with the children's rights organisation Plan International Finland to improve the responsibility of the fishing industry and the position of migrant workers in Thailand. A cooperation agreement has been made for the period from 2015 to 2018. The Little Big Deeds model established by K-Retailers' Association and Kesko brings to public attention responsible deeds relevant to our customers. Watch Aino's Room video and Tomi's story video. We took part in the Hyvä Joulumieli Christmas fundraising campaign and the Salvation Army's Christmas Kettle collection. Intersport Finland took part in the Red Nose Day campaign. K-food stores have taken part in the international Pampers-UNICEF vaccine campaign for ten years, and during that time, the funds collected via K-food stores have led to the donation of nearly 10 million tetanus vaccines. K-food stores collected nearly 450,000 euros for the Finnish Cancer Foundation's Pink Ribbon campaign. The cooperation between Pirkka and the Finnish Basketball Association continued, and more than 40,000 children have taken part in Pirkka Little Wolves sports events between 2015 and 2017. K-Plussa customers can choose to donate their Plussa money to charity.	We participated in Red Nose Day, the Good Christmas Spirit collection and the Salvation Army's Christmas Kettle collection. Finland's K-Rauta and the Women's Bank launched cooperation to help Ugandan women in the early phases of entrepreneurships. K-food stores participated in UNICEF's and Pamper's international vaccination campaign and raised funds for almost 900,000 tetanus vaccinations. We participated in the Pink Ribbon campaign with a more significant contribution than before. K-food stores' bottle return raffle's proceeds were donated to the Eväitä Elämälle aid programme by Save the Children. The Finnish Basketball Association and K-food stores cooperated to organise basketball events for over 10,000 children across Finland. We continued our cooperation with Plan to improve the sustainability of Thailand's fishing industry and to improve the status of migrant workers; cooperation has been agreed for the period of 2015-2018. K-Plussa customers can choose to donate their Plussa money to charity.	We participated in Red Nose Day, the Good Christmas Spirit collection, the Salvation Army's Christmas Kettle collection and the Pink Ribbon campaign. K-food stores participated in the UNICEF's and Pamper's international vaccination campaign. K-food stores' bottle return raffle's proceeds were donated to the Eväitä Elämälle aid programme by Save the Children. Together with the Finnish Basketball Association we organised basketball events and Pikkusudet basketball schools for primary school children across Finland. We started a research project with Plan to investigate the status of Cambodian migrant workers in Thailand.

Indirect economic impacts

201-1 Direct economic value generated and distributed – Community investments

KESKO'S COMMUNITY INVESTMENTS

€ 1,000	2017	2016	2015
Non-governmental, environmental and other organisations	231	412	555
Sports (adults)	1,145	891	721
Youth sports and other youth work	144	56	64
Science, research and education	50	67	61
Culture	32	14	32
Health	459	270	12
Veteran organisations and national defence	113	3	5
Political parties and organisations	-	-	8
Total	**2,174**	**1,713**	**1,457**

In addition, Veikkaus Oy contributed an estimated combined revenue of €105-110 million to the Ministry of Education and Culture, the Ministry of Social Affairs and Health, and the Ministry of Agriculture and Forestry, generated from the sales of games by Veikkaus points of sale located at K-stores. The estimate is based on the average breakdown of each euro spent on games in 2017. Due to the merger of Finnish gaming companies on 1 January 2017, the figure is not comparable to the figures of previous years. The estimate has been calculated by Veikkaus Oy. The Ministry of Agriculture and Forestry, the Ministry of Education and Culture, and the Ministry of Social Affairs and Health distribute the revenue in its entirety to beneficiaries in Finland.

204-1 Proportion of spending on local suppliers

Kesko assesses the economic benefit it generates by reporting its purchases by operating country and the company's country of domicile. Kesko also reports both its own as well as K-retailers' direct purchases of goods in Finland.

Most of the economic benefit generated by Kesko's operations – approximately 84% of Kesko's net sales – flows to suppliers of goods, from which purchases were valued at €9.0 billion in 2017. The purchases of all Kesko companies from suppliers operating in Finland totalled €5,821 million, accounting for 65.0% (65.9% in 2016) of the Group's total purchases.

In 2017, Kesko had around 26,300 suppliers and service providers from whom purchases were valued at a minimum of €1,000 during the year. Of these, around 12,600 operated in Finland, around 10,900 in Kesko's other operating countries, and around 2,800 elsewhere.

The 10 largest suppliers accounted for 26.4% (24.3% in 2016) of the Group's purchases of goods, and the 100 largest suppliers for 59.8% (54.4% in 2016). Of the 10 largest suppliers, seven were Finnish food industry companies, one an import company operating in Finland, and two German car manufacturers.

The purchases of goods by Kesko Group's Finnish companies totalled €7,175 million. Of these purchases, 80.5% were from suppliers operating in Finland and 19.5% from other countries. It should be noted that because some of the suppliers operating in Finland are import companies, reliable statistics cannot be compiled on the origin of goods supplied by them.

KESKO'S PURCHASES BY OPERATING COUNTRY IN 2017

	Suppliers of goods and services in operating country	Purchases from suppliers of goods		Suppliers of goods and services in other countries	Purchases from suppliers of goods	
	number	€ million	%	number	€ million	%
Finland	12,330	5,773	80.5%	2,525	1,402	19.5%
Sweden	2,251	248	85.2%	246	43	14.8%
Norway	1,739	574	97.6%	198	14	2.4%
Estonia	1,094	67	53.4%	488	59	46.6%
Latvia	815	26	35.1%	431	48	64.9%
Lithuania	433	115	33.9%	221	225	66.1%
Poland	1,066	136	95.1%	64	7	4.9%
Russia	1,330	133	95.5%	40	6	4.5%
Belarus	702	49	58.5%	368	35	41.5%
Total	**21,760**	**7,122**	**79.5%**	**4,581**	**1,839**	**20.5%**

KESKO'S PURCHASES BY COMPANY'S AND SUPPLIER'S COUNTRY OF DOMICILE IN 2017

Company's country of domicile					Supplier's country of domicile						
€ million	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Russia	Belarus	Other countries	Total
Finland	5,773	157	10	45	5	7	20	1	6	1,152	7,175
Sweden	14	248	5	1	-	0	4	-	-	18	291
Norway	0	9	574	0	-	-	-	0	-	4	588
Estonia	15	2	1	67	5	2	6	-	-	28	126
Latvia	7	0	-	4	26	1	2	0	0	33	73
Lithuania	9	1	0	11	30	115	40	2	4	130	341
Poland	1	0	-	-	0	-	136	-	-	6	143
Russia	3	-	-	1	-	-	0	133	-	3	140
Belarus	0	0	-	-	0	1	4	15	49	14	84
Total	**5,821**	**418**	**590**	**129**	**65**	**128**	**213**	**151**	**59**	**1,388**	**8,961**

Kesko is actively increasing the amount of local purchases and encourages K-retailers to include products from near-by producers in their selections.
In 2017, K-retailers' direct purchases from Finnish regions totalled €748.4 million.

ECONOMIC BENEFIT GENERATED BY KESKO AND K-RETAILERS TO FINNISH REGIONS IN 2017

Region € million	Kesko's purchases of goods	K-retailers' direct purchases of goods	Kesko's and K-retailers' capital expenditure1	Salaries paid by Kesko	Salaries paid by K-retailers	Taxes paid by K-retailers	
Åland	38.7	-	0.0	0.2	-	-	39.0
Southern Karelia	8.6	12.7	6.9	6.8	12.1	0.5	47.6
Southern Ostrobothnia	237.1	41.6	7.3	6.0	12.9	0.9	305.9
Southern Savo	47.5	16.5	7.0	5.1	11.6	1.3	88.9
Kainuu	9.3	9.1	2.4	1.8	6.3	0.5	29.4
Kanta-Häme	58.3	35.9	7.4	7.0	12.0	0.9	121.5
Central Ostrobothnia	54.4	18.0	2.0	2.3	4.7	0.5	82.0
Central Finland	61.9	28.2	9.4	10.9	19.3	1.7	131.3
Kymenlaakso	41.0	17.1	9.8	7.9	10.9	1.1	87.8
Lapland	20.7	31.2	11.5	8.6	20.6	1.8	94.4
Pirkanmaa	258.5	41.5	34.4	37.2	36.8	2.7	411.2
Ostrobothnia	159.3	11.8	3.3	7.3	10.0	0.7	192.3
Northern Karelia	31.8	26.9	3.0	5.5	11.4	1.2	79.6
Northern Ostrobothnia	158.9	60.3	17.7	20.4	28.2	2.2	287.8
Northern Savo	192.9	49.0	10.2	12.1	22.3	1.4	287.8
Päijät-Häme	161.0	33.4	7.2	10.9	13.1	1.1	226.9
Satakunta	203.8	41.8	5.0	8.5	16.5	1.0	276.5
Uusimaa	3,301.9	191.2	219.4	307.6	130.2	13.8	4,164.1
Varsinais-Suomi	727.2	82.1	59.5	30.6	38.5	4.4	942.2
Total	**5,772.8**	**748.4**	**423.4**	**496.7**	**417.5**	**37.6**	**7,896.4**

[1] Incl. increase in lease liabilities of K-retailers' equipment

The figures are for those K-retailers whose accounts and payroll are managed by Vähittäiskaupan Tilipalvelu VTP Oy, representing around 95% of K-retailers' total business volume.

In 2014–2017, Kesko and Ruokatieto ry, an association that promotes Finnish food culture, organised Local Food Date (Lähiruokatreffit) events that bring together local food producers and K-retailers. The purpose is networking as well as improving the supply of local products in the K-food stores in the area and thereby supporting Finnish work.

The 'Thank the Producer' operating model provides customers with an easy way to support Finnish food producers. K-food stores had 10 'Thank the Producer' products in their selections, for which K Group paid more than €350,000 extra directly to the food producers in 2017.

Capital expenditure
Kesko's capital expenditure has a positive financial impact on the operations of building firms, building sector service companies, and suppliers of fixtures, equipment and information systems, for example.

In 2017, Kesko's capital expenditure totalled €350 million (€743 million in 2016), or 3.3% of net sales (7.3% in 2016). Capital expenditure in store sites was €256 million (€217 million in 2016). Capital expenditure in foreign operations accounted for 14.5% (15.2% in 2016) of the total capital expenditure. In 2016, Kesko Group acquired Onninen Oy, Suomen Lähikauppa Oy and Oy Autocarrera Ab. The total capital expenditure on the acquisitions was €445.5 million.

In addition to Kesko, K-retailers make capital expenditures in the fixtures of stores. These figures included, K Group's total capital expenditure in Finland was around €423 million in 2017.

GRI management approach

Material aspects
- Purchase practices

Local presence has an impact on the whole of society
The retail trade plays a significant role in local communities. It serves and employs local people. In addition to the direct employment impact, the retail trade also employs a significant number of people indirectly through suppliers and business partners.

Retailers, supported by Kesko's district organisations, represent local activities. A K-retailer entrepreneur is responsible for his or her store's staff and customer satisfaction. Listening to the wishes of local customers and making use of customer data, K-retailers put together a selection of products and services that meet customer needs. We develop our business through interaction with our customers.

Kesko purchases the majority of the products it sells from Finland and encourages K-retailers to include locally produced products in their selections. The impact of Finnish products on employment is significant; for example, Pirkka products are produced in 175 companies all over Finland.

Policies and commitments
Kesko's grocery trade and Kespro are committed to the grocery store chain's **good trading practices**. Kesko requires that its business partners act in compliance with the **K Code of Conduct**. We add a K Code of Conduct contract clause to agreements signed by Kesko Group companies under which the Group companies purchase products or services from parties outside the Group.

Monitoring and control systems
Changes in the operating environment and in K Group are taken into account by adjusting objectives, operating principles, monitoring systems and/or resources.

Responsibilities and resources
- K-retailers and K-Retailers' Association
- Kesko's district organisations
- Steering group for responsible purchasing and Kesko's buyers
- Division Management Boards

Programmes, projects and initiatives
In September 2017, K Group began to offer a new nationwide student benefit, in which **higher education and university level students receive 10 times the normal Plussa benefit** on purchases. This means a 5% rebate on groceries bought in the previous month. The rebate is paid as Plussa money. K Group wants to enable students to also make high-quality, sustainable consumer choices.

In the renewal of the K-Rauta chain, **discarded work clothes, flags and other textiles were collected** from 140 stores and recycled. Discarded work clothes from rebranded stores were processed into material that can be utilised, for example, by the car industry.

Grievance mechanisms
- **SpeakUp** reporting channel

Boundaries

Economic performance	Kesko
Indirect economic impacts	K Group
Purchase practices	K Group

Working community

We carry out and offer high-quality work

- We have satisfied employees and competent managers.
- We offer interesting and diverse work as well as development opportunities.
- We are the most attractive workplace in the trading sector.
- We offer a safe and healthy working environment.
- Our personnel act responsibly.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Employer image	We are the best employer in the trading sector in terms of job satisfaction. GRI 404-3, 405-1, 405-2	According to our personnel survey, 79% of K Group employees would recommend the group as an employer. In the Universum Professionals survey, Kesko's ranking was 25. We continued to employ young people by offering summer jobs to approximately 5,000. As part of the Finland's Mentors project, we carried out a K Trainee Programme. We surveyed views and opinions from current and potential employees, as well as expectations towards K Group as an employer and general expectations of working life. Based on the findings, we redefined our plans for improving employee experience and our recruitment process. We initiated pilots to increase agility in our work practices. We adopted a common operating practice for mapping out employees' career aspirations, skills and competencies and willingness to evolve and take on more challenging positions within the company.	The employee engagement index was 61%. The percentage of employees who would recommend the K Group as an employer has gone up to 68%, according to the personnel survey (56% in the previous survey in 2014). In the Universum Professionals survey, Kesko's ranking was 38. We continued to employ young people by offering summer jobs to approximately 5,500 young people. We organised a K Digital Trainee programme, and, through that, employed five graduates in business development jobs. Together with FIBS we conducted a diversity management starting point analysis in Finland and we will utilise its outcomes to develop our operations. We determined our employer promise and, in accordance with it, we will develop, for example, our cooperation with educational establishments and reinforce our recruitment and induction processes.	We launched the K-job programme, the purpose of which is to provide those aged under 30 with channels to find a job in the K Group. We particularly focused on guiding 'Learn and Earn' trainees, young people in short-term work orientation, and summer employees. In the Universum Professionals survey, Kesko's ranking was 31.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Performance management	We know the targets set for our work and receive feedback on our performance. GRI 404-3	We introduced a new performance management model and K SuccessFactors, a system supporting the model, for support functions in Finland, Sweden, Norway and Russia. The model comprises target setting linked to strategy and follow up, personal development reviews and development plan, and performance evaluation tied to performance bonus. We will use the model to systematically guide the performance of employees and the organisation to implement our strategy, reward good performance, develop employee competencies, support target achievement, and prepare for future challenges.	In 2017, we launch, in stages, the new performance management model and the K Success Factors systems that support it.	
Wellbeing at work and occupational ability	We improve work motivation and satisfaction. GRI 403-1, 403-2	The key focus area was to develop our Occupational Health and Safety (OHS) operations through management by information supporting business. We systematically monitored key OHS indicators and developed different areas from a business perspective. We launched international OHS and wellbeing principles in K Group. We improved stress management skills among personnel through mindfulness training. We continued health training and introduced wellbeing programmes directed at managers. We launched common occupational safety principles and operating models in Finland, and carried out pilots to improve occupational safety. We streamlined the labour protection organisation to reflect our current operating premises and organisation structure.	The focal point of the wellbeing at work programme was the comprehensive and business-oriented development of OHS (Occupational Health and Safety) operations. We enforced the monitoring of key figures to improve proactive work and to support management by information. Furthermore, we implemented other proactive measures, such as new health training. We also launched an occupational safety project whose aim is to further develop our occupational safety culture and shared operating models. We also made labour protection more systematic and developed the ways in which it is organised. We support our employees' leisure time fitness activities in all our operating countries. The Finnish companies, for example, provide vouchers for physical exercise and cultural benefits.	The focal point of the wellbeing at work programme was to support employees' health and reduce sickness absences, developing safety at work and strengthening the role of labour protection as well as promoting employee engagement and implementing the people principles.
	We reduce sick leave, accidents at work and premature retirement due to disability. GRI 403-2	We continued to focus on decreasing sick leaves, accidents at work and premature retirement due to disability. Although the numbers for premature retirement due to disability are well under control considering the size of the company, we are paying more attention to the management of risks for occupational ability and the related costs. Training for the Let's Talk About Work operating model is part of the occupational ability management training for managers.	We focused on reducing sick leave, accidents at work and premature retirement due to disability. The Let's Talk About Work training for managers continued and over the last five years, more than 1,000 managers have been trained. We piloted work induction services. We will reduce sick leave in the long term with a project which has a systematic take on labour protection and safety at work. We developed a unified accident insurance management model, which we will launch in 2017.	We focused on reducing the number of sick leave and premature retirements due to disability by means of occupational health service activities, the Let's Talk About Work training for managers, work revision, occupational rehabilitation and the work done by the Work Ability Manager working in the OHS team. The Work Ability Manager's activities support the employee's return to work, while considering various options for continuing at work. Sick leave has continued to decrease.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Skills management	We conduct an annual performance and development review with every employee. GRI 404-3	The performance and development reviews continued and are part of the new performance management model adopted for support functions in Finland, Sweden, Norway and Russia. Read more in Performance management and 404-3.	The performance and development reviews were used in all Kesko Group companies and operating countries. The performance and development reviews were carried out at least twice, in the spring and/or in the autumn. In 2017, we launch, in stages, the new performance management model and the K Success Factors systems that support it. In the future, we will record the development reviews in the K Success Factors systems.	Performance and development reviews apply to all employees, and in 2015, they were carried out twice: in the spring and in the autumn. The realisation of the discussions was requested in the personnel survey that was conducted in the beginning of 2016. The response rate to the survey was 85%. A total of 80% of employees that responded to the survey had had their reviews carried out during 2015.
	We will regularly train our managers. GRI 404-1, 404-2	The consistent development of managerial work continued in support of our strategy. Manager training included the K Way training programme for new and experienced managers, the international K Way Middle Management Leader programme, and training related to the performance management model. A total of 727 managers took part in manager training. We will continue to systematically develop our training portfolio to meet future needs. In 2018, we will update our manager training and expand the concept to Poland and Norway.	We continued the K-Way new managers training programmes, K-Way experienced managers training programmes and Let's Talk About Work training programmes. In total, 363 managers participated in these training programmes. The topic for the new Mindfulness training was understanding and training your own mind as well as efficiency. 17 managers from Finland participated in the training. The objective of the new K-Way Middle Management Leader training programme was to strengthen the skills for strategy implementation and business competence. The training programme had a total of 22 participants from all operating countries. In Russia, we started a new K-Way Leader training programme that aims to strengthen management competence and managerial skills in the K Group. The training programme was attended by 12 managers. In 2017, we will continue to organise the K-Way managerial trainings and start a new development programme for top management. We will continue spreading the coaching and mentoring processes that support managerial work.	The emphasis was on the implementation of the K Group's operating principles, challenging situations faced by managers, leading a new team, effective management and how to use the personnel survey results to develop the team. The first training programme promoting the K Group's new management culture was entitled 'K-Way new managers' and was piloted towards the end of the year. Managerial training for Kesko's personnel was taken a total of nearly 700 times. Online training modules for managers were completed approximately 3,700 times.

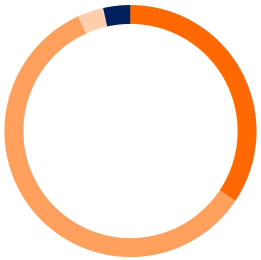
STRATEGY
SUSTAINABILITY
FINANCIAL STATEMENTS
CORPORATE GOVERNANCE

Employment

401-1 New employee hires and employee turnover

In 2017, Kesko had an average of approximately 22,077 (2016: 22,476) full-time equivalent employees in nine countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus. 48% of the personnel were based in Finland and 52% in the other operating countries.

Distribution of Kesko personnel by division at 31 Dec. 2017, %



- Grocery trade 34.4%
- Building and technical trade 58.9%
- Car trade 3.3%
- Common operations 3.5%

CHANGES IN THE NUMBER OF KESKO EMPLOYEES

	2017	2016	2015
Finland at 31 Dec.	12,327	14,845	10,081
Other operating countries at 31 Dec.	12,656	12,811	11,854
Total at 31 Dec.	24,983	27,656	21,935
Finland, average	10,691	10,714	8,300
Other operating countries, average	11,386	11,762	10,655
Total, average	**22,077**	**22,476**	**18,955**

FIXED-TERM AND PART-TIME EMPLOYMENTS AT KESKO

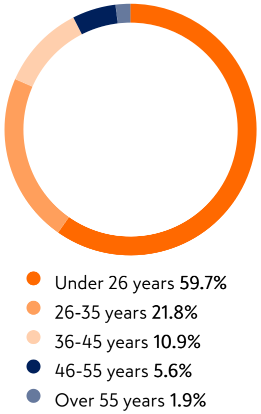
	2017	2016	2015
Fixed-term employees of total personnel at 31 Dec., %			
Finland	14.2	12	11.5
Other operating countries	4.8	6.1	6.1
Whole Group, total	**9.4**	**9.2**	**8.6**
Part-time employees of total personnel at 31 Dec., %			
Finland	40.8	43.9	39.4
Other operating countries	7.8	6.7	8.1
Whole Group, total	**24.1**	**26.7**	**22.5**

KESKO'S PERSONNEL STATISTICS FOR 2017 ANALYSED BY OPERATING COUNTRY

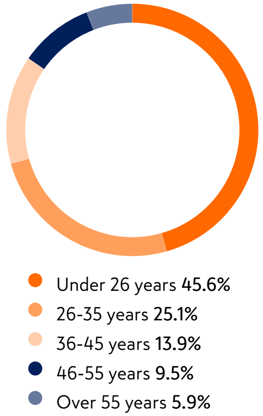
	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Russia	Belarus
Total number of personnel at 31 Dec.	12,327	1,058	399	694	702	4,028	786	1,978	3,011
Average number of personnel in 2017	10,691	1,077	383	690	636	3,467	761	1,738	2,633
Number of new employments[1]									
- women	2,656	120	19	171	109	866	16	241	384
- men	1,968	245	53	201	313	1,442	77	247	525
Number of new employments[1]									
- women	4,328	124	32	128	88	870	32	374	363
- men	1,887	257	61	185	264	1,507	111	564	648
Terminated by employer, %	8.0	16.0	6.0	2.0	10.0	11.0	26.0	0.0	0.0
Total turnover rate, %2	**38.0**	**35.0**	**23.0**	**32.0**	**44.0**	**57.0**	**18.0**	**47.0**	**33.0**

[1] Including summer employees
[2] Excluding summer employees
When calculating the number of terminated employments, each employee is included only once, whereas one person may have several new employments included in the total number.

Recruits, age distribution 2017, %



Terminated employments, age distribution 2017, %



401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees

Kesko Group offers benefits to its personnel in all of the countries in which it operates. In Finland, employees on permanent, fixed-term and part-time contracts are offered the following:

- Occupational health care
- Insurance against occupational injuries and occupational diseases
- Parental leave
- Retirement benefits
- Versatile shopping benefits in K Group stores and staff stores for both employees and Kesko pensioners

In all operating countries, Kesko supports its employees' leisure activities in different ways. The Finnish companies, for example, provide benefits for physical exercise, cultural activities and work commute. Some of the companies operating in Russia, Estonia, Latvia and Lithuania also give financial support to their employees through different situations in life, such as when a child is born, during a child's first year at school, in the event of the death of a close relative and in other special situations. Employees are also provided with a diverse range of shopping benefits that apply in K Group stores and staff shops. A company phone and car are also provided if required for the job.

Performance bonuses and share compensation plan

The performance bonus schemes cover the entire personnel, with the exception of sales assistant jobs and jobs covered by other types of bonus or commission systems. The indicators of the performance bonus scheme include, for example, the Group's and the division's operating profit, the sales and profit of the employee's own unit and customer satisfaction or market share. Depending on role, personal performance bonus targets may also be set. In spring 2017, around €11.4 million (€11.5 million in 2016) was paid in Finland in bonuses under the 2016 performance bonus schemes, accounting for approximately 3.0% (3.7% in 2016) of the total payroll.

In 2017, the total remuneration paid in the form of performance bonuses, sales commissions and other corresponding monetary remuneration was as follows:

- In Finland, €18.1 million (€14.5 million in 2016)
- In the other operating countries, €5.2 million (€8.3 million in 2016)

The maximum performance bonus amounts vary depending on the profit impact of the person's role and are equivalent to 10-67% of the person's annual salary.

Kesko operates a share-based compensation scheme for some 140 members of management and other specified key personnel. Kesko's share-based compensation scheme comprises three share-based incentive plans, which were communicated in a stock exchange release on 2 February 2017. The Performance Share Plan (PSP) consists of individual annually commencing share plans, each with a two-year performance period and a two-year commitment period following the payment of the potential share award. The Bridge Plan is a one-off, four-year plan aimed at covering the transitional phase from Kesko's previous long-term incentive scheme to the new incentive scheme adopted in 2017, with a two-year performance period. The PSP and the Bridge Plan are complemented by a Restricted Share Pool (RSP), a plan that consists of annually commencing share plans. Each RSP includes a three-year commitment period, after which the potentially granted share awards of the individual plan will be paid to the participants in Kesko's B shares, provided that the participant's employment or service relationship with Kesko Group continues until the payment of the awards.

In February 2017, the Board decided to grant a total of 192,822 Company B shares to 130 members of Kesko's management and other key personnel based on the fulfilment of the performance criteria for the 2016 performance period of the share plan.

Pensions

New pensions were granted to 291 people (271 in 2016) in Kesko Group in Finland. The figure includes employees retiring on part-time pensions, partial disability pensions and rehabilitation benefits in addition to those who retired on old-age pensions and disability pensions. Rehabilitation benefit is a form of fixed-term disability pension granted with the aim that the employee is rehabilitated and returns to working life. Rehabilitation benefits were granted for the purpose of retraining or work trials to 111 people (87 in 2016) who were at a clear risk of losing their working capacity within a few years. The average retirement age of employees in 2017 was 56 (60 in 2016). Notably, the average retirement age for old-age and disability pensions was 62. In the other operating countries 29 (28 in 2016) employees retired.

Occupational health and safety

403-1 Workers' representation in formal joint management-worker health and safety committees

Labour protection activities are arranged separately for each company, region or place of business in compliance with local legislation. Labour protection activity in Finland has been made more effective by testing regional committees and by combining worker health and safety committees in the Greater Helsinki region in preparation for the move to common operating premises. Outside the Nordic countries, labour protection matters are handled by OHS (Occupational Health and Safety) committees. Kesko's HR functions arrange occupational safety training for Kesko employees and K-retailers. Group companies also arranged training sessions tailored to their specific needs.

403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities

Within Kesko Group, the occupational health service's normal operations include providing advice and counselling related to employees' health and wellbeing at work, analysing health risks related to work and preventing illnesses, and providing treatment – even in the event of serious illnesses – in collaboration with primary health care practitioners and specialist health care providers. In Finland, 12,600 (15,000 in 2016) Kesko Group employees were covered by Kesko's own occupational health services. Kesko's occupational health service purchases occupational healthcare from one provider for employees in Finland outside the Greater Helsinki area. Centralised and target-oriented management enables consistent content and operating methods in occupational health service. In other countries, occupational health care is arranged in compliance with local legislation and practice.

A total of €6.2 million (€7.5 million in 2016) was spent on occupational health care in Finland in 2017. Kela (the Social Insurance Institution) reimbursed Kesko for approximately €3.5 million (€3.7 million in 2016) of this sum. In 2017, Kesko's occupational health service spent €494 (€499 in 2016) per employee on maintaining employees' working capacity and providing medical care.

KESKO'S CONTRIBUTION TO OCCUPATIONAL HEALTH CARE, FINLAND

	2017	2016	2015
€/person	494	499	359

INJURIES AND OCCUPATIONAL DISEASES IN FINLAND

	2017	2016	2015
Fatal injuries	0	0	0
Occupational injuries, excl. commuting injuries	226	227	93
Commuting injuries	79	81	35
Injury rate[1] /million working hours	11	10	6
Average degree of injury severity, days	20.9	15.8	16.9
Suspected occupational diseases	2	1	4
Occupational diseases	1	2	0
Sick days due to occupational injuries, commuting injuries and occupational diseases	6,473	5,744	2,166
Per employee	**0.6**	**0.5**	**0.3**

The calculation method: small injuries, i.e. those leading to absence of less than three days, are not included in the figures. Statistics do not include contractors.

[1] Excl. small injuries and commuting injuries, calculated with actual working hours

SICKNESS ABSENCES BY COUNTRY IN 2017

	Finland	Sweden	Norway	Estonia	Latvia	Lithuania	Poland	Russia	Belarus
Total number of sick days	132,608	11,709	4,450	6,557	6,013	35,377	9,199	19,225	42,969
Per employee	12.4	10.9	11.6	9.5	9.5	10.2	12.1	11.1	16.3
Per million working hours	6,577	6,177	6,606	4,682	4,684	5,051	5,808	5,586	8,030

The calculation method: sick days per employee have been calculated on the average number of employees during the year

Trend in number of sick days

Statistics on injuries in Finland and breakdowns of sickness absences by country are presented in the tables above. In the other countries, a total of 154 injuries occurred resulting in sickness absences of more than three days in 2017. The corresponding figure in Finland was 226. In 2017, the sickness absence rate in the Group companies in Finland was 4.6% of hours worked (4.4% in 2016). Approximately 75.1% (74.7% in 2016) of sickness absences were short-term absences, i.e. paid sick days (the figure does not include the sickness absences of Onninen Oy and K-Market Oy). In the other countries, the sickness absence rate was 4.7% (4.2% in 2016).

Training and education

404-1 Average hours of training per year per employee

TRAINING DAYS AND COSTS IN 2017

	2017	2016	2015
Training days[1]			
Finland	7,474	7,421	6,891
Other countries	9,496	11,033	14,614
Training days per employee[1]			
Finland	0.7	0.7	0.8
Other countries	0.8	0.9	1.4
Training costs, € million			
Finland	3.3	2.9	2.5
Other countries	0.5	0.9	0.9
Training costs per employee, €			
Finland	310	268	299
Other countries	45	79	87

[1] 2015: Excluding Konsoma JLLC, Belarus and OOO Kesko Real Estate, Russia 2016: excluding Kesko Foor Rus, Russia, OOO OMA Belarus, 2017: Excluding Byggmakker Handel AS and Onninen AS Norway, Onninen AB and K-Rauta AB Sweden and OOO Onninen Rus Russia

Average hours of training per employee totalled 5.2 in Finland in 2017, and 6.3 hours in the other countries.

404-2 Programmes for upgrading employee skills and transition assistance programmes

Systematic, business-driven development of personnel is a critical factor for future success. The transformation of the trading sector and the increase in electronic transactions have created needs for new competencies. Key areas of competence building were:

- Leadership and management
- Digitalisation
- Customer experience; sales and service competences

Focus on digital competencies continued. We piloted trainings on LEAN and Agile development methods for management and managers, organised morning sessions for the whole personnel discussing the latest trends in digital development, and set up a digital agent network for the K-Rauta chain to support the implementation of digital services and tools at the stores.

We developed a new training portal for store staff: all training available can now be easily found in K-Academy. We developed customer service in the building and technical trade through a Rautaliiga programme for retailers and staff. For B2B sales, we developed an ABC programme for sales staff in Onninen Express.

The Master Sales Assistant customer service and sales training for all chains was organised for the 57th time. Store personnel were also offered vocational training and the opportunity to obtain vocational qualifications.

Our acquisitions were also reflected in competence building. By the end of 2017, 407 Siwas and Valintatalos had been converted into K-Markets. Each transfer entailed plenty of training for both the retailers and the staff.

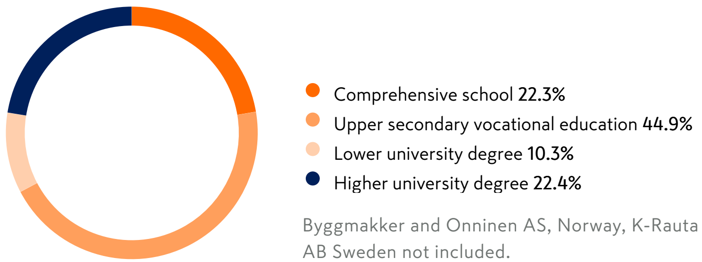
Future K-food retailers are trained in our K-food retailer training. In 2017, 66 new retailers completed the K-food retailer training. As the number of K-Markets grew, there was also an increasing number of retailers who were in charge of multiple stores, and we designed and launched a specific Luotsi leadership training programme to support them. 40 retailers took part in the training during the latter part of the year. The programme will continue on 2018.

We promoted the continuous development of existing retailers' competences by offering supplementary training.

Internal job rotation opens up possibilities for various careers options. In Finland, approximately 1,992 (4,837 in 2016) internal transfers took place in 2017, while the combined figure for the other operating countries was 2,637 (2,923 in 2016) (figures excluding internal transfers within K-Market Oy).

In Finland, K Group's recruitment is supported by the K Trainee and retailer coaching programmes. The seventh K Trainee programme began in May 2017 with 12 trainees, who have obtained permanent positions via the programme.

Distribution by education at 31 Dec. 2017, %



Byggmakker and Onninen AS, Norway, K-Rauta AB and Onninen AB Sweden not included.

404-3 Percentage of employees receiving regular performance and career development reviews

Performance and career development reviews and performance assessment of key personnel are carried out at all Kesko Group companies and operating countries. In the performance and career development reviews, the performance of the past period is evaluated and targets are set for the upcoming period, including a discussion on the development of the employee, managerial work and the working community. The implementation of performance and career development reviews was surveyed in conjunction with the personnel survey conducted at the end of 2017. The response rate to the personnel survey was 71%. Of the respondents, 80% had discussed their objectives and development with their manager during the past year.

The objective of performance evaluation is to give feedback on performance in the previous year, support the person's development and encourage enhanced performance. Uniform evaluation criteria enable equitable evaluation of performance and competence for all employees. Systematic and effective performance reviews provide important information and form a strong basis for other HR processes.

Job satisfaction

The personnel survey is one of the key tools for developing internal operating practices and developing the quality of managerial work. The whole personnel is given the chance to take part in the survey: the Group's common personnel survey is conducted simultaneously within the Kesko Group and some of the K-stores in Finland and other operating countries. A separate survey has been created for stores that do not take part in the Group's common survey, covering the same issues but comprising less questions.

The survey seeks to identify the commitment of personnel to the organisation, the operating methods that enable good work performance, the implementation of our shared operating principles, the occupational wellbeing of personnel, and satisfaction with the work of immediate managers and management. The survey results are used as the basis for agreeing upon development measures, which are integrated into the annual operational and personnel plan and the implementation of which is monitored.

We made changes to our personnel survey in 2017, adopting a new system that enables result monitoring both at group level and flexibly based on unit needs. In 2017, 13,400 employees from all our operating countries took part in the personnel survey (71% of target group). Results showed positive development in all eight question categories.

Diversity and equal opportunity

405-1 Diversity of governance bodies and employees

Equal opportunities, justice, non-discrimination and equality are important principles that are observed at Kesko. Kesko Corporation and its subsidiaries in Finland draw up statutory company-specific HR, training, equality and non-discrimination plans and define objectives for improvement. At the beginning of 2017, Kesko established the TASY gender equality working group in accordance with the non-discrimination plan, tasked with handling matters related to non-discrimination and equality within the Group. The working group includes representatives of the employer, personnel and labour protection functions. The working group analyses recruitment, career development and training, remuneration and the reconciliation of work and family life.

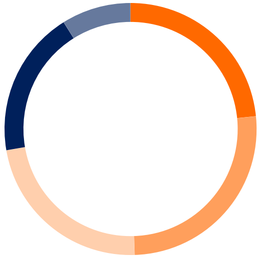
Of Kesko employees in Finland, 55.5% were women and 44.5% were men. In the other operating countries, the figures were 46.7% and 53.3%, respectively. In Finland, the average age of employees was 37 in 2017. In the other countries, the average age of employees varied from 35 to 46 years.

- Lengths of employee careers: under 10 years 66% and over 10 years 34% in Finland and 83% and 17% respectively in the other countries. Long careers are not rare: 1,173 employees have worked at Kesko for over 25 years.
- Two of the seven members of Kesko's Board of Directors were women.
- Two of the nine members of the Group Management Board were women.
- In the subsidiaries engaged in retailing in Finland, the proportion of women in managerial duties was significant: 89% of the department managers at K-Citymarket hypermarkets were women.
- At the end of 2017, 46% of all managers in Finland were women (46% in 2016) and 54% were men (54% in 2016). The corresponding figures for other countries were 47% and 53%, respectively.

In recent years, K Group has initiated projects to employ members of special groups:

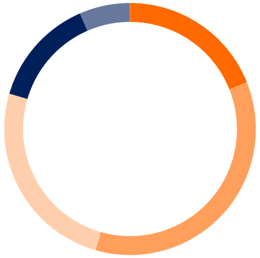
- In 2012, the K-Retailers' Association started a project named 'Many kinds of performers' in collaboration with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). A permanent operating model was created for employing people with developmental disabilities. Many of the people with developmental disabilities who were employed as part of the project are still working at K Group.
- In 2013, Kesko and the K-Retailers' Association launched the 'Youth Guarantee in K Group' programme, which aimed to provide a job, a work trial or an apprenticeship in K Group by the end of 2014 for 1,000 young people under 30, who were at high risk of social exclusion. The target group also included young immigrants and young people with disabilities. The employment of young people and special groups continues as a permanent operating model. The support for Kesko's managers and retailers in issues related to employing young people and special groups was moved to Kesko's centralised service centre in 2017. By the end of 2017, more than 3,800 young people from the target group had received a position in K Group with the help of a work trial, pay subsidy or apprenticeship training.

Age distribution of Kesko personnel in Finland in 2017, %



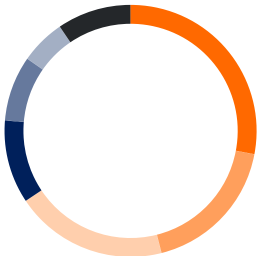
- under 26 years 23.4%
- 26–35 years 26.1%
- 36–45 years 22.8%
- 46–55 years 18.8%
- over 55 years 8.9%

Age distribution of Kesko personnel in the other operating countries in 2017, %



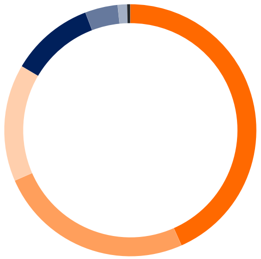
- under 26 years 19%
- 26–35 years 35.5%
- 36–45 years 25.1%
- 46–55 years 14%
- over 55 years 6.5%

Years of service in Finland in 2017, %



- under 2 years 28%
- 2–5 years 18.1%
- 6–10 years 19.6%
- 11–15 years 10.7%
- 16–20 years 8.4%
- 21–25 years 5.8%
- over 25 years 9.5%

Years of service in the other operating countries in 2017, %



- under 2 years 43.3%
- 2–5 years 25.1%
- 6–10 years 15%
- 11–15 years 10.7%
- 16–20 years 4.2%
- 21–25 years 1.2%
- over 25 years 0.4%

Equal opportunity for men and women

405-2 Ratio of basic salary and remuneration of women to men

The average annual salary of Kesko employees was €40,275 in Finland, €44,385 in the other Nordic countries, and €11,680 in the Baltic countries, Russia, Poland and Belarus. As the Kesko Group operates in many lines of business, the average salary is not a good indicator of salary level or structure. The wage groups and tables specified in the collective agreement are applied to jobs covered by the agreement, such as sales assistants and warehouse workers. Salaries are also influenced by role-based responsibility bonuses, years of experience and the cost-of-living category of the locality. Besides the role and its requirements, the salary of a senior clerical employee is determined by competence, experience, performance and results. Equality in remuneration is considered as part of annual company-specific equality plans. Gender is not a factor which influences remuneration, and no significant differences between comparable jobs have been detected. Equality plans strive to promote pay equality in jobs where comparisons can be made.

PERCENTAGE OF WOMEN BY EMPLOYEE CATEGORY, FINLAND

	2017	2016	2015
Top management	28.3	24.1	20.0
Middle management	22.6	20.0	21.1
Managers and specialists	45.2	41.9	46.4
Workers and white-collar employees	58.4	64.4	57.8
Total	**55.5**	**60.1**	**55.4**

The figures also include those called to work on demand

PERCENTAGE OF WOMEN BY EMPLOYEE CATEGORY, OTHER COUNTRIES

	2017	2016	2015
Top management	0.0	0.0	0.0
Middle management	56.2	49.1	47.7
Managers and specialists	49.1	48.4	54.4
Workers and white-collar employees	41.6	47.2	47.8
Total	**46.7**	**47.8**	**50.5**

2015: Excluding Senukai, Lithuania

GRI management approach

- Employment
- Labour/management relations
- Occupational health and safety
- Training
- Diversity and equal opportunity
- Equal remuneration
- Labour practices grievance mechanisms

Employment and labour and management relations

We want to be the most attractive workplace in the trading sector, with satisfied employees and competent managers. K Group offers varied career and personal development opportunities in a variety of jobs in the trading sector. In restructuring situations, Kesko complies with local legislation in all of the countries.

Health and safety at work

Kesko and K-stores are responsible for providing employees with a safe working environment and appropriate training and guidance for their work.

Development of personnel

Systematic, business-driven development of personnel is a critical factor for future success. The transformation of the trading sector and the increase in electronic transactions have created needs for new competencies.

Key areas of competence building are:

- Leadership and management
- Digitalisation
- Customer experience; sales and service competences.

Diversity and equal opportunities

A pluralist organisation that promotes diversity guarantees equal opportunities, rights and treatment to all. Equality, justice and non-discrimination are important principles which are observed at Kesko throughout the employment relationship. The most suitable person with the most development potential is selected for the job, and applicants are judged according to their competence, skills and accomplishments.

Remuneration

The objective of remuneration in Kesko is to encourage employees to exceed the objectives given and to motivate them to do long-term work in order to meet the goals of K Group. Remuneration is fair and is based on principles that are commonly known.

Policies, principles and commitments

HR management is based on Kesko's values and operating practices and the K Code of Conduct guidelines. Kesko's HR policy defines key operating principles in the various areas of HR management. The HR strategy defines HR management objectives, critical success factors and key development initiatives.

Kesko is a member of **Diversity Charter Finland**. The operations of Diversity Charter Finland are based on a charter that is signed by all members.

Monitoring and control systems

The personnel's ability to work is protected by creating a safe and supportive working environment. The goal of labour protection is to secure and maintain employees' ability to work and to prevent and avoid occupational injuries, occupational diseases and other physical and mental health hazards arising from work or the working environment.

Responsibilities and resources

- HR Management Board
- Kesko HR
- HR Service Centres
- Every manager

Programmes, projects and initiatives

Wellbeing at work programme

In the development of wellbeing at work, the objective is to increase job satisfaction and motivation, reduce sick leave, increase the retirement age and decrease premature pensions, and enhance the employer image. From 2016–2018, the wellbeing at work programme focuses on:

- Comprehensive development of OHS operations (Occupational Health and Safety) management by information
- Supporting personnel's ability to work and reducing sick leave
- Developing occupational safety models and strengthening the role of labour protection
- Promoting Employee Engagement particularly through managers' work development and ensuring good management in times of change

Employment of disabled people and people with partial work capacity

In 2012, the K-Retailers' Association launched a project called 'Many kinds of performers' in cooperation with the Finnish Association on Intellectual and Developmental Disabilities (FAIDD). Read more in 405-1.

Employment of young people

The employment of young people continues as a permanent model in accordance with the 'Youth Guarantee in K Group' programme.

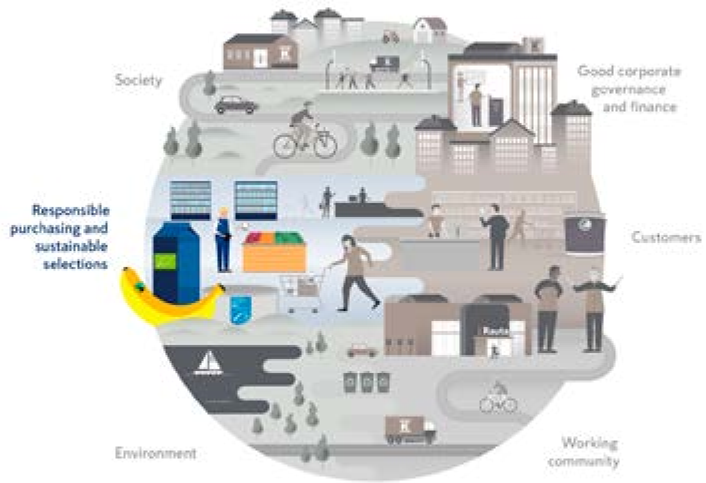
Grievance mechanisms

- Discussion with manager
- Direct Line feedback channel
- SpeakUp reporting channel

Boundaries

Working community	Kesko

Responsible purchasing and sustainable selections



We purchase and sell responsibly and support our customers in making sustainable choices

- We develop our product selections while listening to customers.
- We ensure responsibility in the supply chain.
- We are accountable for the safety and quality of products.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Supply chain	The social responsibility of the production of own direct imports from high-risk countries has been assured. GRI 414-1, 414-2	A total of 157 of Kesko's suppliers' factories or plantations underwent full amfori BSCI audits. In addition, 146 suppliers' factories or plantations underwent amfori BSCI follow-up audits. At the beginning of 2018, Kesko's suppliers in high-risk countries had a total of 423 valid social responsibility audits. Two responsibility trainings were arranged for the ICA Global Sourcing (IGS) suppliers: 24 suppliers took part in the Hangzhou training in China and 23 suppliers in the Delhi training in India. As part of our cooperation with Plan International Finland, three amfori BSCI supplier trainings were arranged in Bangkok, Thailand. A total of 25 suppliers from the Thai fishing industry took part in the trainings. Continuing our human rights assessment we conducted a review of working conditions in the supply chain of grapes in collaboration with the Trade Union Solidarity Centre of Finland (SASK).	210 BSCI full audits and 60 BSCI re-audits were conducted in the factories and farms of Kesko's suppliers in high-risk countries. At the beginning of 2017, Kesko's suppliers in high-risk countries had a total of 386 valid social responsibility audits. The social responsibility of the production of Kesko's grocery trade's own direct imports from high-risk countries was 100% assured. Kesko Onninen Purchasing Office (KOPO) started operations in Shanghai, China. Kesko's grocery trade and ICA Global Sourcing launched a sourcing cooperation in the home and speciality trade. As part of the human rights assessment, we conducted a human rights survey at factories in high-risk countries in cooperation with the Trade Union Solidarity Centre of Finland (SASK). The country-specific reports by SASK provided valuable information for the development of our operations. We forwarded the information received to BSCI in order to develop the audit procedure.	Kesko's suppliers in high-risk countries had 200 factories or farms within the scope of the BSCI process. 107 BSCI full audits and 80 BSCI re-audits were conducted in the factories and farms of suppliers in high-risk countries. The social responsibility of the production of Kesko's grocery trade's own direct imports from high-risk countries was 100% assured. We continued our work related to the human rights impact assessment. We published the manufacturing plants of private label and own import clothes, accessories, shoes and bags operating in high-risk countries on our website.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
	We assure the responsibility of the ingredients (Tier 2) of private label Pirkka and K-Menu food products. GRI 414-1, 414-2	The responsibility of ingredients used in 150 new Pirkka and K-Menu food products was assessed using our own risk analysis tool. Based on the risk analysis, 20 products contained ingredients which require further investigation in terms of the social responsibility of the producer. Our analysis of ingredients in our own brand products received recognition at the annual meeting of amfori (previously Foreign Trade Association, FTA). Thanks to the risk analysis, Kesko was elected among the top three finalists of the FTA member of the year award.	We continued work in order to assure the responsibility of ingredients in the own-brand grocery products. We conducted ingredient risk assessments on 160 new Pirkka or K-Menu food products. Among these, 29 products contained ingredients which require further investigation in terms of responsibility.	Using the risk assessment tool, we started the process of assuring the responsibility of the ingredients of Pirkka and K-Menu products. We established the origin of the ingredients of 1,923 own-brand grocery products. Among these, 233 contained ingredients which require further investigation concerning the responsibility of the ingredient manufacturer based on the risk assessment.
	We identify and take account of water risks in our supply chain.	Our water risk assessment work continued and we aim to use the results to plan actions.	The water risk assessment is in progress and the aim is to use the results to plan actions.	We initiated a water risk assessment for our own brand products in order to identify the water basins most affected by water scarcity and contamination issues in our supply chain. The target is to conclude the water risk assessment in 2016.
Statements and policies	Fish and shellfish: The selections of Kesko's grocery trade and K-food stores do not include species on the red list of the WWF's fish guide. Kesko's grocery trade and K-food stores promote green list species in their selections. When making decisions concerning selections, we favour sustainable stocks of fish and MSC- and ASC-certified suppliers. K Group's fish and shellfish policy has been in effect since 2008.	The retail selection of Kesko's grocery trade included 196 MSC-certified fish products, of which 41 were Pirkka products and 1 K-Menu product. Our selections had 7 ASC-certified products, of which 4 were Pirkka products. Kespro's HoReCa selection had a total of 304 MSC-certified products, of which 30 were Menu products. Kespro's selection had 10 ASC-certified products, of which 2 were Menu products.	The retail selection of Kesko's grocery trade included 178 MSC-certified fish products, of which 37 were Pirkka products. Kespro was granted MSC and ASC traceability certificates. All stages of Kespro's fish and shellfish supply chain have been audited, and Kespro and its certified customer restaurants can use the MSC and ASC ecolabelling in their marketing. Kespro's HoReCa selections included nearly 300 MSC- and ASC-certified products, and the number continues to grow. Kespro's Menu range had more than 25 MSC-certified products and 2 ASC-certified ones.	The Pirkka range included 41 MSC-certified fish products.
	Palm oil: By 2020, all palm oil in our own brand groceries will be responsibly produced (CSPO).	Some 82% of the palm oil in Kespro's Menu food products sold in 2017 was sustainably produced (CSPO), of which 0.2% was Identity Preserved, 74.3% Segregated, 20.7% Mass Balance, and 4.9% RSPO credits. Some 43% of the palm oil in Pirkka and K-Menu food products sold in 2017 was sustainably produced (CSPO), of which 19% was Segregated, 79% Mass Balance, and 2% RSPO credits.	Approximately 34% of the palm oil in our own brand groceries (Pirkka, K-Menu and Kespro's Menu) was certified sustainable palm oil (CSPO).	Approximately 20% of the palm oil in the Pirkka food products was certified sustainable palm oil (CSPO).

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
	Soy: By 2020, all soy used in the production chain of our own brand products will be responsibly produced, and be either RTRS or ProTerra certified. The policy concerns ingredients of soy origin in grocery trade's own brand food products and soy fodder used in the production of products of animal origin.	We reviewed the share of responsibly produced soy in our own brand food products and their supply chain. The soy used in our own brand food products (Pirkka, K-Menu and Kespro's Menu) sold in 2017 and their supply chain was not yet responsibly produced.	We were a founding member in the Finnish soy commitment group, which started operations in February 2016. The members of the Finnish soy commitment group pledge to ensure that by 2020 all the soy used in the production chain of their private label products will be responsibly produced, and be either RTRS or ProTerra certified. The commitment covers both the Finnish production chain and sourcing from other countries. We joined the Round Table on Responsible Soy (RTRS) and thereby committed to promote responsibility in the production chain of soy on a long-term and target-oriented basis.	The objective was added in 2016.
	Timber and paper: By 2025, there will be only sustainable origin timber and paper products in Kesko's product range. Timber and paper products will be FSC or PEFC certified or made of recycled materials. In the grocery trade, the policy applies to our own brand products.	In 2013, Kesko's building and technical trade was awarded the PEFC certificate, which covers sawn pine and spruce timber and processed timber as well as the wholesale distribution of MDF boards in Finland (percentage-based method). The average PEFC certification percentage in 2017 was 89.7% for pine and 85.5% for spruce. Of the timber and paper products in the grocery trade's Pirkka and K-Menu ranges, 54% contained sustainable raw material. In Kespro's Menu range, 14% of timber and paper products contained sustainable raw material.	The average PEFC certification percentage was 91.2% for pine and 84.6% for spruce. We are investigating the opportunities to expand the timber policy to cover the entire Group.	The PEFC certification percentage is announced monthly at Kesko's web pages.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
	Plastic: We promote the recycling and reuse of plastics. We create operating models that prevent plastics from ending up in the environment. We seek alternatives to plastic as a packaging material. By means of consumer communications, we will increase the sales share of alternative shopping bags (cotton bags, reusable bags and jute bags) and cardboard boxes to 10% by 2025. We look for solutions to replace PVC as a material.	We removed environmentally harmful microbeads from all our own brand cosmetic products. During 2018, microplastics will be removed from all our own brand detergents. The Pirkka ESSI circular economy bags were introduced to K-food stores' shopping bag selections at the start of 2017. The bags are made of over 90% recycled materials, around half of which is plastic packaging separately collected from households. By the end of 2017, small thin plastic bags were only available at checkouts by request for e.g. flowers. We reduced the consumption of small plastic bags by 20% in 2017. We successfully piloted the new wood fibre-based EcoFishBox produced by Stora Enso in K-food stores. Since 2017, K Group gift cards have been made from PVC-free materials. In Onninen Express stores in Finland, regular customers have been handed shopping baskets that the customers can use to carry products to their construction site and bring back the next time the visit the store.	We published our plastics policy in October 2016 and pledged to implement measures aiming at reducing the use of plastic bags. Plastic bags have been subject to a charge in the K Group's grocery stores as well as building and home improvement stores, and, at the beginning of 207, they became subject to a charge in the agricultural and machinery stores as well as in furniture stores. By the end of 2017, thin small plastic bags will no longer be available at the checkout. Our selections offer alternatives to plastic bags; reusable bags, cotton bags, jute bags as well as paper bags and bags made of recycled plastic. The share of paper bags in the sales of all different shopping bags was approximately 1.5% and that of reusable bags was approximately 1.5%. In spring 2017, we included the Pirkka ESSI circular economy bags made by Amerplast Oy in our selections. They are manufactured from plastic packaging waste recycled by households through the Rinki eco-points. We will discontinue the use of microplastics in our private label cosmetics brand products in 2017. The packaging of our private label cosmetics does not contain PVC. We will discontinue using PVC as the material for Kesko's gift cards in 2017. We will work to eliminate PVC from the material of the K-Plussa card in 2017.	More reusable bag alternatives were added to the grocery store selections: a new Vallila design, a Summer Day bag, and a Red Nose Day bag.
Own brands with responsibility labelling	We offer an extensive selection of own brand products with responsibility labelling.	The Pirkka range had 37 Pirkka Fairtrade products, 116 Pirkka Organic products, 41 Pirkka MSC-certified fish products, 35 UTZ-certified products, 76 Nordic Swan label products, 137 products with the Key Flag symbol, 88 Seed leaf label products, 220 Hyvää Suomesta (Produce of Finland) products, and 5 products with the Finnish allergy label (Allergiatunnus). Kespro's Menu range had 4 Fairtrade products, 5 organic products, 30 MSC-certified products, 2 ASC-certified products, 15 products with the Nordic Swan ecolabel, 10 UTZ-certified products, 21 products with the Key Flag symbol, 4 Hyvää Suomesta (Produce of Finland) products and 23 Seed leaf label products. In the building and technical trade, the Cello range had 411 Key Flag products, 30 Nordic Swan label products, 35 M1 label products, and 116 products with the Finnish allergy label (Allergiatunnus).	The Pirkka range included 36 Pirkka Fairtrade products, 118 Pirkka Organic products, 37 Pirkka MSC-certified fish products, 32 Pirkka UTZ-certified products and 65 Nordic Swan label products. All Pirkka and K-Menu coffees are Fairtrade or UTZ-certified. The Pirkka range includes 15 Fairtrade or UTZ-certified chocolate and baking chocolate products. In 2017, all Pirkka range chocolates will be Fairtrade or UTZ-certified. Kespro's Menu range included 7 Fairtrade products, 5 organic products, 25 MSC-certified products, 2 ASC-certified products, 13 products with the Nordic Swan ecolabel, and 5 UTZ-certified products. All interior and exterior paints in the K-Rauta's Cello range carry the Nordic Swan ecolabel. 62 Cello products carried the M1 label and 105 Cello products had the Allergy Label. 15 products in the PROF range carried the M1 label.	The Pirkka range included 40 Pirkka Fairtrade products, 134 Pirkka Organic products, 41 Pirkka MSC-certified fish products, and 17 Pirkka UTZ-certified products.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Product safety	The product safety of K Group's selections has been verified. The Product Research Unit's laboratory monitors the product safety and quality of the own brand products and own imports in the grocery trade. All of our food product operations have a self-control plan in place. GRI 416-1, 416-2, 417-1	The Product Research laboratory analysed 7,350 product samples and conducted 15,076 analyses. In total, 522 suppliers of Kesko's own brands of food products have international audit certifications that assure product safety. The number of own audits was 59.	The Product Research laboratory analysed 7,770 product samples and conducted 17,176 analyses. The product safety of 503 suppliers was verified by means of a certified auditing procedure. The number of own audits was 58.	The Product Research laboratory analysed 8,037 product samples and conducted 20,396 analyses. Seven audits were performed.

Supplier social assessment

414-1 Suppliers that were screened using social criteria,

414-2 Negative social impacts in the supply chain and actions taken

Purchasing from high-risk countries

In 2017, direct purchases by Kesko's Finnish companies from suppliers in high-risk areas totalled €106 million (2016: €85 million) and accounted for 1.2% (2016: 1%) of Kesko's total purchases. Direct imports from high-risk countries accounted for approximately 13.9% (2016: 11.9%) of Kesko's total imports into Finland. The most significant high-risk countries of import for Kesko's Finnish companies are presented in the map below. No statistics are available on direct imports from high-risk countries in Kesko's other operating countries.

High-risk countries typically produce clothing and home textiles, shoes and other leather goods, furniture, interior decoration items, tools, sports equipment, toys, agricultural products (such as coffee, tea, cocoa, fruit, vegetables, wines) and canned fish, fruit and vegetables.

Kesko annually publishes on its **website** a list of factories that operate in high-risk countries manufacturing Kesko's own-brand clothing and shoes to be directly imported by Kesko. The list is updated once a year, most recently on 31 August 2017.

Social responsibility audits of suppliers in high-risk countries

Kesko is a member of amfori, a leading global association dedicated to promoting open and sustainable trade. Kesko takes part in amfori BSCI and recommends the use of amfori BSCI audits in the assessment of social responsibility of suppliers in high-risk countries. Kesko also accepts other assessment systems of social responsibility if their criteria correspond to those of amfori BSCI auditing and if the audit is conducted by an independent party.

As part of the sourcing cooperation between Kesko's grocery trade and ICA Global Sourcing, Kesko also accepts the ICA Social Audit. In that case, however, suppliers are required to adopt a third-party auditing approved by Kesko after a maximum of two ICA audits.

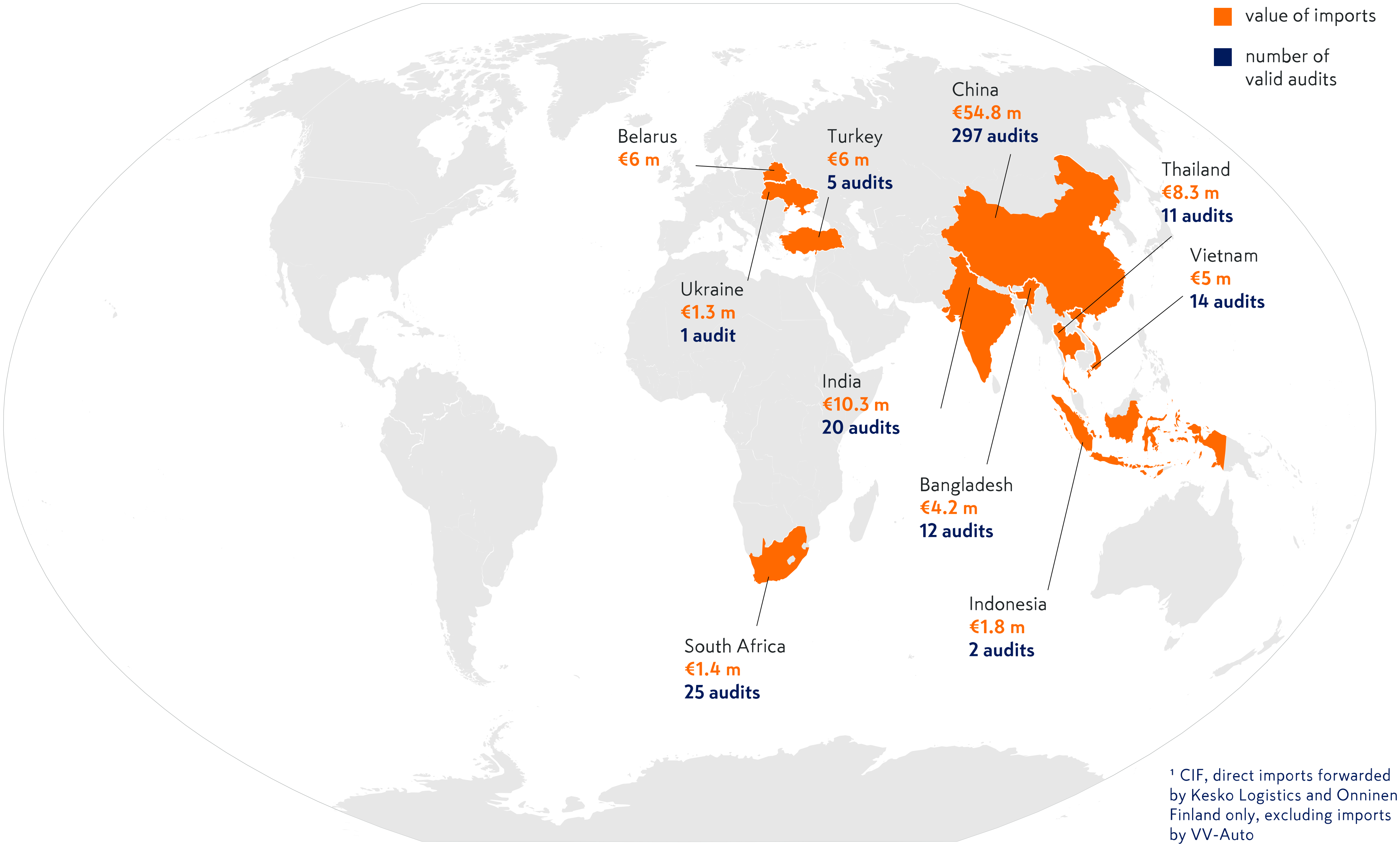
The social responsibility auditing systems accepted by Kesko are listed in the section **Monitoring and control systems**. Some of Kesko's suppliers are themselves amfori members and thus promote amfori BSCI audits in their own supply chains.

At the beginning of 2018, the factories and farms of Kesko's suppliers in high-risk countries had:

- 291 (start of 2017: 274) valid amfori BSCI audits
- 15 (start of 2017: 13) valid SA8000 certifications
- 30 (start of 2017: 24) valid SMETA audits
- 45 (start of 2017: 24) valid ICA Social Audits
- 22 (start of 2017: 22) valid SIZA audits
- 11 (start of 2017: 11) valid Fairtrade certifications
- 2 (start of 2017: 5) valid ICS audits
- 5 (start of 2017: 11) valid ICTI CARE certifications
- 1 (start of 2017: 2) valid WRAP certification
- 1 valid WIETA certification

Kesko's principle in high-risk countries is to collaborate only with suppliers that are already included in the scope of social responsibility audits or that start the process when the cooperation begins. Kesko's grocery trade requires all of its suppliers in high-risk countries to have been audited. It will not enter into collaboration with new suppliers unless they have passed an acceptable audit.

SUPPLIERS' SOCIAL RESPONSIBILITY AUDITS IN KESKO'S 10 LARGEST HIGH-RISK COUNTRIES OF IMPORT[1]



[1] CIF, direct imports forwarded by Kesko Logistics and Onninen Finland only, excluding imports by VV-Auto

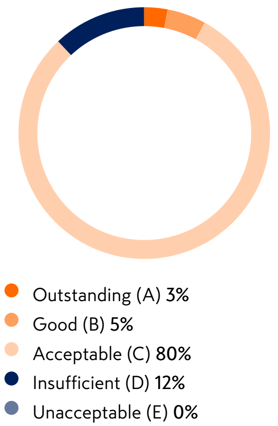
Results of amfori BSCI audits

In 2017, a total of 157 (2016: 210) of Kesko's suppliers' factories or plantations underwent full amfori BSCI audits. In addition, 146 (2016: 60) suppliers' factories or plantations underwent amfori BSCI follow-up audits.

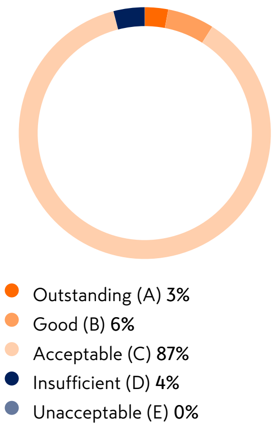
The results of the 2017 amfori BSCI audits of Kesko's suppliers' factories and farms are shown below. The majority of the deficiencies occurred in management practices, observance of working time regulations, and matters related to occupational health and safety. Corrective actions and monitoring are included in the audit process. In accordance with the amfori BSCI operating model, a full audit is conducted at factories every two years to assess every sub-area of the auditing protocol. If a factory receives an audit result of C, D or E, a follow-up audit within 12 months must be arranged to assess the deficiencies identified in the full audit and the corrective measures implemented to address them.

Kesko does not terminate cooperation with a supplier that undertakes to resolve the grievances specified in the audit report. In 2017, Kesko decided to terminate cooperation with six factories due to ambiguities related to social responsibility. A consensus could not be reached with the factories regarding necessary corrective actions.

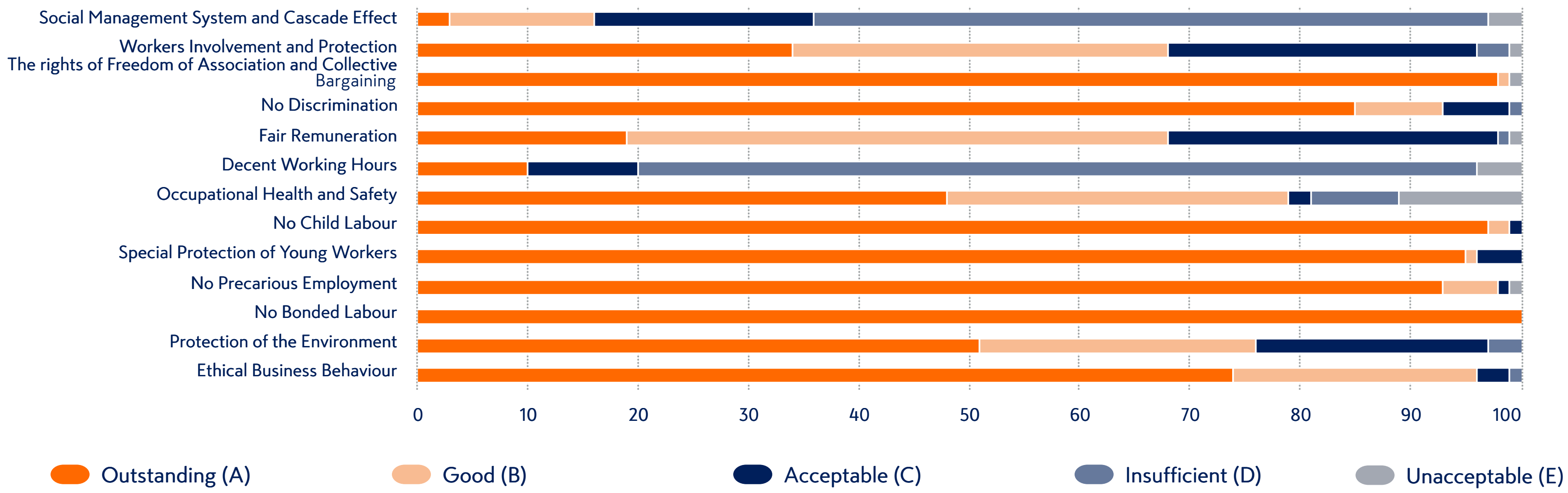
Kesko's amfori BSCI audit results in 2017, full audits



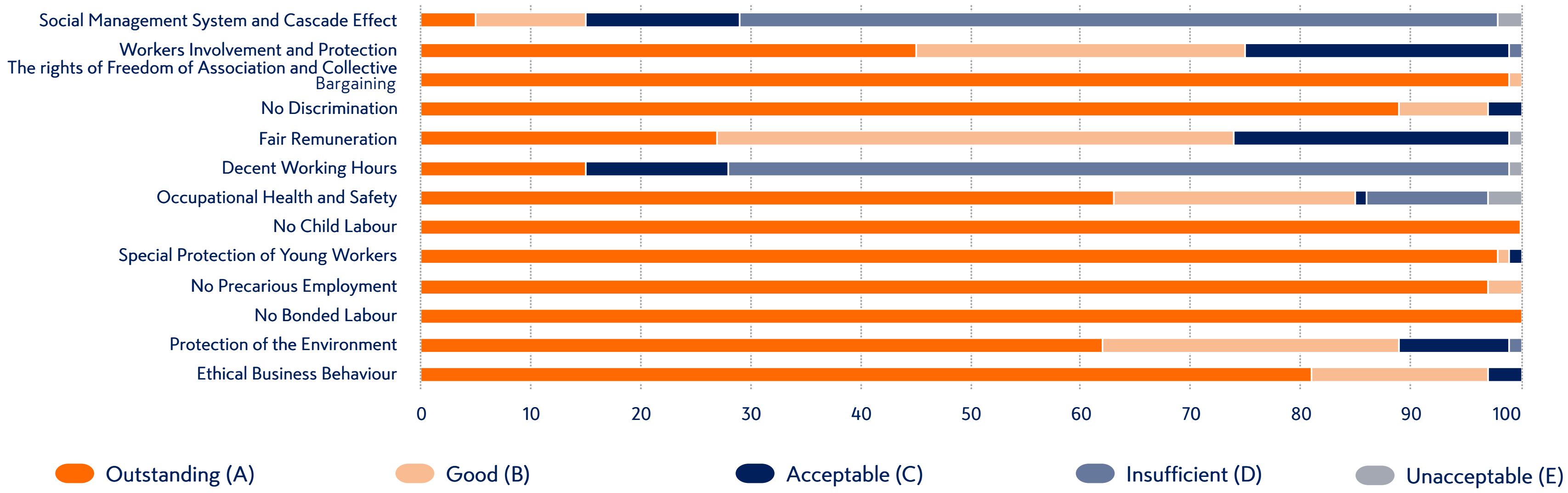
Kesko's amfori BSCI audit results in 2017, follow-up audits



Kesko's amfori BSCI audit results, distribution in different areas in 2017, full audits



Kesko's amfori BSCI audit results, distribution in different areas in 2017, follow-up audits



Fairtrade products

Kesko's grocery trade has an extensive collaboration agreement with Fairtrade Finland. The K-food trade chain concepts and K-retailers determine the selections of Fairtrade products at store level.

- In 2017, Kesko's grocery trade selections included 300 (2016: 367) Fairtrade products, of which 37 (2016: 36) were Pirkka products and 4 (2016: 7) were Kespro's Menu products.
- In 2017, the products sold by Kesko's grocery trade generated Fairtrade premiums for social development projects amounting to €719,225 (2016: €649,459).

In 2017, the products generating the largest Fairtrade premiums were Fairtrade flowers (€271,672), coffee (€224,537) and fruit (€142,975). According to Faitrade statistics, the Fairtrade coffees sold by Kesko grocery trade in 2017 employed approximately 800 small-scale coffee farmers on Fairtrade's terms.

Kesko and Plan's collaboration in Thailand

Kesko and Plan International Finland, an organisation promoting children's rights, cooperate to improve the responsibility of the Thai fishing industry and the position of migrant workers. The collaboration has been agreed for the period of 2015-2018, and it is part of a larger project funded by the Swedish International Development Cooperation Agency (SIDA) and the American Richard and Helen DeVos Foundation in Thailand and Cambodia.

The project aims to improve the working conditions of Cambodian migrant workers, as well as education and protection for their children in Thailand. The collaboration with Plan also improves the transparency of the supply chain of Kesko's fish products.

As part of the project, two learning centres were established for children of migrant workers in the Rayong and Trat provinces in 2015. The learning centres provide the children with the skills they need to attend public schools in Thailand and support them in continuing their studies. In 2017, 50 girls and 38 boys aged between 4 and 17 were registered at the learning centres. The project helped 40 girls and 60 boys move onto public schools in Thailand. Between 2015 and 2017, a total of 944 children have registered at the learning centres and 212 children have moved onto public schools.

Amfori BSCI training for suppliers continued in 2017: there were two general training sessions and one advanced-level training in Bangkok. A total of 25 suppliers from the Thai fishing industry took part in the trainings. The general training covered the amfori BSCI Code of Conduct, UN and ILO human rights and labour conventions, and the Thailand national labour protection legislation. The advanced training gave the suppliers tools for their own promotion and supervision of social issues. Supplier training will continue in 2018.

Read more about our **collaboration with Plan**.

Supplier training in China and India

Kesko and the Swedish ICA have worked together on sourcing via ICA Global Sourcing (IGS) in Asia since 2016. The cooperation concentrates on the sourcing of home and speciality goods sold at K-food stores. Assuring the social responsibility of suppliers' factories and securing product quality form a central part of the purchasing process. IGS has offices in China, Hong Kong, Vietnam, Bangladesh and India. The local IGS corporate responsibility team is, together with Kesko, in charge of assuring the social responsibility of factories.

In 2017, responsibility training was arranged for IGS suppliers in Hangzhou, China and Delhi, India. The training covered Kesko's social responsibility requirements for suppliers, the factory auditing process, and requirements related to product quality and safety. Questions from the suppliers concerning responsibility were also addressed.

24 suppliers took part in the Hangzhou training and 23 suppliers in the Delhi training. Representatives of IGS and Kesko's responsibility unit were also present.

Read more about our **cooperation with IGS**.

Risk assessment of ingredients in Pirkka and K-Menu food products

Kesko's objective is to identify the entire supply chain of products and to assure the social responsibility of their ingredients. The work to analyse the origins of the ingredients of Pirkka and K-Menu food products and related risk analysis began in 2015 and continued in 2017.

The responsibility of ingredients used in 150 new Pirkka and K-Menu food products was assessed in 2017 using our own risk analysis tool. Based on the risk analysis, 20 products contained ingredients which require further investigation in terms of the social responsibility of the producer. Between 2015 and 2017, a risk analysis has been conducted on the ingredients of 2,233 own brand food products.

In summer 2017, Kesko's risk analysis of ingredients in its own brand products received recognition at the annual meeting of amfori (previously Foreign Trade Association, FTA). Thanks to the risk analysis, Kesko was elected among the top three finalists of the FTA member of the year award.

The study of the ingredients of own brand food products will continue in 2018. Based on the results, we intend to decide upon ingredient-specific follow-up measures to promote the sustainability of the supply chains of Pirkka and K-Menu products.

Customer health and safety

416-1 Assessment of the health and safety impacts of product and service categories,

416-2 Incidents of non-compliance concerning the health and safety impacts of products and services

The activities of the Product Research Unit of Kesko's grocery trade include assessing the impacts of products on health and safety. Manufacturers of Kesko's own brand food products must have international certifications that assure product safety. The standards approved by Kesko's grocery trade include: BRC, IFS, FSSC 22000 and GlobalGAP. In 2017, the total number of certified suppliers was 581 (561 in 2016). This number also includes old audits conducted according to Kesko's grocery trade's own audit guidelines.

A total of 7,350 product samples were analysed (7,770 in 2016). Most of them were related to the product development of own brands. A total of 2,395 own control samples were analysed (2016: 2,387).

When developing own brand products, Kesko's grocery trade pays special attention, in line with its strategy, to the health aspects of the products.

As proposed in The EC White Paper on Nutrition, Overweight and Obesity-related Health Issues, sugar, saturated fat and salt were reduced in more than 150 Pirkka products during the period 2007–2013. The health aspects of new Pirkka products are taken into account at the product development stage.

The National Nutrition Council of Finland published its nutrition commitment operating model in June 2017. The nutrition commitment is the Finnish contribution to the EU Roadmap for Action on Food Product Improvement framework's reformulation programme.

K Group joined the nutrition commitment by making a vegetable commitment, which encourages K-food store customers to increase their use of vegetables through the following actions, which extend to year 2020:

- By 2020, at least 400 K-food stores will have dedicated 'veggie shelves' for vegetable protein products. In 2017, some 250 K-food stores had a veggie shelf.
- We will organise at least 250 vegetable-related campaigns at K-food stores each year (2018–2020). In 2017, K-food store chains organised 240 vegetable campaigns.
- We will add at least 50 new fruit or vegetable products to our selections by 2020. In 2017, we added 55 new fruit and vegetable products to our selections.

In 2016 and 2017, a study on the likelihood of food fraud was conducted and a fraud control plan was prepared (Vulnerability Assessment and Critical Control Points, VACCP). 77 threats of fraud were identified. Six of them were assessed to be critical control points, which are analytically monitored by fraud control on a regular basis, in addition to normal product and supplier assurances.

In 2017, there were 140 product recalls in Kesko's grocery trade (99 in 2016). Of these, 33 were Kesko's grocery trade's own brand products (26 in 2016). In the other cases, Product Research assisted the manufacturers in recalls. There were 4 public recalls involving a potential health hazard resulting from product flaws or defects in Kesko's grocery trade's own brand products in 2017 (2 in 2016).

K-Rauta had two (1 in 2016) and Onninen three (4 in 2016) recalls in 2017. Konekesko had one public recall in 2017 (0 in 2016), which constituted the only public recall for the building and technical trade division that year.

In 2017, there were no legal proceedings or fines related to product health or safety.

Marketing communications and product information

417-1 Requirements for product and service information and labelling

On the product labelling of its own brand products and imports, Kesko complies with all related legislation. Key regulations include:

- Food product labelling: EU food information regulation (EU) No 1169/2011 and complementary acts
- Product labelling related to safe use of consumer goods: Directive 2001/95/EC on general product safety (and related corresponding national legislation in Kesko's operating countries)
- Warning labelling for chemicals: CLP regulation EC 1272/2008 on the classification, labelling and packaging of chemicals
- Labelling for electrical equipment: various product segment specific directives (and related corresponding national legislation in Kesko's operating countries)
- Toy labelling: Directive 2009/48/EC on toy safety (and related corresponding national legislation in Kesko's operating countries)
- Package labelling for cosmetics: Regulation (EC) No 1223/2009 on cosmetic products

The name and location of the manufacturer are indicated on all Finnish Pirkka products and on all K-Menu products. Foreign Pirkka products carry the name of the country of manufacture. Country of origin is indicated on all own brand products of K-Citymarket and Kesko's building and technical trade.

The country of origin of meat is disclosed in accordance with regulation (EU) No 1337/2013. As ingredients, meat and dairy are labelled in accordance with the national decree MMM 218/2017.

In addition to statutory package labelling, voluntary labelling can be added to inform the consumer of matters related to corporate responsibility. Such labelling may include organic labels and ecolabelling, as well as labelling indicating social responsibility.

The own brand products of Kesko's grocery trade bear material symbols on their packaging. These symbols help and guide consumers to recycle packaging materials. Chemicals that are hazardous to the environment have warning labelling in accordance with the CLP regulation.

417-2 Incidents of non-compliance concerning product and service information and labelling

Engine software adjusting nitrogen oxides

In September 2015, the California Air Resources Board (CARB) and the Environmental Protection Agency (EPA) uncovered engine software that adjusted nitrogen oxides in Volkswagen Group's type EA 189 cars with 1.2 litre, 1.6 litre and 2.0 litre diesel engines.

As far as the brands represented by VV-Auto are concerned, the number of such cars in Finland was identified at 53,000. The case applies to all of the brands imported by VV-Auto: Volkswagen, Audi, SEAT and Volkswagen Commercial Vehicles.

The recalls and repairs of Volkswagen, Audi and SEAT 2.0, 1.6 and 1.2 litre EA 189 diesel cars (SEAT service campaign) proceeded at the planned schedule in Finland in 2017.

By the end of the year, a software update was available for all of the approximately 53,000 cars, and some 47,000 cars (88.4%) had been fully updated.

After the corrective measures, the cars meet the requirements of the EU5 emissions standard. The corrective measures do not affect the car's fuel consumption, engine power, CO_2 emissions, driving behaviour or acoustics.

Product recalls resulting from defective product labelling

On the product labelling of its own brand products and imports, Kesko complies with EU and Finnish legislation.

In 2017, there were 39 product recalls resulting from defective product labelling (24 in 2016), of which 9 (7 in 2016) were Kesko's own brand products.

GRI management approach

Material aspects

- Compliance of products and services
- Customer health and safety
- Assessment of suppliers' working conditions
- Human rights
- Marketing communications

Policies, principles and commitments

Responsible purchasing is guided by **Kesko's purchasing principles**.

The principles are based on national labour protection legislation and corresponding conventions of the International Labour Organization (ILO), which are applied when national legislation does not correspond to the same level. In its operations, Kesko pays special attention to human rights issues and working conditions in its supply chain and, in monitoring these, primarily focuses on suppliers in **high-risk countries**. In accordance with the **amfori BSCI** (Business Social Compliance Initiative), high-risk countries are countries and areas where there is a risk of human rights and workers' rights violations. The classification is based on the World Bank's Worldwide Governance Indicators.

Kesko and K Group stores are responsible to the products' end-users for ensuring that the products comply with all the requirements of Finnish and EU legislation, are safe for users and meet quality and other promises. Kesko's product labelling and marketing communications comply with legislative requirements and the recommendations of authorities.

Kesko and K Group stores want to support customers in making sustainable choices and offer a wide selection of products with responsibility criteria.

Kesko's policy on chemicals applies to home textiles, clothing, leather goods, shoes and upholstered furniture. Based on EU and Finnish legislation, it lists the chemicals which are prohibited or the quantity of which is restricted in the products supplied to Kesko. In addition, for substances of very high concern, Kesko sets restrictions that are stricter than those set in legislation.

Kesko's plastics policy promotes recycling and the reuse of plastics. The objective of the operating model is to prevent plastics from ending up in bodies of water and elsewhere in the natural environment.

Various product **group-specific responsibility policies and statements**, such as the palm oil policy, the fish and shellfish statement, the timber and paper policy, and the stand on the sandblasting of jeans, have been prepared to support purchasing operations.

Programmes, projects and initiatives

- **'Principles and Practice of Socially Responsible Trading' guide**

Responsible choices are communicated to customers in stores according to the K-responsibility concept within-store communications, such as shelf labelling and product labelling. The selection and marketing policies of organic, eco-labelled and Fairtrade certified products are included in K-food stores' chain concepts. The K responsibility concept is in use in K-food stores and K-Rauta stores.

In 2016, Kesko joined the **amfori BSCI Sustainable Wine Programme programme**. The programme focuses on improving the social responsibility and environmental responsibility of wine production and its goal is to increase transparency and traceability in wine production.

In 2016, Kesko became a member of **the Centre for Child Rights and Corporate Social Responsibility** (CCR CSR) based in China. The objective of CCR CSR is to prevent and reduce child labour, improve the status of young workers at factories, and make the daily life of migrant worker parents easier. Kesko participates in the Virtual Working Group of the organisation.

Monitoring and control systems

CERTIFICATION AND AUDIT SYSTEMS RELATED TO PRODUCTION IN HIGH-RISK COUNTRIES APPROVED BY KESKO

Certification/Audit system	Product group	Coverage of criteria
amfori BSCI (amfori Business Social Compliance Initiative)	All product groups	Social, limited environmental part
SA8000	All product groups	Social
SMETA	All product groups	Social, limited environmental part
ICS	All product groups	Social
Fairtrade	Agricultural products incl. cotton	Social, environmental
Rainforest Alliance	Agricultural products	Social, environmental
Pro Terra	Agricultural products	Social, environmental
MPS-Socially Qualified	Agricultural products	Social
Soil Association Ethical Trade	Agricultural products	Social
Sustainability Initiative of South Africa SIZA	Agricultural products	Social, environmental
Sustainably Grown	Agricultural products	Social, environmental
UTZ Certified	Coffee, cocoa, tea	Social, environmental
RSPO (Roundtable on Sustainable Palm Oil)	Products containing palm oil	Economic, environmental, social
RTRS (Round Table on Responsible Soy)	Soy	Economic, environmental, social
WIETA	Wines	Social
Vinos de Chile	Wines	Social, environmental
MSC (Marine Stewardship Council)	Caught fish and shellfish	Environmental (sustainable fishing)
ASC (Aquaculture Stewardship Council)	Farmed fish and shellfish	Social, environmental
Florverde Sustainable Flowers	Flowers	Social, environmental
FLA (Fair Labor Association)	Consumer goods	Social
FWF (Fair Wear Foundation)	Clothing	Social
GOTS (Global Organic Textile Standard)	Textiles, hygiene products (organic)	Social, environmental
WRAP (Worldwide Responsible Accredited Production)	Textiles, shoes	Social
IMO Fair for Life	All product groups	Social, economic
FSC (Forest Stewardship Council)	Wood products and timber	Social, environmental
ICTI CARE	Toys	Social
PEFC (Programme for the Endorsement of Forest Certification)	Wood products and timber	Social, environmental
ICA Social Audit *	Consumer goods	Social

* Conditional approval. A maximum of two IGS audits are approved after which the supplier must adopt amfori BSCI audit or some other approved audit conducted by an independent party.

Supplier agreements require that suppliers and service provides comply with the principles of the K Code of Conduct and the BSCI Code of Conduct.

Kesko's grocery trade requires that the manufacturers and producers of its own-brand products have an international food safety certification. Kesko's grocery trade approves the following audit procedures: BRC, IFS, ISO/FSSC 22000, SQF1000/2000 and GlobalGAP, IP basic certification for vegetables, or IP-Sigill.

The Product Research Unit's laboratory monitors the quality of products sold by K-food stores and K-Citymarket hypermarkets. It is a testing laboratory T251 which has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard.

The assessment of a store's responsible operations comprises the store's annual self-assessment, the criteria defined in the store's quality system and a responsibility audit performed by an external party on a specified sample. The auditor reports the results to the store and to Kesko.

Grievance mechanisms

- SpeakUp reporting channel
- K Consumer Service
- Customer feedback systems of the chains

Boundaries

Compliance	Kesko
Product safety	Kesko –private labels and own imports
Social responsibility of procurement (1st tier)	Kesko

Environment

We mitigate climate change together and promote the sustainable use of natural resources

- We reduce environmental impacts by working together with supply chains.
- We promote development towards a low-carbon circular economy.
- We help our customers reduce their environmental impact.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Science Based Targets	We are committed to reducing our Scope 1 and 2 emissions by 18% by 2025, using a 2015 base year. GRI 305-5	Scope 1 and 2 emission have increased by 14% from the 2015 base level due to the acquisition of Suomen Lähikauppa and Onninen in 2016.	The objective was set in 2017.	The objective was set in 2017.
	We are committed to reducing our Scope 3 emissions from the supply chain so that 90% of Kesko's key suppliers will set greenhouse gas emissions reduction targets by 2025. GRI 305-5	Of Kesko's biggest suppliers in 2016, 33% had set their own emission targets.	The objective was set in 2017.	The objective was set in 2017.
Renewable energy	We will purchase 100% renewable electricity in Finland.	All electricity purchased by Kesko in Finland has been produced with renewable energy since the beginning of 2017. We purchase renewable electricity that has the Renewable Energy Guarantee of Origin (REGO) from the Nordic countries. In 2017, the electricity purchased was produced with Finnish bioenergy.	We decided to purchase 100% renewable electricity as from the beginning of 2017.	The objective was set in 2016
	We will increase the production of solar power for our own use.	Kesko had 19 solar power plants located on the rooftops of its store properties. A total of 3.0 GWh of electricity was produced with solar power for the use of K-food stores. The combined power of the plants is approximately 5.5 MWp. We are the biggest producer and user of solar power in Finland.	In June 2016, Finland's largest property-specific solar power plant was completed on the roof of K-Citymarket Tammisto. By the end of 2016, solar power plants were built in two other K-Citymarket stores and nine K-Supermarket stores.	The objective was set in 2016

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Energy efficiency of stores	During the agreement period 2008–2016: We will improve our annual energy efficiency by 65 GWh by 2016. GRI 302-4	Objective achieved. As a result of our determined actions, K Group has exceeded the objective and improved its energy efficiency by 67 GWh.	The final results of the agreement will be published by Motiva in summer 2017.	Kesko improved its energy consumption by 64 GWh and achieved 97% of its objective.
	During the agreement period 2017–2025: We will reduce our energy consumption by 7.5% by 2025. GRI 302-4	At the time of publication of the Annual Report, installed solar energy and the known reported actions will allow annual energy savings of 12.4 GWh, which is 29.6% of the interim target for 2020 and 15.8% of the target for 2025.	Kesko signed a retail sector energy efficiency agreement for 2017–2025. In the action plan, we commit to reducing our energy consumption by 7.5%.	The objective was set in 2016
Logistics emissions	We will reduce the emissions of Kesko Logistics' transports relative to the net sales index by 10% by 2020 from the 2011 level. GRI 305-5	The relative emissions had decreased by 16.2% from the base level. In 2017, emissions decreased by 11.2% compared to 2016. The decrease was impacted by new emission factors, which include diesel's bio component share. Emissions decreased even though transport kilometres increased. As in 2016, this can be attributed to the increased number of stores resulting from the acquisition of Suomen Lähikauppa and the conversion of the stores to K-Markets.	The relative emissions had decreased by 1.9% from the base level. In 2016, emissions increased by 3.8% compared to 2015. The increase in emissions can be attributed to the increased number of stores caused by the acquisition of Suomen Lähikauppa. At first, only Kesko's own brand Pirkka products were delivered to the new stores and as the conversion of the stores to K-Markets advanced, refill loads were delivered to the stores as separate deliveries.	Relative emissions have decreased by 5.5% from the starting level due to new solutions in transportation management and fleet organisation. A pilot study on using an extra long Ecotruck on the main logistics route between Vantaa and Oulu. The Ecotruck carries twice as many roll containers as an ordinary trailer combination.
Food waste	Kesko's grocery trade aims to minimise the food waste resulting from its operations and utilise inevitably accumulated organic waste. By 2020 we will reduce identified food waste relative to sales by 10% from the 2013 level. Food waste	K-food stores have reduced food waste by 7.1% from the 2013 base level. Some 90% of K-food stores donate edible food products they no longer can sell to local charities, which then distribute the products as food aid to those in need. The amount of food products donated increased by nearly 930,000 kg from the previous year. K Group and Gasum cooperate in producing biogas from inedible food waste from K-food stores. Food waste unfit for human consumption is now collected from 200 K-food stores and Kesko Logistics' central warehouse and made into biogas, which is then used as energy in the manufacture of new Pirkka products. Approximately 4,000 tonnes of organic waste was transformed into 3,000 MWh of biogas. CO_2 emissions were reduced by 594 tonnes compared to natural gas and by 800 tonnes compared to fuel oil.	By the end of 2016, K-food stores had reduced identified food waste by 3.5% from the base level. Approximately 90% of K-food stores work together with local charities. The amount of food products donated increased by 1.8 million kg from the previous year. We continued cooperation with Gasum, Myllyn Paras and Wursti to utilise biogas produced from inedible organic waste collected from retail stores as energy in the manufacture of new Pirkka products. In 2016, approximately 3,700 tonnes of organic waste was transformed into 2,800 MWh of biogas. CO_2 emissions were reduced by 550 tonnes compared to natural gas and by 740 tonnes compared to fuel oil.	We started a cooperation with Gasum, Myllyn Paras and Wursti to utilise biogas produced from inedible organic waste collected from retail stores as energy in the manufacture of new Pirkka products. Many K-food stores donate food to charity.

Topic	Objective	Progress of objectives 2017	Progress of objectives 2016	Progress of objectives 2015
Waste recovery	Our objective is to minimise and recover all waste from our operations. GRI 306-2	According to statistics, the recovery rate for waste management in Finland was nearly 100% and in the other operating countries it was 53%. The waste recovery rate for stores included in the circular economy agreement in Finland was 100%. In the renewal of the K-Rauta chain, discarded work clothes, flags and other textiles were collected from 140 stores and recycled. Discarded work clothes from rebranded stores were processed into material that can be utilised, for example, by the car industry.	In Finland, the recovery rate was 99% and in other operating countries, it was 48%. The waste recovery rate of retail stores in southern Finland covered by the waste management agreement was 100%.	The waste recovery rate in the grocery trade was 99%, in the home improvement and speciality goods trade 99.4%, and in the car trade 99.9%. In other operating countries, the waste recovery rate was 46%. The waste recovery rate of retail stores in southern Finland covered by the waste management agreement was around 98%.
Biodiversity	K Fishpaths collaboration with WWF Finland: We will remove at least 50 barriers preventing endangered migratory fish from swimming upstream and create at least 100 spawning grounds in Finland between 2017 and 2021. We will increase awareness of the endangered nature of migratory fish and arrange volunteer events. GRI 304-3	The K Fishpaths collaboration between Kesko and WWF Finland was launched with an extensive media and social media campaign in August 2017. We promoted the collaboration with the slogan "Mating belongs to all". On social media, the launch campaign reached 900,000 people, and volunteer events received good coverage in local media. In autumn 2017, we cleared nine barriers in rivers and streams around Finland and created 40 new spawning grounds for endangered migratory fish. We carried out restoration work together with local operators and volunteers at six locations. We opened up a total of 20,000 metres of new spawning grounds and habitat. The K Fishpaths collaboration will continue and expand in 2018.	The objective was set in 2017.	The objective was set in 2017.

Energy

302-1 Energy consumption within the organization

Kesko participates in mitigating climate change by increasing renewable energy purchases and own production and increasing energy efficiency.

Renewable electricity

Kesko has purchased electricity produced with 100% renewable energy from the beginning of 2017 in Finland. Kesko purchased 504 GWh of electricity for use in K-stores and other Kesko properties in 2017 with Renewable Energy Guarantees of Origin (REGOs) from the Nordic countries. In 2017, the purchased electricity was produced with Finnish bioenergy, which utilises by-products from the forest industry and wood based fuels, for example.

Solar power plants at K-stores

Since 2016, Kesko has made significant investments in the construction of solar power plants. By the end of 2017, Kesko had 19 solar power plants on the rooftops of store properties it manages. A total of 3.0 GWh of electricity was produced with solar power for use in its own stores in 2017. The combined power output of the solar power plants is approximately 5.5 MWp. If three K-retailers' own solar power plants are included, K Group is the biggest producer and consumer of solar power in Finland. Investments in solar power utilisation will continue.

ENERGY CONSUMPTION OF PROPERTIES

Finland	2017	2016	2015
Electricity[1] (MWh)	504,459	458,690	694,544
District heat (MWh)	323,461	308,924	254,214
Fuel for self-produced heat (MWh)	10,978	5,169	3,406
Total energy consumption (MWh)	838,898	772,783	952,164
Total energy consumption (TJ)	3,020	2,782	3,428

Other operating countries	2017	2016	2015
Electricity (MWh)	80,186	100,928[2]	103,038
District heat (MWh)	17,719	19,350[2]	17,840
Fuel for self-produced electricity (MWh)	4,055	0	-
Fuel for self-produced heat (MWh)	32,247	30,831[2]	26,890
Total energy consumption (MWh)	134,207	151,109	147,768
Total energy consumption (TJ)	483	544	532

All operating countries	2017	2016	2015
Total energy consumption (MWh)	973,105	923,892	1,099,932
Total energy consumption (TJ)	3,503	3,326	3,960

[1] The reporting boundary has changed in 2016, includes only electricity purchased by Kesko
[2] Figure has been adjusted for improved accuracy since the previous report

Energy consumption in properties in Finland

At the end of 2017, properties managed by Kesko in Finland (owned and leased) included offices, warehouses and approximately 1,246 store sites. The total area of the property portfolio decreased by 4% due to the divestment of Indoor Group.

The majority of properties used district heat, but in addition 3.3% of the heat energy was self-produced. In 2017, the heat energy produced with natural gas and oil at properties in Finland totaled 39.52 TJ (11 GWh).

The electricity consumption of Kesko in Finland includes only electricity purchased by Kesko. Heat consumption is reported for all properties managed by Kesko. Calculation methods and electricity and heating consumption statistics by property type and changes in properties in Finland are available in the Energy consumption tracking and Environmental profile reports.

Energy consumption in properties in other operating countries

The heat energy was partly self-produced with natural gas and oil. In Belarus, a small amount of timber (1,467 MWh) and peat (102 MWh) were also used for heating. In addition, a total of 4,055 MWh of electricity was produced with oil in Russia. In 2017, the fuels used for self-produced heat and electricity totaled 130.7 TJ (36.3 GWh).

Subsidiaries outside of Finland report their fuel and purchased energy consumptions to Kesko and statistics per country are compiled from this data. The heat energy data is not reported for some properties (6%, and store sites of Onninen Sweden and Norway) because it is included in the lease or data is not available.

Primary energy consumption

The primary energy consumption for purchased energy in all operating countries in 2017:

- Renewable: 2,315 TJ (63%)
- Nuclear power: 79 TJ (2%)
- Non-renewable: 1,262 TJ (35%)

Fuel consumption of logistics in Finland

The energy consumed by Kesko Logistics' own transportation or that under its direct control was 645 TJ in 2017 (503.9 TJ in 2016). The fuel used was diesel. In 2017, the total distance driven by Kesko Logistics was 34.9 million km (32.3 million km in 2016).

Energy consumption was calculated using data on kilometres driven, volumetric efficiencies and the transportation fleet. The calculation was made according to the Lipasto calculation system of the VTT Technical Research Centre of Finland.

Fuel consumption of logistics in other operating countries

Most of Kesko's subsidiaries have outsourced logistics operations. In 2017, the logistics in Estonia and Belarus consumed 25.3 TJ of fuel (diesel and gasoline).

Total energy consumption

In 2017, Kesko's energy consumption in all operating countries totaled 4,173 TJ.

A total of 835.2 TJ of fuels from non-renewable sources were used for transportation as well as self-produced heat and electricity of properties. In addition, 5.3 TJ of renewable fuels were consumed.

302-3 Energy intensity

SPECIFIC CONSUMPTIONS OF ENERGY, PROPERTIES MANAGED BY KESKO

kWh/br-m²	2017	2016	2015
Finland			
Specific consumption of electricity	214	204	207
Specific consumption of district heat	86	79	76
Other operating countries			
Specific consumption of electricity	73	88	99
Specific consumption of heat	43	44[1]	43

[1] Figure has been adjusted for improved accuracy since the previous report

The cold chain and the need for heated premises in food stores and warehouses require greater amounts of energy in comparison with other retail sectors.

The calculation methods for the properties in Finland are available in the Energy consumption tracking report. The specific consumptions of properties in the other operating countries are calculated based on the total area of properties (1,160,000 m² in 2017).

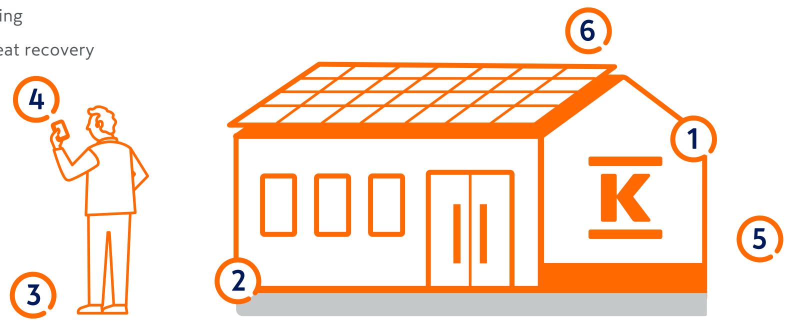
302-4 Reduction of energy consumption

K Group participates in the 2017–2025 action plan of the commerce sector Energy Efficiency Agreement. In accordance with the agreement, K Group commits to reducing its energy consumption by 7.5% through various energy saving measures. All K Group store chains are included in the agreement. At the time of publication of the Annual Report, installed solar energy and the known reported actions will allow annual energy savings of 12.4 GWh, which is 29.6% of the interim target for 2020 and 15.8% of the target for 2025.

During the previous trading sector energy efficiency agreement for the period 2008–2016, K Group was committed to improving its annual energy consumption by 65 GWh by the end of 2016. Due to determined actions K Group was able to surpass the target and improve its energy efficiency by 67 GWh.

ENERGY SOLUTIONS IN K-STORES

1 Lighting
2 Lids and doors on refrigeration units
3 Real estate managers
4 Remote monitoring
5 Condensation heat recovery
6 Solar power



1. Lighting
LED lights are used in all lighting solutions of property development projects. Adjustable, correctly directed LED-lighting can help save up to 60% of electricity consumed compared to traditional fluorescent tube and metal halide lighting solutions.

2. Lids and doors on refrigeration units
In food stores, the consumption of refrigeration systems can account for more than half of the total electricity consumption at small store sites. Lids on freezer chests save 40% of the electricity consumed by uncovered equipment. Doors on dairy and juice cabinets also help save electricity.

3. Real estate managers
Kesko has around 45 Real Estate Managers to help K-stores find ways in which to make their energy consumption more efficient. Regular monitoring, technical supervision and comparison of reports from different properties are used to maintain an optimal level of energy consumption. Real Estate Managers also help stores with long-term planning. Renovation programmes contain estimates of the refurbishment that should be made within five to six years.

4. Remote monitoring
In February 2017, the building automation of 214 Kesko facilities was monitored by a remote energy management centre. The set points of properties and equipment running hours can be changed from the management centre as necessary, which also enables rapid response to disturbances. Setting the correct running times and set points is the easiest and most effective way to improve energy efficiency. Remote monitoring enables refrigeration equipment to be adjusted for optimum temperatures and defrosting cycles. In addition, deviations can be responded to immediately.

5. Condensation heat recovery
Condensation heat from refrigeration equipment is recovered at nearly all K-food stores, which means additional heat energy is needed only during very low sub-zero temperatures.

Increasingly many K-food stores also save energy by using carbon dioxide recovered from industrial processes as the refrigerant in their refrigeration equipment. Carbon dioxide is an environmentally friendly refrigerant.

6. Solar power
Solar power plants are becoming more widely used on the rooftops of K-stores. The electricity consumption of food stores is greatest during the summer, when the stores and their refrigeration equipment require a lot of electricity for cooling. On a sunny summer day, solar power can cover as much as 60% of the food store's current consumption.

The solar panels installed on K-food store roofs cover around 10–15% of the store’s annual electricity consumption. The life cycle of a solar power plant is as long as 35 years. Modern technology enables solar power production even in overcast weather and during wintertime.

Water

Finland has abundant water resources. However, due to the large consumption of imported processed goods and the virtual water footprint associated with them, almost half (47%) of the water footprint of Finnish consumption falls outside of Finland. Kesko's most significant impacts from water consumption are thus caused by imported products for sale which originate from areas suffering from water scarcity or contamination.

Kesko has initiated a water risk assessment for its own brand products in order to identify the water basins most affected by water scarcity or contamination issues in its supply chain. The water risk assessment is in progress and results will be used to plan actions.

303-1 Water withdrawal by source

Properties managed by Kesko use water from municipal water supplies in all operating countries. In addition, a few wells are in use on properties in Estonia, Lithuania and Belarus. However, water from these wells accounts for only a minor portion (3%) of total water consumption and is thus reported with the municipal water consumption. Waste water from Kesko's operations goes to municipal sewer systems.

WATER CONSUMPTION BY COUNTRY

m^3	2017	2016	2015
Finland	977,989	933,812	884,081
Sweden	6,777	7,107[1]	6,354
Norway	144	1,424	1,445
Estonia	7,421	5,922	4,954
Latvia	9,210	9,480	10,128
Lithuania	39,780	40,268	38,472
Poland	4,754	3,100	-
Russia	30,015	84,431	79,755
Belarus	51,047	48,797	43,342
Total	**1,127,137**	**1,134,341**	**1,068,531**

[1] Figure has been adjusted for improved accuracy since the previous report

In K Group's own operations, water is mainly used for cleaning purposes. Maintaining a high level of hygiene is particularly important in food stores and legal requirements for hygiene must be fulfilled. Car wash facilities at Neste K service stations in Finland are big individual consumers of water.

The consumption of water at Finnish properties increased in 2017 especially in shopping centres, VV-Autotalot and K-Supermarkets. Water consumption statistics by property type and changes in the property portfolio in Finland are available in the Energy consumption tracking report.

The divestment of the grocery trade business in Russia at the end of 2016 resulted in a significant decrease in water consumption in Russia in 2017. The water consumption data from other countries is compiled from figures reported by the companies, which are based on water billing or consumption data. At some stores located in leased properties, water consumption is included in the lease and data is not available for reporting (4% of locations in other operating countries). Consumption data is also not available for Onninen's store properties in Sweden and Norway.

Biodiversity

Kesko has identified biodiversity impacts and opportunities in its operations. The objective is to reduce adverse biodiversity impacts in the supply chain and to take part in projects that promote biodiversity in cooperation with other operators. Kesko participates in the Business & Biodiversity Finland programme, organised jointly by the Corporate Responsibility Network FIBS and the Ministry of the Environment Finland.

304-2 Significant impacts of activities, products, and services on biodiversity

Supply chain

Kesko's greatest impacts on biodiversity occur throughout the lifecycle of the products on sale. Raw materials critical to biodiversity in Kesko's supply chain include fish and shellfish, timber, palm oil, and soy. Their sustainable sourcing is guided by sourcing policies. Read more about the objectives of the sourcing policies in our responsibility programme.

In April 2017, Kesko added the Pirkka fish patty to the selections of K-food stores. The Pirkka fish patty is made from bream caught in John Nurminen Foundation's Local Fishing Project, which aims to promote sustainable fishing. Baltic bream has not been used as extensively in consumer products before. The use of bream effectively reduces the environmental burden on the Baltic Sea.

Plastics

K Group's objective is to reduce plastics ending up in water bodies and elsewhere in the environment. K Group is creating operating models to promote the recycling and reuse of plastic.

In its plastics policy K Group commits to measures to reduce the consumption of plastic bags. In 2017, Kesko removed microbeads from its own brand cosmetic products. K-stores offer consumers the possibility to recycle packaging plastics in 173 Rinki eco take-back points. Read more about the progress made regarding the targets of our plastics policy in our responsibility programme.

Food waste and climate change

Minimising food waste throughout the whole food chain from agriculture all the way to the end consumer reduces the need for primary production and thereby impacts on biodiversity. When food ends up in waste, all environmental impacts and emissions from its production, transportation, sales, storage and preparation have been useless.

Climate change also impacts biodiversity, especially as areas of drought expand. Read more about Kesko's diverse efforts to reduce food waste and greenhouse gas emissions in the responsibility programme.

304-3 Habitats protected or restored

K Fishpaths

In August 2017, K Group and the environmental organisation WWF Finland began an extensive multi-year collaboration to save and restore Finland's endangered migratory fish populations. Of Finnish migratory fish, the maraena whitefish, salmon, trout and eel are endangered. Their situation is dire because obstacles in rivers and streams are preventing the fish from swimming to suitable spawning grounds. The swimming of fish upstream can be stopped by a single culvert or an old mill dam.

The objective of the K Fishpaths collaboration is to remove such obstacles in a spirit of cooperation with local operators, landowners, K-retailers and volunteers. The removal of a single obstacle may help open up several kilometres of flowing watercourses suitable for spawning. In addition to obstacle removal, the collaboration also involves restoring spawning grounds and habitats for migratory fish. It is estimated there are tens of thousands of such barriers in Finland.

K Group and WWF Finland's objective is to remove at least 50 barriers and to create at least one hundred spawning grounds for endangered migratory fish in Finland between 2017 and 2021. K Fishpaths also aims to increase awareness of the endangered status of migratory fish, and to organise events for volunteer work.

In 2017, nine barriers in rivers and streams around Finland were removed and 40 new spawning grounds for fish created. Restoration took place together with local operators at the Ingarskilanjoki river in Inkoo, Syvänoja in Suomusjärvi, Koirajoki in Tuusniemi, Unterniskanjoki in Imatra, Vaalimaanjoki in Luumäki and Juottimenoja in Perniö. As a result, a total of 20,000 metres of new spawning grounds and habitat were opened up.

Read the NGO perspective by WWF Finland.

Store sites

Kesko builds store sites only in areas planned by municipalities for business properties. Surveys of contaminated land are made annually in connection with construction work and real estate transactions. In 2017, two Kesko sites were restored.

A soil remediation project was carried out at one of Kesko's sites in Vantaa, where a total of approximately 4,049 tonnes of contaminated soil was removed from a 16,700 m^2 lot. The remediation work was completed when the target concentrations set by the Uusimaa ELY centre were achieved; in other words, when soil exceeding the higher reference values had been removed from the site. Concentrations of contaminants which exceeded the lower reference values but remained below the remediation targets still exist in some areas of the walls and bottoms of excavations. A carwash is being planned for the site, so the contaminant levels that exceed the lower reference values will not require any further action based on the current use of the lot.

Another Kesko site underwent soil remediation measures in Turku. A total of 2,299 tonnes of soil that contained elevated levels of hydrocarbons were removed from a 6,072 m^2 lot. Based on the residual concentration samples taken from the excavation sites, the north edge of the property still had soil in which the higher reference values for hydrocarbons were exceeded. A bentonite mat was installed as an insulating structure at the pipeline on the wall. The other residual concentration samples did not contain hydrocarbons exceeding the reference values. The soil remediation work was carried out in accordance with the principles agreed on with the City of Turku Environmental Protection Department, and no further environmental engineering measures are necessary in the area.

Kesko does not have protected habitats of its own.

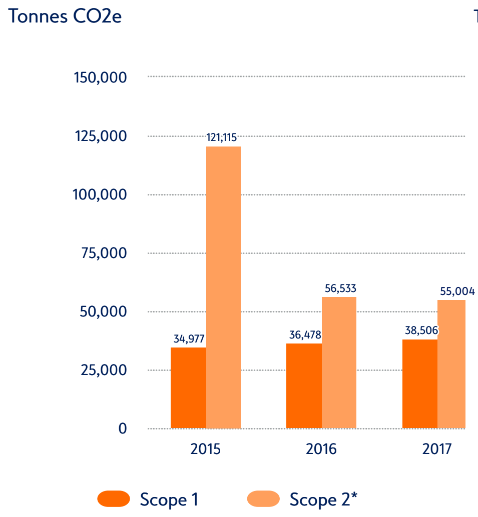
Emissions

Kesko reports direct and indirect (Scope 1 and 2) greenhouse gas (GHG) emissions from its operations according to the GHG Protocol standard.

- Scope 1: GHG emissions caused by fuel consumption for producing heat and electricity at properties managed by Kesko and for transportation of goods directly controlled by Kesko
- Scope 2: GHG emissions caused by generation of electricity purchased by Kesko and district heating consumed in properties managed by Kesko

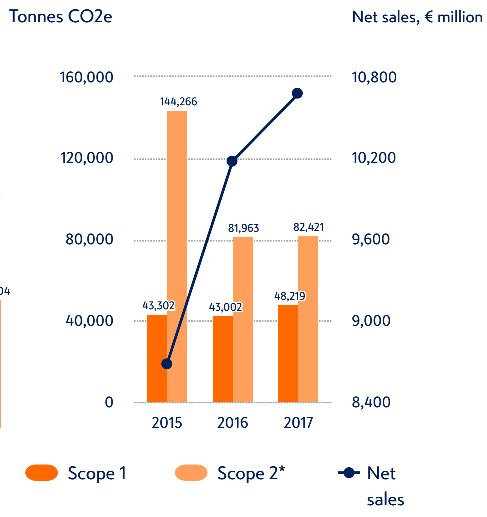
305-1 and 305-2 Direct and energy indirect GHG emissions (Scope 1 and 2)

Scope 1 and 2 emissions, Finland



** The reporting boundary changed in 2016.*

Scope 1 and 2 emissions, all operating countries



** The reporting boundary changed in 2016.*

SCOPE 1 AND 2 GHG EMISSIONS

Tonnes CO_2e	2017	2016	2015
Direct (Scope 1)	**48,219**	**43,002**	**43,302**
Finland	38,506	36,478	34,977
logistics (Kesko Logistics)	35,801	35,079	34,117
self-produced heat (natural gas and oil)	2,705	1,399	860
Other operating countries	9,713	6,524	8,325
logistics (Belarus and Estonia)	1,870	344	1,115
self-produced heat and electricity (natural gas, oil, peat and timber[1])	7,843	6,180	7,210
Indirect (Scope 2)	**82,421**	**81,963**	**144,266**
Finland	55,004	56,533	121,115
purchased electricity (market-based)	0	0	73,734
purchased electricity (location-based)[2]	91,224	95,866	153,087
purchased district heat (location-based)	55,004	56,533	47,381
Other operating countries	27,417	25,430	23,151
purchased electricity (location-based)	22,803	20,218	18,475
purchased district heat (location-based)	4,614	5,212	4,676
Total	**130,640**	**124,965**	**187,568**
Finland, Scope 1 and 2 total	93,510	93,011	156,092
Other operating countries, Scope 1 and 2 total	37,130	31,954	31,476

[1] The biogenous CO_2 emission figure of the timber used for heating one facility in Belarus is reported in Scope 1, because its proportion of the total fuel quantity is insignificant (about 2%).
[2] Following the GHG Protocol standard, the location-based emission figure for electricity consumption in Finland has been reported. The market-based figure is used for the emissions totals. Location-based emissions are calculated with national emission factors and market-based emissions with energy supplier emission factors.

Scope 1

In 2017, the Scope 1 emissions of Kesko in Finland increased due to the acquisition of Suomen Lähikauppa in 2016 and the continued increase in own production of heat.

Emissions from logistics in the other operating countries were reported for Belarus and Estonia in 2017. Most of the logistics in the other operating countries are outsourced.

The transportation of goods for Kesko's grocery trade in Finland is managed by Kesko Logistics and includes its own transportation and that under its direct control. Kesko Logistics' emissions were calculated based on data including kilometres driven, volumetric efficiencies, and the transportation fleet using the **Lipasto calculation system** developed by the VTT Technical Research Centre of Finland. The emissions for logistics operations in Belarus and Estonia were calculated based on fuel consumption.

Scope 2

Kesko has purchased electricity produced with 100% renewable energy from the beginning of 2017 in Finland. The renewable electricity purchased with the Renewable Energy Guarantees of Origin (REGOs) from the Nordic countries was produced with Finnish bioenergy, which utilises by-products from the forest industry and wood based fuels for example.

The emissions from purchased electricity for the other operating countries increased by approximately 13% due to emission factor updates, although electricity consumption decreased significantly due to the divestment of the grocery trade in Russia in 2016.

The calculation principles and more detailed calculations for Scope 1 and 2 emissions attributed to properties managed by Kesko can be found in the **Environmental profile reports for Finland** and the **other operating countries**.

305-3 Other indirect (Scope 3) GHG emissions

SCOPE 3 GHG EMISSIONS

Tonnes CO_2e	2017	2016	2015
Upstream			
Purchased goods and services	7,698,000	6,910,000	5,936,000
Capital goods (buildings)	33,500	35,200	18,200
Indirect emissions of purchased energy (other than Scope 1 and Scope 2)	30,900	49,400	69,300
Transport and distribution of goods	14,400	18,400	18,300
Waste	10,300	11,400	9,000
Business travel	3,100	3,000	2,700
Employee commuting	20,800	21,000	6,700
Downstream			
Customer commuting (shopping trips)	164,900	157,400	154,400
Use of sold products	1,771,000	1,685,800	852,900
End-of-life treatment of sold products	38,600	36,500	16,300
Franchises (retailer entrepreneurs)	102,700	114,700	22,800

The greatest other indirect emissions of Kesko are caused in the supply chain of the products for sale (78%), in the use phase of the products (18%) and by the shopping commutes of customers (2%).

The Scope 3 calculation principles can be found in the Kesko **Scope 3 Report**.

305-4 GHG emissions intensity

The Scope 1 and 2 greenhouse gas emissions intensity is calculated based on net sales (€10,676 million in 2017), the average number of employees (22,077 in 2017) and the area of properties managed by Kesko (4,185,000 m^2 in 2017).

SCOPE 1 AND 2 GHG EMISSIONS INTENSITY

	2017	2016	2015
Based on net sales (tonnes CO_2e / € million)	12.2	12.3	21.6
Based on average number of employees (tonnes CO_2e / person)	5.9	5.6	9.9
Based on area of properties managed by Kesko (tonnes CO_2e / 1,000 m^2)	31.2	28.5	-

The Scope 2 reporting boundary for 2016 has changed

305-5 Reduction of GHG emissions

Science Based Targets

Kesko is the first Finnish company to set climate targets approved by the the Science Based Targets initiative. The emissions targets set in line with two degree climate warming were approved in June 2017.

Kesko commits to reduce its direct and indirect (Scope 1 and 2) emissions 18% by 2025 from base year 2015. In addition, Kesko is committed to reduce its supply chain emissions so that 90% of its key suppliers will set their own GHG emissions reduction targets by 2025.

In 2017, the direct and indirect emissions had increased by 14% from base year 2015, due to the acquisitions of Suomen Lähikauppa and Onninen in 2016. Out of Kesko's key suppliers of 2016, 33% had set their own emission reduction targets by the end of 2017.

Renewable energy and energy efficiency

Since the beginning of 2017, Kesko has purchased electricity produced with 100% renewable energy in Finland and invested in solar power plants on the rooftops of its stores in the past few years as well. Read more in the Energy section.

K Group participates in the 2017–2025 action plan of the commerce sector Energy Efficiency Agreement and is committed to reducing its energy consumption by 7.5% through various energy savings measures.

During the trading sector energy efficiency agreement for the period 2008-2016, K Group's target was to improve its annual energy consumption by 65 GWh. Due to determined actions K Group was able to surpass the target and improve its energy efficiency by 67 GWh.

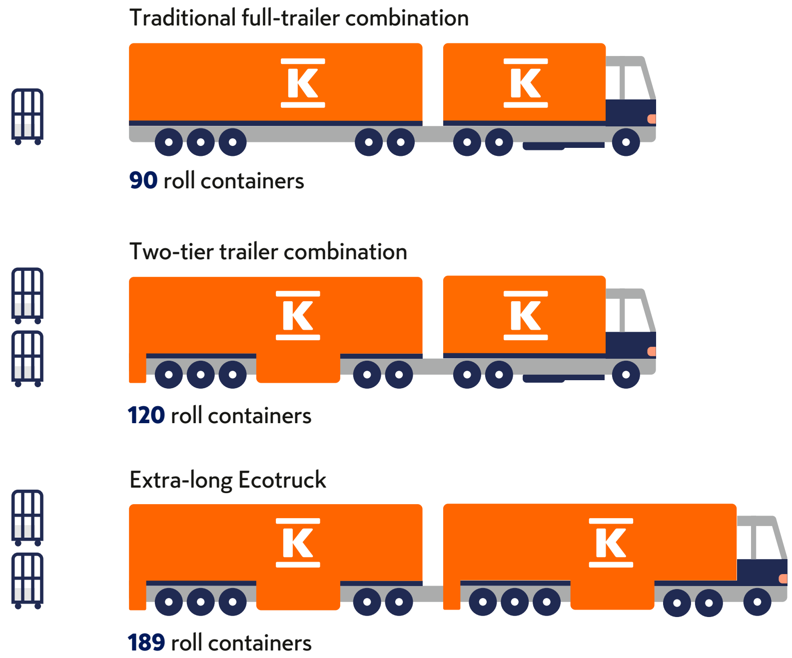
Logistics

The target of Kesko Logistics is to reduce CO_2 emissions relative to the net sales index by 10% during 2012–2020 from the 2011 base year. By the end of 2017, the relative emissions had decreased by 16.2% from the base level. In 2017, the emissions decreased by 11.2% in comparison to 2016. The decrease in emissions was affected by new emission factors, which include the biocomponent of diesel fuel. The emissions decreased while the driven kilometres increased, which was due to the increase in the number of stores resulting from the acquisition of Suomen Lähikauppa and their conversion to K-Markets similar to the previous year.

Kesko Logistics works ambitiously to reduce emissions:

- Efficiency of logistics: centralised distribution, optimisation of delivery routes and high volumetric efficiency
- Efficient reverse logistics: collection of purchase loads, carrier trays, pallets, roll containers and recycled bottles and cans on the return route
- Economical driving courses: all of Kesko Logistics' more than 500 contract drivers have been trained
- New replacements in the vehicle fleet: eleven two-tier trailers and one extra-long HCT 'Ecotruck' in use in long-distance transportation between main warehouses; in 2018 two new HCT-trailers will be added

EFFICIENT LOGISTICS FLEET



Scope 3 emissions reductions

Products for sale

By far, the greatest indirect emissions of Kesko are caused in the supply chain and during the use phase of the products for sale. These emissions can be influenced by offering selections of products and services causing less emissions and by customer communications.

Grocery trade

Customers are increasingly aware of the environmental impacts of their consumption choices. By reducing the amount of animal-based products and household food waste consumers can reduce the environmental impact of their food consumption. **Vegan products increased in popularity** in the shopping baskets of Finns in 2017. The number of plant-based Pirkka products increased by 16 new products in 2017 and the selection now numbers over one hundred. By the end of 2017, around 250 K-food stores already had a 'Veggie shelf", which gathers plant-based products in one place to make choosing environmentally friendly products easier for the customer. Additionally, the K-Ruoka media offers diverse recipes and tips for cooking vegetarian meals.

K Group and Gasum cooperate to produce biogas from inedible food waste collected from K-food stores. The inedible organic waste from around 200 K-food stores and the Kesko Logistics central warehouse is utilised as energy in the manufacture of new Pirkka products. In 2017, approximately 4,000 tonnes (3,700 tonnes in 2016) of organic waste was transformed into 3,000 MWh (2,800 MWh in 2016) of biogas. CO_2 emissions were reduced by 594 tonnes compared to natural gas (calculated with emission factor 198 g CO_2/kWh) and by 800 tonnes compared to fuel oil (calculated with emission factor 267 g CO_2/kWh). The cooperation is rapidly growing into a nationwide operating model as the network of biogas plants expands.

In 2017, K Group participated again in the Ham Trick campaign, in which customers could donate fat from roasting their Christmas hams to collection points at K-food stores. The fat was used to make renewable diesel. A total of 44 tonnes of ham fat was collected, of which around 81% was collected at K-Citymarket stores.

Read more about our work to reduce **food waste**.

Building and technical trade

The building and technical trade offers consumers and business customers diverse product selections and expertise for improving the energy efficiency of building and renovation projects. The K-Rauta stores and Onninen offer environmentally friendly solutions for homes and properties from practical energy saving tips to intelligent energy management systems solutions. These include heating, cooling, solar and wind energy solutions.

Car trade

In February 2018, the selection of VV-Auto included six plug-in hybrid car models (PHEV) and two electric cars. In addition, the selection included seven car models using natural gas or biogas as fuel. In 2017, the registrations of Volkswagen, Audi and Porsche plug-in hybrids in Finland increased 54.1% compared to the previous year.

Customer shopping commutes

The emissions caused by customer shopping commutes are a significant source of indirect emissions for Kesko. The majority of shopping commutes are made by car.

Kesko is building an extensive network of electric vehicle charging points adjacent to K Group stores in order to progress the electrification of cars. In February 2018, already 23 K Group stores and 13 Neste K service stations offered a total of 121 electric and hybrid charging points for customer use. The aim is to build charging stations at all Neste K stations and 10–15 charging stations at K-Citymarket parking lots annually during the next few years. K Group has the largest private network of electric vehicle charging points in Finland.

K Group offers Finland's most comprehensive network of neighbourhood stores with the best services. The stores are tailored to each store's own customer demand. When the nearby neighbourhood store offers a selection suited for its customers, shopping commutes are shortened and they can be travelled more often by foot, bicycle or public transportation, especially in cities. The extra services available at K-stores reduce emissions caused by customer commuting, because many errands can be run during the same shopping trip. Increasingly, online shopping also reduces customer commuting.

Employee commuting and business travel

In December 2016, a survey on commuting to work was conducted for the Helsinki area office workers by using the **Helsinki Region Transport (HSL) commuting calculator**. According to the survey, the average emissions per employee were 8.8 kg CO_2/working day. The results of the survey will be used as a basis for developing the employee commuting for Kesko's new K-kampus main office building. An employee commuting plan will be made in order to encourage commuting to the K-kampus which is sustainable and improves the wellbeing of employees.

At the end of 2017, Kesko had 668 company cars in use in Finland (690 in 2016).

- 2 ethanol-fueled cars (6 in 2016)
- 329 petrol-fueled cars (312 in 2016)
- 336 diesel-fueled cars (370 in 2016)
- 1 natural gas car (2 in 2016)

According to Kesko's company car policy, Kesko's company cars have an emission level below 150 g CO_2/km. Since December 2017, the employees' pay share will be discounted by 10% of the tax value if the emission level of the company car is below 105 g CO_2/km. In 2017, the average emission level was 122 g CO_2/km (122 g CO_2/km in 2016) and the emissions from company cars totalled 2,477 CO_2 tonnes (2,648 CO_2 tonnes in 2016). This calculation also includes private use of company cars.

In 2017, the air miles of Kesko employees travelling for business totalled 9.8 million (8.2 million in 2016). Encouraging the use of virtual meetings is one of the ways Kesko endeavours to decrease the amount of air travel. The amount of virtual meetings held via the Skype for Business application has increased by approximately 3% since the previous year. In 2017, a total of 69,858 hours of Skype meetings were held (67,842 hours in 2016). At the end of 2017, the Kesko Group had 28 Videra video conferencing facilities in use and the total duration of all video meetings between two or more facilities was 1,494 hours (1,793 hours in 2016).

305-7 Nitrogen oxides (NO_X), sulfur oxides (SO_X), and other significant air emissions

The electricity and heating energy consumed in properties managed by Kesko in Finland in 2017 caused:

134 tonnes of NO_x emissions (130 t in 2016)

119 tonnes of SO_2 emissions (115 t in 2016)

0 tonnes of radioactive waste (1.2 t in 2016)

The calculation principles and more detailed calculations are available in the **Environmental profile report**. The figures for 2016 have been adjusted for improved accuracy since the last report. Only CO_2 emissions data is collected for transportation of goods.

Effluents and waste

Circular economy

Shifting to a circular economy requires increasingly efficient circulation of materials. Kesko provides customers with diversified recycling services for waste and discarded items and develops innovative circular economy solutions in cooperation with other operators.

Recycling services for customers

In December 2017, there were 399 Rinki eco take-back points intended for recycling consumer packages (fibre, glass, metal) in connection with K-food stores. Plastic was collected at 173 eco take-back points (160 in 2016). Since January 2017, Pirkka ESSI circular economy bags have been made from plastic recycled by customers.

In connection with K Group stores, customers can also return deposit beverage containers, batteries and accumulators, WEEE, lead accumulators, impregnated timber and discarded clothing for recycling.

PACKAGES AND ITEMS RETURNED BY CUSTOMERS TO RECYCLING POINTS AT K GROUP STORES

	2017	2016	2015
Deposit aluminium cans (million pcs)	374	378	311
Deposit recyclable plastic bottles (million pcs)	120	116	94
Deposit recyclable glass bottles (million pcs)	30	29	26
Batteries and accumulators (tonnes)	303	289	210
WEEE (tonnes)	68	92	95
Lead-acid accumulators, K-Rauta (tonnes)	0.8	3.5	1.6
Impregnated timber, K-Rauta (tonnes)	859	814	914
Used clothing, UFF recycling points (tonnes)	n/a	3,123	2,915

Kesko Logistics' centralised collection services

Cardboard and plastic bales from 284 K-food stores (236 in 2016) were centrally directed by Kesko's grocery trade for industry reuse in 2017. Around 2,912 tonnes of cardboard (2,806 in 2016) and 54 tonnes of plastic (70 in 2016) were collected.

The reverse logistics operations of Kesko Logistics transport beverage containers and boxes from stores for reuse and recovery.

PACKAGING COLLECTED BY KESKO LOGISTICS REVERSE LOGISTICS FOR REUSE AND RECOVERY

	2017	2016	2015
Aluminium cans (1,000 pcs)	87,676	82,169	96,479
Recyclable plastic bottles (1,000 pcs)	60,606	54,648	61,403
Recyclable glass bottles (1,000 pcs)	12,305	11,292	9,462
Reusable crates (1,000 pcs)	20,241	17,893	17,294

Circular Economy Agreement for stores in Finland

Since 2016, all K Group stores in Finland have had the opportunity to participate in a national centralised waste management agreement, which was renamed the Circular Economy Agreement in 2017. The target is to increase the efficiency of recycling at K Group stores and advance the circular economy.

At the end of 2017, a total of 426 stores (139 in 2016) participated in the Circular Economy Agreement. The recovery rate of the waste generated in these stores was 100% (100% in 2016) and the recycling rate was around 67% (66% in 2016).

306-2 Waste by type and disposal method

Kesko's objective is to minimise and recover all waste from its operations.

WASTE IN ALL OPERATING COUNTRIES

Tonnes	2017	2016	2015
Non-hazardous waste	**36,401**	**38,051**	**27,832**
Recycling/recovery	26,917	27,444	18,474
Landfill	9,484	10,607	9,358
Hazardous waste	**1,404**	**774**	**1,261**
Recycling/recovery	983	524	171
Hazardous waste treatment	421	250	1,090
Total	**37,805**	**38,825**	**29,093**

Waste recovery rates

Kesko's waste statistics in Finland mainly cover warehousing operations, while in the other countries, the majority of waste statistics cover store operations. According to statistics, the recovery rate in Kesko's waste management in Finland was nearly 100% in 2017 and in the other operating countries it was 53%. The recovery rate includes all waste except waste to landfill. The type of waste treatment was determined by the waste management company.

WASTE: FINLAND, SWEDEN AND NORWAY

	Finland			Sweden			Norway		
Tonnes	**2017**	**2016[1]**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Non-hazardous waste	17,469	18,366	10,737	3,533	3,479	2,692	723	410	633
Recycling/recovery	17,467	18,204	10,621	3,182	3,220	2,470	723	410	593
Landfill	2	162	116	351	259	222	0	0	40
Hazardous waste	354	273	1,125	227	81	60	511	215	15
Recycling/recovery	258	183	160	7	3	3	494	200	-
Hazardous waste treatment	96	90	965	220	78	57	17	15	15
Total	**17,823**	**18,639**	**11,862**	**3,760**	**3,560**	**2,752**	**1,234**	**625**	**648**
Recovery rate %	99.99	99	99	91	93	92	100	100	94

[1] A small part of the data is based on estimation (0.3% of total waste in Finland)

WASTE: ESTONIA, LATVIA AND LITHUANIA

	Estonia			Latvia			Lithuania		
Tonnes	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Non-hazardous waste	924	733	680	911	640	612	5,973	3,946	2,605
Recycling/recovery	834	689	608	171	163	156	2,657	2,271	1,699
Landfill	90	44	72	740	477	456	3,316	1,675	906
Hazardous waste	37	27	20	9	5	3	166	152	36
Recycling/recovery	1	1	-	0	-	-	125	119	8
Hazardous waste treatment	36	26	20	9	5	3	41	33	28
Total	**961**	**760**	**700**	**920**	**645**	**615**	**6,139**	**4,098**	**2,641**
Recovery rate %	91	94	90	20	26	26	46	59	66

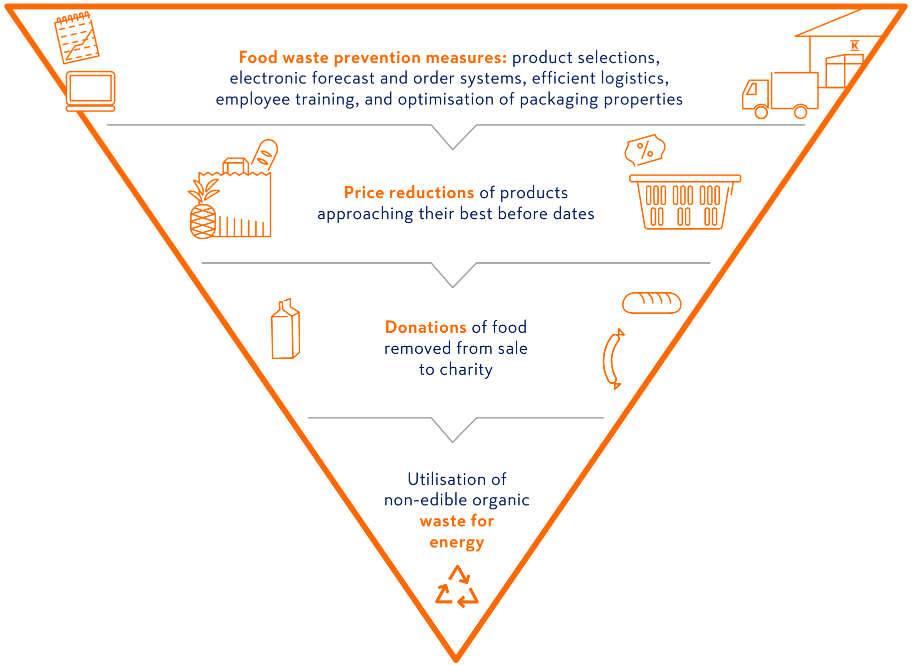
WASTE: POLAND, RUSSIA AND BELARUS

	Poland			Russia			Belarus		
Tonnes	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Non-hazardous waste	404	218	-	4,970	8,594	8,303	1,494	1,665	1,570
Recycling/recovery	127	51	-	1,463	2,382	2,279	293	55	48
Landfill	277	167	-	3,507	6,212	6,024	1,201	1,610	1,522
Hazardous waste	17	15	-	1	1	1	82	3	1
Recycling/recovery	17	15	-	0	-	-	81	2	0
Hazardous waste treatment	0	-	-	1	1	1	1	0.6	1
Total	**421**	**233**	**-**	**4,971**	**8,595**	**8,304**	**1,576**	**1,668**	**1,571**
Recovery rate %	34	28	-	29	28	27	24	3	3

Food waste

We are reducing food waste through cooperation throughout the whole food chain, from primary production to the end user. K Group's goal is to minimise the food waste resulting from its operations and utilise the inevitably accumulated organic waste. Our objective is to reduce identified food waste relative to sales by 10% from the 2013 level by 2020.

K GROUP FOOD WASTE HIERARCHY



Food waste prevention

K Group's primary means of reducing food waste is selection management. K-food stores maintain selections that suit their customer base, and complement the selections through forecast-based requirements planning. Efficient transport and store logistics, self-control system and staff training also help to prevent wastage. The optimisation and continuous development of packaging features play a key role in reducing wastage.

At the store

Stores are instructed to pay special attention to the expiration dates of fresh foods and foods with short expiration times. As a product's 'best before' or 'use by' date approaches, K-food stores can sell the product at a discount. The deregulation of store opening hours in Finland in 2016 has had an impact on food waste: as stores are open for longer, sales are steadier and there is less wastage.

Food donations

Some 90% of K-food stores donate edible food products they no longer can sell to local charities, which then distribute the products as food aid to those in need. In 2017, the amount of food products donated increased by nearly 930,000 kg. Some food waste is also given to farms for animal feed.

Energy from organic waste

K Group and Gasum cooperate in producing biogas from inedible food waste collected from K-food stores. By the end of 2017, organic waste was being collected from 200 K-food stores and the Kesko Logistics central warehouse. The biogas produced is transmitted to Gasum's gas network, and then utilised as energy in the production of new Pirkka products. As the biogas transmission network expands, the operating model is quickly becoming nationwide.

In 2017, some 4,000 tonnes of organic waste was turned into some 3,000 MWh of biogas, with three manufacturers of Pirkka products included in the operating model.

FOOD WASTE FROM K-FOOD STORES

	2017	2016
Identified food waste (tonnes)	19,511	20,591
Identified food waste in proportion to sales	1.6%	1.7%
Development of food waste in proportion to sales (from base year 2013)	-7.1%	-3.5%
Share of food aid donations from identified food waste	46%	39%

Household food waste

Households can reduce their food waste through better planning of food purchases. The K-Ruoka mobile app helps customers plan their food purchases by offering personalised benefits, store-specific offers, a smart shopping list and over 6,000 K-ruoka.fi recipes. At the end of 2017, the app had 450,000 users.

K-food stores took part in Food Waste Week in September 2017 with their "To the last crumb" campaign, offering food waste related recipes and tips for food shopping and meal planning.

GRI Management approach

Material aspects

- Energy
- Water
- Emissions
- Wastewater and waste
- Biodiversity
- Food waste

Policies, principles and commitments

K Group's environmental and energy policy covers the operations of the Group and the stores both in Finland and the other operating countries. K Group's key business partners are also expected to observe corresponding environmental management principles.

Environmental management is part of K Group's management system and is based on the ICC Business Charter for Sustainable Development, environmental management standards, as well as requirements set by legislation and the authorities.

Kesko is committed to UN's **Global Compact initiative** and **Sustainable Development Goals**.

Monitoring and control systems

Kesko Group's Corporate Responsibility Advisory Board defines the main policies for environmental work and the target levels. The divisions specify the main policies of their environmental work into environmental action programmes which support their business operations. The action programmes are monitored and updated annually as part of the strategy work.

Kesko's maintenance partners monitor the energy consumption of properties with the help of the EnerKey.com system supplied by Enegia Oy. Enegia remotely reads energy consumption measurement terminals located in properties and records the data in the database by the hour. The consumption figures for properties where the data are collected manually are also saved in the EnerKey system. The EnerKey programme responds to even minor location-specific changes in consumption and sends an alarm to the person in charge.

Water consumption monitoring is part of consumption monitoring in the properties. Kesko's goal is to maintain a high level of water consumption efficiency in all operations.

Environmental systems at Kesko

All of Onninen's operations in all operating countries are ISO 14001 certified.

The operations of Kesko Logistics are ISO 14001 certified.

In the food stores and the building and home improvement stores, environmental management is based on the K-responsibility concept. For K-Citymarkets, K-Supermarkets and K-Markets, the K-responsibility concept is a requirement for inclusion in the chain. A K-responsibility concept inspection is carried out every three years at the K-Rauta stores by an independent external partner.

VV-Auto Group Oy fulfils the requirements of the ISO 9001 quality system and VV-Autotalot Oy fulfils the requirements of the quality and environmental action programme of the Finnish Central Organisation for Motor Trades and Repairs (AKL).

Division of responsibilities and resources

- Group's Corporate Responsibility Advisory Board
- Group's Environmental Steering Group
- Store Sites and Real Estate Unit
- Logistics Units

Programmes, projects and initiatives

In June 2017, Kesko was the first Finnish company to set **Science Based Targets** for reducing emissions from its properties, transportation, and supply chains. Kesko is committed to reducing its Scope 1 and 2 emissions by 18% by 2025, using a 2015 base year, and reducing the Scope 3 emissions from the supply chain so that 90% of Kesko's key suppliers will set greehouse gas emissions reduction targets by 2025.

Kesko participates in the **retail sector energy efficiency agreement** for 2017–2025. In accordance with the agreement, **Kesko is committed to reducing its energy consumption** by 7.5% by means of various savings measures. The agreement covers all of K Group's store chains. Kesko has joined the amfori **Business Environmental Performance Initiative** (BEPI). Amfori BEPI aims to help member companies in the management of global supply chains and, consequently, in increasing the transparency and risk management of their product supply chains.

Kesko's **timber and paper policy** was updated in June 2017. The objective of the policy is that by 2025 all timber and paper products in Kesko's product range will come from material of sustainable origin.

K Group's fish and shellfish statement directs its sourcing of Kesko's grocery trade and Kespro, as well as K-food retailers' sourcing to safeguard the responsible fishing and management of fish.

Kesko's grocery trade is a member of the RSPO (Roundtable on Sustainable Palm Oil). The objective is that by 2020, all palm oil in own brand grocery products will be responsibly produced (CSPO).

Kesko is a founding member of the Finnish soy commitment group. Kesko has become a member in the RTRS (Roundtable on Responsible Soy) and made a commitment that by 2020, all of the soy in the production chains of its private label products will be responsibly produced, either RTRS or ProTerra certified soy. The commitment covers both the Finnish production chain and sourcing from other countries.

Grievance mechanisms

SpeakUp reporting channel

Boundaries

Energy and water	Kesko
Biodiversity	Kesko
Emissions	Scope 1 and 2: Kesko; Scope 3: K-stores and supply chain
Waste	Finland: Kesko's warehousing operations; other operating countries: stores
Food waste	Kesko's grocery trade and K-stores

RESPONSIBILITY MANAGEMENT

Management model

General operating principles guiding responsibility

Corporate responsibility work is based on Kesko's value, vision and mission. Corporate responsibility work is guided by Kesko's strategy, the K Code of Conduct, Kesko's general corporate responsibility principles, and Kesko's purchasing principles.

Kesko's responsibility programme contains both short-term and long-term objectives. The programme has six themes: Good corporate governance and finance, Customers, Society, Working community, Responsible purchasing and sustainable selections, and Environment.

Kesko has committed to several international declarations and conventions, the most important of which are:

- The UN Universal Declaration of Human Rights and the UN Convention of the Rights of the Child
- The ILO convention on the Fundamental Rights and Principles at Work
- The OECD Guidelines for Multinational Corporations
- The ICC Business Charter for Sustainable Development and principles against corruption and bribery
- The UN Global Compact initiative
- The UN Sustainable Development Goals
- The purchasing principles of the amfori Business Social Compliance Initiative (amfori BSCI)

Corporate responsibility organisation in Kesko

Corporate responsibility at Kesko is integrated into day-to-day activities that help customers make good choices.

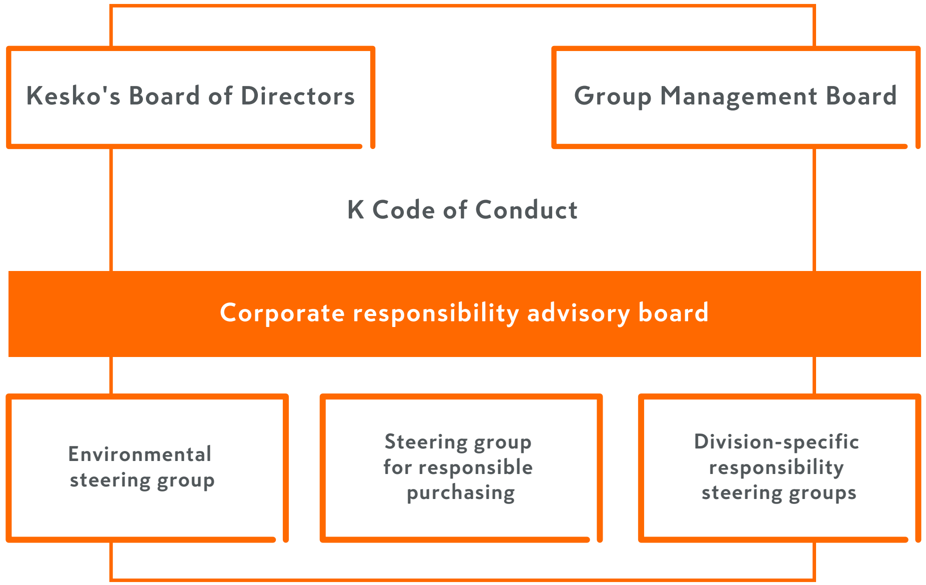
Kesko's Board of Directors and Group Management Board discuss the key principles and reporting.

The corporate responsibility function is headed by the Executive Vice President for human resources, corporate responsibility and regional relations, who is a member of Kesko's Group Management Board. Corporate responsibility is one of the target indicators of his performance bonus.

The Group's Corporate Responsibility Unit, assisted by steering groups, is responsible for the development, coordination and reporting of responsibility work.

The management of each business division is responsible for practical implementation.

CORPORATE RESPONSIBILITY STEERING



Corporate responsibility advisory board

The Vice President for corporate responsibility (Ch.), division representatives, Group representatives

- develops the principles that guide the Group’s corporate responsibility
- sets the objectives for corporate responsibility work and monitors their achievement
- steers and coordinates practical measures

Environmental steering group

The Group’s Corporate Responsibility Unit (Ch.), divisions’ specialist representatives

- develops the Group’s environmental management
- promotes the sharing of best practices within the Group
- keeps up with changes in legislation pertaining to environmental responsibility

Steering group for responsible purchasing

The Group’s Corporate Responsibility Unit (Ch.), divisions’ specialist representatives

- develops the Group’s responsible purchasing procedures
- promotes the sharing of best purchasing practices within the Group
- keeps up with changes in legislation pertaining to purchasing and sourcing

Division-specific responsibility steering groups

are, based on the objectives set by the Group-level steering groups, responsible for:

- determining their own responsibility objectives
- implementing them according to the specific characteristics and strategies of their respective divisions

amfori
Trade with purpose

GRI GOLD Community
Kesko
2018

THE GLOBAL COMPACT
WE SUPPORT

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

Mikko Helander, President and CEO

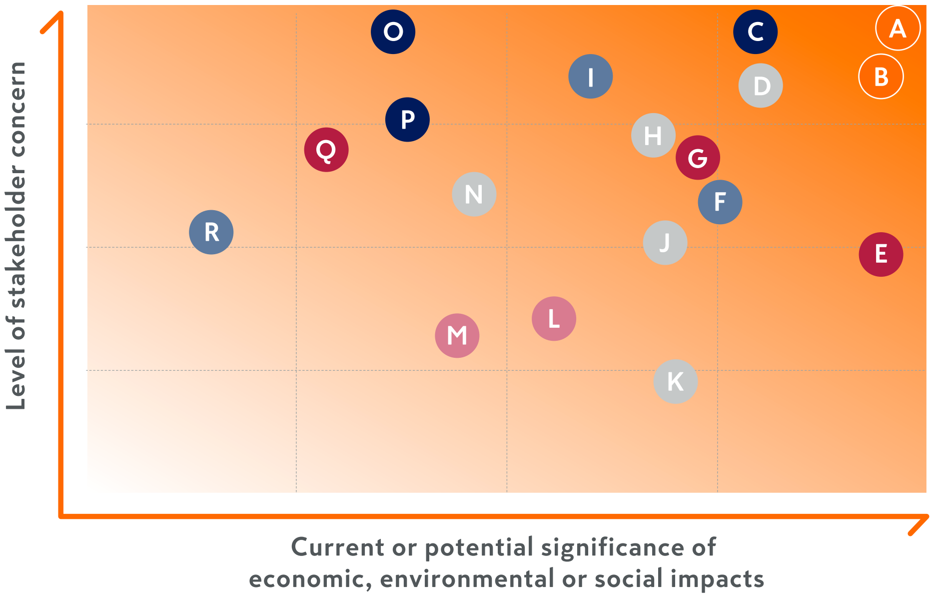
Materiality assessment

The materiality assessment of Kesko's corporate responsibility identifies the key responsibility topics for Kesko and its stakeholders. The materiality assessment guides Kesko's corporate responsibility work and stakeholder work and defines actions to meet stakeholder expectations.

Kesko's material corporate responsibility topics are presented in the matrix below, where the vertical axis shows the level of concern for stakeholders and the horizontal axis the current or potential economic, environmental or social impact of Kesko's operations. The level of concern for stakeholders has been assessed as a whole, which is why the stakeholder specific weightings are not reflected in the matrix.

The materiality assessment was last updated in 2012. In 2017, the material topics for reporting were defined in compliance with the requirements of the new GRI standards. The identified topics are included in Kesko's current materiality assessment, and no need was seen to update the materiality matrix.

MATERIALITY MATRIX



Good corporate governance and finance
- A Financial profitability
- B Good corporate governance and risk management

Customers
- H Promoting wellbeing
- J Guiding customers
- K Servitisation of products
- D Accessibility and multi-channel approach
- N Shopping safety and security

Society
- L Local approach
- M Sense of community

Working community
- E Personnel's competence development
- G A fair working community
- Q Changing expectations for work-life

Responsible purchasing and sustainable selections
- C Product safety and quality
- O Sustainable product selections
- P Human rights and the environmental impacts of production in the purchasing chain

Environment
- F Efficient logistics
- I Energy and resource efficiency
- R Promoting sustainable agriculture

UN Sustainable Development Goals and Kesko

We are committed to support the UN Sustainable Development Goals, the SDGs, in our operations. The UN Sustainable Development Goals are a worldwide action plan – the 2030 UN Agenda – to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

We promote the UN Sustainable Development Goals in our strategy and sustainability work. Our operations contribute to all of the 17 UN Sustainable Development Goals.

We have recognised three goals as most material for our operations and stakeholders:

SDG 12: Responsible consumption and production at Kesko encompasses sustainability throughout supply chains, selections, customer communications and use of products.

SDG 8: Decent work and economic growth includes issues such as compliance with the K Code of Conduct and Kesko as a responsible employer of 25,000 employees in eight countries. Management of human rights in supply chains as well as promoting domestic production in Finland contribute towards SDG 8 also.

SDG 13: Climate action includes reducing emissions and increasing energy efficiency in our own operations such as store operations and logistics. We also work to reduce emissions in supply chains and selections of products and services as well as to promote more sustainable consumption to customers.

Up to date details of our work towards each of the SDGs can be found at the Kesko.fi website.

The GRI, UNGC and SDG index of Kesko's Annual Report includes SDGs for the relevant disclosures. In addition, the Responsibility Programme connects the appropriate SDGs to each theme.

Responsibility path

We at K Group have always believed in the power of sustainability and we have been open-mindedly working towards it for decades. Responsible environmental actions originated at our stores, and over the years, this has expanded to comprehensive corporate responsibility work.

1982
Kesko's energy guide is published

1990
Environmental policy

1996
Kesko's values

1998
K-environmental store model

Comprehensive reporting begins

1999
Our Responsible Working Principles guide

Responsible purchasing: SA8000 certification

2000
The first corporate responsibility report is published

2002
Assurance of the corporate responsibility report begins

2005
The Global Compact initiative

Responsible purchasing: BSCI audits

2008
First responsibility programme

2013
Updated responsibility programme

K-responsibility concept adopted by first stores

2014
First integrated annual report is published

2015
Objectives in other countries are included in the responsibility programme

2016
A human rights assessment and a human rights commitment

The UN's Sustainable Development Goals (SDGs)

The K Code of Conduct guidelines

2017
100% renewable electricity in Finland

Science Based Targets for emissions

2020
Responsibility combined with strong identity and attractive brands is an increasingly important prerequisite in every business operation

GRI REPORT PROFILE

Reporting principles

Reporting principles in accordance with the GRI standards

Since 2000, Kesko has annually reported on its corporate responsibility actions in accordance with the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development. The Sustainability section in Kesko's integrated Annual Report is prepared in accordance with the GRI standards and it covers the key areas of economic, social and environmental responsibility. For each reported standard, **the GRI, UNGC and SDG index** refers to the year of the version used.

In our operations, we apply the AA1000 AccountAbility Principles: stakeholder inclusivity, identification of material aspects and responsiveness to stakeholders.

Kesko has taken account of the ISO 26000 standard as a source document providing guidelines for corporate responsibility.

The Sustainability section of the Annual Report has been divided into three subsections: Responsibility programme, Responsibility management and Report profile. The report is published only online, in Finnish and in English.

This report has been prepared in accordance with the GRI Standards: Core option. Topic-specific Disclosures are reported with respect to the material topics for Kesko. A comparison of the contents of the report and the GRI standards is given in **the GRI, UNGC and SDG index**.

Assurance of reporting

An independent third party, PricewaterhouseCoopers Oy, has provided assurance for the performance indicators on economic, social and environmental responsibility in the Finnish language Sustainability section of the Annual Report. The congruence between responsibility information presented in the Finnish and English versions has been checked.

The conclusions, observations and recommendations by PricewaterhouseCoopers Oy are detailed in the **assurance report**. The assurance is commissioned by the operative management of Kesko Corporation.

Global Compact reporting

The report describes Kesko's progress on the 10 principles of the Global Compact initiative. The **GRI, UNGC and SDG index** shows which General Disclosures and Topic-specific Disclosures have been used for evaluating performance in fulfilling human rights, labour rights, environment principles and anti-corruption principles.

Integrated Annual Report

Since 2014, Kesko has taken account of the IIRC (International Integrated Reporting Council) <IR> Framework in its annual reporting.

Report stakeholders

Various stakeholders use the report as their source of information when assessing Kesko's results in the different areas of responsibility. The most important target groups for the report include investors, owners, analysts and rating agencies, as well as society (the media, authorities, NGOs and other organisations, and trade unions).

Reporting period and contact information

This report describes the progress and results of responsibility work in 2017. It includes some information from January to March 2018.

The report for 2016 was published in March 2017.

The report for 2018 will be published in the spring of 2019.

Further information on the topics covered in the report can be obtained from **Kesko's contact persons**.

GRI, UNGC and SDG Index

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
GRI 102 General Standard Disclosures							**2016**
102-1	Name of the organisation	Kesko in brief and key indicators					
102-2	Activities, brands, products and services	Divisions					
102-3	Location of headquarters	Kesko in brief and key indicators					
102-4	Location of operations	Kesko in brief and key indicators					
102-5	Ownership and legal form	Kesko in brief and key indicators					
102-6	Markets served	Kesko in brief and key indicators					
102-7	Scale of the organisation	Kesko in brief and key indicators					
102-8	Information on employees and other workers	Responsibility programme/ Working community		There are no independent entrepreneurs among Kesko employees, nor does suppliers' or hired labour perform a significant part of the work. There are no significant seasonal fluctuations in the number of employees. No distribution by gender. Information not available. The aim is to report the information in 2018.	X		
102-9	Supply chain	204-1 Proportion of spending on local suppliers, Responsibility programme/Responsible purchasing and sustainable selections					
102-10	Significant changes to the organisation and its supply chain	Review by the President and CEO					
102-11	Precautionary Principle or approach	Operating environment					
102-12	External initiatives	Responsibility management/ Management model					
102-13	Membership of associations	Activities in organisations					
102-14	Statement from senior decision-maker	Review by the President and CEO					

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
102-15	Key impacts, risks and opportunities	Operating environment, Value creation, Stakeholders, Responsibility programme					
102-16	Values, principles, standards, and norms of behaviour	Policies and principles, Responsibility programme/ Good corporate governance and finance			X		
102-17	Mechanisms for advice and concerns about ethics	Notification of concerns and non-compliances			X		
102-18	Governance structure	Corporate Governance Statement 2017					
102-19	Delegating authority	Responsibility management/ Management model					
102-20	Executive-level responsibility for economic, environmental and social topics	EVP, CFO; EVP, Human Resources, Corporate Responsibility and Regional Relations		Both are members of the Group Management Board. Reporting model			
102-21	Consulting stakeholders on economic, environmental, and social topics	Stakeholders					
102-22	Composition of the highest governance body and its committees	Board of Directors, Corporate Governance Statement 2017					
102-23	Chair of the highest govenance body	Board of Directors					
102-24	Nominating and selecting the highest governance body	Corporate Governance Statement 2017					
102-25	Conflicts of interest	Corporate Governance Statement 2017, K Code of Conduct		Kesko complies with the Finnish Corporate Governance Code for Listed Companies.			
102-26	Role of highest governance body in setting purpose, values, and strategy	Corporate Governance Statement 2017, Responsibility management/Management model					
102-28	Evaluating the highest governance body's performance	Corporate Governance Statement 2017	Only the Board's self-assessment has been reported.				
102-29	Identifying and managing economic, environmental, and social impacts	Corporate Governance Statement 2017					
102-30	Effectiveness of risk management processes	Corporate Governance Statement 2017					

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
102-31	Review of economic, environmental, and social topics	Corporate Governance Statement 2017					
102-32	Highest governance body's role in sustainability reporting	Corporate Governance Principles					
102-33	Communicating critical concerns	Stakeholders, Corporate Governance Statement 2017					
102-35	Remuneration policies	Remuneration Statement 2017					
102-40	List of stakeholder groups	Stakeholders					
102-41	Collective bargaining agreements	Responsibility programme/ Good corporate governance and finance/Freedom of association and collective bargaining			X		
102-42	Identifying and selecting stakeholders	Stakeholders					
102-43	Approach to stakeholder engagement	Stakeholders					
102-44	Key topics and concerns raised	Stakeholders					
102-45	Entities included in the consolidated financial statements	Note 5.2 to the consolidated financial statements					
102-46	Defining report content and topic Boundaries	Materiality assessment, Reporting principles					
102-47	List of material topics	Materiality assessment					
102-48	Restatements of information	Changes reported in connection with topic-specific information.					
102-49	Changes in reporting	No significant changes.					
102-50	Reporting period	Reporting principles					
102-51	Date of most recent report	Reporting principles					
102-52	Reporting cycle	Reporting principles					
102-53	Contact point for questions regarding the report	Contact information					
102-54	Claims of reporting in accordance with the GRI Standards	Reporting principles					
102-55	GRI content index	GRI, UNGC and SDG index					
102-56	External assurance	Reporting principles					

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
GRI 103 Management approach							**2016**
103-1	Explanation of the material topic and its Boundary	Boundaries of responsibility programme themes					
103-2	The management approach and its components	Responsibility programme					
103-3	Evaluation of the management approach						
Topic-specific content							
Topic-specific content is reported regarding aspects identified as material.							
Economic impacts							
201	**Economic performance**					**8**	**2016**
201-1	Direct economic value generated and distributed	Responsibility programme/ Good corporate governance and finance/Economic performance, Responsibility programme/ Society/Kesko's community investments					
201-2	Financial implications and other risks and opportunities due to climate change	Responsibility programme/ Good corporate governance and finance/Economic performance	Monetary evaluations or realisations have not been reported for risks and opportunities. Information is not available, as climate change is difficult to estimate.		X		
201-3	Defined benefit plan obligations and other retirement plans	Responsibility programme/ Good corporate governance and finance/Economic performance					
201-4	Financial assistance received from government	Responsibility programme/ Good corporate governance and finance/Economic performance					
203	**Indirect economic impacts**					**9**	**2016**
203-1	Infrastructure investments and services supported	Responsibility programme/ Customers/Store network					
203-2	Significant indirect economic impacts	Responsibility programme/ Good corporate governance and finance/Indirect economic impacts					
204	**Procurement practices**					**16**	**2016**
204-1	Proportion of spending on local suppliers	Responsibility programme/ Society/Indirect economic impacts					

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
205	**Anti-corruption**					**16**	**2016**
205-1	Operations assessed for risks related to corruption	Responsibility programme/Good corporate governance/Anti-corruption	The number and percentage of business units have not been reported. Information is not available as the risks related to corruption are part of a wider assessment of business risks.	Risks related to corruption are discussed as part of Kesko's risk management. Key risks are identified and assessed regularly throughout the year.	X		
205-2	Communication and training about anti-corruption policies and procedures	Responsibility programme/Good corporate governance/Anti-corruption	Percentages have not been reported by personnel group or geographical region. Information is not available.		X		
205-3	Confirmed incidents of corruption and actions taken	Responsibility programme/Good corporate governance/Anti-corruption			X		
206	**Anti-competitive behaviour**					**16**	**2016**
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Responsibility programme/Good corporate governance/Anti-competitive behaviour					
Environmental impacts							
301	**Materials**					**13**	**2016**
301-3	Reclaimed products and their packaging materials	Responsibility programme/Environment/Effluents and waste	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.				
302	**Energy**					**13**	**2016**
302-1	Energy consumption within the organisation	Responsibility programme/Environment/Energy			X		
302-2	Energy consumption outside the organisation	Responsibility programme/Environment/Emissions	Only limited information on energy consumption outside the organisation is compiled for Scope 3 review (305-3).		X		
302-3	Energy intensity	Responsibility programme/Environment/Energy			X		
302-4	Reduction of energy consumption	Responsibility programme/Environment/Energy			X		
303	**Water**					**6**	**2016**
303-1	Water withdrawal by source	Responsibility programme/Environment/Water			X		

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
304	**Biodiversity**					**15**	**2016**
304-2	Significant impacts of activities, products, and services on biodiversity	Responsibility programme/ Environment/Biodiversity			X		
304-3	Habitats protected or restored	Responsibility programme/ Environment/Biodiversity			X		
305	**Emissions**					**13**	**2016**
305-1	Direct (Scope 1) GHG emissions	Responsibility programme/ Environment/Emissions					
305-2	Energy indirect (Scope 2) GHG emissions	Responsibility programme/ Environment/Emissions	Emissions from district heat in Finland and emissions in the other operating countries have not been reported according to the market-based method because the information was not available.		X		
305-3	Other indirect (Scope 3) GHG emissions	Responsibility programme/ Environment/Emissions			X		
305-4	GHG emissions intensity	Responsibility programme/ Environment/Emissions			X		
305-5	Reduction of GHG emissions	Responsibility programme/ Environment/Emissions			X		
305-7	Nitrogen oxides (NO_x), sulphur oxides (SO_x), and other significant air emissions	Responsibility programme/ Environment/Emissions			X		
306	**Effluents and waste**					**13**	**2016**
306-2	Waste by type and disposal method	Responsibility programme/ Environment/Effluents and waste			X		
	Food waste					**12**	
-	Food waste	Responsiblity programme/ Environment/Food waste		Material topic without applicable standard.	X		
Social impacts							
401	**Employment**					**8**	**2016**
401-1	New employee hires and employee turnover	Responsibility programme/ Working community/ Employment	Only exit turnover by country reported.		X		
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Responsibility programme/ Working community/ Employment	Benefits exceeding the statutory level have not been reported in detail. Practices vary in different operating countries.				

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
402	**Labour/Management relations**					**8**	**2016**
402-1	Minimum notice periods regarding operational changes	Responsibility programme/Good corporate governance/Labour/Management relations	Arrangements compliant to legislation. Legislation does not define minimum notice periods at the precision required by GRI.		X		
403	**Occupational health and safety**					**3**	**2016**
403-1	Workers' representation in formal joint management–worker health and safety committees	Responsibility programme/Working committee/Occupational health and safety	Percentage of employees has not been reported. Information not available.				
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Responsibility programme/Working committee/Occupational health and safety	Not reported by gender. Information not available. The aim is to report the information in 2018. Reporting does not cover suppliers and service providers.				
404	**Training and education**					**4**	**2016**
404-1	Average hours of training per year per employee	Responsibility programme/Working community/Training and education	Not reported by gender and employee category. Information not available.		X		
404-2	Programmes for upgrading employee skills and transition assistance programmes	Responsibility programme/Working community/Training and education					
404-3	Percentage of employees receiving regular performance and career development reviews	Responsibility programme/Working community/Training and education	Not reported by gender and employee category. Information not available.		X		
405	**Diversity and equal opportunity**					**10**	**2016**
405-1	Diversity of governance bodies and employees	Responsibility programme/Working community/Diversity and equal opportunity, Corporate Governance Statement 2017	Not reported by age category. Information not available. The aim is to report the information in 2018.		X		
405-2	Ratio of basic salary and remuneration of women to men	Responsibility programme/Working community/Diversity and equal opportunity	The ratio of basic salary of men and women has not been reported. Information not available. The aim is to report the information in 2018.		X		
406	**Non-discrimination**					**10**	**2016**
406-1	Incidents of discrimination and corrective actions taken	Responsibility programme/Good corporate governance and finance/Non-discrimination			X		

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
407	**Freedom of association and collective bargaining**					**8**	**2016**
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Responsibility programme/ Good corporate governance and finance/Freedom of association and collective bargaining			X		
412	**Human rights assessments**					**16**	**2016**
412-1	Operations that have been subject to human rights reviews or impact assessments	Responsibility programme/ Good corporate governance and finance/Human rights assessments			X		
412-2	Employee training on human rights policies or procedures	Responsibility programme/ Good corporate governance and finance/Human rights assessments			X		
414	**Supplier social assessment**					**8**	**2016**
414-1	New suppliers that were screened using social criteria	Responsibility programme/ Responsible purchasing and sustainable selections/Supplier social assessment	The percentage of suppliers screened has not been separately reported out of new suppliers but out of all suppliers in high-risk countries.				
414-2	Negative social impacts in the supply chain and actions taken	Responsibility programme/ Responsible purchasing and sustainable selections/Supplier social assessment					
415	**Public policy**					**16**	**2016**
415-1	Political contributions	Responsibility programme/ Good corporate governance and finance/Public policy			X		
416	**Customer health and safety**					**3**	**2016**
416-1	Assessment of the health and safety impacts of product and service categories	Responsibility programme/ Responsible purchasing and sustainable selections/Customer health and safety	Percentage calculation model in accordance with the GRI standard is not applicable to Kesko's operations.				
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Responsibility programme/ Responsible purchasing and sustainable selections/Customer health and safety					

Code	GRI content	Location	Omissions	Further information	Global Compact	Most material SDG	Standard version
417	**Marketing and labelling**					**12**	**2016**
417-1	Requirements for product and service information and labelling	Responsibility programme/Responsible purchasing and sustainable selections/Marketing communications and product information					
417-2	Incidents of non-compliance concerning product and service information and labelling	Responsibility programme/Responsible purchasing and sustainable selections/Marketing communications and product information					
417-3	Incidents of non-compliance concerning marketing communications	Responsibility programme/Good corporate and finance/Non-compliance concerning marketing communications					
418	**Customer privacy**					**16**	**2016**
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Responsibility programme/Good corporate goverance and finance/Customer privacy					
419	**Socioeconomic compliance**					**16**	**2016**
419-1	Non-compliance with laws and regulations in the social and economic area	Responsibility programme/Good corporate goverance and finance/Socioeconomic compliance					

Independent Practitioner's Assurance Report

(Translation from the Finnish original)

TO THE MANAGEMENT OF KESKO CORPORATION

We have been engaged by the Management of Kesko Corporation (hereinafter also the Company) to perform a limited assurance engagement on the economic, social and environmental performance indicators for the reporting period 1 January 2017 to 31 December 2017 disclosed on Kesko Corporation's website in the "Sustainability" section of "Kesko's Annual Report 2017" (hereinafter CR Information).

In terms of the Company's GRI Standards reporting and GRI content index, the scope of the assurance has covered economic, social and environmental disclosures listed within the Topic-specific Standards as well as Disclosures 102-8, 102-41 and 102-54 of the Universal Standards.

Furthermore, the assurance engagement has covered Kesko Corporation's adherence to the AA1000 AccountAbility Principles with moderate (limited) level of assurance.

Management's responsibility

The Management of Kesko Corporation is responsible for preparing the CR Information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the GRI Standards of the Global Reporting Initiative. The Management of Kesko Corporation is also responsible for such internal control as the management determines is necessary to enable the preparation of the CR Information that is free from material misstatement, whether due to fraud or error.

The Management of Kesko Corporation is also responsible for the Company's adherence to the AA1000 AccountAbility Principles of inclusivity, materiality and responsiveness as set out in AccountAbility's AA1000 AccountAbility Principles Standard 2008.

Practitioner's responsibility

Our responsibility is to express a limited assurance conclusion on the CR Information and on the Company's adherence to the AA1000 AccountAbility Principles based on the procedures we have performed and the evidence we have obtained. We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the CR Information is free from material misstatement.

In addition, we have conducted our work in accordance with the AA1000 Assurance Standard 2008. For conducting a Type 2 assurance engagement as agreed with the Company, this Standard requires planning and performing of the assurance engagement to obtain moderate (limited) assurance on whether any matters come to our attention that cause us to believe that Kesko Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles and that the CR Information is not reliable, in all material respects, based on the Reporting criteria.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the CR Information, and about the Company's adherence to the AA1000 AccountAbility Principles. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the CR Information and an assessment of the risks of the Company's material nonadherence to the AA1000 AccountAbility Principles.

Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of the Company.
- Interviewing employees from various organisational levels of the Company with regards to materiality, stakeholder expectations, meeting of those expectations, as well as stakeholder engagement.
- Assessing stakeholder inclusivity and responsiveness based on the Company's documentation and internal communication.
- Assessing the Company's defined material corporate responsibility aspects as well as assessing the CR Information based on these aspects.
- Analysing references to the Company from the reporting period in online media.
- Visiting the Company's Head Office as well as one site in Finland.
- Interviewing employees responsible for collecting and reporting the CR Information at the Group level and at the site where our visit took place.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Kesko Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles.

Furthermore nothing has come to our attention that causes us to believe that Kesko Corporation's CR Information for the reporting period ended 31 December 2017 is not properly prepared, in all material respects, in accordance with the Reporting criteria, or that the CR Information is not reliable, in all material respects, based on the Reporting criteria.

When reading our assurance report, the inherent limitations to the accuracy and completeness of corporate responsibility information should be taken into consideration.

Our assurance report has been prepared in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Kesko Corporation for our work, for this report, or for the conclusions that we have reached.

Observations and recommendations

Based on the procedures we have performed and the evidence we have obtained, we provide the following observations and recommendations in relation to Kesko Corporation's adherence to the AA1000 AccountAbility Principles. These observations and recommendations do not affect the conclusions presented earlier.

- **Inclusivity**: The Company has processes in place for stakeholder inclusivity, collection of feedback and stakeholder engagement. During the past reporting period, the Company has developed the collection of feedback and customer engagement in digital channels. We recommend that the Company continues to develop its digital activities related to stakeholder inclusivity.

- **Materiality**: The Company has a process in place to evaluate and determine the materiality of corporate responsibility aspects. We recommend that the Company assesses the need to update its materiality assessment taking into consideration changes in the business environment which might have occurred since the last update.

- **Responsiveness**: The Company takes its stakeholders' expectations into account in its operations and responds to them through the continuous development of its activities. During 2017, the Company has further increased the coverage and availability of information on the sustainability and origin of its products. We recommend that the Company further widens the offering of information to customers and other stakeholders on the measures the Company has undertaken to ensure the sustainability of its products.

Practitioner's independence, qualifications and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our multi-disciplinary team of corporate responsibility and assurance specialists possesses the requisite skills and experience within financial and non-financial assurance, corporate responsibility strategy and management, social and environmental issues, as well as the relevant industry knowledge, to undertake this assurance engagement.

PricewaterhouseCoopers Oy applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Helsinki, 5 March 2018

PricewaterhouseCoopers Oy

Enel Sintonen	Sirpa Juutinen
Partner, Authorised Public Accountant	Partner
Assurance Services	Sustainability & Climate Change

AA1000
Licensed Assurance Provider
000-29

Contact persons

This list gives contact information of the people who primarily provide additional information on different areas of the report.

This list does not include all Kesko employees who have participated in editing the report.

Email addresses: firstname.lastname@kesko.fi

Name	Role	Business unit
Development, coordination and responsibility for report editing:		
Eva Kaukinen	Vice President, Group Controller	Kesko Corporation, Group Controlling
Riikka Toivonen	Head of K Publicity	Kesko Corporation, Group Identity and Communications
Lena Leeve	Manager, Financial Communications	Kesko Corporation, Group Identity and Communications
Kia Aejmelaeus	Vice President, Investor Relations	Kesko Corporation, Investor Communications
Matti Kalervo	Vice President, Corporate Responsibility	Kesko Corporation, Group Corporate Responsibility
Pirjo Nieminen	Sustainability Specialist	Kesko Corporation, Group Identity and Communications
Financial responsibility:		
Jukka Erlund	Executive Vice President, CFO	Kesko Corporation, Finance, Accounting and IT
Eva Kaukinen	Vice President, Group Controller	Kesko Corporation, Group Controlling
Johanna Toivo	Corporate Financial Controller	Kesko Corporation, Group Controlling
Erika Välkkynen	Financial Controller	Kesko Corporation, Group Controlling
Riikka Toivonen	Head of K Publicity	Kesko Corporation, Group Identity and Communications
Lena Leeve	Manager, Financial Communications	Kesko Corporation, Group Identity and Communications
Esko Mansikka	Managing Director	Vähittäiskaupan Tilipalvelu VTP Oy

Name	Role	Business unit
Responsible purchasing:		
Matti Mettälä	Corporate Responsibility Specialist	Kesko Corporation, Group Identity and Communications
Kati Matela	Sourcing and Export Manager	Kesko's grocery trade, commerce
Jari Lahti	Quality Manager	Kesko Corporation, Kespro
Katriina Ahtee	Project Manager	Kesko's grocery trade, commerce
Mikko Myyryläinen	Manager, Sourcing Support and Sustainability	Kesko's building and technical trade, commerce
Product safety:		
Sohvi Vähämaa	Corporate Responsibility Specialist	Kesko Corporation, Group Identity and Communications
Tuuli Luoma	Sourcing and Export Manager	Kesko's grocery trade, commerce
Mia Haavisto	Quality Manager	Kesko Corporation, Kespro
Johanna Teinilä-Kurvinen	Project Manager	Kesko's grocery trade, commerce
Leena Takaveräjä	Manager, Sourcing Support and Sustainability	Kesko's building and technical trade, commerce
Product safety:		
Matti Kalervo	Vice President, Corporate Responsibility and Product Safety	Kesko Corporation, Group Identity and Communications
Heta Rautpalo	Product Research Manager	Kesko's grocery trade, Product Research
Environmental responsibility:		
Minna Saari	Environmental Specialist	Kesko Corporation, Group Identity and Communications
Timo Jäske	Sustainability Manager	Kesko's grocery trade, commerce
Jari Suuronen	Technical Building Services Manager	Kesko's grocery trade, store sites and retailer operations
Jesse Mether	Sustainability Manager	Kesko's building and technical trade, commerce

Name	Role	Business unit
Corporate Governance, Risk Management and Corporate Security:		
Mika Majoinen	Executive Vice President, Group General Counsel	Kesko Corporation, Legal Affairs
Pasi Mäkinen	Senior Vice President, Chief Audit and Risk Officer	Kesko Corporation, Internal Audit and Risk Management
Customer privacy:		
Outi Nylund	Director, K-Plussa and Data-driven Marketing	Kesko Corporation, K Digital
Kaija Kuusimaa	Data Protection Officer	Kesko Corporation, Legal Affairs

FINANCIAL STATEMENTS

Report by the Board of Directors

Kesko is a Finnish listed company that operates in the grocery trade, the building and technical trade and the car trade. Kesko has around 1,800 stores engaged in chain operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia, Belarus and Poland.

Kesko's principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Retailer operations accounted for 43% of Kesko's net sales in 2017. B2B trade is a significant and growing part of Kesko's business operations. B2B trade accounted for 35% of Kesko's net sales in 2017. Kesko's own retailing accounted for 22% of net sales. Outside Finland, Kesko mainly engages in own retailing and B2B trade.

Kesko's operations are founded on professional and committed personnel throughout the value chain, a strong K brand, efficient logistics operations and information systems, and stable finances. Kesko creates value to all its stakeholder groups: customers, personnel, shareholders, retailers, product and service suppliers, municipalities and states. To customers, Kesko offers the products and services they need. The products are well researched, safe and responsibly manufactured. To shareholders, Kesko is a financially sound listed company that is a responsible investment with a good dividend capacity. Kesko is a significant employer, tax payer and service provider. Kesko requires its business partners commit to responsible operations.

Operating environment

Identified megatrends affecting K Group's operations are global economy, digital revolution, demographic changes (urbanisation, single-person households, population ageing), increased consumer knowledge and power, sustainability and climate change. Key operating opportunities and risks are related to the increased importance of a multi-channel approach to trade, the economic operating environment, the supply chain, and the impacts of climate change. Risks have been described in more detail in the Significant risks and uncertainties section of this Board of Directors' Report.

Financial performance

Net sales and profit for 2017

The Group's net sales for 2017 were €10,676 million, which is an increase of 4.9% on previous year (€10,180 million). Net sales development was affected by both the acquisitions made in 2016 as well as the divestments made in the first half of 2017. In comparable terms, net sales grew by 1.8% in local currencies, excluding the impact of acquisitions and divestments. The Group's net sales increased by 3.2% in Finland and by 1.9% in comparable terms. In other countries, net sales grew by 11.3%, or 1.2% in comparable terms. International operations accounted for 21.5% (20.3%) of the Group's net sales.

The 0.9% growth in the net sales for the grocery trade was affected by the acquisition of Suomen Lähikauppa on 12 April 2016 and the changes to Suomen Lähikauppa's store site network, as well as by the divestment of Russian business operations on 30 November 2016. In comparable terms, net sales increased by 2.4%. The comparable change has been calculated by including in the net sales those stores acquired from Suomen Lähikauppa which have been in the store network during both this reporting year as well as the comparison year.

In the building and technical trade, net sales grew by 9.4%. In comparable terms, net sales increased by 1.1% in local currencies. In the calculation of the comparable change, Onninen's net sales have been included for the period between 1 June and 31 December for both the reporting year and the comparison year, while the net sales for the K-maatalous agricultural business, divested on 1 June 2017, and the Asko and Sotka furniture trade, divested on 30 June 2017, have been excluded from both the reporting year and the comparison year. Net sales for the building and technical trade excluding the speciality goods trade increased by 23.4%, or 3.1% in comparable terms. Net sales for the speciality goods trade decreased by 33.8% due to divestments.

In the car trade, net sales grew by 7.1%, or 1.0% in comparable terms. In the calculation of the comparable change, AutoCarrera's net sales for December have been included in the net sales for both the reporting year and the comparison year.

During the financial year 2017, Kesko Group divested the K-maatalous agricultural business on 1 June 2017, and on 30 June 2017, the Asko and Sotka furniture trade, the Yamarin boat business and the Yamaha representation.

1-12/2017	Net sales, € million	Change %	Change in local currency excl. acquisitions and disposals, %	Operating profit, comparable € million	Change, € million
Grocery trade	5,282	+0.9	+2.4	203.4	+27.4
Building and technical trade excl. speciality goods trade	3,823	+23.4	+3.1	79.5	+7.0
Speciality goods trade	663	-33.8	-11.5	16.2	-9.3
Building and technical trade total	4,486	+9.4	+1.1	95.8	-2.2
Car trade	909	+7.1	+1.0	33.1	+3.6
Common functions and eliminations	-1	-68.5	-3.4	-35.6	-5.1
Total	**10,676**	**+4.9**	**+1.8**	**296.7**	**+23.8**

The Group's comparable operating profit was €296.7 million (€272.9 million). Profitability improved significantly in the grocery trade due to increased sales, successful chain redesigns, realised synergy benefits, and the divestment of the loss-making Russian business operations in 2016. In the building and technical trade excluding the speciality goods trade, operating profit increased in the building and home improvement trade in Finland and Norway and Onninen, while the operating result for Sweden and for Kesko Senukai decreased compared to the previous year. Operating profit for the speciality goods trade decreased due to divestments and the decrease in the operating profits of the leisure trade and the machinery trade. Profitability in the car trade improved thanks to growth in sales and the acquisition of AutoCarrera's Porsche business.

Operating profit totalled €324.6 million (€146.8 million). Items affecting comparability totalled €27.9 million (€-126.2 million). The most significant items affecting comparability were the €49.7 million gain on the divestment of properties in the Baltics, the €21.4 million expenses related to the conversion of the Suomen Lähikauppa chains and the transfer of the stores to retailers, the gain on the divestment of the K-maatalous agricultural business of €12.3 million, the gain on the divestment of the Asko and Sotka furniture trade amounting to €19.0 million, and the €14.5 million impairment of goodwill in the Russian building and home improvement business.

Items affecting comparability, € million	1-12/2017	1-12/2016
Comparable operating profit	**296.7**	**272.9**
Items affecting comparability		
+gains on disposal	+83.4	+4.2
-losses on disposal	-1.8	-71.0
-impairment charges	-15.0	-30.0
+/-structural arrangements	-38.7	-29.4
Total items affecting comparability	+27.9	-126.2
Operating profit	**324.6**	**146.8**

The Group's comparable profit before tax was €300.1 million (€271.4 million). The Group's profit before tax was €327.6 million (€145.2 million). The Group's earnings per share were €2.59 (€0.99). The comparable earnings per share were €2.28 (€2.01). The Group's equity per share was €21.45 (€20.44).

K Group's (Kesko and K-chain stores) retail and B2B sales (VAT 0%) amounted to €12,754 million, representing a growth of 1.5% compared to the previous year (pro forma). The K-Plussa customer loyalty programme added 73,146 new households in 2017. At the end of December, there were 2.3 million K-Plussa households and 3.6 million K-Plussa cardholders.

Finance

Cash flow from operating activities was €301.7 million (€170.2 million). Cash flow was strengthened by improved profitability. Cash flow from investing activities amounted to €-88.3 million (€-501.1 million), which includes divestments of €199.6 million.

At the end of December, liquid assets totalled €398 million (€391 million). Interest-bearing liabilities were €534 million (€515 million) and interest-bearing net debt was €136 million (€123 million) at the end of December. The equity ratio was 50.4% (48.6%) at the end of the year.

The Group's comparable net finance income was €1.8 million (net finance costs €1.0 million). The Group's net finance income was €1.5 million (net finance costs €1.0 million). The financial items include dividend income and interest income on cooperative capital of €4.5 million, of which €2.3 million is interest income on cooperative capital from Suomen Luotto-osuuskunta. Items affecting comparability totalled €-0.4 million.

Taxes

The Group's taxes were €58.8 million (€31.4 million). The effective tax rate was 17.9% (21.6%). The Group's effective tax rate was lowered by tax-exempt gains on the sale of properties and subsidiaries.

Capital expenditure

The Group's capital expenditure totalled €349.8 million (€743.1 million), or 3.3% (7.3%) of net sales. Capital expenditure in store sites was €255.7 million (€216.7 million), in IT €32.9 million (€29.3 million) and other capital expenditure was €61.2 million (€35.5 million). Capital expenditure includes real estate purchases of €46.5 million from Kesko Pension Fund, related to the decision made by the Pension Fund in December to return surplus assets to its shareholders. The surplus amount to be paid to Kesko Group companies is estimated at €58 million, and the Pension Fund is estimated to pay the return in March 2018 after having received approval from the Finnish Financial Supervisory Authority. The comparison year includes acquisitions amounting to €461.6 million.

Segments

Seasonal nature of operations

The Group's operating activities are affected by seasonal fluctuations. The net sales and the 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. In terms of the level of operating profit, the second and third quarter are the strongest, whereas the impact of the first quarter on the full year profit is the smallest. The acquisitions of Suomen Lähikauppa and Onninen have increased the seasonal fluctuations between quarters. The operating profit levels of Onninen and Suomen Lähikauppa are lowest in the first quarter.

GROCERY TRADE

	1-12/2017	1-12/2016
Net sales, € million	5,282	5,236
Comparable operating profit, € million	203.4	175.9
Comparable operating margin, %	3.9	3.4
Capital expenditure, € million	224.4	238.1

Net sales, € million	1-12/2017	Change, %
Sales to K-food stores	3,331	+5.4
K-Citymarket, home and speciality goods	585	+2.1
K-Market, own retail trade	479	-16.7
Kespro	815	+4.1
Others and eliminations	72	-49.5
Total	**5,282**	**+0.9**

Net sales for the grocery trade amounted to €5,282 million (€5,236 million), an increase of 0.9%. Net sales development was affected by the acquisition of Suomen Lähikauppa on 12 April 2016 and changes in its store site network, as well as the divestment of the Russian business operations on 30 November 2016. In comparable terms, net sales for the grocery trade grew by 2.4%. The comparable change has been calculated by including in the net sales those stores acquired from Suomen Lähikauppa which have been in the store network during both this reporting year as well as the comparison year, and by deducting the net sales of the divested business in Russia.

K Group's grocery sales grew by 2.4% (incl. VAT) if the impact of the acquisition of Suomen Lähikauppa is excluded. K Group's grocery trade sales pro forma growth was 0.5% (incl. VAT), which was affected by the Suomen Lähikauppa store site network being smaller than the previous year. In the Finnish grocery market, retail prices are estimated to have remained at the level of the previous year (incl. VAT, Kesko's own estimate based on the Consumer Price Index of Statistics Finland) and the total market (incl. VAT) is estimated to have increased by approximately 1.7% in 2017 (Kesko's own estimate).

The acquisition of Suomen Lähikauppa was completed in April 2016 and the conversion of Siwa and Valintatalo stores into K-Markets began in May of that year. By the end of May 2017, all Siwa and Valintatalo stores that continued operating (at 409 store locations) had been converted into K-stores (408 K-Markets and 1 K-Supermarket). Of these, 243 stores had been transferred to retailers by the end of December. The transfer of the stores to retailers will be completed by the end of the first half of 2018.

The comparable operating profit for the grocery trade amounted to €203.4 million (€175.9 million), an increase of €27.4 million. Profitability improved significantly in the grocery trade due to sales growth, successful chain redesigns, realised synergy benefits, and the divestment of the loss-making Russian business operations in 2016. Kespro's sales grew and profitability improved. The effect of Suomen Lähikauppa on the comparable operating profit for reporting year 2017 was €+4.0 million (€-3.2 million in April–December 2016). The loss of the Russian business operations divested in November 2016 was €17.1 million in the comparison year.

The grocery trade's operating profit was €181.3 million (€93.0 million). Items affecting comparability amounted to €-22.1 million (€-82.9 million), and they were mainly related to the restructuring of Suomen Lähikauppa, €-21.4 million. The most significant items affecting comparability in the comparison year were the €69.2 million loss on the disposal of the Russian grocery trade, and the €11.4 million costs related to the restructuring of Suomen Lähikauppa.

Capital expenditure for the grocery trade was €224.4 million (€238.1 million), of which €213.1 million (€159.6 million) was in store sites. The comparison year includes acquisitions amounting to €54.3 million.

BUILDING AND TECHNICAL TRADE

	1-12/2017	1-12/2016
Net sales, € million	**4,486**	**4,100**
Building and technical trade excl. speciality goods trade	3,823	3,099
Speciality goods trade	663	1,002
Comparable operating profit, € million	**95.8**	**97.9**
Building and technical trade excl. speciality goods trade	79.5	72.5
Speciality goods trade	16.2	25.5
Comparable operating margin, %	**2.1**	**2.4**
Building and technical trade excl. speciality goods trade	2.1	2.3
Speciality goods trade	2.4	2.5
Capital expenditure, € million	**80.0**	**451.7**

Net sales, € million	1-12/2017	Change, %
Building and home improvement trade, Finland	870	+5.4
K-Rauta, Sweden	200	-7.7
Byggmakker, Norway	397	-1.2
K-Rauta, Russia	184	+6.0
Kesko Senukai, the Baltics	510	+5.0
OMA, Belarus	120	+18.4
Onninen	1,571	+73.0
Building and technical trade excl. speciality goods trade total	**3,823**	**+23.4**
Machinery trade	229	-16.3
Leisure trade, Finland	196	-0.2
Others	238	-55.2
Speciality goods trade total	**663**	**-33.8**
Total	**4,486**	**+9.4**

Net sales for the building and technical trade were €4,486 million (€4,100 million), up by 9.4%. In comparable terms, net sales increased by 1.1% in local currencies. In the calculation of the comparable change, Onninen's net sales have been included for the period between 1 June and 31 December for both the reporting year and the comparison year, while the net sales for the K-maatalous agricultural business, divested on 1 June 2017, and the Asko and Sotka furniture trade, divested on 30 June 2017, have been excluded from both the reporting year and the comparison year.

In Finland, net sales for the building and technical trade were €2,190 million (€2,142 million), up by 2.3%. In comparable terms, net sales in Finland increased by 1.0%. Net sales from foreign operations amounted to €2,296 million (€1,959 million), an increase of 17.2%. Net sales from foreign operations were up by 1.2% in comparable terms. Foreign operations accounted for 51.2% (47.8%) of the net sales for the building and technical trade. Net sales for the building and technical trade excluding the speciality goods trade were €3,823 million (€3,099 million), an increase of 23.4%. In comparable terms, net sales grew by 3.1%.

Net sales for the building and home improvement trade were €2,276 million (€2,196 million), an increase of 3.7%. In local currencies, net sales grew by 2.9%. Net sales in local currency decreased in Norway by 0.8%, in Sweden by 6.1% and in Russia by 5.8%. In Sweden, the decrease in net sales was impacted by closures of K-Rauta stores due to the termination of lease agreements. In Belarus, net sales grew in local currency by 17.4%. Net sales for the building and home improvement trade grew in the B2B segment. Onninen's net sales in 2017 amounted to €1,571 million (€908 million in June–December 2016). In comparable terms, Onninen's net sales grew by 4.5%.

The market share of K Group's building and technical trade is estimated to have strengthened in Finland. K Group's sales of building and home improvement products in Finland increased by 4.1% and the total market (VAT 0%) is estimated to have grown by about 1.1% (Kesko's own estimate).

Net sales for the speciality goods trade amounted to €663 million (€1,002 million), a decrease of 33.8%. The decrease was affected by the divestments carried out. Net sales for the machinery trade amounted to €229 million (€274 million), a decrease of 16.3% from the previous year. Net sales for the machinery trade in Finland were €96 million, down by 33.5%. Net sales from foreign operations totalled €133 million, up by 3.0%. Net sales for the leisure trade in Finland were €196 million (€197 million), down by 0.2%. Net sales for the Asko and Sotka furniture trade, K-maatalous agricultural business, Yamarin boat business and Yamaha representation, all divested in June, totalled €279 million in the first half of the year (€595 million in January–December 2016).

The comparable operating profit for the building and technical trade totalled €95.8 million (€97.9 million), down by €2.2 million on the year before. The comparable operating profit for the building and technical trade excluding the speciality goods trade was €79.5 million (€72.5 million), an increase of €7.0 million. Profitability was boosted by Onninen's good profit performance. Onninen's comparable operating profit in 2017 was €32.7 million (€18.2 million in June–December 2016). Profitability also improved in the building and home improvement trade in Finland and Norway. Profitability was weakened by losses in the Swedish operations and by Kesko Senukai's lower operating profit compared to the previous year, which was partly due to the renewal and expansion of the store site network in the Baltic countries and Belarus. The comparable operating profit for the speciality goods trade was €16.2 million (€25.5 million), down by €9.3 million. The comparable operating profit for the K-maatalous agricultural business and the Asko and Sotka furniture trade, all divested in June, was €6.8 million for the first half of the year (€15.0 million in January–December 2016).

Operating profit for the building and technical trade was €154.7 million (€60.8 million). Items affecting comparability totalled €58.9 million (€-37.2 million). The most significant items affecting comparability were the €49.7 million gain on the divestment of properties in the Baltics, the gain on the divestment of the K-maatalous agricultural business of €12.3 million, the gain on the divestment of the Asko and Sotka furniture trade amounting to €19.0 million, and the €14.5 million impairment of goodwill in the Russian building and home improvement business. The most significant items affecting comparability in 2016 were the €15.0 million in impairment charges related to the change of the functional currency of the Russian properties and the €5.8 million in asset transfer taxes related to acquisitions.

Capital expenditure for the building and technical trade totalled €80.0 million (€451.7 million), of which €41.4 million (€55.8 million) was in store sites. The comparison year included €380.1 million in acquisitions.

CAR TRADE

	1-12/2017	1-12/2016
Net sales, € million	909	849
Comparable operating profit, € million	33.1	29.5
Comparable operating margin, %	3.6	3.5
Capital expenditure, € million	17.4	41.4

Net sales, € million	**1-12/2017**	**Change, %**
VV-Auto	855	+1.2
AutoCarrera	55	-
Total	**909**	**+7.1**

Net sales for the car trade were €909 million (€849 million), an increase of 7.1%. The comparable net sales growth was +1.0%. In the calculation of the comparable change, AutoCarrera's net sales for December have been included in the net sales for both the reporting year and the comparison year. The combined market performance of first time registered passenger cars and vans in 2017 was +1.0% (+10.2%). The combined market share for cars and vans imported by the car trade was 18.6% (18.9%) in 2017. Market share for the comparison year included first time registrations of Porsche for the whole of 2016.

In the car trade, profitability continued to improve thanks to good sales performance and the acquisition of AutoCarrera's Porsche business. The comparable operating profit amounted to €33.1 million (€29.5 million), an increase of €3.6 million. AutoCarrera's comparable operating profit was €3.0 million. Operating profit for the car trade was €33.1 million (€28.9 million).

Capital expenditure for the car trade totalled €17.4 million (€41.4 million). The comparison year includes €27.1 million of acquisitions.

Acquisitions, divestments and other changes in Group composition in 2017

Kesko has carried out several significant acquisitions and divestments in 2016 and 2017.

Acquired businesses	**Net sales, € million 1-12/2017**	**Comparable operating profit, € million 1-12/2017**	**Net sales, € million 1-12/2016**	**Comparable operating profit, € million 1-12/2016**	**Transaction price, € million**
Suomen Lähikauppa, 4/2016	644	4	580	-3	54
Onninen, 6/2016	1,571	33	908	18	364
AutoCarrera, 12/2016	55	3	4	0	27
Total	**2,270**	**40**	**1,492**	**15**	**445**

Divested businesses	**Net sales, € million 1-12/2017**	**Comparable operating profit, € million 1-12/2017**	**Net sales, € million 1-12/2016**	**Comparable operating profit, € million 1-12/2016**	**Transaction price, € million**
K-ruoka Russia, 11/2016	-	-	105	-17	178
K-maatalous, 6/2017	149	4	334	5	39
Indoor Group, 6/2017	89	3	187	10	67
Yamaha and Yamarin, 6/2017	41	-	61	-	-
Total	**279**	**7**	**687**	**-2**	**284**

Kesko Corporation sold its K-maatalous agricultural business to Swedish Lantmännen ek. för. The debt free price of the sale, structured as a share transaction, was €38.5 million. (Press release 1 June 2017)

Kesko Corporation sold Indoor Group, which is responsible for the Asko and Sotka furniture trade, to a company owned by Sievi Capital Oyj, three franchising entrepreneurs from the Sotka chain and Etera Mutual Pension Insurance Company. The debt free price of the sale, structured as a share transaction, was €67 million. (Press releases on 20 June 2017 and 30 June 2017)

Konekesko Ltd, a Kesko Corporation subsidiary, sold its Yamarin boat business to Inhan Tehtaat Oy Ab, a subsidiary owned by Yamaha Motor Europe N.V. At the same time, the transfer of the representation of Yamaha's recreational machinery in Finland from Konekesko Ltd to Yamaha Motor Europe N.V. was also completed. (Press release 30 June 2017)

In March, Kesko and Oriola announced their intention to establish a new chain of health, beauty and wellbeing stores across Finland. Finland's Competition and Consumer Authority approved the establishment of the joint venture on 26 June 2017 and the establishment of the company was finalised at the end of June. Both parties own 50% of the new company. (Press release 30 June 2017)

Kesko sold seven store sites used by Kesko Senukai in Estonia and Latvia to the property investment company UAB Baltic Retail Properties. At the same time, Kesko acquired a 10% shareholding in the property investment company. (Press release 24 May 2017)

Kesko Food Ltd, K-citymarket Oy and Kespro Ltd, subsidiaries wholly-owned by Kesko Corporation, merged into Kesko Corporation on 28 February 2017.

Kesko Corporation's subsidiary Konekesko Ltd sold 45% of its Baltic subsidiaries' shares to Danish Agro a.m.b.a.'s group company DAVA Agravis Machinery Holding A/S. In the same context, an agreement was made on options to expand DAVA Agravis' ownership to include the whole share capital of the Baltic machinery trade companies and Danish Agro group's ownership to include Konekesko's agricultural machinery business in Finland. (Stock exchange release on 10 February 2017)

Main objectives and results achieved in sustainability

Key commitments, policies and principles

Kesko's operations are based on its value, vision and mission. Work is guided by Kesko's strategy, operating principles and the K Code of Conduct. Key group-level policies guiding Kesko's operations include Kesko's risk management policy, treasury policy, data protection policy, information security policy, and security policy.

Kesko is committed to promoting the UN's Sustainable Development Goals (SDGs) in its operations. For Kesko and its stakeholders, the three key goals are Responsible consumption, Decent work and economic growth, and Climate action. In accordance with its human rights commitment, Kesko respects all internationally recognised human rights. Kesko's purchasing is guided by Kesko's ethical purchasing principles.

Kesko's responsibility programme contains both short-term and long-term objectives. The programme has six themes: Good corporate governance and finance, Customers, Society, Working community, Responsible purchasing and sustainable selections, and Environment.

Kesko in sustainability indices

As a result of its long-term commitment to corporate responsibility work, Kesko is listed on several major sustainability indices, such as the Dow Jones Sustainability Indices DJSI World and DJSI Europe, the FTSE4Good Index, the CDP Climate A- List and the STOXX Global ESG Leaders Index. Kesko is ranked number 31 on the Global 100 list of the Most Sustainable Corporations in the World (in 2018) and number 25 in 2017, and the world's most sustainable trading sector company.

In September 2017, Kesko rose to the world's most prestigious sustainability indices, the DJSI World and DJSI Europe. Kesko's scores rose especially in the areas of environmental responsibility and social responsibility. Kesko was previously included in the DJSI indices between 2003 and 2014.

Kesko's sustainability principles, management, objectives, processes and results are described in more detail in Kesko's Annual Report. Kesko reports on its corporate responsibility work in accordance with the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development. The Sustainability section of the Annual Report is prepared in accordance with the GRI standards and covers the key areas of economic, social and environmental responsibility.

Purchasing and human rights

In accordance with its human rights commitment, Kesko respects all internationally recognised human rights. Kesko's purchasing is guided by Kesko's ethical principles for purchasing, which are based on the fundamental rights at work accepted by the International Labour Organisation (ILO), the UN Declaration of Human Rights, and the UN Convention on the Rights of the Child. The K Code of Conduct was implemented in the autumn of 2016 and is widely in use in Kesko Group's standard agreements. According to Group guidelines, a K Code of Conduct contract clause is to be added to all agreements under which the Group companies purchase products or services from external parties.

In purchasing chains, Kesko pays special attention to human rights issues and working conditions in high-risk countries. Kesko is a member of amfori (formerly Foreign Trade Association) and participates in the amfori Business Social Compliance Initiative (amfori BSCI). Kesko utilises international social responsibility assessment systems for supplier audits in high-risk countries. Kesko's principle in high-risk countries is to collaborate only with suppliers that are already included in the scope of social responsibility audits or that start the process when cooperation begins. Primarily, Kesko requires amfori BSCI audits from suppliers in high-risk countries. Kesko also accepts other assessment systems of social responsibility if their criteria correspond to those of amfori BSCI auditing and if the audit is conducted by an independent party.

In September 2016, Kesko published its human rights commitment and impact assessment in compliance with the UN's Guiding Principles on Business and Human Rights. In 2017, this was followed up with a review of working conditions in the supply chain of grapes, conducted by Kesko and the Trade Union Solidarity Centre of Finland (SASK). The human rights assessment will be reviewed every three years, with the next review taking place in 2019.

Product safety

Kesko and K Group stores together with suppliers are responsible to the products' end-users for ensuring that the products comply with all the requirements of Finnish and EU legislation, are safe for users and meet quality promises. Kesko's product labelling complies with legislative requirements and recommendations from authorities. All food product operations have a self-control plan in place, as required by law.

The assessment of the health and safety impacts of products is part of the operations of the Product Research Unit of Kesko's grocery trade. The manufacturers of Kesko's own brand food products are required to have international certifications that assure product safety. The standards approved by Kesko's grocery trade include BRC, IFS, FSSC 22000 and GlobalGAP. The Product Research Unit's laboratory monitors the safety and quality of own brand products and own imports in the grocery trade. It is a testing laboratory T251 which has been accredited by the FINAS accreditation services and approved to comply with the SFS-EN ISO/IEC 17025 standard.

Environmental issues

K Group's environmental and energy policy guides the operations of Kesko Group and K Group stores in all operating countries. Kesko's key business partners are expected to observe corresponding environmental management principles.

Kesko's most significant direct environmental impacts are emissions from the production of electricity and heat consumed on properties, emissions from logistics, and waste produced in warehousing operations and at the stores. The biggest indirect impacts are related to the manufacture, use and disposal of the products sold.

Kesko participates in mitigating climate change by increasing purchases and production of renewable energy and by improving energy efficiency. Kesko has set emission targets approved by the Science Based Targets initiative in line with the two degree climate warming target of the Paris Agreement. Kesko has committed to reducing its direct and indirect emissions by 18% by 2025 from the 2015 base year. Kesko has also committed to reducing indirect emissions in its supply chain so that 90% of its key suppliers will set greenhouse gas (GHG) emission targets by 2025. Kesko participates in the 2017–2025 action plan of the commerce sector Energy Efficiency Agreement, according to which Kesko commits to reducing its energy consumption through various savings measures by 7.5%.

Since the beginning of 2017, all electricity purchased by Kesko in Finland has been produced with renewable energy. In recent years, Kesko has made significant investments in building solar power plants.

Personnel

In 2017, the average number of personnel in Kesko Group was 22,077 (22,475), converted into full-time employees. At the end of the year, the number of personnel was 24,983 (27,657), of whom 12,327 (14,845) worked in Finland and 12,656 (12,812) elsewhere.

Professional and committed personnel forms the foundation for operations. Kesko's HR management is guided by Kesko's HR policy, the K Code of Conduct, and common operating principles. Kesko's HR principles provide guidelines for the practical implementation of the HR policy. Each immediate manager acts as the employer's representative in HR matters.

To ensure the implementation of Kesko's strategy, the methods for target setting, performance management, personnel development, and remuneration are based on management by information. Personnel recruitments are based on need, an approved resourcing plan, and identified upcoming changes. The most suitable person is selected for each job, and external evaluations are utilised for specific positions.

Personnel satisfaction and wellbeing are measured, and development actions are implemented at various organisational levels based on the results. Proactive management of personnel wellbeing and working capacity is used in an effort to reduce the number of sickness absences and to prevent occupational injuries and premature retirement due to disability.

Prevention of corruption and bribery

The K Code of Conduct is a means to ensure that everyone at Kesko has the same understanding of the values and principles that guide their daily work. The K Code of Conduct has been published in nine languages and the principles are the same for all Kesko employees in all operating countries. Clear examples lay out what is expected of Kesko employees and business partners in the areas of human rights, environmental care and fair competition, for example. To communicate and implement the principles, 20 K Code of Conduct ambassadors in different operating countries have been appointed to act as messengers and contact persons.

Kesko's attitude to bribery is absolutely uncompromising. ”We do not offer or accept bribes” and ”We comply with the Kesko policies on hospitality and gifts” are key statements of the K Code of Conduct.

All Kesko Group personnel must confirm annually their compliance with the K Code of Conduct. Kesko's Legal Affairs, Risk Management and Internal Audit organise K Code of Conduct training in the subsidiaries. Kesko Group's Internal Audit monitors and secures the functioning and efficiency of management, supervision, risk management and corporate governance in Kesko Group. Kesko's Internal Audit pays special attention to the efficiency of controls that prevent malpractice and financial losses.

Compliance with operating principles builds trust between Kesko, K-stores, customers and business partners. The K Code of Conduct was adopted in the autumn of 2016 and is widely in use in Kesko Group's standard agreements. According to Group guidelines, a K Code of Conduct contract clause is to be added to agreements under which the Group companies purchase products or services from external parties.

Employees can give feedback and present questions not only within their own units but also directly to Kesko's top management via intranet. Feedback can be given openly or anonymously. SpeakUp is a confidential reporting channel for both Kesko's business partners and employees, meant for reporting crime and malpractice suspicions when, for one reason or another, the information cannot be passed directly to Kesko's persons in charge.

Main objectives and results achieved

Purchasing and human rights

Objective	Method	Results in 2017
The social responsibility of the production of own direct imports from high-risk countries has been assured	Full amfori BSCI audits conducted at the factories or farms of suppliers in high-risk countries.	157 (210) factories or farms underwent full amfori BSCI audits
	Amfori BSCI follow-up audits conducted at the factories or farms of suppliers in high-risk countries.	146 (60) factories or farms underwent amfori BSCI follow-up audits

Product safety

Objective	Method	Results in 2017
Products are safe for users and meet quality promises	The manufacturers of Kesko's own brands of food products each have an international certification that assure product safety.	522 (503) suppliers have an audit certificate; in addition, 59 (58) audits by Kesko
	The Product Research Unit monitors the safety and quality of own brand products and own imports in the grocery trade.	Product samples analysed by the Product Research laboratory and test kitchen 7,350 (7,770)
	If a fault is detected in the quality of a product on the market, a recall is made.	Product recalls: 146 (106), of which 33 (26) Kesko's own brand products; public recalls of own brand products (cases where a fault in the product could endanger consumer health) 4 (2)

Environment

Objective	Method	Results in 2017
Reducing the environmental impact of Kesko's operations	Kesko has committed to the Energy Efficiency Agreement for the commerce sector in Finland to reduce its annual energy consumption by 7.5% between 2017 and 2025.	Energy consumption in properties managed by Kesko in all operating countries (Q4/ 2016–Q3/2017) 1,012 (923) GWh
	Since the beginning of 2017, all electricity purchased by Kesko in Finland has been produced with renewable energy. In recent years, Kesko has invested in solar power plants on store roofs.	Renewable electricity purchases 504 (0) GWh, number of own solar power plants 19 (13) and electricity production 3.0 (0.2) GWh in Finland
	Kesko has set emission targets approved by the Science Based Targets initiative in line with the two degree climate warming target of the Paris Agreement. Kesko commits to reduce its direct and indirect (scope 1 and 2) emissions by 18% by 2025 from the 2015 base year.	Scope 1 and 2 emissions in all operating countries (Q4/ 2016–Q3/2017) 145,607 (124,965) tCO_2e

Personnel		
Objective	**Method**	**Results in 2017**
Kesko has the professional and committed personnel required to implement its strategy	K SuccessFactors is a system for managing the employee's personal objectives agreed upon with their manager.	Objectives have been set for approximately 90% of the target group
	Kesko wants to improve employee satisfaction and personnel commitment.	Personnel commitment 78% (61%); 79% (68%) would recommend K Group as an employer
	Active early identification and intervention are applied to sickness absences to promote personnel wellbeing and working capacity.	Sickness absences 4.7% (4.3%), premature retirement due to disability 24 (18)

Prevention of corruption and bribery (Governance)		
Objective	**Method**	**Results in 2017**
100% commitment to compliance with the K Code of Conduct	”We do not offer or accept bribes” and ”We comply with the Kesko policies on hospitality and gifts” are key statements of the K Code of Conduct.	65% of personnel have made the annual compliance confirmation regarding K Code of Conduct (comparison figure not available, practice introduced in 2017)
	SpeakUp is a confidential reporting channel for employees and business partners.	Notices received via SpeakUp 38 (6 – the channel was taken into use on 1 Oct. 2016)

Shares, securities market and Board authorisations

At the end of December 2017, the total number of Kesko Corporation shares was 100,019,752, of which 31,737,007, or 31.7%, were A shares and 68,282,745, or 68.3%, were B shares. At 31 December 2017, Kesko Corporation held 563,137 own B shares as treasury shares. These treasury shares accounted for 0.82% of the number of B shares, 0.56% of the total number of shares, and 0.15% of votes attached to all shares of the Company. The total number of votes attached to all shares was 385,652,815. Each A share carries ten (10) votes and each B share one (1) vote. The Company cannot vote with own shares held by it as treasury shares and no dividend is paid on them. At the end of December 2017, Kesko Corporation's share capital was €197,282,584.

The price of a Kesko A share quoted on Nasdaq Helsinki was €43.85 at the end of 2016, and €44.10 at the end of December 2017, representing an increase of 0.6%. Correspondingly, the price of a B share was €47.48 at the end of 2016, and €45.25 at the end of December 2017, representing a decrease of 4.7%. In 2017, the highest A share price was €45.99 and the lowest was €40.11. The highest B share price was €48.59 and the lowest was €41.51. In 2017, the Nasdaq Helsinki All-Share index (OMX Helsinki) was up by 6.4% and the weighted OMX Helsinki Cap index by 7.3%. The Retail Sector Index was down by 7.1%.

At the end of December 2017, the market capitalisation of the A shares was €1,399.6 million, while that of the B shares was €3,064.3 million, excluding the shares held by the parent company as treasury shares. The combined market capitalisation of the A and B shares was €4,463.9 million, a decrease of €134.4 million from the end of 2016.

In 2017, a total of 1.3 million A shares were traded on Nasdaq Helsinki, a decrease of 27.0%. The exchange value of the A shares was €55.1 million. The number of B shares traded was 48.7 million, a decrease of 5.6%. The exchange value of the B shares was €2,168.7 million. Nasdaq Helsinki accounted for some 42% of the trading of Kesko's A and B shares in 2017. Kesko shares were also traded on multilateral trading facilities, the most significant of which was the Cboe CXE (source: Fidessa).

The Board holds a valid authorisation to decide on the transfer of a maximum of 1,000,000 own B shares held by the Company as treasury shares (the 2016 share issue authorisation). On 1 February 2017, the Board decided to grant own B shares held by the Company as treasury shares to persons included in the target group of the 2016 performance period, based on this share issue authorisation and the fulfilment of the performance criteria of the 2016 performance period of Kesko's three-year share-based compensation plan. This transfer of a total of 192,822 own B shares was announced in a stock exchange release on 15 March 2017. Based on the 2014–2016 share-based compensation plan decided by the Board, a total maximum of 600,000 own B shares held by the Company as treasury shares could be granted within a period of three years based on the fulfilment of the performance criteria. The Board decided on the performance criteria and the target group separately for each performance period. In January–December, a total of 9,850 shares granted based on the fulfilment of the performance criteria of the share-based compensation plan 2014–2016 were returned to the Company in accordance with the terms and conditions of the share-based compensation plan. The returns during the reporting period were communicated in stock exchange releases on 12 May, 18 September and 28 December 2017. The share-based compensation plan 2014–2016 was announced in a stock exchange release on 4 February 2014.

On 1 February 2017, Kesko Corporation's Board of Directors made a decision to establish a new share-based long-term incentive scheme for Kesko's top management and key persons selected separately. The scheme consists of a performance share plan (PSP) as the main structure, and of a restricted share pool (RSP), which is a complementary share plan for special situations. Besides the PSP, the Board made a decision to establish a share-based bridge plan to cover the transitional phase during which Kesko transfers from a one-year performance period to a longer performance period in its long-term incentive scheme structure. If the performance criteria set for the PSP 2017–2020 plan are achieved in full, the maximum number of series B shares to be paid based on the plan is 340,000 shares. If all the performance criteria set for the Bridge Plan are achieved in full, the maximum number of series B shares to be paid based on the Bridge Plan is 340,000 shares. The total maximum amount of share awards payable under the RSP 2017–2019 is 20,000. The new share-based incentive scheme was announced in a stock exchange release on 2 February 2017.

Kesko's Board of Directors holds a valid authorisation decided by the Annual General Meeting held on 4 April 2016 to transfer of a total maximum of 1,000,000 own B shares held by the Company as treasury shares (the 2016 share issue authorisation). Based on the authorisation, 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, departing 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 acquisitions, capital expenditure or other arrangements within the scope of the Company's business operations, and to implement the Company's commitment and incentive scheme. Own B shares held by the Company as treasury shares can be transferred either against or without payment. A share issue can only be without payment if the Company, taking into account the best interests of all of its shareholders, has a particularly weighty financial reason for it. The authorisation also includes the Board's authority to make decisions concerning any other matters related to the share issues. 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 2020.

Kesko's Board of Directors also held a valid authorisation decided by the Annual General Meeting of 4 April 2016 to acquire a maximum of 1,000,000 own B shares of the Company (the 2016 authorisation to acquire own shares). B shares are acquired with the Company's distributable unrestricted equity, not in proportion to the shareholdings of shareholders, at the market price quoted in public trading organised by Nasdaq Helsinki Ltd ("the exchange") at the date of acquisition. The shares will be acquired and paid for in accordance with the rules of the exchange. The acquisition of own shares reduces the amount of the Company's distributable unrestricted equity. B shares are acquired for use in the development of the Company's capital structure, to finance possible acquisitions, capital expenditure and/or other arrangements within the scope of the Company's business operations, and to implement the Company's commitment and incentive scheme. The Board makes decisions concerning any other issues related to the acquisition of own B shares. The authorisation was valid until 30 September 2017.

In addition, Kesko's Board of Directors holds a share issue authorisation, decided by the Annual General Meeting of 13 April 2015, to issue a maximum of 20,000,000 new B shares (the 2015 share issue authorisation). The shares can be issued against payment to be subscribed by shareholders in a directed issue in proportion to their existing holdings of the Company shares regardless of whether they hold A or B shares, or, departing 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 expenditure or other arrangements within the scope of the Company's business operations. The amount paid for the shares is recognised in the reserve of invested non-restricted equity. The authorisation also includes the Board's authority to decide on the share subscription price, the right to issue shares for non-cash consideration and the right to make decisions on other matters concerning share issues. The authorisation is valid until 30 June 2018.

At the end of December 2017, the number of shareholders was 42,322, which is 2,918 more than at the end of 2016. At the end of December, foreign ownership of all shares was 31.3%. Foreign ownership of B shares at the end of December was 44.7%.

Flagging notifications

According to a notification received by Kesko Corporation, the combined voting rights in respect of shares in Kesko held by K-Retailers' Association, its Branch Clubs and the Foundation for Vocational Training in the Retail Trade rose to 15% on 3 February 2017 and exceeded 15% on 6 February 2017. (Stock exchange release on 7 February 2017)

Key events during the financial year

The court of arbitration dismissed Voimaosakeyhtiö SF's action against Kestra Kiinteistöpalvelut Oy concerning the further financing of the Fennovoima nuclear power plant project. (Stock exchange release on 10 January 2017)

Kesko Corporation's Board of Directors decided to establish a new share-based long-term incentive scheme for Kesko's top management and key persons selected separately. In addition, the Board of Directors decided to grant a total of 192,822 own B shares held by the Company as treasury shares, based on the fulfilment of the performance criteria of the 2016 performance period of Kesko's share-based compensation plan 2014–2016, to 130 Kesko management employees and other specified key persons. (Stock exchange release on 2 February 2017)

Kesko Corporation's subsidiary Konekesko Ltd sold 45% of its Baltic subsidiaries' shares to Danish Agro a.m.b.a.'s group company DAVA Agravis Machinery Holding A/S. In the same context, an agreement was made on options to expand DAVA Agravis' ownership to include the whole share capital of the Baltic machinery trade companies and Danish Agro group's ownership to include Konekesko's agricultural machinery business in Finland. (Stock exchange release on 10 February 2017)

Kesko Corporation and Oriola Corporation will build a completely new kind of store chain in Finland, specialising in overall wellbeing. The companies signed an agreement to establish a joint venture. Finland's Competition and Consumer Authority approved the establishment of the joint venture on 26 June 2017 and the establishment of the company was finalised. Each party owns 50% of the new company. The chain is called Hehku and the first stores were opened at the end of January 2018, alongside the launch of the hehku.fi online store. The objective for the first phase is to create a chain of 100 stores and the online store. The plan is, if legislation is amended, to expand the business to include the sales of pharmaceuticals. (Stock exchange release 13 March 2017, press release 30 June 2017, press release 15 November 2017, press release 24 January 2018)

The trading symbols of Kesko Corporation shares changed as of 15 March 2017. The new symbols are KESKOA (share series A) and KESKOB (share series B). (Stock exchange release on 13 March 2017)

Kesko Corporation sold its K-maatalous agricultural business to Swedish Lantmännen ek. för. The debt free price of the sale, structured as a share transaction, was €38.5 million. Kesko Corporation recorded a profit of €12.2 million on the disposal. On 26 May 2017, the Finnish Competition and Consumer Authority (FCCA) announced that it approves the disposal, and it was completed on 1 June 2017. The approval was not subject to any conditions. (Stock exchange release on 11 April 2017, press release on 1 June 2017)

Kesko Corporation sold Indoor Group, which is responsible for the Asko and Sotka furniture trade, to a company owned by Sievi Capital Oyj, three franchising entrepreneurs from the Sotka chain and Etera Mutual Pension Insurance Company. The debt free price of the sale, structured as a share transaction, was €67 million, and the sale was completed on 30 June 2017. Kesko Corporation recorded a profit of €19.0 million on the divestment. (Press releases on 20 June 2017 and 30 June 2017)

Kesko was added to the Dow Jones Sustainability Indices, the DJSI World and the DJSI Europe. Kesko's scores rose especially in the areas of environmental responsibility and social responsibility. (Press release 13 September 2017)

Mika Majoinen, 53, Master of Laws, was appointed Kesko's EVP, Group General Counsel as of 1 January 2018. He also became a member of Kesko's Group Management Board. Kesko's previous Group General Counsel, EVP Anne Leppälä-Nilsson, retired on 31 December 2017, in accordance with her contract. (Stock exchange release on 21 September 2017)

K Group entered into cooperation with Alibaba to open a food online store in China. The aim of the cooperation between K Group and Alibaba is to export Finnish food brands to the growing market in China. At the same time, Kesko will learn from a global pioneer in e-commerce. (Press release 29 September 2017)

Lauri Peltola, EVP, Marketing and Corporate Affairs and member of Group Management Board, left Kesko Corporation. Lauri Peltola's membership in the Group Management Board ended on 31 October 2017. (Stock exchange release on 29 September 2017)

Karoliina Partanen, M.Soc.Sci., was appointed Senior Vice President, Communications and Identity, and Eeva Salmenpohja, M.Soc.Sci., was appointed Vice President, Public Affairs, under the President and CEO as of 1 November 2017. (Press release 24 October 2017)

Jorma Rauhala, 52, M.Sc. (Econ.), was appointed President of the building and technical trade division and deputy to Kesko's President and CEO Mikko Helander. Ari Akseli, 45, M.Sc. (Econ.), was appointed President of the grocery trade division and a member of the Group Management Board. Terho Kalliokoski, the previous President of the building and technical trade division and a member of the Group Management Board, left Kesko. The changes became effective on 15 November 2017. (Stock exchange release on 15 November 2017)

Events after the financial year

No significant events deviating from normal business operations have taken place after the end of the financial year.

Resolutions of the 2017 Annual General Meeting and decisions of the Board's organisational meeting

Kesko Corporation's Annual General Meeting held on 3 April 2017 adopted the financial statements and the consolidated financial statements for 2016 and discharged the Board members and the Managing Director from liability. The General Meeting also resolved to distribute €2.00 per share as dividends, or a total of €198,932,930.00. The dividend pay date was 12 April 2017.

The General Meeting resolved to leave the number of Board members unchanged at seven. The Annual General Meeting held on 13 April 2015 elected seven (7) Board members for terms of office in accordance with the Articles of Association expiring at the close of the Annual General Meeting to be held in 2018. Those Board members are retailer Esa Kiiskinen, Master of Science in Economics Tomi Korpisaari, retailer, eMBA Toni Pokela, eMBA Mikael Aro, Master of Science in Economics Matti Kyytsönen, Master of Science in Economics Anu Nissinen and Master of Laws Kaarina Ståhlberg. Korpisaari and Ståhlberg resigned from the membership of the Company's Board of Directors as of 1 March 2016. The General Meeting held on 4 April 2016 replaced Korpisaari and Ståhlberg by retailer, trade technician Matti Naumanen and Managing Director, Master of Science in Economics Jannica Fagerholm until the close of the Annual General Meeting to be held in 2018.

The General Meeting elected the firm of auditors PricewaterhouseCoopers Oy as the Company's Auditor, with Mikko Nieminen, APA, as the Auditor with principal responsibility.

In addition, the General Meeting approved the Board's proposal for its authorisation to decide on donations in a total maximum of €300,000 for charitable or corresponding purposes until the Annual General Meeting to be held in 2018, and to decide on the donation recipients, purposes of use and other terms of the donations.

After the Annual General Meeting, Kesko Corporation's Board of Directors held an organisational meeting in which it elected M.Sc. (Econ.) Jannica Fagerholm as the Chair of the Audit Committee, eMBA Mikael Aro as its Deputy Chair, and M.Sc. (Econ.) Matti Kyytsönen as its member. Business College Graduate Esa Kiiskinen (Ch.), eMBA Mikael Aro (Dep. Ch.) and M.Sc. (Econ.) Anu Nissinen were elected to the Board's Remuneration Committee.

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 3 April 2017.

Information contained in the notes to the financial statements

Information on the Group's personnel is disclosed in note 2.4.

Related party transactions are disclosed in note 5.3.

Risk management

Risk management in Kesko Group is guided by the risk management policy approved by Kesko's Board of Directors. The policy defines the goals and principles, organisation, responsibilities and practices of risk management in Kesko Group. In the management of financial risks, the Group's treasury policy, confirmed by Kesko's Board of Directors, is observed. The managements of the business operations and the common functions are responsible for the execution of risk management. 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 as part of business operations at the Group, division and function levels in all operating countries.

Kesko Group's risks are considered by the Kesko Board's Audit Committee in connection with the quarterly interim reports, the half year financial report and the financial statements. The Audit Committee Chair reports on risk management to the Board as part of the Audit Committee report. The most significant risks and uncertainties are reported to the market by the Board in the Report by the Board of Directors and any material changes in them in the interim reports and the half year financial report.

The following describes the risks and uncertainties assessed as significant.

Significant risks and uncertainties

Continued intense price competition in the Finnish grocery trade

Competition in the food trade has intensified in recent years and stores have lowered their prices in order to increase market shares. Continued intense price competition could weaken profitability for Kesko's grocery trade and retailers.

Integration and synergies in the building and technical trade

The integration of business operations and the creation of uniform operating models still involve risks that can make the achievement of the operational and financial objectives and targets set for the arrangement more difficult.

Business interruptions and information system failures

The trading sector is characterised by increasingly complicated and long supply chains and a higher dependency on information systems, data communications and external service providers. Disruptions can be caused by hardware failures, software errors or external cyber threats. Extended malfunctions in information systems, payment transfers, or in other parts of the supply chain, can cause significant losses in sales and weaken customer satisfaction.

Compliance with laws and agreements

Changes in legislation and authority regulations could necessitate significant changes and result in additional costs. Compliance with laws and agreements is an important part of Kesko's corporate responsibility. Non-compliance can result in fines, claims for damages and other financial losses, and a loss of confidence and reputation. The implementation of the new EU general data protection regulation will require changes in the procedures for personal data processing and in information systems. The changes will result in significant costs and require development resources to ensure compliance.

Data breach or critical information falling into the wrong hands

Crimes are increasingly committed through data networks and crime has become more international and professional. A failure, especially if it affects the security of payment transactions and personal information, can cause losses, claims for damages and reputational harm.

Product safety and supply chain sustainability

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 and reputation or, in the worst case, a health hazard to customers.

Strong change in the trading sector caused by digitalisation

As retail undergoes a major transformation, the achievement of business objectives requires an active approach and strong expertise in the development of digital services and online stores that are attractive to customers, and the use of a multichannel approach with supporting customer communications. Challenges in developing online food stores include the cost efficiency of logistical operating models and the suitability of existing store sites for online sales of food.

Employee competencies and working capacity

The implementation of strategies and the achievement of objectives require competent and motivated personnel. There is a risk that the trading sector does not attract the most competent people. The acquisitions carried out as well as other significant business and development projects, coupled with an increased need for special competencies increase the key-person risk and the dependency on individual expertise.

Store sites and properties

With a view to business growth and profitability, good store sites are a key competitive factor. The acquisition of store sites can be delayed by town planning and permit procedures and the availability and pricing of sites. Considerable amounts of capital or lease liabilities are tied up in properties for years. When the market situation changes, the business is rearranged, the significance of e-commerce grows, or a chain concept proves inefficient there is a risk that a store site or a property becomes unprofitable and operations are discontinued while long-term liabilities remain.

Responsible operating practices and reputation management

Various aspects of corporate responsibility, such as ensuring responsibility in the purchasing chain of products, fair and equal treatment of employees, the prevention of corruption, and environmental protection, are increasingly important to customers. Any failures in corporate responsibility would result in negative publicity for Kesko and could cause operational and financial damages. Challenges in Kesko’s corporate responsibility work include communicating responsibility principles to suppliers, retailers and customers, and ensuring responsibility in the supply chain of products.

Climate change

Climate change presents physical and regulatory risks and risks affecting reputational factors. Climate change will increase the risk of extreme weather phenomena, which may cause damage or business interruptions that cannot be prevented or covered with insurances. Droughts, desertification and rising sea levels may impact agricultural production and the availability of raw materials and products. Possible emission limitations and taxes may affect the energy markets.

Reporting to market
Kesko's objective is to produce and publish reliable and timely information. If any information published by Kesko proved to be incorrect, or communications failed to meet regulations in other respects, it could result in losing investor and other stakeholder confidence and in possible sanctions. Significant business arrangements, tight disclosure schedules and the dependency on information systems create challenges for the accuracy of financial information.

Risks of damage
Accidents, natural phenomena and epidemics can cause significant damages to people, property or business. In addition, risks of damage may cause business interruptions that cannot be prevented. There is also the risk that insurance policies do not cover all unexpected accidents and damages, or covering them with insurance is not profitable.

Outlook

Estimates for the outlook of Kesko Group's net sales and comparable operating profit are given for the 12-month period following the reporting period (1/2018–12/2018) in comparison with the 12 months preceding the end of the reporting period (1/2017–12/2017).

The general economic situation and the expected trend in consumer demand vary in Kesko's different operating countries. In Finland, the trading sector is expected to grow. In the Finnish grocery trade, intense competition is expected to continue, although, as purchasing power increases, the importance of quality will be emphasised more than previously. In the building and technical trade, growth in B2B sales is expected to continue stronger than the growth in consumer sales. The market is expected to grow in the Nordic and Baltic countries, but at a somewhat slower rate. The trend in the Russian market is expected to remain modest.

In comparable terms, the net sales for the next 12 months are expected to exceed the level of the previous 12 months. Due to divestments and restructuring, Kesko Group's net sales for the next 12 months are expected to fall below the level of the previous 12 months. That development results from the divestments of the K-maatalous agricultural business, the Asko and Sotka furniture trade, the Yamarin boat business and Kesko's Yamaha representation as well as store closures and the transfer of Suomen Lähikauppa stores to retailers.

The comparable operating profit for the next 12-month period is expected to exceed the level of the preceding 12 months. However, investments in store openings and redesigns, in the expansion of logistics operations, and in digital services will burden profitability during the period.

Proposal for profit distribution

The parent company's distributable profits are €1,309,954,752.95, of which the profit for the financial year is €495,055,157.31.

The Board of Directors proposes to the Annual General Meeting to be held on 11 April 2018 that a dividend of €2.20 per share be paid on shares held outside the Company at the date of dividend distribution. No dividend is paid on own shares held as treasury shares by the Company at the record date for the payment of dividend.

As at the date of the proposal for the distribution of profit, 31 January 2018, 99,456,615 shares were held outside the Company, and the corresponding total amount of dividends is €218,804,553.00.

Annual General Meeting

The Board of Directors has decided to convene the Annual General Meeting at Messukeskus in Helsinki on 11 April 2018 at 13.00 (EET). Kesko Corporation will publish a notice of the General Meeting at a later date.

GROUP'S KEY PERFORMANCE INDICATORS

		2013	2014	2015	2016	2017
Income statement						
Net sales	€ million	9,315	9,071	8,679	10,180	10,676
Change in net sales	%	-3.8	-2.6	-4.3	17.3	4.9
Comparable operating profit	€ million	238.8	232.6	244.5	272.9	296.7
Comparable operating profit as percentage of net sales	%	2.6	2.6	2.8	2.7	2.8
Profit for the year (incl. non-controlling interests)	€ million	185	108	117	114	269
Profit for the year as percentage of net sales	%	2.0	1.2	1.4	1.1	2.5
Profitability						
Return on equity	%	8.0	4.7	5.2	5.2	12.3
Comparable return on equity	%	7.7	7.6	8.2	9.8	10.9
Return on capital employed	%	10.2	6.4	9.3	6.4	13.4
Comparable return on capital employed	%	9.8	9.9	11.7	11.9	12.2
Funding and financial position						
Interest-bearing net debt	€ million	-126.4	-99.2	-448.1	123.3	135.9
Gearing	%	-5.4	-4.4	-20.0	5.8	6.1
Equity ratio	%	54.5	54.5	54.7	48.6	50.4
Interest-bearing net debt/EBITDA		-0.3	-0.3	-1.4	0.4	0.3
Other performance indicators						
Capital expenditure	€ million	171	194	219	743	350
Capital expenditure as percentage of net sales	%	1.8	2.1	2.5	7.3	3.3
Cash flow from operating activities	€ million	414	304	276	170	302
Cash flow from investing activities	€ million	-152	-182	217	-501	-88
Personnel, average for the period		19,489	19,976	18,956	22,475	22,077
Personnel, as at 31 Dec.		23,863	23,794	21,935	27,657	24,983

		2013	2014	2015	2016	2017
Share performance indicators						
Earnings/share, diluted	€	1.75	0.97	1.03	0.99	2.59
Earnings/share, basic	€	1.75	0.97	1.03	0.99	2.59
Comparable earnings/share, basic	€	1.68	1.65	1.70	2.01	2.28
Equity/share	€	22.96	22.05	21.82	20.44	21.45
Dividend/share	€	1.40	1.50	2.50	2.00	2.20*
Payout ratio	%	79.9	154.7	243.8	201.3	84.9*
Comparable payout ratio	%	83.3	91.1	146.7	99.5	96.6*
Cash flow from operating activities/share, adjusted	€	4.17	3.07	2.79	1.71	3.03
Price/earnings ratio (P/E), A share, adjusted		15.35	29.49	30.35	44.14	17.01
Price/earnings ratio (P/E), B share, adjusted		15.35	31.16	31.57	47.80	17.45
Effective dividend yield, A share	%	5.2	5.3	8.0	4.6	5.0*
Effective dividend yield, B share	%	5.2	5.0	7.7	4.2	4.9*
Share price as at 31 Dec.						
A share	€	26.80	28.56	31.12	43.85	44.10
B share	€	26.80	30.18	32.37	47.48	45.25
Average share price						
A share	€	24.85	29.06	31.85	37.30	43.62
B share	€	24.11	29.82	33.52	39.03	44.52
Market capitalisation as at 31 Dec., A share	€ million	851	906	988	1,392	1,400
Market capitalisation as at 31 Dec., B share	€ million	1,810	2,031	2,182	3,207	3,064
Turnover						
A share	Million pcs	1	2	2	2	1
B share	Million pcs	51	47	59	52	49
Relative turnover rate						
A share	%	3.6	6.3	7.5	5.4	4.0
B share	%	77.0	69.5	87.0	74.3	70.9
Diluted average number of shares	Thousand pcs	99,136	99,161	99,114	99,249	99,426
Yield of A share for the past five financial years	%	8.5	8.3	2.3	17.8	18.4
Yield of B share						
For the past five financial years	%	13.7	10.1	3.0	18.6	18.5
For the past ten financial years	%	13.4	10.2	7.7	6.6	6.8

* Proposal to the General Meeting

NET SALES BY SEGMENT

€ million	1–12/2017	1–12/2016	Change, %
Grocery trade, Finland	5,282	5,131	2.9
Grocery trade, other countries*	-	105	-
Grocery trade, total	**5,282**	**5,236**	**0.9**
- of which intersegment trade	7	10	-33.4
Building and technical trade, Finland	2,190	2,142	2.3
Building and technical trade, other countries*	2,296	1,959	17.2
Building and technical trade, total	**4,486**	**4,100**	**9.4**
- of which intersegment trade	3	11	-76.9
Car trade, Finland	909	849	7.1
Car trade, total	**909**	**849**	**7.1**
- of which intersegment trade	1	0	(..)
Common functions and eliminations	-1	-5	-68.5
Finland, total	**8,380**	**8,117**	**3.2**
Other countries, total*	**2,296**	**2,063**	**11.3**
Group total	**10,676**	**10,180**	**4.9**

* Net sales in countries other than Finland
(..) Change over 100%

OPERATING PROFIT BY SEGMENT

€ million	1–12/2017	1–12/2016	Change
Grocery trade	181.3	93.0	88.3
Building and technical trade	154.7	60.8	93.9
Car trade	33.1	28.9	4.2
Common functions and eliminations	-44.5	-36.0	-8.5
Group total	**324.6**	**146.8**	**177.8**

COMPARABLE OPERATING PROFIT BY SEGMENT

€ million	1–12/2017	1–12/2016	Change
Grocery trade	203.4	175.9	27.4
Building and technical trade	95.8	97.9	-2.2
Car trade	33.1	29.5	3.6
Common functions and eliminations	-35.6	-30.5	-5.1
Group total	**296.7**	**272.9**	**23.8**

GROUP'S PERFORMANCE INDICATORS BY QUARTER

	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017
Net sales, € million	2,013	2,610	2,792	2,765	2,597	2,814	2,647	2,618
Change in net sales, %	-3.3	17.2	26.7	27.6	29.0	7.8	-5.2	-5.3
Operating profit, € million	33.5	68.0	85.5	-40.3	16.6	152.5	98.6	56.9
Operating margin, %	1.7	2.6	3.1	-1.5	0.6	5.4	3.7	2.2
Comparable operating profit, € million	32.3	79.1	98.2	63.3	28.7	84.6	102.5	81.0
Comparable operating margin, %	1.6	3.0	3.5	2.3	1.1	3.0	3.9	3.1
Finance income/costs, € million	2.7	1.7	-1.1	-4.3	4.2	-1.3	-0.6	-0.9
Profit before tax, € million	35.7	68.1	84.8	-43.5	21.5	150.5	98.0	57.6
Profit before tax, %	1.8	2.6	3.0	-1.6	0.8	5.4	3.7	2.2
Return on capital employed, %	6.7	12.3	13.6	-6.4	2.7	24.8	16.6	9.3
Comparable return on capital employed, %	6.5	14.3	15.6	10.1	4.7	13.8	17.3	13.3
Return on equity, %	5.1	9.8	12.8	-6.9	3.2	24.8	13.9	8.1
Comparable return on equity, %	4.8	11.7	14.7	8.4	5.1	12.2	14.6	12.2
Cash flow from operating activities/share, €	-0.97	0.79	0.81	1.09	-0.58	1.42	1.03	1.16
Equity ratio, %	54.8	44.8	47.9	48.6	47.4	47.0	49.1	50.4
Capital expenditure, € million	51.4	512.7	73.6	105.4	78.3	91.7	62.7	117.1
Earnings/share, diluted, €	0.28	0.49	0.63	-0.40	0.18	1.29	0.69	0.43
Earnings per share, comparable, basic, €	0.26	0.59	0.73	0.42	0.29	0.61	0.72	0.65
Equity/share, €	22.13	20.31	20.84	20.44	20.98	20.18	20.89	21.45

NET SALES BY SEGMENT

Milj. €	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017
Grocery trade	1,094	1,353	1,367	1,422	1,243	1,327	1,313	1,399
Building and technical trade	695	1,046	1,238	1,121	1,112	1,253	1,121	1,000
Car trade	225	214	190	221	245	234	212	218
Common functions and eliminations	-1	-2	-3	1	-2	0	0	1
Group total	**2,013**	**2,610**	**2,792**	**2,765**	**2,597**	**2,814**	**2,647**	**2,618**

OPERATING PROFIT BY SEGMENT

€ million	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017
Grocery trade	30.2	44.1	44.8	-26.1	16.7	39.9	59.3	65.4
Building and technical trade	1.8	32.8	37.9	-11.7	1.2	115.3	39.9	-1.7
Car trade	9.4	5.8	6.8	7.0	10.0	7.6	8.8	6.7
Common functions and eliminations	-7.8	-14.7	-4.0	-9.5	-11.4	-10.3	-9.4	-13.4
Group total	**33.5**	**68.0**	**85.5**	**-40.3**	**16.6**	**152.5**	**98.6**	**56.9**

ITEMS IN OPERATING PROFIT AFFECTING COMPARABILITY

€ million	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017
Grocery trade	-1.1	0.5	-4.4	-78.0	-9.7	-10.6	-0.2	-1.7
Building and technical trade	1.5	-5.1	-7.4	-26.1	-1.8	79.8	-2.8	-16.3
Car trade	-	-	-	-0.6	-	-	-	-
Common functions and eliminations	0.9	-6.5	-0.9	1.1	-0.6	-1.3	-1.0	-6.0
Group total	**1.3**	**-11.1**	**-12.7**	**-103.6**	**-12.1**	**67.9**	**-4.0**	**-24.0**

COMPARABLE OPERATING PROFIT BY SEGMENT

Milj. €	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017
Grocery trade	31.3	43.6	49.2	51.9	26.4	50.5	59.4	67.0
Building and technical trade	0.3	37.9	45.3	14.4	3.0	35.5	42.7	14.6
Car trade	9.4	5.8	6.8	7.5	10.0	7.6	8.8	6.7
Common functions and eliminations	-8.7	-8.2	-3.1	-10.5	-10.8	-9.0	-8.5	-7.4
Group total	**32.3**	**79.1**	**98.2**	**63.3**	**28.7**	**84.6**	**102.5**	**81.0**

Calculation of performance indicators

Kesko uses alternative performance measures to reflect business performance and profitability. These indicators should be examined together with the IFRS-compliant performance indicators.

Change in comparable net sales is used to reflect changes in the Group's business volume between periods. The indicator reflects the change in net sales excluding the impact of acquisitions and divestments, in local currencies. The comparable net sales have been calculated by including in the net sales the business operations that have been part of Kesko Group in both the reporting year as well as the comparison year. Other structural arrangements related to acquisitions and divestments have been adjusted in the same manner as acquisitions. The changes in Suomen Lähikauppa Oy's store site network in 2016 and 2017 have been handled in this manner.

Performance indicators reflecting comparable profit and profitability are used to improve the comparability of operational performance between periods. Gains and losses on disposal of real estate, shares and business operations, impairment charges and significant restructuring costs are identified as items affecting comparability. Gains on disposal have been presented within other operating income, and losses on disposal within other operating expenses in the income statement.

In addition, the financial performance indicators required by the Decree of the Ministry of Finance on obligation of securities issuers to disclose periodic information have been presented as alternative performance measures. The management uses these indicators to monitor and analyse business performance, profitability and financial position.

Profitability

Operating profit, comparable	Operating profit +/- items affecting comparability
Items affecting comparability	- gains on disposal + losses on disposal + impairment charges +/- structural arrangements
Return on equity, %	(Profit/loss before tax - Income tax) x 100 / Shareholders' equity, average of the beginning and end of the reporting period
Comparable return on equity, %	(Profit/loss adjusted for items affecting comparability before tax - Income tax adjusted for the tax effect of the items affecting comparability) x 100 / Shareholders' equity, average of the beginning and end of the reporting period
Return on capital employed, %	Operating profit x 100 / (Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for 12 months
Comparable return on capital employed, %	Comparable operating profit x 100 / (Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for 12 months
EBITDA	Operating profit + Depreciation and amortisation + Impairments

Funding, capital expenditure and financial position

Equity ratio, %	Shareholders' equity x 100 / (Balance sheet total - Prepayments received)
Gearing, %	Interest-bearing net debt x 100 / Shareholders' equity
Interest-bearing net debt	Interest-bearing liabilities - Financial assets at fair value through profit or loss - Available-for-sale financial assets - Cash and cash equivalents
Interest-bearing net debt/EBITDA	Interest-bearing net debt / EBITDA
Capital expenditure	Investments in property, plant and equipment, intangible assets, subsidiary shares, shares in associates and joint ventures and other shares

Share performance indicators

Earnings/share, diluted	Net profit/loss - Non-controlling interests / Average number of shares adjusted for the dilutive effect
Earnings/share, basic	Net profit/loss - Non-controlling interests / Average number of shares
Earnings/share, basic, comparable	Net profit/loss adjusted for items affecting comparability - Non-controlling interests / Average number of shares
Equity/share	Equity attributable to equity holders of the parent / Basic number of shares at the balance sheet date
Payout ratio, %	(Dividend/share) x 100 / (Earnings/share)
Price/earnings ratio (P/E)	Share price at balance sheet date / (Earnings/share)
Effective dividend yield, %	(Dividend/share) x 100 / Share price at balance sheet date
Market capitalisation	Share price at balance sheet date x Number of shares
Cash flow from operating activities/share	Cash flow from operating activities / Average number of shares
Yield of A share and B share	Change in share price + Annual dividend yield

RECONCILIATION OF PERFORMANCE INDICATORS TO IFRS FINANCIAL STATEMENTS

€ million	1-12/2017	1-12/2016
Items affecting comparability		
Gains on disposal	83.4	4.2
Losses on disposal	-1.8	-71.0
Impairment charges	-15.0	-30.0
Structural arrangements	-38.7	-29.4
Items in operating profit affecting comparability	**27.9**	**-126.2**
Items in financial items affecting comparability	-0.4	-
Items in income taxes affecting comparability	3.8	25.3
Total items affecting comparability	**31.4**	**-100.9**
Operating profit, comparable		
Operating profit	324.6	146.8
Net of		
Items in operating profit affecting comparability	27.9	-126.2
Operating profit, comparable	**296.7**	**272.9**
Profit before tax, comparable		
Profit before tax	327.6	145.2
Net of		
Items in operating profit affecting comparability	27.9	-126.2
Items in financial items affecting comparability	-0.4	-
Profit before tax, comparable	**300.1**	**271.4**
Net profit, comparable		
Comparable profit before tax	300.1	271.4
Net of		
Income tax	58.8	31.4
Items in income taxes affecting comparability	3.8	25.3
Net profit, comparable	**237.5**	**214.8**

€ million	1-12/2017	1-12/2016
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	237.5	214.8
Net profit attributable to non-controlling interests	11.0	15.3
Net profit attributable to owners of the parent, comparable	**226.4**	**199.5**
Earnings/share, comparable, €		
Net profit attributable to owners of the parent, comparable	226.4	199.5
Average number of shares, basic, 1,000 pcs	99,426	99,249
Earnings/share, comparable, €	**2.28**	**2.01**
Return on capital employed, %		
Operating profit	324.6	146.8
Capital employed, average	2,427	2,288
Return on capital employed, %	**13.4**	**6.4**
Return on capital employed, %, comparable		
Operating profit, comparable	296.7	272.9
Capital employed, average	2,427	2,288
Return on capital employed, %, comparable	**12.2**	**11.9**
Return on equity, %		
Net profit	268.8	113.8
Equity, average	2,179	2,184
Return on equity, %	**12.3**	**5.2**
Return on equity, %, comparable		
Net profit, comparable	237.5	214.8
Equity, average	2,179	2,184
Return on equity, %, comparable	**10.9**	**9.8**
Equity ratio, %		
Shareholders' equity	2,232	2,126
Total assets	4,472	4,408
Advances received	39	35
Equity ratio, %	**50.4**	**48.6**

RECONCILIATION OF PERFORMANCE INDICATORS TO IFRS FINANCIAL STATEMENTS BY QUARTER

€ million	1–3/ 2016	4–6/ 2016	7–9/ 2016	10–12/ 2016	1–3/ 2017	4–6/ 2017	7–9/ 2017	10–12/ 2017
Items affecting comparability								
Gains on disposal	1.3	2.9	0.8	-0.8	0.3	81.8	0.6	0.6
Losses on disposal	-	-0.3	-0.1	-70.6	-0.4	-1.2	-0.1	-0.1
Impairment charges	-	-7.9	-3.1	-18.9	-	-	-0.5	-14.5
Structural arrangements	0.0	-5.8	-10.3	-13.3	-12.1	-12.6	-4.0	-10.1
Items in operating profit affecting comparability	**1.3**	**-11.1**	**-12.7**	**-103.6**	**-12.1**	**67.9**	**-4.0**	**-24.0**
Items in financial items affecting comparability	-	-	-	-	-	-	-	-0.4
Items in income taxes affecting comparability	0.1	0.8	2.7	21.6	2.0	-0.4	0.1	2.1
Total items affecting comparability	**1.4**	**-10.3**	**-10.0**	**-82.0**	**-10.1**	**67.5**	**-3.8**	**-22.3**
Operating profit, comparable								
Operating profit	33.5	68.0	85.5	-40.3	16.6	152.5	98.6	56.9
Net of								
Items in operating profit affecting comparability	1.3	-11.1	-12.7	-103.6	-12.1	67.9	-4.0	-24.0
Operating profit, comparable	**32.3**	**79.1**	**98.2**	**63.3**	**28.7**	**84.6**	**102.5**	**81.0**
Profit before tax, comparable								
Profit before tax	35.7	68.1	84.8	-43.5	21.5	150.5	98.0	57.6
Net of								
Items in operating profit affecting comparability	1.3	-11.1	-12.7	-103.6	-12.1	67.9	-4.0	-24.0
Items in financial items affecting comparability	-	-	-	-	-	-	-	-0.4
Profit before tax, comparable	**34.5**	**79.2**	**97.5**	**60.2**	**33.6**	**82.6**	**101.9**	**82.0**
Net profit, comparable								
Comparable profit before tax	34.5	79.2	97.5	60.2	33.6	82.6	101.9	82.0
Net of								
Income tax	7.0	14.3	16.4	-6.4	4.3	17.8	23.8	12.9
Items in income taxes affecting comparability	0.1	0.8	2.7	21.6	2.0	-0.4	0.1	2.1
Net profit, comparable	**27.3**	**64.0**	**78.4**	**44.9**	**27.4**	**65.2**	**77.9**	**67.0**
Net profit attributable to owners of the parent, comparable								
Net profit, comparable	27.3	64.0	78.4	44.9	27.4	65.2	77.9	67.0

€ million	1-3/ 2016	4-6/ 2016	7-9/ 2016	10-12/ 2016	1-3/ 2017	4-6/ 2017	7-9/ 2017	10-12/ 2017
Net profit attributable to non-controlling interests	1.3	5.5	5.7	2.8	-1.0	4.2	6.0	1.8
Net profit attributable to owners of the parent, comparable	**26.0**	**58.6**	**72.7**	**42.1**	**28.4**	**61.0**	**72.0**	**65.1**
Earnings/share, comparable, €								
Net profit attributable to owners of the parent, comparable	26.0	58.6	72.7	42.1	28.4	61.0	72.0	65.1
Average number of shares, basic, 1,000 pcs	99,163	99,221	99,240	99,249	99,308	99,387	99,414	99,426
Earnings/share, comparable, €	**0.26**	**0.59**	**0.73**	**0.42**	**0.29**	**0.61**	**0.72**	**0.65**
Return on capital employed, %								
Operating profit	33.5	68.0	85.5	-40.3	16.6	152.5	98.6	59.6
Capital employed, average	1,990	2,207	2,523	2,497	2,430	2,455	2,375	2,442
Return on capital employed, %	**6.7**	**12.3**	**13.6**	**-6.4**	**2.7**	**24.8**	**16.6**	**9.3**
Return on capital employed, %, comparable								
Operating profit, comparable	32.3	79.1	98.2	63.3	28.7	84.6	102.5	81.0
Capital employed, average	1,990	2,207	2,523	2,497	2,430	2,455	2,375	2,442
Return on capital employed, %, comparable	**6.5**	**14.3**	**15.6**	**10.1**	**4.7**	**13.8**	**17.3**	**13.3**
Return on equity, %								
Net profit	28.7	53.8	68.5	-37.1	17.2	132.8	74.1	44.7
Equity, average	2,265	2,195	2,131	2,143	2,155	2,142	2,138	2,204
Return on equity, %	**5.1**	**9.8**	**12.8**	**-6.9**	**3.2**	**24.8**	**13.9**	**8.1**
Return on equity, %, comparable								
Net profit, comparable	27.3	64.0	78.4	44.9	27.4	65.2	77.9	67.0
Equity, average	2,265	2,195	2,131	2,143	2,155	2,142	2,138	2,204
Return on equity, %, comparable	**4.8**	**11.7**	**14.7**	**8.4**	**5.1**	**12.2**	**14.6**	**12.2**
Equity ratio, %								
Shareholders' equity	2,287	2,102	2,161	2,126	2,183	2,100	2,176	2,232
Total assets	4,201	4,712	4,538	4,408	4,638	4,496	4,464	4,472
Advances received	28	25	26	35	32	27	32	39
Equity ratio, %	**54.8**	**44.8**	**47.9**	**48.6**	**47.4**	**47.0**	**49.1**	**50.4**

Analysis of shareholding

Analysis of shareholding by shareholder type as at 31 Dec. 2017

All shares	Number of shares, pcs	Percentage of all shares, %
Non-financial corporations and housing corporations	24,473,866	24.47
Financial and insurance corporations	7,372,041	7.37
General government*	5,722,264	5.72
Households	25,707,650	25.70
Non-profit institutions**	5,447,565	5.45
Foreign and nominee-registered	31,296,366	31.29
Total	**100,019,752**	**100.00**

A shares	Number of shares, pcs	Percentage of A shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	18,438,943	58.10	18.44
Financial and insurance corporations	4,017,971	12.66	4.02
General government*	443,066	1.40	0.44
Households	6,053,948	19.08	6.05
Non-profit institutions**	2,041,815	6.43	2.04
Foreign and nominee-registered	741,264	2.34	0.74
Total	**31,737,007**	**100.00**	**31.73**

B shares	Number of shares, pcs	Percentage of B shares, %	Percentage of all shares, %
Non-financial corporations and housing corporations	6,034,923	8.84	6.03
Financial and insurance corporations	3,354,070	4.91	3.35
General government*	5,279,198	7.73	5.28
Households	19,653,702	28.78	19.65
Non-profit institutions**	3,405,750	4.99	3.41
Foreign and nominee-registered	30,555,102	44.75	30.55
Total	**68,282,745**	**100.00**	**68.27**

* General government, for example, municipalities, the provincial administration of Åland, authorised pension providers 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. 2017

All shares Number of shares	Number of shareholders, pcs	Percentage of share-holders, %	Share total, pcs	Percentage of shares, %
1–100	15,610	36.88	810,697	0.81
101–500	15,130	35.75	3,977,499	3.98
501–1,000	4,983	11.77	3,920,758	3.92
1,001–5,000	5,136	12.14	11,220,269	11.22
5,001–10,000	787	1.86	5,569,694	5.57
10,001–50,000	552	1.30	10,963,711	10.96
50,001–100,000	68	0.16	4,837,246	4.84
100,001–500,000	39	0.09	7,730,463	7.73
500,001–	17	0.04	50,989,415	50.98
Total	**42,322**	**100.00**	**100,019,752**	**100.00**

A shares Number of shares	Number of shareholders, pcs	Percentage of A share-holders, %	A share total, pcs	Percentage of A shares, %
1–100	3,246	38.60	134,589	0.42
101–500	1,983	23.58	503,895	1.59
501–1,000	1,084	12.89	941,465	2.97
1,001–5,000	1,427	16.97	3,436,596	10.83
5,001–10,000	348	4.14	2,450,573	7.72
10,001–50,000	270	3.21	5,757,940	18.14
50,001–100,000	32	0.38	2,267,659	7.15
100,001–500,000	12	0.14	2,482,803	7.82
500,001–	7	0.08	13,761,487	43.36
Total	**8,409**	**100.00**	**31,737,007**	**100.00**

B shares Number of shares	Number of shareholders, pcs	Percentage of B share-holders, %	B share total, pcs	Percentage of B shares, %
1–100	13,458	36.94	731,014	1.07
101–500	14,019	38.48	3,696,566	5.41
501–1,000	4,150	11.39	3,187,670	4.67
1,001–5,000	4,015	11.02	8,458,243	12.39
5,001–10,000	434	1.19	3,108,052	4.55
10,001–50,000	284	0.78	5,481,686	8.03
50,001–100,000	33	0.09	2,427,146	3.55
100,001–500,000	25	0.07	5,412,854	7.93
500,001–	10	0.03	35,779,514	52.40
Total	**36,428**	**100.00**	**68,282,745**	**100.00**

10 largest shareholders by number of shares held as at 31 Dec. 2017

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	4,140,092	4.14	41,400,920	10.74
2.	Vähittäiskaupan Takaus Oy	3,491,771	3.49	27,148,568	7.04
3.	Kruunuvuoren Satama Oy	3,438,885	3.44	34,388,850	8.92
4.	Ilmarinen Mutual Pension Insurance Company	1,951,696	1.95	5,935,960	1.54
5.	Valluga-sijoitus Oy	1,340,439	1.34	13,404,390	3.48
6.	Foundation for Vocational Training in the Retail Trade	1,180,950	1.18	11,809,500	3.06
7.	Varma Mutual Pension Insurance Company	1,130,986	1.13	1,130,986	0.29
8.	The State Pension Fund	1,050,000	1.05	1,050,000	0.27
9.	Oy The English Tearoom Ab	1,000,000	1.00	1,000,000	0.26
10.	Heimo Välinen Oy	530,000	0.53	5,300,000	1.37

Does not contain shares held by Kesko Corporation, amounting to 563,137 on 31 Dec. 2017.

10 largest shareholders by number of votes as at 31 Dec. 2017

		Number of shares, pcs	Percentage of shares, %	Number of votes	Percentage of votes, %
1.	K-Retailers' Association	4,140,092	4.14	41,400,920	10.74
2.	Kruunuvuoren Satama Oy	3,438,885	3.44	34,388,850	8.92
3.	Vähittäiskaupan Takaus Oy	3,491,771	3.49	27,148,568	7.04
4.	Valluga-sijoitus Oy	1,340,439	1.34	13,404,390	3.48
5.	Foundation for Vocational Training in the Retail Trade	1,180,950	1.18	11,809,500	3.06
6.	Ilmarinen Mutual Pension Insurance Company	1,951,696	1.95	5,935,960	1.54
7.	Heimo Välinen Oy	530,000	0.53	5,300,000	1.37
8.	K-Food Retailers' Club	502,588	0.50	5,025,880	1.30
9.	Food Paradise Oy	489,541	0.49	4,895,410	1.27
10.	T.A.T. Invest Oy	198,020	0.20	1,931,600	0.50

Management's shareholdings

At the end of December 2017, Kesko Corporation's Board members, the President and CEO and the corporations controlled by them held 306,814 Kesko Corporation A shares and 58,650 Kesko Corporation B shares, i.e. a total of 365,464 shares, which represents 0.37% of the total number of shares and 0.81% of votes carried by all shares of the Company.

At 31 December 2017, the President and CEO held 36,091 Kesko Corporation B shares, which represented 0.04% of the total number of shares and 0.01% of votes carried by all shares of the Company. At 31 December 2017, the Group Management Board including the President and CEO held 81 Kesko Corporation A shares and 116,858 Kesko Corporation B shares, which represented 0.12% of the total number of shares and 0.03% of votes carried by all shares of the Company.

Consolidated financial statements (IFRS)

Consolidated income statement

€ million	Note	1 Jan.–31 Dec. 2017	%	1 Jan.–31 Dec. 2016	%
Net sales	**2.1**	**10,675.9**	**100.0**	**10,180.4**	**100.0**
Cost of goods sold		-9,162.3	-85.8	-8,718.7	-85.6
Gross profit		**1,513.6**	**14.2**	**1,461.7**	**14.4**
Other operating income	2.3	790.9	7.4	699.0	6.9
Employee benefit expenses	2.4	-758.8	-7.1	-722.8	-7.1
Depreciation, amortisation and impairment	3.3, 3.4	-153.7	-1.4	-161.6	-1.6
Other operating expenses	2.4	-1,067.5	-10.0	-1,129.5	-11.1
Operating profit		**324.6**	**3.0**	**146.8**	**1.4**
Interest income and other finance income	4.4	18.6	0.2	15.0	0.1
Interest expense and other finance costs	4.4	-13.8	-0.1	-11.6	-0.1
Foreign exchange differences	4.4	-3.3	0.0	-4.4	0.0
Total finance income and costs	4.4	**1.5**	**0.0**	**-1.0**	**0.0**
Share of result of associates and joint ventures		1.6	0.0	-0.6	0.0
Profit before tax		**327.6**	**3.1**	**145.2**	**1.4**
Income tax	2.6	-58.8	-0.6	-31.4	-0.3
Net profit for the year		**268.8**	**2.5**	**113.8**	**1.1**
Net profit for the year attributable to					
Owners of the parent		257.8		98.6	
Non-controlling interests		11.0		15.3	
Earnings per share for net profit attributable to owners of the parent					
Basic, €	2.7	2.59		0.99	
Diluted, €	2.7	2.59		0.99	

Consolidated statement of comprehensive income

€ million	Note	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Net profit for the year		**268.8**	**113.8**
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains and losses	3.8, 5.6	36.0	-11.1
Items that may be reclassified subsequently to profit or loss			
Currency translation differences related to a foreign operation	5.6	-29.3	10.4
Cash flow hedge revaluation	5.6	0.6	2.4
Revaluation of available-for-sale financial assets	5.6	-0.3	0.5
Others	5.6	-0.3	-0.3
Total comprehensive income for the year, net of tax		**6.7**	**2.0**
Total comprehensive income for the year		**275.6**	**115.8**
Comprehensive income for the year attributable to			
Owners of the parent		268.8	100.8
Non-controlling interests		6.8	15.0

Consolidated statement of financial position

€ million	Note	31 Dec. 2017	%	31 Dec. 2016	%
ASSETS					
Non-current assets					
Property, plant and equipment	3.3	1,293.1		1,150.4	
Intangible assets	3.4	376.2		430.5	
Interests in associates and joint ventures	3.9, 5.2	117.4		107.9	
Available-for-sale financial assets	4.3, 4.5	23.0		15.1	
Non-current receivables	4.3, 4.5	65.4		62.6	
Deferred tax assets	5.5	5.6		5.8	
Pension assets	3.8	207.5		164.7	
Total non-current assets		**2,088.3**	**46.7**	**1,937.1**	**43.9**
Current assets					
Inventories	3.5	938.6		978.9	
Interest-bearing receivables	3.6, 4.5	1.5		3.7	
Trade receivables	3.6, 4.3, 4.5	836.0		831.2	
Income tax assets	3.6	11.1		21.2	
Other non-interest-bearing receivables	3.6, 4.5	196.4		198.6	
Financial assets at fair value through profit or loss	4.3, 4.5	171.0		93.3	
Available-for-sale financial assets	4.3, 4.5	94.2		156.8	
Cash and cash equivalents		132.7		141.3	
Total current assets		**2,381.5**	**53.3**	**2,424.9**	**55.0**
Non-current assets held for sale	3.7	1.8	0.0	45.7	1.0
Total assets		**4,471.6**	**100.0**	**4,407.7**	**100.0**

€ million	Note	31 Dec. 2017	%	31 Dec. 2016	%
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	4.2	197.3		197.3	
Share premium	4.2	197.8		197.8	
Other reserves	4.2	266.9		265.6	
Currency translation differences	4.2	-50.1		-23.7	
Revaluation reserve	4.2	3.5		3.2	
Retained earnings		1,518.0		1,389.0	
		2,133.4	**47.7**	**2,029.1**	**46.0**
Non-controlling interests	**5.1**	**98.7**	**2.2**	**97.3**	**2.2**
Total equity		**2,232.1**	**49.9**	**2,126.3**	**48.2**
Non-current liabilities					
Interest-bearing non-current liabilities	4.3, 4.5, 4.6	129.3		358.7	
Non-interest-bearing non-current liabilities	4.3, 4.5	31.4		40.2	
Deferred tax liabilities	5.5	52.0		48.1	
Pension obligations		0.4		0.8	
Provisions	3.10	25.1		14.9	
Total non-current liabilities		**238.2**	**5.3**	**462.5**	**10.5**
Current liabilities					
Current interest-bearing liabilities	4.3, 4.5, 4.6	404.6		156.0	
Trade payables	4.3, 4.5	1,023.7		1,069.2	
Other non-interest-bearing liabilities	4.3, 4.5	227.1		226.9	
Income tax liabilities	4.5	5.6		8.7	
Accrued liabilities	4.3, 4.5	308.5		316.2	
Provisions	3.10	31.6		41.0	
Total current liabilities		**2,001.1**	**44.8**	**1,818.0**	**41.2**
Liabilities related to available-for-sale non-current assets	3.7	0.1	0.0	0.8	0.0
Total liabilities		**2,239.5**	**50.1**	**2,281.3**	**51.8**
Total equity and liabilities		**4,471.6**	**100.0**	**4,407.7**	**100.0**

Consolidated statement of cash flows

€ million	Note	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Cash flows from operating activities			
Profit before tax		327.6	145.2
Adjustments			
Depreciation according to plan		139.2	137.6
Finance income and costs		-1.5	1.0
Other adjustments	2.8	-66.9	90.6
		70.9	**229.2**
Change in working capital			
Current non-interest-bearing receivables, increase (-)/ decrease (+)		-73.0	-43.8
Inventories, increase (-)/decrease (+)		-9.2	5.1
Current non-interest-bearing liabilities, increase (+)/ decrease (-)		29.2	-78.5
		-53.0	-117.2
Interest paid and other finance costs		-15.5	-17.0
Interest received		16.1	14.1
Dividends received		2.2	0.0
Income taxes paid		-46.6	-84.1
Net cash flows from operating activities		**301.7**	**170.2**

€ million	Note	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Cash flows from investing activities			
Payments for acquisition of subsidiary shares, net of cash acquired	3.2	-0.5	-427.5
Payments to acquire equity accounted investments	2.8	-1.6	-
Payments for property, plant, equipment and intangible assets	2.8	-319.9	-277.4
Proceeds from sale of business operations, net of cash disposed of	3.2	143.9	160.9
Proceeds from sale of property, plant, equipment and intangible assets		96.7	44.0
Proceeds from sale of available-for-sale financial assets		0.1	0.4
Non-current loan and receivables, increase (-)/ decrease (+)		-7.0	-1.5
Net cash flows from investing activities		**-88.3**	**-501.1**
Cash flows from financing activities			
Interest-bearing liabilities, increase (+)/decrease (-)	2.8	5.2	63.0
Repayments of finance lease liabilities	2.8	-5.4	-3.6
Interest-bearing receivables, increase (-)/decrease (+)	2.8	0.3	2.0
Dividends paid		-203.8	-249.5
Equity increase		-	12.6
Short-term money market investments, increase (-)/decrease (+)		-36.4	364.5
Other items		-2.9	6.5
Net cash flows from financing activities		**-242.9**	**195.6**
Change in cash and cash equivalents and current available-for-sale financial assets		**-29.5**	**-135.3**
Cash and cash equivalents and current available-for-sale financial assets as at 1 January	2.8	200.8	334.1
Currency translation difference adjustment and change in value		-1.1	2.1
Cash and cash equivalents and current available-for-sale financial assets as at 31 December	**2.8**	**170.2**	**200.8**

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 2017	**197.3**	**463.4**	**-23.7**	**3.2**	**-23.5**	**1,412.4**	**2,029.1**	**97.3**	**2,126.3**
Share-based payment					5.5		5.5		5.5
Dividends						-198.9	-198.9	-4.8	-203.8
Disposal of subsidiary		0.0	-1.4			1.4	0.0		0.0
Disposals of non-controlling interests						21.2	21.2		21.2
Purchases of non-controlling interests							0.0	-0.5	-0.5
Other changes		1.4	0.0			6.4	7.8	0.1	7.9
Transactions with owners, total		1.4	-1.4		5.5	-170.0	-164.4	-5.3	-169.7
Comprehensive income									
Net profit for the year						257.8	257.8	11.0	268.8
Actuarial gains/losses						45.0	45.0		45.0
Currency translation differences related to a foreign operation			-25.0				-25.0	-4.3	-29.3
Cash flow hedge revaluation				0.8			0.8		0.8
Revaluation of available-for-sale financial assets				-0.4			-0.4		-0.4
Others						-0.3	-0.3		-0.3
Tax related to other comprehensive income				-0.1		-9.0	-9.1		-9.1
Total comprehensive income for the period			-25.0	0.3		293.5	268.8	6.8	275.6
Balance as at 31 December 2017	**197.3**	**464.7**	**-50.1**	**3.5**	**-18.0**	**1,536.0**	**2,133.4**	**98.7**	**2,232.1**

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 2016	**197.3**	**463.4**	**-44.6**	**0.2**	**-27.5**	**1,574.6**	**2,163.4**	**78.6**	**2,241.9**
Share-based payment					4.3		4.3		4.3
Treasury shares					-0.3		-0.3		-0.3
Dividends						-248.2	-248.2	-1.1	-249.3
Increase in share capital								12.6	12.6
Disposal of subsidiary			10.2			-10.2	0.0		0.0
Purchases of non-controlling interests		0.0				0.5	0.5	-7.8	-7.4
Other changes		0.0				8.6	8.6		8.6
Transactions with owners, total		0.0	10.2		4.0	-249.3	-235.1	3.7	-231.4
Comprehensive income									
Net profit for the year						98.6	98.6	15.3	113.8
Actuarial gains/losses						-14.0	-14.0		-14.0
Currency translation differences related to a foreign operation		0.0	10.6				10.6	-0.2	10.4
Cash flow hedge revaluation				3.1			3.1		3.1
Revaluation of available-for-sale financial assets				0.7			0.7		0.7
Others						-0.3	-0.3		-0.3
Tax related to other comprehensive income				-0.7		2.8	2.1		2.1
Total comprehensive income for the period		0.0	10.6	3.0		87.2	100.8	15.0	115.8
Balance as at 31 December 2016	**197.3**	**463.4**	**-23.7**	**3.2**	**-23.5**	**1,412.4**	**2,029.1**	**97.3**	**2,126.3**

Further information on share capital and reserves is disclosed in note 4.2, on components of other comprehensive income in note 5.6 and on share-based compensation plans in note 5.4.

1 Accounting policies for the consolidated financial statements

The notes to the consolidated financial statements have been grouped into sections based on their nature. The basis of preparation is described as part of this note (Accounting policies for the consolidated financial statements), while the accounting policies directly related to a specific note are presented as part of the note in question. The notes contain the relevant financial information as well as a description of the accounting policies and key estimates and judgements applied for the topics of the individual note.

1.1 Basic information about the Company

Kesko is a Finnish listed trading sector company. Kesko has approximately 1,800 stores engaged in chain operations in the Nordic and Baltic countries, Poland, Russia and Belarus.

Kesko Group's reportable segments consist of its business divisions, namely the grocery trade, the building and technical trade, and the car 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 PO Box 1, FI-00016 KESKO. Copies of Kesko Corporation's financial statements and the consolidated financial statements are available from Kesko Corporation, PO Box 1, Helsinki, FI-00016 KESKO, visiting address Sörnäistenkatu 2, Helsinki, and from the internet at www.kesko.fi.

Kesko's Board of Directors has approved these financial statements for disclosure on 31 January 2018.

1.2 Basis of preparation

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 SIC and IFRIC Interpretations effective on 31 December 2017. 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 Act and regulations based on it. 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.

New standards were not adopted during the financial year 2017.

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

1.3 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 circumstances for which estimates have been required are described below.

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.

Measurement of assets acquired and liabilities assumed

Assets acquired and liabilities assumed in business combinations are measured at their fair values at the date of acquisition. The fair values on which the allocation of costs and liabilities 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 recoverable amounts of cash generating units have been determined using calculations based on value in use. In the calculations, forecast cash flows are based on financial plans approved by management, covering a period of three years. (Note 3.4)

Employee benefits

The Group operates both defined contribution pension plans and defined benefit pension plans. Items relating to employee benefits are calculated using several factors that require the application of judgement. Pension calculations under defined benefit plans in compliance with IAS 19 are based on, among others, the following factors that rely on management estimates (note 3.8):

- discount rate used in calculating pension expenses and obligations and net finance cost for the period
- future salary level trend
- employee service life.

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

Measurement of inventories

The Group regularly reviews inventories for obsolescence and turnover, and for possible reduction of net realisable value below cost, and records an impairment as necessary. Such reviews require assessments 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.

1.4 Critical judgements in applying accounting policies

The Group's management uses its judgement in the adoption and application of accounting policies in the financial statements. Management has exercised its judgement in the application of accounting policies when, for example, measuring receivables, determining provisions for restructuring and classifying leases.

1.5 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 has more than half of the voting rights of a subsidiary or otherwise exerts control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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 5.2.

Mutual shareholding is eliminated by using the acquisition cost 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. The identifiable assets, liabilities and contingent liabilities acquired are measured at the fair value at the acquisition date, gross of non-controlling interest.

Intragroup transactions, receivables and payables, unrealised profits 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 interests is disclosed separately in equity.

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

Associates

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

Joint arrangements

Joint arrangements are arrangements in which the sharing of joint control has been contractually agreed between two or more parties. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method, and on initial recognition, they are 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 a joint venture equals or exceeds its interest in the joint venture, the Group does not recognise further losses.

Unrealised gains on transactions between the Group and the joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Dividends received from joint ventures are deducted from the Group's result and the cost of the shares. An investment in a joint venture includes the goodwill generated by the acquisition. Goodwill is not amortised.

Mutual real estate companies

Mutual real estate companies are consolidated as common functions on a line-by-line basis in proportion to ownership. The Group's share of mutual real estate companies' loans and reserves is accounted for separately in the consolidation.

Subsidiaries, equity accounted investments and proportionately consolidated mutual real estate companies are listed in note 5.2.

Foreign currency items

The consolidated financial statements are presented in euros, which is both the functional currency of the environment in which the Group's parent operates and the presentation currency. On initial recognition, the amounts with respect to the result and financial position of the Group companies located outside the euro zone are recorded in the functional currency of each of their operating environments. Until 31 December 2016, the functional currency of the real estate companies operating in Russia in St. Petersburg and Moscow was the euro, which is why no significant exchange differences realised before 2017 from their balance sheets to the Group. A change has taken place in the Russian real estate market as a result of which an increasing number of leases are rouble denominated. Earlier leases were mainly denominated in the euro. As a result of the change in the lease market, the functional currency of the Russian real estate companies has been the rouble as of 1 January 2017.

Foreign currency transactions are recorded in euros by applying the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currency are translated into euros using the closing rate. Exchange rate gains and losses on foreign currency transactions as well as receivables and liabilities denominated in foreign currency are recognised in the income statement, with the exception of monetary items that form a part of a net investment in a foreign operation and loans designated as hedges for foreign net investments and regarded as effective. These exchange differences are recognised in equity and their changes are presented in other comprehensive income. The exchange differences are presented in the income statement on disposal of the foreign operation or settlement of the hedges. The Group has currently no loans designated as hedges for foreign net investments. Foreign exchange gains and losses resulting from operating activities are included in the respective items above operating profit. Foreign exchange gains and losses from foreign exchange forward contracts and options used for hedging financial transactions, and from foreign currency borrowings are included in finance income and costs.

The income statements of the Group companies operating outside the euro zone have been translated into euros at the average rate of the financial year, and their balance sheets at the closing rate. The foreign exchange difference resulting from the use of different rates, the translation differences arising from the elimination of the acquisition cost of subsidiaries outside the euro zone, exchange differences arising from monetary items that form a part of a net investment in a foreign operation and the hedging results of net investments are recognised in equity, and the changes are presented in other comprehensive income. In connection with the disposal of a subsidiary, translation differences are recognised 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.

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

In addition to the standards and interpretations presented in the 2017 financial statements, the Group will adopt the following standards, interpretations and amendments to standards and interpretations issued for application in its 2018 or subsequent financial statements.

IFRS 9 Financial instruments

IFRS 9 concerns the classification, measurement and recognition of financial assets and financial liabilities, changes the rules concerning hedge accounting, and provides a new impairment model for financial assets. The effective date of the standard is 1 January 2018. The standard has been endorsed for adoption by the EU.

Under IFRS 9, financial assets are classified into three measurement categories: amortised cost, fair value through other comprehensive income, and fair value through profit and loss. The measurement category is determined on initial recognition. Classification depends on the business model for managing financial assets and the 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, unless this creates an accounting mismatch.

The measurement and classification of the Group's financial assets and financial liabilities has been reviewed with regard the new standard. The Group's management estimates that the new standard will result in only minor changes to the classification of financial assets and that the changes in classification will have only a minor impact on the Group's result. The standard is not expected to have an impact on the accounting treatment of financial liabilities.

In hedge accounting, IFRS 9 eases the requirements concerning hedge effectiveness by removing pre-determined effectiveness testing thresholds. Under the standard, an economic relationship must exist between the hedging instrument and the hedged item and the hedge ratio designated must be the one actually used by the management for risk management. Documentation requirement will continue to exist, but it will differ from the IAS 39 requirements. The new model links accounting treatment with risk management and enables the hedging of net positions. The Group has concluded that its current hedge ratios fulfil the criteria for continued hedging when implementing IFRS 9. As for the hedging of electricity price risk, the standard will enable having only electricity system price as a hedged item. Management estimates that the new standard will have a minor impact on the accounting treatment of the Group's hedgings.

According to the new IFRS 9 impairment model, impairments must be recognised on the basis of expected credit losses. Under IAS 39, impairment was only recognised on realised credit losses. Management estimates that the new standard will have only a minor impact on the time of recognition of impairment losses on trade receivables and on the measurement of other financial assets.

IFRS 15 Revenue from Contracts with Customer

The standard replaces IAS 11, 'Construction contracts' and IAS 18, 'Revenue and related interpretations'. According to the standard, revenue is recognised when control of goods or services transfers to a customer. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the goods or services. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The effective date of the standard is 1 January 2018. The standard has been endorsed for adoption by the EU.

Kesko Group's income mainly consists of sales of goods and services to business and consumer customers under ordinary trading sector terms and conditions. Management estimates that the adoption of the new standard will not have a material impact on the consolidated financial statements. The standard is not estimated to have any impact on customer agreements or business operations. The adoption of the standard is estimated to have only minor impacts on business support processes or information systems.

IFRS 16 Leases

IFRS 16 concerns the definition, recognition and measurement of lease agreements and notes related to leases. According to the standard, the lessee recognises in its balance sheet right-of-use assets and lease liabilities. The standard includes optional exemptions for leases with a term of less than 12 months and for asset items of low value. The lessor's reporting remains unchanged, meaning leases are still divided into finance lease agreements and operating leases. The effective date of the standard is 1 January 2019. The standard has been endorsed for adoption by the EU.

Kesko Group leases store sites for use in its business operations in all of its operating countries. The store site network is a strategic competitive factor for the Group. At the end of 2017, Kesko Group had over 1,500 leased properties, the lease liability for which was €2,892 million, in addition to which the Group had other lease liabilities of €21 million.

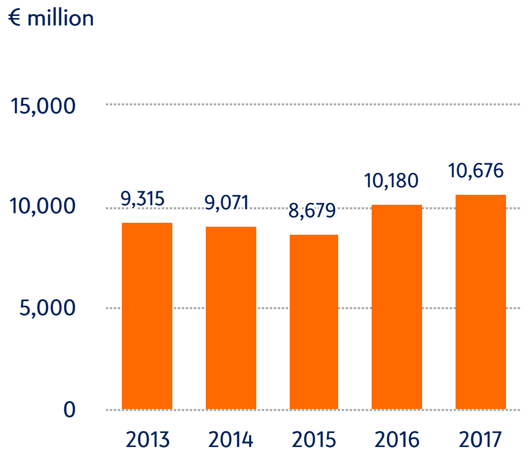
The Group has initiated an assessment regarding the impact of IFRS 16 on its financial statements. Management estimates that the new lease standard will have a significant impact on the Company's income statement, balance sheet and performance indicators. Kesko has a significant number of lease agreements that according to the standard currently in force are categorised as operating leases and have been recognised as lease expenditure in the income statement on a time apportionment basis. According to the new standard, assets and liabilities corresponding to the present value of minimum lease payments shall be recognised in the balance sheet at the commencement of the leases, meaning assets and liabilities will increase significantly in the balance sheet. The new standard will increase the Group's operating profit as the current lease expenditure will be replaced by depreciation of a fixed asset item. In addition, interest expenses for liability will also be recognised and presented under finance costs in the income statement.

According to IFRS 16, the measurement of the right-of-use assets and the lease liabilities is determined by discounting the minimum future lease payments. The Group intends to adopt the standard using the retrospective method. The discount rate should primarily be the interest rate implicit in the lease, if available. The Group will use the interest rate implicit in the lease for agreements where this rate is available. The interest rate implicit in the lease is not available for all lease agreements, in which case the Group will use the incremental borrowing rate, which comprises reference rate, credit spread for the incremental borrowing, and a potential country and currency risk premium. At the commencement date of each lease agreement, the incremental borrowing rate will be determined and the minimum lease payments will be discounted. The Group has yet to determine the quantitative impacts the application of IFRS 16 will have on its financial statements. The Group will assess the impacts in more detail during the reporting period beginning on 1 January 2018.

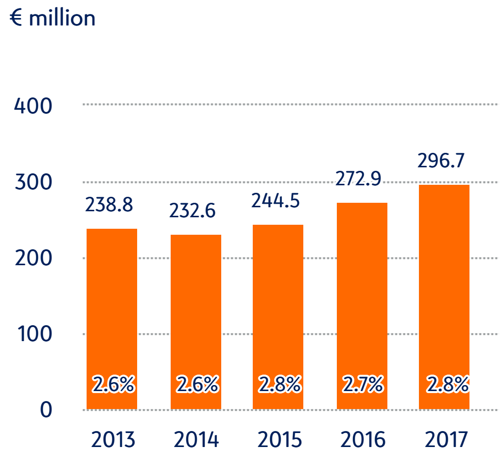
Management estimates that the other issued new IFRS standards, IFRIC interpretations and amendments to the existing standards and interpretations will not have a material impact on the consolidated financial statements or their presentation.

2 Financial results

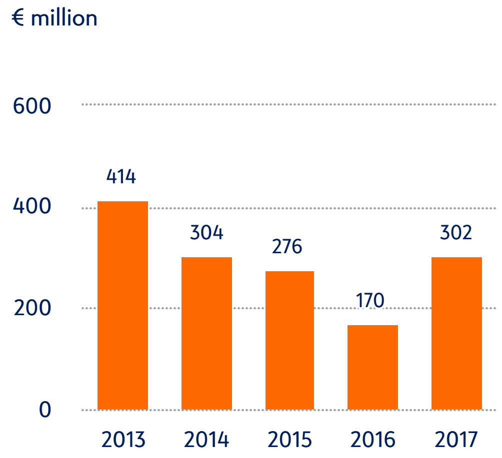
Net sales



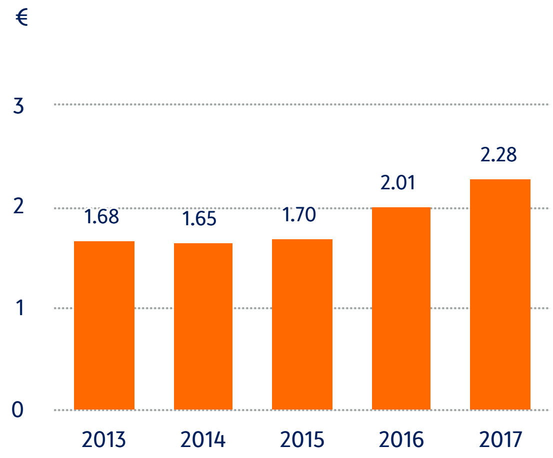
Comparable operating profit



Cash flow from operating activities



Comparable earnings/share



2.1 Kesko's divisions

Accounting policies

The Group's reportable segments are composed of the Group's divisions, namely the grocery trade, the building and technical trade, and the car trade.

Division 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 divisions, has been identified as the Group Management Board. The reportable operating segments derive their net sales from the grocery trade, the building and technical trade, and the car trade. Sales between divisions are charged at prevailing market rates.

The Group Management Board assesses the divisions' performances based on operating profit, comparable operating profit, and comparable return on capital employed. Exceptional transactions outside the ordinary course of business are treated as items affecting comparability and are allocated to the divisions. The Group identifies gains and losses on the disposal of real estate, shares and business operations, impairments and significant restructurings as items affecting comparability. Gains on disposals are presented in the income statement within other operating income, 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 the divisions as the Group's cash and cash equivalents and financial liabilities are managed by the Group Treasury. Changes in the fair values of intra-Group foreign exchange forward contracts entered into and realised gains and losses are reported as part of other operating income and expenses to the extent that they hedge the divisions' foreign exchange risk.

The assets and liabilities of a division's capital employed consist of operating items that can be justifiably allocated to the divisions. The assets of capital employed comprise property, plant and equipment and intangible assets, interests in associates and joint ventures and other investments, pension assets, inventories, trade receivables and other non-interest-bearing receivables, interest-bearing receivables and assets held for sale. The liabilities of capital employed consist of trade payables, the share of other non-interest-bearing liabilities and provisions. The Group's real estate assets and the revenue and costs generated from them have been allocated to the divisions.

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 foreign exchange forward contracts recognised in the balance sheet, available-for-sale financial assets, cash and cash equivalents, or interest-bearing liabilities.

Revenue recognition policies

Net sales comprise the sale of goods, services and energy. The contribution of the sales of services and energy to total 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-denominated 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 in addition to engaging in own retailing. Income from sales of goods is recognised when significant risks, benefits and control relating to the ownership of the goods have been transferred to the buyer, and it is probable that the economic benefits associated with the transaction will flow to the Group. As a rule, income from sales of goods can be recognised at the time of transfer. Sales to retailers and other retail dealers are based on invoicing. Retail sales are mainly in cash or by credit card.

Income from services is recognised after the service has been performed and when a flow of economic benefits associated with the service is probable.

Interest income is recognised on a time apportionment basis using the effective interest method. Dividend income is recognised when the right to receive payment is established.

Grocery trade

The grocery trade comprises the wholesale and B2B trade of groceries in Finland. Kesko's grocery trade operates under the K-retailer business model. There are approximately 1,100 K-food stores operating under the K-retailer business model in Finland. These stores form the K-Citymarket, K-Supermarket and K-Market grocery retail chains. Kesko manages the operations of the chains made up of the stores. Chain operations ensure higher competitiveness and a strong operational basis for K-retailers in terms of purchasing goods, building selections, marketing and price competition. Following the acquisition of Suomen Lähikauppa Oy (K-Market Oy as of 2016), Kesko itself has acted as a retailer in Finland. The conversion of Siwa and Valintatalo stores into K-food stores began in May 2016 and by the end of May 2017, all 409 continuing stores had been converted into K-stores. By the end of 2017, 243 of the converted stores had been transferred to retailers. The transfer of the stores to retailers will be completed by the end of H1 2018. Kespro provides Foodservice (previously HoReCa) and wholesale services in Finland. K-Citymarket's home and speciality goods trade is a retailer of home and speciality goods in Finland. The Russian grocery trade business was disposed of on 30 November 2016.

Building and technical trade

The building and technical trade operates in the wholesale, retail and B2B trade in Finland, Sweden, Norway, the Baltic countries, Poland, Russia and Belarus. In the building and home improvement trade, Kesko is responsible for the chains' concepts, marketing, purchasing and logistics services and the store site network in all operating countries and for retailer resources in Finland. Kesko itself acts as a retail operator in Sweden, the Baltic countries, Russia and Belarus. The retail store chains are K-Rauta, Byggmakker (Norway), K-Senukai (the Baltic countries) and OMA (Belarus). The building and home improvement stores serve both consumers and business customers. On 1 June 2016, Kesko Corporation acquired Onninen Oy, which specialises in the technical wholesale trade. Onninen is one of the leading suppliers of HEPAC and electrical products and related service providers in the Baltic Sea region and Scandinavia. The group specialises in the B2B trade and has around 150 places of business in Finland, Sweden, Norway, Poland and the Baltic countries.

The speciality goods trade included in the building and technical trade division comprises machinery trade in Finland and the Baltic countries and leisure goods trade in Finland. The leisure goods trade comprises Intersport, Budget Sport and Kookenkä. Of the speciality goods trade businesses, the K-maatalous agricultural business was divested on 1 June 2017, and the Asko and Sotka furniture business and Yamarin boat business and Yamaha representation were divested on 30 June 2017.

Car trade

The car trade comprises the business operations of VV-Auto and AutoCarrera. VV-Auto imports and markets Volkswagen, Audi, Seat and Porsche passenger cars and Volkswagen and MAN commercial vehicles in Finland. VV-Auto also engages in car retailing and provides after-sales services at its own retail outlets. In December 2016, VV-Auto Group acquired Oy Autocarrera Ab and as a result, the import and retailing of Porsche transferred to Kesko's car trade.

Common functions

Common functions comprise Group support functions.

Kesko's divisions 2017
Profit

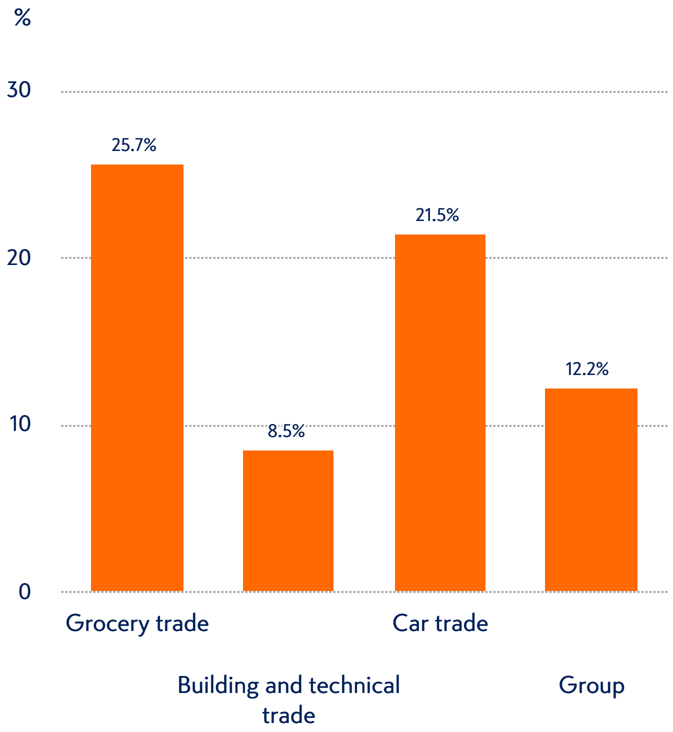
€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,282.0	4,486.0	909.4	32.9	10,710.3
of which intersegment sales	-6.7	-2.6	-0.6	-24.5	-34.4
Net sales from external customers	**5,275.2**	**4,483.4**	**908.8**	**8.4**	**10,675.9**
Change in net sales in local currency excluding acquisitions and disposals, %	2.4	1.1	1.0	-3.4	1.8
Change in net sales, %	0.9	9.4	7.1	-68.5	4.9
Other division income	546.0	235.7	4.2	10.5	796.4
of which intersegment income	-4.2	-1.9	0.0	0.5	-5.6
Other operating income from external customers	**541.7**	**233.8**	**4.2**	**11.1**	**790.9**
Depreciation and amortisation	-62.7	-49.3	-9.4	-17.7	-139.2
Impairment	0.0	-14.5			-14.5
Operating profit	**181.3**	**154.7**	**33.1**	**-44.5**	**324.6**
Items affecting comparability	-22.1	58.9		-8.9	27.9
Comparable operating profit	**203.4**	**95.8**	**33.1**	**-35.6**	**296.7**
Finance income and costs					1.5
Investments accounted for using the equity method					1.6
Profit before tax					**327.6**

Assets and liabilities

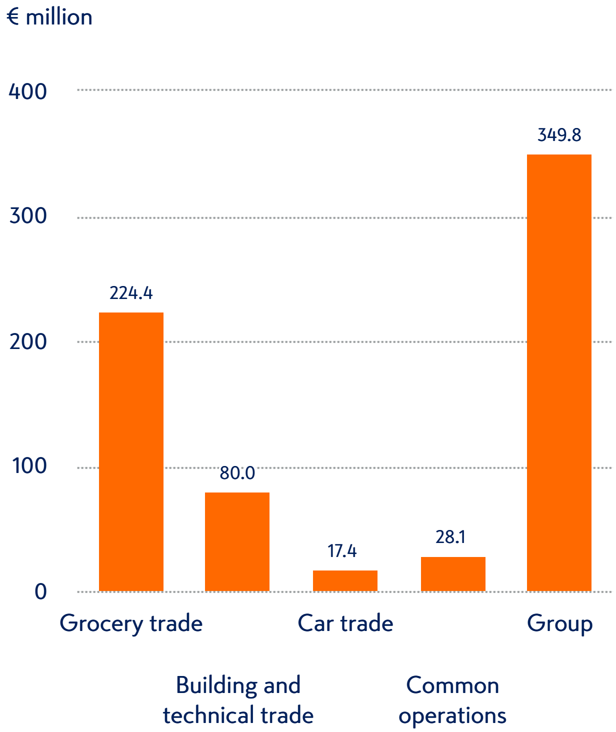
€ million	Grocery trade	Building and technical trade	Car trade	Common opera-tions	Elimi-nations	Total
Property, plant, equipment and intangible assets	903.8	602.3	93.4	71.5	-1.6	1,669.3
Interests in associates and joint ventures and other investments	7.7	10.4	0.0	123.0	-0.6	140.5
Pension assets	40.6	16.2		150.6		207.5
Inventories	219.6	552.7	166.4			938.6
Trade receivables	344.3	447.0	44.7	7.7	-7.6	836.0
Other non-interest-bearing receivables	79.4	105.7	8.7	26.4	-10.1	210.2
Interest-bearing receivables	0.6	0.6		63.0		64.2
Non-current assets classified as held for sale		1.3		0.5		1.8
Assets included in capital employed	**1,595.9**	**1,736.3**	**313.1**	**442.8**	**-20.0**	**4,068.1**
Unallocated items						
Deferred tax assets						5.6
Financial assets at fair value through profit or loss						171.0
Available-for-sale financial assets						94.2
Cash and cash equivalents						132.7
Total assets	**1,595.9**	**1,736.3**	**313.1**	**442.8**	**-20.0**	**4,471.6**

€ million	Grocery trade	Building and technical trade	Car trade	Common opera-tions	Elimi-nations	Total
Trade payables	509.5	483.5	22.0	13.8	-5.2	1,023.7
Other non-interest-bearing liabilities	242.0	188.5	70.2	54.1	-11.6	543.2
Provisions	11.6	4.7	39.4	1.1		56.7
Liabilities related to assets held for sale		0.1				0.1
Liabilities included in capital employed	**763.1**	**676.8**	**131.6**	**69.0**	**-16.8**	**1,623.7**
Unallocated items						
Interest-bearing liabilities						533.9
Other non-interest-bearing liabilities						29.9
Deferred tax liabilities						52.0
Total liabilities	**763.1**	**676.8**	**131.6**	**69.0**	**-16.8**	**2,239.5**
Total capital employed as at 31 December	**832.8**	**1,059.4**	**181.5**	**373.8**	**-3.1**	**2,444.4**
Average capital employed	**791.3**	**1,129.3**	**154.1**	**353.7**	**-1.2**	**2,427.2**
Number of personnel as at 31 December	**8,584**	**14,717**	**818**	**864**		**24,983**
Average number of personnel	**6,733**	**13,662**	**809**	**872**		**22,077**

Comparable return on capital employed by segment 2017



Capital expenditure by segment 2017



Kesko's divisions 2016
Profit

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Total
Division net sales	5,235.6	4,100.3	849.2	123.4	10,308.5
of which intersegment sales	-10.1	-11.2	-0.2	-106.7	-128.1
Net sales from external customers	**5,225.5**	**4,089.2**	**849.0**	**16.8**	**10,180.4**
Change in net sales in local currency excluding acquisitions and disposals, %	-0.2	2.1	13.0	(..)	1.6
Change in net sales, %	12.0	26.2	13.5	(..)	17.3
Other division income	527.2	169.6	4.4	10.8	712.0
of which intersegment income	-5.7	-8.8		1.5	-13.0
Other operating income from external customers	**521.5**	**160.8**	**4.4**	**12.2**	**699.0**
Depreciation and amortisation	-73.0	-48.5	-9.0	-7.1	-137.6
Impairment	-0.4	-17.6		-6.0	-24.0
Operating profit	**93.0**	**60.8**	**28.9**	**-36.0**	**146.8**
Items affecting comparability	-82.9	-37.2	-0.6	-5.5	-126.2
Comparable operating profit	**175.9**	**97.9**	**29.5**	**-30.5**	**272.9**
Finance income and costs					-1.0
Investments accounted for using the equity method					-0.6
Profit before tax					**145.2**

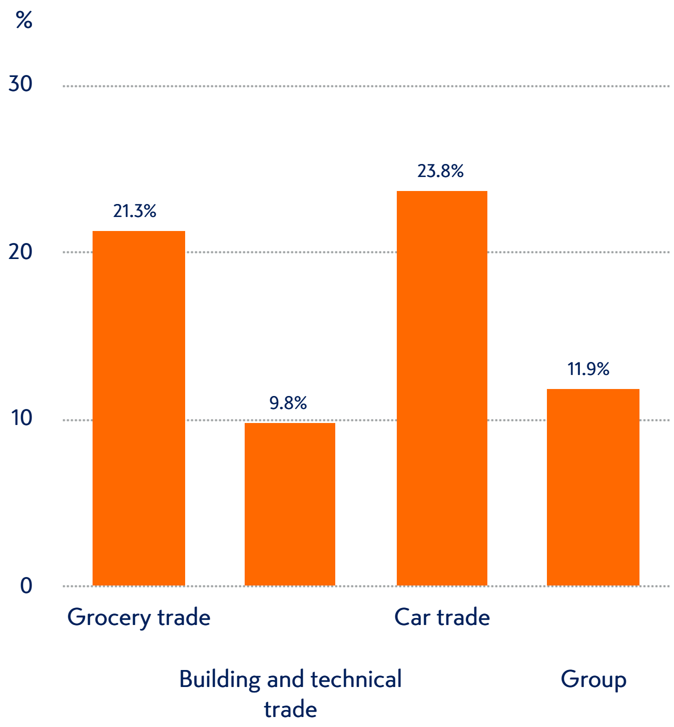
(..) Change over 100%

Assets and liabilities

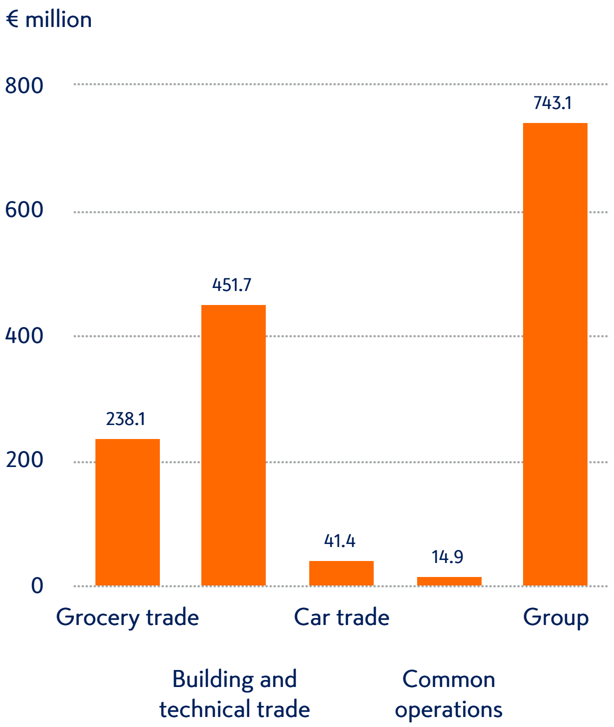
€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimi-nations	Total
Property, plant, equipment and intangible assets	791.5	661.6	95.9	28.9	2.9	1,580.9
Interests in associates and joint ventures and other investments	4.8	1.5	0.0	117.4	-0.6	123.0
Pension assets	40.6	16.2		107.9		164.7
Inventories	233.3	601.4	144.1		0.0	978.9
Trade receivables	294.5	486.6	51.1	14.8	-15.9	831.2
Other non-interest-bearing receivables	64.7	106.5	9.2	56.3	-15.0	221.6
Interest-bearing receivables	0.8	2.9	0.0	60.8		64.5
Non-current assets classified as held for sale	2.6	42.7		0.5		45.7
Assets included in capital employed	**1,432.9**	**1,919.5**	**300.3**	**386.5**	**-28.7**	**4,010.5**
Unallocated items						
Deferred tax assets						5.8
Financial assets at fair value through profit or loss						93.3
Available-for-sale financial assets						156.8
Cash and cash equivalents						141.3
Total assets	**1,432.9**	**1,919.5**	**300.3**	**386.5**	**-28.7**	**4,407.7**

€ million	Grocery trade	Building and technical trade	Car trade	Common functions	Elimi-nations	Total
Trade payables	516.9	539.8	21.3	4.5	-13.4	1,069.2
Other non-interest-bearing liabilities	229.6	212.3	76.3	59.5	-15.5	562.2
Provisions	6.1	10.5	37.9	1.4		55.8
Liabilities related to assets held for sale		0.8				0.8
Liabilities included in capital employed	**752.6**	**763.5**	**135.4**	**65.4**	**-28.8**	**1,688.1**
Unallocated items						
Interest-bearing liabilities						514.6
Other non-interest-bearing liabilities						30.6
Deferred tax liabilities						48.1
Total liabilities	**752.6**	**763.5**	**135.4**	**65.4**	**-28.8**	**2,281.3**
Total capital employed as at 31 December	**680.3**	**1,156.1**	**164.8**	**321.1**	**0.2**	**2,322.4**
Average capital employed	**827.6**	**1,000.4**	**123.9**	**337.8**	**-2.2**	**2,287.5**
Number of personnel as at 31 December	**10,339**	**15,616**	**817**	**885**		**27,657**
Average number of personnel	**8,200**	**12,743**	**780**	**752**		**22,475**

Comparable return on capital employed by segment 2016



Capital expenditure by segment 2016

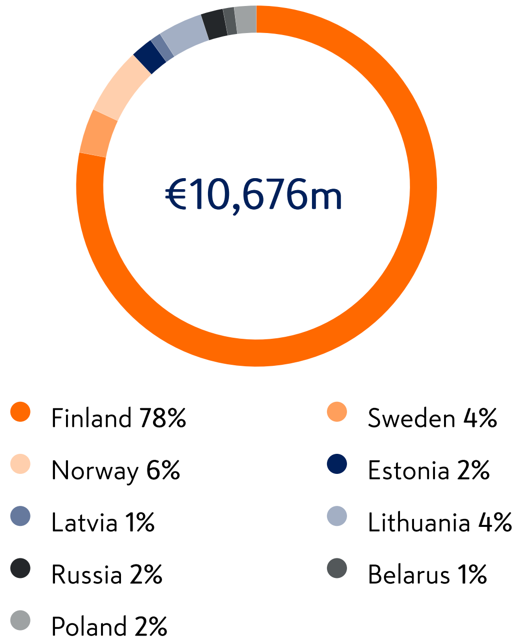


Geographical information

The Group operates in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus. The grocery trade operates in Finland and, until the end of November 2016, in Russia. The building and technical trade operates in Finland, Sweden, Norway, the Baltic countries, Poland, Russia and Belarus, and the car trade operates in Finland.

Net sales, assets, capital expenditure and personnel are presented by location. Other countries include Russia, Belarus and Poland.

Net sales by country



2017 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total
Net sales	8,391	1,047	717	533	-12	10,676
Assets	3,108.9	297.2	289.6	372.4		4,068.1
Capital expenditure	299.2	3.3	21.5	25.8		349.8
Average number of personnel	10,691	1,460	4,793	5,133		22,077

2016 € million	Finland	Other Nordic countries	Baltic countries	Others	Eliminations	Total
Net sales	8,134	900	662	503	-17	10,180
Assets	3,035.7	332.5	258.9	383.3		4,010.5
Capital expenditure	630.1	3.1	24.7	85.2		743.1
Average number of personnel	10,713	1,327	4,596	5,839		22,475

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

Kesko Group does not have income derived from a single customer amounting to more than 10% of Kesko Group's total income.

2.2 Items affecting comparability

Accounting policies

Exceptional transactions outside the ordinary course of business are treated as items affecting comparability and they have been allocated to divisions. The Group identifies gains and losses on disposal of real estate, shares and business operations, impairment charges and significant restructuring costs as items affecting comparability. Gains on disposal have been presented within other operating income, and losses on disposal within other operating expenses in the income statement. Impairment charges have been presented within depreciation, amortisation and impairment in the income statement.

€ million	2017	2016
Items affecting comparability		
Gains on disposal	83.4	4.2
Losses on disposal	-1.8	-71.0
Impairment charges	-15.0	-30.0
Structural arrangements	-38.7	-29.4
Items in operating profit affecting comparability, total	**27.9**	**-126.2**
Items in financial items affecting comparability	-0.4	-
Items in income taxes affecting comparability	3.8	25.3
Items affecting comparability, total	**31.4**	**-100.9**

The most significant items affecting comparability in 2017 were the €49.7 million gain on the divestment of properties in the Baltics, the gain on the divestment of the K-maatalous agricultural business of €12.3 million, the gain on the divestment of the Asko and Sotka furniture trade amounting to €19.0 million, the €14.5 million impairment of goodwill in Russia and the €21.4 million expenses related to the conversion of the Suomen Lähikauppa chains and the transfer of stores to retailers.

In 2016, items affecting comparability included a €69.2 million loss on the disposal of the Russian grocery trade, €30.0 million in impairment charges, €11.4 million in costs related to the conversion of Suomen Lähikauppa's chains, and €6.9 million in asset transfer taxes on acquisitions included in structural arrangements. Due to the change in the Russian real estate market, the functional currency of the building and home improvement trade's Russian properties was changed from euro to rouble on 31 December 2016, and as a result, a €15 million impairment charge was allocated to the properties.

€ million	2017	2016
Operating profit, comparable		
Operating profit	324.6	146.8
Net of		
Items in operating profit affecting comparability	27.9	-126.2
Operating profit, comparable	**296.7**	**272.9**
Profit before tax, comparable		
Profit before tax	327.6	145.2
Net of		
Items in operating profit affecting comparability	27.9	-126.2
Items in financial items affecting comparability	-0.4	-
Profit before tax, comparable	**300.1**	**271.4**
Net profit, comparable		
Profit before tax, comparable	300.1	271.4
Net of		
Income tax	58.8	31.4
Items in income tax affecting comparability	3.8	25.3
Net profit, comparable	**237.5**	**214.8**

€ million	2017	2016
Net profit attributable to owners of the parent, comparable		
Net profit, comparable	237.5	214.8
Net profit attributable to non-controlling interests	11.0	15.3
Net profit attributable to owners of the parent, comparable	**226.4**	**199.5**
Earnings per share, comparable, €		
Net profit attributable to the owners of the parent, comparable	226.4	199.5
Average number of shares, basic, 1,000 pcs	99,426	99,249
Earnings per share, comparable, €	**2.28**	**2.01**
Return on capital employed, comparable, %		
Operating profit, comparable	296.7	272.9
Capital employed, average	2,427	2,288
Return on capital employed, comparable, %	**12.2**	**11.9**
Return on equity, comparable, %		
Net profit, comparable	237.5	214.8
Equity, average	2,179	2,184
Return on equity, comparable, %	**10.9**	**9.8**

Calculation of performance indicators

Operating profit, comparable

Operating profit +/- items affecting comparability

Earnings per share, comparable, €

$$\frac{\text{Net profit/loss adjusted for items affecting comparability - Non-controlling interests}}{\text{Average number of shares}}$$

Return on capital employed, comparable, %

$$\frac{\text{Comparable operating profit x 100}}{\text{(Non-current assets + Inventories + Receivables + Other current assets - Non-interest-bearing liabilities) on average for the reporting period}}$$

Return on equity, %, comparable

$$\frac{\text{(Profit/loss adjusted for items affecting comparability before tax - Income tax adjusted for the tax effect of items affecting comparability) x 100}}{\text{Shareholders' equity, average of the beginning and end of the reporting period}}$$

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2.3 Other operating income

Accounting policies

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. Other operating income also includes gains on the disposal of property, plant and equipment and intangible assets as well as gains on disposal of businesses and realised and unrealised gains on derivatives used for hedging foreign currency risks associated with commercial transactions.

€ million	2017	2016
Income from services	550.4	535.3
Lease income	40.4	41.9
Gains on disposal of property, plant, equipment and intangible assets	54.3	3.3
Gains on disposal of businesses	32.6	0.6
Realised gains on derivative contracts and changes in fair value	2.2	5.2
Others	111.0	112.7
Total	**790.9**	**699.0**

Income from services mainly comprises chain and store site fees paid by chain companies.

Other operating income includes €86.6 million (€1.8 million) of items affecting comparability. More information on items affecting comparability is presented in note 2.2.

2.4 Operating expenses

Accounting policies

Other operating expenses include expenses other than the cost of goods sold, such as employee benefit expenses, lease expenditure, marketing costs, property and store site maintenance costs and information system expenses. Other operating expenses also include losses on the disposal of property, plant and equipment and intangible assets, losses on disposal of business operations as well as realised and unrealised losses on derivatives used for hedging foreign currency risks associated with commercial transactions.

Employee benefit expenses

€ million	2017	2016
Salaries and fees	-610.9	-574.7
Social security costs	-53.2	-57.5
Pension costs		
Defined benefit plans	-3.2	0.3
Defined contribution plans	-81.8	-78.6
Share-based payment	-9.8	-12.3
Total	**-758.8**	**-722.8**

Information on the employee benefits of the Group's management personnel and other related party transactions are presented in note 5.3, and information on share-based compensation in note 5.4.

Average number of the Group personnel

	2017	2016
Grocery trade	6,733	8,200
Building and technical trade	13,662	12,743
Car trade	809	780
Common functions	872	752
Total	**22,077**	**22,475**

Other operating expenses

€ million	2017	2016
Lease expenditure	-463.7	-458.1
Marketing costs	-210.1	-219.2
Property and store site maintenance expenses	-131.8	-129.0
ICT expenses	-93.3	-91.8
Losses on disposal of property, plant, equipment and intangible assets	-2.4	-2.1
Losses on disposal of business operations	-1.5	-63.7
Realised losses on derivative contracts and changes in fair value	-3.9	-3.7
Other operating expenses	-160.8	-161.9
Total	**-1,067.5**	**-1,129.5**

Expenses by type 2017

- Personnel 42%
- Rents and store site 33%
- ICT 5%
- Marketing 11%
- Other 9%

Expenses by type 2016

- Personnel 39%
- Rents and store site 32%
- ICT 5%
- Marketing 12%
- Other 12%

Auditors' fees

€ million	2017	2016
Fees to PwC chain companies		
Audit	1.0	0.9
Tax consultation	0.1	0.1
Other services	1.2	0.3
Total	2.2	1.4
Other audit firms	**1.2**	**2.0**

Fees paid to PwC Oy for services other than audit to Kesko Group companies totalled €1.2 million.

2.5 Foreign exchange differences recognised in operating profit

€ million	2017	2016
Sales	0.0	-0.1
Other income	1.9	2.7
Purchases	-0.8	0.2
Other expenses	-3.9	-3.7
Total	**-2.8**	**-1.0**

2.6 Income tax

Accounting policies

The taxes recognised in the consolidated income statement include 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 income of each company determined by local jurisdiction. The tax impact of items recognised in other comprehensive income has been recognised correspondingly in other comprehensive income.

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 the tax rates enacted at the balance sheet date, and as the rates changed, at the known new rate. 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 pension plans, property, plant and equipment (depreciation difference), provisions and measurements at fair value of asset items in connection with acquisitions.

€ million	2017	2016
Current tax	-55.7	-41.3
Tax for prior years	-0.4	-0.8
Deferred tax	-2.7	10.7
Total	**-58.8**	**-31.4**

Reconciliation between tax expense shown in the income statement and tax calculated at parent's rate

€ million	2017	2016
Profit before tax	327.6	145.2
Tax at parent's rate 20.0%	-65.5	-29.0
Effect of foreign subsidiaries' different tax rates	2.2	3.3
Effect of tax-free income	15.4	0.6
Effect of expenses not deductible for tax purposes	-4.6	-7.1
Effect of tax losses	-4.9	-4.9
Effect of consolidation	0.3	6.4
Tax for prior years	-0.4	-0.8
Effect of change in tax rate	-0.3	0.3
Others	-0.9	-0.2
Tax charge	**-58.8**	**-31.4**

The impact of the corporation tax rate changes, effective from 1 January 2018 in Norway and Latvia, on taxes for the financial year 2017 was €-0.3 million. The impact of the corporation tax rate change, effective from 1 January 2017 in Norway, on the deferred tax for the financial year 2016 was €0.3 million.

2.7 Earnings per share

Accounting policies

Basic earnings per share are calculated by dividing the net profit for the period 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.

	2017	2016
Net profit for the period attributable to equity holders of the parent, € million	**257.8**	**98.6**
Number of shares		
Weighted average number of shares outstanding	99,426,302	99,248,794
Diluted weighted average number of shares outstanding	99,426,302	99,248,794
Earnings per share from net profit attributable to equity holders of the parent		
Basic, €	2.59	0.99
Diluted, €	2.59	0.99
Comparable earnings/share, basic, €	2.28	2.01

Reconciliation for comparable earnings is presented in note 2.2.

2.8 Notes related to the statement of cash flows

Capital expenditure and non-cash financing activities

€ million	2017	2016
Total acquisitions of property, plant, equipment and intangible assets	347.8	280.8
Total acquisitions of subsidiaries and investments in associates and other investments	2.1	434.5
Total capital expenditure	**349.9**	**715.3**
of which cash payments	327.0	567.6
Loans relating to acquired companies and cash and cash equivalents	1.0	139.7
Payments arising from prior period investing activities	-9.6	-4.9
Capital expenditure financed with finance lease or other liability	31.5	12.9
Total	**349.9**	**715.3**

Adjustments to cash flows from operating activities

€ million	2017	2016
Adjustment of non-cash transactions in the income statement and items presented elsewhere in the statement of cash flows:		
Change in provisions	1.5	4.9
Share of results of associates and joint ventures	-1.6	0.6
Impairments	14.5	24.0
Credit losses	5.2	6.7
Gains on disposal of property, plant, equipment and intangible assets and business operations	-91.3	-3.7
Losses on disposal of property, plant, equipment and intangible assets and business operations	4.1	65.8
Share-based compensation	-2.6	-1.2
Defined benefit pensions	1.7	-0.8
Others	1.8	-5.7
Total	**-66.9**	**90.6**

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 a non-cash nature.

Cash and cash equivalents within the statement of cash flows

€ million	2017	2016
Available-for-sale financial assets (maturing in less than 3 months)	37.5	59.6
Cash and cash equivalents	132.7	141.3
Total	**170.2**	**200.8**

In the statement of cash flows, cash and cash equivalents include those recognised in the balance sheet and portions of available-for-sale financial assets with maturities of less than three months from acquisition.

Reconciliation of cash and debt

€ million	2017	2016
Available-for-sale financial assets (maturing in less than 3 months)	37.5	59.6
Cash and cash equivalents	132.7	141.3
Borrowings - repayable within one year (including overdraft)	-404.6	-156.0
Borrowings - repayable after one year	-129.3	-358.7
Cash and debt, net	**-363.7**	**-313.8**

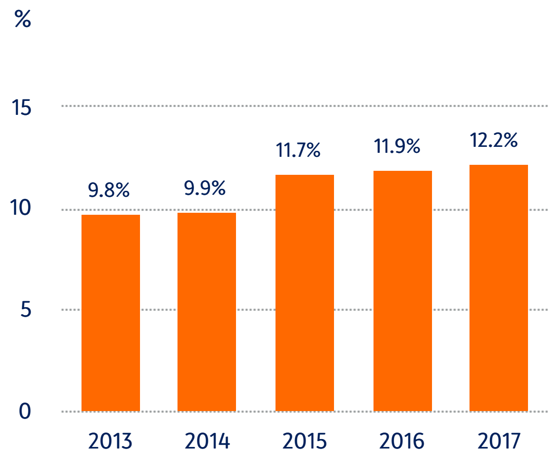
€ million	2017	2016
Cash and available-for-sale financial assets	170.2	200.8
Gross debt - fixed interest rates	-363.6	-366.9
Gross debt - variable interest rates	-170.3	-147.7
Cash and debt, net	**-363.7**	**-313.8**

€ million	Other assets: Cash and overdraft	Other assets: Available-for-sale financial assets	Finance-related debt: Finance leases due within 1 year	Finance-related debt: Finance leases due after 1 year	Finance-related debt: Borrowings due within 1 year	Finance-related debt: Borrowings due after 1 year	Total
Cash and debt, net as at 1 Jan. 2017	**141.3**	**59.6**	**-2.9**	**-5.7**	**-153.1**	**-352.9**	**-313.8**
Cash flows	-8.4	-22.1	1.7	5.4	-235.5	230.6	-28.3
Acquisitions of subsidiaries	1.0				-13.1		-12.1
Disposals of subsidiaries	-1.2		0.0	0.0	0.0	0.0	-1.2
Acquisitions - finance leases and lease incentives			-2.3	-6.8			-9.1
Foreign exchange adjustments	0.1		0.0	0.1	0.6	0.0	0.7
Cash and debt, net as at 31 Dec. 2017	**132.7**	**37.5**	**-3.5**	**-7.0**	**-401.1**	**-122.3**	**-363.7**

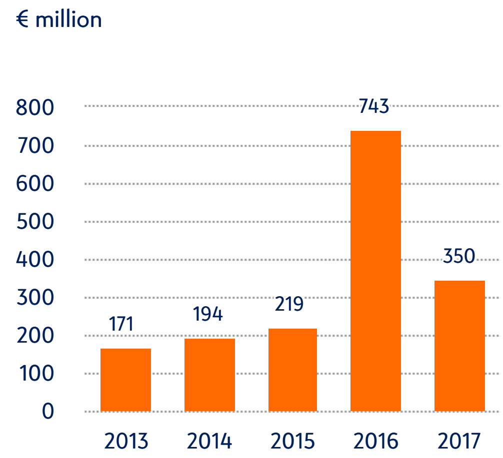
€ million	Other assets: Cash and overdraft	Other assets: Available-for-sale financial assets	Finance-related debt: Finance leases due within 1 year	Finance-related debt: Finance leases due after 1 year	Finance-related debt: Borrowings due within 1 year	Finance-related debt: Borrowings due after 1 year	Total
Cash and debt, net as at 1 Jan. 2016	**141.2**	**192.8**	**-4.5**	**-3.8**	**-176.3**	**-254.5**	**-105.1**
Cash flows	-31.0	-133.9	3.0	2.0	23.9	-98.5	-234.5
Acquisitions of subsidiaries	30.4		-1.2	-3.5	-0.7		25.0
Disposals of subsidiaries	-5.2				0.0		-5.2
Acquisitions - finance leases and lease incentives			-0.1	-0.4			-0.5
Foreign exchange adjustments	5.8	0.7	0.0	0.0	0.0	0.0	6.5
Cash and debt, net as at 31 Dec. 2016	**141.3**	**59.6**	**-2.9**	**-5.7**	**-153.1**	**-352.9**	**-313.8**

3 Capital employed

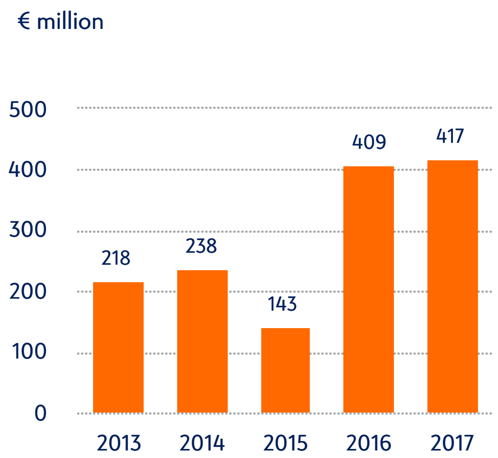
Comparable return on capital employed



Capital expenditure



Working capital



3.1 Capital employed and working capital

Capital employed

€ million	Note	31 Dec. 2017	31 Dec. 2016
Property, plant and equipment	3.3	1,293.1	1,150.4
Intangible assets	3.4	376.2	430.5
Interests in associates and joint ventures	3.9	117.4	107.9
Non-current available-for-sale financial assets	4.3	23.0	15.1
Non-current receivables	4.3	65.4	62.6
Pension assets	3.8	207.5	164.7
Current interest-bearing receivables	4.5	1.5	3.7
Non-current assets classified as held for sale	3.7	1.8	45.7
Non-interest-bearing non-current liabilities		-1.5	-9.6
Pension obligations	3.8	-0.4	-0.8
Provisions	3.10	-56.7	-55.8
Liabilities related to available-for-sale non-current assets	3.7	-0.1	-0.8
Working capital		417.1	408.7
Total		**2,444.4**	**2,322.4**

Working capital

€ million	Note	31 Dec. 2017	31 Dec. 2016
Inventories	3.5	938.6	978.9
Trade receivables	3.6	836.0	831.2
Income tax assets	3.6	11.1	21.2
Other non-interest-bearing receivables	3.6	196.4	198.6
Trade payables		-1,023.7	-1,069.2
Other non-interest-bearing liabilities		-227.1	-226.9
Income tax liabilities		-5.6	-8.7
Accrued liabilities		-308.5	-316.2
Total		**417.1**	**408.7**

Accrued liabilities are mainly due to the timing of purchases and employee benefit expenses.

Non-current non-interest-bearing liabilities also include an item of €29.9 million (€30.6 million) not allocated to divisions, related to the accrual of a gain on a real estate sale to a joint venture. The item is not included in capital employed.

3.2 Business acquisitions and disposals of assets

Acquisitions in 2017

In 2017, Kesko Group did not have acquisitions to be accounted for as business combinations.

Acquisitions in 2016

In April 2016, Kesko Food Ltd, a Kesko Corporation subsidiary, acquired the whole share capital of Suomen Lähikauppa Oy from the private equity investment firm Triton. In June 2016, Kesko Corporation acquired Onninen Oy's whole share capital from Onvest Oy. In December 2016, VV-Auto Group Oy acquired the whole share capital of Oy Autocarrera Ab and as a result, the import and retailing of Porsche transferred to VV-Auto.

2016 € million	Suomen Lähikauppa	Onninen Group	Oy Autocarrera Ab
Consideration paid	**54**	**364**	**27**
Provisionally determined fair values of assets acquired and liabilities assumed as at the date of acquisition			
Intangible assets	5	94	2
Property, plant, equipment and investments	33	21	1
Inventories	33	227	9
Receivables	12	238	4
Deferred tax asset	22	3	-
Cash and cash equivalents	8	17	0
Total assets	**113**	**599**	**16**
Trade payables, other payables, provisions	134	275	7
Deferred tax liability	0	16	1
Total liabilities	**134**	**291**	**8**
Net assets acquired, total	**-22**	**309**	**8**
Goodwill	**76**	**55**	**19**
Cash flow impact of acquisition			
Consideration paid	-54	-364	-25
Cash and cash equivalents acquired	8	17	0
Cash flow impact of acquisition	-46	-347	-25

Suomen Lähikauppa Oy

On 12 April 2016, Kesko Food Ltd, a Kesko Corporation subsidiary, acquired the whole share capital of Suomen Lähikauppa Oy from the private equity investment firm Triton. The debt-free price of the acquisition, structured as a share purchase, was €54 million. Suomen Lähikauppa has concentrated on grocery stores located near customers. The acquisition underpins Kesko's new strategy, one focus area of which is to increase and renew the neighbourhood store network.

The tables above are a condensed presentation of the consideration paid to Triton, the values of the assets acquired and liabilities assumed by Kesko Group as at the date of the acquisition, as well as the cash flow impact of the acquisition. The €76 million goodwill from the acquisition reflects the synergies expected to arise especially from purchasing and logistics, marketing, store site network development, information system expenses and administration.

The Group's profit for January–December 2016 includes costs incurred from an acquisition in the amount of €1.2 million, the most significant of which is the €0.6 million asset transfer tax. The costs are presented within items affecting comparability.

Suomen Lähikauppa contributed €575 million to the net sales of the April–December period 2016. The impact on the comparable operating profit for the April–December period 2016 was €-7.4 million and taking synergies into account, €-3.2 million. Management estimates that if the acquisition had been completed on 1 January 2016, the impact on the Group's net sales would have been approximately €795 million. The impact on the comparable operating profit would have been €-17 million. When determining the amounts of net sales and comparable operating profit, management estimates that the fair values recognised at the date of acquisition would have been the same if the acquisition had been completed on 1 January 2016.

Onninen Oy

Kesko Corporation acquired Onninen Oy's whole share capital from Onvest Oy on 1 June 2016. The debt-free price of the acquisition, structured as a share purchase, was €364 million. Onninen is one of the leading providers of HEPAC and electrical products and services in the Baltic Sea Region and Scandinavia. The group specialises in B2B trade and has around 150 units in Finland, Sweden, Norway, Poland and the Baltic countries.

The tables above are a condensed presentation of the consideration paid to Onvest Oy, the values of the assets acquired and liabilities assumed by Kesko Group as at the date of the acquisition, as well as the cash flow impact of the acquisition.

The total value of the intangible assets acquired as at the date of the acquisition (including customer relationships and trademarks) is €94 million. The balance sheet value of current trade receivables equals their fair value. The €55 million goodwill from the acquisition reflects the synergies expected to mainly arise from the utilisation of the common customer relationships, from purchasing and logistics, the development of the store site network, as well as from ICT and administration.

The Group's profit for January–December 2016 include costs incurred from an acquisition in the amount of €6.8 million, the most significant of which is the €5.8 million asset transfer tax. The costs are presented within items affecting comparability.

Onninen contributed €908 million to the net sales of the June–December period 2016. The impact on the comparable operating profit for the June–December period 2016 was €18.2 million, adversely impacted by the fair value allocations of inventories written off in the amount of €5.1 million. Management estimates that if the acquisition had been completed on 1 January 2016, the impact on the Group's net sales would have been approximately €1,500 million. The impact on the comparable operating profit would have been €17.7 million. When determining the amounts of net sales and comparable operating profit, management estimates that the fair values recognised at the date of acquisition would have been the same if the acquisition had been completed on 1 January 2016.

Oy Autocarrera Ab

In December 2016 VV-Auto Group, a Kesko Corporation subsidiary, acquired the whole share capital of Oy Autocarrera Ab. As a result, the import and retailing of Porsche transferred to VV-Auto. The price of the acquisition, structured as a share purchase, was €27 million.

The tables above are a condensed presentation of the consideration paid, the values of the assets acquired and liabilities assumed by Kesko Group as at the date of the acquisition, as well as the cash flow impact of the acquisition. The €19 million goodwill derived from the acquisition reflects the synergies and growth potential expected to be realised as Porsche increases VV-Auto's car selection.

The Group's profit for December 2016 includes costs incurred from the acquisition in the amount of €0.6 million, the most significant of which is the €0.4 million asset transfer tax.

AutoCarrera contributed €4.4 million to the net sales of December 2016. The impact on the comparable operating profit for the December 2016 was €-0.0 million, adversely impacted by the fair value allocations of inventories written off in the amount of €0.1 million. Management estimates that if the acquisition had been completed on 1 January 2016, the impact on the Group's net sales would have been approximately €45 million. The impact on the comparable operating profit would have been €2.2 million. When determining the amounts of net sales and comparable operating profit, management estimates that the fair values recognized at the date of acquisition would have been the same if the acquisition had been completed on 1 January 2016.

Disposals of assets 2017

In May 2017, Kesko sold seven store sites used by Kesko Senukai in Estonia and Latvia to the property investment company UAB Baltic Retail Properties. At the same time, Kesko acquired a 10% shareholding in the property investment company.

In June 2017, Konekesko Ltd, a Kesko Corporation subsidiary, sold its Yamarin boat business to Inhan Tehtaat Oy Ab, a subsidiary owned by Yamaha Motor Europe N.V. At the same time, the transfer of the representation of Yamaha's recreational machinery in Finland from Konekesko Ltd to Yamaha Motor Europe N.V. was also completed.

In June 2017, Kesko Corporation sold Indoor Group, which is responsible for the Asko and Sotka furniture trade, to a company owned by Sievi Capital Oyj, three franchising entrepreneurs from the Sotka chain and Etera Mutual Pension Insurance Company. The debt free price of the sale, structured as a share transaction, was €67 million.

In June 2017, Kesko Corporation sold its K-maatalous business to Swedish Lantmännen ek. för. The debt free price of the sale, structured as a share transaction, was €38.5 million.

Disposals of assets 2016

In July 2016, Kesko sold its shares in OOO Johaston and at the same time, disposed of the Intersport business in Russia.

In November 2016, Kesko sold the grocery business in Russia to Lenta Ltd. The aggregate consideration for the disposal was approximately €178 million, on which a €69 million comparable loss affecting comparability was recognised.

Net assets of subsidiaries sold

€ million	**2017**	**2016**
Property, plant, equipment and intangible assets	66.1	266.9
Inventories	61.3	7.3
Receivables	69.4	9.6
Cash and cash equivalents	1.2	6.1
Deferred taxes	-7.8	-3.2
Liabilities	-117.7	-180.4
Provisions	-0.4	-
Net assets total	**72.2**	**106.3**

In addition, the real estate divestment in the Baltics completed on 24 May 2017 had a €14.0 million impact on the Group's net assets.

3.3 Property, plant and equipment

Accounting policies

Property, plant and equipment mainly comprise land, buildings, machinery and equipment. Property, plant and equipment are carried at historic 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 any component accounted for as a separate asset is derecognised when replaced. The machinery and equipment of buildings are treated as separate assets and any significant expenditure related to their replacement is capitalised. All other repair, 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 years
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 financial year. 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.

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.

The Group has not capitalised interest costs incurred as part of the acquisition of assets, because the Group does not have qualifying assets.

2017 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepay-ments and construction in progress	Total 2017
Cost						
Cost as at 1 January	302.8	1,058.9	530.7	58.4	101.1	2,052.0
Exchange differences	-5.4	-15.2	-4.1	-2.8	-0.4	-27.9
Additions	13.0	185.6	75.1	4.3	29.3	307.4
Acquisitions	2.8	8.6	0.0	0.0		11.4
Deductions	-0.8	-6.1	-75.4	-0.3	-6.4	-89.0
Disposals	-1.2	-12.9	-12.5	-0.1	-0.1	-26.8
Transfers between items	2.5	60.2	7.0	0.9	-73.6	-3.0
Cost as at 31 December	313.7	1,279.2	520.8	60.4	50.0	2,224.0
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-6.1	-485.6	-378.7	-31.2		-901.6
Exchange differences	0.0	5.9	2.9	1.4		10.2
Accumulated depreciation and impairment charges on disposals	-1.1	7.5	9.0	0.1		15.6
Accumulated depreciation on deductions	0.3	4.8	50.3	0.2		55.6
Accumulated depreciation on transfers		0.0	0.1	0.0		0.1
Depreciation and impairment charges for the year	0.0	-50.4	-55.5	-4.9		-110.7
Accumulated depreciation and impairment charges as at 31 December	-7.0	-517.8	-371.9	-34.3		-931.0
Carrying amount as at 1 January	296.6	573.3	152.0	27.2	101.1	1,150.4
Carrying amount as at 31 December	**306.8**	**761.4**	**148.9**	**26.0**	**50.0**	**1,293.1**

2016 € million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Prepay-ments and construction in progress	Total 2016
Cost						
Cost as at 1 January	357.2	1,184.2	508.5	83.3	71.1	2,204.4
Exchange differences	0.9	4.2	7.0	1.0	0.2	13.3
Additions	13.5	68.4	58.3	5.8	86.2	232.2
Acquisitions	1.4	11.2	44.9	0.2	1.7	59.4
Deductions	-2.4	-19.9	-55.3	-0.4	-0.7	-78.6
Disposals	-52.1	-180.8	-34.4	-26.1	-2.7	-296.0
Transfers between items	-15.7	-8.6	1.7	-5.5	-54.8	-82.7
Cost as at 31 December	302.8	1,058.9	530.7	58.4	101.1	2,052.0
Accumulated depreciation and impairment charges						
Accumulated depreciation and impairment charges as at 1 January	-11.7	-486.1	-391.3	-33.1		-922.3
Exchange differences		-1.4	-2.9	-0.5		-4.8
Accumulated depreciation and impairment charges on disposals	9.6	40.8	15.8	4.3		70.4
Accumulated depreciation on deductions		11.4	44.9	-0.2		56.1
Accumulated depreciation on transfers		25.9	3.6	5.2		34.8
Depreciation and impairment charges for the year	-4.0	-76.1	-48.8	-6.9		-135.8
Accumulated depreciation and impairment charges as at 31 December	-6.1	-485.6	-378.7	-31.2		-901.6
Carrying amount as at 1 January	345.5	6,98.1	117.2	50.2	71.1	1,282.1
Carrying amount as at 31 December	**296.6**	**573.3**	**152.0**	**27.2**	**101.1**	**1,150.4**

Property, plant and equipment include the following amounts of machinery and equipment leased under finance leases:

€ million	2017	2016
Cost	28.5	23.4
Accumulated depreciation	-18.3	-15.3
Carrying amount	**10.2**	**8.1**

3.4 Intangible assets

Accounting policies

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 initial cost and that 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 recorded in the balance sheet and recognised as expenses during their useful lives. Such intangible assets include software licences, customer relationships and licences measured at the fair value at the date of acquisition, and leasehold interests that are amortised during their probable lease terms.

The estimated useful lives are:
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 subsequent periods.

Software

Costs directly attributable to the development of new software are capitalised as part of the software cost. On the balance sheet, software is included in intangible assets and its cost is amortised over the useful life of the software. Costs associated with maintaining the software are recognised as an expense as incurred.

Impairment of non-financial assets

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

The recoverable amount is the higher of an asset's 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 the revaluation shows an increase in the recoverable amount. 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.

2017 € million	Goodwill	Trademarks	Other intangible assets	Pre-payments	Total 2017
Cost					
Cost as at 1 January	249.6	131.0	284.0	18.3	682.9
Exchange differences	-0.2	-2.6	-4.0	0.0	-6.9
Additions	1.0		17.7	14.2	32.9
Acquisitions			0.0		0.0
Disposals	-12.9	-39.1	-12.4	0.0	-64.3
Deductions			-80.6	-0.5	-81.1
Transfers between items			18.0	-14.9	3.0
Cost as at 31 December	237.5	89.3	222.6	17.0	566.5
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-59.7	-7.8	-184.9	0.0	-252.3
Exchange differences	0.2	0.6	2.9		3.7
Accumulated amortisation and impairment charges on disposals	8.8		12.0		20.8
Accumulated amortisation on deductions and transfers			80.6		80.6
Amortisation and impairment charges for the year	-14.5		-28.5		-43.0
Accumulated amortisation and impairment charges as at 31 December	-65.2	-7.2	-117.8	0.0	-190.2
Carrying amount as at 1 January	189.9	123.3	99.1	18.3	430.5
Carrying amount as at 31 December	**172.3**	**82.2**	**104.7**	**17.0**	**376.2**

2016 € million	Goodwill	Trademarks	Other intangible assets	Pre-payments	Total 2016
Cost					
Cost as at 1 January	101.6	70.9	229.5	8.4	410.3
Exchange differences	0.0	1.8	2.3		4.1
Additions	152.2		25.1	14.6	191.8
Acquisitions		58.3	39.6	6.2	104.0
Disposals	-0.1		-9.8		-9.9
Deductions			-10.5	-0.2	-10.7
Transfers between items	-4.0		8.0	-10.7	-6.7
Cost as at 31 December	249.6	131.0	284.0	18.3	682.9
Accumulated amortisation and impairment charges					
Accumulated amortisation and impairment charges as at 1 January	-60.6	-7.4	-174.0	0.0	-241.8
Exchange differences	0.1	-0.4	-1.8		-2.1
Accumulated amortisation and impairment charges on disposals	0.1		3.8		3.9
Accumulated amortisation on deductions and transfers	0.6		10.5		11.1
Amortisation and impairment charges for the year			-23.4		-23.4
Accumulated amortisation and impairment charges as at 31December	-59.7	-7.8	-184.9	0.0	-252.3
Carrying amount as at 1 January	41.0	63.5	55.5	8.4	168.4
Carrying amount as at 31 December	**189.9**	**123.3**	**99.1**	**18.3**	**430.5**

Other intangible assets include other non-current expenditure, of which €62.5 million (€55.4 million) are software and licence costs.

Goodwill and intangible rights by division

€ million	Trademarks 2017	Goodwill 2017	Discount rate (WACC) 2017	Trademarks 2016	Goodwill 2016	Discount rate (WACC) 2016
Grocery trade		76.1	6.0		76.1	6.0
Building and technical trade						
Byggmakker, Norway	23.9		7.0	25.9		7.0
Onninen	58.3	55.1	7.2	58.3	55.1	7.1
Kesko Senukai, Baltics		21.1	7.0		20.5	7.0
K-rauta Rus, Russia					14.5	11.0
Indoor, Finland				39.1	4.1	7.0
Car trade		20.0	7.0		19.7	7.0
Total	**82.2**	**172.3**		**123.3**	**189.9**	

Intangible assets with indefinite useful lives are tested annually for possible impairment and whenever there is an indication of impairment.

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 acquired in connection with acquisitions.

Cash generating units have been identified at maximum at the level of reported divisions.

WACC is determined after tax. The rate is used in impairment testing.

Impairment test for goodwill and intangible assets

In impairment testing, the recoverable amount of a cash-generating unit's business operations 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 1.5–2.0% (1.0–4.0%) forecast growth rates, allowing for country-specific differences.

The discount rate used is the weighted average cost of capital (WACC) after tax, specified for each division and country and adjusted for tax effect 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. Discount rates remained at the level of the previous year.

Impairment losses

During the 2017 financial year, a €14.5 million goodwill impairment was recorded for K-rauta Rus (building and technical trade) due to lower than targeted profit development. The impairment has been presented as an item affecting profitability. There were no impairment charges recognised on goodwill or intangible rights in the financial year 2016.

Sensitivity analysis

The key variables used in impairment testing are the EBITDA margin and the discount rate. The most sensitive to movements in assumptions in the building and technical trade are the brand related to the Byggmakker business: if the residual EBITDA decreased by more than 0.5 percentage points, an impairment would be recognised. Regarding the other cash generating units, according to management's estimates, 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.

3.5 Inventories

Accounting policies

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 direct costs necessary to make the sale. The cost is determined using weighted average costs.
The cost of certain categories of inventory is determined using the FIFO method. The cost of finished goods 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.

€ million	2017	2016
Goods	931.7	969.3
Prepayments	6.9	9.5
Total	938.6	978.9
Write-down of inventories to net realisable value	44.3	48.0

3.6 Trade and other current receivables

Accounting policies

Trade receivables are recognised in the amounts of initial sale. Impairment is recognised when there is objective evidence of impairment loss. The Group has established uniform principles for the determination of impairment of trade receivables based on the time receivables have been overdue. In addition, impairment is recognised if there is other evidence of a debtor's insolvency, bankruptcy or liquidation. Impairment is recognised as an expense in other operating expenses. If an amount previously written off is subsequently settled, it is recognised as a reduction of other operating expenses.

€ million	2017	2016
Interest-bearing receivables		
Finance lease receivables	-	0.3
Interest-bearing loans and receivables	1.5	3.4
Total interest-bearing receivables	1.5	3.7
Trade receivables	836.0	831.2
Income tax assets	11.1	21.2
Other non-interest-bearing receivables		
Non-interest-bearing loans and receivables	21.8	24.5
Prepaid expenses	174.5	174.1
Total other non-interest-bearing receivables	196.4	198.6
Total	**1,045.0**	**1,054.6**

A total amount of €5.2 million (€6.7 million) of trade receivables has been recognised within credit losses in the income statement. The credit risk is described in more detail in note 4.3.

Prepaid expenses mainly comprise allocations of purchases.

The fair values of current trade and loan receivables, and those of current interest-bearing receivables are estimated to equal the carrying amounts due to their short maturities.

3.7 Non-current assets classified as held for sale and related liabilities

Accounting policies

Non-current assets (or a disposal group) are classified as held for sale if their carrying amount will be recovered principally through the disposal of the assets and the sale is highly probable. If their carrying amount will be recovered principally through their disposal rather than through their continuing use, they are measured at the lower rate of the 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 2017 and 2016, the Group had no discontinued operations.

€ million	2017	2016
Intangible assets	-	3.9
Land	0.3	10.4
Buildings and real estate shares	0.2	6.7
Machinery and equipment	0.0	1.1
Inventories	1.3	23.5
Total	**1.8**	**45.7**

Kesko Group company Konekesko Oy has agreed to sell its Still truck business in the first half of 2018. The carrying amount of the assets related to the business to be disposed is approximately €1 million.

In 2017, the liabilities related to non-current assets classified as held for sale were €0.1 million.

In 2016, the liabilities related to non-current assets classified as held for sale included properties used by the building and technical trade in Estonia and Latvia, divested in May 2017.

In addition, the liabilities related to non-current assets classified as held for sale in 2016 included the Yamaha presentations and the Yamarin boat business, which Konekesko Oy divested in June 2017.

The total liabilities related to the non-current assets classified as held for sale were €0.8 million in 2016.

3.8 Pension assets

Accounting policies

The Group operates both defined contribution pension plans and defined benefit pension 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 pay further contributions, in case the payment recipient is unable to pay the retirement benefits.

In defined benefit plans, the Group may incur obligations or assets after the payment of the contribution. The pension obligation represents the present value of future cash flows from the benefits payable. The present value of pension obligations has been calculated using the projected 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 obligation is the market yield of high-quality corporate bonds. Their maturity substantially corresponds to the maturity of the 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 comprehensive income in the income statement.

The Group operates several pension plans in different operating countries. In Finland, the statutory pension provision of personnel is provided through pension insurance companies and the voluntary supplementary pension provision is mainly provided through Kesko Pension Fund. The statutory pension provision provided through pension insurance companies is a defined contribution plan. The supplementary pension provision provided through Kesko Pension Fund is a defined benefit plan.

As regards to foreign subsidiaries, the former pension plan operated in Norway was classified as a defined benefit plan. The related liability expired during the financial year (net debt in financial year 2016 was €0.2 million). The defined benefit plan in Norway is not included in the tables below, because its impact on the consolidated amounts is insignificant.

The pension plans in the other foreign subsidiaries are managed in accordance with local regulations and practices in each country and they are defined contribution plans.

Kesko Pension Fund

Kesko Pension Fund is a pension provider of its members providing supplementary retirement benefits to employees who are beneficiaries of the Pension Fund's department A. Department A was closed on 9 May 1998. As the conditions set out in the Fund's rules are met, beneficiaries between 60 and 65 years of age are granted an old-age pension. The amount of retirement benefit granted by the Fund is the difference between the employee's retirement benefit based on his/her pensionable salary calculated in accordance with the Fund's rules and the statutory pension. In addition to the individually calculated pensionable salary, the retirement benefit amount of each beneficiary is impacted by the duration of his/her membership of the Pension Fund. At the end of 2017, the Pension Fund had 2,651 beneficiaries, of whom 608 were active employees and 2,043 were retired employees. Kesko Group's contribution to the Pension Fund's obligation is 96.9% (96.7%). The notes present Kesko Group's interest in the Pension Fund except for the analysis of assets by category and the maturity analysis of the obligation.

In addition to its rules, the Pension Fund's operations are regulated by the Employee Benefit Funds Act, the decrees under the Act and official instructions, and the Fund's operations are controlled by the Financial Supervisory Authority. The regulations include stipulations on the calculation of pension obligation and its coverage, for example. The pension obligation shall be fully covered by the plan assets, any temporary deficit is only allowed exceptionally. In addition, the regulations include detailed stipulations on the acceptability of the covering assets and the diversification of investment risks.

Kesko Group does not expect to pay contributions to the Pension Fund in 2018.

The defined benefit asset recognised in the balance sheet is determined as follows:

€ million	2017	2016
Present value of defined benefit obligation	-266.6	-302.3
Fair value of plan assets	474.1	467.1
Net assets recognised in the balance sheet	**207.5**	**164.7**
Movement in the net assets recognised in the balance sheet:		
As at 1 January	164.7	176.4
Income/cost recognised in the income statement	-3.2	0.3
Remeasurement	45.0	-14.0
Contributions to plan and plan costs	1.1	2.0
As at 31 December	**207.5**	**164.7**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2017	-302.3	467.1	164.7
Current service cost	-4.8		-4.8
Past service cost	-1.3		-1.3
Gains or losses on settlement	0.4		0.4
Interest cost/income	-4.4	6.9	2.5
	-10.0	6.9	-3.2
Remeasurement			
Return on plan assets		13.2	13.2
Gain/loss from changes in demographic assumptions			0.0
Gain/loss from changes in financial assumptions	29.0		29.0
Experience gains/losses	2.8		2.8
	31.8	13.2	45.0
Contributions to plan and plan costs		1.1	1.1
Benefit payments	14.1	-14.1	0.0
As at 31 December 2017	**-266.6**	**474.1**	**207.5**

€ million	Present value of defined benefit obligation	Fair value of plan assets	Total
As at 1 January 2016	-266.4	442.8	176.4
Current service cost	-3.8		-3.8
Interest cost/income	-6.0	10.0	4.1
	-9.7	10.0	0.3
Remeasurement			
Return on plan assets		26.8	26.8
Gain/loss from changes in demographic assumptions			0.0
Gain/loss from changes in financial assumptions	-41.4		-41.4
Experience gains/losses	0.7		0.7
	-40.7	26.8	-14.0
Contributions to plan and plan costs		2.0	2.0
Benefit payments	14.7	-14.7	0.0
As at 31 December 2016	**-302.3**	**467.1**	**164.7**

Plan assets were comprised as follows in 2017

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments	97.3	60.0	157.3
Debt instruments	25.0	31.3	56.3
Investment funds	117.5	15.9	133.4
Properties		87.6	87.6
United States			
Equity instruments	5.3		5.3
Investment funds	35.1		35.1
Other countries			
Investment funds	14.0		14.0
Total	**294.2**	**194.8**	**489.0**

Plan assets were comprised as follows in 2016

€ million	Quoted	Unquoted	Total
Europe			
Equity instruments	100.3	56.5	156.8
Debt instruments	26.5	37.0	63.5
Investment funds	37.6	17.2	54.8
Properties		147.4	147.4
United States			
Equity instruments	4.7		4.7
Investment funds	32.8		32.8
Other countries			
Investment funds	22.7		22.7
Total	**224.6**	**258.1**	**482.7**

€ million	2017	2016
Kesko Corporation shares included in fair value	21.9	23.0
Properties leased by Kesko Group included in fair value	122.2	179.5

Principal actuarial assumptions:

	2017	2016
Discount rate	2.08%	1.50%
Salary growth rate	2.23%	2.30%
Inflation	1.69%	1.80%
Pension growth rate	1.97%	2.10%
Average service expectancy, years	9	10

Weighted average duration of pension obligations and expected maturity analysis of undiscounted pension obligations

	2017	2016
Weighted average duration of pension obligations, years	14	16
Expected maturity analysis of undiscounted pension obligations, € million		
Less than 1 year	14.9	15.0
Between 1–10 years	117.8	118.6
Between 10–20 years	107.7	112.4
Between 20–30 years	73.3	78.0
Over 30 years	63.8	70.7
Total	**377.5**	**394.6**

Finnish pension reform

The statutory pension provision in Finland has been amended, effective from 1 January 2017. The objective of the amendments is to extend working life so that the financing of the statutory earnings-related pension scheme and sufficient pension provision can be ensured also going forward.

In the financial year 2016, the rules of the Pension Fund were changed to the effect that the Pension Fund's supplementary retirement benefit does not compensate for the lowering of the statutory pension provision resulting from the rise of the statutory pension age. The effect of the change in the rules was a €2 million decrease in the defined benefit obligation, which was recorded in the financial statements at 31 December 2016.

Risks related to pension plan

Asset related risks

The Pension Fund's investment assets comprise properties, shares and equity funds, private equity funds and both long-term and short-term money market investments. The Pension Fund's investment policy defines the investment restrictions pertaining to classes of assets and the allowed investees. The investment plan, annually confirmed by the Pension Fund board, sets the investment allocation and return targets for the year ahead. The objective of investing activity is to secure a return on the investments and their convertibility into cash, as well as ensuring appropriate diversity and diversification of investments. On an annual basis, the objective is to exceed the Pension Fund's obligation expenses and costs, so that contributions need not be charged to the members. The long-term target return on investment activity is 5.0%. The risks involved in investment activity are managed by continuously monitoring market developments and analysing the adequacy of the return and risk potential of the investments. The returns compared to chosen reference indices and the breakdown of investments are reported on a monthly basis. In 2017, the realised return on investing activity was 3.8%.

If the return on investment assets underperforms the discount rate applied to the calculation of the present value of defined pension obligation, a deficit in the plan may arise. The diversification of assets is aimed to reduce this risk in varying financial conditions. If a deficit is created in the pension plan, such that the pension obligation is not fully covered, Pension Fund members are obligated to pay contributions to the Fund in order to cover the obligation. Calculated in compliance with the IAS 19 standard, the amount of plan assets exceeded the plan obligation by €206.9 million as at 31 December 2017. Local rules concerning the Pension Fund may also create a contribution obligation in situations in which the IAS 19 obligation is fully covered. In such a case, the amount of contributions charged increases the amount of pension assets according to IAS 19.

Obligation related risks

In addition to the general level of interest rates, the defined benefit obligation is impacted by changes in the statutory pension provision, future salary increases, index-based pension increases and changes in life expectancy. The pension promise made to the Fund's beneficiaries is tied to the amount of pensionable salary and it is a lifelong benefit. The total pension amount consists of the statutory pension and the supplementary pension provided by the Fund. Salary increases will increase the future pension amount. Changes in statutory pension provision, such as an increase in the retirement age or a reduction of pension provision, which are compensated to pensioners by the supplementary pension and, consequently, the changes would increase the defined benefit obligation. The amount of future pensions is adjusted annually with an index-based increase in accordance with the terms and conditions of the plan. The extension of life expectancy will result in an increase in plan obligation.

Changes in the general level of interest rates and the market yield of high-quality bonds have an impact on the present value of the defined benefit obligation. When the level of interest rates falls, the present value of the defined benefit obligation rises. Because the Pension Fund's investment assets are invested and their return targets are set for long terms, changes in the annual return on investments do not necessarily correlate in the short term with changes in the discount rate applied to the defined benefit obligation.

Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the principal assumptions is presented in the following table.

Actuarial assumption	Change in assumption	Impact on defined benefit obligation, increase	Impact on defined benefit obligation, decrease
2017			
Discount rate	0.50 %	-6.80%	7.60%
Salary growth rate	0.50 %	1.30%	-1.20%
Pension growth rate	0.50 %	6.00%	-5.50%
2016			
Discount rate	0.50%	-7.30%	8.30%
Salary growth rate	0.50%	1.50%	-1.40%
Pension growth rate	0.50%	6.40%	-5.80%

The impacts of sensitivity analysis have been calculated so that the impact of a change in the assumption is calculated while assuming that all other assumptions are constant. In practice, this is unlikely to occur, and changes in some of the assumptions may correlate with each other. The sensitivity of the defined benefit obligation has been calculated using the same method as when calculating the pension obligation recognised within the statement of financial position.

3.9 Shares in associates and joint ventures

Associates and joint ventures

Associates and joint ventures are handled as equity accounted investments.

€ million	2017	2016
Carrying amount as at 1 January	107.9	99.2
Share of the net profit for the financial year	0.9	-1.3
Additions	8.6	9.9
Carrying amount as at 31 December	**117.4**	**107.9**

The shares in associates and joint ventures are not quoted publicly.

Disclosures on associates and joint ventures and the Group's ownership interest in their aggregated assets, liabilities, net sales and net profits/losses:

The joint ventures consolidated using the equity method, Kruunuvuoren Satama Oy and Mercada Oy, own properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies and the Lithuanian UAB Mokilizingas provides consumer financing to local consumers. Hehku Shop Ltd is a joint venture established by Kesko and Oriola in June 2017 to create a chain of health, beauty and wellbeing stores in Finland. The other associates mainly comprise business property companies which have leased their properties for use by Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

2017 € million	Assets	Liabilities	Net sales	Net profit for the financial year	Ownership interest, %
Mercada Oy, Helsinki	686.5	613.7	50.1	26.2	33.3
Kruunuvuoren Satama Oy, Helsinki	252.6	124.1	12.3	6.8	49.0
UAB Mokilizingas, Vilnius, Lithuania	54.2	45.4	5.9	1.6	12.8
Hehku Shop Ltd, Espoo	1.8	0.8	-	-2.3	50.0
Valluga-sijoitus Oy, Helsinki	32.2	0.0	-	2.3	46.2
Vähittäiskaupan Takaus Oy, Helsinki	94.1	0.6	1.5	6.8	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	7.6	1.8	9.6	0.3	30.0
Others	4.6	3.3	0.2	0.0	
Total	**1,133.5**	**789.6**	**79.6**	**41.6**	

2016 € million	Assets	Liabilities	Net sales	Net profit for the financial year	Ownership interest, %
Mercada Oy, Helsinki	671.7	633.5	48.3	6.0	33.3
Kruunuvuoren Satama Oy, Helsinki	257.3	135.5	12.9	8.5	49.0
UAB Mokilizingas, Vilnius, Lithuania	39.4	32.6	5.9	1.9	12.8
Valluga-sijoitus Oy, Helsinki	30.2	0.3	0.0	2.7	46.2
Vähittäiskaupan Takaus Oy, Helsinki	86.8	0.3	1.4	7.4	34.3
Vähittäiskaupan Tilipalvelu VTP Oy, Helsinki	7.2	1.7	9.1	0.0	30.0
Others	4.4	3.1	0.2	0.0	
Total	**1,097.0**	**806.9**	**77.8**	**26.4**	

Mutual real estate companies

The figures in the table below are the Group's share of real estate companies' assets and liabilities and net profit, included in the consolidated statement of financial position and income statement. Mutual real estate companies have been handled as common functions.

€ million	2017	2016
Non-current assets	36.2	36.5
Current assets	0.9	0.7
Total	37.1	37.2
Non-current liabilities	2.2	2.5
Current liabilities	5.3	5.2
Total	7.5	7.7
Net assets	29.6	29.5
Income	2.3	2.7
Costs	3.5	3.9
Net profit	**-1.2**	**-1.2**

3.10 Provisions

Accounting policies

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 lease contracts.

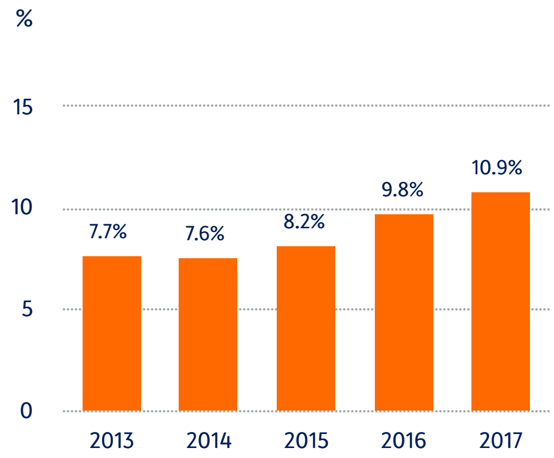
A warranty provision is recognised when a product covered by warranty provisions is sold. The provision amount is based on historical experience about the level of warranty expenses. Leases become onerous and a provision is recognised for them, if the leased premises remain vacant, or if they are subleased 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.

€ million	Onerous leases	Warranty provisions	Other provisions	Total
Provisions as at 1 Jan. 2017	12.3	24.9	18.6	55.8
Foreign exchange effects		0.0		0.0
Additional provisions	9.9	13.7	12.8	36.4
Unused amounts reversed	0.0	-12.0	-4.8	-16.8
Amounts charged against provision	-14.6	-0.9	-3.6	-19.1
Changes in the Group structure			0.4	0.4
Provisions as at 31 Dec. 2017	7.6	25.6	23.5	56.7
Analysis of total provisions				
Non-current		13.2	11.9	25.1
Current	7.6	12.4	11.5	31.6

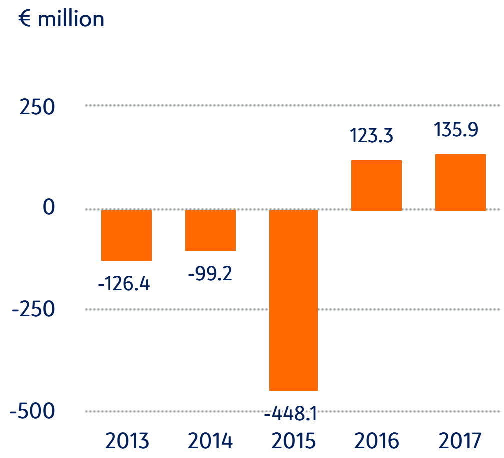
The provisions for onerous leases relate to lease liabilities for premises vacated from the Group's operating activities, and to net rental losses on subleased premises. A provision has been recognised for warranties and care plans of vehicles and machines sold by the Group companies. The provision amount is based on experience of realised warranty obligations in previous years.

4. Capital structure and financial risk

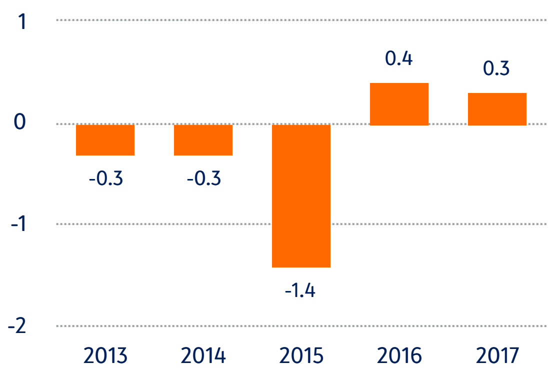
Comparable return on equity



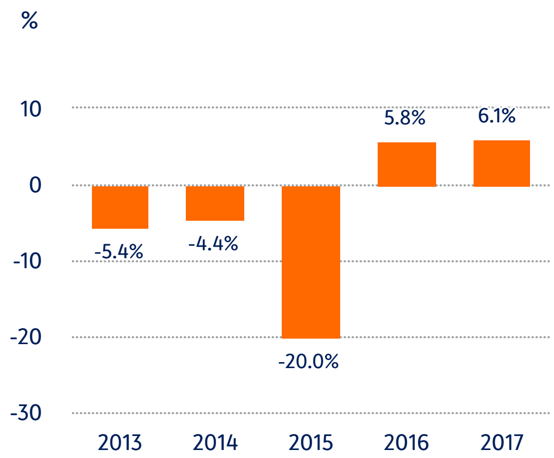
Interest-bearing net debt



Interest-bearing net debt/EBITDA



Gearing



4.1 Capital structure management

Kesko Group's objectives in capital management include target rates set for the Group's solvency and liquidity. The Group's capital structure (equity-to-debt ratio) is managed at Group level. The targets 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 Group strategy, and increasing shareholder value. The targets have been set for the performance indicator '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 rate. The Group does not have a credit rating from any external credit rating institution.

The target levels for Kesko Group's performance indicators are approved by the Board of Directors. On 26 May 2015, the Board approved, as a part of the Group's medium term financial objectives, the following values for the performance indicators: 'comparable return on capital employed', 'comparable return on equity' and 'interest-bearing net debt/EBITDA'.

	Target level	Level achieved in 2017	Level achieved in 2016
Comparable return on capital employed	14%	12.2	11.9
Comparable return on equity	12%	10.9	9.8
Interest-bearing net debt/EBITDA	< 2,5	0.3	0.4

€ million	**2017**	**2016**
Interest-bearing liabilities	533.9	514.6
- Financial assets at fair value through profit or loss	171.0	93.3
- Available-for-sale financial assets	94.2	156.8
- Cash and cash equivalents	132.7	141.3
Interest-bearing net debt	**135.9**	**123.3**
Operating profit	324.6	146.8
+ depreciation, amortisation and impairment	153.7	161.6
EBITDA	478.3	308.4
Interest-bearing net debt/EBITDA	**0.3**	**0.4**

Gearing, %

$$\frac{\text{Interest-bearing net debt x 100}}{\text{Equity}}$$

4.2 Shareholders' equity

Accounting policies

The Group classifies the instruments it has issued either in equity or in financial liabilities based on their nature. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Expenses related to the issuance or acquisition of equity instruments are presented as an allowance for equity. If Kesko Corporation acquires equity instruments of its own, their cost is deducted from equity.

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

At the end of December 2017, the total number of Kesko Corporation shares was 100,019,752, of which 31,737,007, or 31.7%, were A shares and 68,282,745, or 68.3%, were B shares. 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, so that the total number of shares is 400 million at maximum. Each A share carries ten (10) votes and each B share one (1) vote. The total number of votes attached to all shares was 385,652,815. At the end of December 2017, Kesko Corporation's share capital was €197,282,584.

Changes in share capital

Share capital	Number of shares A	B	Total	Share capital € million	Reserve of invested non-restricted equity € million	Share premium € million	Total € million
1 January 2016	31,737,007	67,405,168*	99,142,175*	197.3	22.8	197.8	417.8
Transfer of treasury shares		131,468	131,468				
31 December 2016	31,737,007	67,536,636*	99,273,643*	197.3	22.8	197.8	417.8
Transfer of treasury shares		182,972	182,972				
31 December 2017	**31,737,007**	**67,719,608***	**99,456,615***	**197.3**	**22.8**	**197.8**	**417.8**
Number of votes	**317,370,070**	**67,719,608**	**385,089,678**				

* Excluding treasury shares which totalled 563,137 (746,109) at the end of the financial year.

Treasury shares

Authorised by the General Meeting, the Board of Directors acquired a total of 1,200,000 of the Company's own B shares in the financial years 2011 and 2014. The shares are held by the Company as treasury shares and the Company Board is entitled to transfer them. The acquisition cost of the shares held by the Company, €23.5 million, has been deducted from retained earnings in equity. Information on share-based payments has been given in note 5.4.

	pcs
B shares held by the Company as at 31 Dec. 2016	**746,109**
Transfer, share-based compensation plan	-192,822
Returned during the period	9,850
B shares held by the Company as at 31 Dec. 2017	**563,137**

Dividends

After the balance sheet date, the Board of Directors has proposed that €2.20 per share be distributed as dividends. A dividend of €2.00 per share was distributed on the profit for 2016.

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 net of 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 share received by the Company in connection with share subscriptions was recorded in the share premium in cases where options had been granted under the old Limited Liability Companies Act (29 Sept. 1978/734). As at the end of the financial year, the share premium was €197.8 million.

Reserve of invested non-restricted equity

The reserve of invested non-restricted equity, €22.8 million, 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, a total of €244.2 million, have mainly been created and increased as a result of resolutions by the General Meeting. Other reserves mainly comprise contingency reserves to a total amount of €242.3 million at the end of the financial year.

Currency translation differences

Currency translation differences arise from the translation of foreign operations' financial statements. Gains and losses arising from net investment hedges in foreign operations are also included in currency translation differences, provided they qualify for hedge accounting. The change in currency translation differences 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 of derivatives for which cash flow hedge accounting is applied. 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. The result of cash flow hedging has been presented in note 4.3 Financial risks.

4.3 Financial risks

With respect to financial risk management, the Group observes a uniform treasury policy that has been approved by the Company's Board of Directors. Compliance with this policy and developments in the Group's financial situation are monitored by the Board's Audit Committee. The 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 have been obtained through the parent company, and the 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.

Foreign exchange risks

Kesko Group conducts business operations in nine countries, in addition to which it makes purchases from numerous countries. In consequence, the Group is exposed to various foreign exchange risks arising from net investments in foreign operations (translation risks) and from assets, liabilities and forecast transactions (transaction risks) denominated in foreign currencies.

The Group companies' financial resources are arranged in their functional currencies. The parent company bears the ensuing foreign exchange risk and hedges the risk exposure using derivatives or borrowings denominated in the relevant foreign currencies. The Belarusian currency BYN is not a freely convertible currency and hedging the associated exposure to foreign exchange risk is not possible.

Translation risks

The Group is exposed to foreign currency translation risks relating to net investments in subsidiaries outside the euro zone held on the balance sheet. This balance sheet exposure has not been hedged. The hedge can be designated if equity is repatriated, or if a currency is expected to be exposed to a significant devaluation risk. The most significant translation exposures are the Swedish krona, the Russian rouble and the 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 foreign currency translation risk is low.

As of 1 January 2017, the functional currency of Russian real estate companies has been the rouble.

Group's translation exposure as at 31 Dec. 2017 € million	NOK	SEK	RUB	PLN	BYN
Net investment	82.1	85.0	140.9	22.6	8.7

Group's translation exposure as at 31 Dec. 2016 € million	NOK	SEK	RUB	PLN	BYN
Net investment	80.1	96.1	67.9	24.4	7.0

The following table shows how a 10% change in the Group companies' functional currencies would affect the Group's equity.

Sensitivity analysis, impact on equity as at 31 Dec. 2017 € million	NOK	SEK	RUB	PLN	BYN
Change +10%	-7.5	-7.7	-12.8	-2.1	-0.8
Change -10%	9.1	9.4	15.7	2.5	1.0

Sensitivity analysis, impact on equity as at 31 Dec. 2016 € million	NOK	SEK	RUB	PLN	BYN
Change +10%	-7.3	-8.7	-6.2	-2.2	-0.6
Change -10%	8.9	10.7	7.5	2.7	0.8

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 exposure comprises foreign currency denominated receivables and liabilities in the balance sheet, forecast foreign currency cash flows, 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 using foreign currency derivatives. The subsidiaries report their foreign exchange exposures to the Group Treasury on a monthly basis.

In the main, the subsidiaries hedge their risk exposures with the Group Treasury, which in turn hedges risk exposures using market transactions within the limits confirmed for each currency. Intra-Group derivative contracts 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 fair value and subsequently in the financial statements, they are remeasured at fair value. The change in fair value of foreign currency derivatives used for hedging purchases and sales is recognised in other operating income or expenses.

The Group monitors the transaction risk exposure in respect of existing balances and forecast cash flows. The following table analyses the transaction exposure excluding future cash flows. The presentation does not illustrate the Group's actual foreign exchange risk after hedgings. When forecast amounts are included in the transaction exposure, the most significant difference from the table below is in the USD exposures. As at 31 December 2017, the exposure with respect to USD was €-26 million.

Group's transaction exposure as at 31 Dec. 2017 € million	USD	SEK	NOK	PLN	RUB	BYN
Group's transaction risk	-6.2	7.6	2.8	27.8	11.3	14.5
Hedging derivatives	21.7	-9.1	-4.6	-14.4	-8.6	
Open exposure	**15.5**	**-1.5**	**-1.8**	**13.5**	**2.7**	**14.5**

Group's transaction exposure as at 31 Dec. 2016 € million	USD	SEK	NOK	PLN	RUB	BYN
Group's transaction risk	-3.9	16.6	22.6	16.6	32.1	1.8
Hedging derivatives	31.3	-12.0	-18.2	-9.1	-19.6	
Open exposure	**27.4**	**4.6**	**4.4**	**7.5**	**12.5**	**1.8**

A sensitivity analysis of the transaction exposure shows the impact on profit or loss of a +/-10% exchange rate change in intra-Group receivables and liabilities denominated in foreign currencies and foreign currency derivatives and borrowings used for hedging.

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2017 € million	USD	SEK	NOK	PLN	RUB	BYN
Change +10%	-1.4	0.1	-0.5	-1.2	-0.2	-1.3
Change -10%	1.7	-0.2	0.6	1.5	0.3	1.6

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2016 € million	USD	SEK	NOK	PLN	RUB	BYN
Change +10%	-2.5	-0.4	-0.4	-0.7	-1.1	-0.2
Change -10%	3.0	0.5	0.5	0.8	1.4	0.2

Liquidity risk

Liquidity risk management aims to maintain sufficient liquid assets and credit facilities in order to ensure the ongoing availability of sufficient financial resources for the Group's operating activities.

The Group's solvency was excellent throughout the financial year 2017. As at 31 December 2017, liquid assets totalled €398 million (€391 million). Interest-bearing liabilities were €534 million (€515 million) and interest-bearing net debt €136 million (€123 million) as at 31 December 2017.

	31 Dec. 2017				31 Dec. 2016			
€ million	**< 1 year**	**1-5 years**	**> 5 years**	**Total**	**< 1 year**	**1-5 years**	**> 5 years**	**Total**
Maturities of financial liabilities and related finance costs								
Borrowings from financial institutions	**6.4**	**8.9**	**0.1**	**15.5**	**5.0**	**2.3**		**7.3**
finance costs	0.8	1.1	0.0	1.9	0.0	0.1		0.1
Private Placement notes (USD)		**20.0**		**20.0**		**22.0**		**22.0**
finance costs	1.3	0.6		1.9	1.4	2.1		3.6
Bonds	**224.8**			**224.8**		**225.0**		**225.0**
finance costs	6.2			6.2	6.2	6.2		12.4
Pension loans	**10.5**	**66.2**	**26.9**	**103.5**	**2.4**	**60.4**	**43.1**	**105.9**
finance costs	1.0	2.5	0.6	4.1	1.1	3.1	1.0	5.3
Finance lease liabilities	**3.5**	**7.5**	**0.1**	**11.0**	**2.9**	**5.7**	**0.0**	**8.6**
finance costs	0.1	0.2	0.0	0.3	0.3	0.4	0.0	0.7
Payables to K-retailers	**113.3**			**113.3**	**116.0**			**116.0**
finance costs								0.0
Other interest-bearing liabilities	**37.8**	**1.7**	**6.5**	**46.0**	**29.6**			**29.6**
finance costs	0.3	1.1	0.1	1.6				0.0
Non-current non-interest-bearing liabilities	**0.8**	**4.0**	**26.5**	**31.2**	**0.7**	**12.3**	**27.2**	**40.2**
Current non-interest-bearing liabilities								
Trade payables	**1,023.7**			**1,023.7**	**1,069.2**			**1,069.2**
Accrued expenses	**308.5**			**308.5**	**316.2**			**316.2**
Other non-interest-bearing liabilities	**188.6**			**188.6**	**191.6**			**191.6**

Financial liabilities in the balance sheet include €3.4 million (€6.5m) in items related to derivatives.

€ million	31 Dec. 2017 < 1 year	1–5 years	> 5 years	Total	31 Dec. 2016 < 1 year	1–5 years	> 5 years	Total
Cash flows of derivatives								
Payables								
Foreign exchange forward contracts outside hedge accounting	78.1			78.1	175.4			175.4
Net settlement of payables								
Interest rate derivatives	0.2	1.3		1.5				
Electricity derivatives	0.6			0.6	1.2	0.8		2.0
Foreign currency derivatives		0.1		0.1	1.5	2.1		3.6
Receivables								
Foreign exchange forward contracts outside hedge accounting	76.2			76.2	172.4			172.4
Net settlement of receivables								
Electricity derivatives	0.2	0.2		0.4	0.2	0.1		0.3
Derivatives relating to Private Placement notes								
Foreign currency derivatives								0.0
Interest rate derivatives	0.2	0.1		0.3		1.5		1.5

The cash flows of Private Placement notes and related currency and interest rate derivatives are settled on a net basis. The interest rate derivative liability related to the arrangement is presented within other interest-bearing liabilities in the statement of financial position. The amount of interest-bearing liability in the balance sheet arising from this credit facility totals €20.1 million (€20.1 million).

The terms and conditions of the Private Placement credit facility and the committed facilities include ordinary financial covenants. The requirements of these covenants have been met. The borrowing terms include a financial covenant defining the ratio between net debt and EBITDA, which remained far from the maximum throughout the financial year. At change of control, Kesko is obligated to offer a repayment of the whole loan capital to the note holders. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control.

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 retrospective discounts given to retailers and the terms vary from one chain to another.

At the balance sheet date, the total equivalent of undrawn committed long-term credit facilities was €200.0 million (€150.0 million). According to the terms and conditions of loan agreements, at change of control, the lenders have the right to terminate the credit facility and loan amounts possibly drawn. According to the terms and conditions of the loan facility, the change of ownership to retailers or an association of retailers does not constitute a change of control. In addition, the Group's uncommitted financial resources available contained commercial paper programmes denominated in euros totalling an equivalent of €449 million (€449 million). In addition, in January 2018, the Group companies held a total of €334.1 million available for re-borrowing in a pension insurance company. Part of the pension insurance premiums paid annually by the Group companies are funded and the accumulated funds can be re-borrowed with a term of 1–10 years in accordance with regulations confirmed by the Ministry of Social Affairs and Health. Any amount of borrowing requires the posting of adequate collateral.

Interest rate risk on borrowings and sensitivity analysis

Changes in the interest rate level have an impact on the Group's interest expense. The policy for hedging interest rate risk is aimed at balancing the effects of changes in the interest rate level on profit or loss for different financial periods.

The interest rate risk is centrally managed by the Group Treasury, which adjusts the duration by using interest rate derivative contracts. The target duration is three years, which is allowed to vary between one and a half and four years. The actual duration during the financial year was 1.8 (1.9) 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 it will be due for payment on 11 September 2018.

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, of which USD 60 million was paid on 10 June 2014, USD 36 million was paid on 10 June 2016 and USD 24 million will be due on 10 June 2019.

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 amounts and 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.

The sensitivity analysis for changes in interest rate level in respect of commercial paper liabilities realised during the financial year has used average balance values. At the balance sheet date of 31 December 2017, the effect of variable rate borrowings on the pre-tax profit would have been €-/+1.7 million (€-/+2.0 million), if the interest rate level had risen or fallen by 1 percentage point.

The bond, Private Placement notes and pension loans, €348.4 million in aggregate, have fixed rates, and their effective interest cost was 2.6%. 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%. Most of the borrowings are euro-denominated and the Private Placement notes are USD-denominated.

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 deposits with banks operating in Kesko’s market area, in bonds of selected companies and in corporate bond funds. The return on these investments for 2017 was 1.0% (1.7%) and the duration was 0.9 years at the end of the financial year. The maximum credit risk is the fair value of these investments in the balance sheet at the balance sheet date. The table below analyses financial instruments carried at fair value by valuation method.

Fair value hierarchy of financial assets and liabilities	Fair value as at 31 Dec. 2017			
€ million	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Money market funds	159.9			159.9
Commercial papers		6.0		6.0
Bank certificates of deposit and deposits		5.0		5.0
Total	**159.9**	**11.0**		**171.0**
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		0.7		0.7
Derivative financial liabilities		3.4		3.4
Available-for-sale financial assets				
Private equity funds and other shares and interests			23.0	23.0
Commercial papers (maturing in less than 3 months)		37.5		37.5
Bonds and corporate bond funds	56.8			56.8
Total	**56.8**	**37.5**	**23.0**	**117.3**

Fair value hierarchy of financial assets and liabilities € million	Fair value as at 31 Dec. 2016 Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Money market funds	59.8			59.8
Commercial papers		28.5		28.5
Bank certificates of deposit and deposits		5.0		5.0
Total	**59.8**	**33.5**		**93.3**
Derivative financial instruments at fair value through profit or loss				
Derivative financial assets		4.4		4.4
Derivative financial liabilities		6.6		6.6
Available-for-sale financial assets				
Private equity funds and other shares and interests			15.1	15.1
Commercial papers (maturing in less than 3 months)		53.5		53.5
Bank certificates of deposit and deposits (maturing in less than 3 months)		6.0		6.0
Bonds and corporate bond funds	97.3			97.3
Total	**97.3**	**59.5**	**15.1**	**171.9**

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 value of level 3 instruments is not based on observable market data (inputs not observable).

Changes in level 3 instruments € million	2017	2016
Private equity funds and other shares and interests as at 1 January	15.1	15.3
Purchases	9.3	0.6
Refunds received	-0.5	-1.3
Gains and losses through profit or loss	-0.4	0.6
Changes in fair values	-0.6	-0.1
Private equity funds and other shares and interests as at 31 December	**23.0**	**15.1**

Level 3 includes private equity funds and other shares and interests. These investments have been classified as non-current available-for-sale financial assets. Level 3 financial assets are measured based on computations received from the companies. An income of €1.6 million has been recorded on these investments for the financial year 2017.

Current interest-bearing receivables and sensitivity analysis

The objective is to invest liquidity consisting of financial assets in the money markets 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 the Group Treasury. The risks and actual returns on investments are monitored regularly.

Current available-for-sale financial assets € million	2017	2016
Carrying amount as at 1 January	156.8	371.7
Changes	-62.9	-215.7
Changes in fair value	0.3	0.7
Carrying amount as at 31 December	**94.2**	**156.8**

The available-for-sale financial assets include current investments in commercial papers, certificates of deposits and other interest rate instruments.

In the sensitivity analysis of floating rate receivables, average annual balances of invested assets have been used. The receivables include customer financing receivables, finance lease receivables, other interest-bearing receivables, and within investments, commercial papers and money market funds. The sensitivity of money market funds has been determined based on duration. If the interest rate level had changed by +/-1 percentage point, the effect of these items on the pre-tax profit would have been €+/-2.3 million (€+/-2.0 million) and €+/-1.3 million (€+/-1.7 million) on equity at the balance sheet date.

Maturity of non-current receivables

Maturity analysis of non-current receivables as at 31 Dec. 2017 € million	2019	2020	2021	2022	2023–	Total
Non-interest-bearing non-current receivables	2.2	0.1	0.0		0.4	2.7
Loans and receivables from associates and joint ventures	0.0				57.5	57.5
Other non-current receivables	0.0	0.0	0.0	0.0	5.0	5.1
Total	**2.3**	**0.1**	**0.0**	**0.0**	**62.9**	**65.4**

The carrying amount of non-interest-bearing non-current receivables equals their fair value.

Maturity analysis of non-current receivables as at 31 Dec. 2016 € million	2018	2019	2020	2021	2022–	Total
Non-interest-bearing non-current receivables	1.4	0.0		0.2	0.4	1.8
Loans and receivables from associates and joint ventures	1.5				56.0	57.5
Other non-current receivables	0.3	2.9	0.0	0.0	0.0	3.3
Total	**3.2**	**2.9**	**0.0**	**0.2**	**56.4**	**62.6**

Credit and counterparty risk

The divisions' business entities are responsible for the management of the 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 collection 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 as at 31 December was as follows:

Ageing analysis of trade receivables € million	2017	2016
Trade receivables fully performing	742.2	731.1
1–7 days past due trade receivables	32.3	49.6
8–30 days past due trade receivables	22.5	18.6
31–60 days past due trade receivables	12.0	5.9
over 60 days past due trade receivables	27.1	26.0
Total	**836.0**	**831.2**

Within trade receivables, €346.9 million (€355.7 million) were from chain retailers. 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 countersecurity from the K-retailer's company and its entrepreneur to Vähittäiskaupan Takaus Oy. At the end of the financial year, the aggregate value of countersecurities was €211.5 million (€224.1 million). In addition, the collateral for receivables includes other collaterals, such as business mortgages and other pledged assets.

Trade receivables include an impairment charge to a total of €23.2 million (€24.6 million) monitored on a separate allowance account. The original balance sheet value of these trade receivables was €37.2 million (€35.2 million). The aggregate amount of credit losses and impairments recognised in the profit for the financial year was €5.2 million (€6.7 million).

The amount of receivables with renegotiated terms totalled €5.9 million (€3.1 million).

Financial credit risk

Financial instruments involve the risk of non-performance by counterparties. Kesko enters into foreign currency and other derivative contracts only with creditworthy banks. Liquid funds are invested, in accordance with limits set annually for each counterparty, in instruments with good creditworthiness. Company and bank-specific euro and time limits are set for money market investments. These limits are reviewed during the year depending on the market situation.

Commodity risks and their sensitivity analysis

The Group uses electricity derivatives for the purpose of balancing out energy costs.
The electricity price risk is assessed for five-year periods. The changes in the fair values 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.

Result of cash flow hedging

As a result of hedge accounting applied to electricity, an amount of €1.1 million (€1.8 million) was removed from equity and included in the income statement as purchase cost adjustment, and €-0.1 million (€1.4 million) was recognised in equity, respectively. Their combined effect on the revaluation reserve for the year was €1.0 million (€3.2 million) before accounting for deferred tax assets.

A fair value change of €-0.3 million (€-0.1 million) was recognised in equity for the USD-denominated Private Placement facility before accounting for deferred taxes. In addition, a €0.2 million (€0.3 million) interest expense adjustment for interest rate derivatives was recognised in the income statement.

At the end of the year, the ineffective portion of derivatives hedging the price risk of electricity was €-0.2 million (€-0.6 million).

As at the balance sheet date, a total quantity of 268,656 MWH (463,460 MWH) of electricity had been purchased with electricity derivatives and 657,384 MWH under fixed price purchase agreements. The 1–12 month hedging level was 77% (71%), the 13–24 month level was 50% (43%), the 25–36 month level was 39% (16%), and the 37–48 month level was 25% (3%).

The sensitivity analysis of electricity derivatives assumed 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 2017, it would contribute €-/+1.0 million (€-/+1.5 million) to the 2018 income statement and €-/+0.3 million (€-/+0.7 million) to equity. The impact has been calculated before tax.

Derivatives

Fair values of derivative contracts € million	31 Dec. 2017 Positive fair value (balance sheet value)	31 Dec. 2017 Negative fair value (balance sheet value)	31 Dec. 2016 Positive fair value (balance sheet value)	31 Dec. 2016 Negative fair value (balance sheet value)
Interest rate derivatives	1.7	-1.9	2.7	-2.8
Foreign currency derivatives	0.4	-2.3	4.2	-4.6
Electricity derivatives	0.3	-0.6	0.2	-2.0

Notional principal amounts of derivative contracts € million	31 Dec. 2017 Notional principal amount	31 Dec. 2016 Notional principal amount
Interest rate derivatives	250.2	40.2
Foreign currency derivatives	96.8	197.8
Electricity derivatives	6.2	11.2

The derivative contracts include interest rate swaps relating to a foreign currency borrowing facility with a gross notional principal amount of €40.2 million and a fair value of €-0.4 million (€-0.1 million), and currency swaps with a notional principal amount of €20.1 million and a fair value of €-0.1 million (€2.7 million).

The fair values of derivatives are presented as gross amounts. Kesko has entered into netting arrangements under ISDA contracts with all counterparties engaged in transactions with derivatives. All of these contracts provide for mutual posting of collateral. The threshold level for collateral posting had not been exceeded at the balance sheet date. Analysed by counterparty, derivative financial liabilities could be set off in a total of €0.5 million.

The maximum credit risk from derivatives is the fair value of the balance sheet at the reporting date.

4.4 Finance income and costs

€ million	2017	2016
Interest income and other finance income		
Interest income on loans and receivables	10.0	11.3
Interest income on financial assets at fair value through profit or loss	0.3	0.7
Interest income on available-for-sale financial assets	1.2	1.6
Gains on disposal of available-for-sale financial assets	2.6	1.0
Other finance income	4.5	0.4
Total interest income and other finance income	18.6	15.0
Interest expense and other finance costs		
Interest expense on financial liabilities at amortised cost	-11.3	-10.8
Losses on disposal of available-for-sale financial assets	0.0	0.0
Other finance costs	-2.5	-0.8
Total interest expense and other finance costs	-13.8	-11.6
Exchange differences		
Exchange differences and changes in fair values of derivatives, borrowings denominated in foreign currencies not qualifying for hedge accounting, and cash at bank	-3.3	-4.4
Total exchange differences	-3.3	-4.4
Total finance income and costs	1.5	-1.0

The interest expense includes €0.3 million (€0.1 million) of interests on finance leases recognised as expenses for the period.

The realised result of interest rate derivatives used for hedging a USD-denominated Private Placement credit facility is recognised in net terms in interest expense with the loan interest.

4.5 Financial assets and liabilities by category

Accounting policies

Financial assets

The Group classifies its financial assets into the following categories:
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- loans and receivables

The classification at initial recognition depends on the purpose for which the financial asset was acquired.

Regular way purchases or sales of financial assets are recognised on trade date. Financial assets are classified as non-current, if they have a maturity of more 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 in the balance sheet when the rights to receive cash flows 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 date of the financial statements, 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 financial assets exceeds the recoverable amount. Impairment losses are recognised within the financial items of the income statement.

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 money market funds, as well as investments in other interest-bearing instruments with maturities of over three months, as defined by the Group's treasury policy. The interest income from these financial assets and changes in their fair values, as well as any commissions returned by the funds are presented on a net basis in the interest income of the relevant class in the income statement.

In addition, financial assets at fair value through profit or loss include all derivatives that do not qualify for hedge accounting in compliance with IAS 39. Derivatives are carried at fair value using prices quoted in active markets. The results of derivatives 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 the changes in their fair values are recognised in equity and 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.

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 changes in fair value recognised in equity are included in other financial income/expenses in the income statement.

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 rate method.

Cash and cash equivalents

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

Financial liabilities

Financial liabilities have initially been recognised at fair value, net of transaction costs. In the financial statements, financial liabilities are measured at amortised cost using the effective interest rate method. Arrangement fees paid on the establishment of loan facilities and financial liabilities are amortised over the period of the facility to which it relates. Financial liabilities having maturities of more 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

When derivative contracts are entered into, they are recognised at fair value and in the financial statements, they are re-measured at their fair value. The recognition of changes in the fair value of derivatives depends on whether the derivative instrument qualifies for hedge accounting or not 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 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 foreign exchange risk are recognised in profit or loss within other operating income or expenses. Concerning derivatives hedging financial transactions, the amount 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, or when 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 foreign exchange forward contracts is determined by measuring the forward contracts at the forward rate at the balance sheet date. Currency options are measured using the counterparty's price quotation, but the Group also verifies the price by applying 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 foreign operations

During the financial year, the Group has not hedged net investments in foreign operations. If a hedge is initiated, the Group applies hedge accounting in accordance with IAS 39 to hedge foreign currency net investments in foreign operations. Foreign exchange forward contracts or foreign currency borrowings are used as hedging instruments. Spot price changes in foreign exchange forward contracts are recognised in translation differences under equity, and disclosed in other comprehensive income. The premiums of forward contracts are recognised as income under financial items. The exchange difference of foreign currency borrowings is recognised in translation differences under equity. When a foreign operation is partially or wholly disposed of or wound up, cumulative gains or losses from the 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 Kesko Group, embedded derivatives can be included in binding 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.

As at 31 December 2017

Balance, € 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 used for hedging	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial assets							
Available-for-sale financial assets			**23.0**			**23.0**	**23.0**
Non-current non-interest-bearing receivables		2.6				2.6	2.6
Derivatives					0.1	0.1	0.1
Total non-current non-interest-bearing receivables		**2.6**			**0.1**	**2.7**	**2.7**
Total non-current interest-bearing receivables		**62.7**				**62.7**	**62.7**
Total non-current financial assets		**65.3**	**23.0**		**0.1**	**88.4**	**88.4**
Current financial assets							
Trade and other non-interest-bearing receivables		1,031.8				1,031.8	1,031.8
Derivatives	0.4				0.2	0.6	0.6
Total trade and other non-interest-bearing receivables	**0.4**	**1,031.8**			**0.2**	**1,032.4**	**1,032.4**
Interest-bearing receivables		**1.5**				**1.5**	**1.5**
Financial assets at fair value through profit or loss	171.0					171.0	171.0
Available-for-sale financial assets			94.2			94.2	94.2
Total current financial assets	**171.3**	**1,033.3**	**94.2**		**0.2**	**1,299.1**	**1,299.1**
Carrying amount by category	**171.3**	**1,098.6**	**117.3**		**0.3**	**1,387.5**	**1,387.5**

Balance, € 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 used for hedging	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial liabilities							
Non-current interest-bearing liabilities				129.2		129.2	132.8
Derivatives					0.1	0.1	0.1
Total non-current interest-bearing liabilities				**129.2**	**0.1**	**129.3**	**132.9**
Non-current non-interest-bearing liabilities				31.0		31.0	31.0
Derivatives					0.4	0.4	0.4
Total non-current non-interest-bearing liabilities				**31.0**	**0.4**	**31.4**	**31.4**
Total non-current financial liabilities				**160.2**	**0.5**	**160.7**	**164.3**
Current financial liabilities							
Current interest-bearing liabilities				**404.6**		**404.6**	**403.6**
Trade payables				**1,023.7**		**1,023.7**	**1,023.7**
Other non-interest-bearing liabilities				188.0		188.0	188.0
Derivatives					0.6	0.6	0.6
Total other non-interest-bearing liabilities				**188.0**	**0.6**	**188.6**	**188.6**
Accrued expenses				306.3		306.3	306.3
Derivatives	2.3					2.3	2.3
Total accrued expenses	**2.3**			**306.3**		**308.5**	**308.5**
Total current non-interest-bearing liabilities	**2.3**			**1,517.9**	**0.6**	**1,520.8**	**1,520.8**
Total current financial liabilities	**2.3**			**1,922.5**	**0.6**	**1,925.4**	**1,924.4**
Carrying amount by category	**2.3**			**2,082.7**	**1.1**	**2,086.1**	**2,088.7**

As at 31 December 2016

Balance, € 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 used for hedging	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial assets							
Available-for-sale financial assets			**15.1**			**15.1**	**15.1**
Non-current non-interest-bearing receivables		1.8				1.8	1.8
Derivatives					0.0	0.0	0.0
Total non-current non-interest-bearing receivables		**1.8**			**0.0**	**1.9**	**1.9**
Non-current interest-bearing receivables		58.1				58.1	58.1
Derivatives					2.7	2.7	2.7
Total non-current interest-bearing receivables		**58.1**			**2.7**	**60.8**	**60.8**
Total non-current financial assets		**59.9**	**15.1**		**2.7**	**77.8**	**77.8**
Current financial assets							
Trade and other non-interest-bearing receivables		1,028.0				1,028.0	1,028.0
Derivatives	1.5				0.2	1.7	1.7
Total trade and other non-interest-bearing receivables	**1.5**	**1,028.0**				**1,029.7**	**1,029.7**
Interest-bearing receivables		**3.7**				**3.7**	**3.7**
Financial assets at fair value through profit or loss	93.3					93.3	93.3
Available-for-sale financial assets			156.8			156.8	156.8
Total current financial assets	**94.8**	**1,031.7**	**156.8**		**0.0**	**1,283.5**	**1,283.5**
Carrying amount by category	**94.8**	**1,091.6**	**171.9**		**2.7**	**1,361.3**	**1,361.3**

Balance, € 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 used for hedging	Carrying amounts of assets as per balance sheet	Fair value
Non-current financial liabilities							
Non-current interest-bearing liabilities				**358.7**		**358.7**	**364.8**
Non-current non-interest-bearing liabilities				39.6		39.6	39.6
Derivatives					0.6	0.6	0.6
Total non-current non-interest-bearing liabilities				**39.6**	**0.6**	**40.2**	**40.2**
Total non-current financial liabilities				**398.2**	**0.6**	**398.8**	**405.0**
Current financial liabilities							
Current interest-bearing liabilities				**156.0**		**156.0**	**156.1**
Trade payables				**1,069.2**		**1,069.2**	**1,069.2**
Other non-interest-bearing liabilities				190.2		190.2	190.2
Derivatives					1.3	1.3	1.3
Other non-interest-bearing liabilities				**190.2**	**1.3**	**191.6**	**191.6**
Accrued expenses				311.7		311.7	311.7
Derivatives	4.6					4.6	4.6
Total accrued expenses	**4.6**			**311.7**		**316.2**	**316.2**
Total current non-interest-bearing liabilities	**4.6**			**1,571.1**	**1.3**	**1,577.0**	**1,577.0**
Total current financial liabilities	**4.6**			**1,727.1**	**1.3**	**1,733.0**	**1,733.1**
Carrying amount by category	**4.6**			**2,125.3**	**1.9**	**2,131.8**	**2,138.1**

Prepaid expenses and accrued expenses do not include income tax assets of €11.1 million (€21.2m) or income tax liabilities of €5.6 million (€8.7m).
Prepayments received of €38.5 million(€35.3m) are not categorised as financial liabilities and are not included in the table above.

The fair values of borrowings have been calculated based on the present value of future cash flows using the 0.1%–1.5% market rates of interest of the balance sheet date. The fair value of current interest-bearing liabilities has been estimated to approximately equal their balance sheet value. The maturity structure of non-current borrowings has been presented in note 4.3.

4.6 Finance lease liabilities

Accounting policies

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 of the fair value at the inception date and the present value of minimum lease payments. The lease obligations of finance leases are recorded in interest-bearing liabilities in the balance sheet. Lease payments are recognised as finance costs and a decrease in the liability. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and 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 was executed 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.

	2017			2016		
€ million	**Minimum lease payments**	**Future finance charges**	**Present value of minimum lease payments**	**Minimum lease payments**	**Future finance charges**	**Present value of minimum lease payments**
Lease payments to be paid						
Within 1 year	3.5	0.0	3.5	3.1	0.2	2.9
Later than 1 year and no later than 5 years	7.7	0.3	7.4	6.0	0.6	5.4
Later than 5 years	0.1	0.0	0.1	0.1	0.0	0.0
Total lease payments	**11.3**	**0.3**	**11.0**	**9.1**	**0.7**	**8.4**
Expected sublease payments			-			0.3

Financial lease liabilities mainly comprise cars and warehouse technology leased by the Group from finance companies.

4.7 Lease liabilities

Group as lessee

Minimum lease payments under non-cancellable operating lease agreements:

€ million	2017	2016
Within 1 year	390.9	414.8
Later than 1 year and no later than 5 years	1,283.9	1,344.0
Later than 5 years	1,238.0	1,269.9
Total	2,912.9	3,028.7
Expected future minimum lease payments under non-cancellable sublease agreements	60.2	52.9
Lease and sublease payments recognised for the financial year:		
Minimum lease payments	407.3	423.0
Sublease income	22.3	21.8

The 2017 income statement includes capital lease payments and maintenance rentals on real estate under operating leases, and other rentals to a total amount of €463.7 million (€458.1 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. Some of the property leases contain extension options.

Group as lessor

Minimum lease payments received under non-cancellable operating lease agreements:

€ million	2017	2016
Within 1 year	11.4	10.3
Later than 1 year and no later than 5 years	26.5	18.7
Later than 5 years	19.0	28.5
Total	56.8	57.4
Aggregate contingent rents charged to the income statement	1.4	2.2

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.

4.8 Other contingent liabilities

€ million	2017	2016
Collateral given for own commitments		
Pledges	156.9	124.2
Mortgages	23.3	23.3
Guarantees	6.0	5.1
Other commitments and contingent liabilities	59.8	33.4
Collateral given for others		
Guarantees	0.3	0.3
Other commitments and contingent liabilities	20.5	19.3

The guarantees given do not include guarantees related to the items presented within liabilities in the consolidated statement of financial position or as a lease liability in note 4.7.

Guarantee maturities are €5.6 million in 2018 and €0.6 million in 2019–2022.

5 Other notes

5.1 Group composition

Group composition

Kesko Group has 97 (102) subsidiaries. The Group has the majority of voting rights in all companies. Kesko Group's subgroup, Kesko Senukai, has a material non-controlling interest (see section Material non-controlling interest).

Information about the Group composition as at the balance sheet date:

Division	Country of incorpo-ration	Most significant subsidiaries	Number of wholly-owned subsidiaries 2017	Number of wholly-owned subsidiaries 2016	Number of partly-owned subsidiaries 2017	Number of partly-owned subsidiaries 2016
Grocery trade	Finland	K-Market Oy	26	23	5	4
Building and technical trade	Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia, Belarus	Onninen Group, Kesko Senukai Group	39	52	19	12
Car trade	Finland	VV-Auto Group Oy	6	6	-	-
Others	Finland, Estonia		2	5	-	-

Kesko has simplified its group structure in 2016–2017. In the financial year 2017, Kesko Food Ltd, K-citymarket Oy and Kespro Ltd merged into the Kesko Group parent company Kesko Corporation. In the financial year 2016, K-talouspalvelukeskus Oy, K-Plus Oy, K-instituutti Oy, Rautakesko Ltd, Musta Pörssi Ltd and Keslog Ltd merged into Kesko Corporation.

In addition, the Group has partly owned mutual real estate companies. The Group's subsidiaries, equity-accounted investments and mutual real estate companies consolidated using the proportionate method are listed in note 5.2.

Material non-controlling interest

Kesko Senukai Group, which is part of Kesko Group, has a material non-controlling interest. The subgroup's parent, UAB Kesko Senukai Lithuania, is a subsidiary of Kesko Corporation and it is domiciled in Vilnius, Lithuania. Kesko Group's ownership interest in Kesko Senukai Group is 50.0% increased by one share (50.0 % increased by one share). Kesko Group has the right to nominate the majority of Board members and the Board Chairman. The Board controls the company's operational activities and makes decisions on the use of resources. The share of non-controlling interests of the net profit of Kesko Senukai Group was €8.6 million (€15.3 million) and in equity, the share was €96.7 million (€97.3 million).

The arrangement agreed by Kesko in the autumn of 2015 to centralise the Baltic building and home improvement trade in UAB Senuku Prekybos centras (Senukai) was completed in 2016. The company's name was changed to Kesko Senukai. In the arrangement, Kesko sold the shares in its wholly owned companies responsible for the operations of K-rauta stores in Estonia and Latvia to its subsidiary Senukai, which is majority-owned by Kesko. The Kesko Senukai subgroup operates in Lithuania, Estonia, Latvia and Belarus.

Summarised financial information on subsidiary with material non-controlling interest

€ million	Kesko Senukai Group 2017	Kesko Senukai Group 2016
Current assets	238.8	224.0
Non-current assets	109.7	87.9
Current liabilities	114.1	111.0
Non-current liabilities	31.7	18.0
Net sales	628.9	586.0
Net profit/loss	17.1	25.1
Parent company owners' share of net profit/loss	16.1	22.4
Non-controlling interests' share of net profit/loss	1.0	2.7
Comprehensive income for the period	10.7	24.3
Parent company owners' share of comprehensive income for the period	13.8	22.5
Non-controlling interests' share of comprehensive income for the period	-3.1	1.8
Dividends paid to non-controlling interests	-1.7	-1.1
Net cash generated from operating activities	13.4	14.3
Net cash used in investing activities	-16.8	-26.0
Net cash used in financing activities	17.5	52.5

The amounts above are before intra-Group eliminations.

5.2 Subsidiaries, associates, joint ventures and proportionately consolidated mutual real estate companies

Subsidiaries

Kesko Corporation's fully-owned subsidiaries Kesko Food Ltd, K-citymarket Oy and Kespro Ltd merged into Kesko Corporation on 28 February 2017.

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Ankkuri-Energia Oy	Helsinki	100.00	100.00
Asunto Oy Kirkkonummen Västeruddintie 33	Kirkkonummi	100.00	100.00
Barker-Littoinen Oy	Espoo	100.00	100.00
Byggmakker Handel AS	Oppegård, Norway	100.00	100.00
Fiesta Real Estate AS	Tallinn, Estonia	100.00	100.00
Intersport Finland Ltd	Helsinki	100.00	100.00
Kenkäkesko Ltd	Helsinki	100.00	100.00
Keru Kiinteistöt Oy	Helsinki	100.00	100.00
Kesko Export Oy	Helsinki	100.00	100.00
Kesko Food Russia Holding Oy	Helsinki	100.00	100.00
Kesko Real Estate Latvia SIA	Riga, Latvia	100.00	100.00
Kesko Senukai Lithuania UAB	Vilnius, Lithuania	50.00	50.00
Kiinteistö Oy Furupuro	Vantaa	100.00	100.00
Kiinteistö Oy Helsingin Itäkeskus	Helsinki	100.00	100.00
Kiinteistö Oy Hyvinkään Tuomaankulma	Hyvinkää	100.00	100.00
Kiinteistö Oy Hyvinkään Tuuliankulma	Hyvinkää	100.00	100.00
Kiinteistö Oy Hämeenlinnan Visamäentie 16	Helsinki	100.00	100.00
Kiinteistö Oy Kellokosken Vanha valtie 189	Tuusula	100.00	100.00
Kiinteistö Oy Keravan Alikeravantie 77	Helsinki	100.00	100.00
Kiinteistö Oy Kolmisopentie 3	Kuopio	100.00	100.00
Kiinteistö Oy Kuvernöörintie 8	Helsinki	100.00	100.00
Kiinteistö Oy Lappeenrannan Oksasenkatu 4	Helsinki	100.00	100.00
Kiinteistö Oy Lappeenrannan Rakuunaparkki	Lappeenranta	56.50	56.50
Kiinteistö Oy Liike-Jaako	Rovaniemi	67.88	67.88
Kiinteistö Oy Sarviniitynkatu 4	Kerava	100.00	100.00
Kiinteistö Oy Sunan Hallitalo	Helsinki	100.00	100.00

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Kiinteistö Oy Tarkkaiikka	Oulu	100.00	100.00
Kiinteistö Oy Voisalmen Liiketalo	Helsinki	100.00	100.00
Klintcenter Ab	Maarianhamina	100.00	100.00
K-Market Oy	Helsinki	100.00	100.00
Konekesko Ltd	Helsinki	100.00	100.00
KR Fastigheter AB	Sollentuna, Sweden	100.00	100.00
K-rauta AB	Stockholm, Sweden	100.00	100.00
K-rauta Russia Holding Oy	Helsinki	100.00	100.00
KS Holding UAB	Vilnius, Lithuania	50.01	50.01
Liiketalo Oy Kaijonkeskus	Oulu	100.00	100.00
Mežciems Real Estate SIA	Riga, Latvia	100.00	100.00
Onninen Oy	Helsinki	100.00	100.00
Plussa OÜ	Tallinn, Estonia	100.00	100.00
Rake Eiendom AS	Oppegård, Norway	100.00	100.00
Tampereen Länsikeskus Oy	Tampere	100.00	100.00
TD-Kiinteistöt Oy	Turku	100.00	100.00
Vaajakosken Liikekeskus Oy	Jyväskylä	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, %
Antigravity Payment System UAB	Vilnius, Lithuania	25.50	
Oy Autocarrera Ab	Helsinki	100.00	
Daugavpils project 1 SIA	Daugavpils, Latvia	50.01	
Hasti-Ari AS	Oppegård, Norway	100.00	
Inovatyvus prekybos sprendimai UAB	Vilnius, Lithuania	25.51	
Jyrängön Palvelukeskus Oy	Heinola	50.45	
K rauta SIA	Riga, Latvia	100.00	
Kesko Real Estate OOO	St. Petersburg, Russia	100.00	
Kesko Senukai Digital UAB	Vilnius, Lithuania	25.50	
Kesko Senukai Estonia AS	Tallinn, Estonia	50.00	
Kesko Senukai Latvia AS	Riga, Latvia	50.00	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Kestra Kiinteistöpalvelut Oy	Helsinki	100.00	
Kiinteistö Oy Kokkolan Kaanaanmaantie 2–4	Kokkola	64.78	
Kiinteistö Oy Piispansilta	Espoo	100.00	
Kiinteistö Oy Vantaan Kiitoradantie 2	Vantaa	100.00	
Kiinteistö Oy Vantaan Simonsampo	Vantaa	100.00	
Kiinteistö Oy Visuveden Liiketalo	Ruovesi	100.00	
Konekesko Eesti AS	Tallinn, Estonia	55.00	
Konekesko Latvija SIA	Riga, Latvia	55.00	
Konekesko Lietuva UAB	Vilnius, Lithuania	55.00	
KR Fastigheter i Järfälla AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Linköping AB	Sollentuna, Sweden	100.00	
KR Fastigheter i Täby AB	Sollentuna, Sweden	100.00	
K-rauta Fastigheter i Malmö AB	Sollentuna, Sweden	100.00	
K-rauta Rus OOO	St. Petersburg, Russia	100.00	
Ksenukai Digital Oü	Tallinn, Estonia	25.50	
LLC LR Rustaveli StP	St. Petersburg, Russia	100.00	
Lämpö-Tukku Oy	Helsinki	100.00	
MD Galerija Azur SIA	Riga, Latvia	50.01	
Norgros AS	Oppegård, Norway	100.00	
Olarin Autokiinteistö Oy	Espoo	100.00	
OMA OOO	Minsk, Belarus	25.00	
Onninen AB	Solna, Sweden	100.00	
Onninen AS	Skedsmo, Norway	100.00	
Onninen AS	Tallinn, Estonia	100.00	
Onninen LLP	Aktau, Kazakhstan	100.00	
Onninen OOO	St. Petersburg, Russia	100.00	
Onninen Russia Holding Oy	Helsinki	100.00	
Onninen SIA	Riga, Latvia	100.00	
Onninen Sp. z o.o.	Warsaw, Poland	100.00	
Onninen UAB	Vilnius, Lithuania	100.00	
Peltosaaren Liikekeskus Oy	Riihimäki	59.67	
Penktoji Projekto Bendrové UAB	Vilnius, Lithuania	25.50	
Profelco Oy	Vantaa	100.00	
Rake Bergen AS	Oppegård, Norway	100.00	

Owned by other Group companies	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Romos Holdingas UAB	Kaunas, Lithuania	25.00	
Saele og Hollevik Trading AS	Bergen, Norway	100.00	
Senukai UAB	Kaunas, Lithuania	49.61	
Senuku Tirdzniecibas Centrs SIA	Riga, Latvia	25.50	
SPC Holding UAB	Kaunas, Lithuania	50.00	
TM Christensen VVS Detaljer AS	Oslo, Norway	100.00	
Trøgstadveien 13 AS	Oppegård, Norway	100.00	
VV-Autotalot Oy	Helsinki	100.00	

Associates and joint ventures

Associates and joint ventures are consolidated using the equity method.

Owned by the parent	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Graanin Liikekeskus Oy	Mikkeli	50.00	50.00
Hehku Shop Ltd	Espoo	50.00	50.00
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
Kruunuvuoren Satama Oy	Helsinki	49.00	49.00
Mercada Oy	Helsinki	33.33	33.33
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, %
Fintorus Oy	Lappeenranta	21.40	
Mokilizingas UAB	Vilnius, Lithuania	12.75	
Rakentamisen MALL Oy	Helsinki	25.00	
Suomen LVIS-Tietoverkko Oy	Vantaa	20.00	

Proportionately consolidated mutual real estate companies

Owned by the parent and others	Domicile	Group's ownership interest, %	Parent's ownership interest, %
Asunto Oy Harjutie	Espoo	50.01	50.01
Asunto Oy Kajaanin Louhikatu 2	Kajaani	42.96	42.96
Asunto Oy Soukan Itäinentorni	Espoo	46.60	46.60
Asunto-Oy Punkalaitumen Pankkitalo	Punkalaidun	33.82	
Itäkeskuksen Pysäköintitalo Oy	Helsinki	36.16	36.16
Kiinteistö Oy Lahden Lyhytkatu 1	Lahti	50.00	50.00
Kiinteistö Oy Lukonmäen Palvelukeskus	Tampere	34.54	
Kiinteistö Oy Pälkäneen Liikekeskus	Pälkäne	84.14	84.14
Kiinteistö Oy Ulvilan Hansa	Ulvila	42.41	42.41
Kiinteistö Oy Vantaanportin Liikekeskus	Vantaa	27.81	27.81
Koskelan Ostokeskus Oy	Oulu	29.32	
Laajasalon Liikekeskus Oy	Helsinki	50.35	50.35
Lapin Tehdastalo Oy	Tampere	21.24	21.24
Munkkivuoren Ostoskeskus Oy	Helsinki	30.65	30.65
Talo Oy Kalevanpuisto	Kuopio	47.60	47.60
Voisalmen Ostoskeskus Oy	Lappeenranta	50.00	

5.3 Related party transactions

The Group's related parties include its management personnel (the Board of Directors, the President and CEO and the Group Management Board), companies controlled by them, subsidiaries, associates, joint ventures and Kesko Pension Fund. The subsidiaries, associates and joint ventures are listed in a separate note (note 5.2).

The related party transactions disclosed consist of such transactions carried out with related parties that are not eliminated in the consolidated financial statements.

Some members of the Kesko Board are K-retailers. The Group companies sell goods and services to companies controlled by them. Goods and services have been sold to related parties on normal market terms and conditions and at market prices.

The joint ventures consolidated using the equity method, Kruunuvuoren Satama Oy and Mercada Oy, own properties which have been leased for use by the Group. Vähittäiskaupan Takaus Oy and Vähittäiskaupan Tilipalvelu Oy sell their services to Kesko's and K-retailers' retail companies and the Lithuanian UAB Mokilizingas provides consumer financing to local consumers. Until 10 October 2016, Suomen Lähikauppa was a member of Tuko Logistics Cooperative. Suomen Lähikauppa's purchases from Tuko have been reported within related party transactions until 10 October 2016. Hehku Shop Ltd is a joint venture established by Kesko and Oriola in June 2017 to create a chain of health, beauty and wellbeing stores in Finland. The other associates mainly comprise business property companies which have leased their properties for use by Kesko Group. Associates that operate as mutual real estate companies have been consolidated in the financial statements in proportion to their ownership interests.

Kesko Pension Fund is a stand-alone legal entity which manages the majority of the pension assets related to the voluntary pensions of the Group's employees in Finland. The pension assets include Kesko Corporation shares with a value of €21.9 million (€23.0 million). Properties owned by Pension Fund have been leased to Kesko Group.

During the financial years 2017 and 2016, Kesko Group did not pay contributions to Pension Fund.

The following transactions were carried out with related parties:

Income statement € million	Associates and joint ventures 2017	2016	Board and management 2017	2016	Pension Fund 2017	2016
Sales of goods	0.1	0.0	79.6	73.6		
Sales of services	3.9	3.6	0.4	0.3	0.3	0.3
Purchases of goods		-128.8	-7.8	-6.9		
Purchases of services	-0.1	-7.7	-0.1	-0.1		
Operating income	1.5	1.5	13.1	11.3	0.0	
Operating costs	-53.0	-53.2	-2.9	-1.6	-11.1	-11.3
Finance income	5.6	5.7				

Balance sheet € million	Associates and joint ventures 2017	2016	Board and management 2017	2016	Pension Fund 2017	2016
Current receivables	0.5	0.2	5.9	7.6		0.0
Non-current receivables	57.7	57.6				
Current liabilities	24.1	37.5	0.9	1.6	9.7	5.5

At the balance sheet date, receivables arisen from Kesko's sales to companies controlled by the Board members were €5.9 million (€7.6 million). The receivables are collateralised by a commercial credit granted by Vähittäiskaupan Takaus Oy, a Kesko associate, with the maximum amount always limited to the maximum realisable value of the countersecurity from the K-retailer company and entrepreneur to Vähittäiskaupan Takaus. At the end of the financial year, the countersecurity was valued at €5.5 million (€5.5 million).

Other current liabilities include, for example, chain rebate payables to companies controlled by the Kesko Board members. Chain rebates are paid retrospectively based on criteria related to the amount of actual annual purchases and the quality of operations.

During the financial year, Kesko bought two properties from Kesko Pension Fund for a transaction price of €46.5 million, including asset transfer tax.

Management's employee benefits

The top management comprises the Board of Directors and the Group Management Board. The compensation paid to them for their employee services consists of the following items:

Monetary salaries, fees, fringe benefits and share-based compensation €1,000		2017	2016
Mikko Helander	President and CEO	2,849.4	2,174.0
Group Management Board	other members	6,185.1	4,683.4
Esa Kiiskinen	Board Chairman	87.5	87.5
Mikael Aro	Board Deputy Chairman	60.0	60.5
Toni Pokela	Board member	43.0	42.5
Matti Kyytsönen	Board member	45.5	45.5
Anu Nissinen	Board member	44.5	44.5
Matti Naumanen	Board member (since 4 Apr. 2016)	43.0	31.1
Jannica Fagerholm	Board member (since 4 Apr. 2016)	48.0	34.1
Tomi Korpisaari	Board member (until 29 Feb. 2016)		7.2
Kaarina Ståhlberg	Board member (until 29 Feb. 2016)		10.7
Total		**9,406.1**	**7,221.0**

Retirement benefits

The statutory pension provision of the President and CEO and the other members of the Group Management Board is provided through a pension insurance company. The supplementary pensions of three Group Management Board members are based on a defined benefit plan and determined based on the rules of Kesko Pension Fund and their personal service contracts. The supplementary pensions of four Group Management Board members are based on a defined contribution plan. President and CEO Mikko Helander's old-age pension age is 63 and the amount of his old-age pension is 60% of his pensionable earnings in accordance with the Employees' Pensions Act (TyEL) for the ten (10) calendar years preceding the retirement. The pension is based on a defined benefit plan. The cost of the supplementary pension for the period, calculated on an accrual basis, was €0.9 million (€1.0 million) and the pension asset was €0.6 million (€0.6 million). The pension cost of the President and CEO's statutory pension provision was €0.3 million (€0.2 million).

Share awards
The following share awards were granted to the Group Management Board members: under the 2015 plan 39,516 shares (maximum was 74,000) and under the 2016 plan 56,684 shares (maximum was 74,000). The maximum under the 2017 plan is 114,200 shares, which represents gross earnings, from which the applicable withholding tax is deducted.

Termination benefits
If the service contract of the President and CEO or some other Group Management Board member is terminated by the Company, he/she is entitled to a monetary salary and fringe benefits for the period of notice and a separate non-recurring termination compensation determined on the basis of the executive's monetary salary and fringe benefits for the month of notice. The termination compensation is not part of the executive's salary and it is not included in the determination of the salary for the period of notice, termination compensation 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 his/her service contract without other compensations.

Shareholdings
At 31 December 2017, the President and CEO held 36,091 Kesko Corporation B shares, which represented 0.04% of the total number of shares and 0.01% of votes carried by all shares of the Company. As at 31 December 2017, the Group Management Board, including the President and CEO, held 81 Kesko Corporation A shares and 116,858 Kesko Corporation B shares, which represented 0.12% of the total number of shares and 0.03% of votes carried by all shares of the Company.

5.4 Share-based compensation

Accounting policies
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 recognised in the balance sheet. The liability in the balance sheet is measured at fair value at each 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 to management under which an award consisting of B series shares and an amount in cash is paid upon fulfilling the plan's terms. The fair value of the award 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 and commitment period of the plan. The expensed amount is based on the Group's estimate of the amount of award 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 awards. Instead, they are accounted for in the assumptions of the number of shares expected to vest at the end of the vesting period. A cash component is paid to cover the taxes and tax-like charges incurred under the award. The cash component is recognised as an expense during the vesting period. Changes in estimates are recorded in the income statement.

Share-based compensation plan
Kesko has five share-based compensation plans directed at members of the Group's management and other specified key persons: the 2011–2013 plan, the 2014–2016 plan, and the plans decided in 2017, namely the performance share plan (PSP) and the transitional share-based incentive plan (Bridge Plan). Kesko's Board has also decided on a restricted share pool (RSP), which is a complementary share plan for special situations. Under the 2011–2013 and 2014–2016 share-based compensation plans, a total maximum of 600,000 own B shares held by the Company as treasury shares could be granted over three years.

The 2011–2013 and the 2014–2016 share-based compensation plans had three vesting periods: the calendar years 2011, 2012 and 2013 and the calendar years 2014, 2015 and 2016. The vesting period for the new 2017 share plan is two years. The vesting period for the transitional share-based incentive plan (Bridge Plan) was year 2017. There were no events in the restricted share pool (RSP) in 2017. Kesko's Board has decided the vesting criteria, the target group and the maximum amounts of the share award separately for each vesting period based on the Remuneration Committee's proposal. The final amounts of Kesko B shares to be granted based on the fulfilment of the vesting criteria have been decided by the Board at the beginning of the year following the vesting period. The criteria for the 2011, 2012, 2013, 2014, 2015 and 2016 vesting periods were, with equal weightings, the growth percentage of Kesko Group's sales exclusive of tax, Kesko's basic comparable earnings per share (EPS), and the percentage by which the total shareholder return of a Kesko B share exceeds the OMX Helsinki Benchmark Cap index. In the 2017 plans (PSP and Bridge Plan) the criteria for the vesting period are, with equal weightings, the growth percentage of Kesko Group's sales exclusive of tax, the comparable return (%) on capital employed (ROCE), and the absolute total shareholder return (TSR, %) of a Kesko B share.

In all the plans, the award possibly paid for a vesting period is paid in Kesko B shares. In addition, in the 2011–2013 and 2014–2016 plans, a cash component at maximum equal to the value of the shares is paid to cover the taxes and tax-like charges incurred under the award. In the new plans initiated in 2017 (PSP and Bridge Plan), the possibly paid total award amount is the gross earning of shares from which the applicable withholding tax is deducted, and the remaining net amount is paid in shares.

A commitment period of three calendar years following each vesting period is attached to the shares granted (the 2011–2013 and 2014–2016 plans and Bridge Plan), during which the shares must not be pledged or transferred, but the other rights attached to the shares remain in force. In the 2017 performance share plan (PSP), the two-year vesting period is followed by a two-year commitment period. If a person's employment or service relationship terminates prior to the expiry of a commitment period, he/she must, as a rule, return the shares under transfer restriction to Kesko or its designate for no consideration. In individual cases, the Board may decide that the grantee can keep the shares under the return obligation, or some of them. If the grantee retires during the commitment period, he/she is entitled to keep the shares and other securities already received.

The assumptions used in accounting for the share-based compensation plan are presented in the following tables.

Share award grant dates and fair values, vesting period 2017	PSP	Bridge Plan
Grant dates	1 Feb. 2017	1 Feb. 2017
Grant date fair value of share award, €	44.67	44.67
Share price at grant date, €	46.67	46.67
Share-based compensation plan duration		
Vesting period start date	1 Jan. 2017	1 Jan. 2017
Vesting period end date	31 Dec. 2018	31 Dec. 2017
Commitment period end date	31 Dec. 2020	31 Dec. 2020

Share award grant dates and fair values	Vesting period 2016	Vesting period 2015	Vesting period 2014	Vesting period 2013
Grant dates	3 Feb. 2016	9 Feb. 2015	3 Feb. 2014	5 Feb. 2013
Grant date fair value of share award, €	32.45	30.74	25.66	23.30
Share price at grant date, €	34.95	32.24	27.06	24.50
Share-based compensation plan duration				
Vesting period start date	1 Jan. 2016	1 Jan. 2015	1 Jan. 2014	1 Jan. 2013
Vesting period end date	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014	31 Dec. 2013
Commitment period end date	31 Dec. 2019	31 Dec. 2018	31 Dec. 2017	31 Dec. 2016

Assumptions applied in determining the fair value of share award	Vesting period 2017 PSP	Vesting period 2017 Bridge plan	Vesting period 2016	Vesting period 2015	Vesting period 2014	Vesting period 2013
Number of share awards granted, maximum, pcs	325,300*	325,300*	263,000	262,800	278,400	263,600
Changes in the number of shares granted, pcs	-34,900	-25,900	-9,800	-3,600	-2,000	-9,500
Actual amount of share award, pcs			192,822	139,724	120,022	50,520
Number of plan participants at end of financial year	125	126	131	142	143	134
Share price at balance sheet date, €	45.25	45.25	47.48	32.37	30.18	26.80
Assumed fulfilment of vesting criteria, %	40.0	40.0	56.7	53.4	43.4	20.0
Estimated number of share awards returned prior to the end of commitment period, %	2.5	2.5	5.0	5.0	5.0	5.0

*Gross number of shares from which the applicable withholding tax is deducted and the remaining net amount is paid in shares.

The impact of the above share-based compensation plans on the Group's profit for 2017 was €-9.8 million (€-12.3 million).

As at 31 December 2017, the amount to be recognised as expense for the financial years 2018–2020 is estimated at a total of €-9.8 million. The actual amount may differ from the estimate.

5.5 Deferred tax

Movements in deferred tax in 2017

€ million	1 Jan. 2017	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2017
Deferred tax assets						
Provisions	10.0	-0.2				9.8
Defined benefit pension plans	0.1	0.0				0.1
Tax loss carry-forwards	25.6	-2.4		-0.1	0.0	23.1
Other temporary differences	19.4	-1.5	-0.1	-0.7	-0.2	16.8
Total	55.1	-4.2	-0.1	-0.8	-0.2	49.8
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	30.9	1.0		-0.4		31.5
Fair value allocation	23.5	-0.4		-0.5	-3.9	18.8
Defined benefit pension plans	33.1	-1.3	9.0			40.7
Other temporary differences	9.9	-0.7	0.0	-0.1	-3.9	5.2
Total	97.4	-1.4	9.0	-0.9	-7.8	96.2
Net deferred tax liability	42.3					46.4

Movements in deferred tax in 2016

€ million	1 Jan. 2016	Income statement charge	Tax charged/ credited to equity	Exchange differences	Other changes	31 Dec. 2016
Deferred tax assets						
Provisions	9.6	0.3		0.0	0.1	10.0
Defined benefit pension plans	0.1	0.0				0.1
Tax loss carry-forwards	8.3	-3.2		2.1	18.4	25.6
Other temporary differences	19.8	0.1	-0.6	1.3	-1.1	19.4
Total	37.8	-2.8	-0.6	3.4	17.3	55.1
Deferred tax liabilities						
Difference between accounting depreciation and tax depreciation	49.6	-12.2			-6.5	30.9
Fair value allocation	9.3	-1.5		0.3	15.3	23.5
Defined benefit pension plans	35.3	0.6	-2.8			33.1
Other temporary differences	11.0	0.2	0.2	0.7	-2.2	9.9
Total	105.2	-12.9	-2.7	1.1	6.6	97.4
Net deferred tax liability	67.5					42.3

Balance sheet division of net deferred tax liability

€ million	2017	2016
Deferred tax assets	5.6	5.8
Deferred tax liabilities	52.0	48.1
Total	**46.4**	**42.3**

Other temporary differences within deferred tax assets include €3.1 million of deferred tax assets arising from compliance with the Group's accounting principles and €3.4 million of deferred tax assets resulting from timing differences between local accounting principles and taxation.

Tax loss carry-forwards

As at 31 December 2017, the Group's unused tax losses carried forward were €181.0 million, for which deferred tax assets have not been recognised, because at the balance sheet date, the realisation of the related tax benefit through future taxable profits is not probable.

Tax losses carried forward for which tax assets have not been recognised expire as follows:

€ million	2018	2019	2020	2021	2022	2023–	Yhteensä
	0.0	0.9	3.7	1.6	4.4	170.4	181.0

Deferred tax liabilities have not been recognised for taxes that would be payable on subsidiaries' undistributed 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.

5.6 Components of other comprehensive income

€ million	2017 Before tax	Tax charge/ credit	After tax	2016 Before tax	Tax charge/ credit	After tax
Items that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses	45.0	-9.0	36.0	-14.0	2.8	-11.1
Items that may be reclassified subsequently to profit or loss						
Currency translation differences relating to a foreign operation	-29.3		-29.3	10.4		10.4
Cash flow hedge revaluation	0.8	-0.2	0.6	3.1	-0.6	2.4
Revaluation of available-for-sale financial assets	-0.4	0.1	-0.3	0.7	-0.1	0.5
Others	-0.3		-0.3	-0.3		-0.3
Total	**15.8**	**-9.1**	**6.7**	**-0.1**	**2.1**	**2.0**

5.7 Legal disputes and possible legal proceedings

Group companies are parties to certain trials or legal disputes related to the Group's business operations. According to management's estimate, their outcome will probably not have any material impact on the Group's financial position. The Group is also party to possible legal proceedings, either as plaintiff or defendant, the outcome of which is difficult to forecast.

5.8 Events after the balance sheet date

No significant events deviating from normal business operations have taken place after the balance sheet date.

Parent company's financial statements (FAS)

Parent company's income statement

€	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Net sales	**4,546,014,549.58**	**307,057,226.84**
Other operating income	957,239,419.90	145,872,845.35
Materials and services	-3,999,992,238.07	-182,055,341.10
Employee benefit expenses	-292,237,926.43	-78,391,983.08
Depreciation, amortisation and impairment	-64,691,857.88	-25,123,873.93
Other operating expenses	-581,088,865.22	-153,377,504.75
Operating profit	**565,243,081.88**	**13,981,369.33**
Finance income and costs	-71,760,675.11	10,150,624.85
Profit before appropriations and taxes	**493,482,406.77**	**24,131,994.18**
Appropriations		
Change in depreciation reserve	-4,820,340.90	7,253,944.92
Group contribution	47,337,019.21	137,567,419.37
Profit before taxes	**535,999,085.08**	**168,953,358.47**
Income taxes	-40,943,927.77	-21,025,798.49
Profit for the financial year	**495,055,157.31**	**147,927,559.98**

Parent company's balance sheet

€	31 Dec. 2017	31 Dec. 2016
ASSETS		
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	13,028,438.27	7,693,643.06
Other intangible assets	111,897,224.51	15,684,207.80
Prepayments	16,015,144.73	8,303,933.25
	140,940,807.51	31,681,784.11
PROPERTY, PLANT AND EQUIPMENT		
Land and waters		
Owned	168,837,197.54	85,898,561.81
Leasehold interests and connection fees	1,524,238.07	79,438.61
Buildings		
Owned	344,012,526.20	161,741,464.59
Machinery and equipment	65,603,590.38	11,989,536.91
Other tangible assets	7,981,818.89	5,206,436.83
Prepayments and construction in progress	21,303,057.62	9,260,388.69
	609,262,428.70	274,175,827.44
INVESTMENTS		
Investments in subsidiaries	805,999,408.32	805,822,696.65
Investments in associates	83,982,695.77	78,255,203.86
Other investments	14,785,256.50	7,623,896.27
	904,767,360.59	891,701,796.78
CURRENT ASSETS		
INVENTORIES		
Finished products/goods	234,744,925.64	46,416,088.41
	234,744,925.64	46,416,088.41

€	31 Dec. 2017	31 Dec. 2016
RECEIVABLES		
Long-term		
Receivables from subsidiaries	168,035,008.16	214,140,932.90
Receivables from associates	57,617,471.31	57,629,471.31
Loan receivables	5,000,000.00	-
Other receivables	5,237,960.95	5,184,785.91
	235,890,440.42	276,955,190.12
Short-term		
Trade receivables	373,594,000.87	144,796,523.71
Receivables from subsidiaries	675,384,765.34	625,191,943.42
Receivables from associates	3,044,550.12	991,449.83
Loan receivables	743,587.07	2,019,258.12
Other receivables	7,326,678.80	1,638,531.21
Prepayments and accrued income	103,271,251.54	69,232,300.91
	1,163,364,833.74	843,870,007.20
INVESTMENTS		
Other investments	259,111,541.02	246,965,095.16
CASH AND CASH EQUIVALENTS	75,212,606.84	48,104,149.95
TOTAL ASSETS	**3,623,294,944.46**	**2,659,869,939.17**

€	31 Dec. 2017	31 Dec. 2016
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	197,282,584.00	197,282,584.00
Share premium	197,498,010.90	197,498,010.90
Reserve of invested non-restricted equity	22,753,307.40	22,753,307.40
Other reserves	243,415,795.55	243,415,795.55
Retained earnings	548,730,492.69	592,073,306.99
Profit for the financial year	495,055,157.31	147,927,559.98
	1,704,735,347.85	1,400,950,564.82
APPROPRIATIONS		
Depreciation reserve	106,651,164.74	59,756,479.17
PROVISIONS		
Other provisions	9,894,444.82	9,168,725.12
LIABILITIES		
Non-current		
Bonds	-	225,005,000.00
Private Placement notes	20,083,682.01	20,083,682.01
Pension loans	92,136,875.00	100,000,000.00
Other creditors	3,511,411.00	8,238,366.94
	115,731,968.01	353,327,048.95
Current		
Bonds	225,005,000.00	-
Pension loans	8,648,750.00	-
Advances received	24,169,912.84	39,667.98
Trade payables	588,622,363.88	135,005,784.67
Payables to subsidiaries	428,755,044.00	527,926,338.03
Payables to associates	24,100,220.87	21,949,611.28
Other payables	217,749,350.00	85,096,642.64
Accruals and deferred income	169,231,377.45	66,649,076.51
	1,686,282,019.04	836,667,121.11
TOTAL LIABILITIES	**3,623,294,944.46**	**2,659,869,939.17**

Parent company's cash flow statement

€	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Cash flows from operating activities		
Profit before appropriations	493,482,406.77	24,131,994.18
Adjustments		
Depreciation according to plan	64,691,857.88	17,936,645.13
Finance income and costs	71,760,675.11	-10,150,624.85
Other adjustments	-406,115,335.96	-31,774,213.98
	223,819,603.80	143,800.48
Change in working capital		
Current non-interest-bearing receivables, increase (-)/ decrease (+)	-161,680,563.29	49,585,713.94
Inventories increase (-)/decrease (+)	-6,091,469.70	5,152,816.06
Current non-interest-bearing liabilities, increase (+)/ decrease (-)	293,051,955.47	12,543,253.34
	125,279,922.48	67,281,783.34
Interests paid and other finance costs	-17,045,129.76	-17,959,831.97
Interests received	23,874,783.91	26,198,246.35
Dividends received	30,309,924.47	1,975,275.20
Income tax paid	-29,272,453.12	-71,583,714.69
	7,867,125.50	-61,370,025.11
Net cash generated from operating activities	**356,966,651.78**	**6,055,558.71**

€	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Cash flows from investing activities		
Purchases of other investments	-2,500.00	-
Purchases of property, plant, equipment and intangible assets	-145,763,474.03	-25,073,151.29
Acquisitions of subsidiaries	-37,274,243.48	-280,846,572.73
Acquisitions of associates	-1,641,250.00	-
Sales of subsidiaries, net of cash	103,066,291.87	-5,000,000.00
Proceeds from disposal of other investments	112,984.89	166,095.44
Proceeds from disposal of property, plant, equipment and intangible assets	10,181,110.33	29,537,990.00
Long-term receivables, increase (-)/decrease (+)	39,290,538.07	-2,000,758.55
Net cash used in investing activities	**-32,030,542.35**	**-283,216,397.13**
Cash flows from financing activities		
Interest-bearing liabilities, increase (+)/decrease (-)	-268,123,604.86	127,193,797.33
Short-term interest-bearing receivables, increase (-)/ decrease (+)	125,198,252.65	-237,114,236.83
Short-term money market investments, increase (-)/ decrease (+)	-36,407,333.34	364,532,233.40
Dividends paid	-198,932,108.72	-248,194,233.30
Group contributions received and paid	47,337,019.21	137,567,419.37
Other items	-3,244,788.93	5,424,147.30
Net cash used in financing activities	**-334,172,563.99**	**149,409,127.27**
Change in cash and cash equivalents	**-9,236,454.56**	**-127,751,711.15**
Cash and cash equivalents and current available-for-sale financial assets as at 1 Jan.	**106,569,989.39**	**234,321,700.54**
Cash and cash equivalents transferred in merger	**11,850,206.75**	**-**
Cash and cash equivalents and current available-for-sale financial assets as at 31 Dec.	**109,183,741.58**	**106,569,989.39**

Notes to the parent company's financial statements

Note 1. Principles used for preparing the financial statements

Kesko Corporation's financial statements have been prepared in compliance with the Finnish Accounting Standards (FAS).

During the financial year 2017, K-citymarket Oy, Kespro Ltd and Kesko Food Ltd merged into Kesko Group's parent company Kesko Corporation. In the financial year 2016, K-talouspalvelukeskus Oy, K-Plus Oy, K-instituutti Oy, Rautakesko Ltd, Musta Pörssi Ltd and Keslog Ltd merged into Kesko Corporation.

Due to the mergers, data from the previous financial year are not comparable with the data from financial year 2017.

Non-current assets

Intangible assets

Intangible assets are stated in the balance sheet at cost less depreciation according to plan and possible amortisations.

Depreciation plan

Other capitalised expenditure	5–20 years
IT software and licences	3–5 years

Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less depreciation according to plan and possible amortisations.

Depreciation plan

Depreciation according to plan is calculated on a straight line basis so as to write off the cost of propert, plant and equipment over their estimated useful lives.

The most common estimated useful lives are:

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 and connection fees have 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 inventories

Inventories are stated, using the moving-average cost method, at lower of direct purchase cost, replacement cost and probable selling price.

Valuation of financial assets

Marketable securities have been valued at the lower of cost and net realisable value.

Foreign currency items

Foreign currency transactions have been recorded in euros using the rate of exchange at the date of transaction. Foreign currency receivables and payables have been translated into euros using the rate of exchange at the balance sheet date. If a receivable or a payable 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 contracts

Interest rate derivatives

Interest rate derivatives are used to modify the 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 derivatives are recognised during the financial year as interest income or expenses, according to the maturity date. In the financial statements, outstanding interest rate forward contracts, interest rate future contracts, interest rate option contracts and interest rate swap contracts are stated at market values, but unrealised revaluation is not stated as income. Any valuation losses are included in interest expenses.

Foreign currency derivatives

Foreign currency derivatives are used for hedging against translation and transaction risks. Foreign currency derivatives are used for hedging against commercial foreign exchange risk. Foreign exchange forward contracts are valued using the forward exchange rate of the balance sheet date. The exchange differences arising from outstanding derivative contracts are reported in financial items and adjustment items of sales and purchases. If a derivative has been used for hedging a foreign-currency-denominated asset, the change in value 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

Ankkuri-Energia Oy, a Kesko Corporation subsidiary, uses electricity derivatives to balance the energy costs of the Group and its retailers. Kesko Corporation is an external counter-party in electricity derivatives with a bank, and enters into corresponding internal hedge with Ankkuri-Energia Oy. 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 derivatives hedging the price of electricity supplied during the financial year, change in fair value is recognised at Kesko under finance income and cost. Unrealised gains and losses on contracts hedging future purchases are not recog-nised in profit or loss.

Pension plans

Personnel's statutory pension provision is organised through pension insurance companies and the voluntary supplementary pension provision is mainly organised through Kesko Pension Fund. Pension costs are recognised as expense in the income statement.

Provisions

Provisions stated in the balance sheet include items committed to under agreements or otherwise but not yet realised. Changes in provisions are included in the income statement. Rent liabilities for vacant rented premises no longer used for the Group's business opera-tions, as well as losses resulting from renting the premises to third parties, are included in provisions.

Income tax

Income tax includes the income tax payments for the period calculated based on the profit for the period, and taxes payable for prior periods, or tax refunds. Deferred taxes are not included in the parent company's income statement and balance sheet.

Notes to the income statement

Note 2. Net sales by division

€ million	2017	2016
Grocery trade	3,493.7	-
Building and home improvement trade	1,019.3	165.9
Others	32.9	141.1
Total	**4,546.0**	**307.1**

Note 3. Other operating income

€ million	2017	2016
Gains on sales of real estate and shares	61.6	2.2
Rent income	62.0	84.5
Fees for services	367.6	9.0
Profits from mergers	350.0	46.2
Others	116.1	3.8
Total	**957.2**	**145.9**

Note 4. Employee benefit expenses

€ million	2017	2016
Salaries and fees	-240.9	-64.6
Social security costs		
Pension costs	-41.0	-10.6
Other social security costs	-10.3	-3.2
Total	**-292.2**	**-78.4**

The average number of personnel at Kesko Corporation was 6,576 (2,797) people.

Salaries and fees to the management

€ million	2017	2016
Managing Director	1.5	1.3
Members of the Board of Directors	0.4	0.4
Total	**1.8**	**1.7**

An analysis of the management's salaries and fees is included in the notes to the consolidated financial statements.

Note 5. Depreciation, amortisation and impairment

€ million	2017	2016
Depreciation according to plan	-62.2	-17.9
Impairment, non-current assets	-2.5	-7.2
Total	**-64.7**	**-25.1**

Note 6. Other operating expenses

€ million	2017	2016
Rent expenses	-267.9	-57.9
Marketing expenses	-130.8	-44.5
Maintenance of real estate and store sites	-62.1	-8.2
Losses on disposals of non-current assets	-1.2	-9.9
Telecommunication expenses	-63.0	-25.9
Losses from mergers	0.0	-0.2
Other operating expenses	-56.1	-6.9
Total	**-581.1**	**-153.4**

Auditors' fees

€ million	2017	2016
PricewaterhouseCoopers, Authorised Public Accountants		
Audit	0.3	0.2
Tax consultation	0.1	0.0
Other services	1.1	0.2
Total	**1.5**	**0.4**

Note 7. Finance income and costs

€ million	2017	2016
Income from long-term investments		
Dividend income from subsidiaries	30.3	1.4
Dividend income from others	2.4	0.0
Gains on disposal of shares	0.1	0.2
Gains on sales of investments	2.0	0.6
Income from long-term investments, total	**34.7**	**2.1**
Other interest and finance income		
From subsidiaries	10.8	17.1
From others	18.7	11.8
Interest and finance income, total	**29.5**	**29.0**
Impairment of investments held as non-current assets		
Impairment of shares	-96.9	-2.8
Changes in fair value	0.2	0.0
Impairment and changes in fair value of investments held as non-current assets, total	**-96.7**	**-2.8**
Interest and other finance costs		
To subsidiaries	-12.9	-2.2
To others	-26.3	-15.9
Interest and finance costs, total	**-39.2**	**-18.1**
Total	**-71.8**	**10.2**

Note 8. Appropriations

€ million	2017	2016
Difference between depreciation according to plan and depreciation in taxation	-4.8	7.3
Group contributions received	77.7	216.2
Group contributions paid	-30.3	-78.7
Total	**42.5**	**144.8**

Note 9. Changes in provisions

€ million	2017	2016
Transferred in mergers	1.7	5.6
Other changes	-0.9	2.6
Total	**0.7**	**8.3**

Note 10. Income taxes

€ million	2017	2016
Income taxes on group contributions	-9.5	-27.5
Income taxes on ordinary activities	-30.8	6.6
Taxes for prior years	-0.7	-0.1
Total	**-40.9**	**-21.0**

Note 11. Deferred taxes

Deferred tax assets and liabilities have not been recorded on the balance sheet. The deferred tax liability on accumulated appropriations is €21.3 million. The amount of other deferred tax liabilities or assets is not material.

Notes to the balance sheet

Note 12. Intangible assets

€ million	2017	2016
Intangible rights		
Acquisition cost as at 1 Jan.	15.3	9.5
Increases	0.7	2.9
Transferred in mergers	15.5	2.9
Decreases	-11.5	0.0
Transfers between items	6.1	0.1
Acquisition cost as at 31 Dec.	26.2	15.3
Accumulated depreciation as at 1 Jan.	-7.6	-3.2
Transferred in mergers	-11.8	-2.0
Accumulated depreciation on decreases and transfers	11.4	0.0
Depreciation and amortisations for the financial year	-5.1	-2.4
Accumulated depreciation as at 31 Dec.	-13.2	-7.6
Book value as at 31 Dec.	**13.0**	**7.7**
Other intangible assets		
Acquisition cost as at 1 Jan.	83.5	20.2
Increases	35.9	1.6
Transferred in mergers	188.3	66.5
Decreases	-64.2	-5.4
Transfers between items	7.3	0.6
Acquisition cost as at 31 Dec.	250.8	83.5
Accumulated depreciation as at 1 Jan.	-67.8	-13.4
Transferred in mergers	-114.3	-56.4
Accumulated depreciation on decreases and transfers	63.2	4.7
Depreciation and amortisations for the financial year	-20.1	-2.7
Accumulated depreciation as at 31 Dec.	-139.0	-67.8
Book value as at 31 Dec.	**111.9**	**15.7**

€ million	2017	2016
Prepayments		
Acquisition cost as at 1 Jan.	8.3	1.3
Increases	13.0	7.1
Transferred in mergers	5.9	0.7
Decreases	-0.1	-0.1
Transfers between items	-11.1	-0.7
Acquisition cost as at 31 Dec.	16.0	8.3
Book value as at 31 Dec.	**16.0**	**8.3**

Note 13. Property, plant and equipment

€ million	2017	2016
Land and waters, owned		
Acquisition cost as at 1 Jan.	85.9	77.9
Increases	4.4	5.1
Transferred in mergers	79.5	8.8
Decreases	-2.9	-5.9
Transfers between items	2.1	-
Acquisition cost as at 31 Dec.	168.8	85.9
Book value as at 31 Dec.	**168.8**	**85.9**
Land and waters, leasehold interests		
Acquisition cost as at 1 Jan.	0.1	-
Increases	0.4	-
Transferred in mergers	1.1	0.1
Decreases	0.0	-
Acquisition cost as at 31 Dec.	1.5	0.1
Book value as at 31 Dec.	**1.5**	**0.1**
Buildings		
Acquisition cost as at 1 Jan.	316.4	262.1
Increases	67.5	8.1
Transferred in mergers	165.4	53.5
Decreases	-2.1	-8.6
Transfers between items	15.9	1.3
Acquisition cost as at 31 Dec.	563.2	316.4

€ million	2017	2016
Accumulated depreciation as at 1 Jan.	-154.7	-141.1
Transferred in mergers	-49.1	-10.8
Accumulated depreciation on decreases and transfers	0.9	7.8
Depreciation for the financial year	-16.3	-10.6
Accumulated depreciation as at 31 Dec.	-219.1	-154.7
Book value as at 31 Dec.	**344.0**	**161.7**
Machinery and equipment		
Acquisition cost as at 1 Jan.	51.0	11.8
Increases	25.9	1.9
Transferred in mergers	220.8	45.5
Decreases	-34.4	-10.4
Transfers between items	2.2	2.2
Acquisition cost as at 31 Dec.	265.4	51.0
Accumulated depreciation as at 1 Jan.	-39.0	-10.3
Transferred in mergers	-174.8	-32.7
Accumulated depreciation on decreases and transfers	33.3	5.8
Depreciation for the financial year	-19.3	-1.8
Accumulated depreciation as at 31 Dec.	-199.8	-39.0
Book value as at 31 Dec.	**65.6**	**12.0**

€ million	2017	2016
Other tangible assets		
Acquisition cost as at 1 Jan.	9.5	3.0
Increases	0.5	-
Transferred in mergers	7.1	6.7
Decreases	0.0	-0.2
Transfers between items	0.8	-
Acquisition cost as at 31 Dec.	18.0	9.5
Accumulated depreciation as at 1 Jan.	-4.3	-2.3
Transferred in mergers	-4.2	-1.8
Accumulated depreciation on decreases and transfers	0.0	0.2
Depreciation for the financial year	-1.5	-0.4
Accumulated depreciation as at 31 Dec.	-10.0	-4.3
Book value as at 31 Dec.	**8.0**	**5.2**
Prepayments and construction in progress		
Acquisition cost as at 1 Jan.	9.3	3.9
Increases	6.2	4.1
Transferred in mergers	35.9	5.0
Decreases	-6.8	-0.3
Transfers between items	-23.2	-3.5
Acquisition cost as at 31 Dec.	21.3	9.3
Book value as at 31 Dec.	**21.3**	**9.3**

Note 14. Investments

€ million	2017	2016
Investments in subsidiaries		
Acquisition cost as at 1 Jan.	835.1	244.7
Increases	38.0	280.9
Transferred in mergers	146.9	444.0
Decreases	-53.3	-134.4
Acquisition cost as at 31 Dec.	966.8	835.1
Impairment as at 1 Jan.	-29.3	-54.3
Transferred in mergers	-63.0	-
Accumulated impairments on decreases	28.1	27.8
Impairment for the period	-96.6	-2.8
Impairment as at 31 Dec.	-160.8	-29.3
Book value as at 31 Dec.	**806.0**	**805.8**
Investments in associates		
Acquisition cost as at 1 Jan.	78.3	78.3
Increases	1.7	-
Transferred in mergers	4.5	-
Decreases	-0.5	-
Book value as at 31 Dec.	**84.0**	**78.3**
Other investments		
Acquisition cost as at 1 Jan.	10.2	10.4
Increases	0.1	1.0
Transferred in mergers	7.4	0.2
Decreases	-2.6	-1.3
Acquisition cost as at 31 Dec.	15.2	10.2
Impairment for the period	-0.3	-2.6
Impairment as at 31 Dec.	-0.3	-2.6
Book value as at 31 Dec.	**14.8**	**7.6**

An analysis of Kesko Corporation's ownership interests in other companies as at 31 December 2017 is presented in the notes to the consolidated financial statements.

Note 15. Receivables

Receivables from subsidiaries

€ million	2017	2016
Long-term		
Loan receivables	168.0	214.1
Long-term, total	**168.0**	**214.1**
Short-term		
Trade receivables	126.1	44.0
Loan receivables	430.0	570.1
Prepayments and accrued income	119.3	11.1
Short-term, total	**675.4**	**625.2**
Total	**843.4**	**839.3**

Receivables from associates and joint ventures

€ million	2017	2016
Long-term		
Loan receivables	57.5	57.5
Other receivables	0.1	0.1
Long-term, total	**57.6**	**57.6**
Short-term receivables	**3.0**	**1.0**
Total	**60.7**	**58.6**

Kesko Corporation has advanced a long-term loan to its joint venture, Mercada Oy, in the amount of €56.0 million.

Prepayments and accrued income

€ million	2017	2016
Taxes	4.1	20.7
Fees for services	3.7	0.9
Employee benefit expenses	10.8	6.2
Purchases	29.4	15.8
Others	55.3	25.7
Total	**103.3**	**69.2**

Note 16. Shareholders' equity

€ million	Share capital	Share premium	Contingency fund	Reserve of invested non-restricted equity	Retained earnings	Total equity
Balance as at 1 January 2016	197.3	197.5	243.4	22.8	835.5	1,496.5
Dividends					-248.2	-248.2
Treasury shares					5.0	5.0
Transfer to donations					-0.3	-0.3
Profit for the year					147.9	147.9
Balance as at 31 December 2016	197.3	197.5	243.4	22.8	740.0	1,400.9
Dividends					-198.9	-198.9
Treasury shares					7.9	7.9
Transfer to donations					-0.3	-0.3
Profit for the year					495.1	495.1
Balance as at 31 December 2017	**197.3**	**197.5**	**243.4**	**22.8**	**1,043.8**	**1,704.7**

Restricted equity	2017	2016
Share capital	197.3	197.3
Share premium	197.5	197.5
Total	**394.8**	**394.8**

Non-restricted equity	2017	2016
Contingency fund	243.4	243.4
Reserve of invested non-restricted equity	22.8	22.8
Retained earnings	1,043.8	740.0
Total	**1,310.0**	**1,006.2**

Calculation of distributable profits	2017	2016
Other reserves	266.2	266.2
Retained earnings	548.7	592.1
Profit for the year	495.1	147.9
Total	**1,310.0**	**1,006.2**

Breakdown of parent company shares	Pcs
A shares	31,737,007
B shares	68,282,745
Total	**100,019,752**

Votes attached to shares	Number of votes
A share	10
B share	1

Board's authorisations to acquire and issue own shares

The Annual General Meeting held on 4 April 2016 approved the Board's proposal for its authorisation to decide on the acquisition of a maximum of 1,000,000 own B shares of the Company. The authorisation was valid until 30 September 2017. The Board has the authority, granted by the Annual General Meeting of 13 April 2015 and valid until 30 June 2018, to issue a total maximum of 20,000,000 new B shares. Kesko's Annual General Meeting held on 4 April 2016 also authorised the Company's Board to make decisions concerning the transfer of a total maximum of 1,000,000 own B shares held by the Company as treasury shares. The authorisation is valid until 30 June 2020.

Treasury shares

Authorised by the General Meeting, the Board of Directors acquired a total of 1,200,000 of the Company's own B shares in the financial years 2011 and 2014. The shares are held by the Company as treasury shares and the Company Board is entitled to transfer them. The acquisition cost of the shares held by the Company, €23.5 million, has been deducted from retained earnings in equity.

	Shares
Own B shares held by the Company as at 31 Dec. 2016	**746,109**
Transferred, share-based compensation scheme	-192,822
Returned during the financial year	9,850
Own B shares held by the Company as at 31 Dec. 2017	**563,137**

Note 17. Provisions

€ million	2017	2016
Provisions for leases	4.5	8.0
Other provisions	5.4	1.2
Total	**9.9**	**9.2**

Note 18. Non-current liabilities

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, of which the first tranch (USD 60 million) was due in 2014 and the second (USD 36 million) in 2016. The third tranch will be due in 2019 (USD 24 million). Kesko has hedged the loan with currency and interest rate swaps and will apply hedge accounting to the facility. At the balance sheet date, the fair value of the foreign currency derivatives hedging the private placement was €-0.1 million and the fair value of the interest rate derivatives was €-0.4 million. The loan capital is €20.1 million and the fixed interest rate is 6.2%.

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 from issuance.

Note 19. Current liabilities

€ million	2017	2016
Liabilities to subsidiaries		
Trade payables	128.5	1.8
Other payables	235.7	520.9
Accruals and deferred income	64.5	5.2
Total	428.8	527.9
Liabilities to associates		
Trade payables	0.0	0.0
Accruals and deferred income	0.2	0.0
Other payables	23.9	21.9
Total	24.1	21.9
Accruals and deferred income		
Employee benefit expenses	71.3	38.7
Accruals and deferred income from purchases	41.6	5.3
Transaction prices	1.8	-
Fees for services	1.2	-
Others	53.4	22.7
Total	**169.2**	**66.6**

Note 20. Interest-free liabilities

€ million	2017	2016
Current liabilities	1,077.3	258.1
Non-current liabilities	0.0	8.2
Total	**1077.3**	**266.3**

Note 21. Guarantees, liability engagements and other liabilities

€ million	2017	2016
Real estate mortgages		
For subsidiaries	4	4
Pledged shares	73	58
Guarantees		
For subsidiaries	78	72
Other liabilities and liability engagements		
For own debt	35	15
Rent liabilities on machinery and fixtures		
Falling due within a year	9	4
Falling due later	12	7
Rent liabilities on real estate		
Falling due within a year	283	104
Falling due later	1936	400

Foreign currency risks

The result of the Company's operating activities is affected by the amount of working capital financing granted by the Company to its foreign subsidiaries and in part also, in its capacity as the Group's parent company, the subsidiaries' hedgings against their parent.

The foreign currency exposure is hedged using foreign currency derivatives in accordance with the confirmed foreign currency risk policy. The fair value of foreign currency derivatives is calculated by measuring them based on quoted market prices at the balance sheet date.

The measurement of derivatives is based on direct market data, in other words, they are classified at level 2. The maximum credit risk of these derivatives corresponds to their fair value at the balance sheet date.

The results of derivatives are recognised in financial items.

Company's transaction exposure as at 31 Dec. 2017 € million	USD	SEK	NOK	PLN	RUB
Transaction risk	-18.5	5.3	1.9	25.0	11.9
Hedging derivatives	21.7	-9.1	-4.6	-14.4	-8.6
Exposure	**3.2**	**-3.9**	**-2.6**	**10.6**	**3.2**

Company's transaction exposure as at 31 Dec. 2016 € million	USD	SEK	NOK	PLN	RUB
Transaction risk	-20.2	19.6	22.4	16.5	14.4
Hedging derivatives	31.3	-12.0	-18.2	-9.1	-17.6
Exposure	**11.1**	**7.6**	**4.2**	**7.4**	**-3.1**

The sensitivity analysis of transaction exposure shows the profit impact of a +/-10% exchange rate change on the Company's foreign currency denominated acquisitions and hedging foreign currency derivatives.

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2017 € million	USD	SEK	NOK	PLN	RUB
Change +10%	-0.3	0.4	0.2	-1.0	-0.3
Change -10%	0.4	-0.4	-0.3	1.2	0.4

Sensitivity analysis, impact on pre-tax profit as at 31 Dec. 2016 € million	USD	SEK	NOK	PLN	RUB
Change +10%	-1.0	-0.7	-0.4	-0.7	0.3
Change -10%	1.2	0.8	0.5	0.8	-0.3

Derivatives

Fair values of derivative contracts € million	31 Dec. 2017 Positive fair value (balance sheet value)	31 Dec. 2017 Negative fair value (balance sheet value)	31 Dec. 2016 Positive fair value (balance sheet value)	31 Dec. 2016 Negative fair value (balance sheet value)
Currency derivatives	0.4	-2.4	4.4	-5.4

Notional amounts of derivative contracts € million	31 Dec. 2017 Notional amount	31 Dec. 2016 Notional amount
Currency derivatives	103.6	213.7

All currency derivatives mature in 2018.

€ million	2017	Fair value	2016	Fair value
Liabilities arising from derivative instruments				
Values of underlying instruments as at 31 Dec.				
Interest rate derivatives	70	0.3	-	-
Interest rate swaps	180	-0.5	40	-0.1
Foreign currency derivatives				
Forward and future contracts	84	-1.9	193	-3.6
Outside the Group	77	-1.9	174	-2.9
Inside the Group	7	0.0	19	-0.7
Option agreements				
Bought, inside the Group	-	-	0	0.0
Written, inside the Group	-	-	0	0.0
Currency swaps	20	-0.1	20	2.7
Commodity derivatives				
Electricity derivatives	12	0.0	22	0.0
Outside the Group	6	-0.3	11	-1.7
Inside the Group	6	0.3	11	1.7

Note 22. Cash and cash equivalents within the statement of cash flows

€ million	2017	2016
Available-for-sale financial assets	34.0	58.5
Cash and cash equivalents	75.2	48.1
Total	**109.2**	**106.6**

In the statement of cash flows, cash and cash equivalents includes those recognised in the balance sheet and portions of available-for-sale financial assets with maturities of less than three months from acquisition.

Note 23. Related parties

Kesko Corporation's related parties include the company's management (the Board of Directors, the President and CEO and the Group Management Board), companies controlled by them, subsidiaries, associates, joint ventures and Kesko Pension Fund. The subsidiaries, associates and joint ventures are listed in a separate note in the consolidated financial statements (note 5.2).

Some members of the Kesko Board are K-retailers. Kesko Corporation sells goods and services to companies controlled by them. Goods and services have been sold to related parties on normal market terms and conditions and at market prices.

Signatures

Signatures for financial statements and report by the Board of Directors

Helsinki, 31 January 2018

Esa Kiiskinen	Mikael Aro	
Jannica Fagerholm	Matti Kyytsönen	Matti Naumanen
Anu Nissinen	Toni Pokela	Mikko Helander President and CEO

The Auditor's note

Our auditor's report has been issued today.

Helsinki, 31 January 2018

PricewaterhouseCoopers Oy
Authorised public accountants

Mikko Nieminen
APA

Auditor's report (Translation from the Finnish Original)

To the Annual General Meeting of Kesko Oyj

Report on the audit of the financial statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Kesko Oyj (Business ID: 0109862-8) for the year ended 31 December, 2017. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 2.4 to the consolidated financial statements.

Our audit approach

Overview

Overall materiality

- We have defined that in Kesko Group audit material are misstatements whose impact individually or in aggregate is 5% of comparable profit before tax. Calculated from comparable profit before tax in 2017 financial year it is € 15 million.

Group audit scope

- We performed an audit in Kesko Group companies that are most significant based on the financial position and result. We have performed audit procedures in Kesko's nine operating countries.

Key audit matters

- Goodwill and trademarks – management impairment testing
- Inventories

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

We determined that overall group materiality € 15 million. We chose comparable profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

Group audit scope

Kesko operates in grocery trade, building and technical trade and car trade. Operations are based in nine countries. We tailored the scope of our audit, taking into account the structure of the Kesko Group, the industry and the accounting processes and controls.

We performed an audit in Kesko Group companies that are most significant based on the financial position and result. We have performed audit procedures in all nine of Kesko's operating countries: in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Russia and Belarus.

By performing those procedures, we have obtained sufficient and appropriate evidence regarding the financial information of Kesko Group's legal companies and operations which provides a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the Group	How our audit addressed the Key audit matter
Goodwill and trademarks – management impairment testing *Refer to note 3.4 Intangible assets.* Kesko Group balance sheet includes goodwill in amount of € 172.3 million (2016: 189.9) and trademarks € 82.2 million (2016: 123.3). Kesko Group management carries out impairment test of goodwill and trademarks annually. Impairment test result is based on management estimates, e.g. market growth and profitability trends estimates, changes in store site network, product and service selection, pricing and movements in operating costs. In our audit we focused on the methodologies and assumptions used in management impairment testing. We specially focused on those cash generating units, whose value-in-use and carrying value difference have been smallest in previous years and therefore sensitive to changes in estimations.	We reviewed financial plans prepared by the management and compared to the financial plans approved by the Board of Directors. We evaluated appropriateness of value-in-use valuation method used and traced input information to the source. We challenged the management on assumptions used in value-in-use calculations. In evaluating one of the key assumption, Weighted Average Cost of Capital, we utilized PwC valuation experts. We performed back testing comparing forecasts used in previous years testing to actual results as it would give an indication of the quality of the forecasting process. In addition, we assessed the adequacy of the disclosures, particularly on sensitivities.
Inventories *Refer to note 3.5 Inventories.* Kesko Group balance sheet includes inventory amount of € 938.6 million (2016: 978.9). Inventories are measured at the lower of cost and net realisable value. The Group regularly reviews inventories for obsolescence and turnover, and for possible reduction of net realisable value below cost, and records an impairment as necessary. Such reviews require assessments of future demand for products. The cost of finished goods comprises all costs of purchase including freight. Inventory cost is adjusted by vendor allowances. The Group uses judgment to what extent allowances clauses laid out in purchase agreements are fulfilled at the financial statements period end date. In our audit we focused on the assessment of net realisable value and underlying assumptions. In addition, we focused on assessment of fulfilment of vendor agreement clauses at the financial statements period end date.	In our evaluation of the Group reviews on inventory net realisable value, we walked through monitoring processes over inventory obsolescence and turnover and processes of net realisation calculation. We identified key controls and tested efficiency of those. We reviewed on a sample basis inventory write-off calculations and reconciled source data to inventory accounting. We tested by sample basis formulas of valuation reports to ensure that formulas lead to the correct result. In our evaluation over the vendor allowances we walked through the Group monitoring processes, identified key controls and tested efficiency of those. We tested on a sample basis vendor allowances calculations and reconciled input information to clauses laid out in purchase agreements and financial year purchases information. In addition, we reconciled comparable reporting date vendor allowance accruals to materialized allowances to evaluate the quality of the process and accuracy of the accruals.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the financial statements

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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting requirements

Appointment

PricewaterhouseCoopers Oy was first appointed as auditor of Kesko Oyj by the annual general meeting on 26.4.1976 and our appointment represents a total period of uninterrupted engagement of 42 years. Back then Authorised Public Accountant, employed by PricewaterhouseCoopers Oy, was appointed. Kesko Oyj became publicly listed company on 15.5.1960.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Statements

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 31.1.2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Mikko Nieminen
Authorised Public Accountant

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT 2017

Introduction

This Corporate Governance Statement has been reviewed at the meeting of the Audit Committee of Kesko Corporation's Board of Directors on 30 January 2018.

This is the Corporate Governance Statement in accordance with the Finnish Corporate Governance Code issued by the Securities Market Association effective on 1 January 2016, which refers to the Report by the Board of Directors. This statement and the other information to be disclosed in accordance with the Corporate Governance Code, and the Company's financial statements, the Report by the Board of Directors, and the Auditor's Report are available on Kesko's website at **kesko.fi/en/investor/corporate-governance**.

Kesko Corporation ("Kesko" or "the Company") is a Finnish limited liability company in which the duties and responsibilities of management bodies are defined according to the regulations observed in Finland. The parent company Kesko and its subsidiaries form Kesko Group. The Company is domiciled in Helsinki.

Decision-making and corporate governance are in compliance 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 Helsinki Ltd.

CORPORATE GOVERNANCE CODES KESKO COMPLIES WITH AND DEPARTURES FROM THEM

Corporate Governance Code Kesko complies with	The Corporate Governance Code effective on 1 January 2016 ("Corporate Governance Code")
Website where the Corporate Governance Code is publicly available	**http://cgfinland.fi/files/2015/10/hallinnointikoodi2015finweb1.pdf**
Corporate Governance Code recommendations from which the company departs	Recommendation 6 (Term of Office of the Board of Directors)
Explanation of and grounds for the departure • grounds for the departure • decision-making concerning the departure • when the company plans to adopt the recommendation (in case of temporary departure) • when necessary, the company must describe the procedure implemented in place of the recommendation and explain how such a procedure establishes the objective of the recommendation or the code or how the procedure promotes the implementation of appropriate corporate governance in the company	The term of office of Kesko's Board of Directors departs from the one-year term pursuant to Recommendation 6 (Term of Office of the Board of Directors) of the Corporate Governance Code. The term of office of the Company's Board of Directors is determined in accordance with the Company's Articles of Association. The General Meeting decides on amendments to the Articles of Association. According to the Company's Articles of Association, the term of office of a Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election. A shareholder who, together with related entities, represents over 10% of votes attached to all Kesko shares, has informed the Company's Board of Directors that it considers the term of office of three (3) years good for the Company's long-term development and has not seen any need to shorten the term stated in the Articles of Association.

Descriptions concerning Corporate Governance

Kesko Group's Corporate Governance System

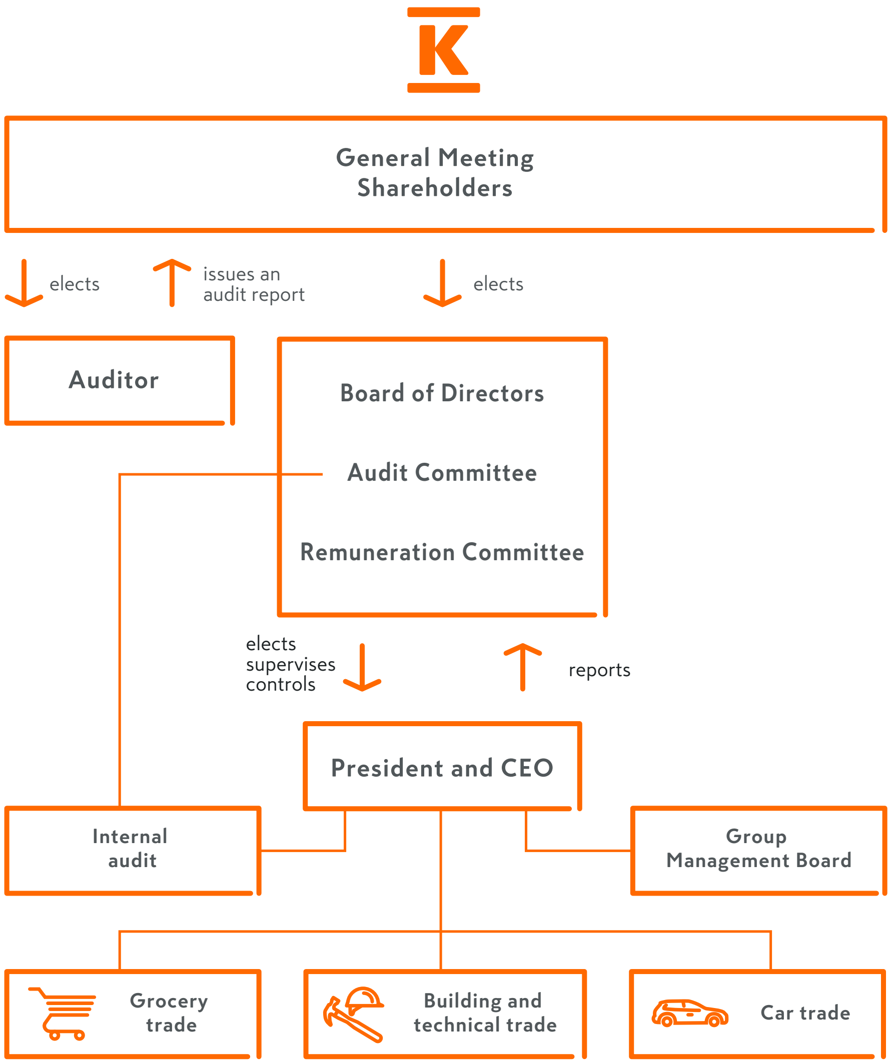
The highest decision-making power in Kesko is exercised by the Company's shareholders at the Company's General Meeting. At the Annual General Meeting, the Company's shareholders elect the Company's Board of Directors and the Auditor. Kesko Group is managed by the Board of Directors and the Managing Director,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

The Annual General Meeting is held annually by the end of June, on a date designated by the Company's Board of Directors. The most significant matters falling within the decision-making power of the General Meeting include the election of the 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 distribution of profit.

The Company has share series A and B, which differ with respect to the number of votes attached to the shares. An A share carries ten (10) votes and a B share carries one (1) vote at the General Meeting. When votes are taken, the proposal for which more than half of the votes were given will usually be the resolution of the General Meeting, as prescribed by the Limited Liability Companies Act.

Shareholders are invited to attend the General Meeting by a Notice of the General Meeting published on the Company's website. The notice of the meeting and other General Meeting documents, including the Board of Directors'

KESKO GROUP'S GOVERNANCE MODEL



proposals to the General Meeting, are made available to shareholders no later than three weeks prior to the General Meeting at the Company's headquarters and on its website at www.kesko.fi. The notice of the meeting is also published in a stock exchange release.

The Company aims for all members of Kesko's Board of Directors, 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 of the General Meeting. The resolutions of the General Meeting are also published in a stock exchange release without delay after the meeting.

Board of Directors

Term of Office

According to the Articles of Association, the term of office of a Kesko Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election.

According to the Articles of Association, Kesko's Board of Directors is composed of a minimum of five (5) and a maximum of eight (8) members. All Board members are elected by the General Meeting. There are no special procedures concerning the nomination of Board member candidates or their election at the General Meeting, as the number of Board members is resolved and the members are elected by majority votes at the General Meeting based on shareholders' proposals. The Board elects the Chairman and the Deputy Chairman from among its members for the whole term of office of the Board.

In the preparation of the proposal for the Board composition, Kesko applies a practice in which significant shareholders prepare to the General Meeting the proposals concerning the Board of Directors, including the proposal for the number of Board members, the proposal for the remuneration of the Board members, and when necessary, the proposal for the Board members.

Board composition and shareholdings

The Annual General Meetings of 13 April 2015, 4 April 2016, and 3 April 2017 resolved that the Board of Directors is composed of seven (7) members.

In 2017, the Board members were **Esa Kiiskinen** (Chairman), **Mikael Aro** (Deputy Chairman), **Jannica Fagerholm**, **Matti Kyytsönen**, **Matti Naumanen**, **Anu Nissinen** and **Toni Pokela**. The Board members were elected by the General Meeting held on 13 April 2015, except for Fagerholm and Naumanen, who were elected by the General Meeting of 4 April 2016 to replace resigned Board members Tomi Korpisaari and Kaarina Ståhlberg.

In accordance with the Articles of Association, the term of office of the current members of the Board of Directors will expire at the close of the 2018 Annual General Meeting.

The Board's composition and shareholdings as at 31 December 2017 are presented in the table below.

BOARD OF DIRECTORS' COMPOSITION AND SHAREHOLDINGS AS AT 31 DEC. 2017

Name	Year of birth	Education	Principal occupation	Board member since	Committee membership	Kesko shares held as at 31 Dec. 2017
Esa Kiiskinen (Chair)	1963	Business College Graduate	Food retailer	2009	Remuneration Committee (Chair)	1,350 A shares held by him and 106,000 A shares held by companies controlled by him
Mikael Aro (Deputy Chair)	1965	eMBA	Senior industry adviser, Triton-Partners	2015	Audit Committee (Deputy Chair) Remuneration Committee (Deputy Chair)	1,000 B shares held by him
Jannica Fagerholm	1961	Master of Science (Econ.)	Managing Director, Signe and Ane Gyllenberg Foundation	2016	Audit Committee (Chair)	None
Matti Kyytsönen	1949	Master of Science (Econ.)	Chairman of the Board, Silverback Consulting Oy	2015	Audit Committee	995 B shares held by him
Matti Naumanen	1957	Trade Technician	Retailer	2016		2,400 A shares held by him and 17,664 A shares held by companies controlled by him
Anu Nissinen	1963	Master of Science (Econ.)	CEO, Digma Design Oy	2015	Remuneration Committee	None
Toni Pokela	1973	eMBA	Food retailer	2012		179,400 A shares held by companies controlled by him

Independence

All members of Kesko's Board of Directors are non-executive directors. The Board evaluates the independence of its members on a regular basis in accordance with Recommendation 10 of the Corporate Governance Code.

In 2017, the Board carried out an independence evaluation in its organisational meeting held after the General Meeting of 3 April 2017. Based on that independence evaluation, the Board considered Toni Pokela not to be independent of the Company's significant shareholder, the K-Retailers' Association, of which Pokela is the Chairman of the Board. In its independence evaluation, the Board considered the majority of the Board members to be independent of the Company. A Board member is obliged to provide the Board with necessary information for the evaluation of independence.

The Board members' independence is depicted in the table below.

BOARD MEMBERS' INDEPENDENCE IN 2017

	Independent of the Company	Independent of a significant share-holder
Esa Kiiskinen (Chair)	No*	Yes
Mikael Aro (Deputy Chair)	Yes	Yes
Jannica Fagerholm	Yes	Yes
Matti Kyytsönen	Yes	Yes
Matti Naumanen	No*	Yes
Anu Nissinen	Yes	Yes
Toni Pokela	No*	No**

* Companies controlled by Kiiskinen, Naumanen and Pokela each have a chain agreement with Kesko Corporation.
** Pokela is the Chairman of the Board of Kesko's significant shareholder, the K-Retailers' Association.

Description of the operations of the Board of Directors and the main contents of its charter

Kesko's Board of Directors is responsible for the proper organisation of the Company's corporate governance, operations, accounting and financial management controls. It is also responsible for the supervision and control of the whole Kesko Group. The Board of Directors has confirmed a written charter for the Board of Directors' duties, the matters it deals with, its meeting practice and its decision-making procedure. In accordance with the charter, the Board deals with and makes decisions on matters that are financially, operationally or fundamentally significant to the Group.

According to the charter, the Board of Directors' main duties include:

- deciding on the Group strategy and confirming the divisions' strategies
- confirming the Group's budget and rolling forecast, which includes a capital expenditure plan
- approving the Group's treasury and investment policy
- confirming the Group's risk management policy and considering the Group's most significant risks and uncertainties
- reviewing and adopting the consolidated financial statements, half year financial reports and interim reports and related stock exchange releases and the Report by the Board of Directors
- deciding on strategically or financially significant individual capital expenditure, acquisitions, divestments or arrangements, and commitments
- deciding on management authorisation rules
- deciding on the essential structure and organisation of the Group
- appointing and dismissing the Company's President and CEO, approving his/her managing director's service contract and deciding on his/her remuneration and other financial benefits
- deciding on the appointments of the Group Management Board members responsible for lines of business, on their remuneration and financial benefits
- deciding on the principles of Kesko's commitment and incentive schemes and monitoring their results
- making possible proposals to the General Meeting for share issue and acquisition authorisations, and making decisions on granting shares or share options under share-based commitment and incentive schemes, and on the terms and conditions for granting them
- establishing a dividend policy and being responsible for shareholder value performance
- confirming the Company's values
- reviewing the integrated Kesko's Annual Report
- being responsible for the other statutory duties prescribed to the Board of Directors by the Limited Liability Companies Act or some other, and for duties prescribed by the Finnish Corporate Governance Code.

The duty of Kesko's Board of Directors is to promote the interests of Kesko and all of its shareholders. The Board members do not represent the parties in the Company that have proposed their election as Board members. A Board member is disqualified from participating in the handling of any matter between him/her (including entities over which he/she exercises control) and the Company. When a vote is taken, the Board's decision will be the opinion of the majority and if a vote results in a tie, the decision will be the opinion supported by the Chair. If the votes taken at an election of a person end in a tie, the result will be decided by drawing lots.

Board of Directors' operations in 2017

In 2017, the Board held 10 meetings. The Board members' attendance rate at the Board meetings was 100%. The Board meetings regularly discuss the review by the President and CEO on key topical issues, as well as the reports by the Chairmen of the Board's Audit Committee and Remuneration Committee on Committee meetings preceding the Board meetings. The Auditor presents their findings to the Board once a year in connection with the review of the financial statements.

As in previous years, in 2017, the Board reviewed the financial reports and monitored the Group's financial situation, approved the most significant capital expenditure and divestments and new financing arrangements, monitored the progress of Group-level projects and approved the interim reports, the half year financial report and the financial statements before they were published.

In 2017, the Board monitored the implementation of the new Kesko Group strategy approved in the spring of 2015, further clarified and concretised the chosen strategic policy definitions and made decisions on corporate arrangements in line with the approved strategy, such as the divestments of Indoor Group Ltd, minority holdings in the Baltic machinery trade subsidiaries, and the K-maatalous business. The Board monitored the financial performance of previously made acquisitions and their integration into Kesko Group. In order to improve profitability and ensure competitiveness, the Board has made sure that the planned cost saving targets are met. Moreover, the Board, for example, reviewed Kesko's Annual Report, the results of the K Voices personnel survey, and goodwill impairment testing; decided on the establishment of a new share-based compensation scheme; and approved Kesko Group's Risk Management Policy, insurance principles, the Group's Treasury and investment policy, and real estate strategy.

The Board carried out a self-assessment, conducted via discussions between the Board, the Chairman and each Board member based on a predetermined discussion agenda. Topics covered in the assessment included Group strategy, reporting, risk management, efficiency of Board and Committee work, Group management and contingency planning for Group management, and individual Board member assessments. The Board reviewed a summary of the discussion results in its meeting. Special attention was paid to e.g. the practical implementation of the confirmed strategy throughout the organisation, closer monitoring of strategy implementation, and more extensive handling of risk management issues by the Board. In addition to the summary, each Board member received personal feedback.

ATTENDANCE AT MEETINGS BY MEMBERS OF THE BOARD AND ITS COMMITTEES IN 2017

	Board member since	Committee membership	Board	Audit Committee	Remuneration Committee
Esa Kiiskinen (Chair)	2009	Remuneration Committee (Chair)	10/10		3/3
Mikael Aro (Deputy Chair)	2015	Audit Committee (Deputy Chair)	10/10	5/5	
		Remuneration Committee (Deputy Chair)	10/10		3/3
Jannica Fagerholm	2016	Audit Committee (Chair)	10/10	5/5	
Matti Kyytsönen	2015	Audit Committee	10/10	5/5	
Matti Naumanen	2016		10/10		
Anu Nissinen	2015	Remuneration Committee	10/10		3/3
Toni Pokela	2012		10/10		

Principles concerning diversity

The diversity policy approved by Kesko's Board of Directors is available at https://kesko.fi/en/investor/corporate-governance/board-and-its-committees/diversity-policy. The diversity policy has been approved and published on the website in the following form:

> "Diversity is an essential component of Kesko's success, the achievement of Kesko's strategic objectives and good governance at Kesko. This diversity policy describes the objectives in the achievement of diversity in the operations and composition of Kesko Corporation's Board of Directors.
>
> **Board size and the election of its members**
>
> According to the Articles of Association, the term of office of a Kesko Board member is three (3) years, starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election. According to the Articles of Association, Kesko's Board of Directors is composed of a minimum of five (5) and a maximum of eight (8) members. A sufficient number of Board members promotes the diversity of the Board composition, as the areas of expertise and competencies of the Board members are mutually complementary and the Board's independence requirements are satisfied.
>
> The Board members are elected by majority votes at the General Meeting based on shareholders' proposals. The Board elects the Chairman and the Deputy Chairman from among its members for the whole term of office

of the Board. In the preparation of the proposal for the Board composition, Kesko applies a practice in which significant shareholders prepare to the General Meeting the proposals concerning the Board of Directors, including the proposal for the number of Board members, the proposal for the remuneration of the Board members, and when necessary, the proposal for the Board members.

Planning the board composition

The composition of Kesko's Board of Directors shall support Kesko's current and future business operations. The Board members are appointed on their merits. One of the essential features in the Board composition is that the Board members' educational backgrounds, experience, professional competencies and age and gender distribution support Kesko's business objectives and enable efficient Board work for Kesko. The Board members shall also be able to devote a sufficient amount of time to Board work.

Kesko aims to achieve a balanced gender distribution in the composition of its Board of Directors. The composition of the Board shall reflect experience in both national and international business operations. The educational background of the Board members shall represent multiple disciplines and diversity. In addition, Kesko's Board shall include members with strong experience in the trading sector and in-depth knowledge of the retailer business. The achievement of objectives is monitored annually and reported in the corporate governance (CG) statement."

Monitoring the implementation of diversity policy objectives in 2017

In 2017, two of the seven Board members were women, in other words, the proportion of the gender with smaller representation in the Board was approximately 29%. The Board members have diverse and multi-sectoral experience backgrounds and several Board members also have experience in international business. The Board members' educational background is multi-sectoral and diverse (see the descriptions in section "Board of Directors' composition and shareholdings"). Several Board members have experience in the trading sector and the principal occupation of three of the seven Board members is acting as a K-retailer.

Board Committees

Kesko has a Board's Audit Committee and Remuneration Committee, both of which are composed of three (3) Board members. At the close of the Annual General meeting, the Board elects from among its members the Committee Chairmen, Deputy Chairmen and members for one year at a time.

All members of the Audit Committee are independent of the Company and the Company's significant shareholders. In the election of the Audit Committee members, the competence requirements for Audit Committee members have been taken into account.

All members of the Remuneration Committee are independent of the Company's significant shareholder and its majority is also independent of the Company. In the election of the Remuneration Committee members, the competence requirements for Remuneration Committee members have been taken into account.

The Committees regularly assess their operations and working methods and carry out a related self-assessment once a year. The Board has confirmed written charters for the Committees, which contain the main duties and operating principles of the Committees.

The Committees have no independent decision-making power. Instead, the Board makes decisions on matters based on the Committees' preparatory work. The Committee Chairman reports on the Committee's work at the Board meeting following the Committee's meeting. The Committee Chairman reports on the Committee's work at the Board meeting following the Committee's meeting.

Minutes of the Committee meetings are submitted for the information of the Board members.

Kesko's Board of Directors has not established any other committees in addition to the Audit and Remuneration Committees. Nor has the General Meeting appointed any committees or boards.

Audit Committee

The Board's organisational meeting, held after the Annual General Meeting of 3 April 2017, elected the following Board members as Audit Committee members:

- Jannica Fagerholm (Chairman)
- Mikael Aro (Deputy Chairman)
- Matti Kyytsönen

According to its charter, the duties of the Audit Committee include:

- monitoring Kesko Group's financial situation, funding situation and the process of financial statements reporting
- supervising the Company's financial reporting process
- evaluating the efficiency of the Company's internal control, internal audit and risk management systems
- reviewing the Company's Corporate Governance Statement
- approving the operating instructions, annual audit plan, budget and resources for the Company's internal audit function and reviewing the reports submitted to the Committee
- monitoring the statutory audit of the financial statements and the consolidated financial statements
- evaluating the independence of the Company's audit firm

- evaluating related (non-audit) services to Kesko by the audit firm and its network audit companies
- preparing a proposal to the General Meeting for a resolution on the election of the Company's Auditor and communicating with the Company's Auditor.

In 2017, the Audit Committee held five meetings. Its members' attendance rate at the Committee meetings was 100%. At the Committee meetings, the Group's Chief Financial Officer, the Group Controller and the Chief Audit Executive regularly report on their areas of responsibility to the Committee. The Committee also receives reports on Kesko Group's funding situation, taxation, information management, risk management and insurances. The Auditor is present at the Committee meetings and presents their audit plan and report to the Audit Committee.

During the year, the Committee reviewed the reports on the Group's financial situation, including the financial statements release, the half year financial report and the interim reports and updated forecasts, and made a recommendation to the Board on the review of the reports and the financial statements release. The Committee reviewed the reports of the Group's external and internal audits and risk management and the Corporate Governance Statement. The Audit Committee also reviewed the reporting of non-financial information, the organisation of Group risk management and internal audit, goodwill impairment testing, changes to the presentation of financial statements, and Group risk reporting in the financial statements.

The Committee monitored the implementation of the audit plan for internal audit, the Group's preparation for the implementation of new IFRS standards and their impact on the Group's reporting, the progress made in the cyber security development plan, the Group's preparations for the implementation of the new EU general data protection regulation, and additional services purchased from firms of auditors. The Committee also assessed the Auditor's independence and consultation services provided to the Group. The Audit Committee prepared and submitted a proposal to Kesko's Annual General Meeting 2017 for the election of Auditor.

The Audit Committee prepared proposals to the Board for updates to Kesko Group's risk management policy and insurance principles, and for the Group's treasury and investment policy. The Committee approved the operating instructions and the 2018 audit plan, personnel resources and budget for the Group's Internal Audit.

The Audit Committee assessed its operations as part of the Board's self-assessment Topics that emerged the assessment included more in-depth reporting on units with lower profitability, and the distribution of the Committee's time between financial reporting and other matters to be discussed.

Remuneration Committee

The Board's organisational meeting, held after the Annual General Meeting of 3 April 2017, elected the following Board members as Remuneration Committee members:

- Esa Kiiskinen (Chairman)
- Mikael Aro (Deputy Chairman)
- Anu Nissinen

According to its charter, the duties of the Remuneration Committee include:

- preparing matters pertaining to the remuneration and other financial benefits of the President and CEO and his/her managing director's service contract to the Board
- preparing matters pertaining to the remuneration and other financial benefits of the Group Management Board members responsible for lines of business; decisions on the remuneration and financial benefits of the Group Management Board members other than those responsible for lines of business are made by the President and CEO within the limits set by the Chairman of the Remuneration Committee
- preparing matters pertaining to the appointment of a President and CEO and the Group Management Board members responsible for lines of business, and identifying their potential successors, development of remuneration schemes and their preparation to the Board of Directors, including:
    - evaluating the remuneration of the President and CEO and other management, and ensuring the appropriateness of the remunerations schemes
    - preparing possible share or share-based commitment and incentive schemes
    - preparing the distribution of shares or share options under the share or share-based commitment and incentive schemes, and preparing their terms and conditions
- reviewing the Remuneration Statement in connection with the financial statements
- answering questions related to the Remuneration Statement at the General Meeting; questions are primarily answered by the Committee Chairman
- preparing the principles for the performance and result criteria of the compensation schemes, and monitoring their implementation and evaluating their impacts on Kesko's long-term financial success.

In 2017, the Remuneration Committee held 3 meetings. Its members' attendance rate at the Committee meetings was 100%. The Committee prepared, among other things, proposals to the Board for Kesko's new share-based compensation scheme, for the performance criteria and target group of share awards, for the principles of Group performance bonuses for 2018, as well as for the performance bonuses to be paid for 2016 for the President and CEO and Group Management Board members in charge of business lines The Committee monitored and assessed the implementation of the reform of management's total remuneration. In addition, the Committee discussed, among other things, Kesko's Remuneration Statement. The Remuneration Committee assessed its operations as part of the Board's self-assessment, and based on the assessment, decided to focus more on management contingency planning and competency requirements.

Managing director (President and CEO) and his duties

Kesko has a managing director who is the President and CEO. Kesko's President and CEO is Master of Science in Technology **Mikko Helander** (b. 1960). He became Kesko's President and CEO on 1 January 2015. Helander has also been a member of the Group Management Board and Kesko's Executive Vice President during the period 1 October 2014 to 31 December 2014, and he has been the Chairman of the Group Management Board since 1 January 2015.

The President and CEO's duty is to manage Kesko Group's operations in accordance with the instructions and orders issued by the Company's Board of Directors and to report to the Board developments in the Company's business operations and financial situation. He is also responsible for the Company's day-to-day governance and he oversees that the financial matters are organised in a reliable manner. The President and CEO also chairs the Group Management Board.

The President and CEO is elected by the Board of Directors. The Board has decided the terms and conditions 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.

As at 31 December 2017, Helander held a total of 36,091 Kesko B shares. Helander's shareholdings as at 31 December 2017 are also presented in the table under "Group Management Board".

Group Management Board

Kesko Group has a Group Management Board, the Chairman of which is Kesko's President and CEO. The Group Management Board does not have any powers under law or the Articles of Association. The Group Management Board's duty is to discuss Group-wide development projects and Group-level policies and procedures. In addition, the Group Management Board discusses, among other things, the Group's and the division parent companies' business plans, profit performance and matters dealt with by Kesko's Board of Directors, in whose preparation it also participates. The Group Management Board meets 12–18 times a year.

GROUP MANAGEMENT BOARD MEMBERS, AREAS OF RESPONSIBILITY AND SHAREHOLDINGS AS AT 31 DEC. 2017

	Group Management Board member since	Area of responsibility	Shares held as at 31 Dec. 2017
Mikko Helander, Chairman	10/01/14	Kesko's President and CEO	36,091 B shares held by him
Jorma Rauhala, President of building and technical trade division, Deputy to President and CEO*	02/05/13	Building and technical trade	20,564 B shares held by him
Ari Akseli, President of grocery trade division**	11/15/17	Grocery trade	7,568 B shares and 81 A shares held by him
Johan Friman, CEO of VV-Auto Group Oy	01/01/17	Car trade	None
Jukka Erlund, Executive Vice President, Chief Financial Officer	11/01/11	Finance and accounting	16,840 B shares held by him
Matti Mettälä, Executive Vice President	10/01/12	Human resources	10,782 B shares held by him
Anne Leppälä-Nilsson, Executive Vice President***	01/01/15	Legal affairs	12,013 B shares held by her
Lauri Peltola, Executive Vice President****	03/02/15	Corporate responsibility, communications and stakeholder relations	6,500 B shares held by him
Anni Ronkainen, Executive Vice President	04/20/15	Chief Digital Officer	6,500 B shares held by her

*Rauhala was appointed President of Kesko's building and technical trade division and deputy to the President and CEO on 15 November 2017. Previously, Rauhala acted as President of Kesko's grocery trade division. Rauhala's predecessor Terho Kalliokoski left Kesko on 15 November 2017, at which time Kalliokoski held a total of 30,903 Kesko B shares.

** Akseli was appointed President of Kesko's grocery trade division on 15 November 2017. His predecessor Jorma Rauhala was appointed President of Kesko's building and technical trade division and deputy to Kesko's President and CEO on 15 November 2017.

***Mika Majoinen was appointed Kesko Group General Counsel as of 1 January 2018. Anne Leppälä-Nilsson retired on 31 December 2017, in accordance with her contract.

****Lauri Peltola's membership on the Group Management Board ended on 31 October 2017.

Description of internal control procedures and the main features of risk management systems

Group's financial reporting

Kesko's management model

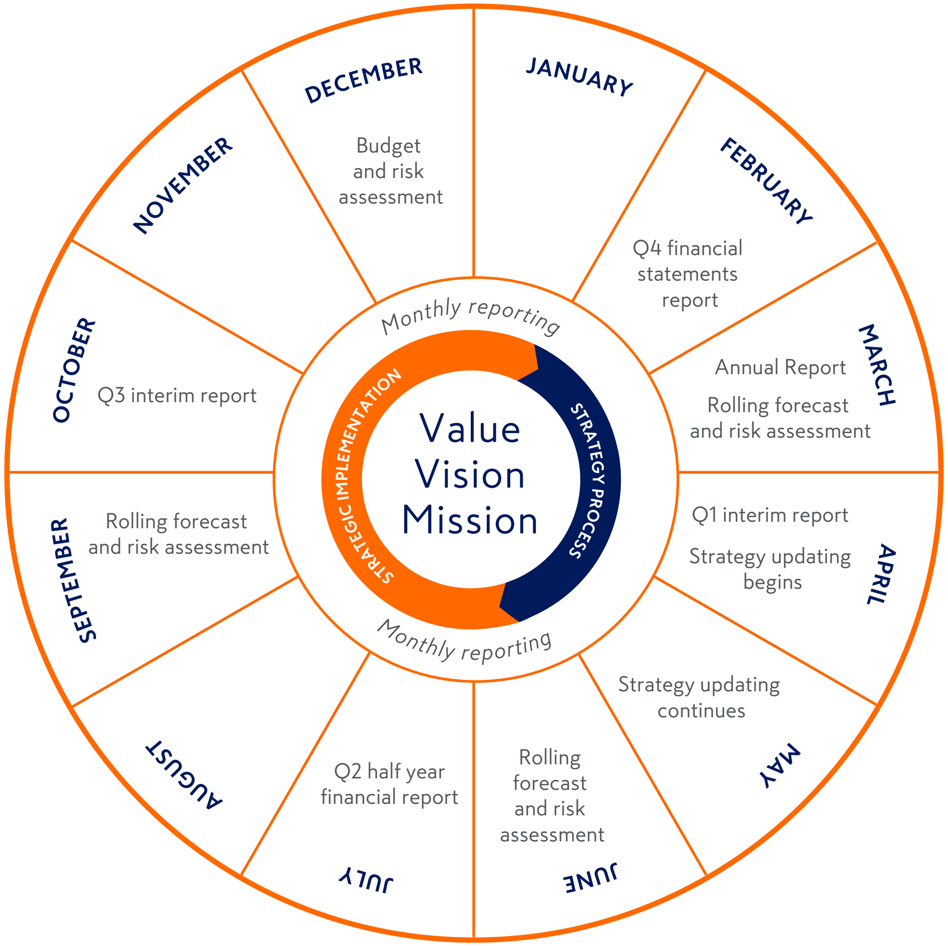
Kesko's financial reporting and planning are based on the Kesko Group management model. The Group units' financial results are reported and analysed internally within the Group on a monthly basis and disclosed quarterly in interim reports, the half year financial report and the financial statements release.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

Roles and responsibilities

Kesko Group's financial reporting and its supervision are organised on three levels. Businesses analyse and report their figures to the divisions, which then report the division-specific figures to Group Accounting. Analyses and controls for ensuring the accuracy of reporting are used on each of the three reporting levels.

The accuracy of reporting is ensured with automated and manual controls at every reporting level. The implementation of the analyses and controls is supervised on a monthly basis at company, business, division and Group levels.

KESKO GROUP'S MANAGEMENT MODEL



Planning and performance reporting

The Group's financial development and achievement of financial objectives are monitored by financial reporting covering the entire Group. Monthly performance reporting includes actual Group, division and business specific results, changes compared to the previous year, comparison with forecasts, and forecasts for the next 12 months. The Group's short-term financial planning is based on annual budgeting and quarterly updated forecasts extending over the following 12 to 15 months. The key financial indicators are sales performance for growth and comparable operating profit and comparable return on capital employed for profitability, monitored by monthly internal reporting. Information on the Group's financial situation is provided in interim reports, a half year financial report and the financial statements release. The Group's sales figures are published monthly.

Performance reporting to the Group's top management

Performance reporting to the Group's top management comprises monthly reports on the Group's, divisions', businesses' and subsidiaries' sales, profits and capital employed, as well as the Group's financial items, cash flows and balance sheet position. The businesses are primarily responsible for financial reporting and the accuracy of figures. The controlling function of each division analyses the whole division's figures for which the division's financial management is responsible. The Group is responsible for the whole Group's figures. The key items in the income statement, capital employed and balance sheet are analysed monthly at business, division and Group level, based on a documented division of duties and predefined reports. This makes real-time information on the financial situation constantly available and enables real-time responses to possible flaws. Performance reporting to management also includes Group-level monitoring of sales on a weekly, monthly and quarterly basis.

Public performance reporting

Public performance reporting comprises interim reports, a half year financial report, the financial statements release, the annual financial statements, and monthly sales reports. The same principles and control methods are applied to public performance reporting as to monthly performance reporting. The Audit Committee reviews the interim report, the half year financial report and the financial statements and gives a recommendation on their reviewing to the Board of Directors. The Board approves the interim report, the half year financial report and the financial statements before they are published.

Key actions in 2017

In 2017, the Group's legal structure in Finland was simplified by merging the Kesko Corporation subsidiaries Kesko Food Ltd, K-citymarket Oy and Kespro Ltd into Kesko Corporation. The integration of businesses acquired in 2016 – Onninen Oy, Suomen Lähikauppa and Oy Autocarrera Ab – into Kesko's common financial management systems continued. By the end of the year, 409 Siwa and Valintatalo stores of Suomen Lähikauppa had been converted into K-stores. In connection with the conversion in 2016 and 2017, the stores adopted Kesko Group's information systems and were connected to the Group's centralised financial management. By the end of the financial period, 243 K-Markets had been transferred to retailers.

Key actions in 2018

The harmonisation of the financial management processes of Group companies in Finland will continue in 2018, and common financial management systems will be adopted in all Finnish companies during the year. The remaining stores acquired with Suomen Lähikauppa will be transferred from Kesko to retailers during the first half of 2018. The Group will prepare for the IFRS16 (Leases) standard, which will come into effect on 1 January 2019, by creating a common lease agreement management and lease accounting system for the Group's leases as part of the financial management systems.

Accounting policies and financial management IT systems

Kesko Group complies with International Financial Reporting Standards (IFRS) approved for adoption by the European Union. The accounting policies applied by the Group have been compiled into an accounting manual, updated as the standards are amended. The manual contains guidelines for separate companies and the parent company, as well as guidelines for the preparation of the consolidated financial statements.

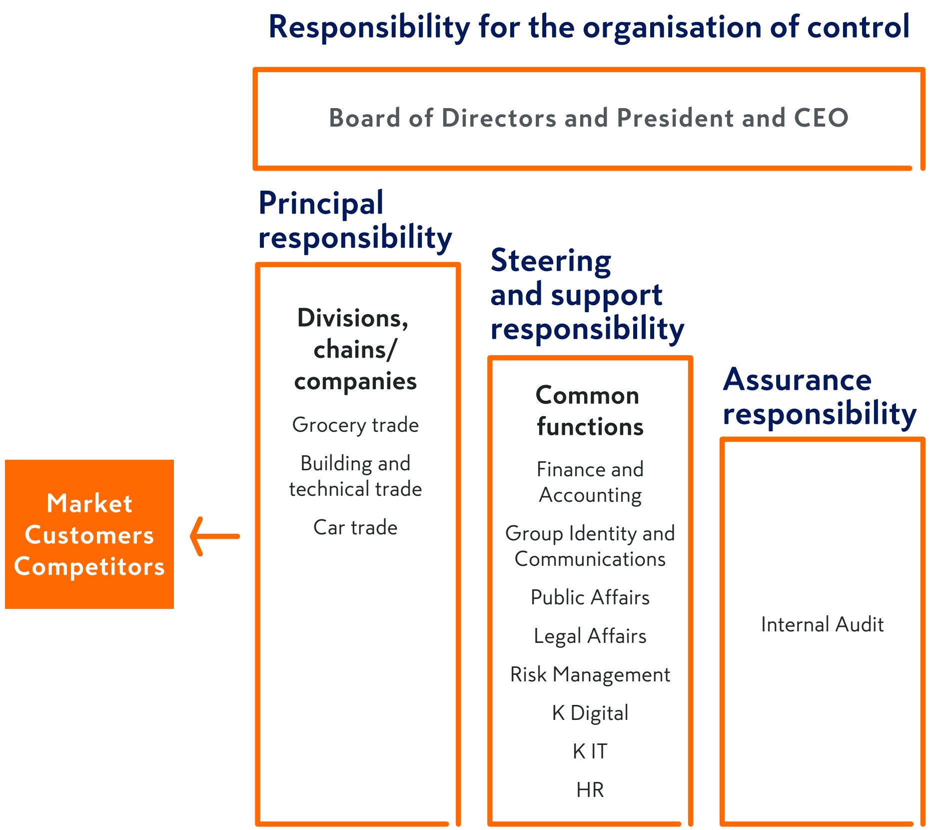
Kesko Group's financial management information is generated from division-specific enterprise resource planning systems via a centralised and controlled shared interface into the Group's centralised consolidation system to produce the Group's key financial reports. The key systems used in the production of financial information have been certified and secured by back-up systems, and they are controlled and checked regularly to ensure reliability and continuity.

Internal control

Internal control is an integral part of management and of ensuring the achievement of business objectives. Through efficient internal control, deviations from objectives can be prevented or detected as early as possible, so that corrective measures can be taken. Internal control tools include, for example, policies and principles, work instructions, approval authorisations, manual and automatic controls integrated in information systems, monitoring reports and inspections or audits.

The objective of internal control in Kesko Group is to ensure the profitability, efficiency, continuity and freedom from disruptions of operations, the reliability of financial and operational reporting both externally and internally, compliance with laws and agreements and Kesko's values and operating principles, as well as safeguarding assets, expertise and information.

ROLES AND RESPONSIBILITIES IN KESKO GROUP'S INTERNAL CONTROL



The planning of control measures begins with the definition of business objectives and the identification and assessment of risks that threaten the objectives. The definition of objectives and the assessment of risks should take account of not only operational objectives, but also the requirements for compliance of operations with the law, and for the accuracy of the information used in decision-making and reporting. Control measures are targeted based on risks, and control measures are selected as appropriate so as to keep the risks under control.

The Board of Directors and the President and CEO are responsible for organising internal control. The management of each division, company and unit is responsible for ensuring that efficient and effective control procedures are in place. The next year's focus areas in risk management and control are discussed in annual risk management and control discussions with the Group and division managements. Every Kesko employee is obliged to comply with the K Code of Conduct and inform their supervisors of any grievances.

Kesko's common functions guide and support the divisions and subsidiaries with policies, principles and guidelines pertaining to their respective areas of responsibility. Kesko Group's internal audit function assesses and verifies the effectiveness and efficiency of Kesko's internal control, reports on it to the President and CEO and the Audit Committee of Kesko Corporations' Board of Directors, and assists management and Kesko companies in the development of the internal control system. The Audit Committee of Kesko's Board of Directors has confirmed the principles of Kesko's internal control, which are based on good control principles widely accepted internationally (COSO 2013).

Risk management

Kesko’s risk management is proactive and an integral part of day-to-day management. The objective of risk management is to support the implementation of Kesko’s strategy.

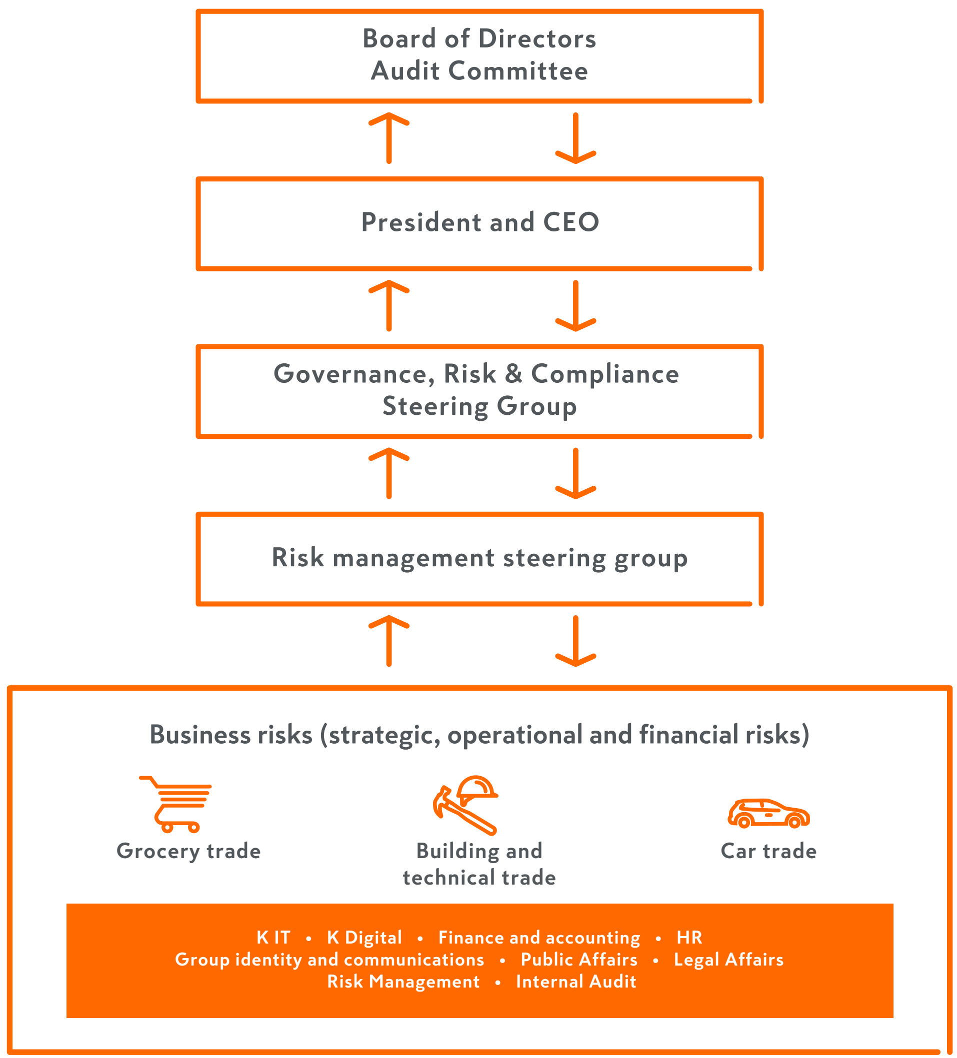
Risk management in Kesko Group is guided by the risk management policy confirmed by Kesko's Board of Directors. The policy defines the goals and principles, organisation, responsibilities and practices of risk management in Kesko Group. In the management of financial risks, the Group's treasury policy, confirmed by Kesko's Board of Directors, is observed.

The management of business operations and common functions are responsible for the execution of risk management. The finance director is responsible for the execution of risk management in each division. The risk management unit coordinates the risk management process and is responsible for risk reporting and executes risk identification, the determination of risk management responses and their implementation jointly with the businesses and common functions. Every member of Kesko personnel must know and manage the risks in their areas of responsibility. Kesko’s internal audit function has evaluated the efficiency of Kesko’s risk management system annually.

Kesko Group applies a business-oriented and comprehensive approach to risk assessment and management. This means that key risks are identified, assessed, managed, monitored and reported as part of business operations at Group, division, company and function levels throughout the Group.

Kesko has a uniform risk assessment and reporting model. 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 their impacts in euros and the probability of their realisation.

RISK MANAGEMENT STEERING MODEL



When assessing the impact of realisation, the impacts on reputation, the wellbeing of people and the environment are assessed in addition to the impacts in euros.

Risk identification and assessment play a key role in Kesko's strategy work and operations planning. In addition, risk assessments are made of significant projects related to capital expenditure, business arrangements or changes in operations. The risk assessments of divisions and common functions that include a risk map, risk management responses, responsible persons and schedules are reviewed regularly by the respective division's or common function's management.

Risks and risk management responses are reported in accordance with Kesko's reporting responsibilities. The divisions and the common functions report on risks and changes in risks to the Group's risk management function. Risks are discussed by the risk management steering group, which includes representatives of the divisions and the common functions. On that basis, the Group's risk management function prepares the Group's risk report, which is reviewed by the Governance, Risk and Compliance (GRC) steering group, after which the CFO presents the risk report in the Group Management Board.

The Group's risk map, the most significant risks and uncertainties, as well as material changes in and responses to them are reported to the Kesko Board's Audit Committee in connection with reviewing the interim reports, the half year financial report and the financial statements. The Audit Committee also evaluates the efficiency of Kesko's risk management system. The Chairman of the Audit Committee reports on risk management to the Board of Directors as part of the Audit Committee Report.

Kesko's Board discusses Kesko Group's most significant risks and uncertainties. The Board reports on the most significant risks and uncertainties to the market in the financial statements and on material changes in them in the half year financial report and the interim reports.

Risk management responses in 2017

In 2017, key focus areas for risk management were the development of a cyber risk management model and the launch of related projects, and changes to insurance coverage based on Kesko's analysed risk tolerance. Kesko's management model and process for crises and exceptional situations was updated to correspond to changes in the organisation. The new management model and process were tested in a crisis exercise towards the end of the year. In corporate security, the cost-efficiency of security technology and services was improved through concentration of purchases. A positive trend continued in terms of damage and there were no major individual instances of damage.

Focus areas of risk management in 2018

Focus areas for risk management include the implementation of the cyber risk management development project, improving continuity management, and finalising the changes to insurance coverage initiated in 2017. The management of regulatory risks will be improved by developing Kesko's compliance function with Group Legal Affairs. The development and assurance of the effectiveness of actions related to risk reduction and determination will continue. Measures to improve the cost-efficiency of security technology and services will continue through concentration of purchases in all operating countries.

Other information to be provided in the CG statement

Internal audit

Kesko's internal audit function 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 of Directors has confirmed the operating instructions for Kesko's internal audit function.

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, as well as risk management and control discussions conducted with the Group's and divisions' management. Meetings with the Auditor are arranged on a regular basis in order to ensure sufficient audit coverage and to eliminate overlapping operations.

An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The audit 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 which require special expertise. Audits can also make use of the expertise and work contribution of Kesko Group's other specialists.

Internal audit operations in 2017

The key focus areas for internal audit operations in 2017 were the progress made in the implementation of Kesko's strategies, significant ongoing projects, and data security and data protection matters.

Focus areas of internal audit in 2018

Key focus areas for internal audit in 2018 are the progress made in the implementation of Kesko's strategies, and projects and changes related to business operations, financial management, cyber security and data protection.

Related party transactions

According to the Corporate Governance Code, the Company shall evaluate and monitor transactions concluded between the Company and its related parties and ensure that any conflicts of interest are taken into account appropriately in the Company's decision-making process. The Company shall keep a list of related parties.

The Company shall report the decision-making procedure applied in connection with related party transactions that are material to the Company and that either deviate from the Company's normal business operations or are not made on market or market equivalent terms.

Kesko Group's related party transactions are reported in note 5.3 to the consolidated financial statements. The related party transactions do not deviate from the Company's normal business operations and they have been made on normal market terms.

Main procedures relating to insider administration

Kesko's insider guidelines

Kesko complies with Nasdaq Helsinki Ltd's guidelines for insiders in force at any given time. In addition, Kesko Corporation's Board of Directors has confirmed specific insider guidelines for the Company complementing Nasdaq Helsinki Ltd's guidelines for insiders.

Closed period

The closed period of 30 calendar days before the publication of interim reports, the half year financial report and the financial statements, as provided by the Market Abuse Regulation (MAR), is applied to specific members of management at Kesko. During the closed period, the management is prohibited from trading in Kesko's financial instruments. The Company has imposed a 30-day closed period preceding the quarterly financial performance disclosures also on persons involved in the preparation of Kesko's interim reports, the half year financial report and financial statements. Information on closed periods is provided annually in a stock exchange release.

Management transactions

As the public insider register was discontinued, the Company's obligation to disclose the transactions of the Company's management and persons closely associated with them changed as of 3 July 2016. At Kesko, Kesko Corporation's Board of Directors, the President and CEO, as well as the other Group Management Board members have been defined to be subject to the requirement to notify their transactions. Transactions by Kesko's management and persons closely associated with them are disclosed in accordance with MAR.

Control and training

Kesko's Legal Affairs Services controls the compliance with insider guidelines and maintains the Company's insider lists and a list of managers and persons closely associated with them. The duties of Kesko's Legal Affairs Services in the area of insider management include the following:

- internal information on insider matters
- training in insider matters
- drawing up and maintaining insider lists and submitting them on request to the Financial Supervisory Authority
- ensuring that any person on the insider list acknowledges the duties entailed according to Article 18(2) of the Market Abuse Regulation
- maintaining a list of management and persons closely associated with them obligated to notify their transactions
- notifying management of their obligations under Article 19(5) of the Market Abuse Regulation
- controlling insider matters
- keeping abreast of any changes in the regulation of insider matters.

Auditing

According to the Articles of Association, Kesko has one (1) Auditor, which shall be an audit firm authorised by Finland Chamber of Commerce. The Audit Committee submits a proposal to the Annual General Meeting for the Company's Auditor. The Audit Committee also evaluates the auditor's operations and services annually. The term of office of the Auditor is the Company's financial year and the Auditor's duties end at the close of the Annual General Meeting following the Auditor's election. As a rule, an audit company belonging to the same chain as the audit firm represented by the Auditor elected by Kesko's General Meeting acts as the Auditor of the Group's foreign subsidiaries.

The Auditor provides Kesko's shareholders with the statutory Auditor's Report in connection with the Company's financial statements and regularly reports on its findings to the Audit Committee of Kesko's Board of Directors.

The Annual General Meeting 2017 elected PricewaterhouseCoopers Oy, the firm of auditors, as the Company's Auditor. The Auditor with principal responsibility for the Company is APA Mikko Nieminen.

He is currently the Managing Director of PricewaterhouseCoopers Oy and the auditor responsible for two Finnish listed companies:

- Kesko
- Finnair

APA Mikko Nieminen has been the Auditor with principal responsibility for the Company since 13 April 2015.

The General Meeting resolved that the Auditor's fee is paid and expenses are reimbursed according to invoices approved by the Company.

AUDITORS' FEES IN 2016–2017 (€1,000)

	2017			2016		
	Kesko Corporation	Other Group companies	Total	Kesko Corporation	Other Group companies	Total
Auditing	309	671	980	215	705	920
Tax consultation	50	26	76	7	86	93
IFRS consultation	42	0	42	24	-	24
Other services	1,066	67	1,133	183	137	320
Total	**1,476**	**764**	**2,231**	**429**	**928**	**1,357**

KESKO'S YEAR 2017

REMUNERATION STATEMENT 2017

Introduction

This Remuneration Statement has been reviewed at the meeting of the Remuneration Committee of Kesko Corporation's Board of Directors on 31 January 2018.

This is the Remuneration Statement in accordance with the Finnish Corporate Governance Code issued by the Securities Market Association effective on 1 January 2016. This statement and the other information to be disclosed in accordance with the Corporate Governance Code are available on Kesko's website at www.kesko.fi/en/investor/corporate-governance/.

Decision-making procedure concerning remuneration

The Annual General Meeting decides on the remuneration and other financial benefits of the members of Kesko Corporation's ("Kesko") Board of Directors and its Committees annually. Significant shareholders prepare to the General Meeting the proposals concerning the Board of Directors, including the proposal for the number of Board members, the proposal for the remuneration of the Board members, and when necessary, the proposal for the Board members.

Based on the Remuneration Committee's preparatory work, Kesko's Board of Directors makes decisions on the personal remuneration, other financial benefits and performance bonuses to the President and CEO and the Group Management Board members responsible for lines of business. As for the other Group Management Board members, Kesko's Board of Directors makes decisions on the performance bonus principles. The President and CEO makes decisions on the remuneration and financial benefits of the Group Management Board members other than those responsible for lines of business, based on preparatory work by the head of HR, within the limits set by the Chairman of the Board's Remuneration Committee.

The Board of Directors monitors the implementation of the remuneration schemes of the President and CEO and the other Group Management Board members.

Main principles of remuneration

Remuneration schemes

The remuneration of the members of the Board of Directors and its Committees comprises annual fees decided by the General Meeting and potential other financial benefits. The remuneration of the members of the Board and its Committees is paid in cash. The Board members did not have share compensation or share-based compensation plans in 2017, nor do they participate in the other compensation plans or pension plans of the Company.

The remuneration scheme of the President and CEO and the other members of the Group Management Board consists of a fixed monetary salary (monthly salary), fringe benefits (free car and mobile phone benefit), a performance bonus based on criteria decided annually (short-term incentive scheme), a share scheme (long-term commitment and incentive scheme) and management's retirement benefits.

Commitment and incentive schemes

Performance bonus scheme (short-term commitment and incentive scheme) in 2017

The performance bonuses determined annually are paid after the completion of the annual financial statements by the end of April following the year of determination. Kesko's Board of Directors makes decisions on management's performance bonus criteria annually.

The performance bonus criteria for all members of the Group Management Board comprise the Group's comparable operating profit, return on capital employed (%) (at group and division level), and business-specific sales or market share indicator. In addition, each member of the Group Management Board has individual targets. The performance bonus criteria and their weights vary depending on duties.

The fulfilment of the performance and profit criteria and their impact on long-term financial success are monitored and evaluated by Kesko's Board and Remuneration Committee.

The maximum performance bonus of Kesko's President and CEO corresponds to his eight months' monetary salary excluding fringe benefits, and that of the other Group Management Board members, the monetary salary of four to five months, depending on the profit impact of their duties. The performance bonus of a Group Management Board member is determined based on the monetary salary of the last month of the calendar year, the performance of which is the basis of the bonus.

If exceptional events and events with significant impacts on operations take place during the financial year, or if the market situation or the Company's productivity trend so requires, the application, target setting and payment rules of the performance bonus scheme can be changed by a decision of Kesko Corporation's Board also in individual cases.

At its discretion, the Board may decide not to pay a performance bonus, or decide to recover a bonus that has already been paid, if the bonus recipient has been found guilty of malpractice or an action in breach of Kesko's ethical or responsibility principles or guidance that, as a whole, cannot be considered insignificant, or if there are weighty grounds for assuming that the recipient is guilty of such acts.

Share-based commitment and incentive scheme 2017–2020 (long-term commitment and incentive scheme)

In February 2017, Kesko's Board of Directors decided on a new long-term share-based commitment and incentive scheme for top management for 2017–2020. The scheme consists of three share-based compensation plans, under which the Board can annually decide on the initiation of new share plans. The primary share-based compensation plan is the Performance Share Plan (PSP). There is also a transitional Bridge Plan for 2017 and an RSP (restricted share pool) plan for special situations. Once the transfer restriction of each share plan ends, the recipient of the shares is free to use them, provided that the person is still employed by Kesko Group.

The purpose of the share-based compensation plan is to promote Kesko's business and increase the Company's value by aligning the objectives of the shareholders and executives. The plan also aims to commit people to Kesko Group and give them the opportunity to receive Company shares upon fulfilling the objectives set in the share-based compensation plan.

The maximum gross amount of share award paid for each performance period is 400% of the monetary salary of the last calendar year of the performance period for which the award is paid.

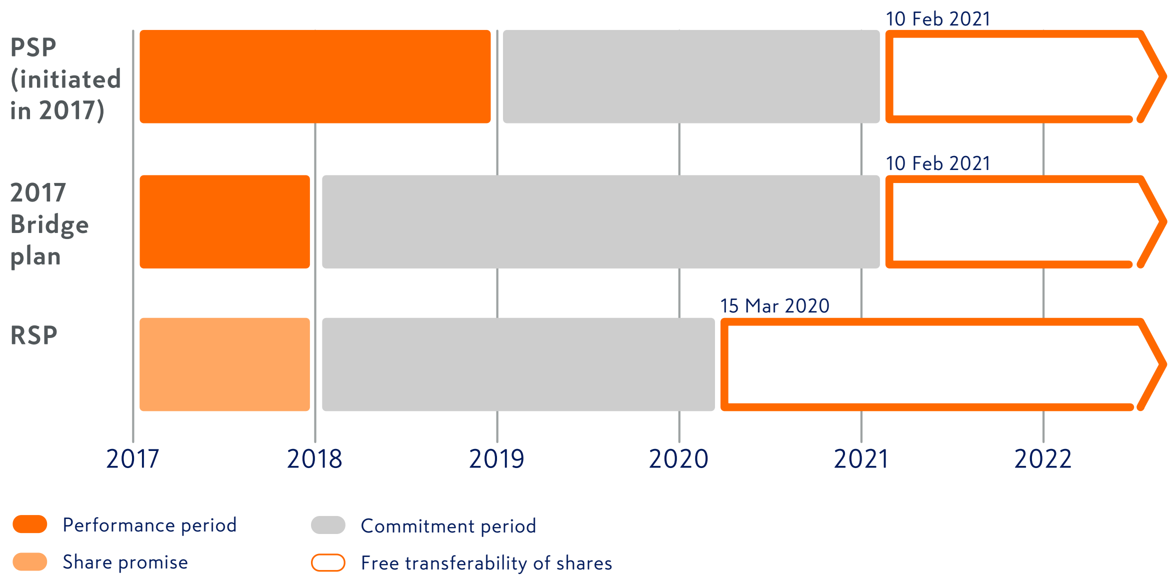
The PSP consists of rolling four-year share plans, each with a two-year performance period followed by a two-year commitment period. The Board of Directors of Kesko Corporation decides annually whether to initiate a new plan. The PSP that began at the start of 2017 consists of a two-year performance period (1 Jan. 2017–31 Dec. 2018) followed by a two-year commitment period (1 Jan. 2019–10 Feb. 2021).

The transitional 2017 Bridge Plan has a one-year performance period, followed by a three-year commitment period. Apart from that, the rules are the same as for the PSP. The Bridge Plan that began at the start of 2017 consists of a one-year performance period (1 Jan. 2017–31 Dec. 2017) followed by a three-year commitment period (1 Jan. 2018–10 Feb. 2021).

RSP (restricted share pool) is a secondary share plan for special situations, to be decided upon separately. It has a fixed share allocation decided on an individual level, and a commitment period that ends three years after the plan is initiated.

Kesko applies a share ownership recommendation policy to the members of Kesko's Group Management Board. According to the recommendation, each Group Management Board member shall maintain a holding of at least 50% of the net shares they have received under the Company's share-based compensation schemes until their holding of Kesko shares corresponds to at least their fixed gross annual salary.

KESKO'S SHARE-BASED COMPENSATION PLANS 2017



STRATEGY SUSTAINABILITY FINANCIAL STATEMENTS **CORPORATE GOVERNANCE**

Remuneration report

Board of Directors and its Committees

The Annual General Meeting decides on the remuneration and other financial benefits of the members of Kesko's Board of Directors and its Committees annually. The remuneration of the members of the Board and its Committees is paid in cash. The Board members do not have share compensation or share-based compensation plans, nor do they participate in the other compensation plans or pension plans of the Company.

The Annual General Meeting of 3 April 2017 resolved to leave Kesko Board members' remuneration unchanged.

COMMITMENT, INCENTIVE AND REMUNERATION FOR MEMBERS OF BOARD OF DIRECTORS AND ITS COMMITTEES

	Description	2017	2016
Remuneration	Remuneration/person	• Chairman €80,000 • Deputy Chairman €50,000 • Member €37,000	• Chairman €80,000 • Deputy Chairman €50,000 • Member €37,000
Share awards	None	–	–
Meeting fees	A meeting fee of €500 per meeting is paid for a Board meeting and its Committee's meeting, with the exception that the Chairman of a Committee who is not the Chairman or the Deputy Chairman of the Board is paid €1,000 per Committee meeting.	–	–
Insurance	None	–	–
Fringe benefits	None	–	–
Reimbursements of travel expenses and daily allowances	Daily allowances and the reimbursements of travel expenses are paid to the Board and Committee members in accordance with the general travel rules of Kesko.	–	–

ANNUAL REMUNERATION AND MEETING FEES PAID TO BOARD MEMBERS FOR BOARD AND COMMITTEE WORK IN 2017 (€)*

		Meeting fees			
	Annual remuneration	Board	Audit Committee	Remuneration Committee	Total
Esa Kiiskinen (Ch.)	80,000	6,000		1,500	87,500
Mikael Aro (Dep. Ch.)	50,000	6,000	2,500	1,500	60,000
Jannica Fagerholm	37,000	6,000	5,000		48,000
Matti Kyytsönen	37,000	6,000	2,500		45,500
Matti Naumanen	37,000	6,000			43,000
Anu Nissinen	37,000	6,000		1,500	44,500
Toni Pokela	37,000	6,000			43,000
Total	**315,000**	**42,000**	**10,000**	**4,500**	**371,500**

* Reported on a cash basis.

President and CEO

President and CEO **Mikko Helander's** personal remuneration, other financial benefits, performance bonus scheme criteria and performance bonuses paid are decided by Kesko's Board of Directors based on the Remuneration Committee's preparatory work. A written managing director's service contract, approved by the Board, is in force between the Company and the President and CEO. Helander has been the Company's President and CEO and the Chairman of the Group Management Board since 1 January 2015.

Salaries, performance bonuses and fringe benefits are reported on a cash basis. The 2016 earnings on accrual basis are calculated by adding the amount of performance bonus paid in 2017 to the salaries and fringe benefits for 2016.

In 2017, €1,398,030, or a total of 16,086 shares (maximum amount 21,000 shares), was paid as share award based on the 2016 performance period. The commitment period for share awards granted for the 2016 performance period will end on 31 Dec. 2019.

In 2016, €857,255, or a total of 11,214 shares (maximum amount 21,000 shares), was paid based on the 2015 performance period.

The euro value of the share awards paid in 2017 and 2016 has been calculated using the trade-weighted average share price on the date of assignment. The share awards paid have been net share awards, in addition to which a cash component has been paid to cover the taxes and tax-like charges. The share award euro amounts depicted in the table comprise the combined total of the net value of the shares and the cash component.

SALARIES, BONUSES AND FRINGE BENEFITS FOR THE PRESIDENT AND CEO

Description	2017	2016
Fixed monetary salary	€934,500	€873,600
The maximum amount of performance bonus is a sum corresponding to 8 months' monetary salary	€490,000	€420,000
Share awards	€1,398,030	€857,255
Car and mobile phone benefits	€26,907	€23,160
Total	**€2,849,437**	**€2,174,015**

RETIREMENT BENEFIT FOR PRESIDENT AND CEO

Description	2017	2016
Voluntary pension plan	Payments to voluntary pension plan totalled €1,350,000.	Payments to voluntary pension plan totalled €1,070,000.

For the 2017 performance period, the President and CEO will be paid a share award corresponding to 17,746 shares by the end of April 2018 (Board decision on 31 Jan. 2018). The share award to be paid is a gross share award, from which the applicable withholding tax is deducted and the remaining net amount is paid in shares. The maximum amount of share award to be paid for the 2017 performance period was determined at a total of 38,000 shares. The commitment period for share awards granted for the 2017 performance period will end on 10 Feb. 2021.

Retirement benefits and termination benefits for President and CEO

The amount of old-age pension has been agreed to be 60% of the President and CEO's pensionable earnings in accordance with the Employees' Pensions Act (TyEL) for the ten (10) calendar years preceding the retirement. The pension is based on a defined benefit plan.

The period of notice for the President and CEO is twelve (12) months if the managing director's service contract is terminated by the Company and six (6) months if Helander resigns. If the Company terminates the contract for a reason other than a material breach of contract by the managing director, and the managing director does not retire on an old-age pension or some other pension, the managing director is paid, in addition to the salary for the period of notice, a compensation corresponding to the combined amount of 12 months' monetary salary and fringe benefits.

In addition, a health insurance, life insurance and leisure travel insurance have been taken out for Helander.

Other Group Management Board members

Based on the Remuneration Committee's preparatory work, Kesko's Board of Directors makes decisions on the personal remuneration, other financial benefits and the performance bonuses to the Group Management Board members responsible for lines of business. As for the other Group Management Board members, Kesko's Board of Directors makes decisions on the performance bonus principles. The President and CEO makes decisions on the remuneration and financial benefits of the Group Management Board members other than those responsible for lines of business, based on preparatory work by the head of HR, within the limits set by the Chairman of the Board's Remuneration Committee.

In addition to President and CEO Helander, Group Management Board members in 2017 were:

- **Jorma Rauhala**, Executive Vice President, building and technical trade division, deputy to President and CEO
- **Ari Akseli**, Executive Vice President, grocery trade division (as of 15 November 2017)
- **Johan Friman**, Executive Vice President, President of VV-Auto Group
- **Jukka Erlund**, Executive Vice President, Chief Financial Officer
- **Matti Mettälä**, Executive Vice President, Human Resources
- **Anne Leppälä-Nilsson**, Executive Vice President, Group General Counsel
- **Lauri Peltola**, Executive Vice President, Corporate responsibility, communications and stakeholder relations
- **Anni Ronkainen**, Executive Vice President, Chief Digital Officer

SALARIES, BONUSES AND FRINGE BENEFITS FOR OTHER MANAGEMENT BOARD MEMBERS (EXCLUDING HELANDER)

Description	2017	2016
Fixed monetary salary	€2,153,076	€2,012,999
The maximum amount of performance bonus is a sum corresponding to 4 to 5 months' monetary salary	€353,375	€369,250
Share awards	€3,528,362	€2,149,128
Car and mobile phone benefits	€150,334	€151,977
Total	**€6,185,147**	**€4,683,354**

Jorma Rauhala was appointed President of Kesko's building and technical trade division and deputy to Kesko's President and CEO on 15 November 2017. Previously, Rauhala acted as President of Kesko's grocery trade division. Rauhala's predecessor **Terho Kalliokoski's** membership on the Group Management Board ended on 15 November 2017. **Ari Akseli** was appointed President of Kesko's grocery trade division on 15 November 2017. **Anne Leppälä-Nilsson** retired on 31 December 2017. As her replacement, **Mika Majoinen** was appointed Group General Counsel and a member of the Group Management Board as of 1 January 2018. Lauri Peltola's membership on the Group Management Board ended on 31 October 2017.

Salaries, performance bonuses and fringe benefits are reported on a cash basis. The 2016 earnings on accrual basis are calculated by adding the amount of performance bonus paid in 2017 to the salaries and fringe benefits for 2016.

In 2017, €3,528,362, or a total of 40,598 shares (maximum amount 53,000 shares), was paid to Group Management Board (excl. the President and CEO) as share award based on the 2016 performance period. The commitment period for share awards granted for the 2016 performance period will end on 31 Dec. 2019.

In 2016, €2,149,128, or a total of 28,302 shares (maximum amount 53,000 shares), was paid based on the 2015 performance period.

The euro value of the share awards paid in 2017 and 2016 has been calculated using the trade-weighted average share price on the date of assignment. The share awards paid have been net share awards, in addition to which a cash component has been paid to cover the taxes and tax-like charges. The share award euro amounts depicted in the table comprise the combined total of the net value of the shares and the cash component.

For the 2017 performance period, the Group Management Board (excl. President and CEO) will be paid a share award corresponding to 35,586 shares by the end of April 2018 (Board decision on 31 Jan. 2018). The share award to be paid is a gross share award, from which the applicable withholding tax is deducted and the remaining net amount is paid in shares. The maximum amount of share award to be paid for the 2017 performance period was determined at a total of 76,200 shares. The commitment period for share awards granted for the 2017 performance period will end on 10 Feb. 2021.

Retirement benefits and termination benefits for Group Management Board members (excluding Helander)

The old-age pension age of Management Board members who are members of Kesko Pension Fund is 62–63 years. The retirement age of other members according to their service contracts is 63 years, unless the Company and the director agree on extending the contract beyond the retirement age.

The amount of old-age pension for Management Group members who are members of Kesko Pension Fund is 66% of pensionable earnings for the ten (10) calendar years preceding retirement. The retirement benefits of the other Management Board members are determined based on the Finnish Employees' Pensions Act (TyEL). Those Management Board members who are not members of Kesko Pension Fund are provided with a defined contribution supplementary pension.

In 2017, three Group Management Board members were members of Kesko Pension Fund and their supplementary pensions are determined based on its rules and their personal service contracts. Their supplementary pensions are based on a defined benefit plan. Other Management Board members are provided with a defined contribution supplementary pension.

In 2016, four Group Management Board members were members of Kesko Pension Fund and their supplementary pensions are determined based on its rules and their personal service contracts. Their supplementary pensions are based on a defined benefit plan. The retirement benefits of the other Group Management Board members are determined based on the general provisions applicable to employees' pensions in Finland (TyEL, the Employees' Pensions Act).

The period of notice is 6 months if the service contract is terminated by the Company, and 6 months if the director resigns. If the Company terminates the contract for a reason other than a material breach of contract by the director, and the director does not retire on an old-age pension or some other pension, the director is paid, in addition to the salary for the period of notice, a compensation corresponding to the combined amount of 6–18 months' monetary salary and fringe benefits.

Valid authorisations of the Board of Directors concerning remuneration and their use

Kesko's Annual General Meeting of 4 April 2016 authorised the Board to decide on the transfer of a total maximum of 1,000,000 own B shares held by the Company as treasury shares (Share issue authorisation 2016). The authorisation cancelled an earlier share issue authorisation with similar content. Based on the authorisation, 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, departing 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 acquisitions, capital expenditure or other arrangements within the scope of the Company's business operations, and to implement the Company's commitment and incentive scheme. Own B shares held by the Company as treasury shares can be transferred either against or without payment. A share issue can only be without payment if the Company, taking into account the best interests of all of its shareholders, has a particularly weighty financial reason for it. The authorisation also includes the Board's authority to make decisions concerning any other matters related to the share issues. 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 2020.

The Annual General Meeting of 4 April 2016 also approved the Board's proposal for its authorisation to decide on the acquisition of a maximum of 1,000,000 own B shares of the Company (Authorisation to acquire own shares 2016). B shares are acquired otherwise than in proportion to the shareholdings of shareholders with the Company's distributable unrestricted equity at the B share market price quoted in public trading organised by Nasdaq Helsinki Ltd ("the exchange") at the date of acquisition. The shares are acquired and paid for in accordance with the rules of the exchange. The acquisition of own shares reduces the amount of the Company's distributable unrestricted equity. B shares are acquired for use in the development of the Company's capital structure, to finance possible acquisitions, capital expenditure and/or other arrangements within the scope of the Company's business operations, and to implement the Company's commitment and incentive scheme. The Board makes decisions concerning any other issues related to the acquisition of own B shares.
The authorisation expired on 30 September 2017.

In addition to the above authorisations, the Board of Directors has a share issue authorisation decided by the General Meeting of 13 April 2015, which cannot, however, be used for remuneration purposes.

On 1 February 2017, the Board of Directors decided, based on the issue authorisation in force and the fulfilment of the performance criteria of the 2016 performance period of Kesko's previous 2014–2016 share plan, to grant own B shares held by the Company as treasury shares to the persons included in the target group of the 2016 performance period. This transfer of a total of 192,822 own B shares was announced in a stock exchange release on 15 March 2017. Based on the 2014–2016 share-based compensation plan decided by the Board, a total maximum of 600,000 own B shares held by the Company as treasury shares could be granted within a period of three years based on the fulfilment of the performance criteria. The Board decided on the performance criteria and the target group separately for each performance period. During 2017, a total of 9,850 shares granted based on the fulfilment of the performance criteria of the share-based compensation plan 2014–2016 were returned to the Company in accordance with the terms and conditions of the share-based compensation plan. The returns during 2017 were communicated in stock exchange releases on 12 May, 18 September and 28 December 2017. The 2014–2016 share-based compensation plan has ended.

BOARD OF DIRECTORS AND GROUP MANAGEMENT BOARD

Board of Directors

Esa Kiiskinen

Chair, Chair of the Remuneration Committee

b. 1963, Business College Graduate.

Independence: He is considered by the Board not to be independent of the Company (chain agreement) but to be independent of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Food retailer.

Main employment history: K-food retailer since 1990.

Main positions of trust: Taaleri Plc: member of the Board 2014–, Confederation of Finnish Industries EK: Chair of the Delegation for Entrepreneurs 2012–2014, Confederation of Finnish Industries EK: Vice-Chair of the Board 2012–2014, Finnish Family Firms Association: member of the Board 2011–2012, The Foundation for Vocational Training in the Retail Trade: Chair of the Board 2008–2012, Saija ja Esa Kiiskinen Oy: Chair of the Board 1995–, Finnish Commerce Federation: member of the Board 2008–2012, K-Retailers' Association: Chair of the Board 2008–2012, Vähittäiskaupan Tilipalvelu VTP Oy: member of the Board 2008–2012.

Board member since: 30 March 2009.

Kesko shares held:
At 31 December 2016: a total of 107,350 A shares held by him and entities controlled by him.
At 31 December 2017: a total of 107,350 A shares held by him and entities controlled by him.

Mikael Aro

Deputy Chair, Deputy Chair of the Audit Committee and the Remuneration Committee

b. 1965, eMBA.

Independence: He is considered by the Board to be independent of the Company and of its significant shareholders.

Domicile: Tuusula, Finland.

Principal occupation: Senior industry adviser, Triton-Partners.

Main employment history: VR-Group Ltd: President and CEO, Carlsberg Breweries AS: Senior Vice President, Northern Europe, Oy Sinebrychoff Ab: CEO.

Main positions of trust: Suomen Kansallisteatterin Osakeyhtiö: member of the Board 2012–, Varma Mutual Pension Insurance Company: member of the Board 2010–2017, Mehiläinen Oy: member of the Board 2016–, Confederation of Finnish Industries (EK): member of the Board 2013–2016, Service Sector Employers PALTA: member of the Board 2011–2016 and Deputy Chair 2011–2016, East Office of Finnish Industries: member of the Board 2009–2016 and Deputy Chair 2015–2016, Nordic Cinema Group: Chair of the Board 2013–2015, Altia Plc: member of the Board 2010–2015, Federation of the Brewing and Soft Drinks Industry: Chair of the Board 2007–2008, The Finnish Food and Drink Industries' Federation (ETL): First Deputy Chair of the Board 2007–2008, Registered Association Finnish-Russian Chamber of Commerce (FRCC): member of the Board 2010–2014, Carlsberg Danmark AS: Chair of the Board 2007–2009, Finnkino Ltd: Chair of the Board 2012–2013, Oy Sinebrychoff Ab: member of the Board 2008–2009.

Board member since: 13 April 2015.

Kesko shares held:
At 31 December 2016: a total of 1,000 Kesko B shares held by him.
At 31 December 2017: a total of 1,000 Kesko B shares held by him.

Jannica Fagerholm

Chair of the Audit Committee

b. 1961, Master of Science (Economics).

Independence: She is considered by the Board to be independent of the Company and of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Managing Director, Signe and Ane Gyllenberg Foundation.

Main employment history: Signe and Ane Gyllenberg Foundation: Managing Director 2010–, SEB Gyllenberg Private Bank: Managing Director 1999–2010, Handelsbanken Liv Finland: Country Director 1998–1999.

Main positions of trust: Sampo plc: member of the Board 2013–, Teleste Corporation: member of the Board 2013–, Kelonia Ab, member of the Board 2010–, Veritas Pension Insurance, member of the Supervisory Board 2010–, The Society of Swedish Literature in Finland, member of the Board 2015–, member of the Financial Board 2001–2015, Eira Hospital Ltd: member of the Board 2010–, Hanken School of Economics: member of the Board 2008–, Partiosäätiö foundation: member of the Board 1997–2013, Aktia Abp: member of the Board 2012–2013.

Board member since: 4 April 2016.

Kesko shares held:
At 31 December 2016: None.
At 31 December 2017: None.

Matti Kyytsönen

Member of the Audit Committee

b. 1949, Master of Science (Economics).

Independence: He is considered by the Board to be independent of the Company and of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Silverback Consulting Oy: Chair of the Board.

Main employment history: ISS Palvelut Oy: Managing Director 1992–2006, Esselte Oy: Managing Director 1984–1992, Oy Perkko: Managing Director 1983–1984, Tietoura-Yhtiöt Oy: Marketing Director 1981–1983, Oy Foto-Nyblin Ab: Finance and Marketing Manager 1977–1981, Insinööritoimisto Oy Vesto: Accounting Manager 1974–1976, Oy Mobil Oil Ab: Financial Analyst 1973–1974.

Main positions of trust: Eltel AB: member of the Board 2007–2017, Lindström Invest Oy: member of the Board 2009– and Chair of the Board 2017–, KP Tekno Oy: member of the Board 2006–, Port of Helsinki Ltd: member of the Board 2015–, Esperi Care Oy: member of the Board 2008–2016, Oy Center-Inn Ab: member of the Board 2007–2012, Kiinteistöpalvelut ry: Chair of the Board 1996–2001 and 2005–2006, Palvelutyönantajat ry: member of the Board 1996–2001, Confederation of Finnish Industries (EK): member of the Board 2005–2006, The Unemployment Insurance Fund: member and Chair of the Supervisory Board 1999–2006, Varma Mutual Pension Insurance Company: member of the Supervisory Board 1998–2006.

Board member since: 13 April 2015.

Kesko shares held:
At 31 December 2016: a total of 995 Kesko B shares held by him.
At 31 December 2017: a total of 995 Kesko B shares held by him.

Matti Naumanen

Member of the Board

b. 1957, Trade Technician.

Independence: He is considered by the Board not to be independent of the Company (entity controlled by him has a chain agreement with a Kesko Group company) but to be independent of its significant shareholders.

Domicile: Joensuu, Finland.

Principal occupation: Retailer.

Main employment history: K-retailer since 1982.

Main positions of trust: The K-Retailers' Association's Agricultural and Building and Home Improvement Retailers' Club: Chair of the Board 2009–2016. Former positions of trust: The K-Retailers' Association: member of the Board 2009–2016, registered association Nurmeksen Yrittäjät: Chair of the Board, registered association Joensuun Yrittäjät: Chair of the Board.

Board member since: 4 April 2016.

Kesko shares held:
At 31 December 2016: a total of 20,064 A shares held by him and entities controlled by him.
At 31 December 2017: a total of 20,064 A shares held by him and entities controlled by him.

Anu Nissinen

Member of the Remuneration Committee

b. 1963, Master of Science (Economics).

Independence: She is considered by the Board to be independent of the Company and of its significant shareholders.

Domicile: Helsinki, Finland.

Principal occupation: Managing Director, Digma Design Oy

Main employment history: Sanoma Media Finland Oy: CEO 2011–2013, Sanoma Entertainment Finland: President 2008–2011, Welho/Helsinki Televisio Oy: Managing Director 2004–2008, Helsinki Televisio Oy: Marketing Director 2001–2004, Oy Sinebrychoff Ab: several marketing duties 1990–2000.

Main positions of trust: DNA Ltd: member of the Board 2010–2012 and 2014–, F-Secure Corporation: member of the Board 2010–, Siili Solutions Plc: member of the Board 2014–, Viestilehdet Oy: member of the Board 2015–, Era Content Oy: Managing Director 2014–2015 and Chair of the Board 2016, The Finnish Film Foundation: member of the Board 2017–; Prevent 360 Turvallisuuspalvelut Oy: member of the board 2017–.

Board member since: 13 April 2015.

Kesko shares held:
At 31 December 2016: None.
At 31 December 2017: None.

Toni Pokela

Member of the Board

b. 1973, eMBA.

Independence: He is considered by the Board not to be independent of the Company (chain agreement) and of significant shareholders (Chair of the Board of a significant Company shareholder, the K-Retailers' Association).

Domicile: Helsinki, Finland.

Principal occupation: Food retailer.

Main employment history: K-food retailer since 1997.

Main positions of trust: Pokela Oy Iso Omena: member of the Board and Managing Director 1998–, Iso Omenan Yrittäjäyhdistys ry: Chair of the Board 2003–, Foundation for Vocational Training in the Retail Trade: Chair of the Board 2016–, Finnish Commerce Federation: member of the Board 2017–, Confederation of Finnish Industries EK: member of the Skilled Workforce Committee 2014–2016, member of the Delegation for Entrepreneurs 2017–, K-Retailers' Association: Chair of the Board 2016–, member of the Board 2008–2012, K-instituutti Oy: Deputy Chair of the Board 2010–2012, Vähittäiskaupan Takaus Oy: member of the Board 2010–2012, K-Food Retailers' Club: Chair of the Board 2010–2012, Deputy Chair 2008–2010, Finnish Grocery Trade Association: member of the Board 2010–2011.

Member of the Board since: 16 April 2012.

Kesko shares held:
At 31 December 2016: a total of 179,400 A shares held by the entities controlled by him.
At 31 December 2017: a total of 179,400 A shares held by the entities controlled by him.

Group Management Board

Mikko Helander

President and CEO

b. 1960, Vuorineuvos (an honorary title granted by the President of the Republic of Finland), Master of Science (Technology).

Domicile: Helsinki, Finland.

Other major duties: Confederation of Finnish Industries EK: member of the Board 2016– and Deputy Chair of the Board 2016; Finland Chamber of Commerce: member of the Board 2016–; Finnish Commerce Federation: member of the Board 2015– and Deputy Chair of the Board 2015; Ilmarinen Mutual Pension Insurance Company: member of the Board 2015– and Chair of the Board 2016–; Finnish Business and Policy Forum EVA: member 2015–; Finnish Fair Corporation: Board member 2015–; East Office of Finnish Industries Oy: member of the Board 2015–.

Employment history: Employed by Kesko Corporation since 2014. Kesko Corporation's Managing Director and Kesko Group's President and CEO since 1 January 2015. Kesko Corporation's Executive Vice President 2014. Metsä Board Corporation: Chief Executive Officer 2006–2014; Metsä Tissue Corporation: Chief Executive Officer 2003–2006; Various management positions at Valmet Corporation between 1993 and 2003; Managing Director of Kasten Hövik 1990–1993.

Member of the Group Management Board since: 1 October 2014.

Kesko shares held:
At 31 December 2016: 20,005 B shares.
At 31 December 2017: 36,091 B shares.

Jorma Rauhala

Deputy to Kesko's President and CEO, Executive Vice President, building and technical trade

b. 1965, Master of Science (Economics).

Domicile: Espoo, Finland

Other major duties: The Finnish Grocery Trade Association: Chair of the Board 2017 (until 20.11.2017) and 2013–2014; member of the Board 2013–2016; the Association of Finnish Advertisers: member of the Board 2014–2017 (until 24.11.2017).

Employment history: Employed by Kesko Ltd since 1992. Senior Vice President, grocery trade division since 1 January 2015. President of Kesko Food Ltd since 2013. Vice President for the K-citymarket chain's food trade 2012–2013, Managing Director of Kespro Ltd 2007–2012, Purchasing Director of Kespro Ltd 2003–2007.

Member of the Group Management Board since: 5 February 2013.

Kesko shares held:
At 31 December 2016: 13,670 B shares.
At 31 December 2017: 20,564 B shares.

Ari Akseli

Executive Vice President, grocery trade

b. 1972, Master of Science (Economics).

Domicile: Vihti, Finland.

Other major duties: The Finnish Grocery Trade Association: Chair of the Board 20.11.2017–, AMS Advisor Board: member 2013–; IGS Advisor Board: member 2016–; Ruokatieto: Vice Chairman of the Board 2016–, member of the Board 2013–2015; Association for Finnish Work: member of the Executive Committee 2014–.

Employment history: Employed by Kesko Ltd since 1995. President of Kesko's grocery trade division since 15 November 2017. Vice President for Commerce, Kesko's grocery trade 2013–2017; President, Anttila Oy 2010–2013; President, K-citymarket Oy 2008–2013.

Member of the Group Management Board since: 15 November 2017.

Kesko shares held:
At 31 December 2017: 81 A shares, 7,568 B shares.

Johan Friman

Executive Vice President, car trade

b. 1965, Master of Science (Economics).

Domicile: Espoo, Finland.

Other major duties: Association of Automobile Importers in Finland: member of the Board 2017–; LeasePlan Belgium: member of the Board 2010–2016; LeasePlan Denmark: member of the Board 2011–2016; VMF Verband markenunabhängiger Fuhrparkmanagementgesellschaften, Deutschland: member of the Board 2006–2016.

Employment history: Employed by Kesko Corporation since 2017. Senior Vice President, car trade division since 1 January 2017. LeasePlan Deutschland GmbH: Managing Director 2006–2016, LeasePlan Finland Oy: Managing Director 1997–2006, Inchcape Motors Finland Oy: Managing Director of the Retail business 1995–1997 and Marketing Director of the importer 1995, Bilia Oy: Sales Manager, Dealer Manager and Fleet sales 1991–1994.

Member of the Group Management Board since: 1 January 2017.

Kesko shares held:
At 31 December 2017: None.

Jukka Erlund

Executive Vice President, Chief Financial Officer

b. 1974, Master of Science (Economics), eMBA.

Domicile: Helsinki, Finland.

Other major duties: Finnish Commerce Federation: Chair of the Tax and Economic Policy Committee 2011–, Confederation of Finnish Industries EK: member of the Economy and Tax Committee 2012–, Suomen Luotto-osuuskunta: member of the Board 2012–, Luottokunta: member of the Board 2012.

Employment history: Employed by Kesko Ltd since 2004. Senior Vice President, CFO since 1 November 2011. Kesko Food Ltd's Vice President for Finance 2010–2011, Kesko Corporation's Vice President, Corporate Controller 2007–2010, Kesko Corporation's Corporate Business Controller 2004–2007.

Member of the Group Management Board since: 1 November 2011.

Kesko shares held:
At 31 December 2016: 11,478 B shares.
At 31 December 2017: 16,840 B shares.

Mika Majoinen

Executive Vice President, Group General Counsel

b. 1963, Master of Laws, Group General Counsel.

Domicile: Helsinki, Finland.

Other major duties: Finnish Commerce Federation: member of the Legal Affairs Committee 2018–, Confederation of Finnish Industries EK: member of the Legal Affairs Committee 2018–.

Employment history: Employed by Kesko Ltd since 1990. Group General Counsel as of 1 January 2018. Executive Vice President, Group General Counsel, Company Secretary for Kesko's Board of Directors and Group Management Board 2005–2017, division lawyer for Rautakesko Ltd 2001–2005, lawyer for the Builders' and Agricultural Supplies Division 1998–2001, development manager at Kesko Corporation's Legal Affairs Department 1996–1998, lawyer at Kesko Corporation's Legal Affairs Department 1990–1996.

Member of the Group Management Board since: 1 January 2018.

Kesko shares held:
At 1 January 2018: 9,669 B shares.

Matti Mettälä

Executive Vice President, Human Resources, Corporate Responsibility and Regional Relations

b. 1963, Master of Laws.

Domicile: Helsinki, Finland.

Other major duties: Huoltoupseeriyhdistys ry: member of delegation 2013–, Finnish Commerce Federation: member of the Research Committee 2013–, Foundation for Vocational Training in the Retail Trade: member of the Board 2005–.

Employment history: Employed by Kesko Ltd 1990–2005 and since 2012. Senior Vice President, Human Resources since 1 January 2015. Senior Vice President, Human Resources and Stakeholder Relations 2012–2014. K-retailers' Association: Managing Director 2005–2012, Kesko Hardware and Builders' Supplies: Vice President for Finance 2002–2005, Rautakesko Ltd: Development Director 2001–2002, Builders' and Agricultural Supplies Division: Project Manager 1999–2000, Kesko Hardware and Builders' Supplies: Vice President for the Rautia chain 1998–1999, Builders' and Agricultural Supplies Division: Retail Services Manager 1996–1998, Vähittäiskaupan Takaus Oy: Retail Services Manager 1994–1996, Kesko Ltd's Credit Department: Credit Manager 1991–1992, Kesko Ltd's Credit Department: Legal Counsel 1990–1991.

Member of the Group Management Board since: 1 October 2012.

Kesko shares held:
At 31 December 2016: 6,952 B shares.
At 31 December 2017: 10,782 B shares.

Anni Ronkainen

Executive Vice President, Chief Digital Officer

b. 1966, Master of Science (Economics).

Domicile: Helsinki, Finland.

Other major duties: Asiakastieto Group Plc: member of the board 2015–, Nordic Morning Plc: member of the board 2015–, Robit Plc: member of the board 2015–, Sunduka Ltd: member of the board 2015–2017, Institute of Marketing: member of the Board 2010–2015, the American Chamber of Commerce in Finland (AmCham Finland): member of the Board 2011–2015, Marketing Executives Group: member of the Board 2009–2011.

Employment history: Employed by Kesko since 2015. Chief Digital Officer as from 20 April 2015. Google Finland Ltd: Country Manager Finland 2009–2015, Industry Head, Multi-sector 2008–2009, McCann Worldgroup Helsinki Oy: CEO 2006–2008, Satama Finland Oy: Business Group Director 2001–2006.

Member of the Group Management Board since: 20 April 2015.

Kesko shares held:
At 31 December 2016: 2,670 B shares.
At 31 December 2017: 6,500 B shares.

Members of the Group Management Board in 2017 were also:

Terho Kalliokoski

Executive Vice President, building and technical trade

Member of the Group Management Board until 15 November 2017.

b. 1961, Master of Science (Economics).

Domicile: Kirkkonummi, Finland

Other major duties: European DIY Retail Association (EDRA): member of the Board 2016–; Helsinki Region Chamber of Commerce: member of the Board 2009–; Deputy Chair of the Board 2012–; East Office of Finnish Indutries Oy: Deputy member of the Board 2011–; Eurobuy GmBh: member of the Board 2013–2014; Eurogroup Far East Ltd: member of the Board 2013–2014; Deputy Chair of the Board 2012–; the Association of Finnish Advertisers: member of the Board 2005–2013; The Finnish Grocery Trade Association: member of the Board 2006–2013; Deputy Chair of the Board 2006–2007; Chair of the Board 2008–2009 and 2013; Finnish 4H Federation: member of the Supervisory Board 2009–2012; Association for the Finnish Work: Council member 2006–2009; member of the Board 2010; Finnish Commerce Federation: member of the Board 2006; ECR Finland ry: member of the Board 2006; the Finnish Association of Building Owners and Contruction Clients: member of the Board 2002–2003; Oulu Chamber of Commerce: member of the Board 2000–2002, Delegation member 1997–2002.

Employment history: Employed by Kesko Ltd since 1985. Senior Vice President, home improvement and speciality goods trade division since 1 January 2015. President of Rautakesko Ltd since 2013. President of Kesko Food Ltd 2005–2013; Senior Vice President, Kesko Real Estate (Helsinki) 2002–2005. District Director, Northern Finland (Oulu) 1998–2002; Sales Director, Supermarket Chain Unit (Oulu) 1996–1997; Retail Services Manager, Grocery Retail Services (Oulu) 1995–1996; Financial Manager, Northern Finland (Oulu) 1990–1995; Investment Manager, Real Estate Department (Helsinki) 1988–1990; Project Planner, Store Site Office (Helsinki) 1985–1987.

Member of the Group Management Board since: 17 March 2005.

Kesko shares held:
At 31 December 2016: 24,009 B shares.
At 15 November 2017: 30,903 B shares.

Anne Leppälä-Nilsson

Executive Vice President, Group General Counsel

Member of the Group Management Board until 31 December 2017.

b. 1953, Master of Laws, Master of Science (Economics and Business Administration).

Domicile: Espoo, Finland.

Other major duties: Nasdaq Nordic Ltd: member of the Board 2008–; Independent Retail Europe: member of the Board 2007–; Deputy Chair of the Board 2017–; EuroCommerce: member of the Board 2012–2015; European Commission's High Level Group on Retail Competitiveness: member 2013–2015; Finnish Commerce Federation: member of the Legal Committee 1992–, Chair 1992–2001 and 2006–; Confederation of Finnish Industries EK: member of the Legal Affairs Committee 2005–, Chair 2006–2007; Finland Chamber of Commerce: Delegation member 2011–; ICC Advisory Board: member 2017–; Registered Association Finnish-Russian Chamber of Commerce (FRCC): member of the Board 2005–, Deputy Chair 2009–; Helsinki Region Chamber of Commerce: Delegation member 2011–; Securities Market Association: member of the Corporate Governance Code working group 2014–2015, Chair 2007–2008, member of the remuneration working group 2009–2010, member of the Nordic Corporate Governance working group 2007–2010; Finland Chamber of Commerce: member of The Arbitration Institute of the Finland Chamber of Commerce (FAI) 1999–2008, member of the Redemption Committee 2003–2008.

Employment history: Employed by Kesko Ltd since 2001. Senior Vice President, Group General Counsel as of 1 January 2015. Group General Counsel, Senior Vice President, Legal Affairs, Risk Management and Internal Audit 2005–2014, General Counsel 2001–2005, Aspo Plc: Vice President, Legal Affairs 1985–2001, Credit Manager 1980–1985.

Member of the Group Management Board since: 1 January 2015.

Kesko shares held:
At 31 December 2016: 8,183 B shares.
At 31 December 2017: 12,013 B shares.

Lauri Peltola

Executive Vice President, marketing, communications, responsibility and corporate relations

Member of the Group Management Board until 31 October 2017.

b. 1963, CCJ.

Domicile: Kirkkonummi, Finland.

Other major duties: Varma Mutual Pension Insurance Company: member of the Supervisory Board 2013–.

Employment history: Employed by Kesko Corporation since 2015. Senior Vice President for corporate responsibility, communications and stakeholder relations as of 2 March 2015 and marketing and brand steering and development as of 1 January 2016. Stora Enso: Country Senior Executive for Finland, 2013–2014 and Senior Vice President, Global Identity, 2009–2014; Nordea Plc: Executive Vice President, Group Identity and Communications, 2008–2009 and 2000–2005; Metsäliitto Group: Communications Director 2005–2008.

Member of the Group Management Board since: 2 March 2015.

Kesko shares held:
At 31 December 2016: 2,670 B shares.
At 31 December 2017: 6,500 B shares.